

## Notice of Meeting of the

# ASSEMBLY

**to be held on Wednesday, 27 February 2019  
commencing at 7:00 pm in the  
Council Chamber, Town Hall, Barking**



To all Members of the Council of the London Borough of Barking and Dagenham

Date of publication: 19 February 2019

Chris Naylor  
Chief Executive

Councillors and senior officers are also invited to attend a presentation in the Council Chamber at 6.00 pm on the topic of Information Technology and New Ways of Working in respect of One Note, Skype and sharing documents. This will be chaired by Councillor Dominic Twomey, Deputy Leader of the Council and Cabinet Member for Finance, Performance & Core Services and led by Darren Rose (Performance Manager, New Ways of Working and Transformation) and Andrew Walkinshaw (Programme Management, Office Analyst, Transformation)

Kindly bring your IPAD/laptop with you to this session.

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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.

To view webcast meetings, go to <https://www.lbbd.gov.uk/council/councillors-and-committees/meetings-agendas-and-minutes/overview/> and select the meeting from the list.

## **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.

### **3. Minutes - To confirm as correct the minutes of the meeting held on 30 January 2019 (Pages 3 - 14)**

### **4. Minutes of Sub-Committees - To note the minutes of the JNC Appointments, Salaries and Structures Panel held on 29 January 2019 (Page 15)**

### **5. Death of former Councillor Mabel Arnold (Pages 17 - 18)**

### **6. Leader's Statement**

The Leader will present his statement.

### **7. Appointments**

The Labour Group Secretary will announce any nominations to fill vacant positions on Council committees or other bodies.

### **8. Budget Framework 2019/20 and Medium Term Financial Strategy 2019/20 - 2020/21 (Pages 19 - 75)**

### **9. Pay Policy Statement 2019/20 (Pages 77 - 86)**

### **10. Treasury Management Strategy Statement 2019/20 (Pages 87 - 139)**

### **11. Motions**

No Motions were received.

### **12. Questions With Notice**

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 Assembly, except where business is confidential or certain other sensitive information is to be discussed. The list below shows why items are in the private part of the agenda, with reference to the relevant legislation (the relevant paragraph of Part 1 of Schedule 12A of the Local Government Act 1972 as amended). ***There are no such items at the time of preparing this agenda.***

15. **Any 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



## MINUTES OF ASSEMBLY

Wednesday, 30 January 2019  
(7:00 - 9:15 pm)

### PRESENT

Cllr Elizabeth Kangethe (Chair)  
Cllr Faruk Choudhury (Deputy Chair)

Cllr Andrew Achilleos	Cllr Dorothy Akwaboah	Cllr Sanchia Alasia
Cllr Saima Ashraf	Cllr Abdul Aziz	Cllr Toni Bankole
Cllr Simon Bremner	Cllr Princess Bright	Cllr Sade Bright
Cllr Laila M. Butt	Cllr Evelyn Carpenter	Cllr Peter Chand
Cllr John Dulwich	Cllr Edna Fergus	Cllr Cameron Geddes
Cllr Syed Ghani	Cllr Rocky Gill	Cllr Kashif Haroon
Cllr Amardeep Singh Jamu	Cllr Jane Jones	Cllr Eileen Keller
Cllr Mohammed Khan	Cllr Donna Lumsden	Cllr Olawale Martins
Cllr Mick McCarthy	Cllr Giasuddin Miah	Cllr Margaret Mullane
Cllr Adegboyega Oluwole	Cllr Simon Perry	Cllr Moin Quadri
Cllr Foyzur Rahman	Cllr Tony Ramsay	Cllr Chris Rice
Cllr Lynda Rice	Cllr Ingrid Robinson	Cllr Paul Robinson
Cllr Darren Rodwell	Cllr Emily Rodwell	Cllr Faraaz Shaukat
Cllr Bill Turner	Cllr Dominic Twomey	Cllr Lee Waker
Cllr Phil Waker	Cllr Maureen Worby	

### APOLOGIES FOR ABSENCE

Cllr Josie Channer	Cllr Irma Freeborn	Cllr Dave Miles
Cllr Glenda Paddle	Cllr Muhammad Saleem	

#### 42. Declaration of Members' Interests

There were no declarations of interest.

#### 43. Minutes (21 November 2018)

The minutes of the meeting held on 21 November 2018 were confirmed as correct.

#### 44. Leader's Statement

The Leader of the Council presented a verbal statement, updating the Assembly on a range of matters since the last meeting including:

- Serious Crime Summit: This was an opportunity to ask the community to work with the Council and its partners. The Council has had a record number of views of its posts on the summit responding very positively on social media. The Summit announced the intention to launch a Commission on Domestic Violence tackling the 'normalisation' of DV in the local community.

- Brexit – Consideration of the potential implications for the Council across a range of areas including the local adult care workforce which is made up of 53% British nationals, 13% from within the European Economic Area (EEA) and 34% outside the EEA, those capital schemes in receipt of EU funding, the impacts on business rates, council tax collection, as well as on a number of Council contracts. In that respect initial discussions with service providers in Care and Support have not revealed any significant concerns.
- Wall of Shame introduced in January 2019 was one of the Council's initiatives to tackle GRIME CRIME.
- The New film studio and Travelodge purchase on the London East site.
- Talks with University College London (UCL) about bringing a science-engineering facility into the borough.
- New homes: 80% of those which are in shared ownership have gone to Barking & Dagenham residents.
- Purchase of Barking Power Station: this has been bought by the Corporation of London and was another step towards the Council's aspiration of also securing Spitalfields, Smithfield's and Billingsgate Markets.
- The unveiling of the first modular swimming pool at the Becontree Leisure Centre, which was opened by a past Olympic Champion (Rebecca Adlington).
- Secret Cinema is coming to the borough and has the potential to excite residents and bring a new cultural experience to the borough.
- Video footages of young people committing anti-social behaviour outside subways in the Heathway, Dagenham recently. The Council were meeting local Headteachers to identify those who were present and took part although they did not represent the vast majority of law-abiding young people in the borough.

With the permission of the Chair the Cabinet Member for Social Care and Health Integration advised that the new Mental Health Charter had been launched immediately prior to the Assembly meeting. She stated that stigma on mental health and the issues involved would not be tolerated. She added that Councillor C. Rice, the new Member Champion would be raising awareness of mental health and seeking to include this within training on first aid.

#### **45. Appointments**

The Assembly **resolved** to appoint Councillor C. Rice as a Governor representative on the North East London Foundation Trust (NELFT), following his recent appointment as the Council's Member Champion for Mental Health.

#### **46. Barking and Dagenham Youth Forum and Young Mayor Annual Report 2018**

The Assembly received the BAD Youth Forum's Annual report, introduced by the Head of Engagement Opportunity and Wellbeing, who was accompanied by representatives of the Youth Forum.



This report detailed the achievements of the Barking and Dagenham Youth Forum during 2018. Outlining the work of each of the sub-groups, their aims and the impact of the work have completed.

The Barking and Dagenham Youth Forum was now in its 17<sup>th</sup> year. It existed to provide young people with a formal platform to express their views and be ambassadors for young people locally. The Forum elected 60 young people each year through a democratic election process in each school, supported by Democratic Services. In 2018 ELUTEC opted to become members of the Forum, electing their first ever representatives. Trinity Special School elected new representatives this year, via an internal election process suitable to the needs of students.

The Forum representatives highlighted a number of areas of their work during the year, including:

**Community Action Sub-Group:** Young people expressed concerns about the quality of education being provided by supply teachers in secondary schools. They also led Drug and Alcohol Awareness Sessions where young people discussed concerns about a lack of awareness of drugs and alcohol and their effects on young people.

**Crime Sub-Group:** Throughout the year, the Group continued to discuss issues relevant to young people, including crime and in particular knife crime and invited Cabinet Members and the Metropolitan Police to a meeting to discuss their concerns in this matter.

**Young Mayor Sub-Group:** Events included Women's Empowerment Month launch and the Youth Parade. The chosen charity during the year was the New Horizon Youth Centre which raised £4770.89 towards their work and this would be used to purchase ID cards for young people who accessed the New Horizon Youth Centre in the form of a passport.

**Young Inspectors Sub-Group:** Young inspectors were commissioned by Public Health Officers in the borough to quality assure the Come Correct Condom Distribution scheme (C- card scheme) in Barking and Dagenham. They also inspected retail outlets that were selling knives, in some cases to underage children. In answer to a question from Members, representatives of the Sub-Group confirmed they would consider inspecting other areas.

The Chair thanked representatives of the Forum for their excellent presentation and their work during the year. Members welcomed their work in raising civic pride and considered they were a credit to the borough, which included their sterling work on inspections at pharmacies, selling of knives, drug and alcohol and quality of teachers. They also welcomed their attendance at a recent Overview and Scrutiny Committee meeting in which they related their experiences going to and from and being at school.

#### **47. Final Third Local Implementation Plan Submission**

The Cabinet Member for Regeneration and Social Housing introduced a report on the Council's third Local Implementation Plan (LIP3), which set out the Council's long-term strategy for delivering improvements to the transport network and services in support of the Borough Manifesto ambitions for delivering inclusive, sustainable growth in Barking and Dagenham.

A draft LIP3 was approved by Cabinet on 16 October 2018 (Minute 42 referred) and submitted to Transport for London (TfL) for comment on 2 November. A five-week period of consultation with a range of statutory and local stakeholders then ensued which ended on 7 December. At the same time, consultation was undertaken on a draft Environmental Report, produced as part of a Strategic Environmental Assessment of the LIP. The Cabinet Member advised that some minor changes had been made to the final LIP3 as a result of the feedback received.

The Assembly **resolved** to:

- (i) Note the minor changes to the draft Third Local Implementation Plan (LIP3) following the formal consultation period; and
- (ii) Approve the final draft version of the LIP3 for submission to Transport for London and sign-off by the Mayor of London.

#### **48. Joint Health and Wellbeing Strategy 2019/23**

The report was introduced by the Cabinet Member for Social Care and Health Integration. As required by the Health and Care Act 2012, a new Health and Wellbeing Strategy was required for 2019-2023 to follow on from the 2015-2018 strategy. The strategy set a renewed vision for improving the health and wellbeing of residents and reducing inequalities at every stage of people's lives. The three priority themes for the strategy have been agreed by Health and Wellbeing board in January 2019 when presented with the 2017 Joint Strategic Needs Assessment (JSNA):

- 1) *Best Start in Life*
- 2) *Early Diagnosis and Intervention*
- 3) *Building Resilience*

The Cabinet Member advised that there would be zero tolerance for domestic abuse which costs £666m in the UK. She highlighted Outcome 3 (improved multi-agency support for those with adverse childhood experiences).

Members welcomed the Strategy including outcomes, priorities and enablers and considered that early intervention in ensuring health and wellbeing was important. They welcomed the JSNA and priority 3 (building resilience) and empowering residents and considered it also important for improved 'joined up' services with the NHS and its partners including the Council.

Members welcomed the health checks which were available for residents aged over 50 but take up of these checks was quite low and this needed to be

publicised to a greater degree.

In answer to a question about the link to the Council's Parks Strategy and outcome 5(to improve physical and mental health wellbeing), the Cabinet Member confirmed that whilst there was a link between both Strategies it should be re-emphasised as utilising parks and green spaces played a key role in enhancing and improving health and well-being.

The Assembly **resolved** to note the content of the Strategy including the 3 priority themes, and the 7 outcomes within the document.

#### **49. Council Tax Support Scheme 2019/20**

The Cabinet Member for Finance, Performance and Core Services introduced a report on the local Council Tax Support (CTS) Reduction Scheme for 2019/20.

The Cabinet had considered the report at its meeting on 22 January 2019 and recommended that the fundamentals of the scheme remain unchanged from 2018/19, although some amendments were necessary in order to align with the latest Government welfare reforms, such as Universal Credit.

The Assembly **resolved** that the Council Tax Support (CTS) Reduction Scheme implemented for 2018/19 be retained for 2019/20, subject to the following minor amendments:

- Treat Universal Credit Award Notifications as an Intention to Claim CTS providing that a valid claim form for CTS is made within a month of the decision to award Universal Credit;
- Adopt a shortened claim form for the purposes of claiming CTS when Universal Credit has been awarded;
- Accept Universal Credit as a "passported" benefit when claiming within a month of a new liability for CTS purposes;
- Amend the capital threshold for CTS purposes to £10,000 for working age persons to align it with Pension Age capital limits; and
- Re-introduce backdate on CTS of up to four weeks, subject to good cause to align it with the Housing Benefit scheme.

#### **50. Motions**

Moved by Councillor Ashraf and seconded by Councillor Kangethe:

"This Council expresses alarm at the rise in antisemitism in recent years across the UK. This includes incidents when criticism of Israel has been expressed using antisemitic tropes. Criticism of Israel can be legitimate, but not if it employs the tropes and imagery of antisemitism.

We therefore welcome the UK Government's announcement on December 11<sup>th</sup> 2016 that it will sign up to the internationally recognised International Holocaust

Remembrance Alliance (IHRA) guidelines on antisemitism which define antisemitism thus:

“Antisemitism is a certain perception of Jews, which may be expressed as hatred toward Jews. Rhetorical and physical manifestations of antisemitism are directed toward Jewish or non-Jewish individuals and/or their property, toward Jewish community institutions and religious facilities.”

The guidelines highlight manifestations of antisemitism as including:

- Calling for, aiding, or justifying the killing or harming of Jews in the name of a radical ideology or an extremist view of religion.
- Making mendacious, dehumanising, demonising, or stereotypical allegations about Jews as such or the power of Jews as collective — such as, especially but not exclusively, the myth about a world Jewish conspiracy or of Jews controlling the media, economy, government or other societal institutions.
- Accusing Jews as a people of being responsible for real or imagined wrongdoing committed by a single Jewish person or group, or even for acts committed by non-Jews.
- Denying the fact, scope, mechanisms (e.g. gas chambers) or intentionality of the genocide of the Jewish people at the hands of National Socialist Germany and its supporters and accomplices during World War II (the Holocaust).
- Accusing the Jews as a people, or Israel as a state, of inventing or exaggerating the Holocaust.
- Accusing Jewish citizens of being more loyal to Israel, or to the alleged priorities of Jews worldwide, than to the interests of their own nations.
- Denying the Jewish people their right to self-determination, e.g., by claiming that the existence of a State of Israel is a racist endeavour.
- Applying double standards by requiring of it behaviour not expected or demanded of any other democratic nation.
- Using the symbols and images associated with classic antisemitism (e.g., claims of Jews killing Jesus or blood libel) to characterize Israel or Israelis.
- Drawing comparisons of contemporary Israeli policy to that of the Nazis.
- Holding Jews collectively responsible for actions of the state of Israel.

This Council welcomes the cross-party support around the country for combating antisemitism in all its manifestations. This Council hereby adopts the above definition of antisemitism as set out by the International Holocaust Remembrance Alliance and pledges to combat this pernicious form of racism.”

Members of the Assembly spoke in support of the motion.

The motion was **carried** unanimously.

## **51. Questions With Notice**

### **Question 1**

#### **From Councillor Dulwich**

Following the introduction of PSPOs (Public Space Protection Orders) in parts of Barking & Dagenham, does the relevant Cabinet Member feel that the PSPOs have been a success so far?

#### **Response from the Cabinet Member for Enforcement and Community Safety**

Public Space Protection Orders (or PSPOs) are a way of tackling anti-social behaviour in public spaces where people should expect to be able to go about their business without fear. They send an important message to the community that we are serious about tackling antisocial behaviour which can so often be a blight on an area's reputation. By placing conditions or restrictions on an area, PSPOs can then be enforced.

The PSPO in Thames Ward helps tackle the nuisance caused by speeding vehicles and joy riders. in Abbey Green, Barking Park and Mayesbrook Park, these tackle dog fouling and the Heathway and Broad Street (in Dagenham), and Barking Town Centre PSPO help tackle anti-social behaviour. These PSPO's enable officers to issue fixed penalty notices on the spot to those causing a nuisance, including those drinking alcohol, spitting, urinating or begging in an aggressive way.

The Council have issued 94 fixed penalty notices for offences caused and secured an 82% payment rate for those notices.

The Council's efforts in cracking down on dog poo through our dog poo DNA initiative have won us plaudits in the UK. The work officers do on Abbey Green and Barking and Mayesbrook Parks has reinforced this work.

The Council need to do more in our PSPOs on the Heathway, Broad Street (in Dagenham), and Barking Town Centre. The key to their success is the support and inclusion of local police teams patrolling alongside enforcement officers. It makes a huge difference to the effectiveness of our officers, including their ability to verify offenders' details as well as when dealing with people under the influence of drink or drugs, if the police are present. PSPOs are not the only way to tackle crime, but they are an important tool in tackling anti-social behaviour. The Council's Wall of Shame is another. When the Council last consulted residents, 9 out of 10 were in favour of the PSPOs.

These may be times of austerity and limited public resources, but residents are also living through a time when crime and fear of crime is at a record high. By working together with the police, the Council can use our limited resources more effectively and make the local community a safer place.

## **Question 2**

### **From Councillor Khan**

What action is being taken by the Council to reduce homelessness in Barking & Dagenham?

### **Response from the Cabinet Member for Employment, Skills and Aspiration**

The Council have recently published the Draft Homelessness Strategy which sets out its on-going commitment to prevent and alleviate homelessness in the borough and builds on the work undertaken through Community Solutions which over the last two years has led to a 42% reduction in the number of people who are officially homeless and needing to be rehoused by the Council. This has been delivered within the challenging environment of increasing property prices and the roll out of Universal Credit and other welfare reforms, which have made it increasingly difficult for those on lower incomes to secure accommodation locally.

As required by the new Homelessness Reduction Act, the Council have provided information, advice and personalised planning to deliver sustainable housing solutions to those eligible for assistance from the Council. Between April - December 2018 the Council has assisted 1548 households threatened with homelessness. This was nearly double the number of households supported as the previous year.

The Council support pathways into employment and training and through the Homes and Money Hub assist residents in maximising their income. Where appropriate the Council offers discretionary funding to support those residents willing to help themselves sustain their tenancies and avoid the risk of homelessness. The use of Discretionary Housing Payments helped 1,286 residents sustain their tenancies in 2018.

The Council's rent deposit scheme and Prevention Fund have helped 377 households from becoming homeless so far this year through providing them with financial assistance to find accommodation in the private sector or keep their current home available to them. This is over three times the number of people who were assisted in this way as last year.

The Council has enabled residents to move into an offer of a private rented property which they can afford, and successfully enabled 237 households to move into such accommodation.

As the main causes of homelessness are landlord evictions and parental exclusion from the home, the Council are continuing to liaise with private sector landlords and working with families who may be looking to eject their children or family from households. This has, over the last three years, led to a 43% reduction in households becoming homeless because of landlords regaining their properties and a 56% reduction in those excluded by parents.

The Council has also recently committed to tackle rough sleeping in the borough. While the numbers are historically low in comparison to neighbouring boroughs, the sight of street sleeping is a stark reminder of people's desperation and the

Council plan to adopt a partnership No Second Night Out model of working with rough sleepers. This will provide a place of safety where the needs of rough sleepers can be quickly assessed and receive access to recovery and housing services

### **Question 3**

#### **From Councillor P. Robinson**

The Government recently announced a new Long-Term Plan for the NHS. What assessment has the Cabinet Member for Social Care & Health Integration made of the impact this may have on NHS services that are used by residents of our borough?

#### **Response from the Cabinet Member for Social Care and Health Integration**

The NHS Long Term Plan has finally arrived. There is much in the plan that the Council support, including:

- • The shift in focus to primary and community services
- • Extra funding for those places with the greatest health inequalities
- • Action on screening and vaccination inequalities
- • £30M for rough sleeping initiatives
- • Additional NHS gambling clinics
- • We welcome too the strong focus on mental health.

But all of the commitments above cannot be done by the NHS in isolation. They need collaboration with local authorities.

The NHS Plan pushes the creation of Integrated Care Systems, where health and care work more seamlessly, shifting resources out of expensive hospital care and into prevention and early intervention. This is what the Council are working on with its health partners and London Boroughs of Redbridge and Havering. However, the Council is concerned that:

- The plans are 'undeliverable' without a good spending review settlement for public health and social care; and
- The NHS needs to invest in and jointly commission first-line community support services, like our Community Solutions service, to deliver the plans efficiently – we need to operate as a care system.

The Council are very concerned about a commitment to review at the commissioning of sexual health services, school nurses and health visitors, services that are commissioned by local authority Public Health teams. There has been no consultation with the Council, which implies that the arrangement is not working, although there is no evidence of that. There is, however, evidence of the pressure of reducing public health funding by Government, so maybe NHS England should consider reviewing this.

In terms of the joint Health & Wellbeing Strategy, the challenge to the Client

Commissioning Group (CCG) is that they are receiving an additional £19 million to take more account of very high deprivation and of mental health and community care needs in the borough.

There should be greater work undertaken through the Integrated Care Partnership Board (ICPB) and jointly invest in our transformation plans for prevention, independence & resilience, inclusive growth and participation & engagement. With each part funded appropriately and sustainably.

#### **Question 4**

##### **From Councillor Akwaboah**

What is the Council's position on the proposed academisation of Catholic schools in Barking & Dagenham?

##### **Response from the Cabinet Member for Educational Attainment and School Improvement**

This Council opposes the academisation of LBBB Catholic schools and wholeheartedly supports Catholic education. Usually a school would become an academy because it is vulnerable or failing, however, all Catholic schools in Barking and Dagenham are good or outstanding and Catholic education is flourishing in the borough and the strong family of schools and headteachers support each other and share good practice.

The Council have helped a Catholic primary school in difficulties and has a very strong record of school improvement and invested over £13 million in Catholic school buildings in recent years to improve and expand them. The Council has improved facilities for vulnerable pupils and has a responsive and expert service for children with high needs. The Council offers a Borough-wide rich school curriculum in sports, arts, music, outdoor education, sports and healthy schools.

#### **Question 5**

##### **From Councillor Rahman**

Given that the parking restrictions in Barking Town Centre are in place until 9 pm every evening, is there any possibility that the hours of operation could be changed in future?

