London Borough of Barking & Dagenham
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Notice of Meeting

CABINET

Monday, 17 February 2020 - 7:00 pm
Council Chamber, Town Hall, Barking

Members: Cllr Darren Rodwell (Chair); Cllr Saima Ashraf (Deputy Chair) and Cllr Dominic Twomey (Deputy Chair); Cllr Sade Bright, Cllr Evelyn Carpenter, Cllr Cameron Geddes, Cllr Syed Ghani, Cllr Margaret Mullane, Cllr Lynda Rice and Cllr Maureen Worby

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Please note that this meeting will be webcast, which is a transmission of audio and video over the internet. Members of the public who attend the meeting and who do not wish to appear in the webcast will be able to sit in the public gallery on the second floor of the Town Hall, which is not in camera range.

Webcast meetings can be viewed at https://www.lbbd.gov.uk/council/councillors-and-committees/meetings-agendas-and-minutes/overview/.

AGENDA

1. Apologies for Absence

2. Declaration of Members' Interests

In accordance with the Council's Constitution, Members are asked to declare any interest they may have in any matter which is to be considered at this meeting. Members are reminded that the provisions of paragraph 9.3 and 9.4 of Chapter 1, Part 5 of the Constitution in relation to Council Tax and Council house rent arrears apply to agenda items 5 and 6 respectively.

3. Minutes - To confirm as correct the minutes of the meeting held on 21 January 2020 (Pages 3 - 6)

4. Budget Monitoring 2019/20 - April to December (Month 9) (Pages 7 - 29)

5. **Budget Framework 2020/21 and Medium Term Financial Strategy 2020/21 - 2023/24 (Pages 31 - 75)**

6. **Housing Revenue Account: Estimates and Review of Rents and Other Charges 2020/21 (Pages 77 - 97)**

   Appendix 6 to the report is in the private section of the agenda at Item 15.

7. **Treasury Management Strategy Statement 2020/21 (Pages 99 - 141)**

8. **Contract for Provision of SIA Security and Ancillary Services (Pages 143 - 151)**

9. **Contract for Provision of Temporary / Interim Staff and Ancillary Services (Pages 153 - 162)**

10. **Procurement of a Strategic Advisory Framework (Pages 163 - 169)**

11. **Pay Policy Statement 2020/21 (Pages 171 - 180)**

12. **Purchase of the former Muller Factory Site, Selinas Lane, Chadwell Heath (Pages 181 - 201)**

    Appendix 2 to the report is in the private section of the agenda at Item 16.

13. **Any other public items which the Chair decides are urgent**

14. **To consider whether it would be appropriate to pass a resolution to exclude the public and press from the remainder of the meeting due to the nature of the business to be transacted.**

Private Business

The public and press have a legal right to attend Council meetings such as the Cabinet, except where business is confidential or certain other sensitive information is to be discussed. The items below are in the private part of the agenda as they contain information which is exempt from publication, with reference to the relevant paragraph of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended), and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

15. **Appendix 6: Housing Revenue Account: Estimates and Review of Rents and Other Charges 2020/21 (Pages 203 - 204)**

    Contains information likely to reveal the identity of individuals (paragraph 2)

16. **Appendix 2: Purchase of the former Muller Factory Site, Selinas Lane, Chadwell Heath (Pages 205 - 208)**

Contains commercially confidential information (paragraph 3)

17. **Use of Appropriation Powers - Land at Crown House and Linton Road Car Park, Barking (Pages 209 - 221)**

Concerns the business affairs of the Council and another party (paragraph 3)

18. **Any other confidential or exempt items which the Chair decides are urgent**

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Our Vision for Barking and Dagenham

ONE BOROUGH; ONE COMMUNITY; NO-ONE LEFT BEHIND

Our Priorities

A New Kind of Council

- Build a well-run organisation
- Ensure relentlessly reliable services
- Develop place-based partnerships

Empowering People

- Enable greater independence whilst protecting the most vulnerable
- Strengthen our services for all
- Intervene earlier

Inclusive Growth

- Develop our aspirational and affordable housing offer
- Shape great places and strong communities through regeneration
- Encourage enterprise and enable employment

Citizenship and Participation

- Harness culture and increase opportunity
- Encourage civic pride and social responsibility
- Strengthen partnerships, participation and a place-based approach

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MINUTES OF
CABINET

Tuesday, 21 January 2020
(7:01 - 8:18 pm)

Present: Cllr Darren Rodwell (Chair), Cllr Sade Bright, Cllr Dominic Twomey (Deputy Chair), Cllr Evelyn Carpenter, Cllr Cameron Geddes, Cllr Syed Ghani, Cllr Margaret Mullane and Cllr Maureen Worby

Apologies: Cllr Saima Ashraf and Cllr Lynda Rice

90. Declaration of Members' Interests

There were no declarations of interest.

91. Minutes (18 December 2019)

The minutes of the meeting held on 18 December 2019 were confirmed as correct.

92. Budget Monitoring 2019/20 - April to November (Month 8)

The Cabinet Member for Finance, Performance and Core Services presented a report on the Council's revenue budget monitoring position for the 2019/20 financial year as at 30 November 2019 (Month 8).

The General Fund showed a projected end of year overspend of £8.318m against the budget of £148.82m, which represented an increase in the projected overspend of £0.755m on the position at Month 7 once other movements were taken into account. The Cabinet Member referred to the key pressures in the Looked After Children service in the current year, which amounted to over £5m, and advised on the intention to increase the base budget for Care and Support services by circa £10m for 2020/21 to mitigate the ongoing demand pressures.

Cabinet **resolved** to:

(i) Note the projected revenue outturn for Council services as set out in sections 2 to 11 and Appendix A to the report; and

(ii) Note the implications for the reserves position and the need to identify in-year action in relation to General Fund expenditure.

93. Housing for Vulnerable People Programme

The Cabinet Member for Social Care and Health Integration introduced a report on the Council's Housing for Vulnerable People programme and the set of commitments that would guide its delivery.

The Cabinet Member advised that three major strategies covering the areas of 'Inclusive Growth', 'Prevention, Independence and Resilience' and 'Participation and Engagement' were being developed and the provision of housing for vulnerable people would be a key aspect within those strategies. A series of workstreams had been established to focus on demand modelling, process and operational improvements, ratification and monitoring of housing pathways, policy and supply, with the overriding aim of ensuring that 'no-one's left behind'. The Cabinet Member also drew attention to the commitments that had been developed, which included the need for all major new housing projects to consider the needs of vulnerable people, the provision of specialist and future-proofed accommodation and ensuring a holistic approach was taken when assessing a vulnerable person's needs.

Cabinet Members spoke in strong support of the programme and alluded to other initiatives and projects across the Borough that were helping the Council to meet its responsibilities as a corporate parent.

Cabinet **resolved** to:

(i) Note the background and aims of the Housing for Vulnerable People Programme as set out in section 2 of the report; and

(ii) Endorse the commitments set out in section 3 of the report.

94. Review of School Places and Capital Investment - Update January 2020

Further to Minute 36 (16 July 2019), the Cabinet Member for Educational Attainment and School Improvement presented an update report on school expansion and improvement projects aimed at addressing the current and future demand for places in the Borough, as well as the latest funding issues.

The pupil population across primary and secondary level had increased by 38.5% since January 2010 (from 30,967 to 42,889) and was predicted to increase by a further 16.6%, to over 50,000 pupils, by 2023/24. The Cabinet Member commended the continuing efforts of officers, Headteachers and Governing Bodies in ensuring that every child in the Borough had a school place and stressed the need for regeneration plans for the Borough to take full account of additional infrastructure needs. Reference was made to the impact of population growth on other services, such as refuse collection, while the importance of the planning approval process in ensuring that new developments were properly supported by infrastructure was also highlighted.

The Cabinet Member also referred to plans to review the current Alternative Provision for pupils not in mainstream school, additional funding to support the new Greatfields School development and issues relating to the provision of places for pupils with Special Educational Needs and Disabilities (SEND).

Cabinet **resolved** to:

(i) Note the latest position regarding forecast pupil population over the next five years, as detailed in section 2 of the report;

(ii) Approve the Future Planning Programme for Basic Need 2019 to 2027 (revised January 2020) as set out at Appendix A to the report;

(iii) Approve the inclusion in the Capital Programme of £7.3m from Basic Need

Grant to support the development of Greatfields Secondary and Primary school facilities and address some outstanding matters at previously expanded schools;

(iv) Delegate authority to the Director of People and Resilience, as advised by the Procurement Board, to consider and approve the final procurement strategies for each project; and

(v) Delegate authority to the Director of People and Resilience, in consultation with the Cabinet Member for Educational Attainment and School Improvement, the Chief Operating Officer and the Director of Law and Governance, to conduct the procurements and award the respective project contracts.

95. Procurement of Refuse / Recycling Wheeled Bins and Bags

The Cabinet Member for Public Realm presented a report on the procurement of new waste receptacles as part of the Council's commitment, under its Waste Strategy 2016-2020, to reduce waste volumes, increase reuse and recycling levels and enhance operational efficiency across the Borough.

The Cabinet Member referred to the alternative procurement options that had been considered and the benefits of pursuing the preferred route via the Eastern Shires Purchasing Organisation framework.

Cabinet **resolved** to:

(i) Agree the procurement of domestic and commercial refuse and recycling bins, including refurbishment, refuse and recycling sacks / bags, via the Eastern Shires Purchasing Organisation Refuse and Recycling Products Framework, in accordance with the strategy set out in the report; and

(ii) Delegate authority to the Director of My Place, in consultation with the Cabinet Member for Public Realm and the Director of Law and Governance, to carry out the procurements and award the contract(s) to the successful bidder(s).

96. Procurement of Private Hire Vehicle Services for Children and Young People with Special Educational Needs and/or Disabilities

The Cabinet Member for Social Care and Health Integration presented a report on the proposal for the Council to lead on a joint procurement, with the London Borough of Redbridge, for the provision of private hire vehicle transport services (with and without Passenger Assistants) for children and young people with special educational needs and/or disabilities (SEND) and vulnerable adults.

The Cabinet Member explained that the Department for Education was in the process of reviewing its guidance to local authorities in respect of home-to-school travel and transport. Therefore, any changes to the statutory guidance would be reflected in the procurement arrangements, with the new service expected to commence from 1 September 2020.

Cabinet **resolved** to:

(i) Agree that the Council acts as the lead borough for the procurement of a four-year framework contract, on behalf of itself and the London Borough of Redbridge, for the provision of private hire transport services (with and without passenger assistants) for children and young people with special educational needs and/or disabilities (SEND) and vulnerable adults, in accordance with strategy set out in the report; and

(ii) Delegate authority to the Director of People and Resilience, in consultation with the Cabinet Member for Educational Attainment and School Improvement, the Chief Operating Officer and the Director of Law and Governance, to award and enter into the contract and access agreements.

97. Council Tax Support Scheme 2020/21

The Cabinet Member for Finance, Performance and Core Services introduced a report on the local Council Tax Support (CTS) Reduction Scheme for 2020/21.

The Cabinet Member advised that while the fundamentals of the scheme would be unchanged from 2019/20, the £50,000 budget to support those in exceptional hardship would be kept under review and could be increased if deemed appropriate.

Cabinet **resolved** to recommend the Assembly to agree that the Council Tax Support Scheme implemented for 2019/20 be retained for 2020/21.

98. Calculation and Setting of the Council Tax Base for 2020/21

The Cabinet Member for Finance, Performance and Core Services introduced the annual Council Tax Base setting report for the 2020/21 financial year.

The Council Tax Base had increased by circa 1,195 compared to 2019/20, equivalent to an additional £1.5m of income based on the current rate of Council Tax. The Cabinet Member stressed, however, that the increasing demand pressures on services, coupled the Government's woeful underfunding of public services, meant that the Council would be forced to consider implementing the maximum permissible increase when determining the level of Council Tax for 2020/21.

The Leader referred to the various reports that had been considered during the evening which reflected the Council's aspirations for growth and improving the lives of local people. He reiterated the criticisms of the Government and point to the fact that the Borough was being deprived of much needed funding, equivalent to approx. 35,000 additional residents, due to the Government's use of out-of-date population figures when determining the funding settlement.

Cabinet **resolved** to agree that, in accordance with the Local Authorities (Calculation of Tax Base) (England) Regulations 2012, the amount calculated by the London Borough of Barking and Dagenham Council as its Tax Base for the year 2020/21 shall be 51,204.07 Band 'D' properties.

CABINET

17 February 2020

Title: Budget Monitoring 2019/20 - April to December (Month 9)		
Report of the Cabinet Member for Finance, Performance and Core Services		
Open Report		**For Decision:** No
Wards Affected: All		**Key Decision:** No
Report Author: Katherine Heffernan, Group Manager – Service Finance	**Contact Details** **Tel** 020 289 3262 Email: katherine.heffernan@lbbd.gov.uk	
Accountable Director: Philip Gregory – Director of Finance		
Accountable Strategic Director: Claire Symonds - Chief Operating Officer		

Summary

This report provides a high-level overview of the key financial risks and issues faced by the Council in this financial year. There are significant demand and cost pressures within the forecast which are being monitored carefully but which carry a degree of uncertainty and are may still change during the remainder of the year. The report describes the potential impact of these pressures in high level terms and the forecasts have been made on a prudent basis. The position may therefore be overstated but the scale of the challenge means that there is no room for complacency.

The forecast expenditure in the General Fund is £160.098m against a budget of £148.820m which equates to a gross General Fund overspend of £11.278m, before Collection Fund and Business rates surpluses including monies brought forward from the previous year are added which puts the overall variance at £8.214m (see Appendix A)

There is an increase in the overall expenditure forecast of £0.395m made up of small increases in a number of areas (Core, Care and Support, Policy), £0.286m in Community Solutions and £0.318m in Contracted Services. However, there has been an improvement in the Public Realm forecast for the first time in many years. The increase in expenditure forecast has been offset by a £0.5m increase in Corporate Income resulting in a net reduction of £0.1m.

The net result is an overall forecast variance of £8.214mm. As at the end of 2018/19 the budget support reserve stands at £12m. Up to £4m of this however has been earmarked to fund Transformation programmes. This would mean that this year's overspend could be largely covered from this reserve with any further residual overspend being taken from the unearmarked General Fund reserve of £17m.

Although the reduction in reserves in 2019/20 is foreseen and can be managed, it is not desirable and will limit our future ability to respond to unforeseen events or invest in the borough. If this level of expenditure continues into next year it would exceed the funding plans set out in our Medium Term Financial Strategy (MTFS) and so would require the identification of further savings or income in order to set a balanced budget. For these

two reasons the overspend must not be allowed to continue to grow and serious consideration needs to be given to possible remedial measures.

This report also provides an update on the Capital Programme. Approval is requested for the addition of £73.642m of expenditure - £72.551m of which is part of the Investment and Acquisition Strategy. The revised Capital Programme is £361.857m in total of which £74.237m is HRA expenditure. The current forecast outturn is £296.703m of which £37.471m relates to the HRA. Most of the variance is slippage where expenditure will take place in subsequent years.

Recommendations

The Cabinet is recommended to:

(i) Note the projected revenue outturn for Council services as set out in sections 2 to 12 and Appendix A to the report;

(ii) Note the implications for the reserves position and the need to identify in year action in relation to General Fund expenditure;

(iii) Approve the additions to the Capital Programme as set out in section 13 and Appendix C to the report; and

(iv) Note the projected outturn on the Capital Programme as set out in section 13 and Appendix B to the report.

Reason(s)

As a matter of good financial practice, the Cabinet should be informed about the Council's spending performance and its financial position. This will assist the Cabinet in holding officers to account and in making future financial decisions.

1 Introduction and Background

1.1 The final outturn for 2018/19 was an overall overspend of just under £3m (after transfers to and from reserves were taken into account). This was the net position after collection fund surpluses and there was an underlying overspend of £7m in service expenditure budgets. In addition, it must be remembered that last year the budget setting approach was that as far as possible services would be expected to contain their own growth. Only a limited amount of additional funding was identified, and this was applied in the most part to Care and Support Services. This reduced the gap for budget setting purposes and meant that additional savings proposals were not required to be identified so 2018/19 could be a "consolidation" year.

1.2 However, the expectation that services could contain their own growth is a challenge for many. The small amount of growth funding that could be identified was used both to deal with some specific issues in the budget and then to provide additional care and support funding. However, the sums available for this purpose (£1m for Children's, £1.3m for Disabilities) were lower than the 2018/19 pressures. This means that those services with existing pressures have continued to overspend into 2019/20.

2 2019/20 Budget Monitoring Position - Summary

2.1 Across the Council there are known budget pressures of up to **£16.84m, with some underspends of £5.6m forecast centrally giving rise to a forecast net spend position of £11.2m.** It should be noted that this forecast has been made on a prudent basis and so there is potential for further reduction although there is also the potential for additional costs to be incurred especially in Care and Support where we are seeing high levels of client and demand growth. It should be noted that the final quarter of the year is the period of "Winter Pressures" which can result in high demand for Adult Social Care support.

2.2 As in previous years there is an expected underspend within Central Expenses. The £2m provision for non-delivery of savings included in the budget in 2018/19 is still available. There are other contingency budgets such as the Redundancy budget (£1.3m of which half is currently assumed in the forecast) and the Council consistently over-achieves on gainshare against its budget (c£1.5m). In addition, there is a forecast underspend on levies of £0.2m resulting in net forecasted **underspend of £5.6m** on central budgets.

2.3 The Council has reviewed its policy on Minimum Revenue Provision (part of the mechanism for funding capital expenditure) and approved changes to this policy, the impact of which could result in a reduction in the forecast. However, the Public Work Loans Board has recently increased its interest rates which could offset this to some extent.

2.4 Included within Corporate Income are additional corporate grants, Collection Fund surpluses and business rates via the London pool totalling **£3.064m additional income**. Overall the net overspend forecast at the end of October is now expected to be £8.214m.

DEPARTMENT	ADJUSTED BUDGET	OUTTURN	VARIANCE	Change
SDI COMMISSIONING	7,016,490	6,866,490	(150,000)	0
CORE	6,822,740	6,999,740	177,000	63,232
CENTRAL MINUS F30080	35,092,527	29,530,527	(5,562,000)	0
EDUCATION, YOUTH & CHILDCARE	3,918,400	3,820,400	(98,000)	(98,000)
LAW, GOVERNANCE & HR	(1,357,906)	(1,386,182)	(28,276)	(11,276)
POLICY & PARTICIPATION	2,909,765	3,060,111	150,346	35,346
CARE & SUPPORT	72,433,998	87,160,398	14,726,400	94,400
INCLUSIVE GROWTH	994,880	994,880	0	0
COMMUNITY SOLUTIONS	9,790,605	10,273,605	483,000	286,000
MY PLACE	6,259,591	6,401,591	142,000	(292,000)
CONTRACTED SERVICES	4,938,920	6,376,920	1,438,000	318,000
TOTAL GENERAL FUND BUDGET	**148,820,010**	**160,098,480**	**11,278,470**	**395,702**
CORPORATE INCOME	**(148,820,010)**	**(151,884,326)**	**(3,064,316)**	**(500,000)**
NET GENERAL FUND POSITION	**0**	**8,214,154**	**8,214,154**	**(104,298)**

2.5 More information about the key areas of risk are given below. The overall impact on reserves will be a drawdown of around £8.2m from reserves. This is manageable as there is sufficient funding to do this, but it would restrict our ability to respond to future unforeseen events and to invest in the borough. If this level of spending continues it could also put at risk our Medium Term Financial plans, requiring the identification of future savings.

3. Care and Support/ People and Resilience

3.1 The overall budget for People and Resilience (excl Education) in 2019/20 is £81.810m. The total expenditure forecast (main case) for these services 2019/20 is £96.4m which would result in an overall budget pressure of £14.6m. There is also a significant savings gap which is contributing to the budget gap.

3.2 Further information on the specific services is given below.

People & Resilience Group	19/20 Budget £000	19/20 Forecast £000	Variance £000	Period Movement £000	Change since 18/19 £000
Adults Care & Support	19,774	22,825	3,051	-12	1,028
Adults Commissioning	4,427	4,427	0	0	141
Disabilities Service	19,432	25,367	5,935	0	4,439
Children's Care & Support	34,490	40,230	5,740	105	2,859
Children's Commissioning	4,387	4,237	-150	0	237
Public Health	-700	-700	0	0	0
Group Total	**81,810**	**96,386**	**14,576**	**93**	**8,704**

4. Adults' Care and Support

4.1 The total forecast for Adults Care and Support is £22.8m resulting in a budget overspend of £3.05m. There has been no significant change to the position since last period. There continues to be underlying upwards pressures in expenditure and demand.

Service Area	19/20 Budget £000	Forecast £000	Variance £000	Period Movement £000
Adult packages	7,781	8,440	659	0
Adult teams	3,735	3,775	40	0
Adult homes and centres	2,031	2,191	160	0
Mental Health	4,867	7,098	2,231	27
Adults Other (Support Serv)	1,360	1,321	-39	-39
Directorate Total	**19,774**	**22,825**	**3,051**	**-12**

4.2 The main area of increase and budget pressure is in the Adults' Care Packages and Mental Health. This forecast includes provision for the expected care fee increases (which will be funded from the IBCF) and assumes a continuation of the clear upward trend in demand. This means that if demand growth slows or ceases the position may improve. There are no further savings targets within Adults. However, the brought forward savings shortfall from previous years is a significant part of the current overspend.

4.3 The main areas of pressure in this area are spread across the range of provision:

- £1m in Homecare – although this makes up a significant portion of the overspend, compared to last year this area has actually seen a significant reduction in net expenditure mostly due better collection of client contributions, but due to insufficient budgets still remains one of the main causes of the overall overspend.

- £2.5m overspend in Direct Payments which is consistent with last year's outturn position in this area but continues to be an area of significant pressure. It is expected that Direct Payments will decrease in the future as more regular reviews mean that the amount paid to clients is more accurate of their needs.

- The above is partially offset by a £1.6m forecast on direct payment refunds, this is where unspent balances are clawed back from clients' accounts where overpayments on DP has been made. If the reviews above start to take place, we will see a drop in this figure as less will be paid out to clients in the first place thus not requiring as much claw back.

- The above is further offset by the £913k of winter pressures money which we expect to receive in December and £400k of BCF which was additional in year growth only ratified in September.

4.4 Adults Homes and Centres - £160k overspend due to two significant areas. The first is Kallar Lodge where there is an income shortfall due to not being able to attract the self-funders required to meet the income target. There has been a small improvement in the position in this period but there is a remaining large gap. The other is the ongoing overspend in Relish where there is a historical pressure due to the challenges in running the café as a self-funded business.

4.5 Mental Health has a £2.2m overspend the bulk of which (£1.6m) is on supported living, this is due to 14 new service users in 19/20, as well as several packages having been reviewed and uplifted. The overspend in this area has increased by £0.7m from last year. Residential and Nursing across both Younger and Older MH clients makes up the remainder of the pressure (£448k Overspend), this is an area which has significantly increased from last year with there being a lack of in borough provisions to support these complex cases causing the costs to significantly rise as we have to place clients in costly out of borough homes.

4.6 Mental Health has also seen over 350 Dementia cases transfer over from the Locality teams this year, which has caused a significant increase in Homecare, Residential and Nursing expenditure. A lack of in borough provisions to support these numbers is also partially to blame in the significant rise in spend within Mental Health this year. The level of income has been improving steadily since the implementation of changes to the Charging Policy and the latest evidence shows that the previous estimate of £0.4m can be confirmed.

4.7 It should be noted although the forecast has been improving over the last few months we are about to enter the "winter pressures" period and so there is still potential for it to change as a result of new demands if these are higher (or lower) than allowed for in the forecast.

5. Disabilities Care and Support

5.1 The total forecast for Disabilities Care and Support is £25.4m and would result in a budget overspend of £5.9m. There has been no change to this position from last month.

Service Area	19/20 Budget £000	Forecast £000	Variance £000	Period Movement £000
Adults Care Packages	10,313	13,969	3,656	(56)
Children's Care Costs	1,074	2,006	932	(5)
SEND transport	2,619	3,329	710	2
Centres and Care Provision	1,756	2,045	289	24
Staffing/Management	3,670	4,019	349	36
Directorate Total	**19,432**	**25,368**	**5,935**	**0**

5.2 The main budget variances after these changes are as follows:

- £3.7m overspend on Learning Disabilities Adults across Direct Payments, Homecare, day care and residential care;
- £932k Overspend on Children with Disabilities across Direct Payments, Respite packages and legal / court costs;
- £638k overspend on Teams and Centres, made up of pressures within the education psychology service, 80 Gascoigne Road and Life Planning; and
- £710k overspend on SEND Transport, due to existing pressure in the cost of the routes- the growth that was given to meet this pressure doesn't fully cover it.

5.3 The forecast is based on known commitments and has not been adjusted for future placement growth. The assumption is that the care package review activity, improved life planning and increased CHC will be enough to contain the costs of growth. If these initiatives produce greater benefits, then this would reduce the forecast, however so far demand and complexity of care needs has meant costs have increased and reviews are revealing more care costs than savings. It should be noted that there is a large cohort of young people who are due to move from Children's to Adult Services over the next few years. This may result in a large net increase in cost (for a number of reasons – a net increase in client numbers, Education funding drops out, care packages may increase as parents may not provide the same level of care and needs can increase.)

5.4 Including this year's savings, the service has a cumulative total of £0.835m undelivered savings built into its budget which is contributing to the pressure. There are two MTFS savings initiatives in 2019/20 – the expansion of Shared Lives and new provision at 80 Gascoigne. It is now clear that the 80 Gascoigne savings can no longer be delivered as the CQC has deemed the additional room unfit for use, whereas the shared lives scheme is still considered high risk, thus the position is unlikely to improve this year.

5.5 Due to the high levels of growth in this forecast – which is largely outside the services control then this forecast is a reasonable main case. The position is unlikely to improve and if anything may worsen with further transition cases being identified that will be coming into the disability service.

6. Children's Care and Support

6.1 The total forecast for Children's Care and Support is £40.2m and would result in a budget overspend of £5.6m. This is a small adverse movement from last month with increased LAC costs due to 4 significantly costly children coming into care, offset by revised forecasts for UASC income and additional contributions from Health.

6.2 The third year of MTFS savings of £1.126m has been taken from the Looked After Children and Placements budget. Growth funding to support the new TOM has been added to the service and has now been vired to the relevant areas required.

Service Area	19/20 Budget £000	Forecast £000	Variance £000	Period Movement £000
Corporate Parenting	21,090	25,723	4,633	111
Safeguarding	5,327	6,451	1,124	(314)
Assessment Teams	3,811	4,271	460	(118)
Other/Central	1,873	2,091	218	78
Adolescence & YOS	1,726	1,365	(361)	19
Specialist Intervention Service	663	329	(334)	329
Directorate Total	**34,490**	**40,230**	**5,740**	**105**

6.3 The additional costs of the Children's TOM can be met from budget available within this growth funding. However, there are staffing pressures on the service in addition to this. Currently there are posts above the TOM establishment in the forecast – additional staff in Rapid Response and staff to support the probationary period of the social workers recruited from overseas. The usage of agency has come down from the high point of around 39% but is still in excess of the budgeted ratio of 15%. This is the main factor in the overspends in Assessment and Care Management.

6.4 The service are confident of achieving the low risk targets which amount to £0.55m, most of these are to do with contract frameworks that are currently in place and costs are reducing as and when client packages are being transferred over to the cheaper framework rates, therefore these are effectively savings already within the projections and will not improve the outturn significantly as they will be converted to the new framework over time as reviews are undertaken.

6.5 The high-risk savings targets are unlikely to be achieved in this financial year as progress on these are still very minimal. Edge of Care may have up to 8 clients by the end of the year, but this will only at best achieve half of the target savings due to timing. The specialist in house provision will not be fully operational till January thus minimising the amount of savings this can generate in year. Most of the pressure, however, relates to the cost of Looked After Children as follows:

- £1.87m overspend on Residential Homes, a significant increase from last month.
- £1.3m overspend in the Leaving Care Service
- £717k overspend in Specialist Agency Fostering

- £135k overspend on Adoption Placements
- £348k overspend in Children in Care
- £332k overspend Family Assessment Units
- £223k overspend in the Leaving Care Team
- £61k overspend on Secure Units
- £225k overspend in the Fostering Team

6.6 There is growth funding allocated in the MTFS to address some of these pressures.

7. My Place

7.1 My Place are forecasting an overspend of £142k, which is a reduction of £292k on the forecast of £434k forecast overspend at month 8. The reduction is all within Public Realm, where the impact of controls to reduce overtime and agency expenditure are having an impact.

SERVICE	BUDGET 19/20	FORECAST	VARIANCE	MOVEMENT
BUSINESS DEVELOPMENT	1,679	1,023	-656	0
CONTRACTS MANAGEMENT	3,062	2,726	-336	0
LANDLORD SERVICES	9,869	10,478	609	0
MY PLACE DIRECTOR	-15,023	-14,769	254	0
PROPERTY MANAGEMENT	9,662	9,096	-566	0
Public Realm:				
OPERATIONS	7,146	8,102	956	-171
PARKS	2,279	2,307	28	-144
FLEET	-158	-189	-31	29
COMPLIANCE	-714	-830	-116	-6
ELWA	-34	-34	0	0
Total Public Realm	8,519	9,356	837	-292
TOTAL MY PLACE	17,768	17,910	142	-292

7.2 Public Realm are forecast to overspend by £837k, which is a reduction of £292k on the month 8 position. This is largely due to the service being unable to contain the impact of the pay awards for 2018/19 and 2019/20 which were not funded. The forecast assumes a reduction to budgets of £150k for procurement savings which will be transferred to corporate budgets at year end. The forecast also assumes a charge of £87k for interest payable on the capital investment in the new vehicle fleet.

7.3 The forecast underspend of £695k across other services within My Place is largely within Business Development and is due to vacant posts. There are also underspends within Contract Management and Property and Asset Management. An overspend of £609k is forecast for Landlord Services, which is attributable to interim management costs and repairs and maintenance costs outside the scope of the contract with BDMS.

8. Contracted Services

8.1 Contracted Services are forecasting a budget pressure of £1.44m, which is an increase of £318k on the pressure of £1.12m which was forecast at month 8. The overspend is mainly due to a forecast overspend of £994k for Barking and Dagenham Direct. Over the past two years savings of £0.7m have been taken for the Customer Experience and Digital Programme that have not yet been achieved in cashable terms. This is currently being assumed will be a net overspend on the budget at the end of the year.

8.2 An overspend of £126k is currently forecast for ICT, although this may increase as a result of work currently underway to review ICT costs and how SPCNs (change notices) are funded.

8.3 Within Revenues and Benefits there will be an underachievement on courts income of approx. £238k. This is due to a change in approach around taking court action, which is having an impact on the overall level of income recovered in this way. There is also £80k expenditure which had been forecast as income due in 2018/19 as a performance deduction, but this sum was over-estimated, and has therefore not been realised in 2019/20.

9. Policy and Participation

9.1 Culture and Heritage are forecast to overspend by £150k which is an increase of £42k on the month 8 position. The increase is due to additional grounds maintenance costs and R&M minor works costs within Countryside and Conservation.

9.2 The £150k overspend is largely due to staffing pressures at both Valence and Eastbury and Valence has a pressure on NNDR.

10. Core

10.1 Core services are anticipating to overspend by £177k which consists of an overspend on the Elevate Client unit of £208k, £53k on Registrars and £25k on the FOI team less an underspend on Finance of £109k.

10.2 The overspend on the Client unit is attributable to ICT and staffing costs. There has been a net £70k increase in ICT costs due to the renewal of the agreement with Microsoft which meant that the price stepped up by a percentage plus growth in numbers of licences deployed. The staffing overspend is due to Added Years Compensatory payments of £50k and the cost of maternity leave cover.

10.3 The FOI team is overspent by £25k on agency costs. All agency staff have now been released. The overspend on Registrars is due to £100k income under-recovery which is in part due to loss of income from no longer providing the Nationality Checking Service plus £5k on salaries, less an underspend of £52k on non-pay budgets.

11. Law, Governance and HR

11.1 Law, Governance and HR are forecast to underspend by £28k. There is currently a nil variance on Law and Governance. Enforcement are forecast to underspend by £28k after transferring a £51k surplus within the Markets cost centre to the Markets reserve.

11.2 Within Enforcement where there are underspends across a number of service areas, offset by a forecast overspend of £186k within Parking. However, following the introduction of more CPZs in recent months there has been an increase in income that should offset the costs of scheme implementation and capital financing and the additional staffing costs. The Parking forecast may therefore reduce to an on-budget position before year-end.

12. Community Solutions – £0.483m overspend

12.1 At month 6, Community Solutions reported a pressure in their staffing budgets especially within Intervention services where there appear to be nine staff above the funded establishment. In addition, this service also has an inherent shortfall in its staffing budget as the result of the unfunded pay award. Since this issue was identified, the Director and his management team have been putting in place mitigations to offset this pressure. However, the current forecast is a £0.483m overspend.

12.2 There are challenging targets for Temporary Accommodation reductions built in the budget which have been achieved as at the end of October. There are some associated risks around income collection in the hostels and the costs of the rent deposit and other prevention schemes, but these are being managed closely. If the Temporary Accommodation performance is sustained, this is expected to offset these risks and may even be a further mitigation against the other pressures in the service

13. Capital Programme

13.1 In November the Cabinet approved a reprofiled Capital Programme including slippage from previous years of £283m of which £69m is HRA expenditure and £203m is General Fund (including the Investment and Acquisition Strategy.) In addition, there is an £11m funding allocation for the Transformation programme which is a mixture of revenue and capital expenditure funded from borrowing (for capital expenditure) and the flexible use of capital receipts and reserves for revenue expenditure.

13.2 The largest element of the General Fund capital programme is the Investment and Acquisition Strategy which had an approved budget at month 5 of £124.001m. Cabinet approval is sought for the addition of £72.551m expenditure for the schemes set out in Appendix C.

13.3 There is £7.982m of slippage on the original programme relating to Sebastian Court, Wivenhoe Containers, Gascoigne East and the Live Work scheme on the BEC land. The forecast expenditure on the IAS as a whole is £188.659m.

13.4 Cabinet are also asked to approve an increase of £1.092m to the General Fund Programme - £200k for the Corporate Accommodation Strategy in Core and £892k for approved LIP/TFL funded schemes within My Place (£112k increase in the Be First managed transport infrastructure schemes, £396k for Choats Road and £427k on sustainable transport schemes, offset by a reduction of £47k in the Flood Survey budget.)

13.5 The forecast outturn for the General Fund budget is £66.07m – an underspend/slippage of £14m. The key elements of this variance are:

- Culture and Heritage: £8.9mil underspend increase from an underspend of £1.7m in month 5. This is due to delays on 3G Football pitch at Parsloes Park, late implementation of Central Park Master plan, and delays of roof works related to the Demountable swimming Pool;

- Education: £3.2m underspend comprising of:

  £12mil accelerated spend in the following areas: Lymington Fields new School, Roding Primary and SEND allocation.
  £15mil slippage and underspend on Robert Clack expansion, New Gascoigne (Greatfields) Secondary school zone 2b and Barking Abbey expansion Project completed.

- Enforcement: £0.8mil underspend due to CPZ consultation delayed.

- Core: £0.8m underspend due to;

  Oracle R12 Joint Services: Establish where Brent Oracle Fee will be charged 250K.
  Likely to be revenue costs. Elevate ICT investment 700K underspend anticipated.

- My Place: £45K overspend: Energy Efficiency Programme, Gale Street Corridor improvements, Barking Riverside Translink have no budget.

13.6 Transformation capital spend is forecast to underspend by £6.4m, which is a £0.9m increase from month 5. The in-year forecast outturn is now £4.5m. This is a reduction on previous forecasts as there has been confirmation that major projects will slip into 2020/21. This includes payments for Community Solutions around assets and elements of One View implementation as well as other large-scale projects, and utilising fewer staffing resources around the Core Programme than initially forecast. These forecasts will be rolled into next year.

13.7 The HRA capital programme for 2019/20 was £69.1m. In October approved slippage of £5.137m from the previous year was added in. Final outturn is expected to £37.472m. However £15m of this relates to the HRA New Build programme. The Council's current approach to New Build now is through its General fund with the homes built by Be First and managed by Reside. The HRA capital progamme will be much smaller in future years and will be primarily for specialist housing.

13.8 The balance of the underspend is slippage on the Stock Investment programme on new schemes with long lead in times (for procurement, specification and planning.)

The remaining spend on these schemes will be delivered in 2020/21 with the funding reprofiled to facilitate this.

14. Financial Implications

Implications completed by Katherine Heffernan, Group Manager – Service Finance.

14.1 This report details the financial position of the Council.

15. Legal Implications

Implications completed by Dr Paul Field, Senior Governance Lawyer

15.1 Local authorities are required by law to set a balanced budget for each financial year. During the year, there is an ongoing responsibility to monitor spending and ensure the finances continue to be sound. This does mean as a legal requirement there must be frequent reviews of spending and obligation trends so that timely intervention can be made ensuring the annual budgeting targets are met

Public Background Papers Used in the Preparation of the Report: None.

List of Appendices

- Appendix A – General Fund Revenue budgets and forecasts.
- Appendix B – Capital Programme Projected outturn
- Appendix C - Additions to the Capital Programme

BUDGET MONITORING REPORT - DEC 2019

APPENDIX A

		MAR-20	DEC-19		RESERVE TRANSFERS			
CODE	**DEPARTMENT**	**ADJUSTED BUDGET**	**ACTUAL**	**FORECAST**	**TO**	**FROM**	**OUTTURN**	**VARIANCE**
F1000A	SDI COMMISSIONING	7,016,490	4,388,662	6,866,490			6,866,490	(150,000)
F1500A	CORE	6,822,740	9,800,356	6,999,740			6,999,740	177,000
F1600A,~	CENTRAL MINUS F30080	35,092,527	29,075,796	29,530,527			29,530,527	(5,562,000)
F2000A	EDUCATION, YOUTH & CHILDCARE	3,918,400	13,752,439	3,820,400			3,820,400	(98,000)
F3000A	LAW, GOVERNANCE & HR	(1,357,906)	(4,368,974)	(1,436,735)	50,553		(1,386,182)	(28,276)
F4000A	POLICY & PARTICIPATION	2,909,765	763,658	3,060,111			3,060,111	150,346
F4500A	CARE & SUPPORT	72,433,998	58,870,257	87,160,398			87,160,398	14,726,400
F5000A	INCLUSIVE GROWTH	994,880	(770,777)	1,244,880		(250,000)	994,880	0
F5500A	COMMUNITY SOLUTIONS	9,790,605	8,130,800	10,273,605			10,273,605	483,000
F6500A	MY PLACE	6,259,591	(10,389,587)	6,401,591			6,401,591	142,000
F7000A	CONTRACTED SERVICES	4,938,920	14,028,899	6,376,920			6,376,920	1,438,000
F8000A	RESIDE PARENT	0	125,101				0	0
	TOTAL GENERAL FUND BUDGET	**148,820,010**	**123,406,630**	**160,297,927**	**50,553**	**(250,000)**	**160,098,480**	**11,278,470**
	CORPORATE FUNDING							
F30700	COUNCIL TAX	(61,786,000)	(61,785,551)	(61,785,551)			(61,785,551)	449
F30700	BUSINESS RATES	(79,161,010)	(29,321,368)	(79,839,349)			(79,839,349)	(678,339)
F30700	NON-RINGFENCED GRANTS	(7,873,000)	(48,119,428)	(7,700,139)	209,968	(975,994)	(8,466,165)	(593,165)
F30700	C/F SURPLUS	0	(1,793,261)	(1,793,261)			(1,793,261)	(1,793,261)
	CORPORATE INCOME	**(148,820,010)**	**(141,019,609)**	**(151,118,300)**	**209,968**	**(975,994)**	**(151,884,326)**	**(3,064,316)**
	NET GENERAL FUND POSITION	**0**	**(17,612,979)**	**9,179,627**	**260,521**	**(1,225,994)**	**8,214,154**	**8,214,154**
F2500A	DEDICATED SCHOOLS GRANT	0	6,839,076	3,056,095			3,056,095	3,056,095
F3500A,~	HRA MINUS F51020	0	(8,187,395)	2,790,603			2,790,603	2,790,603
	OVERALL LBBD POSITION	**0**	**(18,961,299)**	**15,026,325**	**260,521**	**(1,225,994)**	**14,060,852**	**14,060,852**

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2019/20 CAPITAL PROGRAMME

Project No.	Project Name	Budget Revised	Spend: Actual Expenditure + Forecast	Spend: Variance to budget. Over / (Under) spend to date	Spend: Net (Slippage) / Acceleration request	Future Year Budgets: 2020/21	Future Year Budgets: Total
	GENERAL FUND						
FC00100	**Adults Care and Support**						
FC00106	Disabled Facilities Grant	1,841,341	1,841,341	0	0	1,841,341	3,682,682
FC02888	Direct Pymt Adaptations	400,000	400,000	0	0	400,000	800,000
	Total for Adults Care & Support	**2,241,341**	**2,241,341**	**0**	**0**	**2,241,341**	**4,482,682**
	Community Solutions						
FC03060	Barking Learning Centre Works	181,594	181,594	0	0	0	181,594
FC04036	Upgrade & enhancement of Security & Threat Managemen	28,368	28,368	0	0	0	28,368
	Total for Community Solutions	**209,962**	**209,962**	**0**	**0**	**0**	**209,962**
FC02565	Implement Corporate Accommodation Strategy	200,000	189,493	(10,507)	(10,507)	0	200,000
FC02738	Modernisation & Imp Cap Fund	0	1,034	1,034	1,034	0	0
FC02811	Members Budget - NEW	340,000	340,000	0	0	340,000	680,000
FC02877	Oracle R12 Joint Services	174,148	135,000	(39,148)	(39,148)	0	174,148
FC03052	Elevate ICT investment	2,191,218	1,500,000	(691,218)	(691,218)	1,950,000	4,141,218
FC03059	Customer Services Channel Shift	106,884	0	(106,884)	(106,884)	0	106,884
FC03068	ICT End User Computing	438,000	250,000	(188,000)	(188,000)	172,000	610,000
FC04055	Woodlands Repairs	141,378	146,000	4,622	4,622	0	141,378
	Total for Core	**3,591,628**	**2,561,527**	**(1,030,101)**	**(1,030,101)**	**2,462,000**	**6,053,628**
	Culture, Heritage & Recreation						
FC03029	Broadway Theatre	706	5,776	5,070	5,070	0	706
FC03057	Youth Zone	76,479	1,548	(74,931)	(74,931)	0	76,479
FC04042	Community Halls	12,344	2,677	(9,667)	(9,667)	0	12,344
FC03067	Abbey Green Restoration/Works	313,224	0	(313,224)	(313,224)	0	313,224
FC03093	Eastbury Manor House - Access and egress improvements	245,022	29,298	(215,724)	(215,724)	0	245,022
FC04031	Reimagining Eastbury	0	35,830	35,830	35,830	100,000	100,000
FC04033	Redressing Valence	0	0	0	0	500,000	500,000
FC04043	The Abbey: Unlocking Barking’s past, securing its future	0	8,456	8,456	8,456	0	0

Project No.	Project Name	Budget	Spend			Future Year Budgets	
		Revised	Actual Expenditure + Forecast	Variance to budget. Over / (Under) spend to date	Net (Slippage) / Acceleration request	2020/21	Total
FC04044	East London Industrial Heritage Museum	75,000	0	(75,000)	(75,000)	0	75,000
FC03026	Old Dagenham Park BMX Track	243,669	243,669	0	0	0	243,669
FC03032	3G football pitches in Parsloes Park	6,694,969	84,690	(6,610,279)	(6,610,279)	0	6,694,969
FC03034	Strategic Parks - Park Infrastructure	54,168	4,277	(49,891)	(49,891)	0	54,168
FC03062	50m Demountable Swimming Pool	1,083,742	460,119	(623,623)	(623,623)	0	1,083,742
FC03090	Lakes	142,118	83,000	(59,118)	(59,118)	190,000	332,118
FC04013	Park Infrastructure Enhancements	0	49,002	49,002	49,002	20,000	20,000
FC04017	Fixed play facilities	29,087	47,197	18,110	18,110	50,000	79,087
FC04018	Park Buildings – Response to 2014 Building Surveys	65,228	40,000	(25,228)	(25,228)	75,000	140,228
FC04020	Parsloes Park regional football hub	0	39,880	39,880	39,880	0	0
FC04080	Children's Play Spcs & Fac	110,000	100,100	(9,900)	(9,900)	55,000	165,000
FC04081	Parks & Open Spcs Strat 17	200,000	170,000	(30,000)	(30,000)	100,000	300,000
FC04082	Tantony Green Play Area	7,586	35,536	27,950	27,950	0	7,586
FC04084	Central Park Masterplan Implementation	1,045,593	32,700	(1,012,893)	(1,012,893)	0	1,045,593
FC04085	Valence Park Play Facility	276,505	276,505	0	0	0	276,505
	Total for Culture, Heritage & Recreation	**10,675,439**	**1,750,260**	**(8,925,179)**	**(8,925,179)**	**1,090,000**	**11,765,439**
	Education Youth & Childcare						
	Childrens Centres						
FC03063	Extension of Abbey children's centre nursery					0	0
NEW2021B	In Borough Specialist Residential Home					325,000	325,000
	Other Schemes						0
FC02909	School Expansion Minor projects	0	100,000	100,000	100,000	0	0
FC02920	Warren / Furze Expansion	102,589	78,436	(24,153)	(24,153)	0	102,589
FC02972	Implementation of early education for 2 year olds	200,000	135,000	(65,000)	(65,000)	252,000	452,000
FC03042	Additional SEN Provision	0	50,000	50,000	50,000	231,000	231,000
FC03043	Pupil Intervention Project (PIP)	450,000	491,220	41,220	41,220	0	450,000
FC03085	School Conditions Allocation 2017-19	0	175,951	175,951	175,951	0	0
FC04052	SEND 2018-21	1,245,716	1,900,000	654,284	654,284	1,300,000	2,545,716
FC04053	School Conditions Allocation 2018-20	966,761	945,054	(21,707)	(21,707)	0	966,761
FC04072	School Condition Alctns 18-19	2,862,230	1,500,000	(1,362,230)	(1,362,230)	1,500,000	4,362,230
FC04087	SCA 2019/20 (A)	0	3,000,000	3,000,000	3,000,000	640,000	640,000
FC04097	Trinity Special School Expnasion	250,000	250,000	0	0	750,000	1,000,000
FC04098b	Schools Condition Allocations 2019-20	0	0	0	0	3,800,000	3,800,000
NEW2021C	New SCA from backlog	0	300,000	300,000	300,000	0	0
NEW2021D	New BN revisit expanded schools	0	300,000	300,000	300,000	0	0
	Primary						0

