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Agenda

Melton Borough Council
Rural Capital of Food

Meeting name	**Meeting of the Corporate Committee**
Date	**Wednesday, 28 November 2018**
Start time	**6.30 pm**
Venue	**Parkside, Station Approach, Burton Street, Melton Mowbray, LE13 1GH**
Other information	**This meeting is open to the public**

Members of the Corporate Committee are invited to attend the above meeting to consider the following items of business.

Edd de Coverly
Chief Executive

Membership

Councillors J. Orson (Chair), L. Higgins (Vice-Chair), R. de Burle, P. Cumbers, M. Glancy, E. Holmes, E. Hutchison, A. Pearson, B. Rhodes, J. Wyatt

Quorum: 4 Councillors

Meeting enquiries	Julie Radford
Email	jaradford@melton.gov.uk
Agenda despatched	Tuesday, 20 November 2018

No.	Item	Page No.
1.	**APOLOGIES FOR ABSENCE**	
2.	**MINUTES** To confirm the minutes of the previous meeting held 25th September 2018.	1 - 6
3.	**DECLARATIONS OF INTEREST** Members to declare any interest as appropriate in respect of items to be considered at this meeting.	7 - 8
4.	**ITEMS FOR APPROVAL UNDER FINANCIAL PROCEDURE RULES** The Director for Corporate Services to submit a report to provide requests for approval of this Committee under Financial Procedure Rules and to provide information on amounts approved under delegated powers and to report the impact of these on the Council's reserves and balances.	9 - 20
5.	**CAPITAL PROGRAMME MONITORING APRIL TO OCTOBER 31 2018 AND CAPITAL PROGRAMME 2018 - 2023** The Director for Corporate Services to submit a report to update the Committee on the progress of schemes within the Capital Programme to 31 October 2018, and to determine the Committee's Capital Programme for 2018-23 based on a review of spending in the current year's programme and schemes included in the programme for later years.	21 - 36
6.	**TREASURY MANAGEMENT MID YEAR REPORT SCRUTINY** The Corporate Director to submit a report which meets the requirement under the treasury management regulatory framework for the Council to receive a mid year treasury review in addition to the annual report and strategy on treasury management as reported to Council on 7 February 2018. This report also incorporates the needs of the Prudential Code to ensure adequate monitoring of capital expenditure and the Council's prudential indicators (PI's) and outlines any revisions required to the current years strategy.	37 - 52
7.	**OUTLINE BUSINESS CASE FOR NEW DEVELOPMENT COMPANY** The Director for Growth and Regeneration to submit a report to provide an update on progress so far for establishing a new development company and to seek approval for the next steps.	53 - 108

8.	**COLLABORATIVE REFORM WORK** The Chief Executive to submit a report to update members on collaborative work being undertaken by all 7 District and Borough Councils within Leicestershire to explore ways to improve partnerships and identify opportunities for service integration, efficiency and improvement.	109 - 114

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Melton Borough Council

Rural Capital of Food

Minutes

Meeting name	Corporate Committee
Date	Tuesday, 25 September 2018
Start time	6.30 pm
Venue	Parkside, Station Approach, Burton Street, Melton Mowbray, LE13 1GH

Present:

Chair Councillor J. Orson (Chair)

Councillors

L. Higgins (Vice-Chair)
P. Cumbers
B. Rhodes
R. de Burle
A. Pearson
J. Wyatt

Observers

Officers

Chief Executive
Director for Corporate Services
Director for Legal and Democratic Services
Administrative Assistant (JR)

Minute No.	Minute
C14	**Apologies for Absence** Apologies were received from Councillors Glancy and Hutchison.
C15	**Minutes** The minutes of the meeting held on 9th July 2018 were confirmed and authorised to be signed by the chair.
C16	**Declarations of interest** Councillors Orson, Pearson and Rhodes declared a personal interest in any items relating to Leicestershire County Council due to their positions as County Councillors.
C17	**Budget Framework 2019/20** The Director for Corporate Services submitted a report for members to consider key items which will feed into the Council's Medium term Financial Strategy (MTFS) and the 2019/20 budget and corporate planning preparation process. It was highlighted that an invitation had been issued to authorities to bid to be a 75% business rates retention pilot in 2019/20 which will be used to shape the new scheme. A joint bid to establish a Leicestershire Business Rates Pool has been discussed across the County and the Director for Corporate Services confirmed that the bid had been submitted for consideration this evening. Key features were highlighted as in the report and the risk of being in a less favourable position by being in the pilot was mentioned as extremely low. The split of potential monies is still being finalised but there is the possibility of approximately £300k for Melton, to be spent on housing and business infrastructure and financial sustainability. Members were advised that the MTFS did have a budget gap earlier in the year but this has been revised after year end and a more healthy position is envisaged primarily due to the waste outcome. The key proposals affecting MBC from the Technical Consultation on the 2019/20 Local Government Finance Settlement were highlighted as at 3.7 in the report. The MTFS for 2019/20 will be refined and updated throughout the budget process with the final settlement not due until December 2018. The review of the working balances was highlighted and members were advised that the risk model as at appendix B had been updated and it confirmed that the current level of £640k for the general Fund working balance is reasonable. There are no proposed changes for the Special Expenses and HRA working balances. The Director for Corporate Services drew members' attention to 3.3 of the report where the reduction in the Central Government Grant of £661k should read £944k. A member mentioned if the possible risks of a Brexit deal had been taken into account. The Chief Executive advised that the potential impact on the local

	economy and council is being considered and any opportunities or risk mitigations will be considered when there is greater clarity on the scope and level of any deal which is agreed. The reduced Cattle Market income was highlighted by a member and queried. The Director for Corporate Services advised that an adjustment was made at the year end as the net cost is lower than before the new cattle shed but not as positive as indicated by Gillstream. A member requested that the affordable housing figure is to be checked by Officers with regard to the Community Infrastructure Levy as it was suggested that the figure will taper off to zero from 20%. The Chair moved the recommendations noting that the wording of 2.5 be amended to Housing Revenue Account (HRA) from Housing Reserve Account. Councillor Higgins seconded, All members were unanimously in favour. <u>Resolved</u> that 1) Committee approved the proposed corporate planning and budget framework timetable for 2018/19, in respect of the 2019/20 financial year, set out at Appendix A. 2) No inflation be provided for in the 2019/20 budget at service budget level, other than fees and charges which has been provided for at the rate of 2.5%, unless adjusted for known cost increases by budget holders and 2% for pay be approved. 3) Council retains its objective of setting a balanced budget for the life of the Medium Term Financial Strategy. 4) The level of working balance for General Expenses, taking into account the revised calculations set out in Appendix B, be approved and maintained at £640k. 5) The existing target levels of working balance be retained for special expenses (Melton Mowbray) at £50,000 and the Housing Revenue Account (HRA) at £750,000 be approved. 6) The Senior Management Team continue to determine the relative priority growth and savings options for members guidance to consider and allocate funding based on priorities set out in the corporate delivery plan be approved. 7) The key dates for the budget process be noted. 8) Members noted the exercise of the Chief Executives delegated authority in consultation with the Leader using urgency powers by reason of limitation of time as set out in para 3.5 to become a business rate pilot as part of the Leicestershire Business Rates pool.
C18	**Budget Monitoring April to June 2018** The Director for Corporate Services submitted a report that provided information on actual expenditure and income incurred compared to the latest approved budget for the period 1st April 2018 to 30th June 2018. The report reflected the new committee structure and provided detail for all items including those approved under delegated authority that are required to be reported and a summary position on reserves and

balances resulting from these approvals. It was suggested that the wording to recommendation 2.3 to be amended to replace “that” with “the amount”.