##### **Response from the Cabinet Member for Enforcement and Community Safety**

The Town Centre area is still heavily used into the evenings by visitors, commuters and businesses. Residents raised this as an issue during the consultation process and felt that finishing the zones at 5.30pm was too early and might prevent them from being able to park when arriving home from work. The hours of operation were therefore extended to 9pm to facilitate resident parking. The current restrictions are in place as a result of consultation. Therefore, the restrictions could change in future, although this will depend on residents' views as part of any future consultation.



## **Question 6**

### **From Councillor Fergus**

What is the Council doing to tackle fuel poverty in Barking & Dagenham?

### **Response from the Cabinet Member for Regeneration and Social Housing**

2.5m households in the UK are estimated to be fuel poor, of which more than 8,000 households in Barking and Dagenham are struggling because of low incomes, high energy prices and energy inefficient housing. However, over the last few years the Council has lifted an estimated 3,000 households out of fuel poverty through a mix of energy efficiency advice, promoting access to cheaper tariffs and a programme of retrofitting, heating and insulation works to social and private sector housing.

In January 2019, the Council launched Beam Energy in partnership with the not-for-profit energy company Robin Hood Energy, to provide residents access to a range of more affordable fuel tariffs which will be within cheapest 15% on offer in London. As the market stands at the moment Beam's standard variable tariff is already 4% cheaper than the big six energy companies and Beam's prepayment offer is 7% cheaper and the most competitive fixed term tariff is 9% cheaper, giving many residents an opportunity to get a good deal, save some money and warm their homes for less: this offer will be open to anyone living in London and the Eastern region. For vulnerable households, Beam is also offering an annual £140 Warm Homes Discount every winter to help towards fuel costs. As the contract develops the Council will complement this through a fuel debt support initiative which will seek to assist voluntary sector partners support households who are in arrears with their energy bills.

In addition, the Council are in discussions with energy suppliers regarding access to the Government's ECO3 funding, so that the Council can carry out heating and insulation works to 1,267 council owned properties which we have been identified as being cold, inefficient E, F and G rated properties. Up to 10,000 Owner-occupiers and almost 4,000 private rented tenants could also benefit from such measures where they are in receipt of qualifying benefit.

Over the last seven years the Council have obtained an estimated £15m of external funding for heating, insulation and retrofitting works for over 10,000 older homes in Barking and Dagenham, across all tenures and as part of the planning process the Council need to be satisfied that all refurbishments and new-build properties meet the insulation and conservation of fuel and energy requirements laid out in Part L of the Building Regulations.

## **Question 7**

### **From Councillor Oluwole**

Does the Council have any plans to redevelop derelict sites with old garages and use them to provide homes for local residents.?

## **Response from the Cabinet Member for Regeneration and Social Housing**

The Council and Be First have a good track record in redeveloping unused garage sites into new affordable housing. In the current financial year completed examples include Burbridge and Tarling Close where high-quality bungalows have been built housing 16 households. These schemes have delivered affordable rent bungalows enabling older and disabled residents to move to purpose-built homes and release larger, under occupied homes for local families. The schemes have won prestigious design plaudits and been very well received by residents. Mitchell Close (off Burford Close) also delivered a further 6 affordable homes following on from a number of 'infill' schemes in previous years.

Schemes in Sugden Way and Wivenhoe Road have recently secured planning approval and will be under construction later this year. Chelmer Crescent in Thames View is currently in the design stage whilst a number of other garage sites are currently being considered with feasibility work underway. Be First will continue to liaise with My Place on further opportunities to unlock delivery of new homes wherever feasible.

## **MINUTES OF JNC APPOINTMENTS, SALARIES AND STRUCTURES PANEL**

Tuesday, 29 January 2019  
(1:30 - 3:00 pm)

**Present:** Cllr Darren Rodwell (Chair), Cllr Margaret Mullane, Cllr Maureen Worby, Cllr Elizabeth Kangethe and Cllr Eileen Keller

### **5. Declaration of Members' Interests**

There were no declarations of interest.

### **6. Private Business**

It was resolved to exclude the public and press from the remainder of the meeting by reason of the nature of the business to be discussed which included information exempt from publication by virtue of paragraph 1 of Part 1 of Schedule 12A to the Local Government Act 1972 (as amended).

### **7. Appointment of Interim Operational Director: Enforcement and Community Safety**

The Panel considered the papers that had been submitted in advance of the meeting, which included the job description and person specification for the post, search information and the CVs of the two shortlisted candidates.

The Panel reviewed and agreed the interview questions to be asked of the candidates.

Following the interviews, Members discussed the responses to the questions and reached a unanimous decision regarding the appointment.

The Panel **resolved** to appoint Andy Opie to the post of Operational Director, Enforcement and Community Safety for up to 12 months, subject to suitable references, other employment checks and usual interim terms and conditions.

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## ASSEMBLY

27 February 2019

<b>Title:</b> Death of former Councillor Mabel Arnold	
<b>Report of the Chief Executive</b>	
<b>Open</b>	<b>For Information</b>
<b>Wards Affected:</b> None	<b>Key Decision:</b> No
<b>Report Author:</b> David Symonds, Democratic Services Officer	<b>Contact Details:</b> Tel: 020 8227 2638 Email: <a href="mailto:david.symonds@lbbd.gov.uk">david.symonds@lbbd.gov.uk</a>
<b>Accountable Strategic Leadership Director:</b> Chris Naylor, Chief Executive	
<p><b>Summary:</b></p> <p>The Assembly is asked to note with sadness that former Councillor Mabel Arnold passed away peacefully in a residential home in Stourbridge, West Midlands Sunday 10 February 2019.</p> <p>Mabel served as a Councillor between 1974 and 1998, initially representing the Manor Ward. She represented the Parsloes Ward between 1978 and 1986 and then the former Cambell Ward between 1986 and 1998.</p> <p>During her time on the Council, Mabel was on a wide range - of committees including the General Purposes, Technical Services, Education, Finance and Cleansing Committees. She also served as the Deputy Chair of the Social Services Committee between 1982 and 1988 and the Libraries Committees between 1990 and 1993.</p> <p>Mabel also represented the Council on numerous outside bodies, including the Fostering and Adoption Service, and was Chair of Governors for Barking College of Adult Education and a Governor of Cambell, Godwin and Monteagle Schools.</p> <p>Mabel was elected Mayor for the 1987/88 municipal year and was granted the Freedom of the Borough in 1995.</p> <p>Mabel was 102 years of age when she passed and is survived by two children, eight grandchildren, 20 great grandchildren and 24 great great grandchildren.</p> <p>The funeral which will be a cremation will take place on Thursday 14 March at 1pm at St.Mary's Church in Stourbridge. Given Mabel's long association with the Borough the family has arranged for a Memorial service as a celebration of her life, to be held on Wednesday 20 March at the Dagenham Baptist Church in Chaplin Road RM9 6EP. Those attending the service are asked to gather from 11am.</p>	

The family have asked that if anybody would like to make a donation the preferred charity is 'The Bobby Moore Cancer Fund'.

**Recommendation**

The Assembly is asked to stand for a minute's silence as a mark of respect.

## ASSEMBLY

27 February 2019

<b>Title:</b> Budget Framework 2019/20 and Medium Term Financial Strategy 2019/20-2020/21	
<b>Report of the Cabinet Member for Finance, Performance and Core Services</b>	
<b>Open Report</b>	<b>For Decision</b>
<b>Wards Affected:</b> All	<b>Key Decision:</b> Yes
<b>Report Author:</b> Claire Symonds, Chief Operating Officer	<b>Contact Details:</b> Tel: 020 227 5513 E-mail: <a href="mailto:claire.symonds@lbbd.gov.uk">claire.symonds@lbbd.gov.uk</a>
<b>Accountable Strategic Director:</b> Claire Symonds, Chief Operating Officer	
<b>Summary:</b>	
<p>This report sets out the:</p> <ul style="list-style-type: none"> <li>• Medium Term Financial Strategy (MTFS) for 2019/20 to 2020/21;</li> <li>• Proposed General Fund budget for 2019/20;</li> <li>• Proposed level of Council Tax for 2019/20;</li> <li>• Draft capital investment programme 2019/20 to 2022/23.</li> <li>• Update on the Dedicated Schools Grant and Local Funding Formula for Schools.</li> <li>• Update on the Flexible use of capital receipts to support transformation</li> </ul> <p>The General Fund net budget for 2019/20 is £148.820m and the proposed net budget for 2020/21 is £148.023m. The budget for 2019/20 incorporates decisions previously approved by Members in the Medium Term Financial Strategy including the savings approved by the Cabinet in February 2017 and February 2018 together with changes in Government grants and other financial adjustments.</p> <p>The Council proposes to increase Council Tax by 2.99%. This includes 1.99% for general spending and a further 1% that is specifically ringfenced as a decision by this Authority for Social Care and Support for Children and Disabled People. This will increase the level of Council Tax from £1,199.63 to £1,235.50, (£35.87) for a band D property.</p> <p>The Mayor of the Greater London Authority (GLA) is proposing to increase the GLA element of Council Tax by 8.9% (£26.28) for a Band D property, changing the charge from £294.23 in 2018/19 to £320.51 in 2019/20, of this £24 relates to the Police Precept. The combined amount payable for a Band D property will therefore be £1,556.01 for 2019/20, compared to £1,493.86 in 2018/19. This is a total change of £62.15 for the Council Tax bill for 2019/20. At its meeting on 22 January 2019, the Cabinet agreed an enhanced Council Tax Support Scheme in order to continue to support local residents on very low incomes.</p> <p>The proposed draft 4-year capital programme is £744.323m for 2019/20 to 2021/22, including £245.100m for HRA schemes. Details of the schemes included in the draft capital programme are at Appendix E.</p>	

This report was considered and endorsed by the Cabinet at its meeting on 18 February 2019.

### **Recommendation(s)**

The Assembly is recommended to:

- (i) Approve a base revenue budget for 2019/20 of £148.820m, as detailed in Appendix A to the report;
- (ii) Approve the adjusted Medium Term Financial Strategy (MTFS) position for 2019/20 to 2020/21 allowing for other known pressures and risks at the current 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 2019/20 budget, pending confirmation of levies and further changes to Government grants prior to 1 April 2019;
- (iv) Approve the Statutory Budget Determination for 2019/20 as set out at Appendix C to the report, reflecting an increase of 2.99% on the amount of Council Tax levied by the Council and the final Council Tax proposed by the Greater London Assembly (8.9% 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 section 4 of the report.
- (vi) Approve the Council's draft Capital Programme for 2019/20 to 2022/23 totalling £744.323m of which £498.473m was 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 briefing on the potential implications of Brexit for the Council as set out in Appendix G to the report;
- (ix) Note the Chief Finance Officer's statutory finance report as set out in section 10 of the report, which included a recommended minimum level of reserves of £12m; and
- (x) Approve the updated Dedicated Schools Budget for 2019/20 including the hourly rate payable to Early Years providers (3-4 year olds) as set out in section 11 and Appendix H to the report.

### **Reasons**

The setting of a robust and balanced budget for 2019/20 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 The purpose of this report is to provide the Assembly with an update on our financial position and to seek agreement to proposals for the revenue budget for 2019/20 of £148.820m.
- 1.2 The report also sets out the Medium Term Financial Strategy (MTFS) for 2019/20 to 2020/21 and the Council Tax level for 2019/20.
- 1.3 Local Government as a whole faces unprecedented financial challenges with year on year cuts to the funding from central government while the demand for services is rising. Councils can respond to this level of challenge in a variety of ways that reflect the scale of their ambition for their residents. This Council has chosen to take a bold, new and ambitious approach based on investing in services, maximising economic growth and the consequent opportunities and transforming the way the council runs.

## **2. Our Medium Term Financial Strategy**

### **Our Challenges**

- 2.1 Under the government's policy of austerity, funding for public services has been reducing steadily since 2010/11 with Local Government funding being particularly deeply reduced – by around 40% over this period. This has been a challenge for the whole sector but especially for those authorities who serve communities with higher levels of need and those which were more dependent on central government funding due to their lower tax base.
- 2.2 Barking and Dagenham is such a Council – we are a fast growing borough with a young population and many of our citizens face a range of challenges and disadvantages that mean that they may need help and support from the Council at some point. In many cases population growth is a direct driver of demand for services - for example, recent evidence from the National Audit Office (NAO) regarding children's social care spend, found that growth in child populations equate to similar levels of increases in referrals to children's social care.
- 2.3 We are also a borough that is ambitious and sees the opportunities that are there for a place that can rightly be called "London's Growth Opportunity." We have therefore responded to the challenge of austerity not merely with a range of ever deeper budget cuts, but with a medium term strategy that is based on transforming the Council and maximising housing, business and economic growth.
- 2.4 This includes the creation of an investment portfolio, the establishment of subsidiary companies to deliver services more efficiently and generate additional income and the redesign of all Council services into a New Kind of Council. The funding for the programme that delivered this scale of transformation has been largely drawn from the Flexible Use of Capital Receipts and further information on this can be found in an appendix to this report.

- 2.5 We are now just half way through the Transformation programme. This report provides an update on our progress to date and the forthcoming work in 2019/20. As might be expected with a programme of such size and complexity there have been many achievements but in some areas we have come across further challenges that have delayed or changed the level of saving that may be achieved.
- 2.6 The area of greatest concern for us financially is Care and Support. These are very important services providing vital help to our most vulnerable citizens at their times of greatest need – from home care that helps a frail and elderly person stay in their own home or return there after a stay in hospital, to support that means a severely disabled young person can lead a fulfilling life in the community or the social work that protects a child from serious harm. People in need of these services have both a statutory and moral right to them which means that the Council cannot restrict access to them. The numbers in need of assistance tend to grow at least in line with demographic trends but funding has not been increased to match, and recent experience suggests that demand has significantly outstripped demographic predictions. This is not just an issue for Barking and Dagenham – it is a matter of serious national concern that the Government is beginning to recognise. Additional national funding has been provided as a result and we have increased our local funding as far as possible. The services are adapting their transformation programmes to reflect improved understanding of the impact of past changes and the new policy context that the Council has developed. As new pressures become evident, it is important that we invest our resources in a balance of transforming and developing services and meeting the immediate pressures in budgets. This will give us the best long-term chance to establish a sustainable social care service for our residents.
- 2.7 The Council's Medium Term Financial Strategy for 2017/18 to 2020/21 was established and approved in February 2017. This set out the overall strategy for the period including a savings and income programme of £48m over the four years. This was updated in February 2018 which made a number of corrections and adjustments and added a further £9.646m of savings.
- 2.8 Since then there have been two update reports this year in July and November which confirmed the direction of travel. In November there was a gap between our planned expenditure and income of £0.570m which would be covered by a drawdown on the Collection Fund surplus or from the budget support reserve.
- 2.9 Since that report was written the Provisional Local Government report has been published which made a number of changes to our funding. In summary an additional £2.229m has become available. Once the small funding gap has been offset effectively this means that there is £1.7m additional funding. It is proposed that this should be used to provide further support to Care and Support – primarily for Children and Disabilities Care and Support services. (This is in addition to the £2.4m additional grant funding and the increased IBCF.)
- 2.10 There are still a number of risks and unknowns to this position. The area of greatest uncertainty remains the impact of Brexit. At the time of writing (30<sup>th</sup> Jan) there is little clarity about what form this will take or what it means for the people of Barking and Dagenham and for the Council. However, we have set our assessment of the possibilities in an appendix to this report.

### **3. Changes to Funding and Business Rates**

- 3.1 In 2018/19, Barking and Dagenham entered into the London wide business rates pilot and in 2019/20 the Council will continue to be part of this, however the Government have changed how this will operate. The new arrangements will see London authorities now retain 75% of any business rates growth across the City. This was previously set at 100% growth in business rates. However, the amount guaranteed to the Council under the “no worse off” arrangements has been increased to compensate. Overall, we estimate that we will receive £79.16m from this pool – which is approximately £0.5m higher than the previous estimate. However, it should be noted that £2m of this depends on estimates of business rates growth in London and so is at risk in the event of economic downturn.
- 3.2 The Council no longer receives any Revenue Support Grant as this has been replaced by the Business Rates pooling arrangements. Government grants such as the Public Health grant, Housing Benefit Administration grant and the Local Council Tax Support grant have continued to witness cuts in allocation placing additional burdens to the Council.
- 3.3 On a positive note the Council has seen increases in the New Homes Bonus for 2019/20 due to the acceleration of housing developments across the Borough. In addition, the Council Tax Base as set in January is £0.291m higher than estimated in the November report.
- 3.4 One-off additional funding for Adults’ and Children’s Social Care has been made available by the government to enable the Council to help towards the growing demand for support to both vulnerable and elderly adults, as well as children needing statutory social care support. £0.913m will be allocated to the Adults’ Commissioner to distribute as appropriate and the remaining £1.56m will be allocated to the Director of People & Resilience, with the purpose to drive innovation in practice approaches that better impact on outcomes and seek to reduce demand, such as interventions which address Adverse Childhood Experiences.
- 3.5 This is the 3<sup>rd</sup> year of the allocation of Improved Better Care Fund (iBCF) so in 2019/20 an additional amount of £1.976m is available to spend to help meet adult social care pressures and work with NHS partners on reducing demand in the system.
- 3.6 In addition the November report proposed a 2.99% Council Tax increase with a third of this being ring fenced to Care and Support. This will raise an additional £0.6m which will be allocated to the Children’s Commissioner for distribution.
- 3.7 A summary of the grant funding is shown in the table below:

Grant	Changes in Funding 2019/20
Housing Benefit Admin Grant	(£0.115m)
Local Council Tax Support Grant	(£0.011m)
Public Health Grant	(£0.446m)
Winter Pressures (Adults) Grant	£0.913m
IBCF funding increase	£1.976m
Adult and Children Social Care Grant	£1.560m
New Homes Bonus	£0.741m
Business Rates Income	£0.502m

3.8 In addition the Government has allocated a further £0.871m Business Rates Levy surplus. This funding will be received in 2018/19 and will be carried forward to 2019/20 as a one off. The table below shows the additional funding that has become available since the November report was written.

<b>Changes</b>	
Additional Council Tax income from tax base	-0.291
Additional Council Tax income from 2.99% increase	-0.600
Revised Business Rates Pilot (75%)	-0.502
New Homes Bonus	-0.741
Winter Pressures Grant	-0.913
Adult Social Care Support Grant	-1.56
Business Rates Levy Account Surplus	-0.871
Housing Benefit Admin Grant	0.115
Local Council Support Administration Subsidy	0.011
<b>Net changes to MTFS funding</b>	<b>-5.352</b>
Previous MTFS gap	0.570
Allocated to	
Adults	0.913
Childrens	3.869
	<b>5.352</b>

#### 4 Update on Current Projects, Issues and Risks for Council Services.

4.1 The Council is now half way through its Transformation programme and much progress has been made. This section provides an update on the main Council services and programmes, the risks and issues and any particular challenges being faced.

##### Be First

4.2 The Council's wholly owned development company Be First, came into existence in February 2017 and started trading as an independent entity in October 2017. It is now fully established and projects that it will soon become fully profitable as an independent entity. It reports regularly to the Council as its main shareholder.

- 4.3 Cabinet will receive at its March meeting an updated business plan. It is expected that this will state that the company is projecting that it will start to secure significant returns on investment and bring profits to the Council in the next few years.

#### **Investment Strategy**

- 4.4 Overall, the Investment Strategy is scored medium risk and the overall Investment Strategy financial model is being reviewed. However, the Sponsor is confident that the target income can be delivered and that the programme will achieve its main financial targets and service objectives through its larger projects and working with Reside.

#### **Customer Experience & Digital**

- 4.5 This programme has made good progress on redesign of the website and the automation of digital processes. It has also achieved a significant channel shift through opening up other routes to access services that are more cost effective and flexible for customers. It has taken some time to translate this into cashable savings but the programme is confident that these will start to be delivered shortly and will contribute to the 2019/20 savings programme.

#### **Core Support Services**

- 4.6 The Core Support Services Programme savings are due to be delivered in 2020/21. These savings will be achieved through the renewal of the current Support and Customer services contract and right-sizing core services to support the new organisational structure. Work is progressing well with an initial report having been brought to Cabinet last month on the first phase. The future design of the core services is currently being developed.

#### **Enforcement**

- 4.7 The Council brought forward a new Parking strategy last year and improved the effectiveness of its parking enforcement service. This has increased the level of Parking income being achieved back in line with targets. In 2019/20 the Enforcement Service will introduce a new Private Sector Landlord Licensing Scheme to drive up housing quality and standards and tackle poor accommodation and rogue landlords.

#### **Community Solutions**

- 4.8 Community Solutions is the Council's innovative service to work with people in need of early help and support to get back on track. It offers joined up support with a wide range of issues including housing, employment and childcare. The service has an ambitious set of savings but has achieved its 2017/18 and 2018/19 targets and has made good progress on plans for future savings. However, the scale of the savings means there are some risks, particularly the impact on demand on social care services, and by default the 'downstream' social care budgets which are already under significant pressure. Some budget realignment will be required – including the release of some centrally held provisions for loss of HRA income and other pressures in Homelessness.

#### **Children's Care and Support**

- 4.9 The Children's Care and Support service has a set of long-standing financial challenges especially in recruitment and retention of staff and the high cost of placements. Although it can be demonstrated that it has made progress in reducing costs in some areas these challenges have led to large overspends in 2018/19 and

there has been slow progress on some savings. This is not uncommon and the most recent report by NAO on social care pressures, cites 91% of the 152 upper tier local authorities continuing to overspend in children's social care.

- 4.10 Within our MTFs there are a further £1.1m of savings to be made in 2019/20. The service has a range of proposals to deliver these reductions. However, the current pace of growth in demand, places this at significant risk. In recognition of this, and as set out above, the Council will provide a £2.3m of additional funding from its general resources (including a third of the additional Council tax increase for 2019/20) and will pass through the £1.5m of Social Care grant funding to the Director of People & Resilience to allocate between service blocks.
- 4.11 In order to ensure a sustainable care system is in place for the longer-term, the service is developing a new target operating model to strengthen the local practice and intervention model. This will review resource requirements to support a reduction in caseload levels. This will need to sit alongside practice transformation that tackles underlying causes of higher cost services such as residential care and improving permanency to support reductions in overspend.