		Budget	Spend			Future Year Budgets	
Project No.	Project Name	Revised	Actual Expenditure + Forecast	Variance to budget. Over / (Under) spend to date	Net (Slippage) / Acceleration request	2020/21	Total
FC02961	Goresbrook	0	0	0	0	0	0
FC03053	Gascoigne Prmy 5forms to 4 forms	404,182	452,219	48,037	48,037	0	404,182
FC04058	Marks Gate Infants & Juniors 2018-20	500,000	700,000	200,000	200,000	1,000,000	1,500,000
FC04059	Greatfields Primary	0	0	0	0	8,000,000	8,000,000
FC04071	Roding Primary Classroom Reinstatement	1,000,000	2,200,000	1,200,000	1,200,000	75,000	1,075,000
FC04098	Ripple Suffolk Primary	1,000,000	200,000	(800,000)	(800,000)	800,000	1,800,000
FC04098a	Greatfields Primary	0	0	0	0	0	0
	Secondary						0
FC02959	Robert Clack Expansion 13-15	4,259,213	560,000	(3,699,213)	(3,699,213)	0	4,259,213
FC03018	Eastbury Secondary	267,460	307,738	40,278	40,278	0	267,460
FC03020	Dagenham Park	0	100,000	100,000	100,000	0	0
FC03022	New Gascoigne (Greatfields) Secondary School	13,582,802	7,500,000	(6,082,802)	(6,082,802)	18,500,000	32,082,802
FC03054	Lymington Fields New School	13,000,000	19,000,000	6,000,000	6,000,000	1,500,000	14,500,000
FC03078	Barking Abbey Expansion 2016-18	5,500,000	2,100,000	(3,400,000)	(3,400,000)	1,040,000	6,540,000
	Total for Education Youth & Childcare	**45,590,953**	**42,345,618**	**(3,245,335)**	**(3,245,335)**	**39,713,000**	**85,303,953**
	Enforcement						
FC02982	Consolidation & Expansion of CPZ	1,486,183	640,000	(846,183)	(846,183)	2,061,600	3,547,783
FC04015	Enforcement Equipment	629,468	629,468	0	0	0	629,468
	Total for Enforcement	**2,115,651**	**1,269,468**	**(846,183)**	**(846,183)**	**2,061,600**	**4,177,251**
	MyPlace						
FC02587	Energy Efficieny Programme	0	266,123	266,123	266,123	0	0
FC04063	Flood Survey (Formally Flood Risk Management)	120,000	120,000	0	0	0	120,000
FC05016	Frizlands Depot washbay	80,000	0	(80,000)	(80,000)	0	80,000
FC05017	Frizlands Public Realm Building Improvements	55,000	55,000	0	0	0	55,000
FC05018	Stock Condition Survey	265,000	105,000	(160,000)	(160,000)	265,000	530,000
FC05010a	Reside Lifts Replacement	420,000	590,000	170,000	170,000	0	420,000
FC02542	Capital Improvements	0	0	0	0	0	0
FC02962	Principal Rd Resurfcng 2013-14	0	0	0	0	0	0
FC02963	Mayesbrook Nghbrhd Imprv 13-14	0	0	0	0	0	0
FC02964	Road Safety Improvements Programme (Various Locations)	226,566	226,566	0	0	0	226,566
FC03011	Structural Repairs & Bridge Maintenance	0	170,600	170,600	170,600	0	0
FC03023	Bus Stop Accessibility Improvements	0	0	0	0	0	0
FC03030	Frizlands Phase 2 Asbestos Replacement	0	500	500	500	0	0
FC03044	Fire Safety Works (R&M)	0	0	0	0	0	0

Project No.	Project Name	Budget Revised	Spend Actual Expenditure + Forecast	Variance to budget. Over / (Under) spend to date	Net (Slippage) / Acceleration request	Future Year Budgets 2020/21	Total
FC03064	Street Lighting 2016-2019 : Expired Lighting Column Replacement	0	2,075	2,075	2,075	0	0
FC03065	HIP 2016-17 Footways & Carriageways	4,000,000	4,000,000	0	0	2,815,000	6,815,000
FC04019	Replacement of Winter Maintenance Equipment / Gully Motors	8,222	8,222	0	0	0	8,222
FC04029	Engineering Works (Road Safety)	114,742	50,000	(64,742)	(64,742)	0	114,742
FC04064	Bridges and Structures	600,000	50,000	(550,000)	(550,000)	300,000	900,000
FC05000	Roycraft House refurbish WCs Internals & Electricals	180,000	180,000	0	0	180,000	360,000
FC02898	Local Transport Plans	40,000	40,000	0	0	0	40,000
FC03025	Gale Street Corridor Improvements	0	224,075	224,075	224,075	0	0
FC03097	Thames View Cycle/Walking Link Improvements	75,000	75,000	0	0	0	75,000
FC03098	Cycle Schemes - Quietway CS3X	310,000	310,000	0	0	0	310,000
FC02994	Renwick Road/ Choats Road 2014/15 (TfL)	395,689	395,689	0	0	0	395,689
FC02996	Barking Town Centre 2014/15 (TfL)	0	47,000	47,000	47,000	0	0
FC03055	Barking Riverside Trans link	0	178,778	178,778	178,778	0	0
FC03070	Boundary Road Hostel: Critical Needs Homelessness Assessment and Support Centre	0	8,980	8,980	8,980	0	0
FC04092	Barking Station Improvements - BE FIRST	875,000	706,311	(168,689)	(168,689)	0	875,000
FC04093	Heathway Corridor - BE FIRST	50,000	50,000	0	0	0	50,000
FC04094	Becontree Heath Low Emission - BE FIRST	212,500	212,500	0	0	0	212,500
FC04095	Station Access Improv Prog - BE FIRST	50,000	50,000	0	0	0	50,000
NEW2021A	Procuring in cab tech for waste vehicles and subsequent licences etc	0	0	0	0	110,000	110,000
NEW2021E	New CIL/TFL schemes 2019.20	0	0	0	0	2,681,789	2,681,789
NEW2021E1	New TFL schemes 2019.20	0	0	0	0	1,640,000	1,640,000
	Total for My Place	**8,077,719**	**8,122,419**	**44,700**	**44,700**	**7,991,789**	**16,069,508**

Project No.	Project Name	Budget Revised	Spend: Actual Expenditure + Forecast	Spend: Variance to budget. Over / (Under) spend to date	Spend: Net (Slippage) / Acceleration request	Future Year Budgets 2020/21	Future Year Budgets Total
	Public Realm						
FC03083	Chadwell Heath Cemetry Ext	148,978	148,978	0	0	0	148,978
FC04012	Bins Rationalisation	124,551	124,551	0	0	50,000	174,551
FC04014	Refuse Fleet	7,297	7,297	0	0	0	7,297
FC04016	On-vehicle Bin Weighing System for Commercial Waste	45,000	45,000	0	0	0	45,000
FC04028	Equipment to reduce Hand Arm Vibration	42,231	42,231	0	0	0	42,231
FC04070	Vehicle Fleet Replacement	7,203,391	7,203,391	0	0	3,128,618	10,332,009
	Total for Public Realm	**7,571,448**	**7,571,448**	**0**	**0**	**3,178,618**	**10,750,066**
	Investment Strategy & Be First						
FC02969	Creative Industry (formerly Barking Bathouse)	108,175	108,175	0	0	0	108,175
FC02985	Gascoigne West (Housing Zone)	13,634,679	13,634,679	(0)	(0)	24,113,946	37,748,625
FC02986	Gascoigne East Ph2	598,970	598,970	0	0	0	598,970
FC02988	Margaret Bondfield	2,674,325	2,206,920	(467,405)	(467,405)	406,245	3,080,570
FC03058	Kingsbridge Development	0	0	0	0	0	0
FC03072	Conversion & Redevelopment of Former Sacred Heart Conv	3,512,178	3,048,727	(463,451)	(463,451)	5,529,417	9,041,595
FC03081	Land Acquisitions 2016-18	11,900,000	11,900,000	0	0	0	11,900,000
FC03082	Gurdwara Way - Land Rmdiation	0	0	0	0	0	0
FC03084	Sebastian Court - Redevelop	8,062,140	4,481,995	(3,580,145)	(3,580,145)	19,546,023	27,608,163
FC03086	Land at BEC - live work scheme	2,658,126	1,900,730	(757,396)	(757,396)	3,988,379	6,646,505
FC03099	Abbey Green & Barking Town Centre Conservation Area Tov	0	0	0	0	0	0
FC04062	Gascoigne East Phase 2	17,706,457	16,757,263	(949,194)	(949,194)	67,215,360	84,921,817
FC04065	200 Becontree	1,312,094	1,312,094	0	0	5,003,816	6,315,910
FC04066	Roxwell Road	1,251,079	1,078,562	(172,517)	(172,517)	1,782,683	3,033,762
FC04067	12 Thames Road	2,252,376	2,046,686	(205,691)	(205,691)	1,577,915	3,830,291
FC04068	Oxlow Road	1,656,441	1,594,154	(62,287)	(62,287)	1,117,903	2,774,343
FC04069	Crown House	9,595,905	9,595,905	0	0	33,556,304	43,152,209
FC04075	Rainham Road South	1,674,708	1,396,312	(278,396)	(278,396)	3,542,590	5,217,298
FC04077	Weighbridge	10,232,841	10,232,841	0	0	0	10,232,841
FC04078	Wivenhoe Containers	2,443,575	1,488,066	(955,510)	(955,510)	1,956,708	4,400,284
FC04099	Gascoigne West P1 Development (Phase 1)	4,044,719	4,044,719	0	0	0	4,044,719
FC04100	Limbourne Avenue BF0052	90,122	90,122	0	0	0	90,122
NEW2023	Gascoigne East Phase 3	8,608,300	8,608,300	0	0	0	8,608,300
NEW2024	Gascoigne West Phase 2	12,634,420	12,634,420	0	0	0	12,634,420
FC04091	Wellbeck Wharf	18,000,000	18,000,000	0	0	16,589,892	34,589,892
	Inclusive Growth						0
FC05020	Woodward Road	20,821,302	20,821,302	0	0	5,765,376	26,586,678

Project No.	Project Name	Budget: Revised	Spend: Actual Expenditure + Forecast	Spend: Variance to budget. Over / (Under) spend to date	Spend: Net (Slippage) / Acceleration request	Future Year Budgets: 2020/21	Future Year Budgets: Total
	Investment Strategy						0
FC03080	Royal British Legion	957,378	957,378	0	0	2,987,330	3,944,708
FC05021	Grays Court	3,716,154	3,716,154	(0)	(0)	229,913	3,946,067
FC05023	Cromwell Centre (32 Thames Road)	1,446,918	1,446,918	0	0	0	1,446,918
FC03027	Establishment of Council Owned Energy Services Company	2,000,000	2,000,000	0	0	1,000,000	3,000,000
FC03089	Becontree Heath New Build	10,710,216	10,710,216	0	0	0	10,710,216
FC04051	Street Property Acquisition 2017-19	0	0	0	0	0	0
FC04083	The Cube	0	0	0	0	0	0
FC04086	Travelodge Isle of Dogs	250,000	250,000	0	0	0	250,000
FC04103	Restore	13,000,000	13,000,000	0	0	0	13,000,000
	New Build Schemes						0
FC02970	Marks Gate	1,899,134	1,899,134	0	0	43,773,264	45,672,398
FC04056	Abbey Road Infrastructure	0	0	0	0	0	0
FC04057	Travelodge Dagenham	7,000,000	7,000,000	0	0	5,472,268	12,472,268
FC04073	Church Street, RM10 9AX	55,623	55,623	0	0	0	55,623
FC04074	Land rear of 134 Becontree Ave	10,435	10,435	0	0	0	10,435
FC04076	Salisbury Road	13,236	13,236	0	0	0	13,236
FC04079	**Wivenhoe Road - Traditional**	19,094	19,094	0	0	0	19,094
	Total for Investment Strategy	**196,551,120**	**188,659,130**	**(7,891,991)**	**(7,891,991)**	**245,155,333**	**441,706,453**
	TOTAL GENERAL FUND CAPITAL PROGRAMME	**276,625,262**	**254,731,173**	**(21,894,089)**	**(21,894,089)**	**303,893,681**	**580,518,943**
	HRA						
	Asset Management						
FC00100	Aids And Adaptations	1,427,000	1,426,406	(594)	(200,000)	1,200,000	2,627,000
FC02933	Voids	2,000,000	2,000,000	0	(200,000)	1,500,000	3,500,000
FC02934	Minor Works & Replacements	4,000	4,232	232	0	0	4,000
FC02938	Fire Safety Improvement Works	0	208	208	0	0	0
FC02939	Conversions	271,000	270,879	(121)	0	0	271,000
FC02943	Compliance (Asbestos, Tanks, Rewires)	31,000	30,400	(600)	(5,205)	0	31,000
FC02950	Communal Heating Replacement	747,000	747,712	712	(100,000)	0	747,000
FC02983	Decent Homes Central 2017-19	220,000	540,000	320,000	(18,671)	0	220,000
FC03007	Windows & Door Replacements	5,000	5,377	377	0	0	5,000
FC03036	Decent Homes Support - Liaison Surveys	0	0	0	0	0	0
FC03037	Energy Efficiency inc Green Street	0	0	0	0	0	0

Project No.	Project Name	Budget	Spend			Future Year Budgets	
		Revised	Actual Expenditure + Forecast	Variance to budget. Over / (Under) spend to date	Net (Slippage) / Acceleration request	2020/21	Total
FC03038	Garages	0	0	0	0	0	0
FC03039	Estate Roads Resurfacing	2,000	475,074	473,074	0	0	2,000
FC03040	Communal Repairs & Upgrades	151,000	150,906	(94)	(74,730)	0	151,000
FC03045	External Fabric inc EWI- Blocks	1,169,000	1,168,506	(494)	0	0	1,169,000
FC03046	Decent Homes North 2017-19	332,000	690,000	358,000	0	0	332,000
FC03047	Decent Homes South 2017-19	219,000	400,000	181,000	0	0	219,000
FC03048	Fire Safety Improvement Works	1,974,000	1,200,000	(774,000)	(269,478)	0	1,974,000
FC04000	Estate Environment Improvement	0	0	0	0	0	0
FC04001	Electrical Lateral Replacement	0	0	0	0	0	0
FC04002	Lift Replacement Programme	0	208	208	(1,500,000)	750,000	750,000
FC04003	Domestic Heating Replacement	1,220,000	1,219,712	(288)	0	500,000	1,720,000
FC04004	Box-Bathroom Refurbs (Apprenticeships)	2,000,000	1,700,000	(300,000)	(500,000)	300,000	2,300,000
FC05002	Externals 1 - Houses & Blocks	11,050,000	500,000	(10,550,000)	(3,700,000)	4,000,000	15,050,000
FC05003	Externals 2 - Houses & Blocks	3,000,000	1,500,000	(1,500,000)	(1,500,000)	500,000	3,500,000
FC05004	Door Entry Systems	100,000	11,235	(88,765)	(100,000)	1,000,000	1,100,000
FC05005	Compliance	2,200,000	393,420	(1,806,580)	(1,200,000)	0	2,200,000
FC05006	Fire Safety Improvement Works	3,000,000	4,922	(2,995,078)	(1,200,000)	0	3,000,000
FC05007	Fire Doors	3,000,000	250,000	(2,750,000)	(3,800,000)	2,000,000	5,000,000
FC05008	De-Gassing of Blocks	150,000	150,000	0	0	50,000	200,000
FC05009	Lateral Mains	750,000	0	(750,000)	0	0	750,000
FC05010	Lift Replacement Programme	300,000	0	(300,000)	(250,000)	0	300,000
FC05011	Communal Boilers	650,000	29,754	(620,246)	(431,540)	500,000	1,150,000
FC05012	Garages	300,000	0	(300,000)	0	0	300,000
FC05013	Estate Roads Resurfacing	2,000,000	1,800,000	(200,000)	(1,281,091)	2,000,000	4,000,000
FC05014	Energy Efficiency inc Green Street	500,000	0	(500,000)	0	1,500,000	2,000,000
FC05015	Other Works	800,000	800,000	0	0	500,000	1,300,000
FC0XX13	Decent Homes 2016-22 Programme	0	0	0	0	0	0
FC03027a	ESCO	215,000	370,540	155,540	(127,000)	0	215,000
FC05000a	DH Internal	2,950,000	2,400,000	(550,000)	(2,700,000)	3,000,000	5,950,000
	Estate Renewal						
FC02820	Estate Renewal	11,500,000	12,500,000	1,000,000	0	8,000,000	19,500,000
	Housing Transformation						
FC03073	Housing Transformation	0	0	0	0	0	0
	New Build Schemes						
FC02973	Infill Sites	0	32,456	32,456	0	0	0
FC02989	Ilchestr Rd / North St New Build	0	221,292	221,292	0	0	0
FC02991	North St	0	0	0	0	0	0

Project No.	Project Name	Budget Revised	Spend: Actual Expenditure + Forecast	Spend: Variance to budget. Over / (Under) spend to date	Spend: Net (Slippage) / Acceleration request	Future Year Budgets: 2020/21	Future Year Budgets: Total
FC03009	Leys Phase 2	0	20,625	20,625	0	0	0
FC03056	Burford Close	0	29,295	29,295	0	0	0
FC03056a	New Build Schemes	20,000,000	0	(20,000,000)	0	2,500,000	22,500,000
FC03071	Melish and Sugdan	0	4,428,673	4,428,673	0	1,613,179	1,613,179
	Total for HRA	**74,237,000**	**37,471,833**	**(36,765,167)**	**(19,157,715)**	**31,413,179**	**105,650,179**
	Transformation Capital						
FC04008	Customer Access Strategy (CAS)	637,482	637,482	0	0	0	637,482
FC04009	Smarter Working Programme	569,144	569,144	0	0	0	569,144
FC04049	Community Solutions	1,304,268	1,304,268	0	0	0	1,304,268
FC04050a	Core Transformation	7,932,606	1,437,606	(6,495,000)	(6,495,000)	0	7,932,606
FC05019	Children's Improvement Programme	551,499	551,499	0	0	0	551,499
	Transformation	**10,995,000**	**4,500,000**	**(6,495,000)**	**(6,495,000)**	**0**	**10,995,000**
	GRAND TOTAL	**361,857,262**	**296,703,005**	**(65,154,256)**	**(47,546,804)**	**335,306,860**	**697,164,122**

CHANGES TO 2019/20 CAPITAL PROGRAMME FOR APPROVAL APPENDIX C

Project No.	Project Name	Previous Approved Budget	Change Requested	Revised Budget
	GENERAL FUND			
FC02565	Implement Corporate Accommodation Strategy	0	200,000	200,000
	Total for Core	**0**	**200,000**	**200,000**
	MyPlace			
FC04063	Flood Survey (Formally Flood Risk Management)	167,000	(47,000)	120,000
FC02898	Local Transport Plans	0	40,000	40,000
FC03097	Thames View Cycle/Walking Link Improvements	0	75,000	75,000
FC03098	Cycle Schemes - Quietway CS3X	0	310,000	310,000
FC02994	Renwick Road/ Choats Road 2014/15 (TfL)	0	395,689	395,689
FC04092	Barking Station Improvements - BE FIRST	788,000	87,000	875,000
FC04093	Heathway Corridor - BE FIRST	45,000	5,000	50,000
FC04094	Becontree Heath Low Emission - BE FIRST	191,000	21,500	212,500
FC04095	Station Access Improv Prog - BE FIRST	45,000	5,000	50,000
	Total for My Place	**1,236,000**	**892,189**	**2,128,189**
	Investment Strategy & Be First			
FC02969	Creative Industry	0	108,175	108,175
FC02985	Gascoigne West (Housing Zone)	11,312,940	2,321,739	13,634,679
FC02986	Gascoigne East Ph2	0	598,970	598,970
FC04065	200 Becontree	999,045	313,049	1,312,094
FC04069	Crown House	7,902,905	1,693,000	9,595,905
FC04077	Weighbridge	9,863,841	369,000	10,232,841
FC04099	Gascoigne West P1 Development (Phase 1)	0	4,044,719	4,044,719
FC04100	Limbourne Avenue BF0052	0	90,122	90,122
NEW2023	Gascoigne East Phase 3	0	8,608,300	8,608,300
NEW2024	Gascoigne West Phase 2	0	12,634,420	12,634,420
FC04091	Wellbeck Wharf	0	18,000,000	18,000,000
FC03080	Royal British Legion	0	957,378	957,378
FC05021	Grays Court	0	3,716,154	3,716,154
FC05023	Cromwell Centre (32 Thames Road)	0	1,446,918	1,446,918
FC03089	Becontree Heath New Build	9,568,982	1,141,234	10,710,216
FC04103	Restore	0	13,000,000	13,000,000
	New Build Schemes	0		
FC02970	Marks Gate	0	1,899,134	1,899,134
FC04056	Abbey Road Infrastructure	0		0
FC04057	Travelodge Dagenham	0	7,000,000	7,000,000
FC04073	Church Street, RM10 9AX	0	55,623	55,623
FC04074	Land rear of 134 Becontree Ave	0	10,435	10,435
FC04076	Salisbury Road	0	13,236	13,236
FC04079	**Wivenhoe Road - Traditional**	0	19,094	19,094
	Unallocated		(5,490,000)	
	Total for Investment Strategy	**39,647,713**	**72,550,700**	**117,688,413**
	TOTAL GENERAL FUND CAPITAL PROGRAMME	**40,883,713**	**73,642,889**	**120,016,602**

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CABINET

17 February 2020

Title: Budget Framework 2020/21 and Medium Term Financial Strategy 2020/21-2023/24	
Report of the Cabinet Member for Finance, Performance and Core Services	
Open Report	**For Decision**
Wards Affected: All	**Key Decision:** Yes
Report Author: Philip Gregory, Finance Director	**Contact Details:** Tel: 020 8227 5048 E-mail: philip.gregory@lbbd.gov.uk
Accountable Director: Philip Gregory, Finance Director	
Accountable Strategic Leadership Director: Claire Symonds, Deputy Chief Executive & Chief Operating Officer	

Summary

In February 2017, a budget report and Medium Term Financial Strategy set out how the Council was to transform to realise the unfulfilled potential of the Borough whilst confronting the challenges of austerity, population change and government policy. The operating model of the Council was fundamentally redesigned to deliver for our residents and put the Council in a secure and stable financial position.

This report sets out the progress made through Ambition 2020 and the contribution this has made to becoming financially self-sufficient. We have been able to invest in services in 2020/21 as a result of the savings and additional income that have been realised since 2017/18.

This report also sets out the:

- Proposed General Fund revenue budget for 2020/21
- Proposed level of Council Tax for 2020/21
- Medium Term Financial Strategy (MTFS) 2020/21 to 2023/24
- Draft capital investment programme 2020/21 to 2023/24
- Update on the Dedicated Schools Grant and Local Funding Formula for Schools

The General Fund net budget for 2020/21 is £155.796m. The budget for 2020/21 incorporates decisions previously approved by Members in the Medium Term Financial Strategy including the savings approved by Cabinet in February 2017 and February 2018 together with changes in government grants and other financial adjustments.

The Council proposes to increase Council Tax by 3.99%. This includes 1.99% for general spending and a further 2% that is specifically ringfenced as an adult social care precept. This will increase the level of Council Tax from £1,235.50 to £1,284.80, (£49.30) for a band D property.

The Mayor of London is proposing to increase the Greater London Authority (GLA) element of Council Tax by £11.56 (3.6%) for a Band D property, changing the charge

from £320.51 to £332.07, of this £10.00 relates to the Police Precept.

The combined amount payable for a Band D property will therefore be £1,616.87 for 2020/21, compared to £1,556.01 in 2019/20. This is a total change of £60.86. At its meeting on 21 January 2020, the Cabinet agreed an enhanced Council Tax Support Scheme in order to continue to support local residents on very low incomes.

The proposed draft 4-year capital programme is £933.660m for 2020/21 to 2023/24, including £99.341m for General Fund schemes. Details of the schemes included in the draft capital programme are at Appendix E.

Recommendation(s)

The Cabinet is asked to recommend the Assembly to:

(i) Approve a base revenue budget for 2020/21 of £155.796m, as detailed in Appendix A to the report;

(ii) Approve the adjusted Medium Term Financial Strategy (MTFS) position for 2020/21 to 2023/24 allowing for other known pressures and risks at this time, as detailed in Appendix B to the report, including the additional cost of borrowing to accommodate the capital costs associated with the implementation of the MTFS;

(iii) Delegate authority to the Chief Operating Officer, in consultation with the Cabinet Member for Finance, Performance and Core Services, to finalise any contribution required to or from reserves in respect of the 2020/21 budget, pending confirmation of levies and further changes to Government grants prior to 1 April 2020;

(iv) Approve the Statutory Budget Determination for 2020/21 as set out at Appendix C to the report, which reflects an increase of 1.99% on the amount of Council Tax levied by the Council, an Adult Social Care precept of 2.00% and the final Council Tax proposed by the Greater London Assembly (3.6% increase), as detailed in Appendix D to the report;

(v) Note the update on the current projects, issues and risks in relation to Council services, as detailed in sections 9-12 of the report;

(vi) Approve the Council's draft Capital Programme for 2020/21 totalling £318.006m, of which £72.540m are General Fund schemes, as detailed in Appendix E to the report;

(vii) Approve the Flexible Use of Capital Receipts Strategy as set out in Appendix F to the report;

(viii) Note the update on Dedicated Schools Funding and approve the Local Funding Formula factors as set out in section 15 and Appendix G; and

(ix) Note the Chief Finance Officer's Statutory Finance Report as set out in section 15 of the report, which includes a recommended minimum level of reserves of £12m.

Reason(s)

The setting of a robust and balanced budget for 2020/21 will enable the Council to provide and deliver services within its overall corporate and financial planning framework. The Medium Term Financial Strategy underpins the delivery of the Council's vision of One borough; one community; London's growth opportunity and delivery of the priorities within available resources

1. Introduction and Background

1.1. In February 2017, cabinet was asked to approve a revenue budget and a medium-term financial strategy with significant implications for the council and the Borough more broadly. Baked into both were a set of proposals that, in the years to follow, would lead to the creation of an entirely new kind of council, one capable of meeting head on the fiscal, demographic and political challenges facing our Borough.

1.2. These challenges will make for familiar reading. In 2017:

1.2.1. We had one of the fastest growing and fastest changing populations in the country. The population of Barking and Dagenham rose from 164,000 in 2001 to 186,000 in 2011, and an estimated 198,000 in 2014. Population growth is set to continue. National statistics forecast a population of 220,000 by 2020, and up to 275,000 by 2037. The population is much more diverse than 15 years ago, since 2001 the proportion of the population from minority ethnic backgrounds has increased from 15% to 50%. That proportion is projected to increase to 62% over the next 25 years.

1.2.2. These demographic changes had increased demand for services, which was projected to continue increasing in line with the population. At the same time reductions in funding imposed by central government would make it impossible to meet those demands. By 2020, projected cuts in funding would mean that the Council will have roughly half the amount of money that we had to spend in 2010. At the same time, the pressures caused by the growing population and more complex needs mean that we will need an additional £50 million to meet rising demands. The 2017 budget report estimated that, if we did nothing, the council would suffer a shortfall of £71 million by 2020/21.

1.2.3. The Government was in the process of implementing reforms to national policy and legislation that would have a major impact on council services, residents and local businesses. These changes included: Welfare reform, such as a reduction in the cap in household benefits, and a freeze on working age benefits; reform of adult social care, and health and social care integration; the promotion of 'devolution deals' at regional or sub-regional levels; and changes to government funding for schools and continued government.

1.2.4. We were at the bottom of too many London league tables. People in our borough died earlier, had poorer health, and lower levels of education and skills than in most other London boroughs. Too many were insufficiently skilled. Too many were in low paid work. And too many struggled to find suitable accommodation to live in.

1.3. In 2017 we were clear that:

“The combined impacts of austerity, population change and government policy mean that we can no longer afford to meet the needs of our residents by spending more money on the kinds of services we have provided in the past. Instead the task is to re-focus what we do so that we identify the root cause of need and tackle it, so that people have a better chance of living more independently. Our job is to build resilience so that people are better able to help themselves.”

1.4. At the same we were also clear that our Borough had enormous and unfulfilled potential, in part due to our proximity to central London and the availability of land in the Borough:

“Unlike most other areas, we have a once in a generation opportunity to secure the benefits of huge economic growth for our residents, so that no-one is left behind. No other part of Greater London has the potential to play the role that Barking and Dagenham does in the expansion of London’s economy. Over the next 20 years, we have the potential for up to 50,000 new homes and over 10,000 new jobs in the borough. We can stand by and watch things happen, seeing inequalities increase and the weakest driven out of the borough or we can shape the future so that the whole community benefits and prospers.”

1.5. Our task was to create a council that was capable of realising this opportunity whilst confronting the significant challenges set out above. In February 2017, cabinet approved a budget report and a Medium-Term Financial Strategy designed to do exactly that.

1.6. This was always a 20 year project. The Borough Manifesto set out the community’s long term vision, and through Ambition 2020 we were creating an organisation capable of making it happen.

2. A new kind of Council

2.1. Core to the changes that were proposed in 2017 - as part of Ambition 2020 - was a new operating model for the council, moving away from an organisation designed around professional service silos, to one that is designed around what we need to achieve for our residents:
“Traditionally, local authorities reduce spending by department. We managed to do that between 2010 and 2014. But we cannot continue to do this. Other local authorities have outsourced or privatised services and dramatically reduced the size of their workforce. We have no desire to take those paths. The new arrangements we are implementing no longer have separate functional departments or directorates. Our organisation is being shaped around the needs of our people, the place, and our goals…

The delivery of services will be undertaken by a range of ‘Service Delivery Blocks’. Some of them we propose should be in-house, and some should be at arm’s length, so that they are able to generate the income to become self-funding and to reinvest. These Service Delivery Blocks are currently being implemented with the intention that the majority are in place and operational by the autumn of 2017. It's the implementation of these new services, the changing nature of how they will operate and their potential to generate more income that drives much of our ability to respond to the Councils fiscal challenge.

Vital to our success is the performance of our Council-owned companies. Our expectation is that the companies will become self-sufficient by 2022 delivering the outcomes we expect by working with the flexibility of the private sector and the ethos of the public sector being accountable to our elected Councillors."

2.2. This operating model was designed to enable the organisation to excel across five areas:

2.2.1. **Being commercially minded and financially self-sufficient: "***Making our Council commercially astute, with the capability to innovate and to maximise income, and a constant drive to improve our efficiency and productivity."*

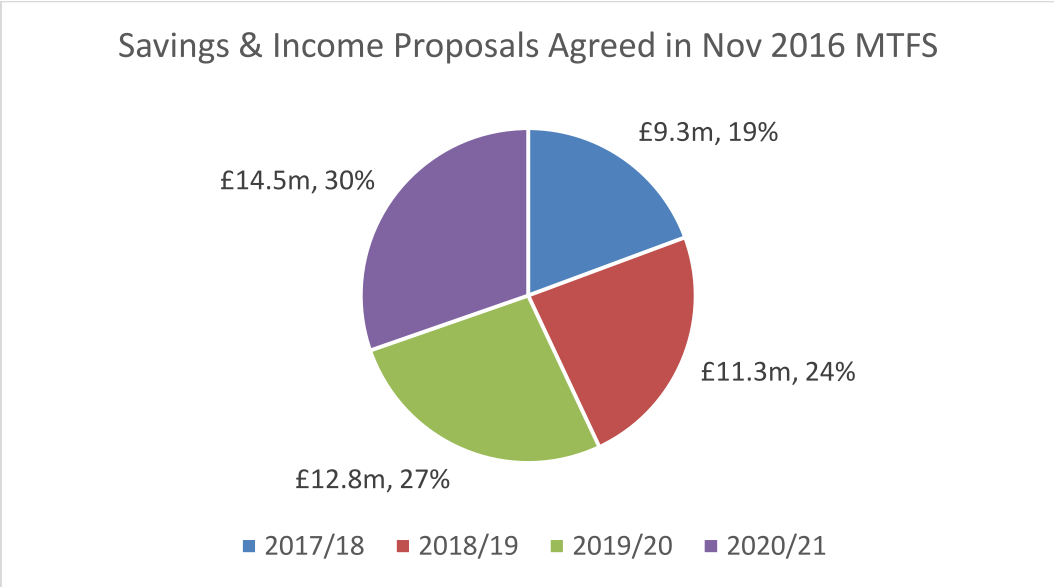
2.2.2. **Providing consistently outstanding customer service: "***We need to improve how customers get access to information and services and find innovative ways to enhance the customer experience and build trust whilst reducing demand and therefore cost."*

2.2.3. **Shaping a place that people choose to live in: "***That means creating and maintaining areas that are attractive and affordable. That includes excellent schools, a safe and clean environment, culture and leisure facilities, and heritage."*

2.2.4. **Building public engagement, greater responsibility and civic pride: "***This includes a focus on clean streets and enforcement, holding private sector landlords to account for the condition of property they own, and running a wide and varied Council events programme promoting a sense of community and attracting people to the borough."*

2.2.5. **Reducing service demand: "***A coordinated approach to reducing demand through early and effective intervention including key services such as social care, housing* *and integrated health."*

2.3. But it was also designed to put us in a secure and stable financial position, closing the financial gap without outsourcing or cutting services. The savings and additional income that were proposed totalled £47.9m over 4 years between 2017/18 and 2020/21. These amounts were built into the MTFS.



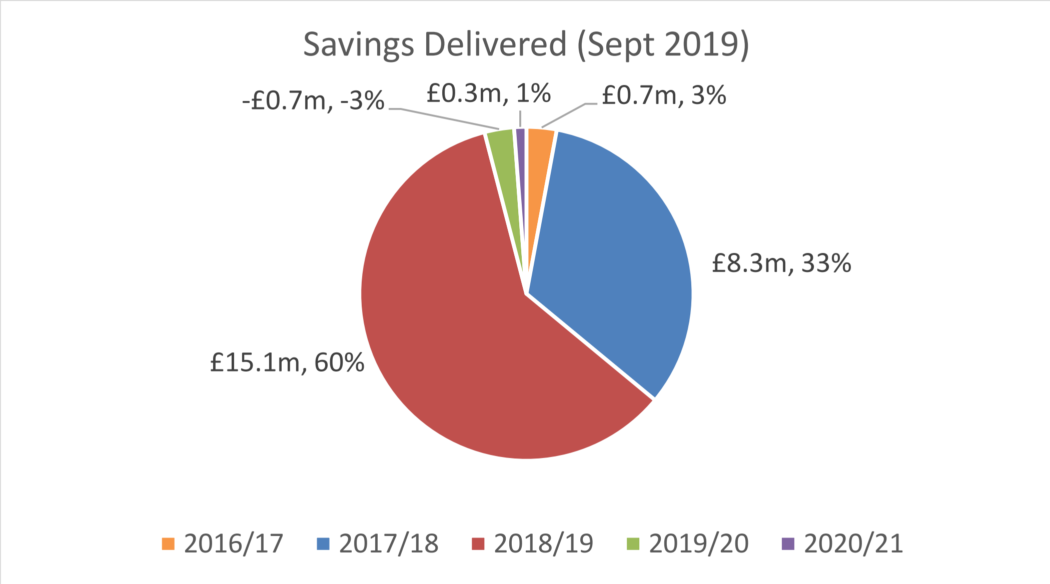
3. Much done, much to do

3.1. Over the last three years, Ambition 2020 has delivered 30 major change programmes. Our new operating model now exists and is operating successfully. No services have been cut, and nothing has been outsourced. There have been 450 voluntary redundancies, and 715 staff have transferred to one of our wholly owned companies. The programme has underspent by close to £6m, a saving which has been reinvested in the New Ways of Working programme, which has enabled staff from 29 locations to be consolidated into two offices whilst rolling out new IT systems and a culture of flexible working.

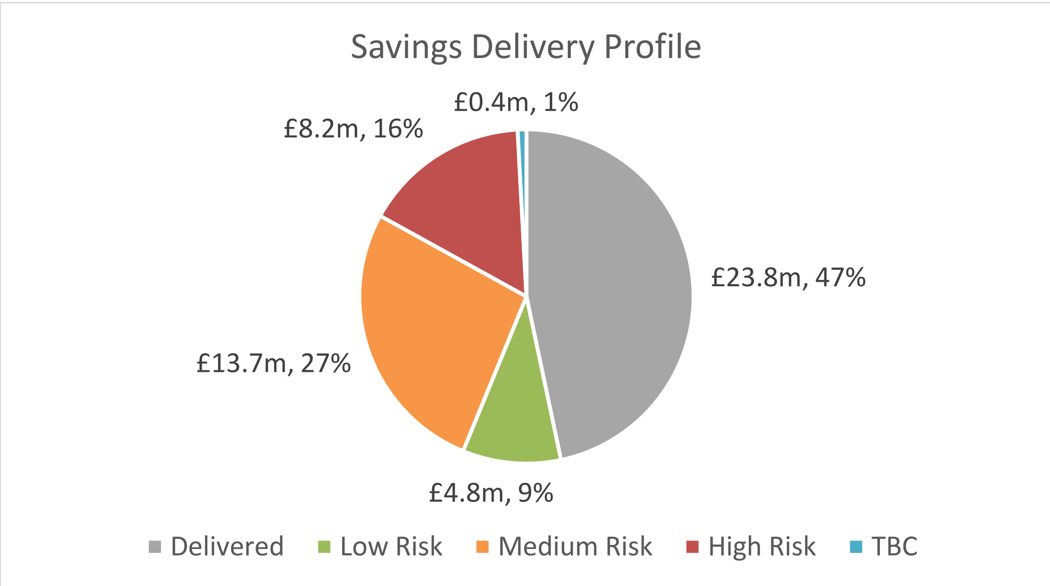
3.2. The programme is not yet complete. There are significant programmes of work that still need to be delivered, including the Elevate exit and the core transformation (the business cases for these elements were approved by Cabinet in January 2019). But we have come a long way in a very short space of time. Across each priority area, Ambition 2020 has delivered significant benefits to the organisation, despite there being more work to do.

3.3. Being commercially minded and financially self-sufficient

3.3.1. First, the money. Savings and additional income of £23.8m have been delivered so far. Whilst these have been delivered in a different profile to the original proposals, they have allowed balanced budgets to be set each year.

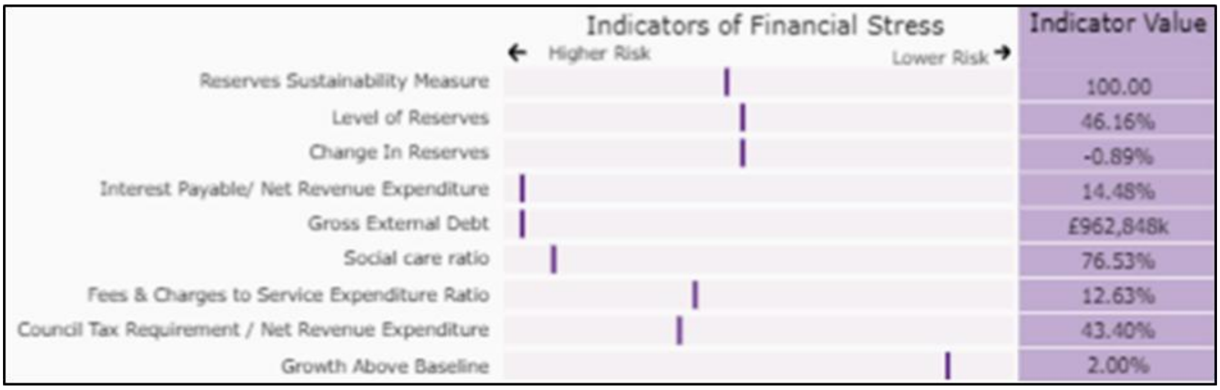


3.3.2. So far, 49% of the savings and income proposals totalling £47.9m have been delivered. In addition, further income has been generated by the Investment and Acquisition Strategy, increasing the total projected savings and income to £50.9m. The 51% of savings and income proposals still to be realised have been categorised into low, medium and high-risk proposals highlighting the continued need to monitor their delivery during 2019/20 and 2020/21.



3.3.3. During the implementation of the changes we have been able to manage our financial reserves in a sustainable way, ensuring that we use reserves strategically and focus on delivering what we've committed to do.

3.3.4. The CIPFA Financial Resilience Index analyses local authority finances using nine measures including level of reserves, rate of depletion of reserves, external debt, Ofsted judgements and external auditor value for money assessments. The index was launched in December 2019 and is based on data collected from the last four financial years.



3.3.5. One of the primary drivers of the resilience index is to provide an assessment of the sustainability of the reserves of a local authority. This is a key indicator by which the financial health of an authority can be measured and compared where we are relatively healthy.

3.3.6. The index provides an opportunity to look at other boroughs in relation to us and in this context it is fair to say we are “in the pack” and not one of the 10% of authorities that CIPFA have stated show ‘some signs of potential risk to their financial stability’.

3.4. **Providing consistently outstanding customer service:**

3.4.1. We have embraced a significant channel shift towards digital, with the development of a new website, a new set of e-forms and a new approach to telephony which prioritise typical user need and integrate with wider systems. As a result, call volumes have fallen from 63,000 per month to 52,000 per month, calls answered have risen from 75% to 92%, the average length of time people have to wait for an answer has fallen 5.8 minutes to 3.3 minutes. At the same time, in 2015 only 29% of our staff agreed that our IT system met the needs of our business, whilst in 2018 65% of our staff are satisfied with new laptops and monitors.

3.5. **Shaping a place that people choose to live in.**

3.5.1. Be First has dramatically increased the pace and scale of housebuilding in the Borough. Between 2010 and 2017, we delivered 866 new homes. As of 2018, the Be First pipeline contained proposals for over 3,000 new homes in the Borough between now and 2023/24: a 245% increase. And three quarters of these homes will be affordable, with many at council equivalent rents. Alongside new affordable completions from third party developers, this will allow us to comfortably meet the manifesto commitment of 2,000 new affordable homes by 2022.

3.5.2. And great places aren’t just about homes. Despite continuing to lag behind the rest of London, the creation of BDSIP has contributed to a significant upturn in school performance, with 92% of the schools in the Borough now good or outstanding (compared to 68% in 2014). We have expanded a regular programme of summer festivals, and we have invested £1m of match funding in our heritage offer, including Eastbury Manor House and Valence House.

3.6. **Building public engagement, greater responsibility and civic pride**

3.6.1. In 2017, we had a reactive press function with no campaign or digital capability. We had no community development or engagement team. And our relationships with the wider VCSE sector were poor. Today, we have an entirely new comms team with a significant digital and social media presence and a Borough wide newsletter with 13.5k subscribers and a click through rate of 4x (better than the industry standard). In 2017, we kicked off the largest programme of engagement the council has ever embarked upon, with over 3,000 conversations and Borough wide surveys leading to the production of the Borough Manifesto, our long term vision for Barking & Dagenham.

3.7. **Reducing service demand**

3.7.1. The creation of Community Solutions has had a significant impact on levels of homelessness in the Borough. In 2019, community solutions reduced the number of households in TA by 281 (from 1,925 in October 2017), and they reduced the number of evictions from temporary accommodation by 81%, saving the council £295k. They saw a 97% increase in the number of households who were at risk of becoming homeless approaching the council before they did. And there was a 209% increase in the number of residents accessing the homelessness prevention fund. Finally, the number of families living in the Borough who have no recourse to public funds was down to just 23.

3.7.2. On the other hand, as predicted, demand for Children's Social Care has increased since 2016. Looked after children numbers remain broadly stable, but overall, we have more children in the system. Population growth and demographic churn are drivers, but as we feel the impact of factors such as economic migration and welfare reform, demand for our services has grown at a rate faster than our population has. We have already taken steps to ensure Children's Social Care is able to cope with these rises through investing in the TOM and Improvement Programme. And we are refocusing our Early Help services so that they can also cope with the increased demand and begin to impact upon demand.

4. **Taking the next step**

4.1. The challenges facing our Borough and our people have not changed significantly since 2017. We still have one of the fastest growing and fastest changing populations in the country. We are still wrestling with the fiscal challenges brought about through austerity. And we are still dealing with the implications of government policy in relation to welfare and health and social care in particular. At the same time, we still have a population that faces significant health and wellbeing challenges, mirrored in the continued rise of demand on statutory services, in particular children’s social care.

4.2. But we now have an organisation that is better equipped to confront these challenges than it has ever been. And whilst there is still work to do to, we now have greater financial freedom and flexibility than we have had since the onset of austerity. The question is, how do we ensure that over the next ten years, we are pointing this organisation towards the right set of problems?

4.3. Over the last year, we have been working been working hard to identify a set of strategic priorities for the council that will guide all future activity. These priorities reflect our belief that only by using our new kind of council to address structural inequalities in our Borough, can we realise our long term vision for the Borough, whilst confronting the challenge of rising demand.

5. **Three strategic priorities**

5.1. The MTFS is underpinned by three key strategic priorities for the council:

5.1.1. **Inclusive Growth.** All activity related to homes, jobs, place and environment will be organised into a single strategy, focused on intervening in our economy in order to improve economic outcomes for all residents.

5.1.2. **Prevention, independence and resilience.** All activity relating to people facing public service will be organised into a single strategy, focused on intervening in society in order to improve health and wellbeing outcomes for all residents, at every stage of life.

5.1.3. **Participation & engagement.** All activity related to community engagement and social infrastructure will be organised into a single strategy focused on giving every resident the power to influence local decisions, and to pursue their version of the good life.

5.2. These strategic priorities will sit alongside our continued efforts to build and embed our **new kind of council** and will drive all council activity in the years ahead. Critically, each has an important part to play in managing future demand on council services. The financial position set out in the MTFS is designed to reflect this position.

6. **Headline Financial Position**

6.1. The Provisional Local Government Settlement was published on 20 December 2019. This is largely in line with the expectations that had been included in the MTFS and is subject to the finalisation of business rates baseline and section 31 grant calculations.