The Director for Corporate Services advised that the financial position for the year had proved challenging and it had not been possible to meet the additional commitment previously approved by members to support the Corporate delivery Plan from underspends elsewhere. Also the Corporate Priorities Reserve has been utilised to fund one off costs arising from changes to the establishment with regard to the Corporate Improvement Team and Payroll. It was advised that there was a slight change to the report in that the payroll change whilst needing to draw on the reserves did not require delegation of the Chief Executive as this staffing implication had been previously reported and approve by Full Council earlier in the year.

A member advised caution with regard to the balance of the Corporate Priorities Reserve which will fall over the year and that spending should only be approved by this Committee.

The key challenges and issues for those variances over £10k were highlighted as at 3.6 of the report. The financial impact of these variances and approvals is for an estimated overspend on General Expenses of £7k and a balanced budget for Special Expenses MM. The HRA is indicating an underspend of £15k based on Quarter 1 monitoring.
A larger print version of Appendix D was circulated at the meeting for members' ease. This showed the effect of the reserves and balances with the key changes reported at 3.10.

The Director for Corporate Services advised that a separate fees and charges report would normally come to this committee for approval but with the changes to the committee structure for this year there are very few falling within this committee's remit. The fees and charges have all been approved under delegation being in line with inflation. The first draft of next year's budget will be reported to the Corporate Committee meeting scheduled for November 2018.

A member mentioned the new waste contract and the need for advertising and informing the public as to what is acceptable for recycling. Members were advised that contamination is a problem and some measures are being proposed to deal with the issue. This will be discussed in more detail at the Place Committee.

The Chief Executive advised members that preparations are being made for the 2018/19 winter season with regard to council dwellings to ensure that plumbing/electrical maintenance has been ongoing in readiness for severe weather and to mitigate the impact to residents.

The Chair moved the recommendations noting the amendment to 2.3 and Councillor de Burle seconded.
All members were unanimously in favour.

	<u>Resolved</u> that 1) The financial position for all services to 30 June 2018 and year end forecast be noted. 2) Members approved the use of Corporate Priorities Reserve to fund the Supplementary Estimates totalling £80k previously agreed as outlined in para 3.5. 3) Members noted the delegation exercised by the Chief Executive and the amount estimated to be used from the Corporate Priorities Reserve to fund costs associated with agreed restructures as outlined in para 3.5. 4) Members approved the use of £5,000 from the Parkside budget to undertake a space planning exercise of the building to support the council's asset maximisation ambitions. 5) The virements approved under delegated powers (para. 3.8 refers) be noted.
C19	**Capital Programme Monitoring April to 31 August 2018** The Director for Corporate Services submitted a report to provide an update to members on the progress of schemes within the Capital Programme to 31st August 2018. The individual schemes were highlighted as set out in appendix A and the key variances were advised. The Northgate Server project is being delayed until the next financial year. The Telephony Project business case was submitted to enable the project to proceed for which funding has already been set aside. This funding will be supplemented by a revenue contribution and the project is in partnership with the other LICTP partners. A member commented that the Wilton Road Public Conveniences works do not seem up to standard and would like Officers to check all is in order at this stage of the development. The Chair moved the recommendations which were seconded by Councillor Higgins. All members were unanimously in favour. <u>Resolved</u> that 1) Members noted the progress made on each capital scheme and that the capital programme will be amended as part of the budget setting process as outlined in sections 5.3 and 5.4. 2) Members approved the Telephony Upgrade business case outlined in Appendix B and the authorised funding increased to £58k with the additional cost being met from the revenue budget.

The meeting closed at: 7.15 pm

Chair

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Advice on Members' Interests

COUNCIL MEETINGS - COMMITTEE MINUTES : DECLARATION OF INTERESTS
Interests need not be declared at Full Council in relation to Committee Minutes which do not become the subject of debate at Full Council (i.e. Minutes referred to solely on a page by page basis when working through the Minutes of each Committee.)

An interest must be declared at Full Council as soon as it becomes apparent that a relevant Committee Minute is to be debated – this applies even if an interest has been declared at Committee and is recorded in the Minutes of that Committee.

PERSONAL AND NON-PECUNIARY INTERESTS
If the issue being discussed affects you, your family or a close associate more than other people in the area, you have a personal and non-pecuniary interest. You also have a personal interest if the issue relates to an interest you must register under paragraph 9 of the Members' Code of Conduct.

You must state that you have a personal and non-pecuniary interest and the nature of your interest. You may stay, take part and vote in the meeting.

PERSONAL AND PECUNIARY INTERESTS
If a member of the public, who knows all the relevant facts, would view your personal interest in the issue being discussed to be so great that it is likely to prejudice your judgement of the public interest and it affects your or the other person or bodies' financial position or relates to any approval, consent, licence, permission or registration then **you must state that you have a pecuniary interest, the nature of the interest and you must leave the room*.** You must not seek improperly to influence a decision on that matter unless you have previously obtained a dispensation from the Authority's Governance Committee.

DISCLOSABLE PECUNIARY INTERESTS AND OTHER INTERESTS
If you are present at any meeting of the Council and you have a disclosable pecuniary interest in any matter to be considered or being considered at the meeting, if the interest is not already registered, you must disclose the interest to the meeting. You must not participate in the discussion or the vote and you must leave the room.

You may not attend a meeting or stay in the room as either an Observer Councillor or *Ward Councillor or as a member of the public if you have a pecuniary or disclosable pecuniary interest*.

BIAS
If you have been involved in an issue in such a manner or to such an extent that the public are likely to perceive you to be biased in your judgement of the public interest (bias) then you should not take part in the decision-making process; you should leave the room. **You should state that your position in this matter prohibits you from taking part.** You may request permission of the Chair to address the meeting prior to leaving the room. The Chair will need to assess whether you have a useful contribution to make or whether complying with this request would prejudice the proceedings. A personal, pecuniary or disclosable pecuniary interest will take precedence over bias.

In each case above, you should make your declaration at the beginning of the meeting or as soon as you are aware of the issue being discussed.*

*There are some exceptions – please refer to paragraphs 13(2) and 13(3) of the Code of Conduct

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CORPORATE COMMITTEE

28 NOVEMBER 2018

REPORT OF DIRECTOR FOR CORPORATE SERVICES

ITEMS FOR APPROVAL UNDER FINANCIAL PROCEDURE RULES

1.0 PURPOSE OF REPORT

1.1 The purpose of this report is to submit requests for approval of this Committee under Financial Procedure Rules and to provide information on amounts approved under delegated powers and to report the impact of these on the Council's reserves and balances. The opportunity has also been taken to secure delegated authority for finalising legal fees and charges as well as entering into contracts with other parties for the provision of procurement services.

2.0 RECOMMENDATIONS

It is recommended that:-

2.1 the virements approved under delegated powers (para. 3.1.1 refers) be noted.

2.2 The business case discussed in para 4.1 be approved and a supplementary estimate of £20,000 be approved from the Play Areas Repairs and Renewals Fund to replace equipment Kirby Fields & Melton Country Park Climbing forest Play Areas

2.3 That delegated authority is requested for the Chief Executive in consultation with the Leader to approve a supplementary estimate from the Corporate Priority Reserve to meet the cost of the leisure commercial appraisal should there not be sufficient funds within the current years budget

2.4 That delegated authority is given to the Director for Legal Services in consultation with the Director for Corporate services to finalise the legal charges in line with the parameters set out in para 5.1.

2.5 That delegated authority is given to the Director for Corporate Services to finalise and sign any contracts for services to enable the Council to delivery procurement services to other parties as set out in para 6.1.

3.0 VIREMENTS

3.1 Delegated Authority

3.1.1 Since the last meeting the Director for Corporate Services has approved seven requests for virement within the same service totalling £202,280 and three requests for virement between services totalling £218,160. More details of those requests in excess of £10,000 can be found in Appendix A.