#### **Disabilities Care and Support**

- 4.12 This service has been established as part of the Transformation programme to provide a more seamless service for people with Disabilities across all ages. Proportionately, this is the most challenging part of the Care and Support budget as the increasing population, improved medical care and longer life expectancies for people with severe disabilities leads to year on year growth. This service is overspent in 2018/19 and, whilst it has proposals to meet its saving target of £0.5m, it has been subject to a full review to consider how the delivery model can be enhanced further to deliver improved outcomes, better efficiencies and more collaborative approaches to residents and partners alike, that build on strengths and community assets. This work will guide the deployment of some of the £4.7m allocated to People & Resilience to support these services, and as in other cases will need a balance of direct investment in the delivery of care to mitigate overspends and transformation investment to ensure that the service is based on a sustainable long-term plan.

#### **Redesign Adults' Social Care**

- 4.13 The transformation programme to redesign Adults' Care and Support is forecasting a savings shortfall in 2018/19 that is contributing, along with high levels of demand, particularly on the hospital discharge pathway, to an overspend. This has been the first year that the service has overspent to any significant degree. However, there are no further savings targets in the MTFs, since the programme was frontloaded. There is still work underway which when complete is expected to deliver on some of those planned savings.
- 4.14 In addition, Adults will receive £1.9m of new IBCF funding and £0.9m of extra grant funding from Central Government to manage winter pressures. Projecting forward to 2020/21, there is not as yet confirmation from Government that the Better Care Fund and other short-term grant allocations will continue. However, in the absence of the Green Paper on the long-term sustainable funding for adult social care, the precedent is now well set to support the delivery of these services by means of these grants. On this basis, the assumption is made that grants continue. In the interim, the service is drawing up further proposals to strengthen its practice model

to increase independence and extend further the use of community assets including the voluntary sector and Community Solutions.

- 4.15 In addition, work to make every pound count continues through improvements to brokerage, commissioning and financial management processes. The additional resources will support some investment in further transformation, alongside containment of current spending pressure and better management of escalating needs against budget pressures.

## **5. Council Tax**

### **5. The 2019/20 Budget**

- 5.1 The net impact of the adjustments outlined together with previously agreed savings and growth is shown in appendix A and B. The Council's net budget for 2019/20 will be £148.820m.
- 5.2 Details of the levies (Environment Agency, East London Waste Authority, Lee Valley Park, London Pension Fund Authority) the Council is required to pay in 2019/20 are yet to be confirmed. The budget includes an increased provision for the cost of levies of £0.685m in respect of the ELWA levy.
- 5.3 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.
- 5.4 The report does not include any estimate for the use of Collection Fund surplus. It is proposed that any surpluses on the Collection Fund should be transferred to the Budget Support reserve.

## **6. Council Tax**

- 6.1 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 has resulted in a tax base that is now £15m lower than it would have been had it risen by 1.99% every year.
- 6.2 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.
- 6.3 The Local Government Financial Settlement for 2019/20 sets a maximum increase of Council Tax of 2.99% without incurring any penalties or being required to hold a referendum. It is therefore proposed that the general council tax increase should be 2.99%. This is expected to provide £1.794m of additional funding that will be used for the investments in services outlined above. In particular £0.6m will be made available to the Director of People and Resilience for Care and Support services.
- 6.4 This increase equates to an additional £35.87 on the level of Council Tax applied by

the Council for a band D property for 2019/20 (from £1,199.63 to £1,235.50.)

- 6.5 The Mayor of the Greater London Authority is proposing to increase the GLA element of Council Tax by 8.9% (£26.28) for a Band D property, changing the charge from £294.23 in 2018/19 to £320.51 in 2019/20. £24 of this is the Police Precept.
- 6.6 The combined amount payable for a Band D property will therefore be £1556.01 for 2019/20, compared to £1493.86 in 2018/19. This is a total change of £62.15 in comparison to the Council Tax bill for 2018/19. As always there will be a Council Tax Support Scheme to help the poorest tax payers.
- 6.7 The calculation of the proposed Council Tax for 2019/20 is shown in Appendix D.
- 6.8 Under the Local Government Finance Act 1992, Council Tax must be set before 11th March of the preceding financial year.

## **7 Consultation**

- 7.1 A consultation exercise on the budget was agreed by Cabinet in November. In acknowledging that there were no new specific savings proposals for 19/20 and so no new changes to public facing services, there was no explicit requirement to consult on these proposals, however, 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.
- 7.2 The exercise comprised a number of events as follows
- An online budget consultation which will run for 6 weeks commencing in November;
  - Facebook events enable real time comments from residents;
  - Face to Face events in Dagenham and Barking to which we will invite resident groups;
  - A specific event for the Chamber of Commerce.
- 7.3 The results of each exercise are below:
- 7.3.1 **Social media posts from 14 November to 10 January**  
8 posts across Facebook (16) and Twitter (42) were posted. In total the content generated 60 likes, 58 shares and 153 comments (this is excluding the Facebook Live). In addition, there were 710 clicks through to the budget page and/or consultation page. Work will be undertaken to gather data from the website and review consultation portal analytics to establish the point at which we "lost" engaged residents, so we can improve the conversion next year.
- 7.3.2 **Facebook Live 18 December 6pm**  
The live video has appeared in 2,474 Facebook feeds and has achieved 921 views, 10 reactions (likes and smiley faces), 2 shares, and 43 comments in total. The core audience demographic was women aged 35 to 44. The majority of questions coming in were about potholes and road conditions. Comments here:  
<https://www.facebook.com/barkinganddagenham/videos/280615465984466/>



### 7.3.3 Face to Face Events

One element of the consultation exercise was a series of face to face events; one held in Barking, another in Dagenham and a third held at the Town Hall specifically for representatives of the Business community. Although the turnout was not high with less than 30 attendees in total, the sessions provided some useful insights, with questions on the future aims of the Council, concerns regarding the ability to maintain current and new facilities in the way that residents would want them to and concerns that services are not performing well enough.

### 7.3.4 Online consultation

An online survey was undertaken which had 70 responses. The survey asked what the Council should reduce its spending on, what it should remove spending on and what it could charge residents for. There was a wide range of responses, though a number of comments were focused on the number of councillors, their allowances and senior officer pay.

7.4 In answer to the specific question on the proposed Council tax increase, 38% agreed or strongly agreed with increasing the council tax by 2.99%. A public consultation was carried out in the spring of 2016 with regards to the A2020 programme and the council's future operating model - 89% of those who completed the consultation were supportive of the proposals.

## 8 Capital Programme

8.1 The Council's current capital budget for 2018/19 is £284,758k. The General Fund capital programme has increased as a result of additional grant funding (as in the Disabled Facilities Grant). The HRA capital programme is £90,352k. More information is provided in the text below and in Appendix A.

8.2 The budgets for the following five years are indicative and may change as a result of budget roll-forward from the 2018/19 financial year, for example if there has been programme slippage. A summary of these budgets is shown in the tables that follow. The HRA capital programme has been updated in relation to the HRA January 2019 Business Plan.

8.3 The two most significant areas of the capital programme are the provision of school places and housing. This reflects the needs of the borough in terms of dealing with a high birth rate and high level of migration into the borough. School expansion schemes are funded by Central Government (via the Education and Skills Funding Agency), and the HRA programme is self-financed by the HRA using a mixture of Government grants, capital receipts and HRA revenue funding. Therefore, they do not pose a pressure on the General Fund, in terms of needing to borrow and servicing the cost of borrowing.

8.4 The 2019/20 onwards Schools Programme is under discussion and negotiation and is likely to expand from the figures shown below.

8.5 The table below summarises the position on the currently approved capital programme updated for any changes to profiling or estimates. A full breakdown is also given as an appendix to this report (Appendix C). Members are asked to approve this restatement of the programme.

**Table 1: Five Year Capital Programme (2018/19 – 2022/23)**

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
Care & Support	£1,805	£400	£400	£400	£0	<b>£3,005</b>
Community Solutions	£349	£0	£0	£0	£0	<b>£349</b>
Core	£2,652	£2,195	£2,122	£0	£0	<b>£6,969</b>
Education, Youth & Childcare	£53,572	£41,641	£12,621	£7,425	£0	<b>£115,259</b>
Enforcement	£1,314	£911	£300	£0	£0	<b>£2,525</b>
Culture, Heritage & Recreation	£6,261	£1,900	£940	£300	£155	<b>£9,556</b>
Investment Strategy	£58,129	£1,000	£0	£0	£0	<b>£59,129</b>
Growth & Homes & Regeneration	£38,160	£4,216	£300	£300	£300	<b>£43,276</b>
My Place	£6,496	£4,000	£0	£0	£0	<b>£10,496</b>
Public Realm	£935	£3,125	£50	£50	£0	<b>£4,160</b>
SDI Commissioning	£3,190	£480	£0	£0	£0	<b>£3,670</b>
Investment & Acquisition Strategy	£13,749	£92,360	£213,930	£146,269	£-39,617	<b>£426,691</b>
<b>General Fund Total</b>	<b>£186,612</b>	<b>£152,228</b>	<b>£230,663</b>	<b>£154,744</b>	<b>-£39,162</b>	<b>£685,085</b>
<b>HRA Total</b>	<b>£90,352</b>	<b>£69,180</b>	<b>£58,710</b>	<b>£58,510</b>	<b>£58,700</b>	<b>£335,452</b>
<b>Transformation</b>	<b>£7,793</b>	<b>£400</b>	<b>£350</b>	<b>£0</b>	<b>£0</b>	<b>£8,543</b>
<b>Total Capital Programme</b>	<b>£284,758</b>	<b>£221,808</b>	<b>£289,723</b>	<b>£213,254</b>	<b>£19,538</b>	<b>£1,029,081</b>

**Financed By:**

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
Grant	£60,307	£41,796	£12,776	£7,580	£155	<b>£122,614</b>
HRA/MRR	£90,352	£69,180	£58,710	£58,510	£58,700	<b>£335,452</b>
Borrowing	£133,036	£110,432	£217,837	£146,764	-£39,317	<b>£568,752</b>
Revenue	£900	£400	£400	£400	£0	<b>£2,100</b>
Capital Receipts	£163	£0	£0	£0	£0	<b>£163</b>
<b>Total</b>	<b>£284,758</b>	<b>£221,808</b>	<b>£289,723</b>	<b>£213,254</b>	<b>£19,538</b>	<b>£1,029,081</b>

8.6 Cabinet has approved seven new schemes to be undertaken to support regeneration of the borough. The overall budget of £6.8m relating to the new schemes has been added to the programme to fund these strategic projects. These will be funded from borrowing and grants. These new schemes have now been added to the capital programme, as approved by the Cabinet on 18 February 2019.

**9. Flexible Use of Capital Receipts**

9.1 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.

## 10. **Statutory report of the Chief Finance Officer**

10.1 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.

10.2 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.

10.3 In summary, the Chief Finance Officer considers the budget proposals to establish a net budget requirement of £148.820m and council tax requirement of £61.785m for 2019/20 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 from 2020/21. The council will be required to remain proactive in delivering sustainable council transformation to ensure a balanced budget position can be maintained for 2020/21 and beyond.

10.4 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.
- 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.

In preparing this budget, assumptions and calculations have been subject to scrutiny by the Council's officers. Proposals have been scrutinised by staff in the relevant service and endorsed by the relevant Strategic Director.

10.5 Appropriate governance arrangements are in place to manage financial resource throughout 2019/20:

- 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 is provided in para 5.7. Of concern is the possible impact of a no deal Exit from the EU on the financial position, whose impact cannot be quantified at this stage.

10.6 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 2019/20.
- The proposals do not breach the "excessiveness" principle for 2018/19, where local referendum is required. The threshold for 2019/20 for general council tax if it rises by 3% or more, alongside a maximum 2% social care precept. The setting of the social care precept must not exceed a rise of 6% over three years, 2017/18 to 2019/20.
- Appropriate assessment has been made of the council tax and business rate base 2019/20 and the likely levels of recovery.

10.7 In assessing the adequacy of reserves, the Chief Finance Officer has considered the current level of reserves and undertaken a risk-based approach to assessing the minimum level of balances. For 2019/20 and 2020/21, this revised approach has resulted in the minimum level of General Fund Reserves to be recommended at £12.0m, some £3m below the previous assessment of £15m. The current level of General Fund balance however is £17m.

10.8 Earmarked reserves are available to provide financing for future expenditure plans. Earmarked reserves (excluding those held by schools under delegation) stood at £43m as at 31 March 2018. These are forecast to be £37.5m by 31 March 2019.

10.9 Of relevance to budget setting, the Council's Budget Support Reserve intended to provide short term support and to pump prime efficiencies is forecast to be £9.4m by 31 March 2019. The underlying budget 2019/20 does not place undue reliance on reserves as general budget support.

10.10 Of relevance to budget setting, the Council's Budget Support Reserve intended to provide short term support and to pump prime efficiencies is forecast to be £9.4m by 31 March 2019. The underlying budget 2019/20 does not place undue reliance on reserves as general budget support.

10.11 The Council continues to be financially challenged over the medium term facing a budget gap of c£10m by 2020/21 (c.7%) reflecting locally known demands for services. In addition, local government finance is faced with a significant period of uncertainty beyond 2019/20, when the current funding arrangements will cease. The Comprehensive Spending Review along with a Fair Funding Review will be completed to take effect from 2020/21. The status of the social care precept and Improved Better Care Funding is also unknown. The Council continues to be

focussed in maintaining its financial health by maintaining pace and embedding current transformations within the heart of the council but will also be required to remain proactive in its activity to deliver sustainable savings for the longer term.

## **11 Update on Dedicated Schools Budget**

- 11.1 A report was presented to Cabinet in December setting out the principles for the Dedicated Schools Budget (DSG) for 2019/20. Subsequently the Department for Education (DfE) has published the expected DSG amounts. Following the publication of this information and further modelling of the expected impact a number of changes to the Dedicated Schools Budget and the funding formula are proposed.
- 11.2 The December report proposed a transfer of £1.1m from the Schools block to the High Needs block in order to meet pressures in this area. This is still expected to be required.
- 11.3. The December report set out a commitment to offer funding floor protection to schools and work to maintain a funding ratio of 1:1.34 between primary and secondary schools. Modelling carried out on updated data shows that it is not possible to do both. With the consent of the Schools Forum, it is proposed to maintain the funding floor protection. This gives rise to a ratio of 1:1.31. The revised funding formula factors are set out in Appendix H to this report and Members are asked to approve these factors which are in line with the principles previously agreed.
- 11.4 The allocation of the Early Years block has also been announced. Following this the Finance team have modelled the impact for Barking and Dagenham and it is proposed that the base funding rate for 3 and 4 year olds is maintained at £4.70 per hour. It is proposed that the deprivation rates remain at the same levels of between £0.22 and £0.30 per hour based on IDACI bandings. It is also proposed that the formula remains at £0.21 per hour for a flexibility factor for Private, Voluntary and Independent sector providers. There has been no increase in funding for 2 Year Olds, therefore no change is proposed to the funding rate of £5.35 per hour to settings with eligible 2 year olds.

## **12. Financial Implications**

Implications completed by: Helen Seechurn, Finance Director

- 12.1 The detailed financial implications have been covered throughout the report. In considering this report, members are asked to note the CFO opinion as outlined in section 10 above.

## **13. Legal Implications**

Implications completed by Dr Paul Feild, Corporate Governance Lawyer

- 13.1 As has been explained in paragraph 10 above the Local Government Finance Act 20103 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.

13.2 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.

- 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.

13.3 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.

## **14. Corporate Policy and Equality Impact**

14.1 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.

- 14.2 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.
- 14.3 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:**

- Local Government Finance Settlement 2019/20  
<https://www.gov.uk/government/collections/final-local-government-finance-settlement-england-2019-to-2020>

#### **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 - Impact of Brexit
- Appendix H - School Funding Formula Factors

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**REVENUE BUDGET 2019/20**

**APPENDIX A**

	Initial Base	1 Capital Charges	2 MTFS growth	3 Leisure & Capital Strategy	4 iBCF Grant	5 MTFS savings	6 Other adjusts	7 Funding and saving adi	8 Recharges	TOTAL
CARE & SUPPORT	<b>58,405,028</b>	1,261,670	6,011,000	0	(375,000)	(1,626,290)	3,067,400	0	5,547,700	<b>72,291,508</b>
CENTRAL	<b>33,461,700</b>	(35,521,570)	4,037,000	591,500	0	(3,181,680)	(4,498,223)	2,791,000	2,513,280	<b>193,007</b>
COMMUNITY SOLUTIONS	<b>6,340,020</b>	3,704,510	0	0	0	(876,220)	840,000	0	2,096,180	<b>12,104,490</b>
CONTRACTED SERVICES	<b>11,759,400</b>	446,130	0	0	0	(341,000)	(520,000)	0	(5,959,480)	<b>5,385,050</b>
CORE	<b>10,221,870</b>	128,000	0	0	0	(1,368,000)	185,000	0	27,390	<b>9,194,260</b>
EDUCATION, YOUTH & CHILDCARE	<b>1,984,450</b>	17,036,410	0	0	0	0	0	0	1,952,450	<b>20,973,310</b>
INCLUSIVE GROWTH	<b>(437,610)</b>	112,970	0	0	0	0	0	0	352,730	<b>28,090</b>
LAW, GOVERNANCE & HR	<b>1,557,761</b>	267,370	138,000	0	0	(1,458,500)	822,483	0	(3,339,350)	<b>(2,012,236)</b>
MY PLACE	<b>10,700,591</b>	11,375,920	0	0	0	(517,660)	0	0	(2,962,000)	<b>18,596,851</b>
POLICY & PARTICIPATION	<b>4,048,230</b>	294,710	0	0	0	(426,000)	100,000	0	(1,348,200)	<b>2,668,740</b>
SDI COMMISSIONING	<b>7,330,260</b>	893,880	270,000	(591,500)	375,000	0	0	0	1,119,300	<b>9,396,940</b>
<b>TOTAL GENERAL FUND</b>	<b>145,371,700</b>	<b>0</b>	<b>10,456,000</b>	<b>0</b>	<b>0</b>	<b>(9,795,350)</b>	<b>(3,340)</b>	<b>2,791,000</b>	<b>0</b>	<b>148,820,010</b>

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	MTFS 2019/20	MTFS 2020/21
<b>LBBB Net General Fund Base Budget</b>	<b>148.159</b>	<b>148.820</b>
<b>Pressures</b>		
Current Budget Pressures	10.456	12.922
<b>Savings</b>		
Current Savings	-9.795	-13.718
<b>Total Expenditure</b>	<b>148.820</b>	<b>148.024</b>
<b>Funding</b>		
Retained Business Rates Pilot (Formula Grant-Baseline Funding Level)	-77.064	-72.408
Retained Business Rates Pilot (Surplus)	-2.097	0.000
Council Tax based 0% increase in Council tax	-59.992	-61.500
Specific Grant	-7.873	-1.059
	<b>-147.026</b>	<b>-134.967</b>
<b>Budget Gap before increase in Council Tax and use of Reserves</b>	<b>1.794</b>	<b>13.057</b>
Use of General Reserves	0.000	0.000
Council Tax Increase at 2.99%	-1.794	-2.418
<b>Budget Gap</b>	<b>0.000</b>	<b>10.639</b>

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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 22 January 2019 the Council approved the Council Tax Base 2018/19 calculation for the whole Council area as 50,008.54 [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 2019/20 in accordance with Sections 31 to 36 of the Act:-

(a)	£699,086,541	being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act.
(b)	£637,301,043	being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act.
(c)	£61,785,498	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)	£1,235.50	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
£823.67	£960.94	£1,098.22	£1,235.50	£1,510.05	£1,784.61	£2,059.16	£2,471.00

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 2019/20 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
£213.67	£249.29	£284.90	£320.51	£391.73	£462.96	£534.18	£641.02

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 2019/20 for each of the categories of dwellings shown below:-

## Valuation Bands

A	B	C	D	E	F	G	H
£1,037.34	£1,210.23	£1,383.12	£1,556.01	£1,901.79	£2,247.57	£2,593.35	£3,112.02

## Appendix D

### Calculation of the Proposed Council Tax for 2019/20

		£000
<b>Revised 2018/19 Budget before reserves usage</b>		<b>148,159</b>
Roll forward of last year's surplus	0	
New MTFS Items	10,456	
Approved A2020 Savings	(9,795)	
Use of one-off reserves	0	
Total Adjustments		661
<b>Base Budget Requirement for 2019/20</b>		<b>148,820</b>
Funded By:		
Retained Business Rates Income	(77,064)	
Business Rates Pilot Surplus	(2,097)	
Specific Grants	(7,873)	
Total Funding		(87,034)
<b>Council Tax Requirement</b>		<b>61,786</b>
Council Tax Base (Equivalent Band D properties)		50,008.54
Council Tax:		
London Borough of Barking & Dagenham		1,235.50 TBC
Greater London Authority		320.51 TBC
<b>Overall Council Tax - Band D equivalent</b>		<b>£1,556.01</b>