6.2. The medium-term financial challenge facing the Council reflects significant risks and a great deal of uncertainty. The scale of these risks will become more certain during the next year, following the new Government's first Budget and any subsequent Spending Review.

6.3. Revenue streams are likely to be under considerable pressure as the Government intends to change current funding mechanisms to reflect an increased emphasis on need and to reset the current business rates retention system:

- **Budget 2020** – The Chancellor of the Exchequer has announced that the Budget will be published on 11 March 2020. There is significant uncertainty in relation to local government funding beyond 2020/21 and the Budget will be the first opportunity to see the direction that the new Government will take.

- The **Fair Funding Review** of local government is likely to shift resources away from London. The design of new funding formula is predicated on moving to a more dynamic, realistic method of allocating funding that is able to respond to demographic changes. On this basis and considering the demographic changes within Barking and Dagenham, this approach may prove beneficial to us. We expect the new funding formula to be used to allocate funding from 2021/22.

- The **Business Rates Retention** scheme is also being redesigned and is expected to be introduced from 2021/22.

- The **New Homes Bonus** funding for 2020/21 is allocated for one year only and will not result in legacy payments in future years. It is expected that the New Homes Bonus funding will be wrapped up within the Fair Funding Review. It is unclear how the Government will incentivise local authorities to deliver additional housing within the new funding regime. Funding allocation are included in Appendix I.

6.4. The Council will receive Government funding through Revenue Support Grant and Business rates baseline funding in 2020/21. In 2019/20 Revenue Support Grant was rolled into the baseline funding allocation as part of the business rates pilot arrangements. The total amounts should be compared and are in line with the expected small increase of £1.2m included within the MTFP. The table below shows the funding changes over the past few years and the increased reliance on business rates as a source of funding.

£m	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
RSG	36.7	28.8	0.0	0.0	18.0
Baseline funding	52.8	53.9	78.8	74.5	57.7
TOTAL:	**89.5**	**82.6**	**78.8**	**74.5**	**75.7**

6.5. The Council is currently part of the London-wide business rates pilot introduced in 2018/19. Initially, the pilot allowed London to benefit from retaining 100% of the business rate growth but this was reduced for 2019/20 to 75%. It had been assumed that the pilot would be further extended into 2020/21 however, the Government announced that they are terminating the London pilot after 2019/20 and suggested that London authorities could form a business rates pool.

6.6. London Councils is working with all London Authorities to set up a new business rates pool based on the original retention scheme in 2017/18, retaining 67% of business rates. Cabinet approved the Council's participation in the London pool in December 2019. The pool will share the benefits of business rates growth across London. The net impact of the change in 2020/21 is a pressure of £4m which is largely offset by increased top up funding/grant and also by business rates grants.

Business Rates Forecast	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Business Rates/RSG	(4,493)	(1,697)	(1,737)	(1,737)
Business Rates Levy Surplus 18/19 roll forward	871	-	-	-
Business rate change	3,359	187	(578)	(655)
Business rate pooling benefit (without SIP)	(314)	314	-	-
NET Business Rates changes	**(577)**	**(1,884)**	**(2,315)**	**(2,392)**

6.7. It should also be noted that the business rates "tariff and top up" levels have been reset. This means that the benefit of previous growth is now included in baseline funding and slightly increases the level of collection risk.

6.8. The forecast outturn for 2019/20 is an overspend of £8.318m as reported to Cabinet in January 2020. This can be mitigated through use of the budget support reserve though this would exhaust this reserve. Overspends in future years will result in draw down from the unearmarked general reserve which has a balance of £17m and a minimum balance of £12m (i.e. only £5m is available).

7. Council Tax

7.1. Barking and Dagenham maintained a council tax freeze from 2008/09 until Assembly approved an increase for the 2015/16 budget. The impact of not increasing council tax is cumulative over many years and this freeze resulted in a tax base that is now £15m lower than it would have been had it risen by 1.99% every year.

7.2. Given that government funding is reducing in real terms every year while the Council's costs are increasing the Chief Financial Officer strongly advises council tax should as a minimum keep pace with inflation to ensure that the council can continue to meet the demands placed upon it.

7.3. The provisional Local Government Financial Settlement for 2020/21 sets a maximum increase of Council Tax of 1.99% without incurring any penalties or being required to hold a referendum. It is therefore proposed that the general council tax increase should be 1.99%. In addition, an Adult Social Care precept may be levied of up to 2.0%.

7.4. The Council tax base report approved by Cabinet in January 2020. This shows an increase in the Council tax base of 2.4% compared to 1.5% that was included in the MTFS. However, this gain is offset by the reduction in the referendum threshold from 2.99% which had been included in the MTFS to 1.99% that the Government has proposed.

7.5. Details of the levies (Environment Agency, East London Waste Authority, Lee Valley Park, London Pension Fund Authority) the Council is required to pay in 2020/21 are yet to be confirmed.

7.6. It is proposed that authority is delegated to the Chief Operating Officer in consultation with the Cabinet Member for Finance, Performance and Core to make the necessary adjustments using the funding provision or from reserves following confirmation of levy and final funding announcements.

7.7. The council proposes to increase Council Tax by:

- 1.99% Local Authority Precept increase; and
- 2.0% increase for the Adult Social Care Precept

7.8. These increases will raise the level of Council Tax for a Band D property from £1,235.50 to £1,284.80, an increase of £49.30.

7.9. The Greater London Authority has provisionally proposed a 3.6% increase in its charge for 2020/21. This precept will increase the charge to a Band D property from £320.51 to £332.07, an increase of £11.56 (comprising an additional £10 for the Metropolitan Police and £1.56 for the London Fire Brigade).

7.10. The combined amount payable for a Band D property will therefore be £1.616.87 for

2020/21, compared to £1,556.01 in 2019/20. This is a total change of £60.86 in comparison to the Council Tax bill for 2019/20. As always there will be a Council Tax Support Scheme to help the poorest taxpayers.

7.11. The calculation of the proposed Council Tax for 2020/21 is shown in Appendix D.

7.12. It is proposed that any surpluses on the Collection Fund should be transferred to the Budget Support reserve.

7.13. Under the Local Government Act 1992, Council Tax must be set before 11 March of the preceding financial year.

8. Revenue Spending Proposals

8.1. The overall budget requirements have been prepared in accordance with the strategy and the requirements for 2019/20 and 2020/21 are summarised below and included in Appendix A. The Statutory Budget Determination is included in Appendix C.

Revenue Budget Summary	**2019/20 Original £m**	**2019/20 Latest £m**	**2020/21 Original £m**
Care & Support	72.292	73.696	82.757
Central Expenditure	0.893	(0.469)	4.792
Community Solutions	12.206	13.495	12.935
Contracted Services	5.385	5.385	0.794
Core	9.194	6.991	4.862
Education, Youth & Childcare	20.946	20.955	20.928
Inclusive Growth	0.220	1.108	1.117
Law, Governance & HR	(2.012)	(1.091)	(0.588)
My Place	17.705	17.636	17.844
Policy & Participation	2.669	3.204	3.303
SDI Commissioning	9.322	7.910	7.052
Total General Fund	**148.820**	**148.820**	**155.796**
Business Rates	(79.161)	(79.161)	(80.608)
Non-ringfenced grants	(7.873)	(7.873)	(7.656)
C/F Surplus	-	-	(1.745)
Corporate Funding	**(87.034)**	**(87.034)**	**(90.009)**
Council Tax Requirement	**(61.786)**	**(61.786)**	**(65.787)**

8.2. The 2020/21 budget is dependent on agreed savings being delivered totalling £12.7m. These are summarised below.

MTFS Savings (£m)	2020/21
Be First	2.247
BDTP (Home Services)	0.740
BDTP (Traded Services)	0.136
Children's	1.461
Community Solutions	0.970
Core & Elevate Exit	4.281
Customer experience & digital	0.310
Disabilities	0.250
Heritage & Culture	0.025
Investment & Acquisitions	1.392
Leisure	0.091
Parks Commercialisation	0.300
Public Realm	0.164
My Place (incl. street lighting)	0.329
Total	**12.696**

8.3. It remains vitally important that all approved savings are delivered to plan. Directors must be focussed on managing expenditure within their service budgets and delivering all agreed savings or implementing alternative savings proposals. This includes implementing action plans in order to manage and mitigate expenditure pressures.

8.4. Included within the MTFP is income from dividends and investment activity from subsidiary companies. The income targets currently in the MTFS are shown in the table below.

£'000's	2019/20	2020/21	2021/22	2022/23	2023/24
Total Original MTFS	5,386	8,509	8,509	8,509	8,509
JULY MTFS			5,449	5,449	5,449
NOVEMBER MTFS		1,909	-91	414	226
TOTAL MTFS INCOME TARGETS	**5,386**	**10,418**	**13,867**	**14,372**	**14,184**

8.5. These revised targets were set based on the forecasts from the companies available in September. The increase in dividend payments between 2019/20 and 2020/21 is £5m. The Council will be reliant on the subsidiary companies delivering the expected dividend payments in the relevant financial year. There is a significant risk to the MTFP if these dividends are not delivered.

8.6. The MTFS also includes the expectation of a return of £5m from the Investment Strategy and £0.7m from further commercial activity (Hotel scheme) which increases the level of commercial risk. The MTFS is included in Appendix B.

9. Current Service Updates

9.1. **Children's Care and Support -** In 2019/20 the Council spent around £40m on Care and Support for vulnerable children. Around half of this amount was spent on the costs of foster placements and residential care for Looked After Children with the other half spent largely on staffing and the costs of running the service. The number of children and adolescents in the borough is continuing to grow year on year and unfortunately there will always be a small proportion who face challenges and whose families may not be able to care for them as they need. The Council is increasing the budget allocated to the service by £4.5m in order to fund this growth while we have also redesigned the service in order to meet the particular needs of our population and to focus on prevention and supporting children to stay with their families wherever possible. At the same time, we are looking to make savings in the costs of care by commissioning placements more effectively. Altogether we expect to make £1.46m of savings across this service.

9.2. **Disabilities Care and Support -** The continuing improvements in medical care and life expectancy together with our growing population mean that there are increasing numbers of people living with severe and complex disabilities in our borough. We have recognised these needs by allocating £5m of growth funding to this service. This is partly funded from the Care and Support grants from Central Government and partly from the Council's own resources including Council tax.

9.3. **Adults' Social Care -** Although Barking and Dagenham is a comparatively young borough, nonetheless the number of older people requiring support is growing. In addition, there are high numbers of people in the borough with mental health needs. We have recognised these needs by allocating £3m of growth funding to this service. This also includes some element of the Care and Support grant and also the Social Care Precept on Council tax. There are no further savings required in 2020/21; however we are expecting to see the final implementation and benefit of savings initiatives from previous years being delivered in the next financial year. This includes the full year effect of changes to the Contributions policy for Social Care introduced in 2019.

9.4. **Community Solutions -** Community Solutions is expected to continue to deliver savings by more effective working and reducing demand for Council services especially in Housing. The number of households in temporary accommodation has reduced during 2019/20 and new kinds of provision including modular housing will come into operation in 2020/21. In addition, the service will make other savings from changes to its delivery of services. The total savings expectation is £0.97m. At the same time the Council is increasing funding of the costs of homelessness by £0.26m.

9.5. **My Place -** My Place is the Council's asset management service. It will continue to support delivery of the Council's capital programme and look after the Public Realm. There are expected savings to be delivered from reductions in energy usage in street lighting following the LED replacement programme, service efficiencies in both My Place and Street Cleansing and increases in Cemetery income.

9.6. **Leisure -** The Council continues to benefit from its partnership with Everyone Active with increased concession income being expected in 2020/21.

9.7. **Core Support Services -** As set out in the report to Cabinet in January 2019 the Council is unwinding its contract for support services with Elevate and a range of services will be transferring back to the Council. At the same time, we are reviewing the services such as Finance, HR and Commissioning provided from the Corporate Centre. We are also considering how we can increase income to the Council and how we can collect debt better. Altogether we are expecting to realise £4.2m of savings across the range of core, corporate and support services in 2020/21.

9.8. **Customer Services and Digital -** As part of the transfer back we will also review our customer services especially how we are responding to changes in technology and our customers' preferences about how to contact the Council. We expect this to achieve £0.31m of savings while improving the customer experience.

10. Investment Strategy

10.1. The Council continues to put our balance sheet to work. We are continuing to leverage our assets to generate financial returns to the Council and provide benefits for the community.

10.2. The Council has pursued an ambitious programme of investment. The target return included in the MTFS is £5.7m in 2020/21. This is dependent on investments delivering the expected return on time as outlined in business plans that have been agreed already. The cumulative borrowing total is expected to reach £774m in 2020/21, growing to £1,009m in 2021/22. Work is ongoing to ensure that the cost of financing the borrowing requirement is managed carefully in order to meet the target return in each year of the MTFS.

11. Capital Programme

11.1. The Council's current General Fund capital programme for 2019/20 is £66.072m for Services and £188.659m for the Investment strategy. The largest element of the Services programme is Schools/Education which is largely grant funded by the Department of Education.

11.2. The Council's Indicative General Fund Capital Programme 2019/20 to 2023/24 is set out below. A more detailed breakdown of the 2020/21 programme is set out in Appendix E. Cabinet are asked to approve the 2020/21 programme.

Capital expenditure	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
General Fund					
Adults Care & Support	£2,241	£2,241	£2,241	£2,241	£2,241
Community Solutions	£210	£0	£0	£0	£0
Core	£2,562	£3,492	£340	£340	£340
Culture, Heritage & Recreation	£1,750	£10,015	£450	£305	£150
Education, Youth and Childcare	£42,346	£42,958	£3,895	£0	£0
Enforcement	£1,269	£2,908	£0	£0	£0
My Place	£8,122	£3,625	£4,295	£4,295	£4,295
Public Realm	£7,571	£3,179	£50	£0	£0
New CIL	£0	£2,682	£0	£0	£0
New TFL	£0	£1,640	£1,323	£0	£0
TOTAL EXPENDITURE	**£66,071**	**£72,740**	**£12,594**	**£7,181**	**£7,026**
Financed by:	£0	£0	£0	£0	£0
Capital Grants	-£52,965	-£41,954	-£6,136	-£2,241	-£2,241
Section 106	£0	£0	£0	£0	£0
CIL/TFL	£0	-£4,322	-£1,323		£0
Revenue Contributions	-£340	-£340	-£340	-£340	-£340
Capital Receipts	£0	£0	£0	£0	£0
Total Net Borrowing Requirement	-£12,766	-£26,124,181	-£4,795	-£4,600,026	-£4,445
Investment and Acquisition Strategy					
Residential	£188,659	£253,047	£313,119	£155,660	£120,074
Commercial	£0	£0	£0	£0	£0
Financed by:	£0	£0	£0	£0	£0
Grant	-£22,360	-£21,395	-£5,701	-£32,099	-£19,448
Right to Buy Receipts	-£96	-£5,887	-£31,536	-£57,446	-£58,195
Sales / Shared Ownership	£0	£0	£0	£0	£0
Total Net Borrowing Requirement	£166,203	£225,765	£275,883	£66,115	£42,341
Transformation					
Transformation	£4,500	£6,495	£0	£0	£0
Financed by:	£0	£0		£0	£0
Capital Receipts/Reserves	-£4,500	-£6,495	£0	£0	£0

11.3. The budgets are indicative and may change as a result of budget roll-forward from the 2019/20 financial year, for example if there has been programme slippage or if additional external funding is provided. In particular the Department for Education has not yet set out its funding intentions in full beyond 2021/22. It is likely that the Schools programme will be increased in later years.

11.4. The MTFS includes provision to fund a corporate capital programme for operational requirements. £1m will be allocated each year for urgent and/or health & safety works. The allocation of remaining funding will be co-ordinated by the Capital and Assets Board. The 2020/21 capital funding available is £3.4m with similar amounts in following years.

11.5. The new bids include the following schemes (Note spend will cover 4-year period

2020/21 – 2023/24):

- CIL: New agreed CIL bids detailed in 15 October 2019 Cabinet report Allocation of Community Infrastructure Levy to Strategic Projects.
- New LIP funded projects agreed by TFL for 2020/21 and 2021/22.
- In Cab Technology: 235k Procuring in cab tech for waste vehicles and subsequent licences etc.
- Highway Improvement Programme: To Resurface/Reconstruct Footways and Carriageways on the borough's public highway network. £13.6m.
- In Borough Specialist Residential Home: £325k.
- Lake Enhancement Schemes: The project will include a combination of essential H&S works and improvements required to improve the physical lake environment. £600k.

11.6. Cabinet are asked to approve the addition of these bids to the programme profiled in line with the available funding.

12. Flexible Use of Capital Receipts

12.1. The Council intends to make further use of the flexibility provided by the Government to use capital receipts for the specific purpose of investment in transformation. Further information on the Council's approach is set out in Appendix F.

13. Dedicated Schools Budget

13.1 In December the Cabinet received a report about the Dedicated Schools Grant (DGS) and approved the principles for setting the local funding formula for schools. Since that time the Department for Education has published the DSG allocations for 2020/21.

13.2 As set out in the December report there will be no transfers between the DSG blocks this year. However, the Schools block has been topsliced to provide sufficient funding for growth – new classes that we expect to be required for September 2020 and to create a small fund to assist schools facing temporary financial challenges as a result of falling rolls.

13.3 The Schools funding formula has been set in line with the principles agreed by Schools Forum and Cabinet. The national rates (adjusted for area costs) have been used for all additional needs factors but the basic age weighted funding element has been adjusted to bring the funding balance between primary and secondary phases to the agreed ratio of 1:1.35. All schools have had their pupil led funding protected to give them an increase of 1.84% per pupil. Cabinet are recommended to approve the overall principles and the consequent funding factors which are set out in appendix G.

14. Consultation

14.1. A report on the Budget strategy was presented to Overview and Scrutiny Committee in December 2019, updating the Committee on funding assumptions and other factors affecting the MTFS.

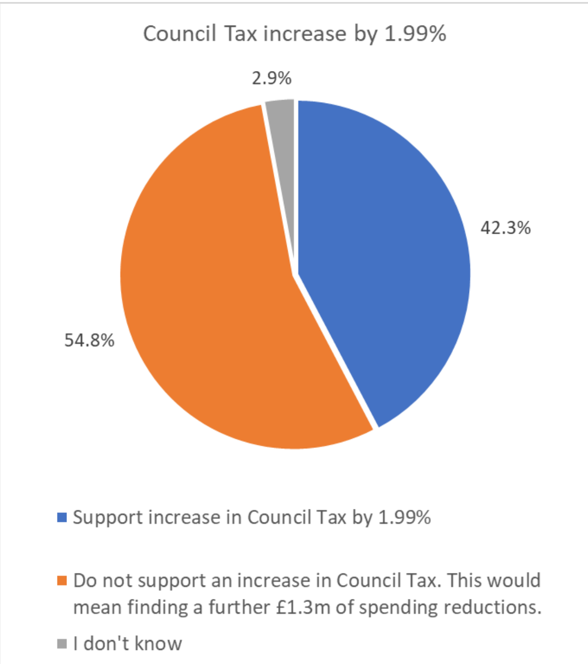
14.2. A consultation exercise on the budget with residents and businesses began in January 2020. The Council was interested to hear residents' views on the proposed social care precept and their views on the type of services that will need to be delivered in the future.

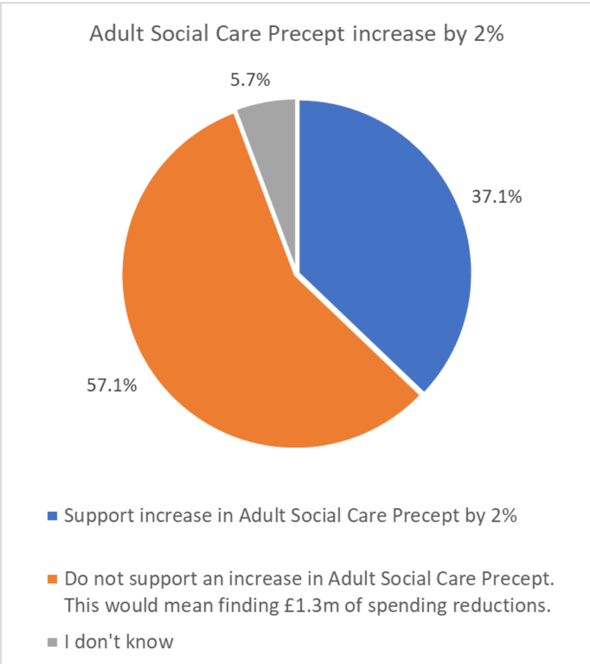
14.3. The exercise comprised a number of events as follows:

- An online budget consultation which ran throughout January
  The online survey was undertaken which had 105 responses.
- Social media posts from 6 January to 31 January
  The Council published 18 posts across Facebook (7) and Twitter (11). In total the content had 24,794 impressions across Facebook (14,000) and Twitter (10,794). The posts also generated 32 likes, 25 shares and 52 comments (this is excluding the Facebook Live, see below). In addition, there were 417 clicks through to the budget page and/or the consultation page.
- Facebook Live Q&A, 28 January 6.30pm
  As at 31 January, the live video has appeared in 6,000 Facebook feeds and has achieved 2,700 views, 23 reactions (likes and smiley faces), 13 shares, and 192 comments.
  The majority of questions were about social housing/regeneration and CPZs. Comments here: https://bit.ly/2U1yVQK
- Face to Face events in Barking and Chadwell Heath to which resident groups including business representatives were invited.

14.4. The online budget consultation was completed by 102 residents and 3 representatives of an organisation. The online survey asked 9 questions which provided the opportunity to include detailed comments on where the council should reduce or remove spending, where service users could be charged and where the council should focus when developing future budget proposals.

14.5. When asked for their views on raising council tax and the Adult Social Care Precept the results are shown below.





14.6. The areas where respondents would reduce or remove spending was on controlled parking zones, adult social care, green/bulky waste collections and councillor allowances.

14.7. Respondents supported charging or fining people for parking in front of schools, fly tipping, littering and not recycling.

14.8. There was support for continuing to develop housing and infrastructure, investing in community safety and policing and improving the environment within the borough.

14.9. As a result of the provisional local government finance settlement being published later than expected and a general election in December 2019, the consultation exercises started later than in previous years.

15. Statutory Report of the Chief Finance (S151) Officer

15.1. Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of the budget estimates and the adequacy of financial reserves. The Act also requires the Authority to which the report is made to have regard to the report when making decisions about the budget.

15.2. In this context, the reference to the Chief Finance Officer is defined in Section 151 of the Local Government Act 1972. This statutory role is fulfilled in this authority by the Chief Operating Officer.

15.3. In summary, the Chief Finance Officer considers the budget proposals to establish a net budget requirement of £155.796m and council tax requirement of £65.787m for 2020/21 as set out in this report as robust. The level of reserves is sufficient to mitigate known risks during the forthcoming financial year taking account of the Council's financial management framework. However, the financial outlook over the medium term remains challenging with increasing cost pressures and uncertainty due to planned changes to the national local government funding framework, expected from 2021/22. The council will be required to remain proactive in delivering sustainable council transformation to ensure a balanced budget position can be maintained for 2021/22 and beyond.

15.4. The robustness of the underpinning financial planning assumptions on which the budget has been determined:

- Financial resources are appropriately aligned to the strategic priorities of the council with appropriate investment to meet priorities and respond to changes in demand.
- Savings have been identified in line with the Council's transformation programme and action plans are in place for their delivery.
- Appropriate actions are being taken to identify and collect outstanding debts owed to the council, including historic debts.
- Contingency budgets are held centrally to mitigate unforeseen cost pressures in the event they arise during the course of the year. This could be used to meet unexpected increases in demand led services or potential impact of a no-deal Exit from the EU.
- Employee budgets are based on the appropriate scale point although the cost of annual pay rises is expected to be absorbed within service budgets.

- Assumptions about future inflation and interest rates are realistic.
- Income estimates are based on updated forecasts against trend.
- Capital and revenue budgeting are integrated with the revenue consequences of the capital programme considered as part of the overall budget process.

15.5. Appropriate governance arrangements are in place to manage financial resource throughout 2020/21:

- Financial management is delegated appropriately, and commitments are entered into in compliance with Financial Regulations and Contract Rules as contained in the Council's Constitution.
- Effective governance arrangements are in place for budget monitoring and reporting during the financial year with corrective action taken to mitigate overspends where necessary.
- A risk assessment has been carried out on the revenue budget and this will be monitored and reported to Cabinet throughout the year.

15.6. An assessment of the funding framework for local government:

- The settlement figures provided in the budget are based on the provisional settlement. Any variations in the final settlement will be reported as part of quarter 1 budget monitoring 2020/21.
- The Cabinet's proposals do not breach the "excessiveness" principle for 2019/20, where local referendum is required. The threshold for 2020/21 for general council tax if it rises by 2% or more, alongside a maximum 2% social care precept.
- Appropriate assessment has been made of the council tax and business rate base 2020/21 and the likely levels of collection and bad debt recovery.

15.7. In assessing the adequacy of reserves, the Chief Finance Officer has considered the level of reserves and undertaken a risk-based approach to assessing the minimum level of balances. For 2020/21 and 2021/22 the minimum level of General Reserves is recommended at £12.0m. The current level of the General Fund balance is £17.0m.

15.8. Earmarked Reserves are available to provide financing for future expenditure plans. Earmarked Reserves (excluding those held by schools under delegation) stood at £48.8m at 31 March 2019. These are forecast to be £34.6m by 31 March 2020.

15.9. The Budget Support Reserve, intended to provide short term support and pump prime efficiencies, stood at £12.3m at 31 March 2019. This reserve balance is forecast to be fully utilised by 31 March 2020. The underlying 2020/21 budget does not place undue reliance on reserves as general budget support.

15.10. The Council continues to face financial challenges over the medium term. The delivery of a balanced budget for 2020/21 is reliant on delivering savings of £12.7m in addition to those that are still outstanding from previous years. Further savings will need to be identified in 2022/23 and 2023/24. There is significant uncertainty in relation to local government funding beyond 2020/21 and the potential impact of changes to New Homes Bonus, the Business Rates Retention Scheme and the Fair Funding Review. The Council continues to maintain its focus on delivering transformation at pace and thereby securing financial sustainability.

16. Financial Implications

Implications completed by: Philip Gregory, Finance Director

16.1. The detailed financial implications have been covered throughout the report. Members are asked to note the CFO opinion as outlined in section 15 above.

17. Legal Implications

Implications completed by: Dr Paul Feild, Senior Governance Solicitor

17.1. As has been explained in paragraph 15 above the Local Government Finance Act 2013 requires the Chief Finance Officer to report on the robustness of the estimates for calculations and the adequacy of reserves to the Authority and that the Authority must take these matters into account when making decisions on the matters before it in this report. By law a local authority is required under the Local Government Finance Act 1992 to produce a 'balanced budget'. The current budget setting takes place in the context of significant and widely known reductions in public funding to local authorities. Where there are reductions or changes in service provision as a result of changes in the financial position the local authority is free to vary its policy and consequent service provision but at the same time must have regard to public law considerations in making any decision lawfully as any decision eventually taken is also subject to judicial review. Members would also wish in any event to ensure adherence as part of good governance. Specific legal advice may be required on the detailed implementation of agreed savings options. Relevant legal considerations are identified below.

17.2. Whenever there are proposals for the closure or discontinuance of a service or services, there will be a need for appropriate consultation, so for example if savings proposals will affect staffing then it will require consultation with Unions and staff. In addition to that Members will need to be satisfied that Equality Impact Assessments have been carried out before the proposals are decided by Cabinet.

17.3. If at any point resort to constricting expenditure is required, it is important that due regard is given to statutory duties and responsibilities. The Council must have regard to:

- any existing contractual obligations covering current service provision. Such contractual obligations where they exist must be fulfilled or varied with agreement of current providers;
- any legitimate expectations that persons already receiving a service (due to be cut) may have to either continue to receive the service or to be consulted directly before the service is withdrawn;
- any rights which statute may have conferred on individuals and as a result of which the council may be bound to continue its provision. This could be where an assessment has been carried out for example for special educational needs statement of special educational needs in the education context);
- the impact on different groups affected by any changes to service provision as informed by relevant equality impact assessments;

- to any responses from stakeholders to consultation undertaken.

17.4. In relation to the impact on different groups, it should be noted that the Equality Act 2010 provides that a public authority must in the exercise of its functions have due regard to the need to eliminate discrimination and to advance equality of opportunity between persons who do and those who do not share a relevant ‘protected characteristic’. This means an assessment needs to be carried out of the impact and a decision taken in the light of such information.

18. Corporate Policy and Equality Impact

18.1. The Equality Act 2010 requires a public authority, in the exercise of its functions, to have due regard to the need to eliminate discrimination and to advance equality of opportunity between persons who do and those who do not share a relevant protected characteristic. As well as complying with legislation, assessing the equality implications can help to design services that are customer focussed, in turn leading to improved service delivery and customer satisfaction.

18.2. The Council’s Equality and Diversity strategy commits the Council to ensuring fair and open service delivery, making best use of data and insight and reflecting the needs of the service users. Equality Impact Assessments allow for a structured, evidence based and consistent approach to considering the equality implications of proposals and should be considered at the early stages of planning.

18.3. There are no new savings proposals that put forward and EIAs have also been carried out for all existing saving to ensure the Council properly considers any impact of the proposal. The Council’s transformation programme aims to redesign services to make them more person-centred and focussing on improving outcomes for residents. Therefore, in most cases the proposals have either a positive or neutral impact. However, where a negative impact has been identified, the Council will ensure appropriate mitigations are considered and relevant affected groups are consulted.

Public Background Papers Used in the Preparation of the Report:

- Provisional Local Government Finance Settlement (https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2020-to-2021)

List of appendices:

- Appendix A – Revenue Budget
- Appendix B – MTFS
- Appendix C – The Statutory Budget Determination
- Appendix D – Calculation of the Council Tax Requirement
- Appendix E – Draft Capital Programme
- Appendix F – Flexible Use of Capital Receipts
- Appendix G – School Funding Formula Factors
- Appendix H – Forecast General Fund Usable Reserves
- Appendix I – New Homes Bonus Allocations

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Appendix A - Revenue Budgets 2020-21

Revenue Budgets 2020-21	Initial Base	1 Capital Charges	2 MTFS growth	3 Recharges	4 Savings	5 Service adjustments	6 Central adjustments ZA	7 Commercial income	Transfer to Reserves	TOTAL
CARE & SUPPORT	65,557,278	1,261,720	10,771,910	5,547,700	(1,710,620)	1,329,020	0	0	0	82,757,008
CENTRAL	32,701,297	(35,522,110)	5,997,330	2,513,280	(3,213,330)	(99,996)	918,360	(1,909,000)	3,407,000	4,792,831
COMMUNITY SOLUTIONS	7,673,270	3,704,550	409,760	2,072,760	(970,330)	44,571	0	0	0	12,934,581
CONTRACTED SERVICES	10,898,400	446,160	0	(5,959,480)	(4,591,000)	0	0	0	0	794,080
CORE	8,929,670	128,030	65,260	(1,952,970)	(1,392,000)	(153,960)	0	(762,000)	0	4,862,030
EDUCATION, YOUTH & CHILDCARE	1,966,150	16,980,830	28,990	1,952,250	0	0	0	0	0	20,928,220
INCLUSIVE GROWTH	(136,410)	112,970	8,780	1,233,050	0	0	(101,760)	0	0	1,116,630
LAW, GOVERNANCE & HR	1,161,504	267,390	522,030	(2,550,410)	0	0	11,000	0	0	(588,486)
MY PLACE	9,222,371	11,431,830	646,120	(2,938,580)	(493,250)	0	(24,200)	0	0	17,844,291
POLICY & PARTICIPATION	3,722,230	294,740	439,030	(1,037,100)	(325,000)	209,385	0	0	0	3,303,285
SDI COMMISSIONING	7,226,010	893,890	46,790	1,119,500	0	(1,329,020)	(905,160)	0	0	7,052,010
BE FIRST	(101,760)	0	0	0	0	0	101,760	0	0	0
TOTAL GENERAL FUND	**148,820,010**	**0**	**18,936,000**	**0**	**(12,695,530)**	**0**	**0**	**(2,671,000)**	**3,407,000**	**155,796,480**

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Appendix B
Medium Term Financial Strategy - Summary Position 2020/21- 2023/24

	2020/20 £000 Feb' 20	2021/22 £000 Revised	2022/23 £000 Revised	2023/24 £000 Revised
Prior Year (Surplus) / Deficit				
Budget Increases				
Corporate Growth				
Investment in the capital programme	450	450	450	450
ELWA levy increase	725	740	765	800
Extra cost of Capital borrowing (6% for MRP & 3% for Interest)	750			
Pensions remove advance payment element	200	1,000		
Capital Financing Costs	340	(340)		
Cross Cutting Items				
Staff pay award and capacity building	2,000	2,000	2,000	2,000
Non staff inflation	1,000	1,000	1,000	1,000
Service Pressures				
Public Realm	400		530	
Childrens TOM	1,500			
LAC/Care	3,000	600	600	600
Adults	3,000	1,000	1,000	1,000
Adults Fourth Locality				250
Disabilities	3,000	500	500	500
Community Solutions	260	260	260	260
Participation & Engagement	400	(110)	(50)	
Parks		600		
Welfare Reform Impact	800			
London Fraud Hub Subsciption	70			
Community Safety	150			
Legal Services	240			
Further recurrent pressures - Disabilities	2,000			
Care Leavers Council Tax Exemption	151			
Census Information Scheme 2021		18		
Total Additional Costs	**20,436**	**7,718**	**7,055**	**6,860**
Changes in Income & Funding				
Business Rates/RSG	(1,134)	(1,884)	(2,315)	(2,392)
Income from Business Rates Pooling	(314)	314		
Increase in Council Tax Base	(1,477)	(987)	(1,031)	(1,078)
General Council Tax Increase	(1,259)	(1,997)	(2,087)	(2,182)
2% Adult Social Care Precept	(1,265)			
Business Rates Levy Surplus 18/19 roll forward	871			
Local Council Support Administration Subsidy	30	26	23	23
Housing Benefit Administration Subsidy	115	80	76	76
Homelessness Reduction Act Grant-New Burdens		318		
New Homes Bonus Grant	3,007			
New Homes Bonus Grant - Loss of Legacy payments		2,102	3,267	3,695
Collection Fund (Surplus)/Deficit	(1,745)	1,745		
New Social Care Grant 2020	(3,805)	3,805		
Total Changes in Income	**(6,976)**	**3,522**	**(2,067)**	**(1,858)**
Savings				
Savings approved by Cabinet	(12,696)			
Non-Delivery of Savings				
Additional Savings			(2,000)	(2,000)
Total Savings	**(12,696)**	**-**	**(2,000)**	**(2,000)**
In-Year Budget Gap after savings	**764**	**11,240**	**2,988**	**3,002**
Technical Adjustments				
MRP policy change	(1,000)			
Additional MRP changes	(500)	150	150	150
Commercial Income				
Investment Income	(762)	50	(165)	(2,000)
Company Dividends	(1,909)	(3,410)	(505)	188
Revised Budget Gap after Technical Adj & Commecial Income	**(3,407)**	**8,030**	**2,468**	**1,340**
Cumlatative Budget Gap	**(3,407)**	**8,030**	**2,468**	**1,340**
Transfer To/(From) Earmarked Reserves	3,407	(3,407)		
Budget Gap	**-**	**4,623**	**2,468**	**1,340**

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STATUTORY BUDGET DETERMINATIONS

SETTING THE AMOUNT OF COUNCIL TAX FOR THE LONDON BOROUGH OF BARKING AND DAGENHAM

1. At its meeting on 21 January 2020 the Council approved the Council Tax Base 2020/21 calculation for the whole Council area as 51,204.07 [Item T in the formula in Section 31B (3) of the Local Government Finance Act 1992, as amended ("the Act")]

2. The following amounts have been calculated by the Council for the year 2020/21 in accordance with Sections 31 to 36 of the Act:-

(a)	£748,523,622	being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act.
(b)	£682,736,633	being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act.
(c)	£65,786,989	being the amount by which the aggregate at 2(a) above exceeds the aggregate at 2(b) above, calculated by the Council, in accordance with Section 31A(4) of the Act, as its Council Tax requirement for the year (i.e. Item R in the formula in Section 31A(4) of the Act).
(d)	£1,284.80	being the amount at 2(c) above (i.e. "Item R), divided by Item T (shown at 1 above), calculated by the Council, in accordance with Section 31B(1) of the Act as the basic amount of its Council Tax for the year. Refer below for further detail.

Valuation Bands

A	B	C	D	E	F	G	H
£856.53	£999.29	£1,142.04	£1,284.80	£1,570.31	£1,855.82	£2,141.33	£2,569.60

being the amounts given by multiplying the amount at 2(d) above by the number which, in the proportion set out in Section 5(2) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation Band 'D' calculated by the Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

3. That it be noted that for the year 2020/21 the Greater London Authority has indicated the following amounts in precepts issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992 for each of the categories of dwellings shown below:-

Precepting Authority: Greater London Authority

Valuation Bands

A	B	C	D	E	F	G	H
£221.38	£258.28	£295.17	£332.07	£405.86	£479.66	£553.45	£664.14

4. That, having calculated the aggregate in each case of the amounts at 2 and 3 above, the Council, in accordance with Section 30(2) of the Local Government Finance Act 1992, hereby sets the following amounts as the amounts of Council Tax for the year 2020/21 for each of the categories of dwellings shown below:-

Valuation Bands

A	B	C	D	E	F	G	H
£1,077.91	£1,257.57	£1,437.21	£1,616.87	£1,976.17	£2,335.48	£2,694.78	£3,233.74

Appendix D

Calculation of the Proposed Council Tax for 2020/21

		£000
Revised 2018/19 Budget before reserves usage		**148,820**
Roll forward of last year's surplus	0	
New MTFS Items	20,436	
Approved Savings	(12,696)	
Company Returns/Investment Income	(2,671)	
Technical Items	(1,500)	
Transfer to Earmarked Reserves	3,407	
Total Adjustments		6,976
Base Budget Requirement for 2019/20		**155,796**
Funded By:		
Retained Business Rates Income	(80,294)	
Business Rates Pilot Surplus	(314)	
Specific Grants	(7,656)	
Collection Fund Surplus	(1,745)	
Total Funding		(90,009)
Council Tax Requirement		**(65,787)**
Council Tax Base (Equivalent Band D properties)		51,204.07
Council Tax:		
London Borough of Barking & Dagenham		1,284.80 TBC
Greater London Authority		332.07 TBC
Overall Council Tax - Band D equivalent		**£1,616.87**

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Appendix E

2020/21 CAPITAL PROGRAMME

Project No.	Project Name	2020/21 CAPITAL PROGRAMME SLIPPAGE	2020/21 NEW	Total
	GENERAL FUND			
FC00100	**Adults Care and Support**			
FC00106	Disabled Facilities Grant	0	1,841,341	1,841,341
FC02888	Direct Pymt Adaptations	0	400,000	400,000
	Total for Adults Care & Support		**2,241,341**	**2,241,341**
	Community Solutions			
FC03060	Barking Learning Centre Works	0	0	0
FC04036	Upgrade & enhancement of Security & Threat Management System at BLC	0	0	0
	Total for Community Solutions		**0**	**0**
FC02565	Implement Corporate Accommodation Strategy	10,507	0	10,507
FC02738	Modernisation & Imp Cap Fund	(1,034)	0	(1,034)
FC02811	Members Budget - NEW	0	340,000	340,000
FC02877	Oracle R12 Joint Services	39,148	0	39,148
FC03052	Elevate ICT investment	691,218	1,950,000	2,641,218
FC03059	Customer Services Channel Shift	106,884	0	106,884
FC03068	ICT End User Computing	188,000	172,000	360,000
FC04055	Woodlands Repairs	(4,622)	0	(4,622)
	Total for Core	**1,030,101**	**2,462,000**	**3,492,101**
	Culture, Heritage & Recreation			
FC03029	Broadway Theatre	(5,070)	0	(5,070)
FC03057	Youth Zone	74,931	0	74,931
FC04042	Community Halls	9,667	0	9,667
FC03067	Abbey Green Restoration/Works	313,224	0	313,224
FC03093	Eastbury Manor House - Access and egress improvements	215,724	0	215,724
FC04031	Reimagining Eastbury	(35,830)	100,000	64,170
FC04033	Redressing Valence	0	500,000	500,000
FC04043	The Abbey: Unlocking Barking’s past, securing its future	(8,456)	0	(8,456)
FC04044	East London Industrial Heritage Museum	75,000	0	75,000
FC03026	Old Dagenham Park BMX Track	(0)	0	(0)
FC03032	3G football pitches in Parsloes Park	6,610,279	0	6,610,279
FC03034	Strategic Parks - Park Infrastructure	49,891	0	49,891
FC03062	50m Demountable Swimming Pool	623,623	0	623,623
FC03090	Lakes	59,118	190,000	249,118
FC04013	Park Infrastructure Enhancements	(49,002)	20,000	(29,002)
FC04017	Fixed play facilities	(18,110)	50,000	31,890
FC04018	Park Buildings – Response to 2014 Building Surveys	25,228	75,000	100,228
FC04020	Parsloes Park regional football hub	(39,880)	0	(39,880)
FC04080	Children’s Play Spcs & Fac	9,900	55,000	64,900
FC04081	Parks & Open Spcs Strat 17	30,000	100,000	130,000
FC04082	Tantony Green Play Area	(27,950)	0	(27,950)
FC04084	Central Park Masterplan Implementation	1,012,893	0	1,012,893
FC04085	Valence Park Play Facility	0	0	0
	Total for Culture, Heritage & Recreation	**8,925,179**	**1,090,000**	**10,015,179**
	Education Youth & Childcare			
	Childrens Centres			
FC03063	Extension of Abbey children’s centre nursery	0	0	0
NEW2021B	In Borough Specialist Residential Home	0	325,000	325,000
	Other Schemes	0		0
FC02909	School Expansion Minor projects	(100,000)	0	(100,000)
FC02920	Warren / Furze Expansion	24,153	0	24,153
FC02972	Implementation of early education for 2 year olds	65,000	252,000	317,000
FC03042	Additional SEN Provision	(50,000)	231,000	181,000
FC03043	Pupil Intervention Project (PIP)	(41,220)	0	(41,220)
FC03085	School Conditions Allocation 2017-19	(175,951)	0	(175,951)
FC04052	SEND 2018-21	(654,284)	1,300,000	645,716
FC04053	School Conditions Allocation 2018-20	21,707	0	21,707

Project No.	Project Name	2020/21 CAPITAL PROGRAMME SLIPPAGE	2020/21 NEW	Total
FC04072	School Condition Alctns 18-19	1,362,230	1,500,000	2,862,230
FC04087	SCA 2019/20 (A)	(3,000,000)	640,000	(2,360,000)
FC04097	Trinity Special School Expnasion	0	750,000	750,000
FC04098b	Schools Condition Allocations 2019-20	0	3,800,000	3,800,000
NEW2021C	New SCA from backlog	(300,000)	0	(300,000)
NEW2021D	New BN revisit expanded schools	(300,000)	0	(300,000)
	Primary			0
FC02961	Goresbrook	0	0	0
FC03053	Gascoigne Prmy 5forms to 4 forms	(48,037)	0	(48,037)
FC04058	Marks Gate Infants & Juniors 2018-20	(200,000)	1,000,000	800,000
FC04059	Greatfields Primary	0	8,000,000	8,000,000
FC04071	Roding Primary Classroom Reinstatement	(1,200,000)	75,000	(1,125,000)
FC04098	Ripple Suffolk Primary	800,000	800,000	1,600,000
FC04098a	Greatfields Primary	0	0	0
	Secondary			0
FC02959	Robert Clack Expansion 13-15	3,699,213	0	3,699,213
FC03018	Eastbury Secondary	(40,278)	0	(40,278)
FC03020	Dagenham Park	(100,000)	0	(100,000)
FC03022	New Gascoigne (Greatfields) Secondary School	6,082,802	18,500,000	24,582,802
FC03054	Lymington Fields New School	(6,000,000)	1,500,000	(4,500,000)
FC03078	Barking Abbey Expansion 2016-18	3,400,000	1,040,000	4,440,000
	Total for Education Youth & Childcare	**3,245,335**	**39,713,000**	**42,958,335**
	Enforcement			
FC02982	Consolidation & Expansion of CPZ	846,183	2,061,600	2,907,783
FC04015	Enforcement Equipment		0	0
	Total for Enforcement	**846,183**	**2,061,600**	**2,907,783**
	MyPlace			
FC02587	Energy Efficieny Programme	(266,123)	0	(266,123)
FC04063	Flood Survey (Formally Flood Risk Management)	0	0	0
FC05016	Frizlands Depot washbay	80,000	0	80,000
FC05017	Frizlands Public Realm Building Improvements	0	0	0
FC05018	Stock Condition Survey	160,000	265,000	425,000
FC05010a	Reside Lifts Replacement	(170,000)	0	(170,000)
FC02542	Capital Improvements	0	0	0
FC02962	Principal Rd Resurfcng 2013-14	0	0	0
FC02963	Mayesbrook Nghbrhd Imprv 13-14	0	0	0
FC02964	Road Safety Improvements Programme (Various Locations)	0	0	0
FC03011	Structural Repairs & Bridge Maintenance	(170,600)	0	(170,600)
FC03023	Bus Stop Accessibility Improvements	0	0	0
FC03030	Frizlands Phase 2 Asbestos Replacement	(500)	0	(500)
FC03044	Fire Safety Works (R&M)	0	0	0
FC03064	Street Lighting 2016-2019 : Expired Lighting Column Replacement	(2,075)	0	(2,075)
FC03065	HIP 2016-17 Footways & Carriageways	0	2,815,000	2,815,000
FC04019	Replacement of Winter Maintenance Equipment / Gully Motors	0	0	0
FC04029	Engineering Works (Road Safety)	64,742	0	64,742
FC04064	Bridges and Structures	550,000	300,000	850,000
FC05000	Roycraft House refurbish WCs Internals & Electricals	0	180,000	180,000
FC02898	Local Transport Plans	0	0	0
FC03025	Gale Street Corridor Improvements	(224,075)	0	(224,075)
FC03097	Thames View Cycle/Walking Link Improvements	0	0	0
FC03098	Cycle Schemes - Quietway CS3X	0	0	0
FC02994	Renwick Road/ Choats Road 2014/15 (TfL)	0	0	0
FC02996	Barking Town Centre 2014/15 (TfL)	(47,000)	0	(47,000)
FC03055	Barking Riverside Trans link	(178,778)	0	(178,778)
FC03070	Boundary Road Hostel: Critical Needs Homelessness Assessment and Support Centre	(8,980)	0	(8,980)
FC04092	Barking Station Improvements - BE FIRST	168,689	0	168,689
FC04093	Heathway Corridor - BE FIRST	0	0	0
FC04094	Becontree Heath Low Emission - BE FIRST	0	0	0
FC04095	Station Access Improv Prog - BE FIRST	0	0	0
NEW2021A	Procuring in cab tech for waste vehicles and subsequent licences etc	0	110,000	110,000
NEW2021E	New CIL/TFL schemes 2019.20	0	2,681,789	2,681,789
NEW2021E1	New TFL schemes 2019.20	0	1,640,000	1,640,000
	Total for My Place	**(44,700)**	**7,991,789**	**7,947,089**