4.0 SUPPLEMENTARY ESTIMATES

4.1 The under mentioned schemes (business cases attached as Appendix B) are submitted for approval

Committee	Scheme	← Funding →		
		Amount	**Year**	**Source**
Place	Play Areas - Kirby Fields and Melton County Park Climbing Forest	£20,000	2018-19	Play Areas Repairs and Renewals Fund

4.2 At a meeting of the Place Committee on 31 October 2018 the business case for replacement of the play area equipment at Kirby Fields and Melton County Park Climbing Forest was approved and that a request be made to this committee for the required capital funding of £20,000 from the Play Areas Repairs and Renewals Fund. Further detailed information on this capital scheme can be found in the business case attached as Appendix B.

4.3 At the meeting of the Place committee on 31 October 2018 an update was provided on the work on the Council's Leisure Facilities. The report highlighted the need to undertake a wider piece of work to undertake a full commercial development appraisal to explore how the council extracts the most value from the leisure sites and identify ways to fund the council's plans for future leisure provision. An initial estimate for this work is £60k. This estimate will be tested through the procurement process. The latest budget monitoring positon for 2018/19 indicate this could be met from existing budgets however the financial position for the current and future year is proving challenging. As such if the cost of this work cannot be met from the existing budgets, delegated authority is requested for the Chief Executive in consultation with the Leader to approve a supplementary estimate from the Corporate Priority Reserve.

5.0 FEES AND CHARGES

5.1 A review of the charges legal services make for drafting agreements such as S106 etc. is required as it is been identified that the Council's charges are not reflective of either the work involved in some cases or are out of line with other councils. It is desirable that these charges are implemented as soon as possible and certainly the implications need to be incorporated into the budget for 2019/20. As such delegated authority is required for these to be considered and determined outside of the meeting. The fee set will consider the actual costs involved in undertaking such work as well as information on benchmarking from similar authorities. In line with the Council's strategic direction being to move to a more commercial approach charges for such services should be reflective of the market.

6.0 PROCUREMENT UNIT

6.1 Following the disbandment of the Welland partnership Melton continues to be the lead authority for delivering a procurement services to a number of other councils across the East Midlands. These currently include Blaby, Wellingborough, Rutland and East Northants. In line with the councils commercial ambitions the procurement service is always exploring opportunities to generate further income through securing additional organisations to work with. We have recently been successful in gaining two new Councils – South Kesteven and Newark & Sherwood who are wanting to come on board and therefore we are looking to finalise the contractual arrangements with them shortly. This is great news for the service to enable the team to strengthen the procurement offer.

7.0 **POLICY AND CORPORATE IMPLICATIONS**

7.1 Policy and corporate implications are considered for each new budget proposal as part of the Council's priority assessment process. The results of this are reported to members as part of the budget setting process.

7.2 The proposals regarding the legal charges is to ensure these are in line with the council's charging policy and commercial strategy.

8.0 **FINANCIAL AND OTHER RESOURCE IMPLICATIONS**

8.1 The current level of balances and reserves are shown in Appendix C.

8.2 The financial implications of the review of legal charges will be incorporated itnot he budget for 2019/20.

9.0 **LEGAL IMPLICATIONS/POWERS**

9.1 Any legal implications arising from these movements in funds will have been addressed during the approval process.

9.2 The Council is able to charge fees pursuant to s.93 of the Local Government Act 2003. Where fees and charges are set under s.93 the Council has a duty to secure that, taking one financial year with another, the income from the charges does not exceed the cost of providing the service.

9.3 The arrangement for the additional authorities seeking to join the Melton procurement service should be formalised by way of a service level agreement. The Local Government (Goods and Services) Act 1970 introduced the power to supply goods, material and services between local authorities and to other public bodies. The Council has the power to enter into contracts/agreements pursuant Local Government Act 1972 (s111) and the Local Government (contract) Act 1997 (s1).

10.0 **COMMUNITY SAFETY**

10.1 Individual budgets could have links to community safety issues. These are covered in any associated reports and financial forms that refer to these budgets as they progress through the decision making process. As community safety is a corporate priority this is considered as part of the priority assessment and budget setting process when considering individual budget proposals.

11.0 **EQUALITIES**

11.1 The equality issues of each specific budget are considered as they progress through the approval process. The impact of the legal charges will be monitored to understand the impact, if any, following the introduction.

12.0 **RISKS**

12.1 There will be risks associated with all budgets and these should be considered as part of the consideration of these individual budget proposals through the decision making process.

13.0 **CLIMATE CHANGE**

13.1 Individual budget heads could have climate change issues but these are considered individually as they progress through the approval process.

14.0 **CONSULTATION**

14.1 Any proposed adjustments to budgets are made in consultation with budget holders and the Management Team where appropriate.

14.2 Benchmarking will be undertaken to review comparable local authorities to ensure legal charges are consistent with the market and set accordingly based on the services offered at Melton.

15.0 **WARDS AFFECTED**

15.1 All wards are affected.

Contact Officer	D Scott – Corporate Services Manager
Date:	09 November 2018
Appendices :	Appendix A: Virements in Excess of £10k Appendix B – Play Areas Business Case Appendix C: Statement of Revenue and Capital Reserves
Background Papers:	Committee Papers Budget Reduction/Virements/Supplementary Estimate Forms
Reference :	X: C'tee, Council & Sub-C'tees/Corporate Committee/2018-19/28-11-18/DG-Items for Approval

SUMMARY OF VIREMENTS

APPENDIX A

Virements within the same Service

Service			
From	**To**	**Description**	**Amount £**
Corporate Services - Basic Pay, NI, Pension, Professional Fees	Corporate Services - Agency Costs	Agency fees for maternity and other cover from employee related and professional fees savings	£88,200
HRA - Repair & Mtce re Planned Maintenance	HRA - Repairs & Mtce re voids and repairs	Planned Maintenance underspend used to meet inflation increases not covered in budgets	£27,000
Welland Procurement - Basic Pay, NI, Pension, Mileage	Welland Procurement - Other charges for services	Post vacancy savings used to cover reduced income over that budgeted	£12,260
Legal Services - Pay, Professional Fees, Contract Payment	Legal Services - Agency Costs, Employee costs, Subscriptions	Movement of budgets to reflect service being brought in-house	£50,700
			£178,160

Virements between Services

Service			
From	**To**	**Description**	**Amount £**
Legal Services - Pay and contract payment	Corporate Management Team - Basic Pay, NI, Pension, Essential User	Move emplyee costs to Corporate Management Team	£74,350
Communities and Neighbourhoods - Basic Pay, NI, Pension, Essential User	Corporate Management Team - Basic Pay, NI, Pension, Essential User	Move employee costs to Corporate Management Team	£67,330
Corporate Services - Basic Pay, NI, Pension	Cummunications - Basic Pay, NI, Pension	Move administrative staff budget to communications	£70,340
			£212,020

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Business Case: Appendix B

New Play Area Equipment 2018/19

B 1 - General

To seek member's approval for the release of capital funds allocated for the installation of new play equipment at a Kirby Fields & Melton Country Park Climbing forest Play Areas as outlined within the project mandate associated with this proposal approved earlier this year in February. These works follow a five year programme of capital expenditure on play area equipment and capital infrastructure requirements agreed by members of the former Community and Social Affairs Committee in November 2014.

This business case is seeking approval for the capital expenditure allocated to be spent renewing a main piece of play equipment in the climbing forest at Melton Country Park and installing an 'all inclusive' swing unit in Kirby Fields play area. Some expenditure at other play areas has had to be made out of sync with the programme to ensure health and safety standards are retained at all times.

B 2 –Service / Service / Function

The councils Growth and Regeneration Directorate is responsible for the Boroughs play strategy which includes children's play area provisions in Melton Mowbray. Management responsibility for these facilities lies with the councils Environmental Maintenance Team (EMT) through the provision of regular (weekly) inspection together with on-going maintenance and repairs when necessary. The addition of an approved overarching renewal and replacement programme which details all the expected capital requirements for all the sites, now actively ensures the councils play sites meet with current health and safety requirements are equipped with apparatus that is safe and secure and are sites that are attractive and welcoming to both local, regular and occasional users.