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		Budget	Future Year Budgets				
Project No.	Project Name	2018/19 Revised Budget	2019/20	2020/21	2021/22	2022/23	Total
<b>Adults Care &amp; Support</b>							
FC00106	Disabled Facilities Grant	1,380,236	0	0	0	0	1,380,236
FC02888	Direct Pymt Adaptations	400,000	400,000	400,000	400,000	0	1,600,000
FC03049	Adult Social Care Grant	25,000	0	0	0	0	25,000
<b>Total for Adults Care &amp; Support</b>		<b>1,805,236</b>	<b>400,000</b>	<b>400,000</b>	<b>400,000</b>	<b>0</b>	<b>3,005,236</b>
<b>Community Solutions</b>							
FC03060	Barking Learning Centre Works	214,407	0	0	0	0	214,407
FC04021	Libraries Library Management System Tender	60,000	0	0	0	0	60,000
FC04036	Upgrade & enhancement of Security & Threat Mana	75,000	0	0	0	0	75,000
<b>Total for Community Solutions</b>		<b>349,407</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>349,407</b>
<b>Core</b>							
FC02738	Modernisation & Imp Cap Fund						0
FC03052	Elevate ICT investment	907,036	1,710,000	1,950,000	0	0	4,567,036
FC03068	ICT End User Computing		438,000	172,000	0	0	610,000
FC02877	Oracle R12 Joint Services	190,273	0	0	0	0	190,273
FC03059	Customer Services Channel Shift	106,884	0	0	0	0	106,884
FC02565	Implement Corporate Accommodation Strategy	1,317,519	0	0	0	0	1,317,519
FC04055	Woodlands Repairs	130,000	47,000	0	0	0	177,000
<b>Total for Core</b>		<b>2,651,712</b>	<b>2,195,000</b>	<b>2,122,000</b>	<b>0</b>	<b>0</b>	<b>6,968,712</b>
<b>Education, Youth &amp; Childcare</b>							

Project No.	Project Name	2018/19 Revised Budget	2019/20	2020/21	2021/22	2022/23	Total
<b>Primary Schools</b>							
FC02784	Manor Longbridge (Former UEL Site)	0	0	0	0	0	0
FC02865	William Bellamy Infants/Juniors (Expansion)	10,000	0	0	0	0	10,000
FC02920	Warren / Furze Expansion	750,000	102,589	0	0	0	852,589
FC02924	St Joseph's Primary(Barking) Extn 13-14	15,072	0	0	0	0	15,072
FC02956	Marsh Green Primary 13-15	50,000	0	0	0	0	50,000
FC02960	Sydney Russell (Fanshawe) Primary Expansion	20,657	0	0	0	0	20,657
FC02979	Gascoigne primary	50,000	0	0	0	0	50,000
FC03041	Village Infants - additional pupil places	30,000	0	0	0	0	30,000
FC03053	Gascoigne Prmy 5forms to 4 forms	200,000	404,182	0	0	0	604,182
FC04058	Marks Gate Infants & Juniors 2018-20	25,000	500,000	2,475,000	0	0	3,000,000
FC04059	Chadwell Heath - Additional Capacity		0	25,000	6,975,000	0	7,000,000
<b>Secondary Schools</b>							
FC02954	Jo Richardson expansion	614,881	0	0	0	0	614,881
FC02959	Robert Clack Expansion 13-15	8,000,000	1,059,213	0	0	0	9,059,213
FC03054	Lymington Fields New School	6,000,000	13,000,000	8,000,000	449,926	0	27,449,926
FC02977	Riverside Secondary Free School	101,410	0	0	0	0	101,410
FC03018	Eastbury Secondary	650,000	267,460	0	0	0	917,460
FC03019	Eastbrook School	106,718	0	0	0	0	106,718
FC03020	Dagenham Park	100,000	0	0	0	0	100,000
FC03022	New Gascoigne Secondary School	16,000,000	13,582,802	0	0	0	29,582,802
FC03078	Barking Abbey Expansion 2016-18	12,000,000	5,500,000	925,740	0	0	18,425,740

Project No.	Project Name	2018/19 Revised Budget	2019/20	2020/21	2021/22	2022/23	Total
<b>Children Centres</b>							
FC03063	Extension of Abbey children's centre nursery	125,842	0	0	0	0	125,842
<b>Other Schemes</b>							
FC02906	School Expansion SEN projects		0	0	0	0	0
FC02929	SMF 2012/13		0	0	0	0	0
FC03010	SMF 2014-16		0	0	0	0	0
FC03051	SMF 2015-17		0	0	0	0	0
FC02909	School Expansion Minor projects	312,285	0	0	0	0	312,285
FC02972	Implementation of early education for 2 year olds	196,708	200,000	0	0	0	396,708
FC03085	School Conditions Allocation 2017-19	477,882	0	0	0	0	477,882
FC03042	Additional SEN Provision	396,485	0	0	0	0	396,485
FC03043	Pupil Intervention Project (PIP)	451,605	450,000	0	0	0	901,605
FC04052	SEND 2018-21	645,716	1,245,716	945,716	0	0	2,837,148
FC04053	School Conditions Allocation 2018-20	3,000,000	966,761	0	0	0	3,966,761
FC04060	Additional Works - Expanded Schools	250,000	250,000	0	0	0	500,000
FC04061	Place Demand - Contingency		250,000	250,000	0	0	500,000
FC04071	Roding Primary Classroom Reinstatement	1,500,000	1,000,000	0	0	0	2,500,000
FC04072	School Condition Alctns 18-19	1,000,000	2,862,230	0	0	0	3,862,230
9999	Devolved Capital Formula	491,702	0	0	0	0	491,702
<b>Total For Education, Youth &amp; Childcare</b>		<b>53,571,963</b>	<b>41,640,953</b>	<b>12,621,456</b>	<b>7,424,926</b>	<b>0</b>	<b>115,259,298</b>

Project No.	Project Name	2018/19 Revised Budget	2019/20	2020/21	2021/22	2022/23	Total
<b>Enforcement</b>							
FC02982	Consolidation & Expansion of CPZ	487,420	300,000	300,000	0	0	1,087,420
FC03012	Environmental Asset Database						0
FC04015	Enforcement Equipment	512,650	444,000	0	0	0	956,650
FC03066	Parking ICT System	3,537	0	0	0	0	3,537
FC04027	Car Park Improvements	146,398	0	0	0	0	146,398
FC04063	Flood Risk Management	164,000	167,000	0	0	0	331,000
<b>Total for Enforcement</b>		<b>1,314,005</b>	<b>911,000</b>	<b>300,000</b>	<b>0</b>	<b>0</b>	<b>2,525,005</b>
<b>Growth &amp; Homes</b>							
<b>Culture, Heritage &amp; Recreation</b>							
FC03029	Broadway Theatre	500,000	0	0	0	0	500,000
FC03032	3G football pitches in Parsloes Park	822,384	0	0	0	0	822,384
FC03057	Youth Zone	2,834,000	0	0	0	0	2,834,000
FC03093	Eastbury Manor House - Access and egress improv	75,078	0	0	0	0	75,078
FC04033	Redressing Valence		0	500,000	0	0	500,000
FC04031	Reimagining Eastbury	100,000	200,000	100,000	0	0	400,000
FC03090	Lakes	102,118	40,000	40,000	0	0	182,118
FC03067	Abbey Green Restoration/Works	3,541	0	0	0	0	3,541
FC04042	Community Halls	23,991	0	0	0	0	23,991
FC04043	The Abbey: Unlocking Barking's past, securing its fu	50,000	350,000	0	0	0	400,000
FC04044	East London Industrial Heritage Museum	75,000	0	0	0	0	75,000
FC04017	Fixed play facilities	93,105	50,000	50,000	50,000	0	243,105

Project No.	Project Name	2018/19 Revised Budget	2019/20	2020/21	2021/22	2022/23	Total
FC03034	Strategic Parks - Park Infrastructure	59,230	0	0	0	0	59,230
FC03026	Old Dagenham Park BMX Track	252,991	0	0	0	0	252,991
FC04018	Park Buildings – Response to 2014 Building Survey	139,658	75,000	75,000	75,000	0	364,658
FC04020	Parsloes Park regional football hub	400,000	0	0	0	0	400,000
FC04013	Park Infrastructure Enhancements	47,242	30,000	20,000	20,000	0	117,242
FC04080	Children's Play Spcs & Fac	55,000	55,000	55,000	55,000	55,000	275,000
FC04081	Parks & Open Spcs Strat 17	100,000	100,000	100,000	100,000	100,000	500,000
FC04082	Tantony Green Play Area	197,455	0	0	0	0	197,455
FC04084	Central Park Masterplan Implementation	100,000	1,000,000	0	0	0	1,100,000
FC04085	Valence Park Play Facility	230,000	0	0	0	0	230,000
<b>Total for Culture, Heritage &amp; Recreation</b>		<b>6,260,793</b>	<b>1,900,000</b>	<b>940,000</b>	<b>300,000</b>	<b>155,000</b>	<b>9,555,793</b>
<b>Investment Strategy</b>							
FC02587	Energy Efficiency Programme	128,753	0	0	0	0	128,753
FC03081	Land Acquisitions 2016-18	47,450,500	0	0	0	0	47,450,500
FC03027	Establishment of Council Owned Energy Services Company		1,000,000	0	0	0	1,000,000
FC04083	The Cube	10,549,500	0	0	0	0	10,549,500
<b>Total for Investment Strategy</b>		<b>58,128,753</b>	<b>1,000,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>59,128,753</b>

Project No.	Project Name	2018/19 Revised Budget	2019/20	2020/21	2021/22	2022/23	Total
<b>Growth &amp; Homes &amp; Regeneration</b>							
FC02898	Local Transport Plans	96,900	0	0	0	0	96,900
FC02969	Creative Industry ( formerly Barking Bathouse)	292,064	0	0	0	0	292,064
FC02994	Renwick Road/ Choats Road 2014/15 (TfL)	317,400	0	0	0	0	317,400
FC02996	Barking Town Centre 2014/15 (TfL)	272,100	0	0	0	0	272,100
FC03055	Barking Riverside Trans link	325,021	0	0	0	0	325,021
FC03023	Bus Stop Accessibility Improvements	60,000					60,000
FC03058	Kingsbridge Development	4,892,418	0	0	0	0	4,892,418
FC03070	Boundary Road Hostel: Critical Needs Homelessness Assessment and Support Centre	234,879	0	0	0	0	234,879
FC03072	Conversion & Redevelopment of Former Sacred Heart Convent, 191 Goresbrook Road, Dagenham - to convert to homeless provision	8,407,180	0	0	0	0	8,407,180
FC03082	Gurdwara Way - Land Rmdiation	122,435	0	0	0	0	122,435
FC03084	Sebastian Court - Redevelop	3,526,723	0	0	0	0	3,526,723
FC03089	Becontree Heath New Build	12,457,491	3,915,979	0	0	0	16,373,470
FC03099	Abbey Green & Barking Town Centre Conservation	263,000	0	0	0	0	263,000
FC03086	Land at BEC - live work scheme	16,937	0	0	0	0	16,937
FC03097	Thames View Cycle/Walking Link Improvements	90,700	0	0	0	0	90,700
FC03098	Cycle Schemes - Quietway CS3X	99,800	0	0	0	0	99,800
FC03025	Gale Street Corridor Improvements	385,400	0	0	0	0	385,400
FC04051	Street Property Acquisition 2017-19	6,000,000	0	0	0	0	6,000,000
FC04064	Bridges and Structures	300,000	300,000	300,000	300,000	300,000	1,500,000
<b>Total for Growth &amp; Homes &amp; Regeneration</b>		<b>38,160,448</b>	<b>4,215,979</b>	<b>300,000</b>	<b>300,000</b>	<b>300,000</b>	<b>43,276,427</b>

Project No.	Project Name	2018/19 Revised Budget	2019/20	2020/21	2021/22	2022/23	Total
<b>My Place</b>							
FC03030	Frizlands Phase 2 Asbestos Replacement	2,136	0	0	0	0	2,136
FC03065	HIP 2016-17 Footways & Carriageways	2,161,093	4,000,000	0	0	0	6,161,093
FC03064	Street Lighting 2016-2019 : Expired Lighting Column	2,608,876	0	0	0	0	2,608,876
FC03011	Structural Repairs & Bridge Maintenance	639,262	0	0	0	0	639,262
FC02542	Capital Improvements	65,755	0	0	0	0	65,755
FC02964	Road Safety Improvements Programme (Various Locations)	272,100	0	0	0	0	272,100
FC04019	Replacement of Winter Maintenance Equipment / G	421,155	0	0	0	0	421,155
FC04029	Engineering Works (Road Safety)	325,926	0	0	0	0	325,926
<b>Total for My Place</b>		<b>6,496,303</b>	<b>4,000,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>10,496,303</b>
<b>Public Realm</b>							
FC03083	Chadwell Heath Cemetry Ext	298,254	0	0	0	0	298,254
FC04012	Bins Rationalisation	100,000	50,000	50,000	50,000	0	250,000
FC04014	Refuse Fleet	95,823	0	0	0	0	95,823
FC04016	On-vehicle Bin Weighing System for Commercial W	45,000	0	0	0	0	45,000
FC04028	Equipment to reduce Hand Arm Vibration	90,000	0	0	0	0	90,000
FC04070	Vehicle Fleet Replacement	305,902	3,075,000	0	0	0	3,380,902
<b>Total for Public Realm</b>		<b>934,979</b>	<b>3,125,000</b>	<b>50,000</b>	<b>50,000</b>	<b>0</b>	<b>4,159,979</b>
<b>SDI Commissioning</b>							
FC02826	Conversion of Heathway to Family Resource Centre	2,661	0	0	0	0	2,661
FC03061	Social Care IT Replacement System	747,546	0	0	0	0	747,546
FC03062	50m Demountable Swimming Pool	2,439,654	480,000	0	0	0	2,919,654
<b>Total for SDI Commissioning</b>		<b>3,189,861</b>	<b>480,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,669,861</b>

Project No.	Project Name	2018/19 Revised Budget	2019/20	2020/21	2021/22	2022/23	Total
<b>Investment and Acquisition Strategy</b>							
FC04062	Gascoigne East Ph2						0
FC04067	12 Thames Road						0
FC04065	200 Becontree Avenue						0
FC04068	Oxlow Lane						0
FC04066	Roxwell Road						0
FC04069	Crown House						0
FC04057	Travelodge Dagenham						0
FC04073	Church Street, RM10 9AX						0
FC04XXX	To be allocated	13,749,000	92,360,000	213,930,000	146,269,000	-39,617,000	426,691,000
<b>Total for Investment and Acquisition Strategy</b>		<b>13,749,000</b>	<b>92,360,000</b>	<b>213,930,000</b>	<b>146,269,000</b>	<b>-39,617,000</b>	<b>426,691,000</b>
<b>TOTAL GENERAL FUND CAPITAL PROGRAMME</b>		<b>186,612,460</b>	<b>152,227,932</b>	<b>230,663,456</b>	<b>154,743,926</b>	<b>-39,162,000</b>	<b>685,085,774</b>



Project No.	Project Name	2018/19 Revised Budget	2019/20	2020/21	2021/22	2022/23	Total
<b>HRA</b>							
<b>CC&amp;D</b>	<b>Investment In Stock</b>						
FC03039	Estate Roads Resurfacing	400,000					400,000
FC03046	Decent Homes North 2017-19	10,920,000					10,920,000
FC03047	Decent Homes South 2017-19	10,920,000					10,920,000
FC02983	Decent Homes Central 2017-19	6,562,500					6,562,500
FC04054	DH R&M Service	11,306,400					11,306,400
FC04001	Electrical Lateral Replacement	1,571,000					1,571,000
<b>et Managen</b>	<b>Investment In Stock</b>						
FC02950	Communal Heating Replacement	1,300,000					1,300,000
FC04003	Domestic Heating Replacement	500,000					500,000
FC04004	Box-Bathroom Refurbs (Apprenticeships)	444,000					444,000
FC03048	Fire Safety Improvement Works	2,194,500					2,194,500
FC04002	Lift Replacement Programme	500,000					500,000
<b>using Strate</b>	<b>Investment In Stock</b>						
FC03037	Energy Efficiency inc Green Street	0					0
<b>ability Serv</b>	<b>Investment In Stock</b>						
FC00100	Aids And Adaptations	1,100,000					1,100,000
FC0XX14	ESCO						0

Project No.	Project Name	2018/19 Revised Budget	2019/20	2020/21	2021/22	2022/23	Total
<b>Property Management</b>	<b>Investment In Stock</b>						
FC02943	Compliance (Asbestos, Tanks, Rewires)	1,800,000					1,800,000
FC04005	Public Realm Improvements	130,000					130,000
<b>R&amp;M</b>	<b>Investment In Stock</b>						
FC02933	Voids	2,000,000					2,000,000
FC03075	Door Entry Systems	50,000					50,000
FC04006	Minor Works & Replacements	150,000					150,000
FC03007	Windows & Door Replacements	0					0
TBA	Internals		2,300,000	4,200,000	8,000,000	8,000,000	22,500,000
TBA	Externals		14,750,000	10,500,000	7,500,000	7,500,000	40,250,000
TBA	Communal / Compliance		12,630,000	11,110,000	10,810,000	11,000,000	45,550,000
TBA	Estate Environmental Works		800,000	700,000	500,000	500,000	2,500,000
TBA	Landlord Works		7,200,000	6,200,000	5,700,000	5,700,000	24,800,000
	<b>Investment In Stock</b>						
FC02938	Fire Safety Improvement Works	2,500,000					2,500,000
TBA2	To be allocated						0
	<b>Total</b>	<b>54,348,400</b>	<b>37,680,000</b>	<b>32,710,000</b>	<b>32,510,000</b>	<b>32,700,000</b>	<b>189,948,400</b>
	<b>Estate Renewal</b>						
FC02820	Estate Renewal	13,250,000	11,500,000	6,000,000	6,000,000	6,000,000	42,750,000
	<b>Total</b>	<b>13,250,000</b>	<b>11,500,000</b>	<b>6,000,000</b>	<b>6,000,000</b>	<b>6,000,000</b>	<b>42,750,000</b>

Project No.	Project Name	2018/19 Revised Budget	2019/20	2020/21	2021/22	2022/23	Total
	<b><u>New Build schemes</u></b>						
FC02931	Leys Phase 1	226,058	0	0	0	0	226,058
FC03009	Leys Phase 2	3,879,000	0	0	0	0	3,879,000
FC03071	Modular Programme	4,499,000	0	0	0	0	4,499,000
FC02973	Infill Sites	13,700,000	0	0	0	0	13,700,000
TBA	To Be Allocated		20,000,000	20,000,000	20,000,000	20,000,000	80,000,000
	<b>Total</b>	<b>22,304,058</b>	<b>20,000,000</b>	<b>20,000,000</b>	<b>20,000,000</b>	<b>20,000,000</b>	<b>102,304,058</b>
FC03073	Housing Transformation	450,000	0	0	0	0	450,000
<b>TOTAL HRA CAPITAL PROGRAMME</b>		<b>90,352,458</b>	<b>69,180,000</b>	<b>58,710,000</b>	<b>58,510,000</b>	<b>58,700,000</b>	<b>335,452,458</b>
<b>TOTAL CAPITAL PROGRAMME 2018/19</b>		<b>276,964,918</b>	<b>221,407,932</b>	<b>289,373,456</b>	<b>213,253,926</b>	<b>19,538,000</b>	<b>1,020,538,232</b>

Project No.	Project Name	2018/19 Revised Budget	2019/20	2020/21	2021/22	2022/23	Total
<b>Transformation Schemes 2018-19</b>							
FC04047	Be First	80,846	0	0	0	0	80,846
FC04049	Community Solutions	2,008,100	400,000	350,000	0	0	2,758,100
FC04009	Smarter Working Programme	1,137,088	0	0	0	0	1,137,088
FC04007	Cross Cutting: Technology	1,280,482	0	0	0	0	1,280,482
FC04008	Customer Access Strategy (CAS)	971,324	0	0	0	0	971,324
FC04010	Customer Access & Workforce Development		0	0	0	0	0
FC04023	Enforcement	82,498	0	0	0	0	82,498
FC04022	Parks & Open Spaces Commercialisation	164,352	0	0	0	0	164,352
FC04024	Parks, Open Spaces & Cemeteries	3,286	0	0	0	0	3,286
FC04046	Investment Opportunities	79,963	0	0	0	0	79,963
FC04011	My Place	517,114	0	0	0	0	517,114
FC04025	Refuse	5,432	0	0	0	0	5,432
FC03087	Redesign Adults & Childrens Social Care	659,252	0	0	0	0	659,252
FC04048	Leisure		0	0	0	0	0
FC03091	Traded Services	350,483	0	0	0	0	350,483
FC04050	Home Services	452,620	0	0	0	0	452,620
FC04045	Legal Services	0	0	0	0	0	0
<b>TOTAL TRANSFORMATION CAPITAL PROGRAMME</b>		<b>7,792,840</b>	<b>400,000</b>	<b>350,000</b>	<b>0</b>	<b>0</b>	<b>8,542,840</b>

## 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”<sup>1</sup>.

In response, the Secretary of State for Communities and Local Government issued guidance in March 2016<sup>2</sup>, 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<sup>2</sup> 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

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<sup>1</sup> LGA Consultation Response “Proposals for the use of capital receipts from asset sales: 24<sup>th</sup> September 2013.