Project No.	Project Name	2020/21 CAPITAL PROGRAMME SLIPPAGE	2020/21 NEW	Total
	Public Realm			
FC03083	Chadwell Heath Cemetry Ext	0	0	0
FC04012	Bins Rationalisation	0	50,000	50,000
FC04014	Refuse Fleet	0	0	0
FC04016	On-vehicle Bin Weighing System for Commercial Waste	0	0	0
FC04028	Equipment to reduce Hand Arm Vibration	0	0	0
FC04070	Vehicle Fleet Replacement	0	3,128,618	3,128,618
	Total for Public Realm	**0**	**3,178,618**	**3,178,618**
	Investment Strategy & Be First			
FC02969	Creative Industry (formerly Barking Bathouse)	0	0	0
FC02985	Gascoigne West (Housing Zone)	0	24,113,946	24,113,946
FC02986	Gascoigne East Ph2	0	0	0
FC02988	Margaret Bondfield	467,405	406,245	873,650
FC03058	Kingsbridge Development	0	0	0
FC03072	Conversion & Redevelopment of Former Sacred Heart Convent, 191 Goresbrook F	463,451	5,529,417	5,992,868
FC03081	Land Acquisitions 2016-18	0	0	0
FC03082	Gurdwara Way - Land Rmdiation	0	0	0
FC03084	Sebastian Court - Redevelop	3,580,145	19,546,023	23,126,168
FC03086	Land at BEC - live work scheme	757,396	3,988,379	4,745,775
FC03099	Abbey Green & Barking Town Centre Conservation Area Townscape HLF Project	0	0	0
FC04062	Gascoigne East Phase 2	949,194	67,215,360	68,164,554
FC04065	200 Becontree	0	5,003,816	5,003,816
FC04066	Roxwell Road	172,517	1,782,683	1,955,200
FC04067	12 Thames Road	205,691	1,577,915	1,783,605
FC04068	Oxlow Road	62,287	1,117,903	1,180,189
FC04069	Crown House	(0)	33,556,304	33,556,304
FC04075	Rainham Road South	278,396	3,542,590	3,820,986
FC04077	Weighbridge	0	0	0
FC04078	Wivenhoe Containers	955,510	1,956,708	2,912,218
FC04099	Gascoigne West P1 Development (Phase 1)	0	0	0
FC04100	Limbourne Avenue BF0052	0	0	0
NEW2023	Gascoigne East Phase 3	(0)	0	(0)
NEW2024	Gascoigne West Phase 2	(0)	0	(0)
FC04091	Wellbeck Wharf	0	16,589,892	16,589,892
	Inclusive Growth			0
FC05020	Woodward Road	0	5,765,376	5,765,376
	Investment Strategy			0
FC03080	Royal British Legion	0	2,987,330	2,987,330
FC05021	Grays Court	0	229,913	229,914
FC05023	Cromwell Centre (32 Thames Road)	0	0	0
FC03027	Establishment of Council Owned Energy Services Company	0	1,000,000	1,000,000
FC03089	Becontree Heath New Build	0	0	0
FC04051	Street Property Acquisition 2017-19	0	0	0
FC04083	The Cube	0	0	0
FC04086	Travelodge Isle of Dogs	0	0	0
FC04103	Restore	0	0	0
	New Build Schemes			0
FC02970	Marks Gate	(0)	43,773,264	43,773,264
FC04056	Abbey Road Infrastructure	0	0	0
FC04057	Travelodge Dagenham	0	5,472,268	5,472,268
FC04073	Church Street, RM10 9AX	0	0	0
FC04074	Land rear of 134 Becontree Ave	0	0	0
FC04076	Salisbury Road	0	0	0
FC04079	**Wivenhoe Road - Traditional**	0	0	0
	Total for Investment Strategy	**7,891,991**	**245,155,333**	**253,047,324**
	TOTAL GENERAL FUND CAPITAL PROGRAMME	**21,894,089**	**303,893,681**	**325,787,770**
	HRA			
	Asset Management			
FC00100	Aids And Adaptations	200,000	1,200,000	1,400,000
FC02933	Voids	200,000	1,500,000	1,700,000
FC02934	Minor Works & Replacements	0	0	0
FC02938	Fire Safety Improvement Works	0	0	0
FC02939	Conversions	0	0	0

		2020/21 CAPITAL PROGRAMME		
Project No.	Project Name	SLIPPAGE	2020/21 NEW	Total
FC02943	Compliance (Asbestos, Tanks, Rewires)	5,205	0	5,205
FC02950	Communal Heating Replacement	100,000	0	100,000
FC02983	Decent Homes Central 2017-19	18,671	0	18,671
FC03007	Windows & Door Replacements	0	0	0
FC03036	Decent Homes Support - Liaison Surveys	0	0	0
FC03037	Energy Efficiency inc Green Street	0	0	0
FC03038	Garages	0	0	0
FC03039	Estate Roads Resurfacing	0	0	0
FC03040	Communal Repairs & Upgrades	74,730	0	74,730
FC03045	External Fabric inc EWI- Blocks	0	0	0
FC03046	Decent Homes North 2017-19	0	0	0
FC03047	Decent Homes South 2017-19	0	0	0
FC03048	Fire Safety Improvement Works	269,478	0	269,478
FC04000	Estate Environment Improvement	0	0	0
FC04001	Electrical Lateral Replacement	0	0	0
FC04002	Lift Replacement Programme	1,500,000	750,000	2,250,000
FC04003	Domestic Heating Replacement	0	500,000	500,000
FC04004	Box-Bathroom Refurbs (Apprenticeships)	500,000	300,000	800,000
FC05002	Externals 1 - Houses & Blocks	3,700,000	4,000,000	7,700,000
FC05003	Externals 2 - Houses & Blocks	1,500,000	500,000	2,000,000
FC05004	Door Entry Systems	100,000	1,000,000	1,100,000
FC05005	Compliance	1,200,000	0	1,200,000
FC05006	Fire Safety Improvement Works	1,200,000	0	1,200,000
FC05007	Fire Doors	3,800,000	2,000,000	5,800,000
FC05008	De-Gassing of Blocks	0	50,000	50,000
FC05009	Lateral Mains	0	0	0
FC05010	Lift Replacement Programme	250,000	0	250,000
FC05011	Communal Boilers	431,540	500,000	931,540
FC05012	Garages	0	0	0
FC05013	Estate Roads Resurfacing	1,281,091	2,000,000	3,281,091
FC05014	Energy Efficiency inc Green Street	0	1,500,000	1,500,000
FC05015	Other Works	0	500,000	500,000
FC0XX13	Decent Homes 2016-22 Programme	0	0	0
FC03027a	ESCO	127,000	0	127,000
FC05000a	DH Internal	2,700,000	3,000,000	5,700,000
	Estate Renewal	0		0
FC02820	Estate Renewal	0	8,000,000	8,000,000
	Housing Transformation	0		0
FC03073	Housing Transformation	0	0	0
	New Build Schemes	0		0
FC02973	Infill Sites	0	0	0
FC02989	Ilchestr Rd / North St New Build	0	0	0
FC02991	North St	0	0	0
FC03009	Leys Phase 2	0	0	0
FC03056	Burford Close	0	0	0
FC03056a	New Build Schemes	0	2,500,000	2,500,000
FC03071	Melish and Sugdan	0	0	0
	Total for HRA	**19,157,715**	**29,800,000**	**48,957,715**
	Transformation Capital			
FC04008	Customer Access Strategy (CAS)		0	0
FC04009	Smarter Working Programme		0	0
FC04049	Community Solutions		0	0
FC04050a	Core Transformation	0	6,495,000	6,495,000
FC05019	Children's Improvement Programme		0	0
	Transformation	**0**	**6,495,000**	**6,495,000**
	GRAND TOTAL		**340,188,681**	**381,240,485**

APPENDIX F

Strategy for the Flexible Use of Capital Receipts

Background

Capital receipts can only be used for specific purposes and these are set out in Regulation 23 of the Local Authorities (Capital Finance and Accounting) (England) regulations 2003 made under section 11 of the Local Government Act 2003. The main permitted purpose is to fund capital expenditure. The use of capital receipts to support revenue expenditure is not permitted by the regulations.

However, the Secretary of State is empowered to issue Directions allowing expenditure incurred by local authorities to be treated as capital expenditure. Where such a Direction is made, the specified expenditure can then be funded from capital receipts under the Regulations.

For a number of years the local government sector has been lobbying central government to provide councils with greater freedoms and flexibilities in relation to the use of Capital Receipts to support the delivery of savings and efficiencies. In 2013, the Local Government Association argued that freedoms should be given to Councils to "release value currently residing on council's balance sheets without the need for further funding from taxation; the sale of assets generates economic activity, as does transformational revenue expenditure"[1].

In response, the Secretary of State for Communities and Local Government issued guidance in March 2016[2], giving local authorities greater freedoms in relation to how capital receipts can be used to finance expenditure. This Direction allows for the following expenditure to be treated as capital:

> *"expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners."*

This was extended in an amended direction[2] in December 2017 by a further three years up to and including 2021/22 to allow the continued flexible use of capital receipts for the above purposes.

To benefit from this dispensation and comply with the Direction, the Council must consider the Statutory Guidance issued by the Secretary of State. This Guidance requires authorities to prepare, publish and maintain a 'Flexible Use of Capital Receipts Strategy'. The guidance also requires that each authority should disclose the individual projects that will be funded or part funded through capital receipts flexibility to full Council or the equivalent. It goes on to say that this requirement can be satisfied as part of the annual budget setting process, through the Medium-Term Financial Plan or equivalent, or for those authorities that sign up to a four-year settlement deal, as part of the required Efficiency Plan. Accordingly this strategy sets out how the flexible use of Capital Receipts

[1] LGA Consultation Response "Proposals for the use of capital receipts from asset sales: 24th September 2013.
[2] Statutory Guidance on the Flexible Use of Capital Receipts (Updated) DCLG March 2016, amended by extension Direction in December 2017

will be utilised in 2020/21. Updates will be included in the Budget and MTFS reports to Assembly in future years or earlier if required.

There is no prescribed format for the Strategy, the underlying principle is to support local authorities to deliver more efficient and sustainable services by extending the use of capital receipts to support the revenue costs of reform projects.

The Statutory Guidance for the Flexible Use of Capital Receipts Strategy states that the Strategy should include a list of each project where it is intended capital receipts will be used, together with the expected savings that the project will deliver. The Strategy should also include the impact of this flexibility on the affordability of borrowing by including updated Prudential Indicators.

The Flexible Use of Capital Receipts Strategy is set out below

Flexible Use of Capital Receipts Strategy

The Council welcomes the Government's Flexible Use of Capital Receipts dispensation and believes that if it is used judiciously and prudently, it can help the authority deliver savings while protecting revenue budgets. Working in this way will help to protect jobs and shield the tax payer. It aligns with the more commercial approach the Council is adopting to the use of its balance sheet to get the best value from its assets, in terms of both acquisitions and disposals; and also boosting our income generating asset portfolio.

Government has provided a definition of expenditure which qualifies to be funded from capital receipts. This is:

"Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility."

In 2020/21, 6.5m capital receipts are forecast and will be available to provide funding for transformation. Transformation work agreed by Cabinet in January 2019 on Core Services also requires flexible use of receipts. The estimated costs and savings profile is as below:

	18/19 £000	19/20 £000	20/21 £000	21/22 £000	22/23 £000	23/24 £000	24/25 £000	Total £000
Total Cost	(663)	(4,356)	(2,892)	(1,824)	0	0	0	(9,736)
Savings	0	0	4,949	7,853	8,480	9,057	9,634	39,973
Net Savings	***(663)***	***(4,356)***	***2,057***	***6,029***	***8,480***	***9,057***	***9,634***	***30,237***

Note: Figures in brackets represent costs/shortfall

Impact on Prudential Indicators

The guidance requires that the impact on the Council's Prudential Indicators should be considered when preparing a Flexible Use of Capital Receipts Strategy. There will be no impact on the Council's prudential indicators as a result of the implementation of this strategy because none of the assets in question have currently been allocated to the for use in the Council's capital programme

APPENDIX G- National Funding Formula Rates vs Rates Applied to Local Formula

		2019/20 Local APT Rates		2020/21 NNF with Area Cos		2020/21 NFF Rates in APT	
		Primary	Secondary	Primary	Secondary	Primary	Secondary
1) Basic Entitleme	Reception uplift						
	Description						
	Primary (Years R-6)	3,060		3,228	-	3,375	
	Key Stage 3 (Years 7-9)		4,303	-	4,540		4,365
	Key Stage 4 (Years 10-11)		4,886	-	5,153		5,010
	Description			-	-		
2) Deprivation	FSM	497	497	508	508	508	508
	FSM6	610	886	633	921	633	921
	IDACI Band F	226	327	237	339	237	339
	IDACI Band E	271	440	282	458	282	458
	IDACI Band D	406	581	424	604	424	604
	IDACI Band C	440	632	458	655	458	655
	IDACI Band B	474	677	491	706	491	706
	IDACI Band A	649	914	678	949	678	949
	Description			-	-		
3) Looked After Cl	LAC X March 19						
4) English as an A	N/A	581	1,563	604	1,627	604	1,627
	N/A			-	-		
5) Mobility	Pupils starting school outside of normal entry dates	422	700	989	1,412	989	1,412
	Description			-	-		
6) Prior attainment	Low Attainment	1,154	1,750	1,203	1,819	1,203	1,819
				-	-		
Factor				-	-		
7) Lump Sum		124,159	124,159	129,255	129,255	129,255	129,255
8) Sparsity factor							
9) Fringe Payments							
10) Split Sites		160,000	200,000			160,000	200,000
11) Rates							
12) PFI funding							
13) Exceptional circumstances							

Appendix H - Forecast Earmarked Reserves

Description	Opening Balance 19-20 (1st April 2019)	Transfers to Reserves	Drawdown from Reserves	Forecast Opening Balance 20-21 (1st April 2020)
General Fund Balances	**(17,030,171)**			**(17,030,171)**
Earmarked Reserve Balances				
BUTLER COURT (REFURBISHMENT)	(89,323)			(89,323)
SKILLS & LEARNING PROGRAMME RESERVE	(1,093,129)			(1,093,129)
ADULT SOCIAL CARE RESERVE	0			0
TOTAL DEPARTMENTAL RESERVE	**(1,182,452)**			**(1,182,452)**
CAPITAL INVESTMENT RESERVE	(3,075,842)			(3,075,842)
CAPITAL INVESTMENT RESERVE	(500,000)			(500,000)
TOTAL CAPITAL INVESTMENT RESERVE	**(3,575,842)**			**(3,575,842)**
B&D RESIDE LIMITED	326,839			326,839
B&D RESIDE ABBEY RODING LLP	0			0
ABBEY MRP	887,548			887,548
LIFECYCLE RESERVE	(831,483)			(831,483)
PROPERTY RESERVE - RESIDE	123,027			123,027
ABBEY MRP2	(953,479)			(953,479)
B&D RESIDE LIMITED	(326,839)			(326,839)
TOTAL ENTITIES RESERVE	**(774,387)**			**(774,387)**
PFI RESERVE	(4,928,733)			(4,928,733)
JO RICHARDSON AND EASTBURY PFI	(7,698,827)			(7,698,827)
TOTAL PFI	**(12,627,560)**			**(12,627,560)**
OTHER MISCELLANEOUS	(552,000)			(552,000)
GRANTS - DEPARTMENT FOR EDUCATION	(38,700)			(38,700)
PARKING RESERVE	(65,000)			(65,000)
TREWERN OUTDOOR CENTRE RESERVE	(80,800)			(80,800)
YOS - HEALTH & JUSTICE (FROM CCG)	(74,222)			(74,222)
LEAVING CARE SERVICE (NEET FUNDING - RE CMF GRANT)	(141,094)			(141,094)
TOTAL OTHER MISCELLANEOUS	**(951,816)**			**(951,816)**
INVESTMENT RESERVE	(4,333,448)		1,247,000	(3,086,448)
PUBLIC HEALTH RESERVE	(562,508)			(562,508)
CORPORATE RESTRUCTURING - REDUNDANCIES RESERVE	(735,000)		735,000	(0)
INSURANCE FUND - LIABILITY RESERVE	(1,639,009)			(1,639,009)
BUDGET SUPPORT RESERVE	(12,295,326)	(209,968)	12,505,294	0
VAT MARKET REPAYMENT	(168,257)			(168,257)

LEGAL TRADING RESERVE (LBBD SHARE)	(814,716)			(814,716)
COLLECTION FUND EQUALISATION RESERVE	(3,503,009)			(3,503,009)
ELECTIONS RESERVE	(296,755)			(296,755)
LEP HOUSING RENTAL RESERVES	(204,670)			(204,670)
EDUCATION, YOUTH & CHILDCARE RESERVE	(900,737)			(900,737)
IT RESERVE	(1,214,000)			(1,214,000)
RESERVES - CLOSURE ADJUSTMENTS	(3,046,747)			(3,046,747)
NET EARMARKED RESERVE BALANCES	**(48,826,238)**			**(34,548,912)**

Appendix I – New Homes Bonus Allocations

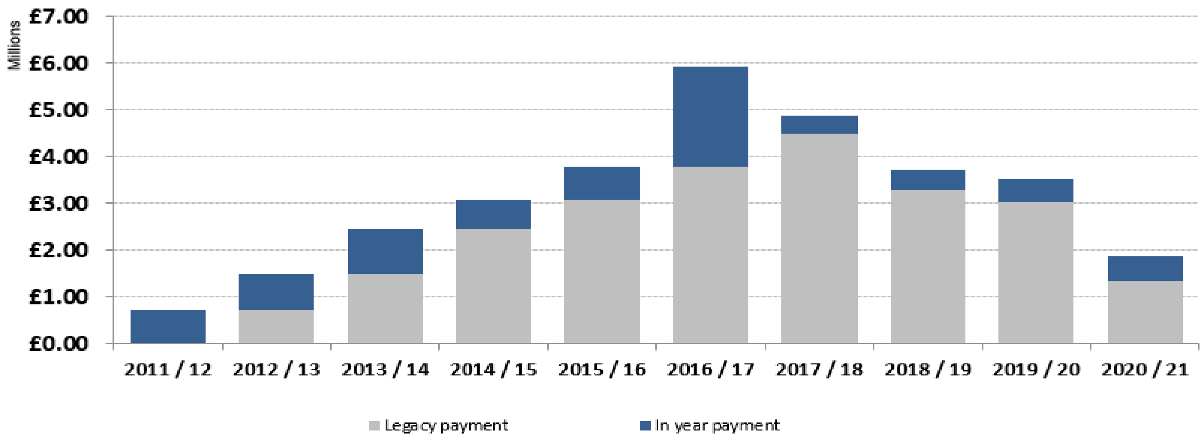
Year of Payment

Cumulative Payments	2011 / 12	2012 / 13	2013 / 14	2014 / 15	2015 / 16	2016 / 17	2017 / 18	2018 / 19	2019 / 20	2020 / 21	2021 / 22	2022 / 23
Payments for Year 1	£719,290	£719,290	£719,290	£719,290	£719,290	£719,290						
Payments for Year 2		£749,594	£749,594	£749,594	£749,594	£749,594						
Payments for Year 3			£996,051	£996,051	£996,051	£996,051	£996,051					
Payments for Year 4				£596,541	£596,541	£596,541	£596,541					
Payments for Year 5					£703,055	£703,055	£703,055	£703,055				
Payments for Year 6						£2,172,770	£2,172,770	£2,172,770	£2,172,770			
Payments for Year 7							£396,708	£396,708	£396,708	£396,708		
Payments for Year 8								£437,256	£437,256	£437,256	£437,256	
Payments for Year 9									£498,946	£498,946	£498,946	£498,946
Payments for Year 10										£520,059		
2020/21: Total Payments										£1,852,969		

Total Payments (2020/21)

Year 7	£396,708
Year 8	£437,256
Year 9	£498,946
Year 10	£520,059
Total Payment:	**£1,852,969**

Total New Homes Bonus Payments



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CABINET

17 February 2020

Title: Housing Revenue Account: Estimates and Review of Rents and Other Charges 2020/21	
Report of the Cabinet Member for Regeneration and Social Housing	
Open Report with Exempt Appendix 6 (relevant legislation: paragraph 2 of Part I of Schedule 12A of the Local Government Act 1972 as amended)	**For decision**
Wards Affected: All	**Key Decision:** Yes
Report Authors: Michael Westbrook, Head of Housing and Asset Strategy and Katherine Heffernan Group Manager – Service Finance	**Contact Details:** michael.westbrook@lbbd.gov.uk
Accountable Strategic Leadership Directors: Graeme Cooke, Director of Inclusive Growth, and Claire Symonds, Chief Operating Officer	

Summary

The Council as a stock-owning local authority has an obligation to maintain a Housing Revenue Account (HRA). This is the income and expenditure relating to the management of the Council's housing stock and the Council is obliged to set a balanced budget.

This is the first year in which the Council is able to increase rents since the government imposed the 1% rent reduction policy on all providers of social housing from April 2016 for four years. It is proposed that rents increase by CPI + 1% from April 2020. This means an average increase of £2.52 per week, increasing the average HRA rent from £93.35 per week to £95.87 per week.

This report considers the available HRA resources within the context of the wider 30-year Business Plan and proposes the budgets for 2021/21 for both revenue and capital expenditure.

The report also recommends that a number of properties that the Council has acquired on the open market over the last few years are appropriated from the General Fund into the Housing Revenue Account, for the reasons set out in section 8 below.

Recommendation(s)

The Cabinet is recommended to:

(i) Agree that rents for all general needs secure, affordable and sheltered housing accommodation be increased by the Consumer Price Index (CPI) (September 2019) of 1.7% + 1%, from the current average of £93.35 per week to £95.87 per week;

(ii) Agree the following service charges for tenants:

Service	Weekly Charge 2020/21	Increase / reduction
Grounds Maintenance	£2.93	£0
Caretaking	£7.65	£0
Cleaning	£3.68	£0
Estate Lighting	£3.92	£0.07
Concierge	£10.06	£0
CCTV (SAMS)	£6.17	£0
Safer Neighbourhood Charge	£0.50	£0
TV aerials	£0.62	£0.02

(iii) Agree that charges for heating and hot water increase by CPI (September 2019), as follows:

Property size	Weekly Charge 2020/21
Bedsit	£13.34
1 bedroom	£14.16
2 bedroom	£16.99
3 bedroom	£17.30
4 bedroom	£17.75

(iv) Agree that the above charges take effect from 1 April 2020;

(v) Agree the 18-month Investment in Existing Stock programme at Appendix 5 to the report and the HRA Capital Programme for 2020/21, as set out in paragraph 4.4 of the report; and

(vi) Agree that the street purchase properties listed in Appendix 6 to the report be appropriated from the General Fund to the Housing Revenue Account, by use of section 122 of the Local Government Act and section 17 of the Housing Act 1985 for the purposes of Part II of the HRA, on the terms set out in section 8 of the report.

Reason(s)

To assist the Council in achieving its vision of “No-One Left behind” and the priorities of “A New Kind of Council”, Empowering People”, and “Inclusive Growth” through the provision of an efficient and effective housing service to local residents.

The Council annually reviews housing rents and other and must give prior notification to tenants of the charges for be applied from the new financial year.

1. Introduction and background

Legislative context

1.1 The Local Government and Housing Act 1989 requires the Council to manage its housing stock, and to balance its accounts for the housing stock as a ring-fenced account. This means that the Housing Revenue Account (HRA) does not receive any subsidy from the Government, or from Council Tax, and nor is it allowed to subsidise the General Fund. The legislation sets out those items that can be charged to the HRA.

1.2 The Localism Act 2011 introduced a new method of managing the HRA called self-financing whereby in return for taking on a share of the national housing debt, local authorities could retain any rental surpluses, and manage their HRAs over a 30-year period. It is good practice therefore to maintain a 30-year Business Plan which projects the income that will be received alongside the expenditure required to manage and maintain the properties.

Policy context

1.3 There have been a number of changes in the external environment over the last five years which have had an impact on the HRA Business Plan. The most significant of these was the one per cent rent reduction policy which was imposed through the Welfare Reform and Work Act 2016. This forced all providers of social housing to reduce rents by one per cent for four years from April 2016. This replaced the previous national rent policy of an increase of CPI plus one per cent for ten years, which had itself only come into force in April 2015. The cumulative impact of the rent reduction policy was a loss of approximately £34m of anticipated income over these four years. The compound impact of the rent reduction policy on the 30-year Business Plan is much larger, with a significant effect on the level of resources available within the HRA compared to income assumptions made before the policy came into force.

1.4 More recently, in October 2018 the Housing Revenue Account debt cap was removed. This had set a limit on the amount that local authorities could borrow within their HRAs regardless of the capacity to borrow. The removal of the debt cap gives local authorities more flexibility to use prudential borrowing as part of how they finance their HRA Business Plans, though increased borrowing will increase the revenue cost of interest payments. Authorities will also need to have assurance that any eventual debt repayments are sufficiently provided for.

1.5 In the Queen's Speech following the December 2019 election, the government re-announced its intention to pass a Building Safety Bill in this Parliament. A draft Bill has not yet been published and it is not yet clear what implications this may have for the HRA Business Plan. The Council has already proactively responded to building safety concerns which have arisen since the Grenfell Tower tragedy, and is already investing significant amounts in a range of works that ensure building safety as part of its stock investment programme.

1.6 A number of measures were passed in the 2016 Housing and Planning Act but which have not been brought into force but remain on the statute book. This includes the forced sale of high value HRA properties, which had been intended to fund the extension of the Right to Buy to Housing Association tenants. This "high value void" policy was dropped by the government in 2018. The new government recently announced that it intends to continue with extension of the Right to Buy to Housing Association tenants – which is currently being piloted in the West Midlands – and to launch further pilot areas in due course. It is not clear at this stage if a future national Right to Buy for Housing Association tenants' policy would be funded from the sale of high value council HRA properties or the mechanism whereby this would be achieved.

1.7 Finally, the last government published a green paper of social housing entitled '*A new deal for social housing tenants'* in August 2018 and held a consultation which ended in November 2018. This indicated an intention to review and update the Decent Homes Standard. At the same time the government also consulted on proposed changes to the use of Right to Buy receipts, including giving more flexibility on how they are used. These would both have had implications for the HRA Business Plan, but responses to neither consultation have been published to date.

2. Rents and Service Charges

Rents

2.1 Rent increases for social housing are determined by government regulation. In October 2017 the government announced a new five-year rent policy from 1 April 2020 which would allow rents to be increased by CPI plus one percentage point. CPI is defined as the rate published by the Office for National Statistics in September of the preceding year. This rent policy was confirmed by the Regulator in October 2019 and the new confirmed Rent Standard was published. A link to the new Rent Standard is contained at the end of this report.

2.2 An increase of CPI + 1% from April 2020 would represent the following average increases:

- Average rent in 19/20: £93.35 per week
- Average rent in 20/21: £95.87 per week

2.3 Overall this would be an average increase of £2.52 per week or £131 per year. The average increase by bed size is shown in the table below:

No of Bedrooms	19-20 Avg. Rent p.w.	20-21 Avg. Rent p.w with CPI +1%	Rent increase p.w.
0 to 1	£78.77	£80.89	£2.13
2	£93.90	£96.44	£2.54
3	£102.29	£105.05	£2.76
4	£128.96	£132.44	£3.48
5	£124.41	£127.77	£3.36
6	£136.50	£140.20	£3.70

2.4 Even with the rent increase, Barking and Dagenham's HRA rents remain the second lowest in London. The average rent of £93.35 per week in 2019/20 was significantly below the average London council rent of £107 per week. The proposed increase returns rents to around the level there were in 2015, before the one per cent rent reduction came into force.

2.5 Research the Council undertook last year indicated that council tenants generally find their rent to be very affordable. To afford the average rent of a Council two bed property, households need an income of around £15k a year (based on the principle that a household should not need to spend more than 35% of their gross income on rent). Around half of council tenants receive housing benefit. The research (based on a sample of tenants) also found that around 2,500 council tenants have a household income of more than £24k per year, while there are around 400 with a household income of £48k or more.

2.6 Rental income represents the most significant source of income for the HRA. As well as rent policy, the amount of income generated from rents is clearly also affected by the number of homes held in the HRA. When the initial self-financing settlement was made, the Council had 18,894 homes. However, shortly after the self-financing settlement was made, the Government increased the discount on Right to Buy properties, which caused the numbers of sales to significantly increase. In the year before the change, 97 homes were sold under the RTB in 2012/13 and then after the change, this rose to 226 sales in 2013/14, and sales have continued at around this level since that date. There were 202 sales in 2018/19.

2.7 A number of HRA properties are also in the process of being decommissioned ahead of demolition as part of estate renewal schemes. There are around 140 HRA properties in estate renewal schemes where the tenants have been rehoused and which are currently being used as temporary accommodation. These properties provide an income to Community Solutions as a management fee for managing the temporary accommodation for homeless households. This is a temporary arrangement as the buildings are all due for ultimate demolition. The loss of temporary accommodation when buildings are prepared for demolition can be partially offset by other accommodation in estate renewal schemes becoming available for temporary accommodation. Around 180 new build units for temporary accommodation will also be delivered through the Be First programme this financial year which will help to stabilise the number of Council-owned temporary accommodation over the longer-term.

2.8 The impact of the rent uplift is forecast to be an increase of £2.254m to the rent budget. This is partly offset by £0.6m for adjustments to stock as set out in the paragraphs above. The net increase in rent is £1.646m.

Service charges

2.9 Tenant service charges are specific charges for services that some tenants receive and others do not. The list of charges which are identified separately are set out below. Landlords may not charge more than the actual cost of the service, plus a reasonable management fee. Not all tenants pay service charges. Around 10,000 do not pay service charges at all, due to the type of property that they occupy. The current and proposed charges are set out below:

Service	Charges for 2019/20	Proposed charges for 20/21	Increase/ reduction
Grounds Maintenance	£2.93	£2.93	£0
Caretaking	£7.65	£7.65	£0
Cleaning	£3.68	£3.68	£0
Estate Lighting	£3.85	£3.92	£0.07
Concierge	£10.06	£10.06	£0
CCTV (SAMS)	£6.17	£6.17	£0
Safer Neighbourhood Charge	£0.50	£0.50	£0
TV aerials	£0.60	£0.62	£0.02

2.10 The charges for heating and hot water are already based on full cost recovery, and these will rise by inflation.

Heating and Hot water charge

Property size	2019/20 Charges(£pw)	2020/21 Charges (£pw)
Bedsit	13.12	13.34
1 BR	13.92	14.16
2 BR	16.71	16.99
3 BR	17.02	17.30
4 BR	17.46	17.75

2.11 The HRA is not currently recovering the full cost of services, which creates a cost pressure. Work is underway to review the services that are charged through service charges and to monitor the quality of these services. This will be done through monitoring key performance measures including resident satisfaction and inspections to check whether estates meet set standards in terms of cleaning, caretaking and grounds maintenance. The aim is to identify a pathway towards full cost recovery of services, supported by a clear articulation of relevant service standards alongside evidence of the quality and consistency of services.

2.12 The small increases to the charges outlined above are matched by increases in costs of delivery and have no net benefit to the HRA. However, failure to increase charges in line with costs results in an increasing pressure. The pressure from not fully recovering the full costs of Caretaking, Cleaning and Grounds Maintenance is estimated to be in the region of £1.4m.

3. Expenditure - Management and Maintenance costs

3.1 The Management and Maintenance of the Council’s housing stock is split between a number of service delivery agents. My Place provide landlord services, while functions such as the Housing Register and tenancy support are managed by Community Solutions. My Place also manage and supervise the Repairs and Maintenance service (including void repairs), which is delivered by BDMS.

3.2 The current Local Government pay settlement expires at the end of March 2020 and a new agreement has not yet been reached. The Council is funding 1% of the pay award within the General fund with services being expected to find the balance through efficiencies. 1% uplift has therefore been applied to the pay budgets within Supervision and Management and Repairs and Maintenance.

3.3 The introduction of Universal Credit has been shown in other Local Authority areas to result in a significant increase in arrears requiring increased bad debt provision and enhanced costs of collection. The final impact is assessed to be at least £2.2m increase. As migration to Universal Credit is phased the full impact will not be felt immediately and the current provision is believed to be sufficient having been increased in previous years. This will be kept under close review.

3.4 Changes to the borrowing costs (interest rates) for HRA debt, appropriation of the Street Properties (see below) and the need to increase debt to fund some elements of the capital programme mean an additional interest budget of £1.050m is required.

3.5 The proposed HRA Budgets for 2020/2021 are set out below:

	2019/20	Changes	2020/21
Income			
Dwelling Rents	-83,339	-1,646	-84,985
Non Dwelling Rents	-750	-20	-770
Charges for Services and Facilities	-20,470	-27	-20,497
Interest and Investment Income	-350		-350
TOTAL INCOME	-104,909	-1,693	-106,602
Expenditure			
Repairs and Maintenance	14,104	115	14,219
Supervision and Management	44,844	210	45,054
Rent, Rates, Taxes and other	350	7	357
Provision for Bad Debt	3,309	-	3,309
Interest Charges	9,692	1,050	10,742
Corporate and Democratic Core	685	-	685
TOTAL EXPENDITURE	72,984	1,382	74,366
Available for Capital Expenditure	-31,925	-311	-32,236

4. HRA Capital Programme

4.1 The HRA capital programme is largely funded from the rent income paid by tenants. The Council is required to set aside money every year for 'Major Repairs' and may make additional revenue contributions above this. In addition, the Council may use some kinds of capital receipts and following the lifting of the Indebtedness Determination (the 'borrowing cap') may borrow in order to invest in its housing.

4.2 The main focus of HRA capital spend is on investment in the housing stock and estates, including achieving and maintaining the Decent Homes Standard and also communal and estate environmental works. In addition, there are Estate Renewal and New Build/Acquisition programmes. More information about these three programmes is given in the sections below.

4.3 London Borough of Barking and Dagenham has had a substantial Housing Capital programme in recent years across all three elements. This has enabled it to reach 91% Decent homes and also funded the development of new social housing schemes including Ilchester Road and North Street, which completed in 2019. However, this required substantial investment of capital receipts. The historic receipts have now mostly been used so any expenditure above the level of revenue surplus will need to be funded from borrowing. The overall capital programme for the next few years will be slightly smaller than in the last few years as a result. This will be balanced out by the Council's significant investment in new build homes through the General Fund, as explained further below.

4.4 The proposed Capital Programme for 2020/21 is summarised below:

	£000s
Stock Investment Programme	38,457
Estate Renewal	8,000
New Build	2,500
TOTAL CAPITAL	48,957
Financing	
In Year Revenue	-32,236
1-4-1 Receipts	-750
Borrowing	-15,971
	-48,957

4.5 The cost of borrowing is estimated to be in the region of £0.479m a year based on an interest rate of 3%. Approximately half of this will be incurred in the first year.

5. Investment in Existing Stock

5.1 The main focus of HRA capital spend is on investment on the housing stock and estates. The stock investment programme is focused on the following five groups of types of works:

1. Internals (kitchens, bathrooms, boilers and rewire etc)
2. Externals (roofs, windows, doors, rainwater goods etc)
3. Communal / Compliance (fire doors, lifts, communal boilers, lateral mains, water tank replacement, asbestos removal, door entry systems etc)
4. Landlord Works (disabled adaptions, capital voids, energy efficiency)
5. Estate Environmental Works (road surfaces, footpaths, garages etc)

5.2 The 2019/20 programme has included a range of decent homes related internal works including replacement kitchens, bathrooms, boilers and replacement heating systems. Decent homes related external works (roofs, windows and doors etc) which has resulted in over 200 block having been surveyed and works commissioned. The programme has also comprised significant compliance related works (replacement fire doors, fire compartmentation and replacement water tanks etc) as well as adaptations to homes for residents with a disability and a significant estate roads & pathways resurfacing programme. The final spend for this year's programme will be available in April 2019.

5.3 The Investment in Existing Stock programme for 2019/20 was originally approved at a total level of £37m. In addition, there was £5m of works carried forward from the previous year, making a total programme of £42m. A significant proportion of this programme was on new investment programmes for which there is a lead in time (for procurement, specification and planning), and these programmes will continue into 2020/21.

5.4 Cabinet are asked to agree that an additional £30m is added to the overall stock investment budget. This is to fund investment programmes that will be carried out over the next 18 months, with approximately £19m spend scheduled for 2020/21 and £11m for 2021/22. This approval will give authorisation to My Place to start the design and procurement of these works against the agreed budget. The full 2021/22 stock investment budget will be presented to Cabinet for approval as part of the HRA report in early 2021. Further information about the programme is set out in Appendix 5.

5.5 The expected capital spend on existing stock in 2020/21 is £38.5m. This is made up of the programmes continuing from the previous year alongside additional new programmes and recurring capital works such as voids and adaptations.

5.6 The stock investment programme hit its target of fewer than 10% of properties not meeting the Decent Homes Standard. Continuing to reduce this figure to zero so that all council homes are decent is a major aim of the stock investment programme.

5.7 The £30m funding allocation is net of leaseholder contributions. Where works are carried out that benefit leasehold properties the Council may recover the relevant proportion of cost from the leaseholders. This will be used to offset the overall cost of the programme.

5.8 Another major aim of the stock investment programme is to improve the energy efficiency of the housing stock. This will improve thermal comfort for residents and reduce energy bills, while also cutting carbon emissions associated with the HRA stock. This will be guided by the exemplar deep retrofit project that will be undertaken this year of a number of HRA homes on the Becontree as approved by Cabinet in October 2019. Specific funding of £1.5m has been allocated for this programme within the stock investment programme.

6. Estate Regeneration

6.1 The council has an long-standing estate renewal programme. The HRA Estate Regeneration budget funds mainly the costs of tenants and leaseholders' home loss and disturbance payments for those tenants and leaseholders who have to move as a result of the demolition of their homes. In addition, it funds the buyback of homes from leaseholders where these homes are going to be demolished. It has also funded the actual costs of demolition in some locations.

6.2 The current phase of the Estate Regeneration Programme – including the later phases of Gascoigne and schemes such as Roxwell Road and Oxlow Lane – requires a significant number of tenants to be rehoused and leaseholders to be bought back to enable the demolition of the existing estates and construction of new homes. Work is also currently underway to assess estates which could form part of a future estate renewal programme. Any such schemes will be required to demonstrate through rigorous options appraisal that investment in them will be of financial benefit to the HRA.

7. New Build programme

7.1 The main approach to new build for the Council is through General Fund borrowing, with the homes built by Be First and ultimately managed by Reside. The intention is to invest most future RtB receipts in this programme. However there is an intention to fund a small new build programme through the HRA, primarily for specialist housing to support vulnerable residents. The majority of the cost of this programme will be incurred in future years.

7.2 The Housing Capital Programme will be funded through a combination of capital receipts, Revenue Contributions to Capital Outlay (RCCO), the Leasehold Reserve and borrowing. Not all of these funding sources can be used for all these expenditure items, and the funding will be appropriately profiled to the projects.

8. Appropriation of street purchase properties

8.1 The Council owns a number of properties which were purchased under the street purchasing programme and are currently held in the General Fund. A number of these are used to meet particular types of housing need, including for care leavers, people with a learning disability and temporary accommodation for homeless households – these are listed in Appendix 6, which is in the exempt section of the agenda as it contains information which is likely to reveal the identity of individuals (relevant legislation - paragraph 2 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended)) and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

8.2 It is proposed that these properties are appropriated by use of section 122 of the Local Government Act and section 17 of the Housing Act 1985 for the purposes of part II of the HRA, and Right to Buy receipts are applied to cover 30% of the acquisition costs. This will reduce the amount needed to be financed from borrowing from around £27m to around £19m. Sufficient Right to Buy receipts have been identified to fund the transfer.

8.3 The Council has put in place arrangements for the management of the properties. It is not proposed that these current arrangements are changed. As such, the transfer of the properties into the HRA will not have any negative consequences for the residents of the properties, including no adverse equality impact.

8.4 The appropriation will move £20m of debt from the General Fund to the HRA., though the HRA will also benefit from increased income through the rent from the properties. It is proposed that this should be long dated debt with a repayment at the maturity of the debt and with an interest rate of 4%. This is stable long-term debt which is more suitable for the HRA (although the interest rate appears high compared with current short term rates it is not abnormal for long term debt).

9. Consultation

9.1 Consultation on the proposals in this report has taken place with the Leader, the Cabinet Member for Regeneration and Social Housing, and the Cabinet Member for Finance, Performance & Core Services.

10. Financial Implications

Implications completed by Katherine Heffernan, Group Manager, Service Finance

10.1 The Council is required to maintain a specific ringfenced Housing Revenue Account for the management of its social housing properties. All expenditure on Social Housing must be fully funded from rental income with no call on general Council funds. The Council is also required to have business planning processes in place to ensure that the HRA remains sustainable over the longer term (thirty years.)

10.2 In the period immediately following the introduction of Self Financing in 2012, HRA finances were relatively buoyant especially when considered over the thirty years of the business plan. However, the four-year rent reduction and the "revitalization" of Right to Buy have both reduced the income achievable from the HRA.

10.3 The requirement to reduce rents has now ended and this report proposes that Council rents should increase by the maximum amount permitted which is 2.7%. This brings in £1.6m additional income to the HRA. The increase in funding from staff pay increases and other cost inflation amounts to £0.332m. In addition, there is an increase in interest costs from borrowing to fund capital expenditure of £1.05m. The net revenue surplus is £32.236m. This is a higher surplus than last year's budget by £0.311m and will be reinvested into the Capital Programme.

10.4 In previous years despite the constraints in rental income the use of the built-up reserve of capital receipts enabled the Council to continue to invest in its Social Housing. This historic reserve is now mostly used up. The Council is able to make use of borrowing to fund capital expenditure and will do so for some elements of this year's programme. The Housing Capital Programme will be funded through a combination of capital receipts, Revenue Contributions to Capital Outlay (RCCO), the Leasehold Reserve and borrowing. Not all of these funding sources can be used for all these expenditure items, and the funding will be appropriately profiled to the projects.

10.5 This report proposes that the Council appropriates properties bought under the Street Purchasing programme to the HRA as they are being used as Social Housing. This does not affect the Council's overall financial position but will result in an increase in the Housing Capital Financing Requirement (CFR) and a decrease in the general fund CFR. The HRA will benefit from the rental income generated by these properties but will assume responsibility for their management and maintenance and the financing costs from their acquisition.

11. Legal Issues

Implications completed by Dr Paul Feild, Senior Governance Solicitor

11.1 The basis for setting rent is Section 24 of the Housing Act 1985 which provides that a local housing authority may make such reasonable charges as they determine for the tenancy or occupation of their houses.

11.2 Section 76 Local Government and Housing Act 1989 places a duty on local housing authorities to: (i) to produce and make available for public inspection, an annual budget for their HRA, which avoids a deficit; (ii) to review and if necessary, revise that budget from time to time and (iii) to take all reasonably practical steps to avoid an end of year deficit

11.3 The report requests Cabinet agreement to the exercise of the Council's power to appropriate land under section 122 Local Government Act 1972 and acquire it under section 17 of the Housing Act 1985 for the purposes of public housing pursuant to Part II of the Housing Act 1985.

11.4 In exercising the power consideration will need to be given as to whether there are any persons currently residing in the earmarked properties and such consultation as required to take account of the Human Rights Act 1990 and an equalities impact assessment shall inform the process.

12. Other Implications

12.1 **Equality implications –** the implications of transferring the street purchase properties into the HRA are considered in the body of the report.

12.2 **Risk Management –** There are a number of risks associated with the delivery of estate renewal projects. The recommendations in this report are designed to help ensure delivery of these projects.

12.3 **Safeguarding Adults and Children –** None directly arising from this report. Specific estate renewal proposals and rehousing programmes will need to take into account safeguarding considerations.

12.4 **Property / Asset Issues –** None directly arising from this report – specific estate renewal proposals will need to take into account relevant asset issues.

Public Background Papers Used in the Preparation of the Report:
Rent Standard from April 2020 (Annexe 2 of linked document):
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/847359/Decision_Statement___Consultation_on_the_Rent_Standard_FINAL.pdf

List of appendices:

- Appendix 1 - HRA Working Balances
- Appendix 2 - Average rent analysis
- Appendix 3 - Budget assumptions
- Appendix 4 - HRA Budget Summary 2020/21
- Appendix 5 - HRA Investment in Existing Stock – 2019/20 to 2021/22
- Appendix 6 - List of street properties to be appropriated (exempt document)

APPENDIX 1

HRA WORKING BALANCE	
	£'000
Working Balance 1st April 2019	11,299
Projected Surplus /(Deficit) 2019/20	- 3,299
Working Balance 1st April 2020	8,000
Projected Surplus /(Deficit) 2019/20	-
Working Balance 31st March 2021	8,000

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AVERAGE RENT ANALYSIS			
	2019-20 per week £.pp	2020-21 per week £.pp	Change per week £.pp
Average Rent	93.35	95.87	2.52
Tenants Service Charges * (excl. heating and water)	35.44	35.53	0.09

The Tenant Service charge average is not reflective of the charge to all tenants as each receives a varying range of services**.** 10,000 tenants pay no service charges at all.