B 3 – Strategic fit

The proposal outlined in this business case is in line with current policy and is designed to facilitate safe, attractive and desirable play areas and play facilities that best meet the preferences of regular local users as well as offering attractive activities for tourists and other Borough visitors. The initiative fits well with increasing community and social cohesion as well as encouraging healthy active leisure activities that help combat problems of obesity as well as mental and physical fatigue. This installation is in line with renewal programme policy that states that the inclusion of equipment for those less abled will always be considered where practical and possible during periods of equipment renewal or replacement.

B 4 - Options appraisal

Play area equipment for capital schemes is almost exclusively purchased directly from, supply and install companies. There are effectively no other options as lease or hire is not generally appropriate or available. The companies identified for capital purchases in line with the approved renewal and replacement programme are mostly leading well-established and reputable companies giving long term validity to guarantees, consistency in regards to expected quality and performance and the security of a respected long established firm with a widely accepted reputation for good service and customer satisfaction

B 5 - Achievability

All equipment selected will be from such reputable specialist supply and installers most of whom have previously been contracted by us for similar play area work, and who have indicated their availability to supply and install within a reasonable timescale upon confirmation of an order and accordingly no achievability issues are envisaged.

B 6 - Legal Issues (if applicable)

All the equipment purchased will be fully compliant with current play area health and safety regulations and will be installed by experienced qualified professional installers. Upon installation all new equipment receives a robust installation inspection from a third party qualified inspector prior to sign off. Going forward as is the case now the new facilities will receive regular weekly inspections supplemented by more in depth quarterly and annual inspections, and accordingly there are not expected to be any legal issues.

B 7 Specification

The specifications were drawn up with regards to achieving new equipment that is like for like or of the play value required. The optimum design/scheme have been selected, from submissions provided by leading play equipment suppliers as well as some smaller companies with good reputations able to offer examples of satisfactory installations elsewhere.

B 8 - Financial Implications

Capital

The Play areas that will receive new equipment as a result of this business case are Kirby Fields & Melton Country Park (MCP) Climbing Forest. Members may wish to note that maintaining the play sites as far as is practicable in line with the Replacement and renewal programme is now starting to reduce the overall service maintenance cost with the maintenance budget having been reduced for the past two years .

	£	*Comment*
Initial Costs	*£10k* *£10k*	*Kirby Fields* *MCP Climbing Forest*
Total	*£20k* *All prices*	

	Exclude VAT but include discounts of 15% to 20% Total cost £20k	
Net Cost	***£20k***	
Phasing	***NA***	**-**

B 9 – Project Scoring Matrix

Scoring – for your project – calculate the points.			
Criteria	1 Point	2 Points	3 Points
Cost £ (budget, time and human resource)	<£10k	£10k - £50K	>£50K
Timescale	< 6 months	6 – 12 months	> 12 months
Impact if project failed on the organisation	Minor disruption	Moderate	Major
Melton's Track Record	Done Successfully Many Times Before	Done Successfully Once or Twice Before	New Area of Working
Stakeholder Interest (internal and external)	Minimal	Moderate	Major
Project Complexity	Straight-forward	Moderately Complex	Highly Complex
TOTAL	3	6	0
OVERALL SCORE	2+1+1+1+2+1=8		

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STATEMENT OF REVENUE AND CAPITAL RESERVES

APPENDIX C

	GENERAL RESERVES						WORKING BALANCES				HOUSING REVENUE ACCOUNT				CAPITAL RECEIPTS				GRAND TOTAL
	Corporate Priorities Reserve	Spending Pressure Reserve	General Reserve Special Expenses	General Fund Carry Forward Reserve	Special Expenses Carry Forward Reserve	Total	General Expenses	Special Expenses	Housing Revenue Account	Total	Development & Regeneration Reserve	Major Repairs Reserve (Usable)	Water Arrears Reserve	Total	HRA Usable Capital Receipts	Leisure Vision Usable Capital Receipts	Other Usable Capital Receipts	Total	
	£	£	£	£	£	£	£	£	£	£	£	£	£		£		£	£	£
1 April 2018 Balance	1,431,976	211,514	252,406	220,080	6,150	2,122,126	640,000	50,000	1,666,529	2,356,529	5,129,676	2,028,926	35,000	7,193,602	3,104,578	784,878	1,236,182	5,125,638	16,797,895
2018-19																			
INCOME																			
Contributions from																			
Revenue Accounts	0	0	0	0	0	0	0	0	0	0	1,470,790	1,412,960	0	2,883,750	0	0	0	0	2,883,750
Interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	455,839	0	0	455,839	455,839
Transfers	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Income	0	0	0	0	0	0	0	0	0	0	1,470,790	1,412,960	0	2,883,750	455,839	0	0	455,839	3,339,589
EXPENDITURE																			
Contributions to:																			
Revenue Accounts	270,210	185,650	4,782	220,080	6,150	686,872	0	0	488,390	488,390	0	0	2,000	2,000	0	0	0	0	1,177,262
Capital Works	0	0	0	0	0	0	0	0	0	0	5,604,000	1,750,000	0	7,354,000	0	0	413,000	413,000	7,767,000
Capital Works Future Years	250,000	0	0	0	0	250,000	0	0	0	0	0	0	0	0	0	0	0	0	250,000
Revenue Set-Aside	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Pooled	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Expenditure	520,210	185,650	4,782	220,080	6,150	936,872	0	0	488,390	488,390	5,604,000	1,750,000	2,000	7,356,000	0	0	413,000	413,000	9,194,262
31 March 2019 Balance	911,766	25,864	247,624	0	0	1,185,254	640,000	50,000	1,178,139	1,868,139	996,466	1,691,886	33,000	2,721,352	3,560,417	784,878	823,182	5,168,477	10,943,222

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CORPORATE COMMITTEE

28 NOVEMBER 2018

REPORT OF DIRECTOR FOR CORPORATE SERVICES

CAPITAL PROGRAMME MONITORING TO 31 OCTOBER 2018 AND CAPITAL PROGRAMME 2018-2023

1.0 PURPOSE OF THE REPORT

1.1. To update the Committee on the progress of schemes within Capital Programme to 31 October 2018.

1.2. To determine the Committee's Capital Programme for 2018-23 based on a review of spending in the current year's programme and schemes included in the programme for later years.

2.0 RECOMMENDATIONS

2.1 Members note the progress made on the capital schemes as attached at Appendix A; and

2.2 The Committee approves the revised Capital Programme for 2018-23 attached at Appendix B including the additional funding required from the IT renewal and repair fund to enable the northgate project to be completed fully in 2018/19.

3.0 KEY ISSUES

3.1 Capital Programme Monitoring

3.1.1 Under the Capital Programme Project Appraisal System, monitoring of actual capital expenditure against authorised expenditure is undertaken on a regular basis and reported to the Management Team in its capacity as the Council's Programme Board. Appendix A gives details of the spending against budget for all schemes within this Committee up to 31 October which is the latest available information at the agenda .

3.1.2 The overall position for all capital schemes falling within this Committee is as set out below.

	Allocated Funding 2018/19 Budget	Authorised Funding 2018/19 (Business Case Approved)	Actual Expenditure to 31 October	Year End Forecast	Year End Variance (-) Underspend
	£'000	£'000	£'000	£'000	£'000
General	79	61	1	97	18

3.1.3 The capital programme forecast for 2018-19 includes the Northgate Server project of £34k which was originally due to be completed over two years. This is now proposed to be completed fully in 2018/19. Advantages to this approach are that this would mirror the Blaby configuration which would aid with future planning and maintenance efforts and implement a standardised model. This is fully funded from the IT renewal and repairs fund. As such a supplementary estimate is requested from the fund to enable this project to be fully completed this financial year.