<sup>2</sup> Statutory Guidance on the Flexible Use of Capital Receipts (Updated) DCLG March 2016, amended by extension Direction in December 2017

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 will be utilised in 2019/20 and for the remainder of the medium term strategy that falls within the qualifying period. 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 2019/20, £1.4m capital receipts are forecast and will be available to provide funding for transformation. New 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
<b>Net Savings</b>	<b>(663)</b>	<b>(4,356)</b>	<b>2,057</b>	<b>6,029</b>	<b>8,480</b>	<b>9,057</b>	<b>9,634</b>	<b>30,237</b>

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

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<p><b>Title:</b> Preparing for the UK’s exit from the EU – Local Implications</p>
<p><b>Report Author:</b> Sarah Myers (Policy and Partnerships Officer)          Tel: 020 8227 2253          E-mail: <a href="mailto:sarah.myers@lbbd.gov.uk">sarah.myers@lbbd.gov.uk</a></p>
<p><b>Accountable Director:</b> Tom Hook, Director of Policy and Participation</p>
<p><b>Summary</b></p> <p>Brexit is the most significant political and economic event for a generation, affecting every individual, company and local authority. More than two years have passed since the referendum of June 2016, but time has brought little clarity to what will happen next and there remains three possible outcomes – no deal Brexit, deal (with variations of the proposed Withdrawal Agreement as agreed by the Prime Minister and the EU, or a softer Brexit including staying within the customs union and/or the single market) and no Brexit (as the result of a general election, second referendum or UK Parliament unilaterally withdrawing Article 50).</p> <p>The political situation at the time of writing this report remains fluid, and until the final agreement is known it will be hard to determine its exact impact. However, the council will need to be prepared for all eventualities (including a no deal Brexit) and keep up-to-date with developments, regularly reviewing the areas of highest potential impact.</p> <p>This report considers the potential impacts of Brexit for the London Borough of Barking and Dagenham, grouped under seven headings; EU funding, revenues and demand, supplier risk, staffing, community impact, contractual risks and capital investment.</p> <p>The report assesses risk and identifies opportunities associated with each theme. It summarises what the council is doing, or could do, to ensure any potential adverse effects on our residents and services are minimized whilst any opportunities are maximised.</p> <p>It summarises our initial assessment of impact. This will be developed in the coming months as further clarity emerges about the nature of the UK’s withdrawal agreement.</p>
<p><b>Recommendation(s)</b></p> <p>The Group is asked to:</p> <ul style="list-style-type: none"> <li>(i) Note the potential impacts and responses to Brexit as set out in this report.</li> <li>(ii) Continue to monitor the impact as the situation unfolds and carryout a more detailed scenario planning for each of the headings in this report</li> <li>(iii) To agree that a risk log be created, with RAG rated risks and mitigating actions, to be updated on a fortnightly basis by Leadership Group.</li> </ul>

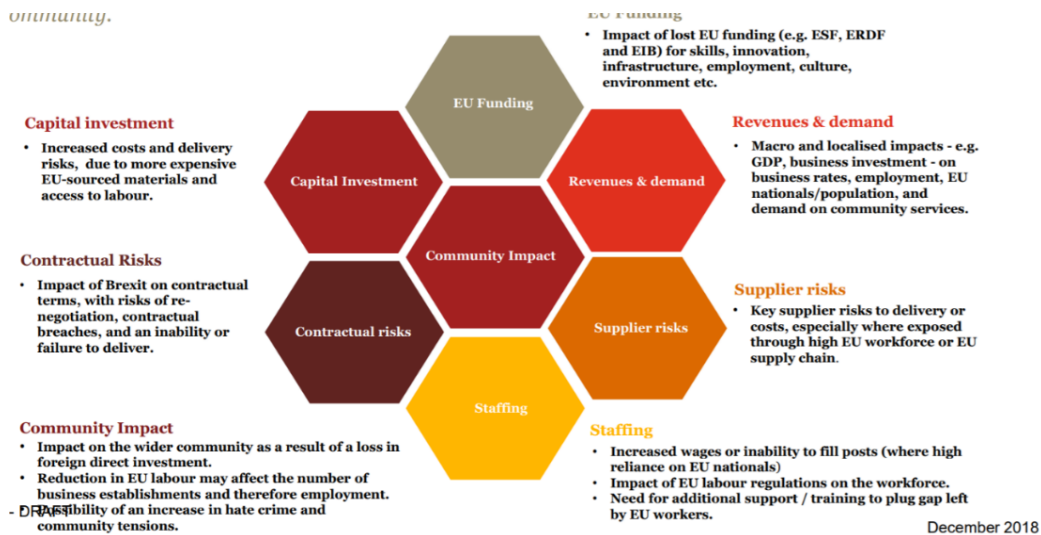
## 1. Introduction and Background

- 1.1. Brexit is the most significant political and economic event for a generation, affecting every individual, company and local authority. More than two years have passed since the referendum of June 2016, but time has brought little clarity to what will happen next. The UK is scheduled to leave the EU at 11pm UK time on Friday 29<sup>th</sup> March 2019.
- 1.2. Negotiations on the terms of the UK's withdrawal have now concluded. The UK and the EU have agreed a draft Withdrawal Agreement, which was rejected by the UK Parliament on Tuesday 15<sup>th</sup> January, by 230 votes.
- 1.3. In light of the latest developments, there remains three possible scenarios.
  - **No deal** – no final agreement on citizen's right, the Irish Border or other critical issues. Whilst an extreme form of no deal (e.g. no agreement on aviation) ought to be avoided, this outcome would mean very significant change e.g. traffic on all goods at WTO rates, loss of access to all EU funding, no agreed facilitation of free movement, no transition period etc. Preparations would need to be in place by 29<sup>th</sup> March 2019.
  - **Deal** – agreed exit terms, trade framework and transition period with continuation of trade talks – effectively means no change until end of 2020 with a number of options after that. There is also a possibility that now the proposed Withdrawal Agreement has been defeated, and an alternative, "softer" Brexit deal could be agreed (i.e. staying in the single market, including free movement of goods, services, capital and labour, or staying in the customs union to ensure frictionless trade with the EU).
  - **No Brexit** – no parliamentary agreement leads to a second referendum or a general election, EU agrees to extension of Article 50 and remain wins, or the UK Parliament unilaterally decides to withdraw Article 50. Continued uncertainty until legally settled, but in the longer-term, no change.
- 1.4. Until the final agreement is known it will be hard to determine its exact impact. However, the council will need to be prepared for all eventualities (including a no deal Brexit) and keep up-to-date with developments, regularly reviewing the areas of highest potential impact, including the local economy, workforce and skills, community cohesion, demand for public services, the Council's finances and regulatory framework.
- 1.5. Brexit will affect each area differently and so it is important to recognise the impact of Brexit at a local level. Barking and Dagenham voted to leave the EU, with 62.5% of the voters supporting leave. It was one of only five London boroughs to do so. The political viewpoint, however, within the Council is generally pro-remain and the Leader was active in supporting staying in the EU in the run up to the referendum.
- 1.6. Whatever view is taken towards Brexit, it is likely to have significant implications for Barking and Dagenham Council, the local economy and our residents. We are a borough with rapid population change, acute deprivation and inequality of outcomes compared to the rest of London, meaning that any negative economic outcome as a result of Brexit is likely to have a large impact. Historic data shows that our employment rates are more sensitive to changes in the economy – and that when there is a reduction in London-wide employment, ours sees a significantly larger decrease which may be a result of the nature of prominent local jobs and skills.

- 1.7. The Borough Manifesto targets set out our aspirations to improve the lives and outcomes for our residents – including through lowering unemployment rates, increasing earnings. The unknown impact of Brexit, and the historic data showing our sensitivity to economic downturns, could affect our ability to achieve these aspirations.
- 1.8. Another key context to consider is the borough’s substantial growth potential – as London’s growth opportunity – and the targets of building 50,000 new homes and 20,000 new jobs over the next 20 years. This is a priority for the Council.
- 1.9. Changes to immigration to the UK post-Brexit, as outlined in the Government’s White Paper may impact local people and the delivery of public services. The proposals include a £30,000 minimum salary threshold for EU and non-EU immigrants. This could directly impact important local sectors, including construction, health and social care, and hospitality.
- 1.10. It is important to consider the societal, community impact of Brexit as well as the economic. In the year following the referendum, there was a 5% rise in reported racist hate crime in Barking and Dagenham compared to the 12 months up to June 2016. It is not possible to confirm that this is attributable to the referendum itself, though the increased discussion and emotion surrounding the issue of immigration can likely be viewed as a factor. EU citizens living in Barking and Dagenham may feel unwelcome and uncertain of their future. The tensions and uncertainty around Brexit mean that communities remain deeply divided. Recently, reports that suggest a second referendum would further threaten social cohesion, with Brexit voters seeing it as a betrayal of democracy and a dismissal of their views, leading to the potential for a rise in extremist views.
- 1.11. Councils play a leading role in bringing communities together and this will be important in the context of Brexit. There remains considerable uncertainty for everyone and the Council will continue to work with residents, partners, local businesses to prepare for change and mitigate negative impacts.
- 1.12. This report summarises our initial assessment of impact. This will be developed in the coming months as further clarity emerges about the nature of the UK’s withdrawal agreement.

## **2. Potential Impact**

- 2.1. This report considers the potential impacts of Brexit for the London Borough of Barking and Dagenham, grouped under seven headings (as below). These themes emerged from a workshop with PWC held in December 2018. The report assesses likely risks and identifies potential opportunities associated with each theme. It summarises what the council is doing, or could do, to ensure any potential adverse effects on our residents and services are minimized whilst any opportunities are maximised.



### Funding (Helen Seechurn, Interim Director of Finance)

- 2.2. This section considers the impact of the loss of EU Funding. Whilst the Council initially borrowed £89m from the European Investment Bank in 2015/16 repayable on an annuity basis until 2044, the Council can confirm there are no call back provisions within the loan agreement. Whilst the Council's Treasury Management Strategy permits borrowing from the European Investment Bank, it is not restricted to it with other borrowing routes available such as Public Works Loan Board (PWLB)
- 2.3. Interest rate forecasts suggests in the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effect of this situation. This is also likely to cause short to medium term gilt yields to fall. If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly.
- 2.4. Although permitted under the Treasury Management Statement, the Council does not currently have treasury investments in any European country, any decision to invest will be considered on a case by case basis taking into account the prevailing climate of the Exit arrangements.
- 2.5. The Council's current capital programme does not include any existing scheme in receipt of EU funding.
- 2.6. The European Social Fund (ESF) focuses on improving the employment opportunities, promoting social inclusion and investing in skills. The borough's Work and Health Programme is funded by the Department for Work and Pensions and the ESF. The government has said the UK will continue to participate in the ESF programme and that communities would continue to receive the same levels of funding until the end of the 2014-2020 programme period. The government has also pledged to create a UK Shared Prosperity Fund (UKSPF), designed to serve a similar purpose to current EU funding. However, to date no information is available on the criteria, or the overall amount of funding, which could be less than that currently available.

**Revenues and Demand (Helen Seechurn, Interim Director of Finance and Mark Tyson, Commissioning Director, Adults Care and Support)**

- 2.7. It is difficult to predict any adverse impact in terms of revenue loss. Collection rates for council tax and business rates for 2017/18 stood at 96% and 98% respectively. Each 1% reduction will result in losses of £0.6m and £0.8m respectively.
- 2.8. Currently there are 4,443 business in the borough being charge Business Rates. The estimated total Business Rates charge for 18/19 is £62m. Shops make up the largest number of businesses in the borough with 1,370 (31%), however this makes up only 4% (£6m) of the total charged. Warehouses represent 11% of all properties in the borough but have a total charge of £17m or 31% of the total charge. Fords engine plant makes up £3m whilst the 7 superstores in the borough make up £4.5m in Business Rates between them.
- 2.9. The direct effect of a poor outcome from Brexit is dependent upon which sectors are affected. Any hindrance to movement of goods will in the first instance effect factories and warehouses and eventually move to superstores and small shops.
- 2.10. If importing and exporting of goods is not affected by Brexit but the country enters a recession, Business rates collection in the first year is not likely to drastically reduce. This is because smaller businesses are unable to continue trading for the length of time that bigger companies can without a consistent cash flow. That's said dependent upon how deep and long the recession is would then start to affect the larger businesses which if lead to closure will have a significant effect on collection. If for instance Fords closed their engine plant, £3m of Business Rates would be lost.
- 2.11. The knock-on effect upon the borough in terms of employment will result increases applications for Universal Credit, rent and Council Tax arrears. This will put additional pressure upon the service to provide a collection service as contact and action to recovery unpaid debts increases. In addition, as has been seen on a number of occasions, the government may introduce national reduction schemes. These schemes are often put together quickly and often result in additional work for the service.
- 2.12. The cost of living crisis could be exacerbated by Brexit. According to a JRF report, 'How could Brexit affect poverty in the UK?', the cost of living for the average UK household has increased by over £400 a year since the EU referendum (through the fall in sterling and rise in interest rates). Real wages would fall by 1.0% in the event of 'no-deal', with prices rising by up to 3%, increasing vulnerability to debt and homelessness. This could increase the need for homelessness prevention, budgeting support, discretionary housing payments, as well as temporary accommodation. It could also increase the amount rent and council tax arrears.
- 2.13. It has also been suggested that a no deal Brexit may result in UK citizens living in the EU to return to the UK, and this could be expected to increase demand for adult social care and NHS care. However, it is not possible to know how many will return to Barking and Dagenham and how many would have any care and support needs.
- 2.14. Planning for school places uses GLA's birth data for their demand projections. This source does not make any allowances for the impact of Brexit, as it such an unknown at the moment and it is too early to see any patterns in the two years since the referendum. Current projections show the demand for primary and secondary school places continuing to rise year on year up to 2026/27.

- 2.15. Brexit has the potential to change the nature and level of demand for services in a number of areas. However, given the ongoing uncertainty, it is not possible to predict the scale of the change. The effect of Brexit on demand for services may complicate the management of necessary spending reductions to meet savings targets.

**Suppliers (Hilary Morris, Commercial Lead)**

- 2.16. In terms of corporate contracts (those that span multiple services), we have identified the contracts that we consider most likely to be impacted.
- 2.17. Utilities – Laser have confirmed they do not expect to see an impact on existing customers in the short term, or any impact on supply. However, costs are likely to rise if tariffs are implemented following a no deal.
- 2.18. Temporary Labour – Corporate Procurement are engaging directly with Adecco to assess whether it is likely we will see an impact, but we have not yet received that assessment.
- 2.19. Translation Service – We do not have a view as to the likely impact from our current provider, but we have commenced discussions with them.
- 2.20. This does not discount that there may be other suppliers that might be affected. The Council has been discussing mitigations with areas that are most likely to see immediate impacts in the event of a no deal such as catering. We are looking at the products that could be impacted, because they are produced in the EU, and following that we are looking at replacement UK-made products. This conversation is ongoing.
- 2.21. Brexit is listed as a standard agenda item on the Procurement Board so will be regularly discussed and likely impacts reviewed.

**Contractual (Robert Overall, Director of My Place, Hilary Morris, Commercial Lead & Mark Tyson, Director of Adults Care and Support)**

- 2.22. Discussions taken place with suppliers in My Place and Public Realm and they have given assurances that the risk to supply chain is minimal. They have either increased their own stock levels to mitigate any issues or have advised that their products are predominantly sourced from within the UK. There is, however, a risk that costs may increase if demand starts to outweigh supply.
- 2.23. Regarding vehicles, we have assurance that all quotes for supply of new vehicles obtained before the date and orders placed will be honoured until delivery of the vehicles are fulfilled.
- 2.24. The fleet department have been instructed to monitor the fuel levels and ensure that all tanks and vehicles are kept topped up, this will mitigate the risk in case of a supply issue. Fuel Contract is due to be re-procured post go-live, it is likely that the cost of fuel may increase post Brexit and therefore the cost to procure like for like will be higher.
- 2.25. Initial discussions with Care and Support providers have not revealed any significant concerns regarding Brexit, although we will start having more formal discussions with them all about contingency planning and their workforce. We have put Brexit on the agenda for each of our next Provider Forums (these will take place over the next quarter) and any market engagement events. We will also have Brexit as an item at the launch of our next Market Position Statement in March/April (TBC). This is a joint event with Children's colleagues as we launch our two Adults and Children's MPSs.

Additionally, the Quality Assurance team are making Brexit a topic at all visits and inspections over the coming months.

- 2.26. Our colleagues in Care and Support training have also had discussions with networks and have not had anything significant reported regarding the Care and Support market.
- 2.27. If there were ramifications with providers of staff, it may produce a capacity issue or would push the hourly rate not the local authority pay up, but we would need to do some more analysis of this through the actions above.
- 2.28. We have had discussions with the CCG around Brexit regarding clinical MH staff within the Trust. The NHS are currently auditing their vacancies to assess the impact and looking at the pay of some of their workers (particularly Community Psychiatric Nurses), as those that earn less than £30,000 may not qualify for skilled worker status, as outlined in the Government's White Paper on immigration.

#### **Staffing (Gail Clark, Head of Workforce Change)**

- 2.29. A data verification exercise will be undertaken in February 2019 with all staff, and we will include a question on nationality. The reason for collecting this will be sensitively explained.
- 2.30. A communication plan is in place for EU settlement scheme and support for our workforce. Confirmation is required from CSG on whether the council will pay the fees for the individual and their children. With 3 million EU workers affected in the UK, there will be a pressing need to maximise communication and reassure. There is a risk of employment of illegal workers if time runs out, or there are system glitches caused by high-volume applications towards the deadline.
- 2.31. Nationality information is collected for the children's social care workforce, and Adecco have been asked to include for all agency workers. National Minimum Data Set (annual return <https://www.nmds-sc-online.org.uk/content/About.aspx>) has been reviewed to identify any potential issues for adult care workforce including directly employed staff and we have concluded that the Council does not have significant issues in terms of workforce ramifications. For our local adult social care workforce, we are seeing:
  - Percentage British Nationality – 53%
  - Percentage of the Workforce EEA – 13%
  - Percentage of the Workforce from outside the EEA – 34%
- 2.32. EU recruitment has taken place for social workers in two phases, the first group will start in February and apart from ensuring that the EU settlement scheme applies, it is unlikely to be problematic. A no deal Brexit may cause difficulties with the April recruitment and this is being urgently reviewed for risk and resolution.
- 2.33. Grow our own schemes are in place through apprenticeship and other routes for some professional staff (e.g. CIPFA, legal) and will be expanded for social workers and potentially for teachers. It is difficult to say at this stage whether we have significant reliance on EU nationals in this group, until the data verification exercise has been completed.
- 2.34. Our focus is to continue to recruit and retain talent, by setting out the benefits of working for the council, providing good management, leadership and direction. Temperature checks and Investors in People Reviews will provide insight into areas

we need to address. Exit interviews and new starter surveys are undertaken to provide additional insight.

### **Community and Cohesion Impact (Tom Hook, Director of Policy and Participation)**

- 2.35. Brexit represents a delicate balancing act for the council. Barking and Dagenham is a borough that voted to leave the EU (62.5% of voters). These voters may feel that a soft Brexit (e.g. retaining free movement of people) does not deliver on what they voted for, resulting in a loss of trust in democracy, effecting trust in the Council and voter turn out at future elections. There is also the belief that if a second referendum was held, this could lead to extremist views, as Leave voters could interpret this as a dismissal of their views.
- 2.36. However, we also want to communicate to the EU nationals who live in Barking and Dagenham and reassure them that they are welcome and valued in our borough. We will communicate with them about their rights to stay and try to overcome any perception of a hostile environment.
- 2.37. As part of the Connected Communities Programme and in preparation of the Cohesion Strategy, we have been analysing change in communities. Both this programme and the strategy deliver products that manage community tension and migration related issues and are therefore pre-emptive risk management strategies for community consequences of Brexit.
- 2.38. Current work includes a Place and Behaviour Change Project, providing
- Insights into changing community composition, including European nations, using Origins
  - Insight into community cohesion through quantitative and qualitative methods with insights on resentment around specific communities
  - Three interventions, designed in response to emerging need and research - possibly focused on resolving issues of community cohesion in specific localities
- 2.39. Origins analysis shows that there have been significant increases in Romanian, Baltic (Lithuanian), Bulgarian and Polish communities in Barking and Dagenham. In 2011, the Eastern European adult population made up about 4% of the population. In 2018, this is 8%, showing a 100% increase in the size of the population. However, this figure could be higher as the School Census (2009-2015) shows a significant increase in primary school age children (4.5%). A map showing the distribution of Eastern European residents in Barking and Dagenham can be found in **Appendix One**, which could be used for a targeted communications approach.
- 2.40. The council has bid for further resource from MHCLG under the Controlling Migration Fund to specifically support regularisation of citizenship, and integration of Eastern European migrants. MHCLG were due to inform local authorities before Christmas with regard to this funding, however this has been delayed and so we are still waiting to hear the outcome. Excerpts of relevant activity are below in Box 1.

#### **Box 1: Bid to MHCLG for further resource, of assistance in response to Brexit**

##### **Accelerating Regularisation and Citizenship**

Taking a systems wide approach to prevention of crisis situations, we will accelerate migrant regularisation, settlement and citizenship locally through a collaboration between Community Solutions Universal Lifecycle (LBBD), BDCAB, and our faith communities.



This will be achieved through:

- Updating training for 120 frontline ComSol staff in early immigration advice
- Identifying those in need at earliest point of contact
- Service user journey mapping for NRPF clients (learning to be shared with Bexley) to understand what leads members of the community to present themselves as destitute and identify how immigration advice interventions at different points in the system could be a preventative of this.
- Employing one full time BDCAB Level 1 and Level 2 immigration advisor to ensure people do not fall out of status and make good initial applications to the home office
- Employing one part time (0.5FTE) Level 3 immigration advisor to deal with more complex cases
- Outreach to faith groups, building a team of 20 Residency Advisors to improve quality of community advice and quality of applications to the Home Office, intervening before families reach a state of destitution
- Outreach to migrant staff working in frontline care, to prevent falling out of status and loss of staff
- Working collaboratively, new advice and referral pathways will be developed between Community Solutions, our single front door, and BDCAB.
- For those who have leave to remain, our community residency/settlement advisors will work with the Community Solutions Universal Lifecycle team to support those with Leave to Remain to practice and complete the 'Life in the UK' citizenship course, available for free in our libraries.

#### **Wider Eastern European Outreach**

Eastern European Resource Centre will principally deliver an outreach project to build bridge-networks with and between different communities locally. This work will take three phases:

- General community outreach through churches, deli shops, Saturday schools, and digital channels.
- Discovering 'hidden' exploitation of staff in nail bars, brothels, labourers waiting outside Wickes. Where mapping work discovers Albanian communities in need, referrals will pass back to Shpresa for support and advocacy.
- Advice and guidance on a variety of challenges including regularising settled status, exploitation in work; modern slavery; domestic violence; worklessness, employment vulnerability, precarious housing and homelessness. Specialist resource will also be used to support families affected by the PRS strand providing language-based support to residents dealing with difficult landlord situations.

2.41. Where communications with the community are required the team have established relationships with VSCE partners which could be used for messaging when needed. These would sit alongside the broader community communications strategy of the council.

2.42. With regard to the community tensions that might emerge the communications strategy of the council and the community tension monitoring arrangements would be key in supporting the management of community issues.