Current Charge	2019-20 per week £.pp	2020-21 per week £.pp	Change per week £.pp
Grounds	2.93	2.93	0
Estate Lighting	3.85	3.92	0.07
Caretaking	7.65	7.65	0
Cleaning	3.68	3.68	0
Safer Neigh	0.5	0.5	0
CCTV	6.17	6.17	0
Concierge	10.06	10.06	0
TV aerials	0.60	0.62	0.02

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BUDGET ASSUMPTIONS								
Rent								
Average Rent Increase	2.70%							
Average Rent Increase Houses	2.70%							
Average Rent Increase Flats	2.70%							
Voids (Percentage of Gross Rent)	1.00%							
Rent Policy								
In Accordance with Government policy	2.70%							
Stock Assumptions								
Right to Buy Sales in year	150							
Tenants Service Charges	**2019-20**		**2020-21**		**change**			
	£ p.w		**£ p.w**		**£ p.w**			
Grounds Maintenance	2.93		2.93		0			
Estate Lighting	3.85		3.92		0.07			
Caretaking	7.65		7.65		0			
Cleaning	3.68		3.68		0			
Safer Neighbourhood	0.5		0.5		0			
CCTV	6.17		6.17		0			
Concierge	10.06		10.06		0			
TV Aerials	0.6		0.62		0.02			
Energy								
CPI Sept 2019								1.70%
Interest								
Average Debt Interest								3.63%

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APPENDIX 4

HOUSING REVENUE ACCOUNT	2019/20		2020/21
	BUDGET	CHANGE	BUDGET
Income			
Dwelling Rents	-83,339	-1,646	-84,985
Non Dwelling Rents	-750	-20	-770
Charges for Services and Facilities	-20,470	-27	-20,497
Interest and Investment Income	-350	0	-350
TOTAL INCOME	-104,909	-1,693	-106,602
Expenditure			
Repairs and Maintenance	14,104	115	14,219
Supervision and Management	44,844	210	45,054
Rent, Rates, Taxes and other	350	7	357
Provision for Bad Debt	3,309	0	3,309
Interest Charges	9,692	1,050	10,742
Corporate and Democratic Core	685	0	685
TOTAL EXPENDITURE	72,984	1,382	74,366
Available for Capital Expenditure	-31,925	-311	-32,236

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APPENDIX 5

HRA INVESTMENT IN EXISTING STOCK

			EXISTING PROGRAMME	NEW PROGRAMME FOR APPROVAL		CAPITAL BUDGET
Project Code	**Programme Element**	**Code Description**	**Carry Forward Commitments**	**2020-21 (Year 1)**	**Year 2**	**2020-21**
FC04004	Landlord Works	Boxed Bathroom	£ 500,000	£ 300,000		£ 800,000
FC05005	Communal/ Compliance	Compliance	£ 1,200,000	£ -	£ -	£ 1,200,000
FC05008	Communal/ Compliance	De-gassing of blocks	£ -	£ 50,000		£ 50,000
FC02943	Communal/ Compliance	Compliance	£ 5,205.01	£ -	£ -	£ 5,205
FC04003	Internal	Domestic Heating	£ -	£ 500,000	£ 500,000	£ 500,000
FC05004	Communal/ Compliance	Door Entry Systems	£ 100,000	£ 1,000,000		£ 1,100,000
FC05013	Estate Environmental works	Estate Road Resurfacing	£ 1,281,091	£ 2,000,000		£ 3,281,091
FC05007	Communal/ Compliance	Fire Doors	£ 3,800,000	£ 2,000,000	£ 950,000	£ 5,800,000
FC05006	Communal/ Compliance	Fire Safety	£ 1,200,000	£ -	£ 2,000,000	£ 1,200,000
FC03048	Communal/ Compliance	Fire Safety	£ 269,478	£ -		£ 269,478
FC02933	Landlord Works	Voids	£ 200,000	£ 1,500,000	£ 500,000	£ 1,700,000
FC02983	Internal	Decent Homes Central	£ 18,671	£ -	£ -	£ 18,671
FC05000	Internal	DH Internal	£ 2,700,000	£ 3,000,000		£ 5,700,000
FC05009	Communal/ Compliance	Lateral Mains	£ -	£ -	£ 500,000	£ -
FC05011	Communal/ Compliance	Communal Boilers	£ 431,540	£ 500,000	£ 250,000	£ 931,540
FC02950	Communal/ Compliance	Communal Heating Replacement	£ 100,000	£ -		£ 100,000
FC05010	Communal/ Compliance	Lift Replacement (Reside)	£ 250,000	£ -		£ 250,000
FC04002	Communal/ Compliance	Lift Replacement (old code)	£ 1,500,000	£ 750,000	£ -	£ 2,250,000
FC05003	External	Externals	£ 1,500,000	£ 500,000	£ 1,500,000	£ 2,000,000
FC03045	External	External Fabric		£ -		£ -
FC05002	External	External 1	£ 3,700,000	£ 4,000,000	£ 4,500,000	£ 7,700,000
FC00100	Landlord Works	Disabled Adaptations	£ 200,000	£ 1,200,000		£ 1,400,000
FC05014	Landlord Works	Energy Efficiency	£ -	£ 1,500,000		£ 1,500,000
FC03027	Estate Environmental works	ESCO	£ 127,000	£ -		£ 127,000
FC03040	Communal/ Compliance	Communal Repairs and Upgrades	£ 74,730	£ -		£ 74,730
FC05015	Contingency	Contingency		£ 500,000		£ 500,000
			£ 19,157,715	**£ 19,300,000**	**£ 10,700,000**	**£ 38,457,715**

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CABINET

17 February 2020

Title: Treasury Management Strategy Statement 2020/21	
Report of the Cabinet Member for Finance, Performance and Core Services	
Open Report	**For Decision**
Wards Affected: None	**Key Decision:** Yes
Report Author: David Dickinson, Investment Fund Manager	**Contact Details:** Tel: 020 8227 2722 E-mail: david.dickinson@lbbd.gov.uk
Accountable Director: Philip Gregory, Director of Finance	
Accountable Strategic Director: Claire Symonds, Chief Operating Officer	

Summary

This report deals with the Treasury Management Annual Strategy Statement, Treasury and Prudential Indicators, Annual Investment Strategy and borrowing limits, in compliance with Section 15(1)(a) of the Local Government Act 2003.

The production and approval each year of a Treasury Management Strategy Statement and Annual Investment Strategy are requirements of the Council under Section 15(1) of the Local Government Act 2003. It is also a requirement of the Act to set an authorised borrowing limit for the forthcoming financial year.

The Local Government Act 2003 also requires the Council to have regard to the Prudential Code, and to set prudential indicators which consider the Council's capital investment plans for the next three years.

The Prudential Code was revised in 2017 with the main changes being the inclusion of the Capital Strategy 2020/21 requirements. The Capital Strategy is largely driven by the Council's Investment and Acquisition Strategy, which will be revised in June 2020 and will be based on the Be First Business Plan, which is due to come to Cabinet in March 2020.

Recommendation(s)

The Cabinet is asked to recommend the Assembly to adopt the Treasury Management Strategy Statement for 2020/21 and, in doing so, to:

(i) Note the current treasury position for 2020/21 and prospects for interest rates, as referred to in section 7.2 of the report;

(ii) Approve the Annual Investment Strategy 2020/21 outlining the investments that the Council may use for the prudent management of its investment balances, as set out in Appendix 1 to the report;

(iii) Approve the Council's Borrowing Strategy 2020/21 to 2023/24, as set out in

Appendix 2 to the report;

(iv) Note that the Capital Strategy 2020/21, incorporating the Investment and Acquisitions Strategy, shall be updated and presented for approval in June 2020;

(v) Approve the Capital Prudential and Treasury Indicators 2019/20 – 2023/24, as set out in Appendix 3 to the report;

(vi) Approve the Minimum Revenue Provision Policy Statement for 2020/21, representing the Council's policy on repayment of debt, as set out in Appendix 4 to the report;

(vii) Approve the Operational Boundary Limit of £1.25bn and the Authorised Borrowing Limit of £1.35bn for 2020/21, representing the statutory limit determined by the Council pursuant to section 3(1) of the Local Government Act 2003, as referred to in Appendix 4 to the report; and

(viii) Delegate authority to the Chief Operating Officer, in consultation with the Cabinet Member for Finance, Performance and Core Services, to proportionally amend the counterparty lending limits agreed within the Treasury Management Strategy Statement to consider the increase in cash from borrowing and any subsequent decrease in cash balances as payments are made to the Special Purpose Vehicle.

Reason(s)

To enable the Council to accord with the requirements of the Local Government Act 2003.

1. Introduction and Background

1.1 The Council is required to operate a balanced budget, with cash raised during the year sufficient to meet the Council's cash expenditure. Treasury management supports the Council by seeking to ensure its cash flow is adequately planned, with cash being available when it is needed. Surplus cash is invested in counterparties or instruments commensurate with the Council's risk appetite, providing adequate security and liquidity while also considering the investment return.

1.2 A second function of treasury management is funding the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer term cash flow surpluses.

1.3 The Council is responsible for its treasury decisions, activity and risk appetite. The successful identification, monitoring and control of risk are integral elements of treasury management, including credit and counterparty risk, liquidity risk, market risk, interest risk, refinancing risk and legal and regulatory risk. The Council is statutorily required to approve the Treasury Management Strategy Statement (TMSS) prior to the new financial year.

2. Treasury Management Reporting Requirements

2.1 The Council is required to receive and approve at least three main treasury reports each year. These reports are required to be adequately scrutinised by Cabinet before being recommended to the Council. The three main treasury reports are:

i. **The TMSS** is the most important report and considers the impact of the Council's proposed Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position, the Prudential Indicators (PIs) and the outlook for interest rates. In addition, the current market conditions are factored into any decision-making process.

ii. **A Mid-Year Treasury Management Report** to update Members on the progress of the capital position, amending PIs and investment strategy as necessary.

iii. **An Annual Treasury Report** which outlines the actual PIs, treasury indicators and treasury operations compared to the estimates within the strategy.

2.2 As the Council is responsible for housing, PIs relating to capital expenditure, financing costs and the Capital Financing Requirement (CFR) are split between the Housing Revenue Account (HRA) and the General Fund (GF). The impact of new capital investment decisions on housing rents will also need to be considered.

2.3 This report provides an explanation of the key elements of the Council's TMSS, its Minimum Revenue Provision (MRP) Strategy, the Annual Investment Strategy (AIS) for 2020/21 and the Borrowing Strategy, which are set out in detail in the appendices attached to this report

3. Treasury Management Strategy Statement for 2020/21

3.1 The strategy for 2020/21 covers two main areas, including Treasury Management and Capital Strategy Reporting issues. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Ministry of Housing, Communities and Local Government's (MHCLG) MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

3.2 **Treasury Management Issues**

- Current Portfolio Position at 31 December 2019 (section 4);
- Medium Term Capital Finance Budget (section 5);
- Treasury Position at 31 December 2019; forward projections 2023/24 (section 6);
- Economic Update and Rate Forecast (section 7);
- The Capital Expenditure Plans 2020/21 – 2023/24 (section 8);
- Treasury Management Advisors (section 9);
- Minimum Revenue Provision Policy Statement (section 10);
- Appendix 1 – Annual Investment Strategy 2020/21;
- Appendix 2 - Borrowing Strategy 2020/21 to 2023/24;
- Appendix 3 – The Capital Prudential and Treasury Indicators 2020/21 – 2023/24;
- Appendix 4 – Minimum Revenue Provision Policy Statement 2020/21; and
- Appendix 5 – Scheme of Delegation and Section 151 Officer Responsibilities.

3.3 Capital Strategy Reporting Requirements

3.3.1 The CIPFA revised 2017 Prudential and Treasury Management Codes require all local authorities to prepare an additional report, a Capital Strategy Report (CSR), which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed; and
- the implications for future financial sustainability.

3.3.2 The aim of this CSR is to ensure that Members fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

3.3.3 The Council already has an Investment and Acquisitions Strategy (IAS), which forms the basis of the CSR. In addition to the IAS, the Council's Capital Strategy includes a Borrowing Strategy (appendix 2) and an MRP Policy (appendix 4), that include additional details on the borrowing and debt repayment for the Council's Capital Strategy. These documents combined provide details of the Council's Capital Strategy and includes:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

3.3.4 Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

3.3.5 Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

3.3.6 If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

3.3.7 To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

3.3.8 The Investment and Acquisition Strategy was agreed at the September 2019 Cabinet Meeting. This will be updated to reflect the updated Be First Business Plan and presented to the June 2020 Cabinet.

4. Current Portfolio Position at 31 December 2019

4.1 The Council holds cash balances arising from its operational activities, including income from grants and Council Tax, which are offset by expenditure to run services. The timing of these cash flows can result in surplus cash which is then available to invest. Cash balances are also affected by working capital, which relates outstanding payments to be made to suppliers offset by amounts owed to the Council.

4.2 These balances are made up of the following sources of cash:

- Capital grants and Section 106 funds received in advance of expenditure;
- General Fund, HRA and School cash balances;
- Earmarked Reserves, provisions, Capital Receipts and Working Capital;
- European Investment Bank Loans to fund regeneration;
- L1 Renewables to fund street lighting improvement;
- Public Works Loan Board (PWLB); and
- Bank loans including Lender Option Buyer Option (LOBO).

4.3 Table 1 shows the Council's investments, loans and borrowing balances at 31 December 2019, including the Average Life and the Average Rate of Return. The debt is split between HRA and GF borrowing to match the two pool approach the Council has adopted for borrowing. The Council invests all cash in one investment pool, with interest distributed between the HRA, schools and GF.

Table 1: Council's Treasury Position at 31 December 2019

	Principal Outstanding £000s	Rate of Return %	Average Life (yrs.)
General Fund Fixed Rate Long Term Borrowing			
PWLB	387,521	2.17	27.0
European Investment Bank	81,852	2.21	24.3
Local Authority Long Term	20,000	4.05	0.1
LOBO	10,000	3.98	57.5
L1 RENEWABLES	6,815	3.44	26.8
Total General Fund Debt	**506,188**	**2.30**	**21.8**
General Fund Fixed Rate Short Term Borrowing			
Local Authority Short Term	141,000	0.81	0.2
Total GF Debt	**647,188**	**1.98**	**20.5**
HRA Fixed Rate Borrowing			
PWLB	265,912	3.50	36.1
Market Loans	10,000	3.98	58.4
Total HRA Debt	**275,912**	**3.51**	**36.9**
Total Council Borrowing	**923,100**	**2.13**	**25.4**

Investments			
MMF / Cash	14,174	0.61	-
Local Authority Deposits	221,000	1.65	0.9
Bank Deposit	100,000	1.22	0.6
Total Treasury Investments	**335,174**	**1.49**	**1.3**
Loans	**72,092**	**Various**	**Various**

***** includes loans to Reside and loans to Subsidiary Companies.

4.4 The budget to cover cost of the current and proposed debt has been factored into the MTFS and is included in table 2. Table 2 also includes the MRP budget, Investment and Acquisitions target and HRA interest costs.

5. Medium Term Capital Finance Budget

5.1 A key part of the Council's budget strategy is the medium-term capital finance budget shown in Table 2. It is a statutory requirement that the level of borrowing is kept under review and is affordable. Due to the Council's IAS, it is likely that the Council's cash position will significantly reduce over the next few years as a result of utilising the Council's reserves and using cash balances to fund property investments.

5.2 The significant increase in GF Interest Payable is due to the borrowing required to fund the Council's IAS. The medium-term capital financing budget to 2023/24 is shown in table 2.

Table 2: Medium Term Capital and Treasury Budget

£'000s	2019/20 Budget	2020/21 Budget	2021/22 Budget	2022/23 Budget	2023/24 Budget
MRP	8,898	7,398	7,548	7,698	7,848
Net Interest Budget	5,296	7,733	8,209	8,667	8,656
HRA Interest Payable	10,059	10,059	10,059	10,059	10,059
Investment Income	-3,733	-5,125	-5,125	-5,125	-5,125
Net Cost	20,520	20,065	20,691	21,299	21,438

6. Treasury Position at 31 December 2019; Forward Projections 2023/24

6.1 The Council's treasury position at 31 December 2019, with forward projections are summarised in table 3. The table shows the estimated external debt against the underlying CFR, highlighting any over or under borrowing. The CFR and the gross debt includes borrowing to fund the IAS as well as the borrowing from the EIB to fund Abbey Road Phase 2 and the Gascoigne Regeneration. To ensure borrowing is only for a capital purpose Gross Debt should, except in the short term, should be below the CFR over the period. However, as the Council has a significant Investment Strategy, on occasion Gross Debt may exceed the CFR as long-term borrowing is secured to ensure funding is available for the IAS.

Table 3: Treasury Position at 31 December 2019, with Forward Projections

£'000s	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
External Debt					
Debt at 1 April	847,613	907,613	1,007,613	1,257,613	1,307,613
Expected change in Debt	60,000	100,000	250,000	50,000	30,000
Finance Lease Liability	82,906	82,441	81,952	81,470	80,968
PFI Liability	45,871	43,919	41,853	39,617	37,153
Gross Debt at 31 March	**1,036,390**	**1,133,973**	**1,381,419**	**1,428,699**	**1,455,734**
CFR	**909,031**	**1,147,088**	**1,413,552**	**1,464,342**	**1,492,561**
Under/(over) borrowing	**-127,359**	**13,115**	**32,134**	**35,643**	**36,827**

7. Economic Update and Rate Forecast

7.1 World growth

7.1.1 Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation.

7.1.2 However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high-tech areas and production of rare earth minerals used in high tech products. It is achieving this by providing financial support to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business

7.1.3 The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates.

7.1.4 The trade war between the US and China is a concern to financial markets due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming in the US. These concerns resulted in government bond yields in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US).

7.1.5 **Inflation** has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to a marked acceleration of wage inflation which is likely to prompt central banks into a series of increases in central rates. The EU is probably about a year behind in a similar progression.

7.1.6 **Central bank monetary policy measures -** Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as quantitative easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

7.2 Interest rate forecast

7.2.1 The interest rate forecasts provided by Link Asset Services in table 4 are based on the assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged.

7.2.2 Downside risks to current forecasts for UK gilt yields & PWLB rates include:

- **Brexit:** if it were to cause significant economic disruption / a downturn in growth.
- **Bank of England** acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government.**
- **Other minority EU governments.** Austria, Finland, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but his time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on **some $19trn of corporate debt in major western economies,** if world growth was to dip further than just a minor cooling.
- **Geopolitical risks,** for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

7.2.3 Upside risks to current forecasts for UK gilt yields and PWLB rates include:

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields

7.3 Investment and borrowing rates

7.3.1 Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.

7.3.2 Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9.10.19. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, the unexpected increase of 100 bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management.

7.3.3 While this authority will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

7.3.4 The interest rate forecast is provided in table 4 below:

Table 4: Interest Rate Forecast for the BOE Base Rate and PWLB

Link Asset Services Interest Rate View														
	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

7.4 Bail In legislation

7.4.1 As part of regulation changes within the banking sector the UK Government removed the expectation that governments will support financial institutions in the event of an institution fail. This was set up to ensure there was a structure that will be followed should a financial institution fail. To do this the UK Government agreed a process to deal with a financial institution failure, which includes the option for institutional investors to lose part of their invested cash as part of a "bail in".

7.4.2 It could be argued that the potential for institutional investors to lose part of their investment has always been there and is the main driver behind the rates "rewarded" when an investment is made. The structure keeps the equity investor and bond holders at the top with Institutional Investors, therefore there is a significant buffer before the Council's cash holdings would be affected.

7.4.3 The Treasury section completes regular monitoring of the potential affect a significant market correction would have on the various banks the Council has deposited money with and will make adjustment to the strategy should any issues be identified.

7.5 Return Target 2019/20 to 2022/23

7.5.1 To achieve the interest target, the Treasury section needs to achieve the following average returns on an average cash balance of £220m:

2019/20	1.50
2020/21	1.70
2021/22	2.00
2022/23	2.10

7.5.2 The increased return is heavily reliant on interest rates increasing from their current lows. The recent increase in PWLB borrowing rates has helped the Council to increase the rate it obtains from other Local Authorities and this has helped to secure some investments at or above the 1.7% target rate.

7.6 HRA Investments

7.6.1 Cash balances held by the HRA will be invested as part of the Council's overall treasury strategy. Cash balances will generally earn the average short-term rate of the Council's investments, which will be calculated at the financial year end.

7.6.2 Where there is agreement by the Chief Operating Officer (COO), individual investments can be ring-fenced for the HRA, with the allocations made within the Council's overall treasury strategy requirements. For further details please refer to the HRA Business Plan.

7.7 Abolition of HRA debt cap

7.7.1 In October 2018, Prime Minister Theresa May announced a policy change of abolition of the HRA debt cap.

8. The Capital Expenditure Plans 2020/21 – 2023/24

8.1 The Council's Housing (HRA) and General Fund (GF) capital expenditure plans, together with Balances and Reserves, are the key drivers of treasury management activity. The estimates for Capital expenditure, and its funding based on current proposed Revenue Budget and Capital Programmes, are reflected in prudential indicators, which are designed to assist Members overview and confirm capital expenditure plans. The Prudential Indicators are included in Appendix 3.

8.2 Table 6 below shows the proposed Capital Financing Requirement over the coming four financial years. It is a requirement of the Prudential Code to ensure that capital expenditure remains within sustainable limits and to consider the impact on Council Tax and, in the case of the HRA, housing rent levels.

Table 6: Proposed Capital Expenditure 2019/20 to 2023/24

Capital expenditure	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Capital Financing Requirement					
Opening CFR – General Fund	464,861	606,268	844,325	1,110,789	1,161,579
Net financing need for the year	175,900	249,263	278,335	63,099	39,500
Movement Between HRA and GF	-24,291				
Investment Debt Repayment (MRP)				-141	-418
Other MRP & Financing	-10,202	-11,206	-11,871	-12,168	-10,863
Total General Fund CFR	**606,268**	**844,325**	**1,110,789**	**1,161,579**	**1,189,798**
CFR – Housing	278,472	302,763	302,763	302,763	302,763
Net financing need for the year		0			
Movement Between HRA and GF	24,291				
Total HRA CFR	**302,763**	**302,763**	**302,763**	**302,763**	**302,763**
Total CFR	**909,031**	**1,147,088**	**1,413,552**	**1,464,342**	**1,492,561**
Movement in CFR	**165,698**	**238,057**	**266,464**	**50,790**	**28,219**

8.3 The estimated financing need for the year in Table 6 represents a shortfall of resources resulting in a requirement to borrow. This underlying need to borrow is the CFR. The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

8.4 A portion of the net financing need has already been borrowed as this relates to properties held by Reside, which was borrowed from the European Investment Bank. The increase financing need reflects the Investment and Acquisitions strategy borrowing requirement.

8.5 Other long-term liabilities**:** the above financing need excludes other long-term liabilities, such as PFI and leasing arrangements, which already include borrowing instruments.

8.6 Sufficient headroom has been provided within the Authorised Limit on external borrowing to ensure that any major capital investment projects resulting from the IAS are not restricted by this statutory limit. The limit also covers any short term borrowing for cash flow purposes as well as long term borrowing for capital projects, finance leases PFI initiatives as well as any unforeseen incidences where expected capital receipts are not forthcoming due to unexpected economic factors.

9. Treasury Management Advisors

9.1 The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

9.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

9.3 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review..

10. Minimum Revenue Provision Policy Statement

10.1 In accordance with Statutory Instrument 2008 number 414 and new guidance issued by the Government under section 21 (1A) of the Local Government Act 2003 a statement on the Council's policy for its annual Minimum Revenue Provision (MRP) needs to be approved before the start of the financial year.

10.2 The Council are asked to approve the Minimum Revenue Provision Statement set out in Appendix 4.

11. Financial Implications

Implications completed by: Philip Gregory, Finance Director

11.1 The financial implications are discussed in detail in this report.

12. Legal Implications

Implications completed by: Dr. Paul Field, Senior Governance Solicitor

12.1 It is a statutory requirement under the Government Finance Act 1992 for the Council to set out what the Council has to base its budget calculations upon. Furthermore, it is a legal requirement for the Council to set a balanced budget with regard to the advice of its Chief Finance Officer. However, what is meant by 'balanced' is not defined in law and this has means that the Council must rely upon the professional judgement to ensure that the local authority's budget is robust and sustainable. The Local Government Act 2003 requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. The Council must 'have regard to' the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities when carrying out its functions under the Act.

12.2 This report sets out the Councils strategies in accordance with the Act.

13. Other Implications

13.1 **Risk Management:** This report has risk management issues for the Council, primarily that a counterparty could cease trading or risk that interest rates would rise adversely. The mitigation of these is contained in this report.

13.2 **Corporate Policy and Equality Impact -** The TMSS seeks to support the Council's investment aims to unlock regeneration and economic growth opportunities within the borough. There are no equality or diversity implications arising from this report.

Public Background Papers Used in the Preparation of the Report: None

List of appendices:

- Appendix 1 – Annual Investment Strategy 2020/21
- Appendix 2 - Borrowing Strategy 2020/21 to 2023/24
- Appendix 3 – The Capital Prudential and Treasury Indicators 2020/21 – 2022/23
- Appendix 4 – Minimum Revenue Provision Policy Statement 2020/21
- Appendix 5 – Scheme of Delegation and Section 151 Officer Responsibilities

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Appendix 1

Annual Investment Strategy 2020/21

1. Investment Policy

1.1 The Council's investment policy has regard to the following:

- The Ministry of Housing, Communities and Local Government ("MHCLG"), Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

3. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

1.2 This authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists under the categories of 'specified' and 'non-specified' investments.

- Specified investments are those with a high level of credit quality and subject to a maturity limit of one year.

- Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

1.3 Over the coming years the Council will significantly increase its investments in property as part of its Investments and Acquisition strategy (IAS). Financial risks, including the loss of capital, the loss of forecast income and the revenue effect of changing interest rates will be significant. The successful identification, monitoring and control of investment risk are therefore central to the Council's Treasury Management Strategy Statement (TMSS).

Borrowing risks also forms a key part of the TMSS, where a holistic approach to borrowing is outlined, taking into accounts opportunities from low interest rates, cash flow requirements and a significant range of borrowing options available to the Council. The strategy also outlines the need to avoid more complex forms, especially where derivatives are involved or where there is significant backloading of capital repayment

1.4 In accordance with the MHCLG Guidance, the Council will be asked to approve a revised TMSS should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates or in the Council's capital programme.

1.5 Accounting Changes

International Financial Reporting Standard (IFRS) 9 was effective for the 2018/19 accounting period. IFRS9 requires authorities to hold financial instruments at fair value, with gains and losses charged to revenue as they arise. For certain categories of investments, authorities will need to recognise these gains and losses in their revenue accounts. As a result, the changes in the value of these investments will impact the authority's General Fund. Currently the Council has very limited exposure to these investments.

Similarly, the standard introduces a forward-looking 'expected loss' model for the impairment of financial assets. This approach is likely to result in an increase in the impairment allowance and will require authorities to recognise impairment losses earlier. The MHCLG enacted a statutory over-ride from 1 April 2018 for a five year period until 31 March 2023 following the introduction of IFRS 9 over the requirement for any unrealised capital gains or losses on marketable pooled funds to be chargeable in year. This has the effect of allowing any unrealised capital gains or losses arising from qualifying investments to be held on the balance sheet until 31 March 2023: this will enable councils to initiate an orderly withdrawal of funds if required.

IFRS 16, a new lease accounting standard is being adopted from 1st April 2020, and that may result in more lease liabilities on the balance sheet (previously classed as operating leases), and in turn an impact on some of the prudential indicators such as CFR, Authorised Limit and Operational Boundary.

2. Annual Investment Strategy

2.1 The key requirements of the Code and investment guidance are to set an annual investment strategy covering the identification and approval of the following:

i. The strategy guidelines for choosing and placing investments, particularly non-specified investments.

ii. The principles to be used to determine the maximum duration for investments.

iii. Specified investments that the Council will use. These are high security and high liquidity investments in sterling and with a maturity of no more than a year.

iv. Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall number of various categories that can be held at any time.

v. An additional consideration is the variable cash position the Council will have because of Council's investment strategy. The investment strategy will mean that the Council will be making significant borrowing and investment decisions, and these may result in period where the Council has a significant allocation to a counterparty or duration.

2.2 The Council's AIS continues to consider credit rating of financial institutions it invests with, but ratings are not the sole determinant of the quality of an institution. The strategy looks to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment takes account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps".

2.3 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector to establish the most robust scrutiny process on the suitability of potential investment counterparties. Investment instruments identified for use in the financial year are listed in this appendix under the 'specified' and 'non-specified' investments categories.

2.4 In addition to the Council's cash investments, which have historically been the main focus of the AIS, this year an additional section on property investments has been included. Although property investments will be agreed individually by Cabinet and the Investment Panel, the way these investments will be reported, how interest and profit will be recorded and how these investments will be held is outlined in section 3 of the AIS.

3. Creditworthiness policy

3.1 This Council uses an adapted version of the creditworthiness approach used by the Council's advisors, Link Asset Services (LAS). This service employs a modelling approach utilising credit rating from the three main credit rating agencies (Fitch, Moody's & Standard and Poor's). This approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. The Council uses the following colour codes to determine the suggested duration for investments:

Yellow	5 years
Dark pink	5 years- enhanced money market fund, credit score of 1.25
Light pink	5 years- enhanced money market fund, credit score of 1.50
Purple	2 years
Blue	2 year (only applies to Royal Bank of Scotland)
Orange/Red	1 year
Green	100 days
No colour	not to be used

3.2 The Council uses a one year limit for red colour ratings, which differs from the model used by LAS, which sets a limit of 6 months. This difference reflects a different risk appetite to the standard limits recommended by LAS.

3.3 Typically, the minimum credit ratings criteria the Council use will be a Short-Term rating (Fitch or equivalents) of **F1** and a Long-Term rating of **A-.** There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

3.4 The Council is alerted to changes to ratings of all three agencies through its use of our creditworthiness service. If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

3.5 In addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

3.6 Sole reliance will not be placed on the use of this external service. In addition, this Council will also use market data and market information, information on sovereign support for banks and the credit ratings of that supporting government.

4. Investment Advisers and Monitoring of Investment Counterparties

4.1 The Council uses Link Asset Services (LAS) for external treasury advice. However the Council aknowledges that it is ultimately responsibility for all treasury management decisions and will ensure that undue reliance is not placed on the external advisors.

4.2 The Council recognises that there is value in receiving advice from an external treasury advisor in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are documented, and subjected to regular review.

4.3 The Council receives credit rating information from LAS as and when ratings change, and counterparties are checked promptly. Any counterparty failing to meet the criteria will be removed from the list immediately by the COO, and if required new counterparties which meet the criteria will be added to the list.

5. Use of External Cash Manager(s)

5.1 The Council no longer uses an external cash manager (ECM), with all investments and borrowing managed in-house. Were the Council to use an ECM in the future there would be a requirement for the ECM to comply with the AIS. Any agreement between the Council and the ECM will stipulate guidelines, durations and other limits to contain and control risk.

5.2 Prior to appointing an ECM, an OJEU compliant tender process is required. An extensive background in cash management will be a prerequisite, alongside Financial Conduct Authority accreditation. The requirement to tender includes both for lending to a third party to invest and appointing an ECM.

6. Use of additional information other than credit ratings

6.1 Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example CDSs, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

7. Credit Quality Criteria and Allowable Financial Instruments

7.1 The table on the following page sets out the credit quality criteria for counterparties and allowable financial instruments for Council investments. These are split into Specified and Non-specified investments.

7.2 **Specified Investments**

Sterling investments of less than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months. These are considered minimal risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Govt. (UK Treasury Bills, Gilts with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council.
4. Pooled investment vehicles. (AAA Money Market Funds).
5. A body (i.e. bank of building society), of sufficiently high credit quality.

7.3 **Non-Specified Investments**

Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

Non Specified Investment Category (maturity greater than one year)	
a.	**Supranational Bonds** **(a) Multilateral development bank bonds** These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.). **(b) A financial institution that is guaranteed by the UK Government** The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt-edged securities. However, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.
b.	**Gilt edged securities**. Government bonds which provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.
c.	**The Council's own bank** if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible. The Council's current bankers are Lloyds Banking Group.
d.	**Any bank or building society** that has a minimum long-term credit rating of A or equivalent, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).
e.	**Share capital or loan capital** in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies. There is a higher risk of loss with these types of instruments.
f.	**Pooled property or bond funds** – normally deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies.

Within categories c and d, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies. These criteria is set out in section 11.3 in the body of the report. In respect of categories e and f, these will only be considered after obtaining external advice and subsequent Member approval.

Specified Investments and Non-Specified Investments Limits and Criteria

Counterparty / Financial Instrument	Minimum Credit Rating Criteria / Colour Band	Specified Investments		Non-Specified Investments	
		Maximum Duration	Counterparty Limit £m	Maximum Duration	Counterparty Limit £m
Council's Bank (currently Lloyds Baking Group) – Deposit Account	A	T+1	£30m	N/A	N/A
Lloyds Banking Group SIBA (Call) Accounts Term Deposits, CDs, Structured Deposits, Corporate Bonds	A	Up to 1 year	£100m	1 to 3 years	£100m
Government Supported UK Bank – Royal Bank of Scotland SIBA (Call) Accounts Term Deposits, CDs, Structured Deposits, Corporate Bonds	Blue	Up to 1 year	£50m	1 to 2 years	£50m
Other UK Banks & Building Societies SIBA (Call) Accounts Term Deposits, CDs, Structured Deposits, Corporate Bond	Yellow Purple Orange/Red Green No Colour	N/A N/A Up to 1 year Up to 3 mths Not for use	£50m per counterparty	1 to 5 years 1 to 2 years N/A N/A N/A	£50m per counterparty
Bond Funds - Corporate Bonds	Short-term F2, Long Term A	Up to 1 year	£20m	1 to 2 years	£20m
Local Authorities: Term Deposits	Not credit rated	Up to 1 year	£50m per authority	1 to 4 years	£50m per authority
UK Government - Treasury Bills, Gilts DMADF	UK Sovereign Rating	Up to 1 year	£50m	1 to 5 years	£20m
Money Market Funds / Cash Plus	AAA	T+1	£30m per Manager	N/A	N/A
Property Funds	N/A	N/A		N/A	£50m

7.4 Non-Treasury Investments

Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the CLG Guidance, the Council may also purchase property for investment and regeneration purposes and may also make loans and investments for service purposes, for example loans to partner organisations or the Council subsidiaries.

Such loans and investments will be subject to the Council's normal approval processes for revenue and capital expenditure and need not comply with the TMSS. However, it is important to note that there are varying degrees of risks associated with such asset classes and this need comprehensive appreciation. It is not just credit risk that needs to be understood, but liquidity and interest rate / market risk as well, although these can often be intertwined. Any option in which an investor hopes to generate an elevated rate of return will almost always introduce a greater level of risk. By carefully considering and understanding the nature of these risks, an informed decision can be taken.

7.5 UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

8. Use of other Local Authorities

For cash loans the Local Government Act (LGA) 2003 s13 suggests the credit risk attached to English, Welsh and Scottish local authorities is an acceptable one.

9. Use of Multilateral Development Banks

S15 of the LGA Act 2003 SI 2004 no. 534 amended provides regulations to clarify that investments in multilateral development banks were not to be treated as being capital expenditure. Should the Council invest in such institutions then only such institutions with AA credit rating and government backing would be invested in consultation with the Council's treasury adviser and the S151 Officer.

10. Use of Brokers

The Council deals with most of its counterparties directly but from time to time the Council will use the services of brokers to act as agents between the Council and its counterparties when lending or borrowing. However, no one broker will be favoured by the Council. The Council will ensure that sufficient quotes are obtained before investment or borrowing decisions are made via brokers.

11. Country limits and Use of Foreign Banks

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- (excluding the United Kingdom) from Fitch. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy. This will ensure that the Council's investments are not concentrated in too few counterparties or countries.

Given the strength of some foreign banks the Council will invest in strong non UK foreign banks whose soverign and individual ratings meet its AA- minimum criteria.

12. Approved countries for investments (Credit Rating as at 31 December 2019)

The list below is based on those countries which have sovereign ratings of AA or higher (below is the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above.

AAA	AAA	AA+	AA	AA
Australia	Netherlands	Finland	Abu Dhabi, UAE	Qatar
Canada	Norway	United States	France	Belgium
Denmark	Singapore		United Kingdom	
Germany	Sweden		European Union	
Luxembourg	Switzerland			
Liechtenstein				

13. Provisions for Credit-related losses

13.1 If any of the Council's investments appeared at risk of loss due to default, (i.e. a credit-related loss and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount. Where there is a loss of the principal amount borrowed due to the collapse of the institution, the Council will seek legal and investment advice.

13.2 Where the Council holds a non-financial investment, such as property, it will have a physical asset that can be realised to recoup the capital invested. The Council will consider whether the asset retains sufficient value to provide security of investment using the fair value model in International Accounting Standard 40: Investment Property. Where the fair value of non-financial investments is sufficient to provide security against loss, a fair value assessment will be made stating that a valuation has been made within the past twelve months, and that the underlying assets provide security for capital investment.

13.3 Where the fair value of non-financial investments is no longer sufficient to provide security against loss, the AIS will provide detail of the mitigating actions that the Council is taking or proposes to take to protect the capital invested.

13.4 Where the Council must impair a non-financial asset held for investment purposes as part of the year end accounts preparation and audit process, an updated AIS should be presented to full council detailing the impact of the impairment on the security of investments and any revenue consequences arising therefrom.

13.5 This above approach is reasonable and a prudent approach to investing should help to negate this impact. However, a significant market correction, more complicated investment structures (including investments via equity rather than debt) and a default on any of the Council's loans would leave the Council exposed to an impairment on assets. The impact of the impairment will have a greater impact as the council increases its investment portfolio and third-party loans.

14. End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Outturn Report.

15. Policy on Use of Derivatives

15.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

15.2 The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

15.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

16. Investment Training

The needs of the Authority's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by LAS and other relevant providers.

17. Investment of Money Borrowed in Advance of Need

The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

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Appendix 2

Borrowing Strategy 2020/21 to 2023/24

1. Background

1.1 Historically the Council has either been debt free or has had a very low-level of debt. This changed significantly in 2012 when, as part of the HRA reform, £265.9m of debt was transferred to the Council's HRA.

1.2 In January 2015, £89m was borrowed for the Council's General Fund (GF) from the European Investment Bank (EIB) to fund the regeneration of Abbey Road 2 and Gascoigne East. Abbey Road 2 is currently operational, bringing in sufficient income to cover the capital and interest costs, as well as generating income for the Council. Gascoigne East will be operational in 2018.

1.3 In November 2016, Cabinet approved the establishment of an Investment and Acquisition Strategy (IAS). Cabinet also approved an initial £250m investment budget and £100m land and property acquisition budget to support delivery of the IAS. The purpose of the IAS is to support the Borough's growth opportunities and to ensure that the Council, and future generations, benefit by increasing the Council's ownership of long-term income producing assets.

1.4 The IAS has an income objective and a target of delivering £5.12m by 2020/21. The IAS will be delivered primarily by the Council's development vehicle, Be First, and it is expected that Be First will accelerate the regeneration of the borough.

1.5 There may be occasions where refinancing may be used to secure borrowing on the properties when they are operational and, in some cases, properties will be sold to fund new regeneration schemes.

1.6 <u>PWLB Rate Increase and Alternative Borrowing Options</u>

Due to the scale of the regeneration programme borrowing has predominantly been from the Public Works Loan Board (PWLB), especially when rates are low. This has resulted in the average cost of long term borrowing slowly decreasing to 2.3%, which has allowed the Council to increase the level of regeneration and provide additional social housing.

On 9 October 2019 Treasury increased the interest rate for the Public Works Loan Board (PWLB) by one percentage point, resulting in the typical rate for a PWLB loan increasing from 1.8% to 2.8%. While the Council has not yet had to borrow at these rates this does increase significantly the funding risk and there is the potential that some schemes will no longer be viable or that the scale of regeneration will need to be reduced.

As the PWLB rate is no longer competitive, the Treasury Section has been looking at alternative sources of financing. Although there is the potential to achieve similar rates to the previous PWLB rates, the amount of governance involved is significant and there will also be much higher legal and brokerage fees. A range of borrowing periods will also be used based on cashflow requirement, ensuring that not all borrowing is long term and that the debt repayment is linked to the income generated from both the rental returns and the sales receipts.

The Treasury section is also looking at the potential to raise finance through the issuance of a bond.

1.7 Interest Costs

It is important to highlight that the Council's IAS will increase the Council's interest payment costs significantly. Were the Council to borrow a billion pounds at 3.0% then the interest costs would be £30m per year. Although this will be funded by rental income from the various schemes, this will still result in a long-term obligation on future generations as some of the loans that will be taken out have maturity dates of up to 50 years.

1.8 An additional consideration is the cost of borrowing during the construction phase. Borrowing costs are high during the construction period as there are still borrowing costs but no income coming in from the scheme. Short-term borrowing, structured borrowing and cross subsidising from other schemes will reduce the impact of this but there will remain a financing and interest rate risk during this period.

1.9 The Council recognises that investment in other financial assets and property primarily for financial return and taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

1.10 The Council will ensure that all its investments are covered in the IAS and will set out, where relevant, it's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

1.11 The Council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the Council's risk exposure.

2. The Council's Borrowing Strategy

2.1 The decision to borrow is a treasury management decision and is taken by the COO under delegated powers of the Council's constitution and after consultation with the Investment Fund Manager and the Director of Finance. The key objective of the Council's borrowing strategy is to secure long term funding for capital projects and IAS at borrowing rates that are as low as possible.

2.2 Currently the Council has a hollistic approach to borrowing, taking into account cashflow, borrowing costs and investment returns to drive the net cost of borrowing down, while keeping the borrowing transparent and relatively easy to understand. This hollisitc approach has resulted in very low net borrowing costs, with the 2019/20 net interest budget of £3.3m supporting £245m of General Fund long term borrowing. This equates to a net cost (interest payments less interest income) of 0.81% for an average duration of approximately 41 years. While it will not be possible to keep borrowing costs this low for future borrowing, this hollistic approach will be maintained, with transparency a key driver behind any borrowing decision.

2.3 The Council can borrow funds from the PWLB, from capital markets, from bond issuance and from other local authorities. The Council would look to borrow for several purposes, including:

(i) *Short term temporary* borrowing for day to day cash flow purposes.
(ii) *Medium term borrowing* to cover construction and development costs.
(iii) *Long term borrowing* to finance the capital and IAS programme.

2.4 In 2020/21 a significant amount of borrowing is required. The COO and treasury section will monitor interest rates and, where possible, make borrowing decisions when rates are low, while taking into account the Council's debt repayment profile and cashflow requirements. The Council's borrowing strategy will give consideration to the following when deciding to take-up new loans:

- Use internal cash balances;
- Using PWLB, the EIB or Local Authorities for fixed term loans;
- Using Institutional investors (Pension Funds and Insurance Companies);
- Ensure new borrowings are drawn at suitable rates and periods; and
- Consider the issue of stocks and bonds if appropriate.

2.5 The Council has £10m of fixed rate Lender's Options Borrower's Option (LOBO) loans. A LOBO is called when the Lender exercises its right to amend the interest rate on the loan at which point the Borrower (the Council) can accept the revised terms or reject them and repay the loan. LOBO loans present a potential refinancing risk to the Council since the decision to call a LOBO is entirely at the Lender's discretion. Any LOBO called will have the default position of repayment of the LOBO without penalty, i.e. the revised terms will not be accepted.

3. Council's Current Debt

3.1 The Council currently has £921.1m of debt at an average rate of 2.13%. This can be broken down as follows:

Borrowing	Principal Outstanding £000s	Rate of Return %	Average Life (yrs.)
General Fund Fixed Rate Long Term Borrowing			
PWLB	387,521	2.17%	27.0
European Investment Bank	81,852	2.21%	24.3
Local Authority Long Term	20,000	4.05%	0.1
LOBO	10,000	3.98%	57.5
L1 RENEWABLES	6,815	3.44%	26.8
Total General Fund Debt	**506,188**	**2.30%**	**21.8**
General Fund Fixed Rate Short Term Borrowing			
Local Authority Short Term	141,000	0.81%	0.2
Total GF Debt	**647,188**	**1.98%**	**20.5**
HRA Fixed Rate Borrowing			
PWLB	265,912	3.50	36.1
Market Loans	10,000	3.98	58.4
Total HRA Debt	**275,912**	**3.51**	**36.9**
Total Council Borrowing	**923,100**	**2.13**	**25.4**

3.2 General Fund Debt

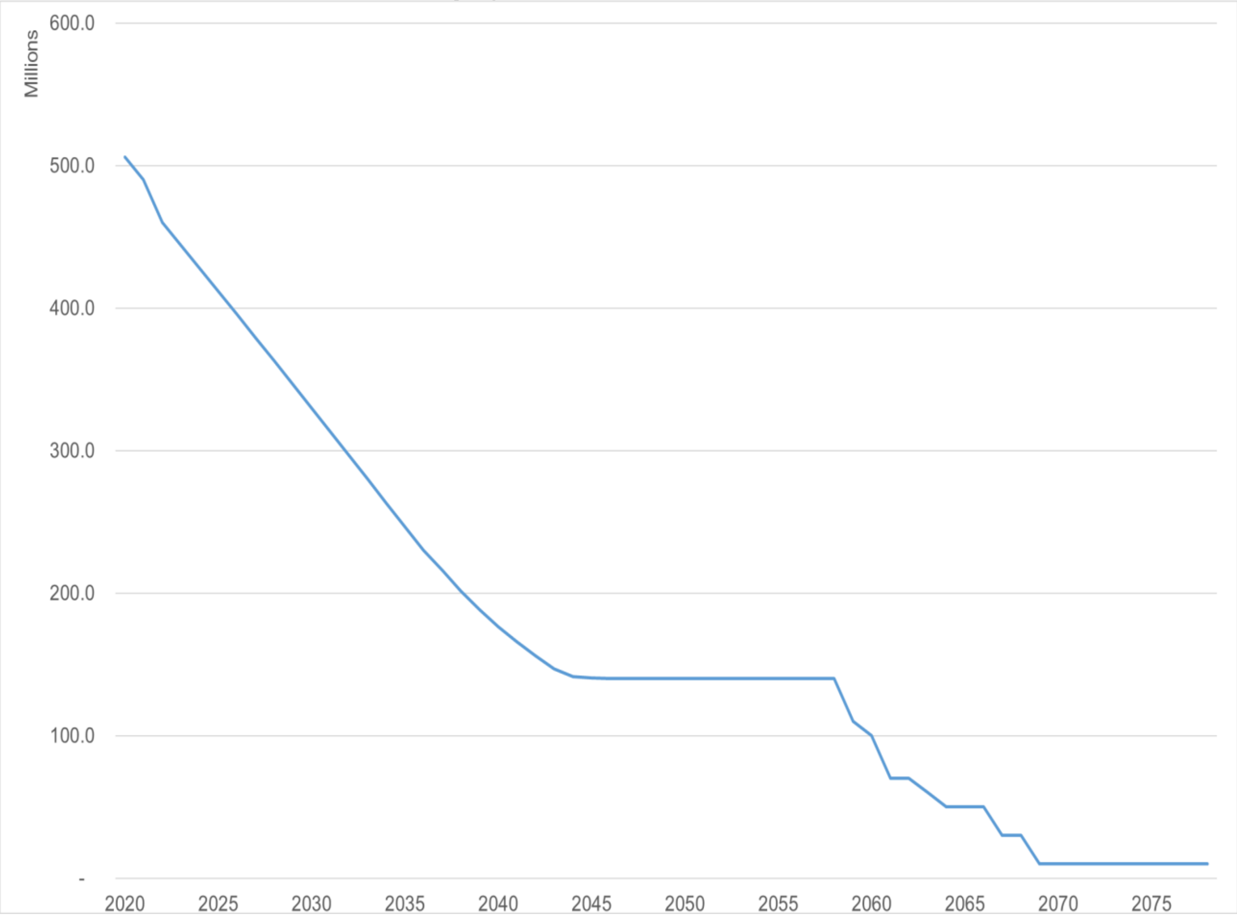
The GF debt can be split Short-Term borrowing and Long-Term borrowing. Short-term borrowing is used to manage the Council daily cash requirements and to allow the council to make strategic, longer term borrowing decisions without a significant impact from the cost of carry.