3.2 Capital Programme 2018-2023

3.2.1 The Capital Programme 2018-23 for this Committee is attached at Appendix B. The Programme gives the total cost of each scheme, the spending profile, the amounts authorised to be spent and the stage each scheme has reached within the Capital Programme.

3.2.2 The main programmes additions to the programme for 2019/20 are focused around the projects outlined in the Councils ICT roadmap which has been developed by Leicestershire ICT Partnership (LICTP). The mandates for these are attached at appendices C to F. These projects will be considered by members as part of the allocation of capital resources when the budget is set. However it is worth noting that a number of these have available funding set aside as part of the equipment renewal and repair programme.

3.2.3 The programme includes an estimate for a Finance System project which is currently out to tender at the moment. Once the final solution is known this may result in the preferred option being a cloud based system which under the current financial accounting rules would be classed as revenue expenditure and therefore would need be funded accordingly.

4.0 POLICY AND CORPORATE IMPLICATIONS

4.1. Policy and corporate implications were addressed in setting the current year's budget. There are no further policy and corporate implications arising from this report.

5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS

5.1. The financial and resource implications for the proposed capital programme have been addressed within section 3.

6.0 LEGAL IMPLICATIONS

6.1 Legal implications/powers were addressed in setting the current year's programme. There are no further legal implications arising from this report.

7.0 COMMUNITY SAFETY

7.1 Individual schemes could have links to community safety issues. These should be covered in any associated reports and forms linked to those schemes as they progress through the decision making process.

8.0 EQUALITIES

8.1 Individual schemes could have links to equalities issues. These should be cover any associated reports and forms linked to those schemes as they progress through the decision making process.

9.0 RISKS

9.1 These should be covered in any associated reports and forms linked to those schemes as they progress through the decision making process.

10.0 CLIMATE CHANGE

10.1 Individual schemes could have links to climate change issues. These should be covered in any associated reports and forms linked to those schemes as they progress through the decision making process.

11.0 CONSULTATION

11.1 Consultation takes place between project managers and the Financial Accountant to determine the information included in Appendix A. Reports are also prepared on a quarterly basis for the Programme Board.

12.0 WARDS AFFECTED

12.1 To varying degrees all wards are affected by capital schemes within this Committee.

Contact Officer:	Jaz Bassan
Date:	26 October 2018
Appendices:	Appendix A– General Capital Progress Report – October 2018 Appendix B – Capital Programme 2018-2023 (General) Appendix C – Security Infrastructure Appendix D – Windows Server Migration Appendix E – Network Refresh Appendix F – Citrix Upgrade
Reference:	X:\Cttee, Council & Sub Cttees\Corporate\2018.19\281118/DG-Capital Prog. Monitoring- Apr 18 to Oct 18.and Capital Programme 2018-23
Background Papers:	Oracle Financial Reports Budget Holder Comments on Performance

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CAPITAL PROGRAMME 2018/19 PROGRESS REPORT - October 2018								Appendix A
	Grant Funded	Business Case Approved	Budget for Year	Actual April 18 to Oct 18	Forecast	Variance (-) = Underspend	Project Manager	Comments
	Y/N	Y/N	£000	£000	£000	£000		
Enterprise Document Management (EDM)	N	Y	3	1	3	0	JW	Enhancement of EDM for enforcement now complete and funds fully expended
Telephony Upgrade	N	Y	58	0	60	2	MD	Business case approval has been granted from all members of the LICTP. MBC confirmed to deploy solution first. Project management resource to be employed and procurement / contract completed together with Legal. On track for 2018/19 completion
Northgate Server	N	N	18	0	34	16	MD	Originally advised that this work could be phased and as such we advised the release of R&R for the upgrade of the Northgate infrastructure to ensure a supported environment based on an allocation of £18k in 2018-19 and the an additional £16k in 2020-21.Following discussions with Northgate it is now considered to be a better option to do this work at the same time and migrate the service to a windows platform and complete the upgrade the database with projected expenditure of £34K .
TOTAL - GENERAL EXPENSES			**79**	**1**	**97**	**18**		

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CORPORATE COMMITTEE CAPITAL PROGRAMME 2018-2023

Appendix B

						<--- Latest Approval -->			< -----------2018/2019 ----------->			< -----------2019/2020 ----------->			2020/21	2021/22	2022/23	
Serv	Cost	Sub	Proj Ref	Scheme	Project Manager	Committee	Date	For Projects Only - Previous Years Actual Cost	Total Estimate (Mandate)	Allocated Funds (Budget)	Authorised Spending (Bus Case)	Total Estimate (Mandate)	Allocated Funds (Budget)	Authorised Spending (Bus Case)	Total Estimate (Mandate)	Total Estimate (Mandate)	Total Estimate (Mandate)	Total Scheme Cost
								£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
				GENERAL EXPENSES														
				Transformational Change Projects														
900	9000	754	5265	Enterprise Document Management (EDM)	JW	Corporate	10-Jul-13	168	3	3	3	0	0	0	0	0	0	171
				Other Schemes														
900	9000	755	0463	Improvements to Footbridge off Asfordby Road	PD	Corporate	02-Dec-14	N/A	0	0	0	0	0	0	59	0	0	59
900	9000	754	0474	Telephony Upgrade	MD	Corporate	01-Dec-15	N/A	58	58	58	0	0	0	0	0	0	58
900	9000	753	0492	Northgate Upgrade	MD	Corporate	29-Nov-17	N/A	34	34	34	0	0	0	0	0	0	34
900	9000	754	0494	Finance System	RB	Corporate	11-Apr-18	N/A	0	0	0	250	0	0	0	0	0	250
				Mobile Working Devices	MD	Corporate		N/A	0	0	0	0	0	0	17	0	0	17
				Security Infrastructure	MD	Corporate		N/A	0	0	0	10	0	0	0	0	13	23
				Windows server migrations	MD	Corporate		N/A	0	0	0	14	0	0	0	0	0	14
				Network refresh	MD	Corporate		N/A	0	0	0	11	0	0	0	12	0	23
				Data Centre	MD	Corporate		N/A	0	0	0	0	0	0	0	22	0	22
				Citrix upgrade	MD	Corporate		N/A	0	0	0	29	0	0	0	0	0	29
				GENERAL EXPENSES TOTAL				168	95	95	95	314	0	0	76	34	13	700
				COMMITTEE TOTAL				168	95	95	95	314	0	0	76	34	13	700

Key to Project Managers

PD = Philip Diffey
MD = Mike Dungey
JW = Jim Worley
RB = Rebecca Barker

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"Project Mandate"

Appendix C

Agenda item number:	
Date of issue:	

Meeting:

Report by: Mike Dungey
Head of ICT

Service: ICT

Status: First Draft

Subject: Security Infrastructure

1 Purpose of report

To seek the release of capital funds to contribute to technology services aimed at supporting improved security of the ICT infrastructure. To work toward mitigating the increased risks associated with the security of data centre servers, networks and ICT infrastructures against malicious attacks, intrusion, and data loss / corruption.

2 Recommendations

To provide £9,500 in capital funds to contribute to the ICT security improvements

3 Background

Ongoing assessments of ICT security arrangements together with audit review recommendations to ensure the level of security employed in relation to the system is appropriate and adequate to prevent; loss of data, access to systems, accidental compromise, malicious attacks.

4 Legal, financial and IT implications (please identity any system admin responsibilities)

The council needs to ensure it takes adequate measures to ensure the security of its technology infrastructure, data and networks. The legal implications are associated with the collection, use and protection of information. Financial implications are associated with the ever increasing fines for insufficient or inadequate controls.

5	Initial Assessment of risk	
		There is a high risk in relation to both the risk and the likelihood of a potentially damaging security event if sufficient investment is not made available. Failure to keep pace with security threats will result in a greater likelihood of service interruption as a consequence.
6	Equalities and diversity and staffing implications	
		NA

Melton Borough Council

"Project Mandate"

Appendix D

Agenda item number:
Date of issue:

Meeting:

Report by: Mike Dungey
Head of ICT

Service: ICT

Status: First Draft

Subject:
Windows server migrations

1 Purpose of report

To seek the release of capital funds to contribute to works required to migrate the Windows server operating systems from 2008 to 2016 and maintain a supported infrastructure.