#### **Capital (Graeme Cooke, Director of Inclusive Growth)**

2.43. The council has a very significant capital investment programme – over £700m over the next five years via Be First to support a programme of building around 2,700 new homes and a c.£30m a year capital investment programme to maintain and improve the council's existing stock of 17,000 homes.

2.44. The key risks arising from Brexit in relation to our programme of capital investment are:

- Labour shortages in the construction sector.
- Increased costs from imported materials (in the event of tariffs or customs delays)
- A wider economic slow-down hitting demand in the housing market, pushing up interest rates or weakening sterling.

The potential impacts of these risks would be to increase build costs and reduce housing demand (especially damaging if it slowed third party development, which generates significant income for the council such as from New Homes Bonus and Council Tax).

2.45. In response, it is challenging for Be First to analysis the potential scale of these risks as each development scheme is different and requires components from different countries (and Be First are only now in the process of signing construction contracts for key schemes).

2.46. However, Be First have been undertaking planning activity to give itself and the council the maximum level of preparedness possible, given all the uncertainties. This includes:

- Allocating 5% of marks in its construction framework procurement exercise to how contractors were approaching the Brexit risk. This highlighted that some have done significant analysis through their supply chains to analyse where product is sourced and where alternatives might come from.
- Exploring how the company could allow contractors to stockpile product to ensure continuity of supply.
- Assessing the likelihood of labour shortages, revealing that this is probably a limited short-term risk as EU workers already here are likely to stay. The harder to forecast risk is what impact Brexit will have on the future supply of labour from the EU.

In summary, the big risks from Be First's perspective is disruption to supply, which it is helping mitigate, and increased costs, which is very difficult to avoid.

2.47. It should be noted that Be First's own development programme is significantly protected from the broader economic risks associated with Brexit given its use of council land and finance and given that its core residential product is pitched to the discounted sector of the housing market (though there could be greater resistance to leaseholders selling back to the council if prices are fluctuating).

2.48. There are also some opportunities for LBB/Be First in a falling market, given the scope to act counter-cyclically (for instance investing in the land market when demand is low).

### **Elections**

2.49. Given the uncertain and fluid political situation at the time of writing this report, there is the potential for a number of elections to be held in the next 6 to 12 months - a general election, if Theresa May were to lose a vote of no confidence, a second referendum or a European Parliament election in May 2019, if Article 50 is extended.

2.50. It is anticipated that a general election would have a minimum of 6 weeks' notice and that a second referendum would have a minimum of 7 months' notice as this will require legislation to be passed through parliament and the ballot paper question to be agreed upon.

- 2.51. The European Parliament elections would take place on Thursday 23<sup>rd</sup> May 2019. If the UK leaves the EU on 29<sup>th</sup> March, as scheduled, the European Parliament elections would not take place. However, if Article 50 is extended beyond March, there may be a requirement to hold the election. The regulations requiring this election have not yet been revoked. Electoral Services are liaising with the Association of Electoral Administrators for advice on this potential outcome of current negotiations.
- 2.52. The Electoral Services team have a tried and tested project plan for any election, which can be updated and put into use at the time of a date for a general election or second referendum being announced or confirmation of extension of Article 50. As with during the previous snap general election, the Electoral Services team will pull in resources from other areas, including staff who support committees, to support delivery.
- 2.53. EU citizens living in the UK can currently vote in local government elections. Government guidance currently states that there will be no change to the rights and status of EU citizens living in the UK until 2021. It has raised questions about whether EU citizens will continue to be able to vote, where other nationals are excluded. Lawyers of Local Government (LLG) have called for specific advice on when EU nationals will cease to be eligible to vote if at all and what the position is regarding those eligible or applying for settled status.

### **3. Regional and National Preparations**

#### **EU Settlement Scheme Grant Funding**

- 3.1. The Home Office has made £9 million of grant funding available to voluntary and community sector (VCS) organisations to help vulnerable or at-risk EU citizens needing additional support when applying for the EU Settlement Scheme. The Home Office aims to create a network of funded organisations to ensure that a range of services are mobilised across the UK, so that support and assistance is available to those who require it. There are two levels of funding available (Level One £5,000 to £39,999 and Level Two £40,000 to £750,000). The application period for bids closes at 12pm on 1<sup>st</sup> February 2019. BDCVS has shared this funding opportunity for local CVS organisations.

#### **Central Government Funding**

- 3.2. A £35m fund allocated to the Ministry of Housing, Communities and Local Government (MHCLG) will be distributed among councils to help them prepare for Brexit. The funding is for 2019-20 and it is to be specifically used for core Brexit activity including deal and no deal preparations. MHCLG will shortly announce the allocation of this funding.

#### **Ministerial Brexit & Local Government Delivery Board**

- 3.3. The Ministerial Brexit & Local Government Delivery Board provides a forum for national and local government representatives to discuss the preparedness of councils for the UK's exit from the EU. It comprises of representatives from the LGA, County Council Network, District Council Network, London Council and the Core Cities who meet with ministers from MHCLG, Department for Exiting the EU (DExEU), Department for Business, Energy, Industrial Strategy (BEIS) and the Cabinet Office.

### **Pan-London Coordination**

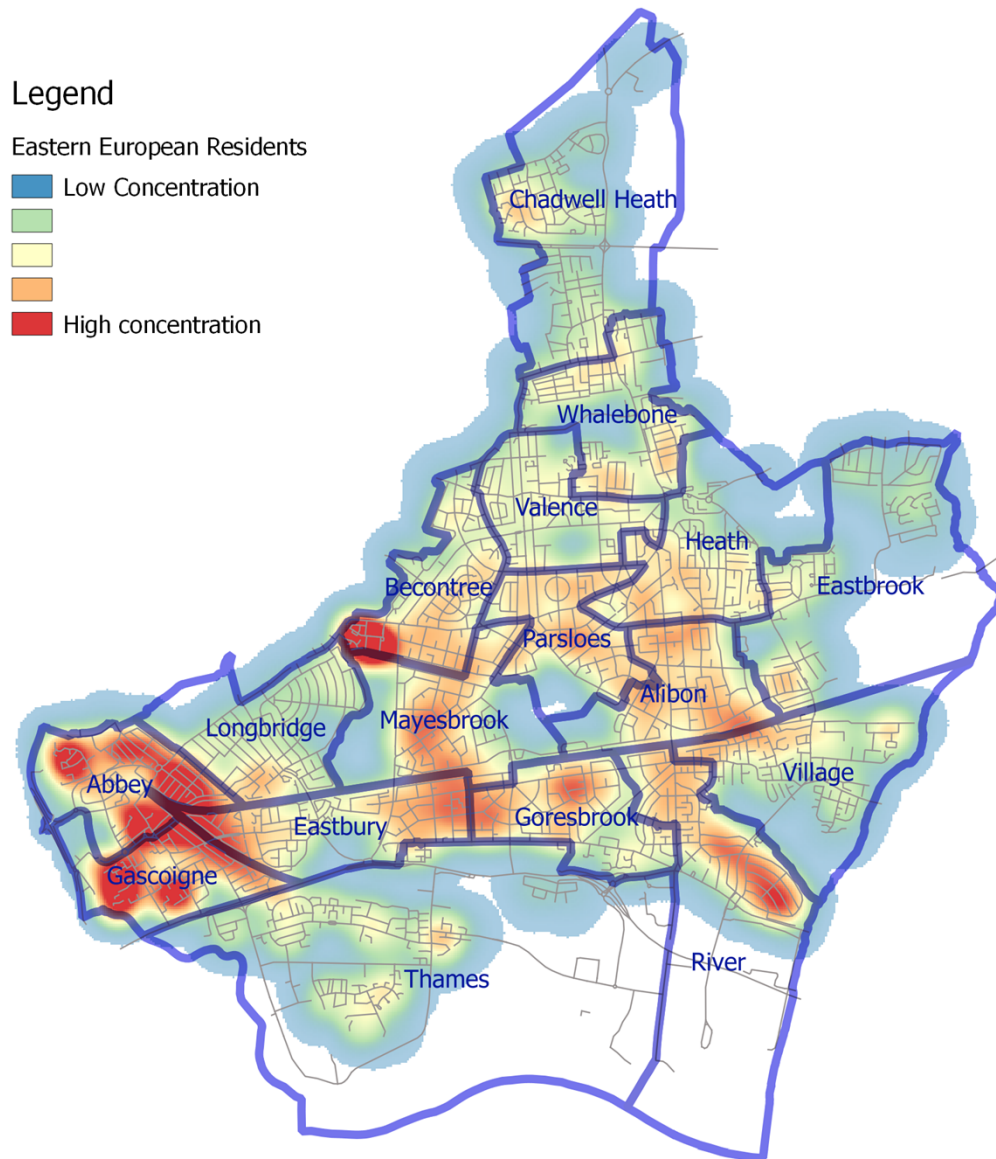
- 3.4. London Councils is actively engaging with the Government, Mayor of London and LGA to ensure that London's particular needs in relation to leaving the EU are heard. The Chair of London Councils and the London Councils Executive Member for Business, Europe and Good Growth sit on the MHCLG Ministerial Brexit & Local Government Delivery Board.
- 3.5. They are also working closely with boroughs and relevant professional networks to co-ordinate pan-London preparation activity and promote the exchange of local insight and intelligence. Each borough has nominated an officer as point of contact for communication and reports in relation to Brexit. Barking and Dagenham's point of contact officer is Tom Hook, Director of Policy and Participation. The nominated officer will be asked to provide information and intelligence at regular intervals to contribute to the London-wide assessments of any developing impacts. A call for information went out in January 2019 and a report showing the initial feedback will be presented to London Council's Executive, of which Cllr Rodwell is a member, in February 2019.
- 3.6. A report is also due at the London Council's Executive meeting in February 2019, which details the costs relating to Brexit preparations, including direct, quantifiable costs to each council incurred or anticipated and the types of cost pressure they think might arise.
- 3.7. London Councils continues to support borough Heads of Communications in relation to communicating with the public on settled status and has facilitated engagement between the network and the Home Office. The Home Office has produced a suite of material for stakeholders to distribute to EU citizens in their network, which aim to raise awareness of the EU Settlement Scheme and what EU citizens need to know and do.

### **4. Next Steps**

- 4.1. This report outlines the Council's initial assessment of impact. However, as there remains much uncertainty about the nature of the UK's exit from the EU, it will be important to regularly review this assessment as further clarity emerges, to keep up-to-date with Government announcements, and to work with regional partners to minimise risks to Barking and Dagenham.
- 4.2. A risk log will be created of the key risks associated with the UK leaving the EU, with each risk RAG rated (based on likelihood and impact) with mitigating actions to be monitored. This risk log will be updated on a fortnightly basis by the Leadership Group.

Appendix 1: Distribution of Eastern European Residents 2018

Distribution of Eastern European Residents 2018  
London Borough of Barking and Dagenham



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2019/20 with FF Protection

2018/19 Model with 0% MFG

Description	2019/20 NFF Rates with ACA	2019/20 APT rates	Units	Rate (£s)	Total (£s)	Units	Rate (£s)	Total (£s)	Movt in Units	Movt in Rates	Movt
<b>Primary:</b>											
Primary (Years R-6)	3,101	3,060	25,026	3,060	76,583,942	25,418	3,315	84,260,670	(392)	(255)	(7,676,728)
FSM	497	497	3,918	497	1,945,608	3,718	496	1,844,274	199	1	101,334
FSM6	610	610	6,896	610	4,203,460	7,523	609	4,579,296	(626)	1	(375,835)
IDACI Band F	226	226	1,733	226	391,169	1,694	225	381,841	39	0	9,328
IDACI Band E	271	271	6,843	271	1,853,669	6,920	271	1,872,182	(77)	0	(18,513)
IDACI Band D	406	406	6,053	406	2,459,644	6,155	406	2,497,693	(101)	1	(38,049)
IDACI Band C	440	440	5,657	440	2,490,340	5,834	440	2,564,996	(177)	1	(74,656)
IDACI Band B	474	474	3,045	474	1,443,643	3,092	473	1,464,106	(47)	1	(20,462)
IDACI Band A	649	649	4	649	2,598	3	648	1,946	1	1	652
EAL 3 Primary	581	581	8,142	581	4,732,968	8,405	580.6	4,879,481	(263)	1	(146,513)
Primary Low Attainment	1,154	1,154	8,624	1,154	9,948,790	8,611	1,184	10,192,587	13	(30)	(243,796)
Mobility		422	731	422	308,428	908	422	383,013	(177)	-	(74,585)
<b>Secondary:</b>											
Key Stage 3 (Years 7-9)	4,360	4,303	8,689	4,303	37,393,714	8,252	4,235	34,947,220	437	68	2,446,494
Key Stage 4 (Years 10-11)	4,951	4,886	5,202	4,886	25,416,881	4,767	4,925	23,477,475	435	(39)	1,939,406
FSM	497	497	2,388	497	1,185,923	2,200	496	1,091,436	187	1	94,487
FSM6	886	886	5,722	886	5,069,564	5,553	885	4,914,068	169	1	155,496
IDACI Band F	327	327	1,003	327	328,444	930	327	303,944	74	0	24,500
IDACI Band E	440	440	3,895	440	1,714,391	3,580	440	1,573,863	315	1	140,528
IDACI Band D	581	581	3,162	581	1,838,305	2,967	581	1,722,691	195	1	115,614
IDACI Band C	632	632	3,175	632	2,007,022	2,972	631	1,876,445	203	1	130,577
IDACI Band B	677	677	1,600	677	1,083,255	1,547	676	1,046,243	53	1	37,011
IDACI Band A	914	914	9	914	8,427	11	913	10,077	(2)	1	(1,650)
EAL 3 Secondary	1,563	1,563	778	1,563	1,216,467	841	1,561	1,312,686	(63)	2	(96,219)
Secondary low attainment	1,750	1,750	3,020	1,750	5,284,191	3,045	1,747	5,320,214	(24)	2	(36,023)
Mobility		700	92	700	64,327	151	700	105,975	(60)	-	(41,648)
Lump Sum	124,159	124,159	57	124,159	7,077,074	57	124,003	7,068,171			8,903
Split Sites (total)					1,360,000			1,360,000			
Split Sites - Primary	160,000	160,000									
Splits Sites - Secondary	200,000	200,000									
Rates					4,412,354			4,200,945			211,409
PFI funding					3,184,074			2,981,922			202,152
Funding floor protection					8,916,430			-			8,916,430
MFG Net Total Funding (MFG + deduction from capping and scaling)					140,131			336,752			(196,622)
<b>Total Funding for Schools Block Formula</b>					<b>214,065,236</b>			<b>208,572,215</b>			<b>5,493,021</b>
P:S Ratio					1.31			1.34			

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**ASSEMBLY****27 February 2019**

<b>Title:</b> Pay Policy Statement 2019/20	
<b>Report of the Cabinet Member for Finance, Performance and Core Services</b>	
<b>Open Report</b>	<b>For Decision</b>
<b>Wards Affected:</b> None	<b>Key Decision:</b> No
<b>Report Author:</b> Gail Clark, Head of Workforce Change	<b>Contact Details:</b> Tel: 0208 724 3543 E-mail: <a href="mailto:gail.clark@lbbd.gov.uk">gail.clark@lbbd.gov.uk</a>
<b>Accountable Strategic Leadership Director:</b> Fiona Taylor, Director of Law and Governance	
<b>Summary</b>	
<p>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.</p> <p>The Council's draft Pay Policy Statement for 2019/20, attached at Appendix A, sets out the expected position at 1 April 2019.</p> <p>The Cabinet considered this report at its meeting on 18 February 2019 and, in recommending it to the Assembly, also agreed to apply the uplift in the London Living Wage with effect from 5 November 2018, which increased the minimum hourly rate of pay from £10.20 to £10.55 per hour. That decision is reflected at paragraph 3.3 of the Pay Policy Statement.</p>	
<b>Recommendation(s)</b>	
<p>The Assembly is recommended to approve the Pay Policy Statement for the London Borough of Barking and Dagenham for 2019/20 as set out at Appendix A to the report, for publication on the Council's website with effect from April 2019.</p>	
<b>Reason(s)</b>	
<p>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</p>	

**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.

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, Chief Operating Officer, Directors, Commissioning 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. Context of the Pay Policy Statement

2.1 The Pay Policy as attached ensures that the Council is able to discharge its statutory duty as set out in the Localism Act.

2.2 The Council has benchmarked its pay ratios against 9 other London Boroughs<sup>1</sup>. The pay ratios in the policy indicate how many times higher the highest salary is than the lowest and median salary. The pay ratio is calculated by dividing the highest salary by the lowest salary.

Example:	<i>Highest salary is 100k</i>	<i>Lowest Salary is 20k</i>
	<i><math>100k \div 20k = 5</math> therefore ratio would be 1:5</i>	

- The Council's Highest to Lowest salary ratio is 1:8.55 compared to 1:9.68 of the benchmark data. The highest salary is 8.55 times higher than the lowest salary.
- The Council's highest to median salary ratio is 1:5.79 compared to 1:5.88 of the benchmark data. The highest salary is 5.79 times higher than the median salary. The median salary is the identified as the salary that sits at the middle of the entire range of employee salaries.

<sup>1</sup> Benchmark Data obtained from 2018/2019 published pay policies for LB Brent, LB Havering, LB Redbridge, LB Islington, LB Tower Hamlets, LB Waltham Forest, LB Hackney, LB Haringey, LB Bexley.

- 2.3 This benchmarking exercises identifies that Barking and Dagenham's pay ratios are comparable with the other London Boroughs selected as part of this exercise.
- 2.4 When comparing the pay ratios against those from private industry in the FTSE 100, in 2016 the highest salary was 129 times that of the lowest salary; and in 2015 it was even higher at 148 times higher than the lowest salary.<sup>2</sup>
- 2.5 The Council has previously given a commitment to ensure that it pays, at minimum, the London Living Wage. The 2019/20 pay policy continues with this commitment.
- 2.6 The number of Chief Officer positions in place at 1 April 2019 remains the same as those in place at 1 April 2018. It is projected that changes already implemented in 2018/19 and further changes already planned for 2019/20 will further contribute to the reduction in the senior management costs.

### **3. Consultation**

- 3.1 The proposals in this report were considered and endorsed by the Workforce Board at its meeting on 16 January 2019.
- 3.2 This report and the Pay Policy Statement for 2019/20 were considered and endorsed by the Cabinet at its meeting on 18 February 2019.

### **4. Financial Implications**

Implications completed by: Katherine Heffernan – Group Manager - Finance

- 4.1 The Council's lowest pay rate for employees currently exceeds the London Living wage rate. Increasing the minimum rate of pay for apprentices to the London Living Wage introduces an average increase of circa £800 per apprentice resulting in a total cost, based upon the existing apprentice numbers, of £18,122 per year. This will be managed within existing staffing budgets.

### **5. Legal Implications**

Implications completed by: Paul Field, Senior Employment Lawyer.

- 5.1 The Pay Policy sets out clearly and concisely the Authority's approach to pay in accordance with the Localism Act 2011. There are no legal implications as the Policy and the approach which it outlines are consistent with employment law and HR best practice.

### **6. Other Implications**

- 6.1 **Contractual Issues** – This makes no changes to employee's contractual position.
- 6.2 **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.

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<sup>2</sup> CIPD and High Pay Centre Analysis <https://www.personneltoday.com/hr/executive-pay-ratio-regulations-come-before-parliament/>

- 6.3 **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 2019/20

**LONDON BOROUGH OF BARKING AND DAGENHAM****PAY POLICY STATEMENT 2019/20****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 2019.
- 1.2 The provisions of the Localism 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 to deliver the outcomes of the Ambition 2020 programme and Growth Commission recommendations.
- 2.3 This Pay Policy Statement 2019/20 confirms that the number of chief officer posts has remained unchanged from April 2018 as the Council continues with the implementation and embedding of its new service delivery blocks.

**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 LBBB 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 increased from £10.20 to £10.55 with effect from 5 November 2018<sup>1</sup>.

#### **4. Defining "Chief Officers"**

- 4.1 At the start of the 2019/20 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)
- Director, Policy and Participation
- Director, Inclusive Growth
- Director, People and Resilience
- Director of Community Solutions
- Director of My Place
- Director, Transformation
- Finance Director
- Director of Public Health
- Commercial Director
- Commissioning Director, Children's Care and Support
- Commissioning Director, Adults' Care and Support
- Commissioning Director, Culture and Recreation
- Commissioning Director, Education
- Operational Director, Enforcement & Community Safety
- 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 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. In undertaking reviews, account is taken of the market, particularly in London, to ensure the

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<sup>1</sup> <https://www.livingwage.org.uk/>

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 2017. There were 32 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	£199,615
Tier 1 Managers	£141,118
Tier 2 Managers	£120,850

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 proposals to review this pay range in 2019/20. The pay range from April 2019 is as follows:

CO1	£85,240
CO2	£97,172
CO3	£107,401
CO4	£115,324
CO5	£127,358
CO6	£139,836
CO7	£152,366

- 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:

<b>Position</b>	<b>Grade of Post</b>	<b>Salary cost to LBBD</b>
Chief Executive (and Head of Paid Service)	Individual spot salary	£175,117
Chief Operating Officer (and Deputy Chief Executive)	CO7	£152,366
Director of Public Health	Individual spot salary	£95,267
All other Directors & Operational and Commissioning Directors	CO2 – CO6	£97,172 – £139,836

## **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 based on a full review of benchmark data as part of the recruitment exercise in 2018.

## **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.

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.”

- 9.2 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 weeks' pay for staff whose continuous service date is after 1 January 2007 and a maximum of 45 weeks' 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 directly employed 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 £10.55 per hour (equivalent to an annual salary of £19,523) with effect from 5 November 2018. The 2019/2020 London Pay Award will increase the lowest paid employee in Barking and Dagenham Council to £20,466, subject to local implementation of the GLPC New London Pay Spine.
- 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 1:8.55 (1:9.4 in 2017/18).
- 15.3 The ratio between the Chief Executive's salary level and the median salary figure for all employees in the Council is 1:5.79. The median annual salary for all employees for 1 April 2019 is projected to be £30,213 per annum, with the average salary being £33,027. Both median and average salaries, based upon the 2019/20 salary rates and subject to local implementation of the GLPC New London Pay Spine, 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.