Long-term borrowing has historically been used to Fund the Council's capital expenditure but is now mainly used to fund the Council's IAS. The Council first borrowed over a long-term period in 2008, with more significant borrowing in the past three years. The actual borrowing per year is summarised below:

Year	Amount	Reason for Borrowing
Pre-2015	£ 30m	Borrowing for Capital Expenditure
2015	£ 89m	Borrowing for Abbey Road and Gascoigne East Regen.
2016	£ 59m	Borrowing for Land and IAS
2017	£ 90m	Borrowing for Street Purchases and IAS
2018	£150m	Borrowing for IAS
2019	£ 88m	Borrowing for IAS
Total	**£506m**	

Although the borrowing is long-term, a part of the Council's debt is repaid each year through either an annuity repayment or equal instalment repayment. As a result, the Councils debt repayment profile is relatively smooth, as outlined in the chart below. Future borrowing will be mapped against this repayment profile and the forecast cashflows to help refinancing risk but also allow for a steady reduction in the Council's debt exposure.

Chart 1: Council Debt Repayment Profile as at 31 December 2019



3.3 Borrowing from Financial Institutions

The treasury section will generally borrow from the PWLB when rates are low. However, where cheaper or more appropriate borrowing is available from other financial institutions then this is used as an additional source of financing. With the recent 1% increase in PWLB margin, borrowing from other financial institutions are more likely in the coming years.

Currently the following loans have been borrowed from financial institutions:

i. European Investment Bank (EIB) Borrowing: In 2014/15 Cabinet agreed to borrow £89m from the European Investment Bank (EIB) as outlined below:

- £66m from the EIB to finance the Gascoigne Estate (East) Phase 1;
- £23m from the EIB to finance Abbey Road Phase 2.

The drawdown of the full £89m was completed on 30 January 2015 at a rate of 2.207%. Currently the balance owed to the EIB is £81.9m.

ii. Green Investment Bank (GIB) Borrowing (now L1 Renewables)

At its meeting on 2 December 2015 the Council agreed to borrow £7.5m from the GIB to finance the Low Energy Street Light Replacement Programme via the UK GIB Green Loan.

On 15 December 2016, a loan of £7.0m was borrowed from the GIB at a rate of 3.44% for a duration of 30 years. The borrowing drawdown period will be over a two-and-a-half-year period and will match the forecast expenditure. The repayment of the loan has been structured to best match the cashflows expected to be generated from the energy savings.

3.4 HRA Self Financing

The Council uses a two loans pool approach for long term debt. The £265.9m of PWLB long-term debt from the HRA reform is allocated to the HRA. An additional £10m of borrowing from Barclays was transferred to the HRA in 2016. A breakdown of the HRA borrowing is provided in table 5 below:

Table 5: HRA borrowing:

Loan Type	Loan Amount	Maturity profile	Interest Rate
	£'000s	Yrs.	%
PWLB	50,000	24	3.51
PWLB	50,000	34	3.52
PWLB	50,000	42	3.49
PWLB	50,000	43	3.48
PWLB	65,912	44	3.48
Barclays	10,000	60	3.98
Total	**275,912**		

The HRA previously had a debt cap of £291.60 but this was removed in 2018. It is likely that the HRA will increase its actual borrowing from, £275.9m.

4. Repayment of Borrowing

As short term borrowing rates are usually cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, any savings will need to be based on the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy; and
- enhance the balance of the portfolio (amend the maturity profile).

Internal borrowing can also be reduced by generating capital receipts, which will replenish cash balances and in accounting terms be used for financing historic spend rather than for new capital projects.

5. Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved CFR estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

APPENDIX 3

The Capital Prudential and Treasury Indicators 2019/20 – 2023/24

The Local Government Act 2003 requires a Council to have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the Council's capital investment plans are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. It is also essential that, within the Council, there is an understanding of the risks involved and there is sufficient risk management undertaken for each investment undertaken.

he Prudential Code was revised in 2017 with the main changes being the inclusion of the Capital Strategy requirements and the removal of some indicators. To demonstrate the Council has met these objectives, the Prudential Code sets out a number of indicators that are monitored each year. These indicators are outlined in this report.

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the Prudential Indicators, which are designed to assist members overview and confirm capital expenditure plans. Capital expenditure is a summary of the Council's capital expenditure plans, both agreed previously and those forming part of this budget cycle. The capital expenditure forecasts are included in the first part of Table 1.

1. The Council's borrowing requirement (CFR)

1.1 The Council's Capital Financing Requirement (CFR) is the historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure, which has not immediately been paid for, will increase the CFR.

1.2 The CFR does not increase indefinitely, as the minimum revenue provision (MRP), a statutory annual revenue charge, reduces the borrowing need in line with each asset's life. The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. Table 1 sets out the CFR until 2023/24 and are cumulative.

1.3 The Investment and Acquisitions costs are self-financing, with rental income expected to pay for the borrowing costs and provide an income stream to the Council. MRP for IAS properties is charged after a two-year stabilisation period and then for 50 years based on an annuity repayment schedule for residential properties and 40 years for Temporary Accommodation. Members are asked to be aware that in-year movements to the IAS budgets will occur as development costs are confirmed and, in some cases, investment opportunities are identified. Budgets included in 2020/21 and onwards are best estimates and may change as financing and expenditure are confirmed. Members are asked to approve the capital expenditure forecasts and the CFR projections included in table 1.

Table 1: Capital Expenditure Forecast and Council's CFR 2019/20 – 2023/24

Capital expenditure	2019/20 £000s	2020/21 £000s	2021/22 £000s	2022/23 £000s	2023/24 £000s
General Fund					
Adults Care & Support	2,241	2,241	2,241	2,241	2,241
CIL / TFL	-	4,322	1,323	-	-
Community Solutions	210	-	-	-	-
Core	2,562	3,492	340	340	340
Culture, Heritage & Recreation	1,750	10,015	450	305	150
Education, Youth and Childcare	42,346	42,958	3,895	-	-
Enforcement	1,269	2,908	-	-	-
My Place	8,122	3,625	4,295	4,295	4,295
Public Realm	7,571	3,179	50	-	-
Transformation	4,500	6,495	-	-	-
Financed by:	-	-	-	-	-
Capital Grants	- 57,465	- 48,449	- 6,136	- 2,241	- 2,241
Section 106	-	-	-	-	-
CIL/TFL	-	- 4,819	- 1,323		-
Revenue Contributions	- 340	- 340	- 340	- 340	- 340
Total Net Borrowing Requirement	**12,767**	**25,627**	**4,795**	**4,600**	**4,445**
Housing Revenue Account (HRA)					
HRA	37,472	48,958	30,302	39,000	39,000
Financed by:	-	-	-	-	-
HRA Contributions	- 37,472	- 48,958	- 30,302	- 39,000	- 39,000
Total Net Borrowing Requirement	**-**	**-**	**-**	**-**	**-**
Investment and Acquisition Strategy					
Residential	135,062	227,743	313,119	155,660	120,074
Commercial	53,597	25,305	-	-	-
Financed by:	-	-	-	-	-
HRA & GLA Grant Income	- 23,040	- 21,395	- 5,701	- 32,099	- 19,448
Total RtB Receipts Income	-	- 2,000	- 25,340	- 33,895	- 17,165
Total Sales Income	- 2,486	- 6,017	- 8,538	- 31,167	- 48,407
Total Net Borrowing Requirement	**163,133**	**223,636**	**273,540**	**58,499**	**35,055**
Net financing need for the year	**175,900**	**249,263**	**278,335**	**63,099**	**39,500**

Capital expenditure	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Capital Financing Requirement					
Opening CFR – General Fund	464,861	606,268	844,325	1,110,789	1,161,579
Net financing need for the year	175,900	249,263	278,335	63,099	39,500
Movement Between HRA and GF	-24,291				
Investment Debt Repayment (MRP)				-141	-418
Other MRP & Financing	-10,202	-11,206	-11,871	-12,168	-10,863
Total General Fund CFR	**606,268**	**844,325**	**1,110,789**	**1,161,579**	**1,189,798**
CFR – Housing	278,472	302,763	302,763	302,763	302,763
Net financing need for the year		0			
Movement Between HRA and GF	24,291				
Total HRA CFR	**302,763**	**302,763**	**302,763**	**302,763**	**302,763**
Total CFR	**909,031**	**1,147,088**	**1,413,552**	**1,464,342**	**1,492,561**
Movement in CFR	**165,698**	**238,057**	**266,464**	**50,790**	**28,219**

2. Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

2.1 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of General Fund Capital expenditure against the net revenue stream.

General Fund Cost of Capital	2020/21 Estimate £000s	2021/22 Estimate £000s	2022/23 Estimate £000s
Net General Fund Base Budget	**148,820**	**155,795**	**154,374**
Cost of Capital			
MRP	7,398	7,548	7,698
GF Net Interest Budget	7,733	8,209	8,667
Investment Income	-5,125	-5,125	-5,125
Net Cost of Capital	**10,006**	**10,632**	**11,240**
Financing Cost to Net Revenue	**6.72%**	**6.82%**	**7.28%**

The estimates of financing costs include current commitments and the proposals in this budget report.

2.2 HRA ratios

This indicator identifies the trend in the cost of General Fund Capital expenditure against the net revenue stream

	2020/21 Estimate £000s	2021/22 Estimate £000s	2022/23 Estimate £000s
HRA debt £m	302,763	302,763	302,763
Number of HRA dwellings	17,148	16,928	16,708
Debt per dwelling £	**17.7**	**17.9**	**18.1**

3. Treasury indicator and limit for investments greater than 365 days.

The limit is set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment. They are based on the availability of funds at yearend. The maximum principal sums invested greater than 364 days is high to allow the treasury section to manage the significant cashflows expected as a result of the Council's IAS. The Council is asked to approve the treasury indicator and limit:

£'000s	2020/21	2021/22	2022/23	2023/24
Maximum principal sums invested > 364 days	450,000	350,000	300,000	250,000

4. Treasury Indicators: Limits to Borrowing Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure: identifies a maximum limit for variable interest rates based upon the debt position net of investments;

- Upper limits on fixed interest rate exposure: is similar to the previous indicator and covers a maximum limit on fixed interest rates; and

- Maturity structure of borrowing: gross limits to reduce the Council's exposure to large fixed rate sums requiring refinancing.

The Council is asked to approve the following treasury indicators and limits:

Interest rate exposures	2020/21	2021/22	2022/23
	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	70%	70%	70%
Limits on fixed interest rates:			
• ***Debt only***	100%	100%	100%
• ***Investments only***	90%	90%	90%
Limits on variable interest rates			
• ***Debt only***	70%	70%	70%
• ***Investments only***	80%	80%	80%

Maturity structure of fixed interest rate borrowing 2020/21		
	Lower	Upper
Under 12 months	0%	50%
12 months to 2 years	0%	60%
2 years to 5 years	0%	70%
5 years to 10 years	0%	70%
10 years and above	0%	100%

Maturity structure of variable interest rate borrowing 2020/21		
	Lower	Upper
Under 12 months	0%	40%
12 months to 2 years	0%	40%
2 years to 5 years	0%	70%
5 years to 10 years	0%	70%
10 years and above	0%	80%

5. Treasury Indicators: Limits to Borrowing Activity

5.1 The Operational Boundary - this is the limit beyond which external borrowing is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual borrowing. Given the uncertainty around the borrowing requirement resulting from the Council's IAS Programme, a margin of approximately £100m has been included in these figures to reflect potential additional borrowing above the current CFR for the IAS.

5.2 The Authorised Limit for external borrowing – this represents a control on the maximum level of borrowing, with a limit set, beyond which external borrowing is prohibited. This limit must be set or revised by the full Council. The limit set includes an additional margin for borrowing to fund the Council's IAS.

It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is also a statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised. The Council is asked to approve the following Operational Boundary and Authorised Limit:

Limits to Borrowing Activity	2019/20	2020/21	2021/22	2022/23	2023/24
£'000s	Approved	Estimate	Estimate	Estimate	Estimate
Operational Boundary	1,052,000	1,250,000	1,500,000	1,570,000	1,600,000
Authorised Limit	1,152,000	1,350,000	1,600,000	1,670,000	1,700,000

5.3 HRA CFR – with the proposed removal of the HRA debt limit the HRA CFR will be reviewed. The figures below are based on the previous debt limit and increased to take into account the transfer of Street Purchases to the HRA from the General Fund.

HRA Debt	2019/20	2020/21	2021/22	2022/23	2023/24
£'000s	Approved	Estimate	Estimate	Estimate	Estimate
Total	278,472	302,763	310,628	310,628	310,628

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Appendix 4

Minimum Revenue Provision Policy Statement

Background

1. Minimum Revenue Provision (MRP) is statutory requirement for a Council to make a charge to its General Fund to make provision for the repayment of the Council's past capital debt and other credit liabilities. The Council is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP). MRP does not need to be set aside for the Housing Revenue Account (HRA).

2. The scheme of MRP was set out in former regulations 27, 28 and 29 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. This system was radically revised by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008. The revised regulation 28 replaced a requirement that local authorities calculate the MRP pursuant to detailed calculations with a duty to make prudent MRP.

3. The Council is under a statutory duty "to determine for the current financial year an amount of MRP which it considers to be prudent". Local authorities are asked by the Secretary of State "to prepare an annual statement of their policy on making MRP for submission to their full Council". This forms part of the Treasury Management Strategy (TMSS) approved by full council at least annually.

4. In determining a prudent level of MRP the Council is under a statutory duty to have regard to statutory guidance on MRP issued by the Secretary of State. The Guidance provides four options which can be used by the Council when determining its MRP policy and a prudent amount of MRP. The Council however can depart from the Guidance if it has good reason to do so. This policy is consistent with the Guidance. The options do not change the total MRP the council must pay over the remaining life of the capital expenditure; however, they do vary the timing of the MRP payment.

5. MRP adjustments and policies are subject to annual review by external audit.

6. The Chief Operating Officer (COO) has delegated responsibility for implementing the Annual MRP Statement. The COO also has executive, managerial, operational and financial discretion to determine MRP and any practical interpretation issues.

7. A prudent level of MRP on any significant asset or expenditure may be assessed on its own merits or in relation to its financing characteristics in the interest of affordability or financial flexibility.

8. The COO may make additional revenue provisions, over and above those set out, and set aside capital receipts, balances or reserves to discharge financing liabilities for the proper management of the financial affairs of the HRA or the general fund. The COO may make a capital provision in place of any revenue MRP provision.

9. This MRP Policy Statement has been revised to consider the Council's recently agreed investment strategy, which requires the use of MRP to be outlined in more detail, as well as to agree additional MRP options that are available for long-term property investments.

General Fund Supported Capital Expenditure or Capital Expenditure incurred before 1 April 2008

10. In relation to capital expenditure for which support forms part of the calculation of revenue grant by the government or any capital expenditure incurred before 1 April 2008, the MRP shall be calculated in accordance with the Local Authorities CFR Regulations 2003 as if it had not been revoked. In arriving at that calculation, the CFR shall be adjusted as described in the guidance.

11. In addition, the calculation method and the rate or the period of amortisation referred to in the guidance may be varied by the COO in the interest of affordability.

12. The methodology applied to pre-2008 debt remains the same and is an approximate 4% reduction in the borrowing need (CFR) each year.

General Fund Self- Financed Capital Expenditure from 1 April 2008.

13. Where capital expenditure incurred from 1 April 2008 is on an asset financed wholly or partly by self-funded borrowing, the MRP has previously been made in instalments over the life of the asset, with the calculation method and the rate or the period of amortisation determined by the COO.

14. From 1 April 2019 MRP for capital expenditure incurred from 1 April 2008 will be calculated using the annuity method. All balances as at 31 March 2019 will be carried at the same value and the same remaining life of the asset but a revised MRP calculation will be completed using the annuity method of MRP for 2019/20 and onwards. Currently the annuity method is used for the Investment and Acquisitions assets and it not proposed to amend this method, which is outlined in section 19 to 23 of this MRP statement.

15. The COO shall determine how much and which capital expenditure is funded from borrowing and which from other sources. Where expenditure is only temporarily funded from borrowing in any one financial year and it is intended that its funding be replaced with other sources by the following year, no MRP shall apply. Nor shall any annual MRP apply where spend is anticipated to be funded from capital receipts or grants due in the future but is in the meantime funded from borrowing, subject to a maximum of three years or the year the receipt or grant is received, if sooner.

16. The asset life method shall be applied to borrowing to meet expenditure from 1 April 2008 which is treated as capital expenditure by either a direction under section 16(2) of the 2003 Act or regulation 25(1) of the 2003 Regulations. The COO shall determine the asset life. When borrowing to construct an asset, the asset life may be treated as commencing in the year the asset first becomes operational and postpone MRP until that year.

17. Where capital expenditure involves repayable loans or grants to third parties no MRP is required where the loan or grant is repayable. By exception, based on a business case and risk assessment, this approach may be amended at the discretion of the COO.

18. Where capital expenditure involves a variety of works and assets, the period over which the overall expenditure is judged to have benefit over shall be considered as the life for MRP purposes. Expenditure arising from or incidental to major elements of a capital project may be treated as having the same asset life for MRP purposes as the major

element itself. An estimate of the life of capital expenditure may also be made by reference to a collection or grouping of expenditure type or types.

Loans to Special Purpose Vehicles

19. As part of its Investment and regeneration programme, the Council will use several Special Purpose Vehicles (SPV) held through Reside to manage its property regeneration schemes. This will require the Council borrowing to provide funding for the SPV and for the SPV to repay the loan based on the cashflow forecast to be generated from the properties.

20. MRP using the annuity method will be charged over a period of 50 years for each scheme. An MRP period of 25 years will be used for modular / prefabricated properties. The MRP will therefore reflect the repayment profile of the SPV to the Council and any borrowing made by the Council will made to match the cashflow requirements of the SPV.

21. For each IAS scheme a set two-year stabilisation period will be used, although this can be extended, with the agreement of the COO, to three year in cases where there are significant pressures on a scheme’s cashflow. A stabilisation period for each scheme is required to:

   - allow sufficient funds to cover any additional costs;
   - allow the property to be fully let; and
   - cover any initial letting and management costs.

22. The MRP annuity method makes provision for an annual charge to the General Fund which takes account of the time value of money (whereby paying £100 in 10 years’ time is less of a burden than paying £100 now). The annuity method also matches the repayment profile to how the benefits of the asset financed by borrowing are consumed over its useful life (i.e. the method reflects the fact that asset deterioration is slower in the early years of an asset and accelerates towards the latter years). This re-profiling of MRP therefore conforms to the DCLG “Meaning of Prudent Provision” which provide that “*debt [should be] repaid over a period that is reasonably commensurate with that which the capital expenditure provides benefits*”.

23. Subsequently, where an investment property is operational and has been valued at sufficiently more than its net cost, as at each financial year end, at the discretion of the COO, no MRP will need to be set aside during that year. A key consideration of the COO will be if the property can be sold in an open market and that sale will potentially take place within a five-year period. Any MRP that has already been set aside for the investment property will be retained as a reserve against the property. For subsequent years a revaluation of the property will need to be completed. Where the asset is valued at less than its net cost, then MRP, net of any MRP already charged and based on the remaining life of the asset, will need to be set aside.

PFI, leases

24. In the case of finance leases, on balance sheet private finance initiative contracts or other credit arrangements, MRP shall be the sum that writes down the balance sheet liability. These are being written down over the PFI contract term.

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APPENDIX 5

Scheme of Delegation and Section 151 Officer Responsibilities

Treasury management scheme of delegation

(i) Full board/council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Boards/committees/council/responsible body

- approval of/amendments to the organisation’s adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Body/person(s) with responsibility for scrutiny

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

The treasury management role of the section 151 officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit; and
- recommending the appointment of external service providers.

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CABINET

17 February 2020

Title: Contract for Provision of SIA Security and Ancillary Services	
Report of the Cabinet Member for Enforcement and Community Safety	
Open Report	**For Decision**
Wards Affected: None	**Key Decision:** No
Report Author: Jonathan Woodhams, Police and ASB Manager, Enforcement and Community Safety	**Contact Details:** Tel: 020 8227 5597 E-mail: jonathan.woodhams@lbbd.gov.uk
Accountable Director: Andy Opie, Operational Director, Enforcement	
Accountable Strategic Leadership Director: Fiona Taylor, Director of Law and Governance	

Summary:

This report presents proposals to retender the Council's SIA Security and Ancillary Services contract.

The main security requirements include the following:

- Concierge officer guarding at corporate sites,
- Door supervisor security at hostels and any other adhoc assignments such as Events including democratic services.
- Customer service attendant security at public sites such as libraries, security at Council offices including Roycraft and Town Hall for YOS and children's services,
- Locking and unlocking of public sites including parks and cemeteries
- Dog handling where required including areas of regeneration where building are decommissioned and awaiting demolition, key holding for Council assets, schools and the Events team.
- Allowing access to electrical intake and lift access at Council owned housing blocks and other vacant sites.
- Mobile response officers to assist in the security of the borough 24 hours including lone worker back up to careline staff when they are responding to service user requests, and responding to intruder, fire and panic alarms at all Council buildings and schools. Where requested response officers will be tasked to attend Council sites and undertake CCTV downloads as directed by the CCTV Control room.
- Provision of CCTV public space and surveillance and monitoring service operators to add resilience to the Councils 24-hour CCTV control room.

The current contract expires in June 2020 and there are no options to extend. Therefore, it is proposed to use the Open procedure for this procurement in accordance with the Public Contracts Regulations 2015. The reason for this approach is to drive competition with a view to securing a value for money service provision and to also encourage bidders from within the Borough, which assists with the Council's Social Value outline.

Recommendation(s) The Cabinet is recommended to: (i) Agree that the Council proceeds with the procurement of a contract for SIA Security and Ancillary Services in accordance with the strategy set out in the report; and (ii) Delegate authority to the Operational Director of Enforcement, in consultation with the Cabinet Member for Enforcement and Community Safety, the Director of Law and Governance and the Chief Operating Officer, to conduct the procurement and award and enter into the contract(s) and all other necessary or ancillary agreements with the successful bidder including any period of extension.
Reason(s) The Council requires a contractor to deliver SIA security services across Barking and Dagenham to assist in the Council priority of a Well-Run Organisation and its Corporate Objective of reducing crime and fear and to reduce the risk of financial outlay due to prevention of damage to Council owned property either inhabited or void.

1. Introduction and Background

1.1 The current security contract which is delivered by Manpower expires 16 June 2020. The current security contract is managed and monitored by Enforcement Services. The processes in place to monitor and manage the current contract include monthly requests for service user feedback, random site checks, daily checks of officer’s paperwork, complaint tracking and monthly operational meetings to which service users are invited to discuss issues directly with the contractor contract monitoring issues. Furthermore, the service monitors the contractors’ compliance with Security Industry Authority licensing requirements, staff training and development, equalities and diversity, insurances and health and safety. It is proposed that although the contract may vary the way in which security is delivered that these monitoring processing will remain in place for the new contract.

1.2 All provisions to extend this contract have been exhausted.

1.3 There is a requirement to deliver a range of security services across Barking and Dagenham.

1.4 These requirements include but are not exhaustive of:

- Reduce the opportunity for theft and damage to Council Assets
- To provide reassurance to residents, staff and visitors to Barking and Dagenham
- Reduce the risk of financial outlay to the Council due to theft and damage
- Reduce the risk of reputational damage to the Council due to theft, damage and violent behaviour at Council Offices and assets.
- To provide security including locking and unlocking at Council sites such as parks and cemeteries.
- To provide key holding and allowing access to key areas at Council properties for the benefit of Council tenants

- To provide security for vulnerable Council residents at hostels and sheltered sites.
- To provide security of Council staff while dealing with complex cases at corporate sites such as YOS and Children's services.
- Events Security
- The current contract expires on 16 June 2020

2. Proposed Procurement Strategy

2.1 Outline specification of the works, goods or services being procured

2.1.1 The new contract will require SIA licensed personnel to be supplied at multiple sites which include:

- Concierge Offices
- Hostels
- Barking Learning Centre
- Dagenham Library
- Housing Advice Centre
- Schools
- Roycraft House joint YOS and children's services reception
- Roycraft House main staff reception
- London Road multi story Car park
- Various short-term security requirements such as event security, at building sites and vacant properties.

2.1.2 The contractor will also supply a 24 hour a day, 365 days a year mobile security response service which will provide varied security duties as required by the Council. These duties will include:

- Response to intruder and fire alarms at over 150 sites across the borough including schools, libraries, children's centers and pavilions
- Park and Cemetery locking and unlocking
- Health and safety checks on vacant Council buildings and land
- Out of hours emergency lift and plant access for engineers
- Incident response support for security personnel at regular sites
- Assist in dealing with Anti-Social Behaviour across the borough including acting as professional witnesses to assist the Council in gathering evidence where required

2.2 Estimated Contract Value, including the value of any uplift or extension period

2.2.1 The contract value is estimated at £1.5m per annum. The total contract sum including any periods of extension is estimated to be £7.5m over 5 years.

2.2.2 The current security contract total for the last 4 years and 7 months is £6,807,569.72. By the end of the contract in June 2020 it is estimated that costs would exceed £7m, which would equate to approx. £1.4m per annum. When payments to a secondary security company to bolster security at certain sites since February 2019 of £75,000 is taken into account, this highlights the increase in the use and demand for this service. It further demonstrates the estimate value of the security contract being £1.5m per annum.

The current security Administration Charge total for the last 4 years and 7 months is £1,012.774.35. This is the management administration fee which is charged at £1.50 per hour per officer including the mobile response officer and is in addition to the below figures.

Dates	Hours	Totals
2019-20	91765	£1,065,329.55
2018-19	121,090.25	£1,361,626.04
2017-18	109,920.00	£1,199,632.14
2016-17	100,212.50,	£1,021,180.48
2015-16	112,254.65	£1,147,027.16
	897,632	**£6,807,569.72**

2.3 **Duration of the contract, including any options for extension**

2.3.1 The proposed duration is 3 years plus the option of 2 1-year extensions depending on performance and key performance indicators.

2.4 **Is the contract subject to (a) the (EU) Public Contracts Regulations 2015 or (b) Concession Contracts Regulations 2016? If Yes to (a) and contract is for services, are the services for social, health, education or other services subject to the Light Touch Regime?**

2.4.1 Yes, the contract is subject to (EU) Public Contracts Regulations 2015

2.5 **Recommended procurement procedure and reasons for the recommendation**

2.5.1 It is proposed to use the Open procedure for this procurement in accordance with the Public Contracts Regulations 2015. The reason for this approach is to drive competition with a view to achieving a value for money service provision, but to also allow bidders from within the Borough, which assists with the Council's Social Value outline. The opportunity will be advertised on the Council website, OJEU, Contracts Finder and an advertisement placed in local papers

2.6 **The contract delivery methodology and documentation to be adopted**

2.6.1 The Councils standard terms and conditions for services will be used with this procurement

2.7 **Outcomes, savings and efficiencies expected as a consequence of awarding the proposed contract**

2.7.1 The main outcomes are as follows:

- Fixed costs/ fixed hourly rates for the duration of the contract to enable effective budgeting.

- We commission this service via the contract which is supported by our partners such as My Place and Community Solutions.

- Existing agreements in place are to supply security to hostels, libraries, corporate sites and YOS with agreed SLAs.

- Security service is recharged to recoup all costs and we charge a further £1.50 per hour to cover administration costs. Therefore, there is no extra finance needed from Council budgets and this also pays for the Security Contract Administrator role.

- Work that is over and above the commissioned value is charged for at a pre agreed rate.

- To ensure suitably qualified staff are deployed at all times in varying locations and capacities.

2.8 **Criteria against which the tenderers are to be selected and contract is to be awarded**

2.8.1 The proposed evaluation criteria would be 60% Quality and 40% Price; Given the nature of the contract providing security to protect Staff, service users and residents we feel that quality should be more favourable than price.

2.8.2 During the lifetime of the current contract we have had numerous incidents including youth violence and assaults on staff which has highlighted the need for increased skills and experience to deal with these serious incidents. This has meant we have had to use another security company at a higher cost to be able to effectively ensure the security of staff and residents at key locations such as Barking Learning Centre and Dagenham Heathway library following serious incidents of youth violence and violent behaviour towards our staff.

2.8.3 The feedback we have received from our commissioning partners is that the skill set, and experience of any supplied security staff needs to be more comprehensive to be able to prevent issues particularly where violence is involved.

2.8.4 This is not to say that there has not been a good service overall but that the demand at the sites dealing with more complex service users is for officers with a more varied and increased skill set, training and experience to deal with escalating incidents that could lead to violence against vulnerable service users and staff.

2.8.5 We have a duty of care to ensure that staff, residents and service users feel safe, have confidence in the security we provide and feel comfortable working at Council sites and accessing our services; this is why we feel it is imperative to be able to challenge and review other elements of the provider that may not be evident on cost basis alone.

2.9 **How the procurement will address and implement the Council's Social Value policies**

2.9.1 This will contribute to the Council's Public Services (Social Value) Act 2012 by improving and maintaining the safety of residents, visitors and staff through the protection of and detection of crime; working closely with our surveillance team and control room to be a rapid response to intruder, fire and criminal damage reports and alarms. Following reports of anti-social behaviour the contracted service would assist the Council in assessing any public spaces/ Council asset where anti-social behaviour is occurring and act as professional witnesses where anti-social behaviour/ crime is reported. This partnership working will enable the Council to take the correct stringent legal action against any perpetrators of anti-social behaviour.

2.9.2 Further to this it will also be part of the contract that the successful company agrees to attend job fairs and local job shops providing assistance for job seekers by supplying interviewing practice, CV advice, job application assistance and will be encouraged to source any new staff from the local area. The successful company will also be expected to visit local schools promoting careers in the security industry with relevant advice and look to take on apprentices from the local area. There is also scope for the successful supplier to sponsor local events.

2.10 **Contract Management methodology to be adopted**

2.10.1 It is proposed to meet with the supplier bi-weekly through implementation, with a view to moving to monthly for the duration of the contract. There will be Key Performance Indicators to monitor performance such as attendance times, frequency of patrols, times gates are locked/ unlocked, and times taken to respond. We will also be sending out customer feedback to our commissioning partners on a monthly basis to further monitor performance and customer satisfaction. There will be agreed penalties for failure to deliver a satisfactory service.

3. Options Appraisal

3.1 The following options have been considered and rejected:

- Do Nothing: this option has been rejected as to do nothing would contravene EU and UK Legislation, and would also be non-compliant with the Councils Contract Rules
- Open Framework, this option has been rejected, at the time of this report it was not clear if a framework could provide the wide-ranging service requirements of the Council, they could in part through the ESPO framework number 347 – Security Services

4. Waiver

4.1 Not Applicable

5. Consultation

5.1 All service users to be consulted on their future security requirements, working group is in the process of being arranged.

5.2 The proposals in this report were considered and endorsed by the Procurement Board on 16 December 2019.

6. Corporate Procurement

Implications completed by: Euan Beales, Head of Procurement

6.1 The proposed route to market is the open process, which satisfies the requirements as set out in the Councils Contract Rules and under PSR 2015.

6.2 It is noted that the scope of the services has been widened to include Events Security. This should drive additional volumes and enable a value for money service to be procured.

6.3 Based on the detail contained within this report, the process and criteria are acceptable.

7. Financial Implications

Implications completed by: Sandra Pillinger Group Accountant

7.1 Cabinet is requested to re-procure the Security and Ancillary Services contract with an intended start date of June 2020. The estimated contract value is £1.5m pa for 5 years. The evaluation criteria will be weighted 60% Quality, and 40% Price.

7.2 The contract will be managed by the Enforcement and Community Safety service and will be funded through internal recharges to those council services who commission security services. This recharging process is currently in operation for the current provider – Manpower. An administration fee will be applicable. The budget for this contract is devolved across the Council and will be provided by those services who commission security services.

8. Legal Implications

Implications completed by: Kayleigh Eaton, Senior Contracts and Procurement Solicitor, Law & Governance

8.1 This report is seeking approval to procure a contract for Security Industry Authority (SIA) and Ancillary Services from 17th June 2020 at the multiple sites listed in 2.1 of this report by way of the open process under the Public Contracts Regulations 2015.

8.2 This report states that the maximum total value of the procurement over the contract period will be £7.5m, including the periods of extension, which is in excess of the EU threshold for services. As the contract value exceeds the relevant EU threshold there is a legal requirement to competitively tender the contract in the Official Journal of the European Union (OJEU). The proposed procurement route set out in this report satisfies this requirement.

8.3 Contract Rule 28.8 of the Council's Contract Rules requires that all procurements of contracts above £500,000 must be submitted to Cabinet for approval and in line with Contract Rule 50.15, Cabinet can indicate whether it is content for the Chief Officer to award the contract following the procurement process with the approval of Corporate Finance.

8.4 As the value of the Contract exceeds £100,000, in line with rule 52.2 of the Contract Rules, the Contract will require sealing. Legal Services will be on hand to assist with any queries which may arise throughout the procurement process.

9. Other Implications

9.1 **Risk and Risk Management -** If the contract tender is not approved, it will be necessary to make alternative arrangements for sites with identified security needs by the completion of the current contract in June 2020. If the alternative arrangements involve the direct employment of staff the cost of the provision is likely to be substantially higher due to the Council's employment terms and conditions and the need to provide specific equipment such as vehicles to undertake duties and Personal Protective Equipment for staff, which is all currently provided by the contractor.

The service that is most likely to require continuous provision due to the varied duties undertaken, including locking and unlocking parks and Council offices and depot and responding to intruder and panic alarms, is the Mobile Security Response Service. To provide this service by directly employed staff and ensure resilience to incorporate annual leave and possible sickness, including onboard costs and all associated equipment would be approximately double the cost of a contracted service.

Without security services we would not be able to mitigate the risk of theft and criminal damage and ensure vulnerable adults and children safe access to our services.

9.2 **TUPE, other staffing and trade union implications**

The current provider supplies regular security personnel to sites. These sites may be considered their primary place of work. Therefore, contractor to contractor TUPE may apply. To ensure compliance with all employment law checks will be undertaken as part of the tender process and the same contractor monitoring processes will be applied to the successful tendered to ensure compliance with all relevant legislation continues.

We have discussed this with our current provider, and they have identified 35 members of staff who could be TUPE'd, we have forwarded the relevant paperwork for them to complete and return.

9.3 **Corporate Policy and Equality Impact –**

The provision of services via this contract would support many visions and priorities detailed in our corporate plan:

- **A new kind of council:** Will assist to build a well-run organization ensuring relentless reliability in the provision of security across all services.

- **Empowering People:** Security staff are provided to assist our most vulnerable residents in building such as hostels and the Youth Offending Service to help them feel safe, in addition they are there to provide protection to all staff, residents and other service users.

- **Inclusive Growth**: Providing a robust security provision for new and existing developments within LBBD, helping to address and eradicating where possible antisocial behaviour and crime to encourage inclusive growth. In addition, we are inviting as many local companies as possible to tender and are keen to put an emphasis for local companies within the tender process. By using local companies, we will further increase inclusive growth within LBBD helping to improve revenue to the local area and increase on the amount of local jobs available for local people.

- **Equality Impact:** The service specification, once detailed, will be subject to a full Equalities Impact Assessment (EIA). It is believed that no specific equalities group will be adversely affected by the delivery of the security contract. The service currently delivers security to a range of Council-run and public buildings and open spaces. Residents and service users feel more vulnerable and value the services of a security officer. Low level crime and disorder, which are often issues a contractor would deal with, are often perceived to be perpetrated by young people and it may be that, in delivering such a service, targeted enforcement action is directed at that group. Security is in place so that all our residents can access our services, diversity matters.

9.4 **Safeguarding Adults and Children –** This contract would assist the Council in ensuring the safety and wellbeing of children and vulnerable adults engaging with our services such as YOS and Children's Services by acting as security at Council offices and meetings engaging children and vulnerable adults. Further to this it will enable the Council to ensure security of children and vulnerable adults residing in Council provided accommodation such as hostels and sheltered sites.

9.5 **Health Issues –** Feeling safe brings a sense of wellbeing and ensures that residents, staff and service users use public space, enjoy their homes and feel supported in their place of work. Provision of security ensures that vandalism and the lack of physical guardianship does not adversely impact on that sense of wellbeing.

9.6 **Crime and Disorder Issues –** The providers of this contract will work with Enforcement, Community Safety and police to assist in delivering community cohesion, community safety and the detection and prevention of crime. This will be done by providing security at events, corporate sites and assisting in assessing public spaces following reports of anti-social behaviour. Further to this acting as professional witnesses to help the Council gather relevant evidence to be used at court to obtain legal orders such as injunctions and Community Protection Notices. This also helps us to deliver our community safety strategy.

9.7 **Property / Asset Issues -** The contractor will work with the Council to patrol and provide security and access at corporate sites and Council properties to deter and prevent criminal damage, fire, intruder and theft.

Public Background Papers Used in the Preparation of the Report: None

List of appendices: None

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CABINET

17 February 2020

Title: Contract for Provision of Temporary / Interim Staff and Ancillary Services	
Report of the Cabinet Member for Finance, Performance and Core Services	
Open Report	**For Decision**
Wards Affected: None	**Key Decision:** No
Report Author: Paula Woodward, Client Officer	**Contact Details:** Tel: 020 8227 3278 E-mail: paula.woodward@lbbd.gov.uk
Accountable Director: Hilary Morris, Commercial Director	
Accountable Strategic Leadership Director: Claire Symonds, Chief Operating Officer	

Summary:

This paper outlines the options available to the Council to procure the provision of temporary / interim staff and ancillary services.

The report sets out a recommendation to utilise the MSTAR3 (Managed Services for Temporary Agency Resources) framework which has been procured by the Eastern Shires Purchasing Organisation (ESPO). The preference is a" Managed Service Provider" (MSP) model - a solution where a single company manages the temporary worker recruitment for an organisation and is responsible for the end-to-end management of the contingent workforce – from supplier management to strategic workforce planning.

To ensure value for money is achieved, a Pan London working group has conducted a further competition which has leveraged the market and has tightened the terms and conditions on which the 'MSP' service will be provided and the outcome is that Adecco UK has been successful and will be the preferred provider for the Council under Lot 1b of the MSTAR3 framework. The Council had two representatives on the evaluation panel. The further competition was competed on a quality and cost basis (e-auction).

Recommendation(s)

Cabinet is recommended to:

(i) Approve the re-procurement and award of contract for the provision of temporary / interim staff and ancillary services, through the ESPO framework (Mstar3) Lot 1b – Managed Service Provider, to Adecco UK in accordance with the strategy set out in the report; and

(ii) Delegate authority to the Chief Operating Officer, in consultation with the Cabinet Member for Finance, Performance and Core Services and the Director of Law and Governance, to award and enter into the contract and all other necessary or ancillary agreements including the period of extension.

Reason(s)
To assist the Council to achieve its Priority objective of a well-run organisation.

1. Introduction and Background

1.1 In February 2016, the Cabinet approved a decision to commence the procurement of a contract for the provision of temporary staff; this was to be conducted through the ESPO framework, more commonly known as Mstar2.

1.2 The tender was a collaboration across London Local Authorities and other Public Sector Bodies, this was led by One Source (LB of Newham and LB of Havering), who also conducted the e-auction. The e-auction combined with the quality aspect enables a preferred bidder to be awarded. The e-auction was the process that enabled the margins providers were to secure against spend to be set for the duration of the contractual term and the period of extension.

1.3 Adecco was the successful bidder and was awarded as the Managed Service Provider (MSP) for any Council on a Pan London basis that required a fully managed service. This was the agreed route to market for the Council and Adecco is therefore the Council's incumbent supplier.

1.4 The initial contract term commenced on the 16th July 2016 for a term of 3 years expiring on the 16th July 2019. There was an option to extend for period of 12 months and this option was taken following approval by the Procurement Board. The contract expiry will now be on the 16th July 2020.

1.5 The contract margins (cost charged by the provider to cover its operational costs and profit element) were set across a variety of main categories, set out in the table below.

Admin & Clerical	Catering / Hospitality	Chief Executive's Service	Commercial
Corporate Governance	Children's Service	Customer Services/Call Centre	Domiciliary Care
Driving	Engineering & Surveying	Environment & Operations	Environmental Services
Facilities Management & Building Services	Financial	General Industrial	Healthcare - Qualified
Healthcare - Unqualified	Housing	Human Resources	Information Systems
Legal	Leisure	Marketing	Parking
Policy, Performance and Review	Procurement/Logistics/Supply Chain	Revenues & Benefits	Social and Health Care Services

1.6 In previous contractual arrangements for Temporary Labour in order to establish a true saving upon commencement of the contract, and to ensure the savings were recognised centrally, it was agreed that a percentage on-cost would be applied to the margin, which would then be calculated per hour per candidate and then paid back to the Council on a weekly basis. This is in the process of being reviewed for the new MSP contract and any outcome will be applied prior to the contract being implemented

1.7 One Source (Newham and Havering) have continued to lead the pan London steering group for the current procurement where the Council was represented by two staff members.

2. Proposed Procurement Strategy

2.1 Outline specification of the works, goods or services being procured.

The service specification will be consistent with the specification outlined in the contract for 1st and 2nd generation service provision and will include the following main features:

Summary of Current Requirements

One stop shop for Temporary Staff	2nd Tier Agency Management
On line portal	Consolidated weekly Billing
Manage recruitment process from registration to placement	Single point of contact for the Council
Mange approved supply chain list	Onsite presence (Adecco consultant)
Conduct regular Audit of 2nd Tier Agencies	Out of Hours contact point (Public Realm as a priority)
Day one compliance	Report templates and bespoke reporting
Assist the Council with IR35 compliance	Talent Pool Technology within the MSP's service wrap (optional)

<u>One Stop Shop for Temporary Staff</u>
The provider will be a single Organisation (MSP) who will have a senior consultant on-site within LBBD to manage its own pool of direct staff and a 2nd Tier of quality agencies to provide specialist staff. They will meet the Councils diverse requirements in terms of person specification, job type, location and overall cost (basic wage, margin, savings rebate, Agency Welfare Reform costs (AWR), NI, Tax etc) as well as an out of hours and public holiday provision to ensure labour shortages are managed. This provider will manage the full lifecycle of the candidate from attraction, ensuring they are registered giving full and correct details and evidence (work history or proof of eligibility to work etc) and to also conduct face to face meetings to enable the MSP to review if the candidate is suitable for the Councils working environment and provide consolidated weekly billing. The MSP must be able to generate a set of standard reports and also have the flexibility to produce bespoke reports from the on-line recruitment system. This will enable the Council to monitor and track a wide spectrum of information to reduce the dependency on agency staff.

2nd Tier Agency Management

The MSP will need to attract and maintain a high level of quality 2nd Tier agencies with a broad network of high calibre candidates particularly for historically hard to recruit to positions, such as Class 2 Drivers, Motor industry fitters, senior social care workers and project management roles etc. This would be through a preferred and established supply chain which is regularly audited for compliancy with UK legislations and industry best practise.

Day One Compliance

The audit and compliance requirements for on-boarding and fulfilling positions will mirror the internal compliance policy to various levels of vetting applied according to the role. All agency staff will have undergone the vetting process and be fully compliant on day one. The framework allows local variations to the contract, so prior to awarding the Council contract, key personnel will be consulted in devising the audit process for agency staff and any circumstances where temporary waivers might or might not be possible in order to allow immediate start (following a risk assessment and approval by the hiring manager).

Online Portal

The MSP provide an online portal allowing hiring Managers to upload their requirements and which will act as an information tool with the capability to track assignments once in post including all end dates, extension periods, changes in pay rates etc.

2.2 **Estimated Contract Value, including the value of any uplift or extension period.**

Initial 2-year term @ £17m per annum = £34m

Further 1-year extension period @ £17m

Total 3-year term = £51m

2.3 **Duration of the contract, including any options for extension.**

Initial term of 2 years. There will be an option to extend the contract by a further period of 1 year, this would be subject to satisfactory performance and agreement by both parties.

2.4 **Is the contract subject to the (EU) Public Contracts Regulations 2015?**

Yes, Services

2.5 **Recommended procurement procedure and reasons for the recommendation.**

The proposed route to market is through the Mstar3 framework, which was originally procured by ESPO.

Currently there are 10 active Local Authorities that have committed to using the Mstar3 Pan London Collaborative, which has a consolidated annual spend of £251m through 6.3m hours of work provided. There is currently a further 15

Local Authorities reviewing its delivery model and are looking to secure services via this operating model; this would add a further £270m per annum across the Lots 1a or 1b through 8.9m hours of staff provision.