2 Recommendations

To provide £13,500 in capital funds to contribute to the ICT Windows server migrations

3 Background

The existing Windows 2008 server estate used to provide services for MBC will be end of life and ineligible for support and maintenance and patching by Microsoft in January 2020. As such a programme to migrate the underlying and supporting operating system infrastructure will need to be implemented in order to allow on going support and maintenance, patching and continue to provide a robust and reliable platform for third party application providers.

4 Legal, financial and IT implications (please identity any system admin responsibilities)

The council needs to ensure it takes adequate measures to ensure the Windows server technology is maintained within the window of support from the supplier (Microsoft). IT implications will result if unpatched and unsupported operating systems are not replaced – affecting security compliance as well as the ability to host applications from other third parties.

5 Initial Assessment of risk

There is a high risk in relation to both the risk and the likelihood of a potentially damaging security event if sufficient investment is not made available to maintain an up to date server infrastructure.
Failure to keep pace with maintained operating systems will result in a greater likelihood of service interruption as a consequence.

6 Equalities and diversity and staffing implications

NA

Melton Borough Council

"Project Mandate"

Appendix E

Agenda item number: Date of issue:

Meeting:

Report by: Mike Dungey
Head of ICT

Service: ICT

Status: First Draft

Subject: Network Refresh

1 Purpose of report

To seek the release of capital funds to contribute to works required to maintain a supported network infrastructure

2 Recommendations

To provide £11,000 in capital funds to contribute to the ICT security improvements

3 Background

Several switches within the estate will be end of life in the next financial period and will no longer receive security or software updates from the hardware vendor. A review will be taken to advise on the replacement of end of life switches / network devices in order to maintain the integrity of the LICTP network and hosted data – as such a rolling replacement programme will need to be initiated over the coming 5 years.

4 Legal, financial and IT implications (please identity any system admin responsibilities)

The council needs to ensure it takes adequate measures to ensure the network infrastructure is maintained within the window of support from the technology suppliers. IT implications will result if unpatched and unsupported network solutions are not replaced – affecting security compliance as well as the ability to transport data reliably across the LICTP.

5 Initial Assessment of risk

There is a high risk in relation to both the risk and the likelihood of a potentially damaging security event if sufficient investment is not made available to maintain an up to date network infrastructure.
Failure to keep pace with maintained network devices will result in a greater likelihood of service interruption as a consequence.

6 Equalities and diversity and staffing implications

NA

Appendix F

"Project Mandate"

Agenda item number:
Date of issue:

Meeting:

Report by: Mike Dungey
Head of ICT

Service: ICT

Status: First Draft

Subject:Citrix

1 Purpose of report

To seek the release of capital funds to contribute to the completion of works required to upgrade citrix desktop infrastructure.

2 Recommendations

To provide £28,500 in capital funds to contribute to the completion of the citrix hardware, software and end user solution.

3 Background

The majority of access to business systems and data is made through devices accessing Citrix. Citrix infrastructure P1 was completed in 2018 to upgrade hardware supporting the citrix server / end user computing. P2 will complete this work and result in a standardised updated solution for all users.

These are essential upgrades to ensure a supported desktop environment.

Without the upgrade desktop services will be put at risk as they will be on unsupported version. This could affect compatibility with business systems (suitability to adopt application upgrades) and meet legislative conditions.

The upgrade contributes to the maintenance of a supported state of ICT infrastructure and reduce the ongoing costs for DR/BC and maintenance

4 Legal, financial and IT implications (please identity any system admin responsibilities)

Without the upgrade desktop services will be put at risk as they will be on unsupported version. This could affect compatibility with business systems (suitability to adopt application upgrades) and meet legislative conditions

5 Initial Assessment of risk

Out of date citrix infrastructure affects the ability to adopt application upgrades, security patches and potential to affect significantly the organisations ability to provide services

6 Equalities and diversity and staffing implications

NA

CORPORATE COMMITTEE

28 NOVEMBER 2018

REPORT OF DIRECTOR FOR CORPORATE SERVICES

MID YEAR REPORT ON THE TREASURY MANAGEMENT ACTIVITIES AND PRUDENTIAL INDICATORS 2018-19

1.0 **PURPOSE OF REPORT**

1.1 Revisions to the regulatory framework of Treasury Management during 2009 introduced a requirement that the Council receive a mid year treasury review in addition to the annual report and strategy on treasury management. The CIPFA Treasury Management Panel promotes the view that Council's monitor performance at least half yearly. In addition to this, a report by the Audit Commission entitled 'Risk and Return' identifies the need for Local Authorities to report regularly to members in addition to the annual review

1.2 The report meets the above requirement and incorporates the needs of the Prudential Code to ensure adequate monitoring of capital expenditure and the Councils prudential indicators (PI's). The treasury strategy and PI's were previously reported to Council on 7 February 2018. Revisions to future years are provided where required.

2.0 RECOMMENDATIONS

The Corporate Committee recommends to The Council that:

2.1 The mid-year position on treasury activity for 2018-19 be noted;

2.2 The mid-year position on prudential indicators be noted and approved;

3.0 **KEY ISSUES**

3.1 The Treasury Management & Prudential Indicators mid-year report for 2018-19 is attached at Appendix A.

3.2 The underlying purpose of the report supports the objective in the revised CIPFA Code of Practice on Treasury Management and the Department for Communities & Local Government (DCLG) Investment Guidance/Investment regulations. These state that Members receive and adequately scrutinise the Treasury Management services.

3.3 The underlying economic environment remains difficult for the Council, foremost being the improving, but still challenging, concerns over investment counterparty risk. This background encourages the Council to continue maintaining investments relatively short term (ie less than one year) and with high quality counterparties. The downside of such a policy is that investment returns remain low.

3.4 The report shows that the basis of the treasury management strategy, the investment strategy and the PI's have not materially changed, except where shown.

3.5 The report is structured to highlight the key changes to the Councils capital activity (the prudential indicators), the economic outlook and the actual and proposed treasury management activity (borrowing and investment).

3.6 Treasury Management Practices

Officers have also refreshed the Treasury Management Practices (TMPs) in line with the revised CIPFA Guidelines (2017). The TMPs set out the manner in which the Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities. These are operational practices which ensure roles, responsibilities and practices are clear and understood by officers. In line with good practice it is important these are kept up to date and reflect the current day to day operations and reflect any changes required due to updates in the statutory regulations and guidelines.

3.7 IFRS9

This accounting standard came into effect from 1st April 2018. It means that the category of investments valued under the available for sale category will be removed and any potential fluctuations in market valuations may impact onto the Surplus or Deficit on the Provision of Services, rather than being held on the balance sheet. This change is unlikely to materially affect the commonly used types of treasury management investments but more specialist types of investments such as property funds which the Council has. In effect for Melton this would mean that any change in value in its property fund in any given year would need to be charged to the revenue account and would therefore impact on the net positon of the council. However, the government have now announced their intention to put in place a statutory override for an initial period of 5 years, which will ensure that there is no impact on the General Fund . If the council is to continue with such investments it will be necessary to monitor the potential impact of such fluctuations in value and identify solutions to mitigate the impact on the council's revenue budget once the override is removed so the council can continue to benefit form the higher returns such investments bring.