**ASSEMBLY****27 February 2019**

<b>Title:</b> Treasury Management Strategy Statement 2019/20	
<b>Report of the Cabinet Member for Finance, Performance and Core Services</b>	
<b>Open Report</b>	<b>For Decision</b>
<b>Wards Affected:</b> None	<b>Key Decision:</b> Yes
<b>Report Author:</b> David Dickinson, Investment Fund Manager	<b>Contact Details:</b> Tel: 020 8227 2722 E-mail: <a href="mailto:david.dickinson@lbbd.gov.uk">david.dickinson@lbbd.gov.uk</a>
<b>Accountable Director:</b> Helen Seechurn, Interim Director of Finance	
<b>Accountable Strategic Director:</b> Claire Symonds, Chief Operating Officer	
<p><b>Summary</b></p> <p>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.</p> <p>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.</p> <p>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.</p> <p>The Prudential Code was revised in 2017 with the main changes being the inclusion of the Capital Strategy 2019/20 requirements, which is included as appendix 3 of this report.</p> <p>This report was considered and endorsed by the Cabinet at its meeting on 18 February 2019.</p>	
<p><b>Recommendation(s)</b></p> <p>The Assembly is recommended to adopt the Treasury Management Strategy Statement for 2019/20 and, in doing so, to:</p> <ul style="list-style-type: none"> <li>(i) Note the current treasury position for 2019/20 and prospects for interest rates, as referred to in section 7.2 of the report;</li> <li>(ii) Approve the Annual Investment Strategy 2019/20 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;</li> </ul>	

- (iii) Approve the Council's Borrowing Strategy 2019/20 to 2023/24, as set out in Appendix 2 to the report;
- (iv) Note the inclusion of the Capital Strategy 2019/20, incorporating the Investment and Acquisitions Strategy, as set out in Appendix 3 to the report;
- (v) Approve the Capital Prudential and Treasury Indicators 2019/20 – 2022/23, as set out in Appendix 4 to the report;
- (vi) Approve the Minimum Revenue Provision Policy Statement for 2019/20, representing the Council's policy on repayment of debt, as set out in Appendix 5 to the report;
- (vii) Note that a review of the Minimum Revenue Provision Policy Statement was to be carried out and any amendments reported back as part of the Treasury Outturn Report for 2018/19;
- (viii) Approve the Operational Boundary Limit of £1.002bn and the Authorised Borrowing Limit of £1.102bn for 2019/20, 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
- (ix) 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.

**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. **An Annual Treasury Report** which outlines the actual PIs, treasury indicators and treasury operations compared to the estimates within the strategy.
  - iii. **A Mid-Year Treasury Management Report** to update Members on the progress of the capital position, amending PIs and investment strategy as necessary.
- 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 2019/20 and the Borrowing Strategy, which are set out in detail in the appendices attached to this report

## **3. Treasury Management Strategy Statement for 2019/20**

- 3.1 The Local Government Act 2003 and supporting regulations require the Council to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years and ensure the Council's capital programme is affordable, prudent and sustainable.
- 3.2 The Act requires councils to set out their treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by investment guidance issued after the Act). This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 3.3 The Council has adopted the Department of Communities and Local Government (DCLG) investment guidance that came into effect from 1 April 2010. The strategy for 2019/20 covers the following main areas:

### **3.3.1 Treasury Management Issues**

- Current Portfolio Position at 31 December 2018 (section 4);
- Medium Term Capital Finance Budget (section 5);

- Treasury Position at 31 December 2018; forward projections 2019/20 (section 6);
- Economic Update and Rate Forecast (section 7);
- The Capital Expenditure Plans 2019/20 – 2022/23 (section 8);
- Treasury Management Advisors (section 9);
- Minimum Revenue Provision Policy Statement (section 10);
- Appendix 1 – Annual Investment Strategy 2019/20;
- Appendix 2 - Borrowing Strategy 2019/20 to 2023/24;
- Appendix 3 - Capital Strategy 2019/20;
- Appendix 4 – The Capital Prudential and Treasury Indicators 2019/20 – 2022/23;
- Appendix 5 – Minimum Revenue Provision Policy Statement 2019/20; and
- Appendix 6 – Scheme of Delegation and Section 151 Officer Responsibilities.

### 3.3.2 Capital Strategy Reporting Requirements

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional report, a Capital Strategy report, 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.

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

The Council already has an Investment and Acquisitions Strategy (IAS), which forms the basis of the Capital Strategy. In addition to the IAS, the Council's Capital Strategy includes a Borrowing Strategy (appendix 2) and an MRP Policy (appendix 5), that include additional details on the borrowing and debt repayment for the Council's Capital Strategy. These document combined provide details of the Council's Capital Strategy.

## 4. Current Portfolio Position at 31 December 2018

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 and borrowing balances at 31 December 2018, including the Average Life and the Average Rate of Return. The loans are 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 2018**

	<b>Principal Outstanding £000s</b>	<b>Rate of Return %</b>	<b>Average Life (yrs.)</b>
<b>General Fund Fixed Rate Borrowing</b>			
PWLB	277,381	2.33	29.7
Local Authority (Short-term)	132,670	0.79	0.1
European Investment Bank	84,287	2.21	25.3
LOBO	30,000	4.03	46.7
Local Authority (Medium-Term)	19,000	0.97	1.2
L1 Renewables (Street Lighting)	6,325	3.44	27.8
<b>Total General Fund Debt</b>	<b>549,663</b>	<b>2.00</b>	<b>21.8</b>
<b>HRA Fixed Rate Borrowing</b>			
PWLB	265,912	3.50	37.10
Market Loans	10,000	3.98	59.5
<b>Total HRA Debt</b>	<b>275,912</b>	<b>3.51</b>	<b>37.9</b>
<b>Total Council Borrowing</b>	<b>825,575</b>	<b>2.51</b>	<b>27.2</b>
<b>Investments</b>			
Local Authority Deposits	168,846	1.20	1.8
Bank Deposit	133,919	1.30	0.9
Other Investments*	34,145	3.99	0.6
Money Market Funds	17,200	0.73	-
<b>Total Investments</b>	<b>354,110</b>	<b>1.49</b>	<b>1.3</b>

\* includes pension fund prepayment and loans to Barking Riverside LTD and schools.

4.4 The Council's year-end (31 March) cash balances since 2015/16 are shown below:

2018/19 - £220m (estimate)

2017/18 - £252m

2016/17 - £236m

2015/16 - £243m

## 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 2022/23 is shown in table 2. The interest income budget increase in 2018/19 includes interest from a prepayment to the pension fund and additional interest expected from Reside:

**Table 2: Medium Term Capital Finance Budget**

£'000s	2018/19	2019/20	2020/21	2021/22	2022/23
	Budget	Budget	Budget	Budget	Budget
MRP	7,772	8,893	9,454	9,614	8,144
GF Interest Payable	8,251	8,995	10,230	14,745	15,538
HRA Interest Payable	9,692	10,059	10,059	10,059	10,059
Treasury Income	(4,299)	(3,099)	(3,099)	(7,872)	(12,420)
Investment Income	(2,365)	(3,733)	(5,125)	(5,125)	(5,125)
<b>Net Cost</b>	<b>19,051</b>	<b>21,115</b>	<b>21,519</b>	<b>21,421</b>	<b>16,196</b>

## 6. Treasury Position at 31 December 2018; Forward Projections 2019/20

- 6.1 The Council's treasury position at 31 December 2018, with forward projections are summarised in table 3. The table shows the actual 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.

**Table 3: Treasury Position at 31 December 2018, with Forward Projections**

£'000s	2018/19	2019/20	2020/21	2021/22	2022/23
	Estimate	Estimate	Estimate	Estimate	Estimate
<b>External Debt</b>					
Debt at 1 April	595,146	748,834	895,725	1,085,669	1,228,517
Expected change in Debt	100,000	95,000	140,000	95,000	(90,000)
Other long-term liabilities	53,688	51,891	49,944	47,848	47,848
<b>Gross Debt at 31 March</b>	<b>748,834</b>	<b>895,725</b>	<b>1,085,669</b>	<b>1,228,517</b>	<b>1,186,365</b>
<b>CFR</b>	<b>798,072</b>	<b>897,299</b>	<b>1,103,265</b>	<b>1,237,860</b>	<b>1,187,680</b>
<b>Under/(over) borrowing</b>	<b>49,238</b>	<b>1,574</b>	<b>17,596</b>	<b>9,343</b>	<b>1,315</b>

## 7. Economic Update and Rate Forecast

### 7.1 Economic Background

**World growth** has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China, overall world growth is likely to weaken.

**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.



**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

The interest rate forecasts provided by Link Asset Services in table 4 are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effect of this situation. This is also likely to cause short to medium term gilt yields to fall. If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

### **Downside risks to current forecasts for UK gilt yields and PWLB rates include:**

- i. **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- ii. **Bank of England monetary policy** takes action 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.
- iii. A resurgence of the **Eurozone sovereign debt crisis** due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. At the time of writing, the EU has rejected the proposed Italian budget and has demanded cuts in government spending which the Italian government has refused. The rating agencies have started on downgrading Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold Italian debt. Unsurprisingly, investors are increasingly concerned by the actions of the Italian government and consequently, Italian bond yields have risen sharply – at a time when the government faces having to refinance large amounts of debt maturing in 2019.
- iv. Weak capitalisation of some **European banks**. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.
- v. **German minority government**. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD is reviewing

whether it can continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018. However, this makes little practical difference as she is still expected to aim to continue for now as the Chancellor. However, there are five more state elections coming up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of electoral support for both the CDU and SPD which could also undermine her leadership.

- vi. **Other minority eurozone governments.** Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile. Sweden is also struggling to form a government due to the anti-immigration party holding the balance of power, and which no other party is willing to form a coalition with.
- vii. **Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU while **Italy**, this year, has also elected a strongly anti-immigration government. Elections to the EU parliament are in May/June 2019.
- viii. Further increases in interest rates in the US could spark a **sudden flight of investment funds** from more risky assets e.g. shares, into bonds yielding a much-improved yield. In October 2018, we have seen a sharp fall in equity markets, but this has been limited, as yet. Emerging countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to this risk of an investor flight to safe havens e.g. UK gilts.
- ix. There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing.
- x. **Geopolitical risks** - North Korea, Europe and the Middle East, which could lead to increasing safe haven flows.

### **Upside risks to current forecasts for UK gilt yields and PWLB rates**

- i. **Brexit** – if both sides were to agree a compromise that removed all threats of economic and political disruption.
- ii. **The Fed causing a sudden shock in financial markets** through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- iii. The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflation 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.
- iv. **UK inflation**, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium.

## Investment and borrowing rates

Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years. Borrowing interest rates have been volatile so far in 2018-19 and have increased modestly since the summer. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

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-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.50%	1.75%	1.75%	2.00%
3 Month LIBID	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%
12 Month LIBID	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%	1.90%	2.00%	2.10%	2.20%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.00%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%	3.60%	3.70%
50yr PWLB Rate	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.40%	3.50%

### 7.3 Bail in legislation

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”.

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.

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.

#### 7.4 **Return Target 2019/20 to 2021/22**

To achieve the interest, target the treasury section needs to achieve the following average returns on an average cash balance of £200m:

2019/20	1.70%
2020/21	2.00%
2021/22	2.10%

The increased return is heavily reliant on interest rates increasing from their current near historic lows. The increase does not need to occur in the first half of 2019 as treasury section has secured a return through longer dated investments and has agreed a number of stepped rate investments, which is currently expected to achieve the 1.70% return for 2019/20. However, if rates do not increase by early 2019 then the return target for 2019/20 will be challenging to meet without significantly increasing the duration risk and / or the counterparty risk.

#### 7.5 **HRA Investments**

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.

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.

**Abolition of HRA debt cap** - In October 2018, Prime Minister Theresa May announced a policy change of abolition of the HRA debt cap. At the time of writing, no information was available as to when this change of policy will be implemented.

### 8. **The Capital Expenditure Plans 2019/20 – 2022/23**

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 4.

8.2 Table 6 below shows the proposed capital expenditure over the coming three 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 2018/19 to 2022/23**

<b>Capital expenditure</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>Estimate £000</b>	<b>Estimate £000</b>	<b>Estimate £000</b>	<b>Estimate £000</b>	<b>Estimate £000</b>
General Fund inc Transformation	194,406	152,268	231,013	154,744	(39,162)
HRA	90,352	69,180	58,710	58,710	58,710
<b>Total</b>	<b>284,758</b>	<b>221,808</b>	<b>289,723</b>	<b>213,254</b>	<b>19,538</b>
<b>Financed by:</b>					
Capital Grants	60,307	41,796	12,776	7,580	155
Section 106	0	0	0	0	0
Revenue Contributions	900	400	400	400	0
Capital Receipts	163	0	0	0	0
HRA Contributions	90,352	69,180	58,710	58,710	58,710
<b>Sub-Total</b>	<b>151,722</b>	<b>111,376</b>	<b>71,886</b>	<b>66,490</b>	<b>58,855</b>
<b>Net financing need</b>	<b>133,036</b>	<b>110,432</b>	<b>217,837</b>	<b>146,764</b>	<b>(39,317)</b>

- 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 5.

## **11. Financial Implications**

Implications completed by: Helen Seechurn, Interim 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 2019/20
- Appendix 2 - Borrowing Strategy 2019/20 to 2023/24
- Appendix 3 - Capital Strategy 2019/20
- Appendix 4 – The Capital Prudential and Treasury Indicators 2019/20 – 2022/23
- Appendix 5 – Minimum Revenue Provision Policy Statement 2019/20
- Appendix 6 – Scheme of Delegation and Section 151 Officer Responsibilities

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## Annual Investment Strategy 2019/20

### 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 in appendix 5.4 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. 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 is 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 government has allowed a 5-year statutory override period to 1 April 2023 to allow authorities to divest from the financial instruments.

## **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 amount 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 Annual Investment Strategy (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 ratings 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 with a credit score of 1.25
- **Light pink** 5 years - enhanced money market fund with a 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. The Monitoring of Investment Counterparties**

4.1 The Council receives credit rating information from its advisor 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) within its investment portfolio, 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, a full 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 to directly invest.

## **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:

<b>Non Specified Investment Category (maturity greater than one year)</b>	
<b>a.</b>	<p><b>Supranational Bonds</b></p> <p><b>(a) Multilateral development bank bonds</b> 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.).</p> <p><b>(b) A financial institution that is guaranteed by the UK Government</b> 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.</p>
<b>b.</b>	<p><b>Gilt edged securities.</b> 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.</p>
<b>c.</b>	<p><b>The Council's own bank</b> 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.</p>
<b>d.</b>	<p><b>Any bank or building society</b> 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).</p>
<b>e.</b>	<p><b>Share capital or loan capital</b> 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.</p>
<b>f.</b>	<p><b>Pooled property or bond funds</b> – 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.</p>

*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.*

#### 7.4 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.

## 7.5 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.

The Authority’s existing non-treasury investments are listed in Appendix 1a.

**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
<b>Council's Bank (currently Lloyds Baking Group) – Deposit Account</b>	A	T+1	£20m	N/A	N/A
<b>Lloyds Banking Group</b> SIBA (Call) Accounts Term Deposits, CDs, Structured Deposits, Corporate Bonds	A	Up to 1 year	£100m	1 to 3 years	£100m
<b>Government Supported UK Bank – Royal Bank of Scotland</b> SIBA (Call) Accounts Term Deposits, CDs, Structured Deposits, Corporate Bonds	Blue	Up to 1 year	£50m	1 to 2 years	£50m
<b>Other UK Banks &amp; Building Societies</b> 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
<b>Bond Funds - Corporate Bonds</b>	Short-term F2, Long Term A	Up to 1 year	£20m	1 to 2 years	£20m
<b>Local Authorities:</b> Term Deposits	Not credit rated	Up to 1 year	£50m per authority	1 to 3 years	£50m per authority
<b>UK Government - Treasury Bills, Gilts DMADF</b>	UK Sovereign Rating	Up to 1 year	£50m	1 to 5 years	£20m
<b>All types of Money Market Funds / Cash Plus</b>	AAA	T+1	£30m per Manager	N/A	N/A
<b>Property Funds</b>	N/A	N/A		N/A	£50m



## 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 sovereign and individual ratings meet its AA minimum criteria.

### Approved countries for investments (Credit Rating as at 31 December 2018)

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	New Zealand
Canada	Norway	Hong Kong	France	South Korea
Denmark	Singapore	United States	United Kingdom	Belgium
Germany	Sweden	Austria	European Union	Kuwait
Luxembourg	Switzerland			
Liechtenstein				

## 12. Third Party Loans

- 12.1 As part of the Council's Transformation Programme a number of loans have been made to third parties and wholly owned companies.
- 12.2 Each loan is closely monitored using the process outlined in section 13 below. The loan details, when it was agreed and the reason for each loan is outlined below.

### i. Loan to Be First

At the November 2016 Cabinet, Members agreed to establish a new Council-owned company to manage the delivery of the borough's regeneration agenda, Be First, in line with Recommendation 8 of the report of the independent Growth Commission.

Be First is a 100% Council-owned company that is operationally independent of the Council, operating in the same way as a commercial organisation, and being accountable to members through a Shareholder Executive Board.

To support Be First cash flow requirements during the first few years of established, Members agreed a loan of up to £3.5m to Be First. The Loan details are:

Loan Amount: £3.5m  
Start Date: 1 October 2017  
Repayment Date 31 March 2021  
Rate: 4.0%  
Loan Guarantee: London Borough of Barking and Dagenham  
Repayment: Equal Instalments. First payment 31 March 2021  
Drawdown Period: 1 October 2017 to 30 September 2018

### ii. Loan to Barking & Dagenham Trading Partnership

Following the production of a Business Plan, Members agreed a £595k loan for the initial set-up costs, including training, branding, marketing, communications, specialist resources required to set up the new company and initial governance costs such as payments to Directors.

Loan Amount: £595k  
Start Date: 1 April 2018  
Repayment Date 31 March 2021  
Rate: 4.0%  
Loan Guarantee: London Borough of Barking and Dagenham  
Repayment: Equal Instalments. First payment 31 March 2019  
Drawdown Period: 1 April 2018 to 30 September 2018

## 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 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 Advisers**

The Council uses Link Asset Services for external treasury advice. However the Council acknowledges that it is ultimately responsible for all treasury management decisions and will ensure that undue reliance is not placed on the external advisors.

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. For its cash flow generated balances, the Council will utilise a range of investment instruments, as agreed within the AIS restrictions in order to benefit from the compounding of interest.

## **17. 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.

## **18. 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.

## Borrowing Strategy 2019/20 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 The IAS will support the Council to fundamentally change its approach to investment and regeneration. Going forward the Council will become a proactive developer and investor, helping to support growth opportunities and ensure that the Council and future generations benefit by increasing its ownership of long-term income producing assets. Potentially 44 schemes are in the pipeline over a period of 15 years, with the total capital expenditure estimated at over £2bn, were the whole programme funded by the Council. Whilst the Council will use, where possible, capital receipts it generates from land sales to help finance acquisition costs, the main source of financing of the full programme will be from borrowing.
- 1.6 It is expected that the net capital expenditure required, which is the capital spend less any money received from private sales and shared ownership, will be significantly less than £2.0bn. There may also 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.
- 1.7 Due to the scale of the regeneration programme borrowing from the Public Works Loan Board (PWLB) will be considered, especially when rates are low, as will institutional funders such as the EIB. In addition, it may be more advantageous to raise finance through the issuance of a bond or seek funding from the capital markets. 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.

- 1.8 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 2.5% then the interest costs would be £25m 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.
- 1.9 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.
- 1.10 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.
- 1.11 The Council will ensure that all its investments are covered in the IAS and will set out, where relevant, its 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.
- 1.12 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 holistic 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 holistic approach has resulted in very low net borrowing costs, with the 2018/19 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 holistic 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 2019/20 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 £30m of fixed rate Lender's Options Borrower's Option (LOBO) loans and all of them will be in their call period during 2019/20. 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 £665.1m of debt at an average rate of 2.49%. This can be broken down as follows:

<b>Borrowing</b>	<b>Amount Borrowed £m's</b>	<b>Average Rate of Borrowing</b>
<b>General Fund</b>		
LOBO	30,000	4.03
Local Authority (Medium-Term)	19,000	0.97
Local Authority (Short-term)	134,820	0.79
Market Loan	86,669	2.22
PWLB	277,381	2.33
<b>Total General Fund Borrowing</b>	<b>547,870</b>	<b>1.97</b>
<b>HRA</b>		
LOBO	10,000	3.98
PWLB	265,912	3.50
<b>Total HRA Borrowing</b>	<b>275,912</b>	<b>3.51</b>
<b>Total Council Borrowing</b>	<b>823,782</b>	<b>2.49</b>

#### 3.2 General Fund Debt

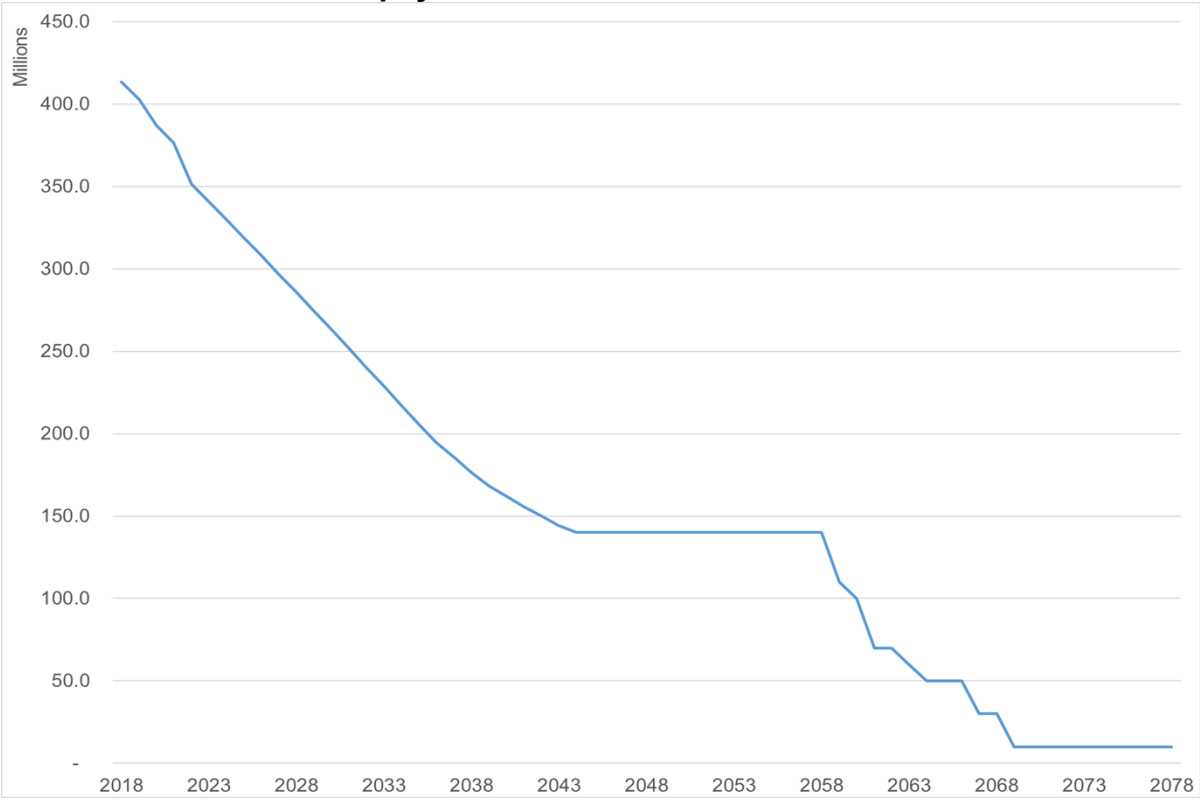
The GF debt can be split Short-Term borrowing and Long-Term borrowing. Short-term borrowing is used to manage the Council daily cash requirements and to allow the council to make strategic, longer term borrowing decisions without a significant impact from the cost of carry.