The further competition was led by One Source, who also conducted the e-auction, below is a summary to support the recommended outcome and route to market.

Bidder	Price Score Fixed (27%)	Price Score e-auction (33%)	Non Price Score (Quality) (40%)	Total Score (100%)
Adecco	15.274%	25.766%	32.000%	73.040%
Bidder B	8.319%	26.539%	29.112%	63.970%
Bidder C	13.579%	33.000%	26.272%	72.851%
Bidder D	17.554%	24.184%	24.568%	66.306%

2.6 **The contract delivery methodology to be adopted.**

The Terms and Conditions to be used for this service will be formed from;

- Overarching Header Terms (ESPO Framework terms)
- Call Off Order, which mirrors the requirements as set out in the Header Terms, which also allow for Local Variation, as long as the variation does not amend the original terms.

In the event that there is conflict in the terms, consultation with ESPO will be required and a variation will need to be agreed.

Both the Framework Terms and the Call Off Contract will be reviewed by the Councils Legal Team prior to service commencement.

Contract Management of the service will be conducted by the Councils Contract Manager.

2.7 **Outcomes, savings and efficiencies expected as a consequence of awarding the proposed contract.**

The main outcome is to award the service to a single managing provider, which will drive efficiencies, enable tighter control through visibility of agency usage and spend.

There will be clearer hiring costs for the temporary staff member, which will enable a clear view and any risk to budget.

The savings attributed to this procurement cannot be accurately calculated as the use of temporary labour fluctuates however the MSP margin (the profit the provider makes for each fulfilment) is generated by applying a fixed fee to the hourly charge rate of each Agency Worker which is inclusive of all costs associated with providing the MSP Services.

The range of margins which will be charged to the Council are between £0.48 per hour and £4.27 per hour dependent of the skill set of the roles which were supplied directly by Adecco which is lower than the previous agreement. If a specific agency had been identified by the Council as a sole supply source, where possible they were on-boarded into the overarching contract on margins agreed as a one off for that agency.

The range of margins for staff provided through the 2nd Tier supply chain ranged from £0.53 to £4.32 per Hour, this includes the Adecco management. Whilst the margins are higher than the previous contract this is due to additional categories of labour being added and won't necessarily increase our total annual cost. 2nd Tier supply chain is only used when Adecco did not directly fill the role.

These fees are fixed for all Customers within the London Collaboration based on the estimated volume's being procured across the different categories of staff. Based on the previous model the new contract will deliver circa £16k per annum. When reviewed against the uncertainty of Brexit at time of the procurement, this represents value for money.

By having a dedicated contract team, the Council has the opportunity to communicate directly with the provider, which enables our needs to be better understood, reducing the amount of time being spent sifting and reviewing CV's that do not quite match the needs of the hiring manager.

The IT portal will produce efficiency savings as the Hiring Managers and Contract Managers can generate their own dashboards to show information that is relevant to them, with the Contract Manager having a wider view, which can flag discussions to reduce cost. The introduction of Talent Pool Technology if pursued at a later stage will need to be thoroughly assessed and over a longer period of time will assist in re-shaping how the Council conducts its temporary and permanent recruitment.

2.8 **Criteria against which the tenderers are to be selected and contract is to be awarded**

The evaluation criteria as detailed in the ESPO framework terms and conditions for further competition are as follows;

Lot 1b – Managed Service Provider (MSP)
60% Price – split between 27% fixed price score and 33% e-auction score
40% Technical (Quality)

2.9 **TUPE, other staffing and trade union implications.**

There are no TUPE implications in this proposal

2.10 **How will the procurement address and implement the Council's Social Value policies?**

As part of the Adecco submission under the further competition they have stated the following in terms of Social Value;

Making the Future Work for Everyone – The Adecco Social Value Framework

During implementation, Adecco will have a workstream dedicated to the creation of a Social Value Framework. This Framework will be developed in alignment with the strategic objectives of Collaboration customers, such as:

- Reducing Unemployment: In London a quarter of all unemployed people have been out of work for more than year, above pre-recession levels. The longer a resident is out of employment, the harder it is to get back into work and giving the opportunity to learn new skills or engage previously inaccessible programmes may address this. In addition, London has one the highest rate of youth unemployment in the country at 15.5 per cent and our approach can be tailored across Borough's to address specific populations
- Local Jobs for Local People: Promoting opportunities within the local communities, creating career pathways for local residents within local employers delivering a number of benefits to the local community, economy and the environment
- Improving the skills and prospects of residents: 58% of London residents living in poverty live in a working household. We believe we have a duty to provide as many people as possible with the chance to learn new skills to enhance current and future employment prospects and wages. This will also help address skills shortages in key industries. In addition, as part of the flexibility of local arrangements with the contract, the Council's Contract Manager will be able to specify the Councils directive, and after consultation this area of service/impact will be tailored to meet and exceed the local requirements

3. Options Appraisal

3.1 The Council has 3 main options contained within the MSTAR 3 Framework in terms of service delivery models, which are:

Option 1 - Neutral Vendor (Lot 1a) – This Option has been Rejected
A neutral vendor approach is where the Council contracts with a single managing agent, who manages a host of Tier 1 and Tier 2 agencies to provide the required candidates but who does not have their own pool of staff. Whilst this can deliver savings (as the neutral vendor has less overheads) these would be off-set by additional HR and management activity within LBBD. The recruitment and fulfilment process is also more complex with different agencies being utilised which can lead to staff costs being different for the same role and which makes budget and forecasting for temporary role difficult to budget for

Option 2: Managed Service Provider (MSP), (Lot 1b) – *This is the recommended Option*
A Master Vendor approach is the current service delivery model used by the Council, and is where the Council contracts with one single agency who will aim to provide all the required staff through their own network of internal talent and where required manage a 2nd Tier supply chain to provide the specialist staff at the same agreed margins that are in place with the Master Vendor. In exceptional circumstances special margins may be agreed in order to secure staffing levels to mitigate any operational risk.

The master Vendor is responsible for the end to end supply chain from search and selection to audit and payment of the staff; this includes hosting an online management and reporting e-tool.

The MSP Model allows for flexibility within the supplier to increase scope of delivery staff due to the size of the organisation, and can react quickly to the changing needs within the Council, and can also react to any service deficiency in a timely manner.

This has been the most beneficial approach to date in terms of fill rates, compliance and value for money based on the agreed margins.

As the MSP model is the existing one, the implementation timeline is approximately 5 weeks against a full implementation of up to 16 weeks for the neutral vendor. This reduces the risk to the Council of supply slippage.

Option 3: Talent Pool (Lot 3) – This option is rejected
The procurement of Lot 3 is still on-going but it might be an option considered beneficial to the council in the future to compliment the Master Vendor service.

3.2 The recommendation was that the Council joins the Pan London Collaboration under the MSTAR 3 Framework as economies of scale should yield financial benefits. It should be noted that the margins achieved within MSTAR2 were very competitive and there is no guarantee that the Council will able to be achieve same margin levels, particularly with the supply of Social Workers fluctuating and margins being pushed higher as the quality candidates are becoming less available.

4. Waiver

4.1 Not Applicable

5 Equalities and other Customer Impact

5.1 Due to the nature of the contract, the Service Provider will be required to align to the Council's policies. A local presence that's easily accessible to residents will ensure that the quality of service to all our staff and residents is easier to control and monitor.

6. Other implications

6.1 **Risk and Risk Management -** Contract Management function already in place. Will continue to ensure Service Provider and suppliers on supply chain are maintaining required standards through 'day one' audit compliance.

Regular Contract Management Meetings will be undertaken for performance monitoring and management. Initially, for the first 6 months post implementation performance monitoring meetings will take place monthly and past this milestone, quarterly contract monitoring meetings will be arranged. Independent Audit reviews will also be scheduled on quarterly basis.

Management Information to be provided to Council Officers on regular bases with details on Contract KPIs and other required Management Information.

6.2 **Property / Asset Issues -** The council will be required to provide support in circumstances where events are being organised to attract residents into the service provider's talent pool and to enable residents to access work or return to work. private meeting space may also be required at times in the event that the meeting is of a personal nature (example- sign up candidates for talent pool database and interviews).

7. Consultation

7.1 The proposals in this report have been considered and endorsed by the Procurement Board.

8. Corporate Procurement

Implications completed by: Euan Beales, Head of Procurement and Accounts Payable

8.1 The recommended option outlined in the report is a Pan London Collaboration, whose requirements have been procured through a further competition of the ESPO Framework named Mstar 3.

8.2 The proposal is to evaluate the responses for Lot 1b the "managed service provider" element, with a view to awarding to the provider who provided the best bid in terms of quality and price.

8.3 The use of the Mstar3 Framework satisfies EU Legislation and the use of the further competition complies with the Council's need to ensure a full process is conducted.

8.4 Based on the review and in conjunction with discussion with ESPO through the market, the recommendation to award to Adecco and to use the Managed Service Provider operating model makes sound commercial sense and mitigates risks to the Council during a period of continued change.

8.5 The use of the volumes contained in the Pan London Collaboration compared to the size of the Council as a stand-alone will deliver economies of scale and represent value for money.

9. Financial Implications

Implications completed by: Sandra Pillinger Group Accountant

9.1 The estimated contract value is quoted at £17m pa which equates to £51m over the 3-year extended term. This figure is based on gross historic expenditure before the rebate. The rebate has averaged £2.6m pa over the last three years. It is not clear whether a rebate system will operate under the new contract.

9.2 Expenditure under the contract will be charged to individual services' budgets depending on their usage of agency staff. There are generally no budgets for agency expenditure, as services are expected to manage the cost of agency staff from vacancy savings on salaries budgets.

10. Legal Implications

Implications completed by: Kayleigh Eaton, Senior Contracts and Procurement Solicitor

10.1 This report is seeking approval to call-off the MSTAR3 framework set up by the Eastern Shires Purchasing Organisation (ESPO) for the provision of Temporary Agency/Interim Staff and Ancillary Services. The report advises at section 2.5 that the Pan London Collaboration has conducted a further competition to award to a preferred provider for Lot 1B, the Managed Service Provider service provision, which the Council intends to make use of. The identified provider following this mini competition is Adecco UK. The report sets out that joining the pan London approach will achieve economies of scale.

10.2 The requirements for competitive tendering, as contained within the Council's Contracts Rules, are met as Rule 5.1 (a) advises that it is not necessary for officers to embark upon a separate procurement exercise when using a Framework Agreement providing the Framework being used has been properly procured in accordance with the law and the call-off is made in line with the Framework terms and conditions. The Public Contracts Regulations 2015 also permits contracting authorities to call-off valid frameworks in order to procure goods, services or works, as required.

10.3 The use of the ESPO Framework will satisfy the above requirements as the Council is permitted to call off from the framework, which has been set up following a compliant OJEU process for all local authorities in the country and commenced on 11 April 2019 for a period of 2 years with the option to extend for a further 2 years.

10.4 Section 2.8 of this report states that the evaluation criteria for the mini competition was 60% price (broken down into 27% fixed price score and 33% e-auction price) and 40% quality.

10.5 In line with Contract Rule 50.15, Cabinet can indicate whether it is content for the Chief Officer to award the contracts following the procurement process.

10.6 As the value of the Contract exceeds £100,000, in line with rule 52.2 of the Contract Rules, the Contract will require sealing. Legal Services will be on hand to assist in any queries which may arise and also assist in the sealing of the Contract documents.

Public Background Papers Used in the Preparation of the Report: None

List of appendices: None

CABINET

17 February 2020

Title: Procurement of a Strategic Advisory Framework	
Report of the Cabinet Member for Finance, Performance and Core Services	
Open Report	**For Decision**
Wards Affected: None	**Key Decision:** No
Report Author: Hilary Morris, Commercial Director	**Contact Details:** Tel: 0208 227 3017 E-mail: hilary.morris@lbbd.gov.uk
Accountable Strategic Leadership Director: Claire Symonds, Chief Operating Officer	

Summary:

This report seeks approval for the procurement of a Strategic Advisory Framework, as it is considered to be the preferred method of securing strategic services over the next four years.

The Framework seeks to bring together the Council's recent requirements for specific technical and investment due diligence advisors for its commercial investments as well the provision of services currently delivered via Elevate which cannot be procured via that route post December 2020. A Framework would enable the Council to procure a wide range of services, broken down into service specific lots, which could be capable of being procured quickly and in a legally compliant manner via a mini-competition or a direct award.

Recommendation(s)

The Cabinet is recommended to:

(i) Approve the procurement of a Strategic Advisory Framework in accordance with the strategy set out in the report; and

(ii) Delegate authority to the Chief Operating Officer, in consultation with the Cabinet Member for Finance, Performance and Core Services and the Director of Law and Governance, to enter into the framework agreements, call off contracts and all other necessary or ancillary agreements with the successful bidder(s) plus any access agreements with participating authorities.

Reason(s)

To assist the Council in achieving its vision and priorities, particularly in respect of a "well run organisation". This framework will allow the Council to meet the changing face and operational nature of the Council post 2020 but specifically in relation to;

1) meeting the Council's need to secure Strategic Advisory services post the end of the Elevate Joint Venture in December 2020

2) meeting the Council’s requirements to secure strategic advisory, consultancy, property and asset management services as required to deliver the Council’s commercial aspirations in regard to investment opportunities.

1. Introduction and Background

1.1 This report is seeking approval for the procurement of a Strategic Advisory Framework as it is considered to be the preferred method of securing strategic services over the next four years. The Framework seeks to bring together the Council’s recent requirements for specific technical and investment due diligence advisors for it’s commercial investments as well the provision of services currently delivered via Elevate which cannot be procured via that route post December 2020.

1.2 A Framework would enable the Council to procure a wide range of services, broken down into service specific lots, which could be capable of being procured quickly and in a legally compliant manner via a mini-competition or a direct award. The Framework will be looking to secure the following high-level service blocks for the following reasons:

- **Services currently delivered via Elevate**

The Elevate East London LLP (Elevate) joint venture between the Council and Agilisys was formed on 10th December 2010 and at the same time the Council entered into a contract with Elevate for a range of services including ICT, Revenues and Benefits and Customer Services (B&D Direct), Procurement and Accounts Payable.

Although Elevate deliver the Council’s ICT service and Customer Contact Service not all elements are delivered by directly employed resources; some are contracted to specialist suppliers or procured through Agilisys.

In addition to the services provided directly under the Services Contract the Council were able to secure strategic advisory and ancillary services such as transformation resources (particularly used in delivering the A2020 programme), the IaaS consumption based ICT storage platform and several other ICT related services. The estimated cost per annum is circa £3m.

The ability to secure these services via a strategic partner has enabled the Council to secure resources when needed, scalable and chargeable under agreed rates (where applicable). This has ensured value for money, saved costs associated with scoping, procuring and mobilizing these disparate requirements as single stand-alone contracts and although it is not envisaged that the Council will require the level of transformation resources required over the last four years the Council will need to have a compliant route to market to secure these on an ad hoc basis as well as the other services currently sourced via the Joint Venture before the end of the contract in December 2020.

- **Investment Advisors**

In addition to these requirements, the Council has, via its Investment and Acquisition Strategy, sought to leverage its significant borrowing capacity and covenant to secure innovative revenue generating investment and development opportunities. These transactions are often required to be completed within tight timelines but require quite resource heavy technical and specialist due diligence work which due to the variable nature of these transactions is not best secured by procuring a single provider.

The Council has spent c£300k on Investment Advisors and due diligence support during the recent two investments and therefore the ability to direct award or secure the required services by a mini competition of pre-procured specialists from a variety of investment backgrounds is the best way of meeting the Council's needs in a timely and legally compliant manner.

2. Proposed Procurement Strategy

2.1 Outline specification of the works, goods or services being procured.

An indicative overview of the proposed lots is shown within Appendix A however there may be additions or amendments to the lots as shown following further stakeholder discussions. Any increase in scope may impact on the total value of the framework and will be adjusted to ensure the requirements can be purchased within the overarching advertised cost envelope.

2.2 Estimated Contract Value, including the value of any uplift or extension period.

There is no specific commitment to spend in setting up the Framework. Any call-off of services from the Framework by LBBD would be subject to the Council's Constitution which would require the specific contract to be approved via a Procurement Strategy Report approved by the relevant approver in line with the values set out in the Contract Rules.

LBBD has however spent approximately £4.2m on these services in the 18/19 financial year. Therefore, the estimated spend for the Council over the term of the framework is estimated to be approximately £16.8m.

It is anticipated that other organisations such as other Local Authorities or Public Bodies may be interested in calling-off services and therefore the Framework will be procured with a value of £40m. In such an event additional resources may be required to manage enquiries, clarifications and disputes arising however this would be recovered from the proposed levy to be applied to any contract accessed by organisations other than LBBD.

Please note the indicative total cost envelope outlined above may be subject to change before the final procurement is issued, this will be adjusted according to any additional requirements or anticipated call off from external Authorities.

2.3 **Duration of the contract, including any options for extension.**

No specific contractual commitment arises however the Framework will be set up for a duration of four years.

2.4 **Recommended procurement procedure and reasons for the recommendation.**

The Open process will allow for an uncapped number of providers to submit tender responses, which will ensure local and SME providers will be able to view and bid for the Lots and will also allow for consortium bids as well as single larger multi-faceted providers.

An open process should encourage competition and therefore secure better value across the range of services offered on the Framework

The tender will be formally advertised on:

1.- Contracts Finder
2.- TED (Tenders Daily Europe), or the UK equivalent after completion of BREXIT
3.- Council website
4.- Bravo Solutions website (e-portal)

2.5 **The contract delivery methodology and documentation to be adopted.**

To be agreed at point of drafting the ITT and for each individual call off.

2.6 **Outcomes, savings and efficiencies expected as a consequence of awarding the proposed contract.**

Procuring the Framework as outlined will provide the Council with a timely and compliant route to market for a variety of services which will save costs in procuring, scoping and mobilising these as individual stand-alone contracts.

The Council intends to apply a levy of 0.5% to the spend serviced by any provider that conducts services through this framework to non-Barking and Dagenham service blocks in each annual period (contract annual period).

Each external Authority will be responsible for entering into its own contract, conducting contract management and remediation at a local level, unless there is a need to escalate as a breach of framework, when the Council would then support.

2.7 **Criteria against which the tenderers are to be selected and contract is to be awarded**

To be awarded onto the framework the recommended criteria is:
60% Quality and 40% Cost

The recommended criteria to a mini competition should be flexible based on risk/outline of requirements and as such is reflected in the ranges below:
80% to 20% Quality
80% to 20% Cost

The criteria for a direct award will be defined as part of the pre-procurement outline which will be contained in the tender documents.

2.8 **How the procurement will address and implement the Council's Social Value policies.**

The tender documents will include a requirement for each bidder to provide examples of how they will deliver additional social value to the borough from any award placed to them from the framework, although the specifics of deliverable social value will need to be agreed as part of the direct award process or via provided as a core requirement under the mini competition process.

3. Options Appraisal

3.1 **Do nothing (rejected)**

A number of these services are required for the effective delivery of front-line Customer Contact and ICT services as well as transformation services and will not be available via the existing supplier post the end of the Joint Venture contract in December 2020. As a result, doing nothing is not an open. The Council will need to procure these in another manner if these are not pre-procured via this framework agreement.

3.2 **Source all requirements as stand-alone contracts (rejected)**

The Council requires the ability to procure these services in a financially efficient, timely and compliant manner. Procuring each service as a stand alone contract will increase procurement costs and require greater levels of resources in a critical transformation year. Procuring these as single stand-alone contracts is not considered a financially or operational efficient way of procuring the required services.

3.3 **Source all requirements from existing external frameworks (rejected)**

Consideration was given to procuring these services via a mini competition or direct award from an/other existing framework/s however this would still mean the Council would need to source a suitable framework for each service. Such a search would need to ensure the framework had acceptable terms and call-off arrangements as well the required specification and range of suppliers required by the Council and would mean the Council could only procure the services in compliance with the terms and specifications of the framework being chosen. Whilst this is an acceptable option it is not considered a financially or operationally efficient way of procuring the required services.

3.4 **Procurement of a Strategic Advisory Framework (preferred)**

Although options 3.2 and 3.3 would enable the Council to procure the required services, procuring our own Strategic Advisory Framework is considered the best option for the following reasons;

- Procuring our own Framework enables the Council to set its own framework terms and conditions

- Procuring our own framework means the Council is able to procure suppliers against its own specifications, ensuring all future contracts secured through the framework meet our individual requirements.

- The requirements of some aspects of the proposed framework such as the investment advisor are variable and likely will be required at short notice. Securing a single contractor on a call-off basis will not provide the range of expertise that would be available to us by having multiple suppliers on a pre-procured framework

- Procuring our own framework means we can advertise this to other organisations who may wish to call-off services from it. Any such access/call-off would be subject to a levy thereby potentially off-setting some of the set-up and management costs.

4. Waiver

4.1 Not applicable

5 Equalities and other Customer Impact

5.1 There is no impact on equality or external customers.

6. Consultation

6.1 The proposals in this report were considered and endorsed by the Procurement Board on 20 January 2020.

7. Corporate Procurement

Implications completed by: Euan Beales, Head of Procurement

7.1 The Councils Contract Rules require any spend of £50k to be formally tendered, the recommendations in this paper will be for the Council to set up it own strategic advisory framework, which will be procured in the open market. This route to market complies with the Councils Contract Rules and at the time of this report EU Legislation.

7.2 The evaluation criteria to be awarded onto the framework is proposed at 60% Quality and 40% Cost, this should ensure the providers who are accepted onto the framework can satisfy the Councils Quality requirements. The mini competition ratios will fluctuate between 80% to 20% Quality and 80% to 20% Cost, this can be flexed based on the risk profile of the project requirements. Both sets of criteria are acceptable for this type of procurement and process.

7.3 It has been noted that there maybe an element that can be awarded through direct award, and as long as the process is adhered to it can be used compliantly. The proposed levy of 0.5% is acceptable and should be applied through rebate to any supplier that is commissioned through the framework by an external public body.

This will be captured through the access agreement and it is noted each Authority will be responsible for its own contract management, so the liability to the Council is minimal.

8. Financial Implications

Implications completed by: Katherine Heffernan, Head of Service Finance

8.1 There is no specific budget within the Council for Strategic Advisory Services and the requirement for this varies considerably from year to year. Before drawing on this contract framework, service and programme managers will need to ensure that they have sufficient funding allocated for this use.

9. Legal Implications

Implications completed by: Kayleigh Eaton, Senior Contracts and Procurement Solicitor, Law & Governance

9.1 This report is seeking approval to tender a four-year framework for a Strategic Advisory Service from December 2020 on behalf of itself and other local authorities and public bodies.

9.2 It is anticipated that the estimated value of the new framework agreement will be in excess of the threshold for services (currently set at £189, 330) under the Public Contracts Regulations 2015 (the Regulations) and therefore a competitive tendering process will be required, which will be subject to the full application of the Regulations. The anticipated spend over the life of the framework for both the Council and other participating authorities should be set out in the requisite notice.

9.3 As it is the intention to procure on behalf of other local authorities the Contract Notice must specify this in order to be compliant with the Regulations.

9.4 Contract Rule 28.8 of the Council's Contract Rules requires that all procurements of contracts above £500,000 in value must be submitted to Cabinet for approval.

9.5 In line with Contract Rule 50.15, Cabinet can indicate whether it is content for the Chief Officer to award the contracts following the procurement process with the approval of Corporate Finance.

9.6 The procurement procedure anticipated by this report would appear to be following a compliant tender exercise and Legal Services will be available to assist and advise upon further instruction.

Public Background Papers Used in the Preparation of the Report: None

List of appendices: None

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CABINET

17 February 2020

Title: Pay Policy Statement 2020/21	
Report of the Cabinet Member for Finance, Performance and Core Services	
Open Report	**For Decision**
Wards Affected: None	**Key Decision:** No
Report Author: Gail Clark, Head of Workforce Change	**Contact Details:** Tel: 0208 724 3543 E-mail: gail.clark@lbbd.gov.uk
Accountable Strategic Leadership Director: Fiona Taylor, Director of Law and Governance (and Monitoring Officer)	

Summary

Under the terms of the Localism Act 2011 the council must agree, before the start of the new financial year, a pay policy statement covering chief officer posts. The Act also sets out the matters which must be covered in the policy.

The Council's draft Pay Policy Statement for 2020/21, attached at Appendix A, sets out the expected position at 1 April 2020.

The report also seeks Cabinet's approval to apply the uplift in the London Living Wage with effect from 4 November 2019, which increased the minimum hourly rate of pay from £10.55 to £10.75 per hour.

Recommendation(s)

The Cabinet is recommended to:

(i) Agree the implementation of the London Living Wage increase from £10.55 to £10.75 per hour for employees and apprentices operating in service areas covered by Green Book terms and conditions, with effect from 4 November 2019; and

(ii) Recommend the Assembly to approve the Pay Policy Statement for the London Borough of Barking and Dagenham for 2020/21 as set out at Appendix A to the report, for publication on the Council's website with effect from April 2020.

Reason(s)

Under the terms of the Localism Act 2011 the Council must agree a pay policy statement in advance of the start of each financial year

1. Introduction and Background

1.1 Section 38(1) of The Localism Act 2011 requires English and Welsh local authorities to produce a pay policy statement for senior officers (Chief Officers) to be agreed by all councillors at an Assembly meeting before the beginning of each financial year. This policy is timetabled to go to the Assembly on 26 February 2020.

1.2 The Council produced its first Pay Policy Statement for the 2012/13 financial year in accordance with the Localism Act 2011. The definition of Chief Officer covers the Chief Executive, the Chief Operating Officer and other Strategic Leadership Directors, Commissioning Directors and Operational Directors. The matters that must be included in the pay policy statement are as follows:

- The level and elements of remuneration for each Chief Officer.
- The remuneration of its lowest paid employees (together with its definition of 'lowest paid employee' and the reasons for adopting that definition).
- The relationship between the remuneration of its Chief Officers and other officers.
- Other specific aspects of chief officer's remuneration: remuneration on recruitment, increase and additions to remuneration, use of performance related pay and bonuses, termination payments and transparency.
- The Localism Act defines remuneration widely to include not just pay but also charges, fees, allowances, benefits in kind.
- Enhancements of pension entitlement and termination payments.

1.3 The Pay Policy statement:

- Must be approved by the full council (Assembly).
- Must be approved by the end of March each year.
- Can be amended in-year.
- Must be published on the Council's website (and in any other way the Council chooses).
- Must be complied with when the Council sets the terms and conditions for a chief officer

2. Proposal and Issues

2.1 Attached at Appendix A is the draft Pay Policy Statement which reflects the expected position as at 1 April 2020.

2.2 It is also proposed to increase the rate of pay for Council employees and 'Green Book' apprentices to ensure that they are paid the London Living Wage as a minimum. The increase, from £10.55 to £10.75 per hour, would be backdated to 4 November 2019.

3. Options Appraisal

3.1 The Council is required to publish its pay policy and there is no alternative option to be appraised.

3.2 The council has previously given a commitment to ensure that it pays, as a minimum, the London Living Wage.

4. Consultation

4.1 The proposals in this report were considered and endorsed by the Workforce Board at its meeting on 15 January 2020.

5. Financial Implications

Implications completed by: Katherine Heffernan, Group Manager, Service Finance

5.1 The Council's lowest pay rate for employees currently exceeds the London Living wage rate and therefore there is no financial impact from approving this recommendation. Increasing the rate of pay for apprentices to the London Living Wage introduces an average increase of circa £364 per apprentice with a total cost, based upon the existing apprentice numbers, of circa £10k per year.

6. Legal Implications

Implications completed by: Dr Paul Field, Senior Governance Lawyer

6.1 The Pay Policy sets out clearly and concisely the Authority's approach to Pay. There are no legal implications as the Policy and the approach which it outlines are consistent with employment law and HR best practice.

7. Other Implications

7.1 **Contractual Issues –** This makes no changes to employee's contractual position.

7.2 **Staffing Issues -** The staffing issues are fully explored within the main body of the report. There is no requirement to consult with the trade unions on this policy.

7.3 **Corporate Policy and Equality Impact –** The Council's approach to pay is based on the use of established job evaluation processes to determine the salary for individual roles, eliminating the potential for bias in the process

Public Background Papers Used in the Preparation of the Report: None

List of appendices:

- Appendix A – Pay Policy Statement 2020/21

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APPENDIX A

LONDON BOROUGH OF BARKING AND DAGENHAM

PAY POLICY STATEMENT 2020/21

1. Introduction – Requirement for Council Pay Policy Statement

1.1 Section 38 (1) of the Localism Act 2011 requires English and Welsh local authorities to produce a pay policy statement to be agreed by Members before the beginning of each financial year. The Act does not apply to local authority schools. This document meets the requirements of the Act for the London Borough of Barking and Dagenham. This Pay Policy Statement presents the expected position at 1 April 2020.

1.2 The provisions of the "Act" require that councils are more open about their own local policies and how their local decisions are made. The Code of Recommended Practice for Local Authorities on Data Transparency enshrines the principles of transparency and asks councils to follow three principles when publishing data they hold: responding to public demand, releasing data in open formats available for re-use, and, releasing data in a timely way. This includes data on senior salaries and the structure of the workforce.

2. Organisational Context

2.1 The Council continues to recognise that if it is to serve its communities well and deliver the agreed vision and objectives, it needs to attract and retain talented people at all levels of the organisation.

2.2 The Council continues to ensure that its Leadership Team is structured in a manner that enables it to deliver the borough's manifesto. This is reflected in this Pay Policy Statement which shows that the number of chief officer posts remains unchanged from the previous year.

3. Pay and Reward Principles

3.1 The approach to pay and reward continues to be based on the following principles:

- Pay levels are affordable for the Council, at a time when it is making some very difficult decisions about spending on services to the community;
- The Council can demonstrate fairness and equity in what it pays people at different levels and in different parts of the Council; and
- Pay is set at levels which enable the Council to recruit and retain the quality of staff needed to help achieve its objectives at a time of financial hardship.

3.2 Pay levels are determined through "job evaluation". For staff at PO6 and below, the Council generally uses the Greater London Provincial Council job evaluation system. For posts at PO7 and above, the HAY job evaluation system is used. Each system assesses the relative "size" of the role against a range of criteria, relating to its complexity, the number of resources managed, and the knowledge required to undertake the role.

3.3 Pay rates are generally set against the national pay spine agreed by the National Joint Council, although there are local pay points at the top of the LBBD pay scale. The Council has committed to pay no less than the "London Living Wage" to its own staff or agency workers working with the Council. The "London Living Wage" hourly rate increase to £10.75 from £10.55 was announced on 11th November 2018[1]. The Council continues to ensure that it pays its employees and apprentices at or above the London Living Wage.

4. Defining "Chief Officers"

4.1 At the start of the 2020/21 financial year, the Council expects to have within its structure the following Chief Officer posts:

- Chief Executive (and Head of Paid Service)
- Chief Operating Officer & Deputy Chief Executive (and Section 151 Officer)
- Director, Law and Governance (and Monitoring Officer)
- Interim Director, Policy and Participation
- Director, Inclusive Growth
- Director, People and Resilience
- Transformation Director
- Finance Director
- Director of Public Health
- Commercial Director
- Commissioning Director, Children's Care and Support
- Commissioning Director, Adults' Care and Support
- Commissioning Director, Education
- Operational Director, Community Solutions
- Operational Director, My Place
- Operational Director, Enforcement
- Operational Director, Adults' Care and Support
- Operational Director, Children's Care and Support

5. Accountability for Chief Officers Pay

5.1 The pay arrangements for chief officers are overseen by the JNC appointments, salaries and structures panel, appointed by the Council's Assembly.

6. Current Pay Policy and Base Pay Rates

6.1 Setting Salary Levels

6.1.1 Chief Officer roles are evaluated using the HAY job evaluation system. There is a commitment to review salary levels about every three years, this has not been undertaken since the changes to the senior management structure was put in place in 2017. In undertaking reviews, account is taken of the market, particularly

[1] https://www.livingwage.org.uk/

the market in London, to ensure the Council can compete successfully for the talent it needs to lead and manage in the current challenging environment.

6.1.2 The salary benchmarking information comes from the London Councils' Chief Officers Salary Survey. The latest information held is from 2018. There were 30 responses to this survey among London Boroughs. The median rates of pay for roles in London, based on the information from the survey, were as follows:

	Median
Head of Paid Service / Chief Executive	£186, 850
Tier 1 Managers	£139,434
Tier 2 Managers	£102,907

(Note: This benchmark data is based upon basic pay plus additional payments such as performance related pay or bonus payments.)

6.1.3 The Council is contractually obliged to apply nationally agreed pay awards for Chief Officer grades.

6.2 **Chief Executive**

6.2.1 The salary for the Chief Executive, agreed at appointment in November 2014, was £165,000. This has increased each year only in line with nationally negotiated pay awards.

6.3 **Chief Officer Pay Range**

6.3.1 The Chief Officer pay structure was last reviewed in 2013. The pay levels have increased in line with nationally negotiated pay awards in April each year. There are no formal proposals to review this pay range in 2020/21. The pay range from April 2020 is as follows:

CO1	£85,241
CO2	£97,173
CO3	£107,402
CO4	£115,325
CO5	£127,359
CO6	£139,837
CO7	£152,367

6.3.2 It is appropriate for there to be some differentiation in pay levels at Chief Officer level because of the differing risk and responsibility being carried at that level.

6.3.3 The table below sets out the salaries of the chief officer posts referred to in paragraph 4.1 above:

Position	Grade of Post	Salary cost to LBBD
Chief Executive (and Head of Paid Service)	Individual spot salary	£175,117
Chief Operating Officer	CO7	£152,367
Director of Public Health	Individual spot salary	£97,173
All other Directors & Operational and Commissioning Directors	CO2 – CO6	£97,173 - £139,837

7. Contingent Pay

7.1 The Council pays its Chief Officers a spot salary. There is no element of performance pay nor are any bonuses paid. No overtime is paid to Chief Officers. There are no lease car arrangements. A market supplement of £11,602 is paid to the Operational Director – Children's Care and Support. This payment was agreed as part of the recruitment exercise in 2018 but is currently subject to review based on recent benchmarking information.

8. Pensions

8.1 All Council employees are eligible to join the Local Government Pension Scheme. The Council does not enhance pensionable service for its employees either at the recruitment stage or on leaving the service, except in certain cases of retirement on grounds of permanent ill-health where the strict guidelines specified within the pension regulations are followed.

9. Other Terms and Conditions

9.1 Employment conditions and any subsequent amendments are incorporated into employees' contracts of employment. Chief Officer contracts state:

"Your terms and conditions of employment are as set out in the Joint Negotiating Committee for Chief Officers of Local Authorities handbook, as adopted by the Authority, unless otherwise indicated in this statement.

9.2 From time to time, variations in terms and conditions of employment will be negotiated and agreed at national or local level with the union or unions recognised by the Authority as representing your employment group. Where these are adopted by the Authority, they will, within a period of 28 days from the date of the change, be separately notified to you or otherwise incorporated in the documents to which you have reference."

9.3 The Council's employment policies and procedures and terms and conditions are reviewed on a regular basis in the light of service delivery needs and any changes in legislation.

10. Election Expenses

10.1 The fees paid to Council employees for undertaking election duties vary according to the type of election they participate in and the nature of the duties and responsibilities they undertake. All election fees paid are additional to Council salary and are subject to normal deductions of tax.

10.2 Returning Officer duties (and those of the Deputy Returning Officer) are contractual requirements but fees paid to them for national elections / referendums are paid in accordance with the appropriate Statutory Fees and Charges Order.

11. Termination / Severance Payments

11.1 Employees who leave the Council, including the Chief Executive and Chief Officers, are not entitled to receive any payments from the Council, except in the case of redundancy or retirement as indicated below.

12. Retirement

12.1 Employees who contribute to the Local Government Pension Scheme who elect to retire at age 60 or over or who are retired on redundancy or efficiency grounds over age 55 are entitled to receive immediate payment of their pension benefits in accordance with the Scheme. Early retirement, with immediate payment of pension benefits, is also possible under the Pension Scheme with the permission of the Council in specified circumstances from age 55 onwards and on grounds of permanent ill-health at any age.

12.2 The Council will consider applications for flexible retirement from employees aged 55 or over on their individual merits and in the light of service delivery needs.

13. Redundancy

13.1 Employees who are made redundant are entitled to receive statutory redundancy pay as set out in legislation calculated on their actual salary. The standard London Borough of Barking and Dagenham redundancy scheme applies to all officers. The scheme has redundancy multipliers which provide for a maximum of 30 week’s pay for staff whose continuous service date is after 1 January 2007 and a maximum of 45 week’s pay for staff with a continuous service date of prior to 1 January 2007. Both multipliers are based upon length of service.

14. Settlement Agreements

14.1 Where an employee leaves the Council’s service in circumstances which are, or would be likely to, give rise to an action seeking redress through the Courts from the Council about the nature of the employee’s departure from the Council’s employment, or where an existing employee has an employment dispute with the Council which may give rise to the litigation, the Council may settle such claims by way of a settlement agreement where it is in the Council’s interests to do so. The amount to be paid in any such instance may include an amount of compensation, which is appropriate in all the circumstances of the individual case. Legal advice will be sought in all cases.

15. Fairness and Equality

Pay Ratios

15.1 It was agreed as of 1 January 2013 that no permanent employee should be paid less than the London Living Wage. This supports the Council's ambition to raise average local household incomes and reflects its commitment to pay fairness. The Council has also agreed that this should apply to all agency staff working on Council assignments. This minimum rate increased to £10.75 per hour (equivalent to an annual salary of £19,617) with effect from November 2019.

15.2 Based on this figure, the Council's pay multiple - the ratio between the highest paid employee (the Chief Executive) and lowest paid employee - is 1- 8:5. This means that the chief executive is paid, 8.5 times the lowest salary. This ratio is marginally lower than the previous year.

15.3 The ratio between the Chief Executive's salary level and the median salary figure for all employees in the Council is currently 1 - 5.70. The median annual salary for all employees at 1 April 2019 was £30,708 per annum, with the average salary being £34,451. This ratio is marginally lower than the previous year. Both median and average salaries referenced are full time equivalent and are adjusted according to individual contractual arrangements.

15.4 Across London the average ratio between the highest and median salaries is 1 to 7, based on a Chief Executive's average of £181,500 (taken from London Councils' 2017 Senior Staff Pay Data).

16. Any Additional Reward Arrangements

16.1 No additional reward arrangements are in place.

CABINET

17 February 2020

Title: Purchase of the former Muller Factory Site, Selinas Lane, Chadwell Heath	
Report of the Cabinet Member for Finance, Performance and Core Services	
Open Report with Exempt Appendix 2 (relevant legislation: paragraph 3 of Part I of Schedule 12A of the Local Government Act 1972 as amended)	**For Decision**
Wards Affected: Whalebone	**Key Decision:** Yes
Report Author: Jonathan Langham, Head of Commercial Development, Be First	**Contact Details:** Tel: 08721 965342 E-mail: jonathan.langham@befirst.london
Accountable Director: Ed Skeates, Development Director, Be First	
Accountable Strategic Leadership Director: Claire Symonds, Chief Operating Officer	

Summary

It is proposed to acquire a 13 acre cleared plot (shown in Appendix 1) known as the former Muller site within Chadwell Heath currently designated as Locally Significant Industrial Site (L-SIS) by means of newly formed special purpose vehicles (SPV) which will be 100% owned by the Council.

The purchase of the site will provide the Council with control over the wider L-SIS allocation that is proposed to be reallocated for mixed uses (residential and employment) in the forthcoming Masterplan and Local Plan. Following the purchase of the site, Be First will work to add value by promoting a revised mixed-use allocation via a new Masterplan and policy allocation in the emerging Local Plan and then sell the site to the private sector for it to deliver the proposed mixed-use development, subject to normal 'best consideration' objectives in any disposal. It is not envisaged at this stage that the Council or Be First would be involved in the construction phase of the development. The main reason for the intervention is to establish an appropriate planning framework to manage the co-location of commercial and residential uses and provide the private sector with best practice guidance on the delivery of the wider Chadwell Heath masterplan. Additionally, the intervention will enable the Council to capture an element of the land value uplift from the revised allocation. The expectation is the site will be held for up to 3 years before it is sold with the benefit of the revised allocation and the land value uplift is returned to the Council.

The site purchase and the planning promotion costs will be funded from Council borrowing and the asset will be held in a newly 100% owned Council company to serve as a corporate Special Purchase Vehicle (comprising a Holding Co which will further hold Asset Co's) (as opposed to the General Fund). This provides the Council with the maximum flexibility for the repatriation of the eventual receipt when the site is sold to the private sector for the delivery/ construction phase. The new holding vehicle will have its

own governance structure with the Council being the sole shareholder and decision maker. The day to day project administration will be undertaken by Be First Regeneration (BFR) and subject to existing controls including the annual business plan, shareholder agreement and board approvals. BFR will continue to be a 100% Council owned subsidiary. The proposed holding structure provides flexibility for the Council to make a part disposal, via the sale of shares in Asset Co that could enable a joint venture to be formed with a private sector partner at a later date. In the longer term it is proposed to streamline the holding structure of Be First with a Holding Co sitting above both Asset Co that will hold the Muller asset as well as Be First Regeneration Ltd. This will achieve an accountancy efficiency for LBBD. Before this change is made the Council will review the cumulative impact of accountancy benefits as well as governance and audit issues to determine its overall efficacy.

Recommendation(s)

The Cabinet is recommended to:

(i) Agree that the Council company Be First Developments Limited shall be activated;

(ii) Agree, as shareholder, to the change of name of Be First Developments Limited to Be First Developments (Muller) Limited and to authorise the Chief Operating Officer to take all necessary action on behalf of the Council to effect that change, to agree the articles and to negotiate and agree service contracts for the directors and any shareholder agreements;

(iii) Agree to the proposed purchase of the former Muller site by Be First Developments (Muller) Limited on the terms set out in the report and authorise the Chief Operating Officer to negotiate and enter into all the necessary agreements on behalf of the Council and give approvals on behalf of the Council as shareholder and Chief Operating Officer, in consultation with the Director of Law and Governance, to complete on the proposed transaction subject to satisfactory due diligence and an independent valuation;

(iv) Agree to the Council borrowing the sum set out in Appendix 2 to the report, to finance the acquisition of the Former Muller Site including site purchase planning promotion and ground investigations works subject to all necessary due diligence dependant on confirmation, or otherwise of the site being a Transfer of a Going Concern;

(v) Agree to the formation of a new development holding company ‘Be First Development (Holdings) Ltd’ on the terms set out in the report, to be owned by the Council and hold Be First Developments (Muller) Limited as its subsidiary and to authorise the Chief Operating Officer to take all necessary action in connection with the creation of the company as Shareholder and Chief Operating Officer, in consultation with the Director of Law and Governance, including agreeing an interim business plan, Shareholder Agreement, making any necessary resolutions and entering any other associated legal documents and contracts to give effect to this proposal;

(vi) Agree to the appointment of Directors to the new companies as detailed in the report and to authorise the Chief Operating Officer, in consultation with the Director of Law and Governance, to agree any changes to the Boards;

(vii) Authorise the Chief Operating Officer, in consultation with the Director of Law and Governance, to agree the loan agreement and any associated guarantees and debentures referred to in the report and grant any indemnities subject to all necessary due diligence; and

(viii) Authorise the Chief Operating Officer, in consultation with the Investment Panel, to set up Companies with a nominal share value or Partnerships in preparation for Council Projects and to appoint interim Directors to those Companies or nominee partners to the partnerships.

Reason(s)

- To promote the site and the wider Chadwell Heath area for regeneration with the redevelopment of the existing employment floorspace with new residential and employment uses;
- Assist the regeneration of a key site via a master plan in line with the inclusive growth strategy and wider vision for the borough;
- Assisting in the early delivery of new residential accommodation and the re provision of employment floorspace in line with the emerging Local Plan.

1. Introduction and Background

1.1 Be First Regeneration (BFR) was established to assist the Council in accelerating the building of new homes and creating additional jobs and as such the core element of the BFR Business Plan is to implement the delivery of housing regeneration projects. However, it was acknowledged in the 2018/19 BFR Business Plan that BFR have an opportunity to leverage commercial expertise to identify and create development opportunities the Council would not previously have been able to access, to unlock regeneration, and in doing so deliver financial returns. The February 2018 Cabinet resolution (minute 100) that approved the BFR business plan allowed for the formation of a Development Company (Dev Co) for the holding and trading of property assets. This resolution is being used to establish a vehicle to serve as an Asset Co in advance of this paper that resolves to create Hold Co.

1.2 In accordance with that strategy, it is proposed to purchase the Muller site to provide a stimulus for the wider regeneration of the existing Chadwell Heath L-SIS allocation via the preparation of a masterplan and revised policy framework in the emerging local plan and in doing the site would, when sold, deliver a profit to the Council. Therefore, although the primary purpose of the purchase is to promote the area for regeneration it is intended to secure a revenue receipt that can be returned to the Council of which the net surplus will count towards the BFR financial target.

1.3 The Muller Site is 12.95 acres (approx. 15% of the Chadwell Heath L-SIS area) as shown in the plan at Appendix 1. The Muller factory has recently been vacated by the Muller dairy and the current landowners have now cleared the site of buildings and are marketing the site for short term letting (open storage). It is proposed to continue short term lettings (post completion of the purchase) during the planning promotion period for a period up to 3 years.

1.4 Chadwell Heath will be subject to significant development pressures as Cross Rail (the Elizabeth Line) is planned to open in 2021/22 that will provide faster train connections to Central London (Liverpool Street/ Bond Street) and West London (Paddington and Heathrow/ Reading). This service will be available at Chadwell Heath over-ground station which is 220m from the edge of the L-SIS allocation or 820m from the Muller site in particular. This will result in land price speculation (shifting from secondary industrial to prime residential land values) and the Muller purchase is aimed to secure a significant proportion of the land value uplift and allow the Council to take a leading role in further land assembly and the co-ordination of development in the Chadwelll Heath L-SIS area.

1.5 The process of change at Chadwell Heath is already reflected in emerging policy. The Issues and Options paper published in July 2018 identified the Chadwell Heath L-SIS allocation in Table 5 as a suitable location for the introduction of up to 2,960 residential units to meet the emerging housing target. The Chadwell Heath L-SIS area has been included in the Call for Sites ending in May 2019 and is included in the draft Local Plan for 3,400 units.

1.6 Policy E7 of the London Plan permits the conversion of employment land to residential provided that there is “no net loss”. Employment floorspace should be re-provided either within the SIL/ L-SIS area or the Borough as a whole provided there is an overall strategy. Re-provision and intensification is to be targeted towards well located and established industrial areas with better access to the A13 so that other less well located industrial sites (Chadwell Heath) can be developed more intensively for residential uses and in overall terms there will be “no net loss” of employment floorspace in the Borough as a whole. Therefore, the Chadwell Heath Masterplan and the Muller site purchase forms an important part of the Borough’s overall housing and employment strategy. The GLA has approved a grant of up to £270,000 in July 2019 for the Council to complete a masterplan for the Chadwell Heath SIL. BFR has already appointed a consultant to co-ordinate the overall masterplan, procurement, preparation and consultation process.

1.7 Officers have recently completed research to determine the quality of the existing employment stock in Chadwell Heath and the Borough as a whole. It has concluded that the scale of employment floorspace (1.4m sqft/ 138,700sqm) at Chadwell Heath can be reduced to maximise the area’s residential capacity and the lost employment can be re-provided on other sites better related to the strategic road network. This work is in the process of being formalised into evidence base documents as part of the Local Plan Review and the publication of the Regulation 18 Draft Local Plan.

1.8 The Council has been approached by a number of developers keen to secure an interest in Chadwell Heath given its proximity to improved train services to Central and West London. However, none of the developer proposals have demonstrated an ability to comply with the objectives of Policy E7 that requires “no net loss” of employment floorspace at the same time as providing a satisfactory environment (sufficient schools, parking amenity space and civic facilities). To maximise the area’s attractiveness for residential development given its close proximity to the Chadwell Heath Elizabeth Line Station there is a need for an overarching strategy to relocate lower value employment uses to other parts of the district to maximise planned public transport improvements. Additionally, there are some existing businesses that want to stay and upgrade the quality of their accommodation.

Without a masterplan and the co-ordination of the phased development of the area by the Council there is a danger that poor design and amenity will result which will fail to maximise the area's inherent potential.

2. Proposal and Issues

Options for the legal structure

2.1 As part of the Business Case for the creation of BFR it was recognised it may need to establish additional companies to deliver specific projects and that these special purpose vehicles (SPVs) could be either stand-alone public sector companies, joint ventures between BFR and the private sector, or solely private sector. It was also outlined that these SPV's may need to sit as subsidiaries of a separate development/holding company to give maximum flexibility in delivering project outcomes. The 2018 Cabinet resolution approved the BFR business plan and the set up of a Dev Co SPV. This resolution is being used to create the vehicle which will hold the Muller Site asset.

2.2 A number of options have been considered regarding the legal structure for the transaction and advice has been sought from commercial law firm advisors Gowlings and PWC (Accountants) to determine the most cost-effective structure to achieve the optimum outcome. It is proposed that a new 100% Council owned holding company (Be First Developments (Holdings) Ltd ("Hold Co") and a subsidiary SPV, Be First Developments (Muller) Ltd ("Asset Co") should be created.

2.3 One of the options considered and discounted was for the Hold Co or Asset Co to be a subsidiary of the existing BFR, however, this structure is not recommended as it is considered that the private sector may be invited to participate in the company (Asset Co) which would effectively mean the company could no longer benefit from Teckal status, and due to the size of its turnover this would compromise the Teckal status of BFR itself . Accordingly, the proposed Hold Co and Asset Co companies are proposed to be financially separate from BFR. Additional advice has confirmed that BFR can be a subsidiary of Hold Co in the longer term to achieve an accountancy efficiency whilst not effecting the Teckal status of BFR itself. The proposed phased set up of the of the SPV is summarised in Table 1 below. Before Step 3 is implemented (putting BFR under Hold Co) the Council will examine the accountancy benefits of this change relative to governance and audit issues to ensure it represents the preferred solution and does not result in unintended consequences.

2.4 In the proposed structure, Hold Co will administer the revenue receipts to LBBD and Asset Co will hold the loan and the asset and deal with the project specific activities. Both of the companies would be overseen by an independent Board consisting of the directors drawn from BFR. The full BFR Board will sit on the Hold Co and a subset of BFR Directors who currently sit in the BFR Audit Committee will be Directors of the Asset Co. The organisation structure is set out in Table 2 below. The Hold Co will be subject to a shareholder agreement meaning that its directors cannot make strategic decisions (such as selling the asset or selling shares in the company) without approval from its shareholder, LBBD. The Asset Co is 100% owned by Hold Co so indirectly controlled by the shareholder agreement. In any event to provide complete control there will be a shareholder agreement between Hold Co and Asset Co as shown in Table 2.

Table 1 Proposed Phased Holding Structure

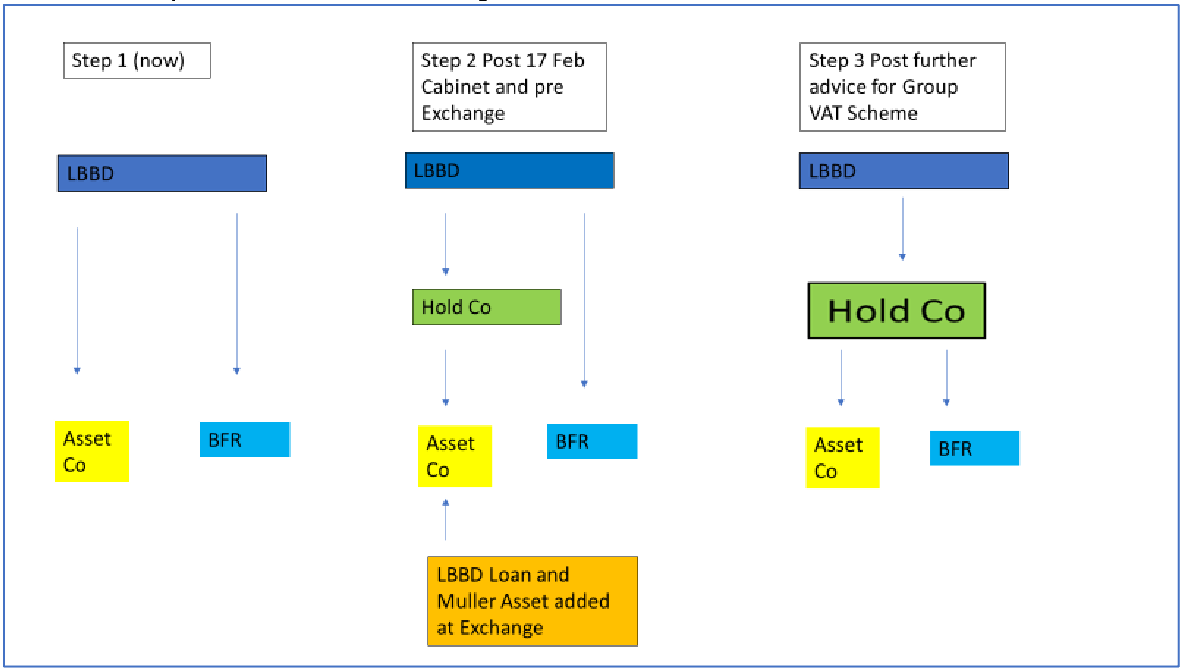
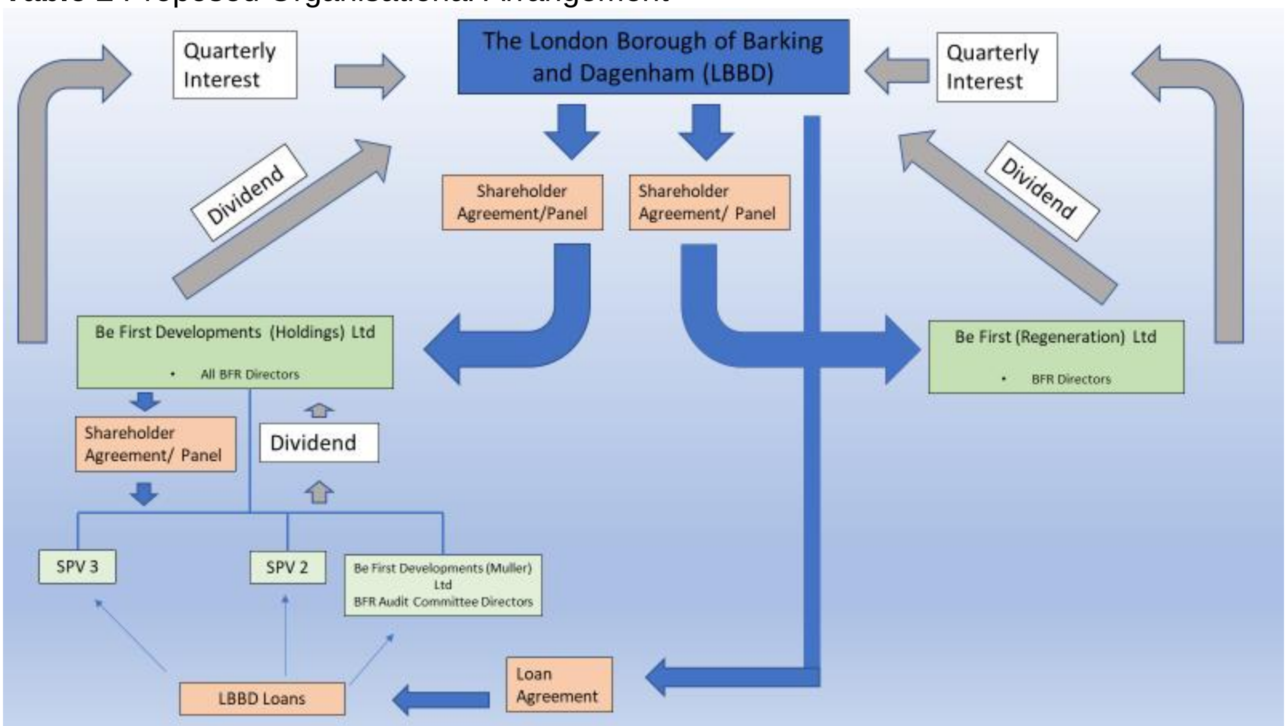


Table 2 Proposed Organisational Arrangement



2.5 The proposed shareholder agreement would restrict the Hold Co Board from taking strategic decisions such as agreeing a disposal, or securing additional funding, without shareholder consent unless in accordance with a BP approved by LBBD as shareholder, or otherwise agreed by LBBD. Accordingly, the directors will be fully accountable to LBBD and LBBD will retain control of all strategic decisions relating to the asset while the day to day operational control will be vested in the directors.

2.6 Asset Co will be administered by directors comprising the members of the BFR Audit committee together with Pat Hayes (Managing Director) and the Company Secretary. Asset Co will be controlled by Hold Co which is in turn controlled by LBBD via the shareholder agreement. The BFR Board members, who will be directors of Hold Co have been drawn from a wide skill base to cover public sector, private sector, architecture and community issues and therefore provides an inclusive management approach.

2.7 Therefore, Asset Co will be subject to the same controls imposed by LBBD onto Hold Co. Additionally, Asset Co will be subject to the provisions of the loan agreement with LBBD. It is proposed that the Directors of Hold Co and Asset Co will have Service Agreements to define their respective roles.

2.8 The Asset Co will have a Service Agreement with LBBD and would be able to procure the services of BFR via LBBD as a 100% LBBD owned company. This will ensure complete compliance with the Public Contract Regulations (PCR). Additionally, there will be a Service Agreement between BFR and Asset Co so that BFR can undertake various roles (planning and asset management etc) and Asset Co will not have to undertake a separate procurement process.

2.9 Advice has been sought from PWC to confirm that the proposed approach to form SPV's represents a better outcome for the Council compared with utilising the General Fund. PWC have confirmed this position and that the eventual disposal can be treated as revenue as opposed to capital. Advice on the SPV structure indicates that it has the advantage of reducing the stamp duty land tax liability (SDLT) on disposal (the sale of shares), in the newly formed Asset Co to 0.5% rather than the sale of assets at 5%. This generates a gain/ saving for both LBBD and the potential purchaser at the point of sale. However, the SPV will incur a latent gain that will be subject to corporation tax when the eventual assets in the SPV are sold (i.e. when the completed residential or commercial units are sold and a profit realised). Potential purchasers may discount their bid price to offset this future liability. However, this liability is neutralised by the saving achieved in the SPV structure attracting a lower rate of SDLT. In a base case, while the latent gain may reduce the eventual receipt (being roughly equal to the receipt achieved by the GF holding structure) the receipt can be treated as revenue as opposed to capital which is the key to this transaction.

2.10 Asset Co will be property trading companies paying corporation tax (currently 19% for FYE 2019 falling to 17% FYE 2020) as opposed to investment companies paying capital gains tax for which there are different tax reliefs. The differences between a trading company and investment company are key to the justification for the proposed SPV arrangement. A trading company (Asset Co) is able to return the profit from a transaction to its shareholder (Hold Co and subsequently LBBD), without paying any tax provided the shares have been held for more than 12 months, this is known as a Substantial Shareholdings Exemption (SSE).

2.11 While Asset Co will have to pay corporation tax on any income earnt during the period the project cash flow suggests that this will be minimal as expenditure will exceed income. Therefore, the profit from the sale of the shares in the Asset Co (cost of sale less cost of purchase, interest, planning and site preparation costs) can be returned to Hold Co without incurring any corporation tax. In contrast an investment company would pay corporation tax on the capital gain that is realised on disposal as well as tax on annual income during the hold period. Therefore, a trading SPV company has significant advantages over an investment SPV company.

2.12 The trading SPV tax status is broadly similar to the GF arrangement (with no tax being paid on the sale of shares) but has the additional advantage that the receipt can be treated as revenue, whereas in the GF if has to be treated as capital. While the SPV will suffer a potential deduction for the latent tax gain this is off set by the lower stamp duty on the sale of the eventual shares. Therefore, the eventual receipt for the SPV verus the GF will be virtually identical but the SPV generates a revenue receipt which has advantages for the Council. For this reason the SPV structure is LBBD's preferred route. A summary of the differing tax and financing options between the SPV and the GF are summarised in Table 3. Appendix 2 sets out the Business Case for the purchase and the project cash flow – this document is in the exempt section of the agenda as it contains commercially confidential information (relevant legislation - paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended)) and the public interest in maintaining the exemption outweighs the public interest in disclosing the information,.

2.13 The tax allowances for interest charges are addressed later in the report. However, they do not adversely effect the profit calculation

Table 3 Summary of Key Variables SPV versus the GF

	SPV	General Fund
Interest	• Interest at 'Arms Length' rate (8%) on part (£20m) of total project cost (£52m) • No impact of write down/ impairment on revenue account	• Interest at LBBD Internal Rate (3.25%) on entire project cost but no rolled up interest
Stamp Duty	• 5% stamp on purchase • 0.5% stamp on share capital on exit	• 5% stamp on purchase and 5% on exit
General Taxation	• No VAT on purchase provided TOGC • De Minimums Corporation tax on annual income due to rolled up losses • Final Dividend exempt from tax as SSE • Latent Gain crystallised on sale of shares (£2.8m deduction)	• No VAT on purchase provided TOGC • General Fund exempt from Income and Capital Gains
Net Receipt	Revenue	Capital

2.14 Gowlings have advised on the proposed drafting of the Articles of Association, Loan, Shareholder and Debenture agreement that will provide LBBD with control over the asset and the associated holding companies. The key controls are as follows:

- To manage the asset with the objective of seeking to maximise any eventual profit;
- To pay interest on the loan and any further advances;

- To repay the outstanding amount on demand;
- To maintain accounts, hold meetings and keep records consistent with good business practices;
- Follow prescribed routes to draw down funds and any further advances;
- Not to
  a. dispose of the asset in whole or part,
  b. issue new share capital,
  c. take additional borrowing,
  d. enter into any contracts,
  e. change bank accounts,
  f. charge the property
  g. offer any further mortgage or debenture, without the express consent of the shareholder.

2.15 These controls ensure that LBBD can manage the asset and its eventual disposal via the shareholder agreement and ensure that the eventual sale will secure the maximum benefit to the Council. As the loan includes the cost of purchase, planning promotion, site preparation and interest costs the total loan amount exceeds the initial purchase price. This effectively means the newly formed company will be insolvent at day one, albeit that the loan is not due for repayment for 3 years from commencement. While this potentially undermines the security of the loan, in the case of a default the Directors of the Asset Co owe an obligation to LBBD as both the lender and creditor. Therefore, they are under an obligation to protect the over-arching interests of LBBD. The existing BFR service agreement with Directors includes a clause that prevents LBBD forcing the company into insolvency if its assets do not cover its liabilities. The current Directors are seeking a similar reassurance in this case for Asset Co.

2.16 While LBBD is the ultimate shareholder the Directors have wide discretion to act in the best interest of LBBD. In the case of insolvency, the Directors duty would be to LBBD as creditor to the loan, the same organisation to which they owe a duty as the debtor on the loan. Therefore, in reality the prospect on an insolent position is unlikely to arise without careful discussions between LBBD and the Directors and agreement is mutual reached. It is proposed that LBBD will provide a written re assurance that an insolvent position will not be created by means of a side letter rather than incorporate the undertaking in any of the formal loan/ shareholder or service agreements.

The Loan and the Interest Rate

2.17 It is proposed to finance the acquisition, planning promotion and site preparation costs using Council borrowing. Interest will be rolled up, which means it will be added to the loan. Interest and the full loan amount will be repaid from the sale of the asset. There are limitations imposed by HMRC on the level of interest charges that can be deducted from income. Essentially the level of interest charges cannot be fixed at an artificially high rate to effectively avoid paying tax. HMRC have issued guidance that dictates what interest charge deduction is allowable regardless of the actual loan rate. Detailed advice has been sought from PWC. It confirms that in the initial stages of the project interest charges (regardless of the rate) will not be an allowable deduction against the eventual profit. This is based on established tax treatments by HMRC of similar projects. As the loan exceeds the existing land value (by including the land and planning costs etc) it is considered a high-risk loan by HMRC and not one that a conventional bank would lend.

2.18 Therefore, the loan is treated as equity rather than debt and therefore no allowance is allowed as a tax deduction. PWC advise that over the term of the project (following the preparation of the master plan and the creation of short-term letting income) some interest charges might be allowable deductions. In a worst case scenario if no interest charges are allowable deductions this reduces the project's base costs and therefore increases the potential profit and any subsequent corporation tax liability. However, if the shares in Asset Co are sold to a future purchaser this receipt will be treated as a SSE and not liable for corporation tax. So the loan rate and its tax treatment as an allowable cost has no effect on the overall tax liability and net receipt to LBBD.

2.19 Avison Young has advised on the loan rate that the open market would fund (given the risk associated with the project). This is used to establish the 'arm length' loan rate that dictates its acceptability under State Aid rules (that no unfair competitive advantage has been offered through a concessionary rate). Based on the characteristics of the project they advise a loan rate of 7.95% pa (being a 7.2% pa margin on the UK base rate). This rate can only be charged on part (50%) of (as opposed to the whole) project cost/loan due to the speculative nature of the scheme, i.e. a lender will not advance funds in excess of the unimproved value of the asset which is a discount to the actual purchase price.

2.20 The proposed 'arms length' rate creates a margin over and above the likely loan rate and provides the Council with an enhanced revenue stream via increased interest charges paid by Asset Co as it services the loan from LBBD. Nevertheless, the increased cost of the loan is not an allowable deduction for tax purposes in the early stages of the project. This should be monitored over the term of the project.

2.21 Appendix 2 sets the overall project cost including the site cost as well as an allowance for purchase costs, planning and site clearance. The site will be held for between 3 years while the masterplan and a planning permission are completed. Current interest charges are calculated on a three-year hold. It is proposed to review disposal options after 2 years from the date of purchase to ensure compliance of the project's initial objective to deliver a revenue receipt to the Council as quickly as possible.

2.22 Additional advice has been sought from PWC in relation to the accountancy implications of the proposed project loan for the Council's Comprehensive Income and Expenditure Statement. It has concluded that the loan will be treated as a capital transaction. While there may be a difference in the size of the loan (i.e. site cost plus planning and promotion costs for the hold period) relative to the initial value of the asset (its value as existing employment use) the 'impairment' in value can be recorded in the Capital Adjustment Account and will have no impact on the GF balances. Therefore, PWC advise that the proposed holding structure and the size of the loan relative to its initial value (the impairment) will not have an adverse impact on the Council's overall accountancy position. The Council is seeking final confirmation of this approach with its auditors to ensure all eventualities have been assessed.

Property Matters

2.23 A report on Title prepared by GWLG has been reviewed by Legal Services. The key issues are highlighted below. During the course of the project it is proposed to let the site for short term open storage use that will mitigate the Council's holding cost but not eliminate it completely. The cashflow in Appendix 2 suggests there will be little income generation during the hold period given the allowance for site preparation and planning promotion cost. The losses recorded in years 1 and 2 will be carried forward so that no corporation tax will be due in year 3. Should there be improved income generation there would be a corporation tax liability and then the surplus income can be returned to the LBBD via the Hold Co.

2.24 The current vendors are in the process of agreeing the terms of a small scale letting. When complete this will enable the asset to be treated as Transfer of a Going Concern (TOGC). This ensures that VAT will not be payable on the purchase price and VAT can be charged on the short-term rental income. The appropriate Option to Tax will be made prior to purchase to ensure treatment as a TOGC. The election can only be done when the holding vehicles are in existence. If the current letting is not achieved before completion VAT will be chargeable on the purchase price and Stamp duty will be levied on the combined amount, effectively increasing the cost of purchase by about £0.5m. While the VAT amount can be recovered in the first VAT return subject to a suitable letting being agreed post transfer, but there will be an increased SDLT charge and the cost of borrowing on the VAT for the first quarter. To ensure the overall project return is maintained there would have to be an adjustment to the purchase price to neutralise this increased cost of purchase. This is set out in Appendix 2. The 2018 Cabinet resolution is to be used to create Asset Co (and provide a Co No for VAT registration) and enable these issues to be resolved before exchange and completion takes place.

2.25 When complete the masterplan will support a planning application for the redevelopment of the site and an allowance has been made in the cash flow for planning application costs as well as further site preparation costs prior to the site's disposal. If the Council were to implement a planning application Policy H5 of the London Plan would require affordable provision at 50%. However, if a speculative application is submitted there is no restriction and when the site is sold bidders would be asked to make their bids on the basis of the requirement for the private sector to provide affordable at 35%. Accordingly, the intervening ownership by a public body will not undermine the eventual revenue receipt.

2.26 The vendors are selling a cleared site and the following steps are proposed during the holding period:

Year 1

- Set up Asset Co (pre cabinet)
- Open bank accounts and complete loan documents etc
- Set Up Hold Co and draw down the loan to Asset (post cabinet)
- Complete purchase;
- Retain existing local agent to secure short term letting income from open storage uses;
- Undertake ground investigations surveys;
- Commission a masterplan consultancy team and prepare a data room for the future marketing of the site;

- Prepare a business plan for entering into Planning Promotion Agreements with adjacent land owners to capture an element of the land value uplift.

Year 2/3

- Finalise the masterplan;
- Progress planning application on the Muller and other sites that benefit form separate Planning Promotion Agreements;
- Prepare a business plan to determine the most profitable route for the Council to exit;
- Disposal of the Muller site.

2.27 The main buildings have been cleared and the site is left level with hardstanding including the former factory concrete floor or crushed material. This is suitable for letting for open storage subject to the provision of secure compounds if let on an individual basis. The site is secure and benefits from a security gatehouse and operational weigh bridge.

2.28 The Report on Title identifies that there is a single electricity substation that requires regularisation with UK Power Networks. The vendors have indicated this process will be complete before exchange. In any event they are providing an undertaking to complete this process before completion or alternatively there is a financial retention if the substation lease is not completed in time.

2.29 Initial intrusive ground investigation works have been undertaken and have shown levels of contamination consistent with the previous industrial use. An allowance for £1.7m has been allowed for the final site clearance cost (removal of foundations and contamination etc) which is considered reasonable. More detailed intrusive surveys will be completed during the intervening period so that remediation costs are established and accounted for in the eventual disposal price.

2.30 A valuation has been undertaken by Strutt & Parker and is supported by a pricing report prepared by Savills. The reports adopt current market evidence to estimate the value of the completed residential and commercial elements of the scheme and the associated cost of construction with an allowance for site remediation assuming that planning permission is granted for the proposed mix of uses (the re-provision of the existing employment floorspace and circa 1,300 residential units). No allowance has been made for house price inflation in the period between the date of purchase and disposal. The conclusions of these reports have been adopted in the cashflow to demonstrate that the project should provide a healthy return assuming constant market conditions.

Risk Assessment

2.31 The Red Book valuation (undertaken by Strutt & Parker) has confirmed the purchase and assumed exit prices. Legal and tax advice has been obtained to determine the most appropriate holding vehicle to deliver a revenue receipt to the Council. Therefore, the main project risks are:

- Planning: Delays in agreement with the GLA on the “no net loss policy” and downstream masterplan and planning application milestones; *Mitigation; early engagement with the GLA (who are funding the masterplan preparation) and the progress with other industrial intensification projects in* *the Borough that will generate a surplus of employment floorspace (Welbeck, Remploy, CoL Markets)*;

- Site Conditions: Abnormal ground conditions resulting in increased cost: *Mitigation: GIS scoping survey pre contract and more detailed survey post contract to refine likely remediation costs relative to proposed building heights/ foundation design*;

- Exit Values: Stagnation in the housing market, changes to the Help to Buy scheme, delays in Crossrail, *Mitigation: accelerate masterplan and planning applications to allow early exit if values are declining, develop JV with funding partner to secure rental exit (as opposed to owner occupier) that is less vulnerable to Help to Buy and compatible with the Council's own housing rental products. While the purchase price is a margin on the existing use value for industrial use the market is assuming a premium for the residential hope value in Chadwell Heath. The pricing report prepared by Savills supports the exit valuation assumed by Strutt & Parker in their valuation assuming a residential consent. No allowance has been made for growth in residential value over the hold period. Data from land Registry shows that Barking house prices have outperformed adjacent Boroughs, as they have started from a lower base. Therefore, it is likely that the estimate of an exit at £65m in three year's time is conservative*.

3. Options Appraisal

3.1 **Option One** – Acquire the Site in a New SPV Holding Company

Advice from Gowlings and PWC indicates that the creation of a new 100% owned company (as opposed to making it a subsidiary of the existing BFR) is the best way to protect the existing status of BFR as a Teckal company (where LBBD can procure BFR without having to undertake an OJEU procurement each time) and providing the Council with a revenue receipt from any land sale.

3.2 **Option Two** – Acquire the Site in an Alternative Structure

The GF provides an alternative holding structure. However, there will be no revenue generation during the hold period and the eventual disposal, while free from capital gains tax, would have to be used to repay existing debt and could not be used to help the Council with its immediate revenue requirements. Moreover, it would not count against the BFR target to return a revenue receipt to the Council. According this structure would not achieve any of the stated project objectives. The Council could procure a JV partner, via a Limited Liability Partnership as an alternative holding vehicle. However, this procurement has not been undertaken to date and will likely result in an unacceptable delay to the vendors. In any event a JV arrangement can be accommodated in the proposed corporate holding structure set out in Option 1 via the part disposal of shares (at a later date).

3.3 **Option 3** – Do Nothing

Not purchasing the site would protect the Council against any risk associated with the project. However, it would also result in the Council missing out on a potential revenue receipt that can assist with short term funding requirements. More importantly, it will remove the opportunity to maximise the residential capacity of the site that will shortly benefit from the introduction of Crossrail services. Additionally, it will prevent the Council having a comprehensive solution to the regeneration of the other industrial areas where existing business could be re accommodated in other parts of the Borough subject to industrial intensification.

4. Consultation

4.1 Given the confidential nature of the transaction no external consultation has taken place.

4.2 The proposals in this report have been considered and endorsed by the Council's Investment Panel.

5. Commissioning Implications

5.1 The purchase of site to hold on a short term basis while wider strategic planning and planning promotion work is carried out on the site offers a number of benefits from an inclusive growth perspective. The main one being that ownership of the land will provide the council with a greater level of control over the future use of the site. If this site was sold to a private developer at this stage it could be subject to a speculative planning application, which would potentially not support the delivery of our wider regeneration aspirations for the Chadwell Heath area.

5.2 Holding the site for up to three years will allow the council to prepare a masterplan for this area which reflects the fact that cross-rail will be operating in the area by 2022, and work with the GLA to consider options around dealing with the possible loss of industrial space, linking into the wider work which is already under way to develop a strategic approach to industrial land in the borough.

5.3 Following this work a planning application can be submitted to seek permission for a planning policy compliant scheme, which would provide for a mixed use development on the site that addresses our wider strategic objectives. This means that the council would not need to deliver the site through its own resources, but would be selling it on to a developer, who will then be expected to deliver the project in line with the planning permission.

6. Financial and Investment Implications

Implications completed by: David Dickinson, Investment Fund Manager

6.1 The proposed purchase seeks to generate a revenue receipt that can be returned to the Council at the time of disposal to assist the Council with its long-term revenue funding requirements. To achieve this end the asset will be placed in a special purchased vehicle as opposed to the GF which would be the default position for most Council assets. As this proposal will be a trading asset, i.e. it will be bought and sold within a relatively short period, as opposed to a long-term hold, it is more appropriate to put it in a special purpose vehicle. Any revenue generated from a disposal will be subject to corporation tax at the prevailing rate. The site will be held for 3 years while the masterplan and a planning permission applicated are completed. Current interest charges are calculated on a three year hold. It is proposed to review disposal options after 2 years from the date of purchase.

6.2 Whilst the asset could be held in the GF the receipt on disposal would have to be treated as a capital receipt and used to repay existing council debt, although it can also be used to fund relevant transformation costs. Currently the priority is to generate a revenue stream to cover the borrowing costs and this is put forward as a justification for the asset to be held in a special purchased vehicle (SPV). The SPV has a further additional benefit in that a subsequent resale of the asset will incur stamp duty on share capital at 0.5% in comparison to stamp duty on property assets at 5%. The lower stamp duty will reduce the subsequent purchasers cost resulting in a modest improvement in the council's overall return.

6.3 It is proposed to set up a new SPV and lend the SPV 100% of the purchase costs, planning promotion, site assembly and disposal costs. Accordingly, the total loan will exceed the purchase cost but will be less than the eventual exit price.

6.4 Advice has been provided by Savills and Strutt and Parker in relation to the assumed purchase and exit price. It is important to emphasise that, as outlined in the risk assessment, there is the potential for the exit price of the site to be lower than the value provided. This is a risk that can be mitigated but the final value will only be confirmed once the site has been sold.

6.5 Additional advice has been sought from PWC on the loan rate and they have confirmed that in the initial stages of the project no allowance against tax will be permitted by HMRC for the loan costs associated with the purchase.

6.6 Advice has been sought from Avison Young (formerly GVA) on the appropriate loan cost to ensure that the lending from LBBD to the SPV complies with State Aid regulations. Nevertheless, for the purposes of calculating the potential profit and eventual revenue receipt to the council the cost of the loan is largely irrelevant in so far as its cost cannot be offset against the gross profit in order to reduce the tax liability. Instead tax will have to be paid on the gross profit before any interest cost deduction. However, if shares in Asset Co is sold and the receipt is returned to Hold Co via a dividend payment this should be exempt from corporation tax as it is treated as an SSE. Therefore, the tax treatment of the intertest charges will not effect the overall receipt to LBBD. Additionally, the increased loan rate over and above the rate at which money is borrowed will enable an early repatriation of revenue to the council, i.e. it is able to achieve an annualised return of its potential revenue receipt at the point of disposal planned to be in three years' time.

6.7 For this reason the proposal provides a useful mechanism for the council to borrow to increase its short-term revenue generation at the same time as securing wider regeneration benefits in the borough.

7. Legal Implications

Implications completed by Dr Paul Feild, Senior Governance Solicitor

7.1 This report proposes the freehold acquisition of the site known the former Muller Factory from current owners Lionpride Ltd. The process recommended is set out in this report as Option One that is to say that such assets should be acquired via a special purpose vehicle being a 100% Council owned holding company. The purchase will be financed through a loan. It is understood to be conditional on the site being purchased with vacant possession and all buildings on the site will be demolished by the vendor prior to completion of the acquisition. Key legal considerations will be: -

- The purchase of the freehold;
- the establishment and ownership of the companies and the governance of them
- The legal powers to enable the transaction;
- The nature of the transaction;
- The need to minimise the Council's exposure to risk and unforeseen liabilities particularly with regard to the size of the site, its current and future investment value, planning, development and environmental risks;
- Existing interest of power substation;
- Grant funding conditions;
- Letting the site as an open storage facility;
- Taxation implications

7.2 A report on title has been prepared by external legal advisors Gowlings LLP together with advice on the structure of the deal and establishment of the companies proposed. The purchase will be at market value of the freehold interest. The purpose for which land is acquired is relevant to the powers to be relied upon. The report has identified the site as an investment opportunity that enables the Council through BFR to set the scene for the site to provide the best development opportunities for the area. Detailed feasibility assessments will be carried out to determine the most suitable development strategy.

7.3 On the understanding the acquisition is in pursuit of the Councils Investment and Acquisition Policy then the Council has the power to acquire land by virtue of Section 120 of the Local Government Act 1972 and to carry out the proposed scheme by the general power of competence given by section 1 of the Localism Act 2011 (GPC). Under the GPC power the Council can do anything that individuals generally may do provided that there is no prohibition against it elsewhere. Section 1(5) of the Localism Act provides that the general power of competence under section 1 is not limited by the existence of any other power of the authority which (to any extent) overlaps with the general power of competence. The use of the power in section 1 of the Localism Act 2011 is, akin to the use of any other powers, subject to Wednesbury reasonableness constraints and must be used for a proper purpose.

7.4 There is in the alternative a power to acquire land under s. 227 of the Town and Country Planning Act 1990. This enables the Council to acquire land for any purpose for which it could compulsory purchase where that the acquisition will facilitate the carrying out of development, re-development or improvement; or the land is required for a purpose which it is necessary to achieve in the interests of the proper planning of an area. It may be better to acquire using the S.1 power and later use s.227 for reasons explained below in para 6.10.

7.5 Whilst the general power of competence in section 1 of the Localism Act 2011 provides sufficient power for the Council to participate in the transaction and enter into the various proposed agreements, further support is available under Section 111 of the Local Government Act 1972 which enables the Council to do anything which is calculated to facilitate, or is conducive to or incidental to, the discharge of any of its functions, whether or not involving expenditure, borrowing or lending money, or the acquisition or disposal of any rights or property. If there is an intention to trade the Localism Act 2011 requires that it be facilitated by use of a company.

7.6 If the intention would be to acquire the land and dispose after a minimal period of time then the site would constitute a trading asset and such a transaction could be likely to be considered a trade, even if it was a single occasion if it carried as described by Her Majesty's Revenue and Customs (HMRC) with a 'badge of trade'. These are identified as being:

- o profit seeking motive;
- o the number of transactions;
- o the nature of the asset;
- o existence of similar trading transactions or interests
- o changes to the asset;
- o the way the sale was carried out;
- o source of finance;
- o interval of time between purchase and sale;
- o method of acquisition.

7.7 It therefore follows that if a site is identified in a report and the recommendation is to acquire for the purposes of resale on a short basis with relatively little or no value being added then the realisation of a surplus on disposal may be treated as trading and subject to tax.

7.8 A local authority has the power to trade subject to it being carried out by a company (S.4 Localism Act 2011). This means land so acquired for disposal as a trade would need to be acquired by a local authority company. As the intention of the preferred option one is to use a holding company vehicle, this issue is addressed. In due course it may be liable for corporation tax for any profits made. There may be other tax implications such as SDLT and VAT for which specialist advice will be needed.

7.9 Investment Aspects - In exercising the power of general competence and in making any investment decisions (to the extent that any aspect of this transaction is considered to involve investment decisions), the Council must have regard to the functions for the purpose of which it is exercising the power, must act reasonably and also have regard to the following: -

- o Compliance with the Statutory Guidance on Local Government Investments (the Statutory Guidance);
- o Fulfilling its fiduciary duty to taxpayers;
- o Obtaining best consideration for any disposal;
- o Compliance with Section 24 of the Local Government Act 1988 in relation to giving financial assistance to any person (which either benefits from a general consent or requires express consent by the Secretary of State);
- o Compliance with any other relevant considerations such as state aid and procurement.

7.10 While there are a number of options for funding. The loan will be competitive subject to conditions. This will in turn be lent to the holding company for the purpose of the land acquisition. The necessary loan agreement will need to be made with security on the assets held by the holding company by the use of fixed and floating charges.

7.11 Development/Land Risks and Considerations - Apart from the requirement to purchase the land at no more than the market value there will be the imperative to ensure that all land, development and environmental risks are identified and managed through feasibility studies to ensure the preferred development option is deliverable before significant pre-development expenditure, and mitigation strategies are put in place. At the time of writing the sub-station matter is yet to be completed, though final cost aside should be able to be resolved by agreement(s). Potential risk arising include, but are not limited to, any third-party rights or restrictions or incumbrances which may frustrate or prevent the Council's regeneration objectives and development of the land. In terms of environmental risks, caution must be exercised in that a post-industrial site may raise risks of land contamination and if so, any remedial action and the costs of such remediation would need to be factored into the feasibility and viability considerations. Specifically, there should be early due diligence before contractually committing to the transaction to ensuring that the site is suitable for the construction of dwellings and is without risk of historical contamination, or in the alternative that any contamination is capable of being remedied and costs are both factored into the acquisition price and do not compromise the viability of any residential development.

7.12 Other Claims - There may be a prospect that the development could be subject to claims and other incumbrances such as easements and claims for same such as right to light. To a degree the effect of such incumbrances will be dependent upon the masterplan and how the sites fit in. However, as a local authority the Council can appropriate the land in question planning purposes pursuant to s. 227 of the Town and Country Planning Act 1990. In doing so the Council can utilise the power given by s.203 of the Housing and Planning Act 2016 override any private rights subject to compensation payments. This power would normally be exercised after planning permission had been obtained, thus there would be time to negotiate the extinguishment of incumbrances beforehand which will enable swifter resolution.

7.13 The title investigation by Gowlings LLP at desktop level while rightly setting caveats flags up:

a) Plausible contaminant linkages and past contaminative usages identified at the property, and as such potential liabilities have been identified under contaminated land legislation.

b) There is a history of landfill activity at or in the vicinity to the property which may include environmental risks associated with the material therein, and/or may cause ground instability issues.

c) There is a potential flood risk identified at the property due to the location of it. A more comprehensive flood risk analysis is suggested.

7.14 A full environmental survey, development appraisals and sound understanding will be a necessity if the Council seek to pursue mixed use or residential development on the site.

7.15 State Aid - As local government is an emanation of the state, the Council must comply with European Law regarding State Aid. This means that local authorities cannot subsidise commercial undertakings or confer upon them an unfair economic advantage. This report does not identify any specific aspect of the proposed acquisition, which is other than a commercial transaction, thus this arrangement satisfies the requirement it is on market terms. Furthermore, in the event that there are harmful residues present on the site, there are certain grants to remediate contaminated land for housing are excluded from the State Aid Regime.

7.16 Human Rights – As the scheme as described does not seek the use of compulsory purchase powers or displacement of any residents there does not appear to be critical risks associated with a Human Rights Act challenge, nevertheless matters should be kept under review in case such considerations should arise.

7.17 The post-acquisition use of the site contemplates the potential of an open storage use, let to commercial operators on a fixed term lease with measures would be taken to ensure that the security of tenure under the Landlord and Tenant Act 1954 would be regulated to ensure that full possession by the Council could be secured at the appropriate time. If any staff are employed full time as a result of this arrangement, TUPE may also apply.

7.18 In terms of taxation implications the Council has sought advice from PWC. They advise that Stamp Duty Land Tax (SLT) will be payable calculated to be 5% of the purchase price, though at a later stage on disposal of the asset the cost of the tax payable will be added to the purchase price for the purpose of calculating trading profit.

8. Other Implications

8.1 Risk Management – The land purchase risk has been mitigated via the independent Red Book valuation.

8.2 Contractual Issues – Gowlings have advised on the structure of the deal to mitigate the risks to the council.

8.3 Property / Asset Issues – BFR will manage the short term letting process to maximise the income for the asset during the hold period via an appointed property agent. BFR will also project manage the masterplan preparation and application process, with the use of consultants, to secure the most appropriate land value uplift for the site's reallocation.

Public Background Papers Used in the Preparation of the Report: None

List of Appendices:

Appendix 1: Site Location plans
Appendix 2: Proposed Acquisition Business Plan (exempt document)

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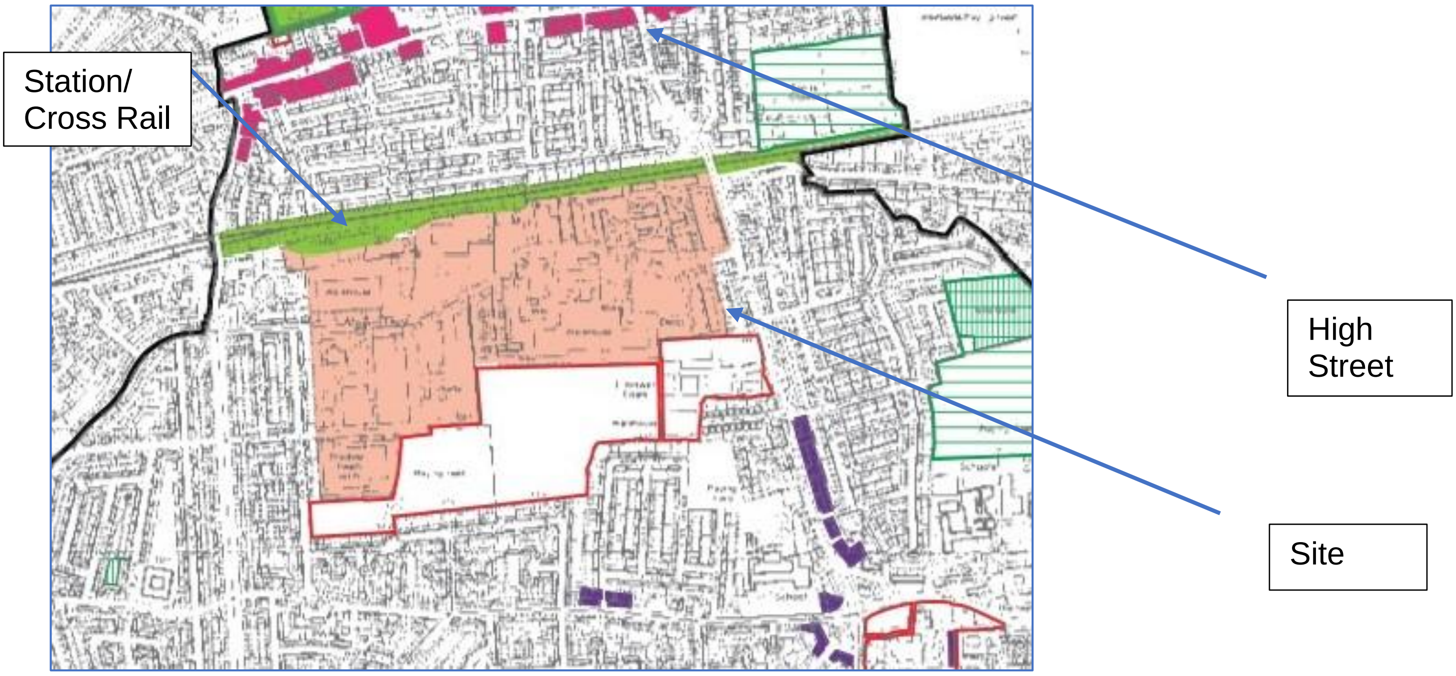
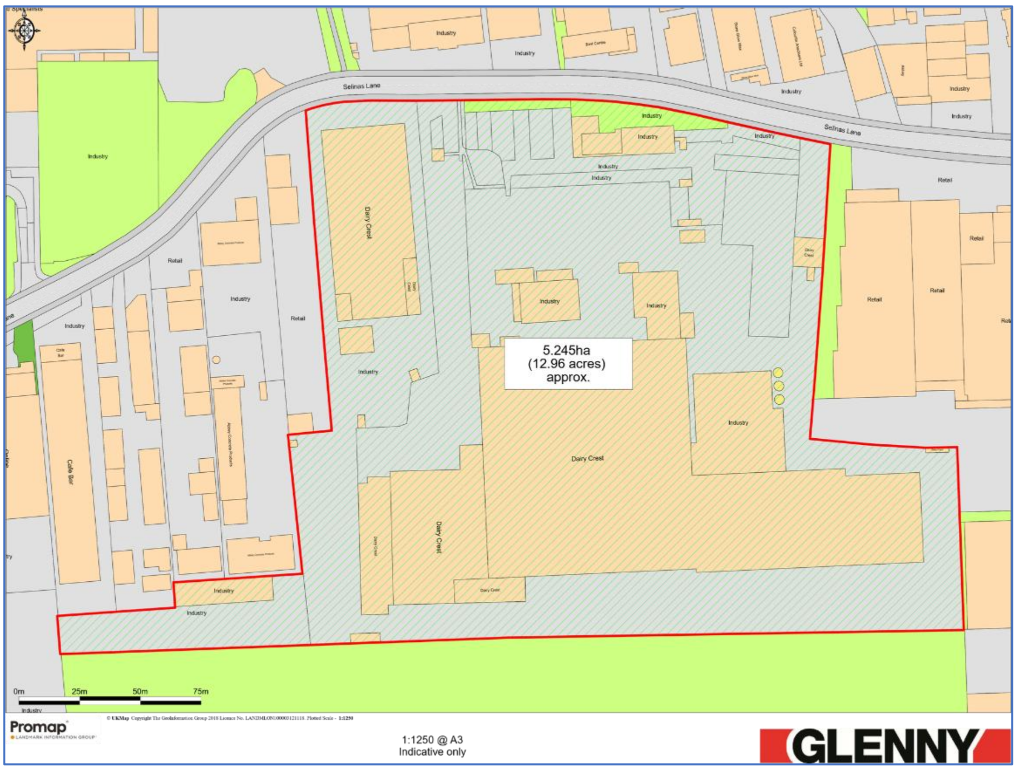
APPENDIX 1

Site Location Plans





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