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:

<b>Year</b>	<b>Amount</b>	<b>Reason for Borrowing</b>
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 Street Purchases and IAS
<b>Total</b>	<b>£418m</b>	

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 2018**



**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.

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%.

- 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. A breakdown of the HRA borrowing is provided in table 5 below:

**Table 5: HRA borrowing:**

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

The HRA debt cap is currently set at £277.65m; however, the Council has been given approval from the DCLG to exceed this by £13.95 making the new total cap £291.60 onwards from 2018/19.

## 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.

### Capital Strategy 2019/20

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional report, a capital strategy report, 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.

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy includes the following and is outlined in the Council's Investment and Acquisition Strategy:

- i. The corporate governance arrangements;
- ii. Investment Objectives;
- iii. Investment Policy; and
- iv. The risks associated with each activity.

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.

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.

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.

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

In addition to the Investment and Acquisitions Strategy, the Council's Minimum Revenue Provision Policy (MRP) includes the debt repayment policy the Council uses for its investments. The Council also has a borrowing strategy, which includes the debt repayment profile, the interest costs and outlines the various types of borrowing the Council has used for its investment strategy.

# Investment and Acquisition Strategy

2018 to 2023

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## **1. Introduction**

- 1.1. The Council is facing unprecedented challenges and opportunities. The population of the borough is expected to increase to 220,000 by 2020 and rise further to 275,000 by 2037. Demand for Council services is increasing but budgets will fall leaving a cumulative shortfall of £63m by 2020.
- 1.2. However, the Borough's growth potential provides the opportunity to invest in Barking and Dagenham's future, supporting growth whilst generating a long-term financial return to support Council activities.
- 1.3. The scale of investment opportunity is immense. In excess of 50,000 new homes will be built over the next twenty years. This will be accompanied by increased demand for employment space and sustainable energy providing the Council with a key leadership and investment opportunity.
- 1.4. This paper updates the investment strategy approved by Cabinet in November 2017. The new strategy refreshes the eligible asset classes and sets out the framework for making investment decisions. The revised strategy reflects Government guidance on local authority investment activity.

## **2. Investment Objectives**

### **2.1. Strategic Objectives**

The purpose of the strategy is to enable the delivery of the following key investment aims:

- To unlock regeneration and economic growth opportunities within the borough
- To establish a property portfolio to generate long-term revenue and capital growth, targeting an initial revenue return of £5.2m by 20/21 and indexed at CPI thereafter

### **2.2. Return Objectives**

The allocation of investment funds will be guided by the following investment objectives. These objectives frame the evaluation, management and monitoring of all investment and funding opportunities considered by the Council.

- **Security:** ability of assets to hold and increase their capital value in line with inflation
- **Liquidity:** ability of invested funds to be realised through the sale or refinancing of the asset reflecting the illiquid nature of direct property ownership
- **Yield:** ability of assets to generate positive Net Operating Income and positive net returns after debt service within [market normative ranges]

### 2.3. Risk Management Objectives

The real estate portfolio will be managed over the long-term to achieve the following goals:

- a) Maintain an appropriate level of investment diversification across the following key factors:
  - i) investment strategy for each asset class;
  - ii) asset class diversification;
  - iii) investment life-cycle;
  - iv) development period and stabilisation period risks.
- b) Work toward and maintain an appropriate level of leverage once assets are developed and stabilised. Consideration shall be given to the impact of third-party debt financing obligations and guarantees for the risk and return characteristics of levered assets.

## 3. Investment Policy

### 3.1 Funding the Investment Strategy

The Council has currently acknowledged that to support the creation of the investment portfolio would require gross funding of £2.2bn (a net requirement of £0.85bn after sales and grant is taken into account). The level and sources of borrowing will be reviewed periodically. Borrowing levels will be adjusted to manage corporate borrowing constraints and where alternative sources of finance provides better investment outcomes.

### 3.2 Ownership of Investment Funding

Investment assets will be financed and owned by the Council directly, indirectly or through the provision of loan finance and/or guarantees to development and ownership entities. Ownership structures will reflect the regeneration and commercial purposes of investments and will be held in the most tax efficient structure(s) consistent with Local Authority powers as follows:

- Directly held investment assets (e.g. commercial property):  
*Direct General Fund borrowing through the PWLB, institutional funders or bonds as may be most advantageous from time to time.*
- Investment assets held by wholly owned vehicles (e.g. Reside vehicles and BSF joint venture company):  
*Debt finance provided by the Council to project entities; project finance provided by third party funders and co-investment between the Council and third-party investors. Funds may be provided as senior debt, junior debt or equity dependent on the requirements and commercial arrangements of schemes*

- Investment assets owned by Joint Ventures vehicles (e.g. co-investment development vehicles):

*Debt finance provided by the Council to project entities; project finance provided by third party funders and co-investment between the Council and third-party investors. [Funds may be provided as senior debt, junior debt or equity dependent on the requirements and commercial arrangements of schemes.]*

- Equity and debt financing (e.g. development period loans to private developers and Be First):

*Funded by direct General Fund borrowing, and on-lending on commercial terms, through the PWLB, institutional funders or bonds as may be most advantageous from time to time. Financing may be provided as senior debt, junior debt or equity dependent on the requirements and commercial arrangements of schemes.*

- Credit enhancement (e.g. provision of Council performance guarantees):

*The Council may also provide credit enhancement through the provision of development and operational guarantees where this secures efficient finance for projects funded with third party debt.*

### 3.3 Eligible Assets

The acquisition and development of financial and non-financial assets held to generate income and capital growth not held as part of normal treasury management. This includes:

- real estate assets
- equity and loan debt provided to wholly owned companies
- ownership and financial interests in joint venture partnerships and loans to third-party entities where this supports the key investment objectives

### 3.4 Asset classes

Investments will be made into the following asset classes. Investments will be expected to make the level of returns set out below, noting that these benchmark returns will be periodically reviewed.

Asset class	Sector	Target Portfolio structure	Target Allocation £m's	Gross yield (income)	Net yield before debt (3.00%)	Net yield after debt
Residential	Social & Affordable Rent	56%	560	5 to 6%	3.75% to 4.5%	0.75% to 1.5%
	Shared Ownership			2.75%	2.75%	2.75%
	Market Rent (secondary)			6%	4.50%	1.50%
	Market Sale	10%	100	20% profit of GDV or 25% profit on TSC (assuming 100% debt funding)		
Commercial	Offices (good secondary)	10%	100	6.50%	4.88%	1.88%
	Retail (good secondary)			9.50%	7.13%	4.13%
	Industrial (Good secondary)			5.50%	4.13%	1.13%
	Student & Creative Arts			TBC	TBC	TBC
	Hotel & Leisure			4.85%	3.64%	0.64%
Infrastructure	Energy Infrastructure	3%	33	c6.5% IRR		
Commercial Lending	Debt	20%	200	case by case basis		
<b>Total</b>		<b>100%</b>	<b>993</b>			
<i>Yields from CBRE July market analysis except Shared Ownership and Infrastructure</i>						

### 3.5 Geographical Investment Parameters

The focus of investment activities will primarily be to support the regeneration of Barking and Dagenham. Where investment opportunities arise outside of the borough these will be considered on a case by case basis where they are clearly linked to the direct achievement of Council regeneration objectives.

### 3.6 Investment Selection and Monitoring

Investment schemes proposed to the Council will be required to satisfactorily meet the following investment criteria as appropriate to the assessment of each scheme. Asset selection should be guided by the Prudent Expert standard in the areas of acquisitions, development, operations, disposals and portfolio management.



<b>Indicator</b>	<b>Purpose</b>	<b>Definition</b>	<b>Assessment</b>
<b>Acquisition and Development efficiency</b>			
Gross initial yield	Performance against published market benchmarks	Annualised rent / property value	Comparison to data published by property consultants
Net initial yield	Efficiency of management costs as a function of design and construction	Annualised rent less non-recoverable property expenses/ property value plus purchaser's costs	Comparison with published data (assumes 25% management and maintenance costs)
Yield on Cost	Development efficiency spread to market expectations	Annualised rent/ Total Scheme Cost	Comparison to published data
Cumulative year breakeven	As above	first year that project turns cumulative cash positive and contributes positively to portfolio returns	As above
<b>Investment Returns (long-terms financial returns)</b>			
Net Present Value	Balance sheet value created Comparison of project efficiency	Financing period NPV and reversion NPV	Internal
IRR (project) (pre and post debt)	Economic profit and return to equity	IRR calculated	Internal
<b>Debt underwriting for commercial loans</b>			
Loan to Value (LTV)	Maximum level of lending commensurate with project risk profile	Loan amount/ property value	Internal
Debt Service Cover Ratio (DSCR)	Income cover over debt service liability	Net Operating Income/ Debt Service Payment	Internal
<b>Risk analysis (project and portfolio)</b>			
Sensitivity analysis (project & portfolio)	Key variable and impact on key investment indicators	NPV variance	Internal
Scenario analysis (project & portfolio)	Project stress testing showing impact of unexpected changes to key assumptions	Pessimistic Base (expected Optimistic	Internal

<b>Operational Efficiency (fully stabilised and operational schemes)</b>			
Operating Expense Ratio	Shows that operating expenses do not differ from market norms – i.e. 25% maximum or we should be managing the units	Operating expenses/ Gross Effective Income*	Internal
Break Even ratio	Ability of income to pay all expenses and debt service	(Operating expenses + debt service)/ Gross Effective Income	Internal
Net Operating Income definition	Key data to drive financial appraisal and project analysis	<b>Gross Rental Value</b> (plus other project income - ground rents etc) <b>= Gross Potential Income</b> Less voids & bad debts <b>= Gross Effective Income</b> Less operating costs (m&m costs) <b>= Net Operating Income</b>	

### 3.7 Strategies

The real estate investment portfolio will be diversified across property types appropriate for each eligible asset class. The strategy for each asset class will be consistent with institutional investment in real estate including:

- a) Property type diversification with asset classes
- b) Location and connectivity
- c) Design quality to maximise and retain asset value
- d) Tenancy and leasing occupation levels
- e) Return requirements: income return emphasis

### 3.8 Investment Life Cycle

Considering that the investment portfolio is in the early stages of being created the medium-term aim is to limit development exposure to 30% of the market value of operational schemes.

### 3.9 Liquidity

In line with Government policy real estate assets will be structured to allow future disposals and refinancing recognising that these assets fall into the relative illiquid private real estate market requiring specialist advice to facilitate liquidation.

### 3.10 Leverage

Notwithstanding that most investment schemes will be financed with 100% debt; the long-term aim is to reduce portfolio leverage to 55% for fully stabilised

assets. Higher levels of leverage will be considered for opportunistic and value-added investments on a case by case basis.

#### **4 Reporting and Review**

4.1 It is important to keep the investment criteria, guidelines and investment portfolio under regular review. A failure to do so could result in acquisitions and developments being made which do not reflect current market conditions and which could increase risks that operational assets under-perform relative to the market and each projects risk profile.

4.2 In line with Government investment guidance the investment strategy should be reported and approved by Cabinet and Council Assembly on an annual basis.

#### 4.3 Review timetable

The Investment and Regeneration Strategy will be formally reviewed and monitored as follows as follows:

Annual review: the investment strategy will be formally reviewed and reported to Cabinet and Council Assembly annually.

Half-yearly review: progress in implementing the investment strategy will be reported to Cabinet every six months.

In addition, regular review of project acquisitions and investment management will be undertaken monthly by the Investment Panel and Capital & Assets Board.

#### 4.4 Scope of Review

Each review will include assessment of the following:

- a) Impact of changes in the wider economy and specific investment markets on the Council's proposed acquisition and development programme, level of expected returns and potential for realising capital growth
- b) Performance of operational assets against forecast levels of return at both individual asset and portfolio levels.

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## The Capital Prudential and Treasury Indicators 2019/20 – 2022/23

### 1. Introduction

- 1.1 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.
- 1.2 The 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.
- 1.3 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. Members are asked to approve the capital expenditure forecasts in Table 1:

**Table 1: Capital Expenditure Forecast 2018/19 to 2022/23**

Capital expenditure	2018/19	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000	£000
Care & Support	1,805	400	400	400	0
Community Solutions	349	0	0	0	0
Core	2,652	2,195	2,122	0	0
Education, Youth & Childcare	53,572	41,641	12,621	7,425	0
Enforcement	1,314	911	300	0	0
Culture, Heritage & Recreation	6,261	1,900	940	300	155
Investment Strategy	58,129	1,000	0	0	0
Growth & Homes & Regeneration	38,160	4,216	300	300	300
My Place	6,496	4,000	0	0	0
Public Realm	935	3,125	50	50	0
SDI Commissioning	3,190	480	0	0	0
Investment and Acquisition Strategy	13,749	92,360	213,930	146,269	(39,617)
Transformation	7,793	400	350	0	0
HRA	90,352	69,180	58,710	58,510	58,700
Finance Lease & PFI Additions	96	112	144	184	201
Corporate Borrowing	133,036	110,432	217,837	146,764	(39,317)
Approved Capital Programme	284,758	221,808	289,723	213,254	19,538
<b>Financed by:</b>					
Capital Grants	60,307	41,796	12,776	7,580	155
Section 106	0	0	0	0	0
Revenue Contributions	900	400	400	400	0
Capital Receipts	163	0	0	0	0
HRA Contributions	90,352	69,180	58,710	58,510	58,700
<b>Sub-Total</b>	<b>151,722</b>	<b>111,376</b>	<b>71,886</b>	<b>66,490</b>	<b>58,855</b>
<b>Net financing need for the year</b>	<b>133,036</b>	<b>110,432</b>	<b>217,837</b>	<b>146,764</b>	<b>(39,317)</b>

## The Council's borrowing requirement

- 1.4 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The 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.
- 1.5 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 3 sets out the CFR until 2022/23 and are accumulative.
- 1.6 The Reside 1 costs are financed through an external lender via a Special Purpose Vehicle and is effectively self-financing.
- 1.7 The Council is asked to approve the CFR projections.

**Table 3: Council's CFR 2018/19 to 2022/23**

Capital expenditure	2018/19	2019/20	2020/21	2021/22	2022/23
	Estimate £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000
<b>Capital Financing Requirement</b>					
CFR – General Fund	293,739	292,747	285,267	274,095	457,647
Reside 1 – William Street	90,212	89,783	89,337	88,873	89,356
Reside 2 – Abbey Rd / Weavers	100,504	104,721	104,721	104,721	104,721
CFR – Housing	278,472	278,472	278,472	278,472	278,472
<b>Total CFR</b>	<b>762,927</b>	<b>765,723</b>	<b>757,797</b>	<b>746,161</b>	<b>930,196</b>
<b>Movement in CFR</b>	<b>87,688</b>	<b>2,796</b>	<b>(7,926)</b>	<b>(11,635)</b>	<b>184,034</b>
<b>Movement in CFR represented by</b>					
Net financing need for the year	133,036	110,432	217,837	146,764	(39,317)
Less MRP and other financing movements	(10,202)	(11,206)	(11,871)	(12,168)	(10,863)
<b>Movement in CFR</b>	<b>122,834</b>	<b>99,226</b>	<b>205,966</b>	<b>134,596</b>	<b>(50,180)</b>

## 2. Affordability prudential indicators

- 2.1 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:

### a. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

General Fund Cost of Capital	2018/19	2019/20	2020/21
	Estimate	Estimate	Estimate
	£000	£000	£000
<b>Net General Fund Base Budget</b>	<b>148,159</b>	<b>148,159</b>	<b>144,038</b>
<b>Cost of Capital</b>			
GF Interest Payable	8,251	8,995	10,230
Treasury Income	(4,299)	(3,099)	(3,099)
Investment Income	(2,365)	(3,733)	(5,125)
<b>Net Cost of Capital</b>	<b>1,587</b>	<b>2,163</b>	<b>2,006</b>
<b>Financing Cost to Net Revenue</b>	<b>1.07%</b>	<b>1.46%</b>	<b>1.39%</b>

HRA Cost of Capital	2018/19	2019/20	2020/21
	Estimate	Estimate	Estimate
	£000	£000	£000
HRA Net Rental	42,290	45,880	46,140
HRA Interest Payable	9,692	10,059	10,059
<b>Financing Cost to Net Revenue</b>	<b>22.92%</b>	<b>21.92%</b>	<b>21.80%</b>

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

#### b. HRA ratios

	2018/19	2019/20	2020/21
	Estimate	Estimate	Estimate
	£000	£000	£000
<b>HRA debt £m</b>	<b>278,472</b>	<b>278,472</b>	<b>278,472</b>
<b>Number of HRA dwellings</b>	<b>17,148</b>	<b>16,928</b>	<b>16,708</b>
<b>Debt per dwelling £</b>	<b>16.2</b>	<b>16.5</b>	<b>16.7</b>

### 3. Treasury indicator and limit for investments greater than 364 days.

- 3.1 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 year end. The maximum principal sums invested greater than 364 days is high to allow the treasury section to manage the significant cashflows expected. The Council is asked to approve the treasury indicator and limit:

	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000
<b>Maximum principal sums invested &gt; 364 days</b>	<b>350,000</b>	<b>250,000</b>	<b>200,000</b>	<b>200,000</b>

### 4. Treasury Indicators: Limits to Borrowing Activity

- 4.1 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: 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.

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

<b>Interest rate exposures</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>
<b>Limits on fixed interest rates based on net debt</b>	100%	100%	100%
<b>Limits on variable interest rates based on net debt</b>	70%	70%	70%
<b>Limits on fixed interest rates:</b>			
• <b>Debt only</b>	100%	100%	100%
• <b>Investments only</b>	90%	90%	90%
<b>Limits on variable interest rates</b>			
• <b>Debt only</b>	70%	70%	70%
• <b>Investments only</b>	80%	80%	80%

<b>Maturity structure of fixed interest rate borrowing 2019/20</b>		
	<b>Lower</b>	<b>Upper</b>
<b>Under 12 months</b>	0%	40%
<b>12 months to 2 years</b>	0%	60%
<b>2 years to 5 years</b>	0%	70%
<b>5 years to 10 years</b>	0%	70%
<b>10 years and above</b>	0%	100%

<b>Maturity structure of variable interest rate borrowing 2019/20</b>		
	<b>Lower</b>	<b>Upper</b>
<b>Under 12 months</b>	0%	40%
<b>12 months to 2 years</b>	0%	40%
<b>2 years to 5 years</b>	0%	70%
<b>5 years to 10 years</b>	0%	70%
<b>10 years and above</b>	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 has been included in these figures to reflect potential additional borrowing above the current CFR.



<b>Operational boundary</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>Approved</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>
<b>Borrowing</b>	<b>1,002</b>	<b>1,052</b>	<b>1,152</b>	<b>1,250</b>

- 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 a margin for borrowing to fund the Council’s property investments.

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 Authorised Limit:

<b>Authorised Limit</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>Approved</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>
<b>Borrowing</b>	<b>1,102</b>	<b>1,152</b>	<b>1,252</b>	<b>1,352</b>

- 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:

<b>HRA Debt</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>Approved</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>
<b>Total</b>	<b>277,649</b>	<b>277,649</b>	<b>291,599*</b>	<b>291,599*</b>

\* The HRA debt cap was set at £277.649m. After the Council was given approval to exceed this by £3.2m and by a further £10.75m, the potential total cap is £291.599m onwards from 2020/21.

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## 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. A review of this methodology will be carried out and reported for the Treasury Management Strategy Statement report in February 2018.

### **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 is to be made in instalments over the life of the asset. The calculation method and the rate or the period of amortisation shall be determined by the COO.
14. 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.
15. 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.
16. 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.
17. 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

18. 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.
19. 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 be made to match the cashflow requirements of the SPV.
20. 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 years 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.
21. 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 provides that "*debt [should be] repaid over a period that is reasonably commensurate with that which the capital expenditure provides benefits*".
22. 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

23. 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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## **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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