3.8 Capital Strategy

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code. A particular focus of these revised codes was how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the Authority at a much higher level than can be attained by treasury investments. One recommendation was that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the Authority have been apportioned between treasury and non-treasury investments. This needs to be considered alongside the Council's budget each year. Therefore, officers intend to bring an updated Capital Strategy as part of the 2019/20 budget setting process to meet the new requirements of the code

4.0 **POLICY AND CORPORATE IMPLICATIONS**

4.1 The Treasury Management Strategy and Policy is a corporate document which links to the Medium Term Financial Strategy. The mid-year and annual report provides details of all Treasury Management activities. The Council's budgeted gross investment return for 2018/19 is £182k, and the current year end is forecast to be in excess with a prediction that £252k will be achieved, a proportion of which is credited to the HRA. The increase in the forecast is due to a combination of reserve balances being higher than predicted due to slippage on the HRA capital programme, working capital being higher in general and average rate of return (1.19%) being higher than predicted which mainly relates to the Councils investment in a property fund which is achieving a rate of return of circa 4%.

5.0 **FINANCIAL AND OTHER RESOURCE IMPLICATIONS**

5.1 The Treasury Management Strategy and Policy are core financial policies which underpin all the work of the Treasury Management function and incorporate any implications arising from the capital programme.

6.0 **LEGAL IMPLICATIONS/POWERS**

6.1 The Local Government Act 2003 provides powers to invest and borrow as well as providing controls and limits on the activity.

7.0 **COMMUNITY SAFETY**

7.1 There are no direct links to community safety arising from this report.

8.0 **EQUALITIES**

8.1 There are no direct equality issues arising from this report.

9.0 **RISKS**

9.1 In order to minimise risk the TMSS ensures the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk, whilst also seeking to maximising returns.

10.0 **CLIMATE CHANGE**

10.1 There are no climate change issues arising from this report.

11.0 **CONSULTATION**

11.1 Consultation takes place with the Council's treasury consultants at regular intervals throughout the year.

12.0 **WARDS AFFECTED**

12.1 To varying degrees, all wards are affected indirectly.

Contact Officer	Barry Dryden, Interim Senior Management Accountant
Date:	13 November 2018
Appendices :	Appendix A – Mid Year Report on Treasury Management & Prudential Indicators
Background Papers:	Statement of Accounts Final Accounts Working Papers
Reference :	X : Committees/Corporate/2018-19/28-11-18/Treasury Management Mid-Year Report 2018-19

Appendix A

Treasury Management Strategy Statement and Annual Investment Strategy

Mid-year Review Report 2018/19

1 Background

1.1 Capital Strategy

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities will be required to prepare a Capital Strategy which is intended to provide the following: -

- a high-level 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
- the implications for future financial sustainability

A report setting out our Capital Strategy will be taken to the Council, on 13th February 2019.

1.2 Treasury management

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of 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 the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:

> "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2 Introduction

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017) primary requirements are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Corporate Committee:

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2018/19 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio for 2018/19;
- A review of the Council's borrowing strategy for 2018/19;
- A review of any debt rescheduling undertaken during 2018/19;
- A review of compliance with Treasury and Prudential Limits for 2018/19.

3 Economics and interest rates

*note the commentary below are views of LINK Treasury Services in their capacity of treasury management advisors to Melton Borough Council

3.1 Economics update

UK. The first half of 2018/19 has seen UK **economic growth** post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase **Bank Rate** on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

Some MPC members have expressed concerns about a build-up of **inflationary pressures**, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

As for the **labour market,** unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%, (3 month average regular pay, excluding bonuses) and to a one month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.) Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.

With regard to **Brexit**, there is a risk that the Government could lose a Brexit vote. . Although a general election is not anticipated, if, as a result, the UK faces a general election in the next 12 months, this could lead to a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2, but also an upturn in inflationary pressures. With inflation moving towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25%, this being four increases in 2018, and indicated they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019.

EUROZONE. Growth was unchanged at 0.4% in quarter 2, but has undershot early forecasts for a stronger economic performance in 2018. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of 2% for 2018, the horizon is less clear than it seemed just a short while ago.

3.2 Interest rate forecasts

The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

The flow of generally positive economic statistics after the end of the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. We do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. We also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

4 Treasury Management Strategy Statement and Annual Investment Strategy update

The Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by this Council on 7th February 2018.

There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

5 The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

5.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget. The figures shown are the latest estimates and have/will be approved at the relevant policy committee during November 2018.

Capital Expenditure by Service	**2018/19 Original Estimate £m**	**2018/19 Revised Estimate £m**
Non HRA	0.386	1.017
HRA	5.948	7.354
Total capital expenditure	**6.334**	**8.371**

The increase in the non HRA capital expenditure from £0.386m to £1.017m is as a result of carry forwards of £0.533m from 2017/18 and an increase to the number of the budgets including DFGs, new Play Area equipment and Telephony £0.098m.

In terms of the HRA, the movement from the original estimate of £5.948m to the revised estimate of £7.534m is a result of carry forwards from 2017-18 being included into the 2018-19 capital programme of £1.282m and, additional costs of £0.124m primarily relating to Beckmill Court.

5.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure.

Capital Expenditure	**2018/19 Original Estimate £m**	**2018/19 Revised Estimate £m**
Total capital expenditure	**6.334**	**8.371**
Financed by:		
Capital receipts	-	0.003
Capital grants	0.237	0.418
Reserves	5.948	7.758
Renewals and Repairs fund	0.149	0.192
Third party contribution	-	-
Total financing	**6.334**	**8.371**
Borrowing requirement	**0**	**0**

Due to changes outlined in para 5.1 there have been associated changes in the financing requirements and sources of funding which are highlighted above.

5.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

We are on target to achieve the original forecast Capital Financing Requirement

Prudential Indicator – the Operational Boundary for external debt

	2018/19 Original Estimate £m	**2018/19 Revised Estimate £m**
CFR – non housing	0.101	0.101
CFR – housing	31.484	31.484
Total CFR	**31.585**	**31.585**
Net movement in CFR	**0**	**0**
Borrowing	31.413	31.413
*Other Long term Liabilities	0.096	0.096
Total debt (year end position)	**31.509**	**31.509**

** Long term credit arrangement with Registrars*

5.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and next two financial years. This allows some flexibility for limited early borrowing for future years.

	2018/19 Original Estimate £m	**2018/19 Revised Estimate £m**
Total debt	**31.509**	**31.509**
CFR* (year end position)	**31.585**	**31.585**

The Director for Corporate Services reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	**2018/19 Original Indicator £m**	**2018/19 Revised Indicator £m**
Total Borrowing	46.000	46.000

6 Investment Portfolio 2018/19

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As shown by forecasts in section 3.2, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

The Council held £22.7m of investments as at 30 September 2018 (£20.1m at 31 March 2018) and the investment portfolio yield for the first six months of the year is 1.19% against the seven day money market rate of 0.71%.

The Director for Corporate Services confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2018/19.

The Council's gross budgeted investment return for 2018/19 is £181,800, and performance for the year is currently anticipated to be £70k above budget. This is due to both level of balances held and interest rate achieved being higher than budgeted.

Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

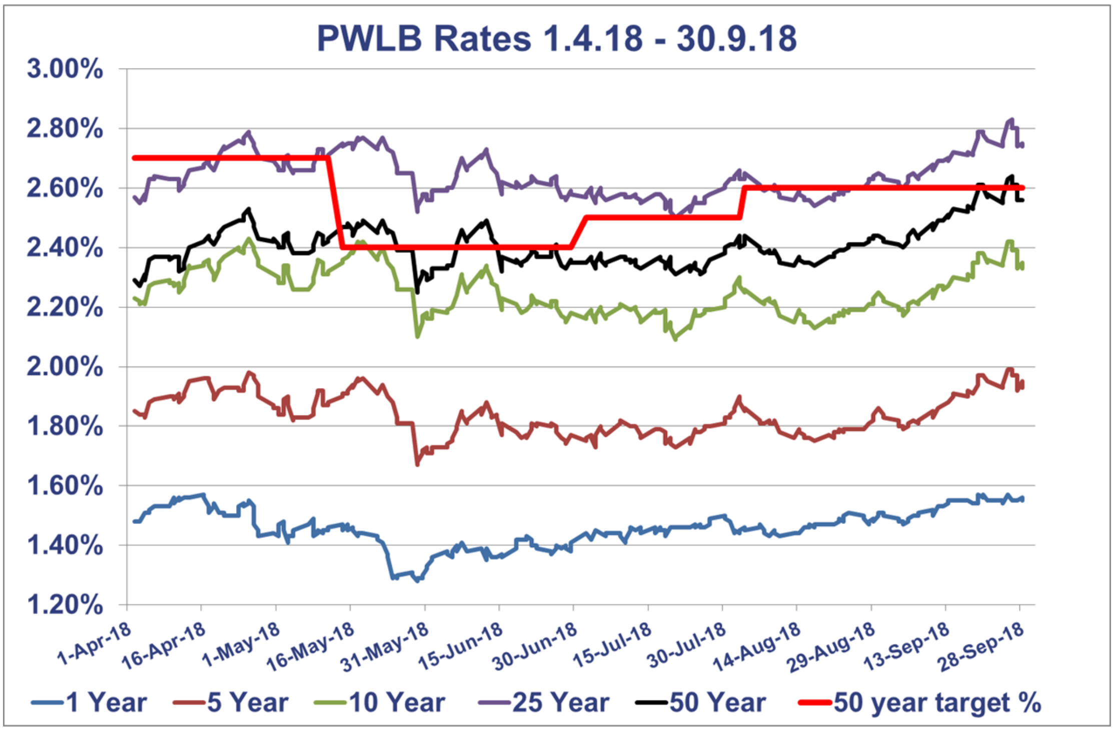
7 Borrowing

The Council's capital financing requirement (CFR) for 2018/19 is £31.585m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. Table 5.4 shows the Council has borrowings of £31.413m. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

It is anticipated that borrowing will not be undertaken during this financial year.

The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date:

PWLB certainty rates 1 April 2018 to 28 September 2018



	1 Year	5 Year	10 Year	25 Year	50 Year
3.4.18	1.48%	1.84%	2.22%	2.55%	2.27%
30.9.18	1.55%	1.93%	2.33%	2.74%	2.56%
Low	1.28%	1.67%	2.09%	2.50%	2.25%
Date	01/06/2018	29/05/2018	20/07/2018	20/07/2018	29/05/2018
High	1.57%	1.99%	2.43%	2.83%	2.64%
Date	17/04/2018	25/09/2018	25/04/2018	25/09/2018	25/09/2018
Average	1.46%	1.84%	2.25%	2.64%	2.41%

8 Debt Rescheduling

Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

9 Other

1. 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.

2. IFRS9 accounting standard

This accounting standard came into effect from 1st April 2018. It means that the category of investments valued under the available for sale category will be removed and any potential fluctuations in market valuations may impact onto the Surplus or Deficit on the Provision of Services, rather than being held on the balance sheet. This change is unlikely to materially affect the commonly used types of treasury management investments but more specialist types of investments, (e.g. pooled funds, third party loans, commercial investments), are likely to be impacted. The Council currently holds £2m in a pooled property fund which would be affected by this change. However this investment will be subject to the override described below.

The Ministry of Housing, Communities and Local Government (MHCLG), conducted a consultation for a temporary override to allow English local authorities time to adjust their portfolio of investments. The consultation ended on 28 September 2018 and the MHCLG have subsequently published their intentions as follows:

"Having considered the consultation responses the Government intends to:

- *Require local authorities to account for fair value movements in financial instruments in accordance with proper practices as set out in the Code on Local Authority Accounting published by CIPFA.*
- *Introduce a mandatory statutory override requiring local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This will be effective from financial year commencing 1 April 2018*
- *Extend the proposed period for which the statutory override applies to five years. The Government will keep use of the override under review.*

- *Require Local Authorities to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override*
- *Introduce a 2 year extension of the unequal pay regulation. 9.*

There will be no override for the expected loss model or for the extra disclosures that the new standard requires."

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CORPORATE COMMITTEE

28 NOVEMBER 2018

REPORT OF DIRECTOR FOR GROWTH AND REGENERATION

OUTLINE BUSINESS CASE FOR NEW DEVELOPMENT COMPANY

1.0 PURPOSE OF REPORT

1.1 The purpose of this report is to update the Committee members on progress so far for assessing the outline business case as to whether the Council should establish a collaborative development company and to seek approval for proceeding to full business case and the associated next steps.

2 RECOMMENDATIONS

It is recommended that:-

2.1 The Committee notes the outline business case attached in Appendix A.

2.2 The Committee approves the preparation of a full business case and associated works at the cost of £13,500, which can be met from within existing budgets.

2.3 An update is provided to the Committee on the full business case in March 2019 with recommendations for the next steps.

3 Background

3.1 One of the Place priorities for the Council's Corporate Delivery Plan is to increase the availability of good quality homes that meet local needs. As a way of achieving this, officers have been investigating options for the establishment of a collaborative Development Company (DevCo). Melton Borough Council is working with four other Leicestershire District Councils in preparing an outline business case for the establishment of a DevCo which could be used as a consultancy unit to most efficiently provide the expertise on behalf of the participating authorities to drive forward development. The DevCo could provide the expertise on housing and funding models, and then build and acquire sites and housing. These could then be transferred to individual (District) housing companies, which will need to be set up separately; the details of which are being developed as a parallel piece of work.

3.2 All Leicestershire District Councils initially considered whether to form a Collaborative DevCo and 5 decided to commit to funding the development of an options appraisal and Outline Business Case. These were North West Leicestershire District Council, Oadby & Wigston District Council, Charnwood Borough Council, Blaby District Council and Melton Borough Council. 4 of the Councils (subject to the decision of the Corporate Committee) have indicated a desire to now proceed to a full business Case.

3.3 Blaby District Council has decided to not continue to beyond the outline stage due to their circumstances, in that they do not have housing stock nor currently have areas of land which are ready to be developed which are immediately available.

3.4 Should the committee approve the recommendations, the four remaining partner councils will commission a full business case to fully assess the viability of moving to implementation based on the projects that are available from each council alongside the financial implications of the company and the implications for each partner. This will be reported back to members in the new year; likely March 2019.

4 THE OUTLINE BUSINESS CASE

4.1 From discussions with the Districts the following priorities were agreed for establishing a Collaborative DevCo :

a. Mixed use development activity that delivers development benefits including housing and commercial use.
b. Housing outcomes meet local need reflecting affordability and people's income
c. The authorities generate and maintain a level of 'Scale and Pace' to justify the investment in establishing the DevCo
d. Surplus for a purpose - the Councils will seek to generate surplus and will take appropriate level of risk to do so, but that is not the only motive
e. Control over quality, pace, governance, costs and timescales.

4.2 The DevCo would also have the ability to make wider investment and development decisions concerning commercial development for Districts either individually or collectively. There was agreement that this model should not preclude individual authorities doing their own thing, including entering into individual JVs. Some Districts, particularly those that do not currently own stock, were also interested in the potential for any collaborative DevCo to have sufficient flexibility to take on landlord powers if required for any Districts that desired it.

4.3 It is to be noted that smooth operation of the DevCo will be reliant on participant authorities being proactive and willing to contribute to share the cost on equal basis, i.e. MBC being 25% shareholder in the company. This would require all authorities to make the same initial upfront financial commitment. However, sites in the Council ownership are of small scale and therefore we are reliant on the large sites such as cattle market, leisure village and Waterfields to be developed through this mechanism to achieve the required level of scale. The work has started on testing the feasibility, capacity and viability of these large sites which will be undertaken over the next 6-8 months. The four potential partner councils are all at different stages, with some ready with schemes to proceed now. This would mean that while Melton would be making an equal upfront contribution for the cost of establishing the DevCo, the company will most likely be focussing in other local authority areas in the first year, however when Melton is ready to proceed the focus would shift to Melton and the investment from the other council's would support our aspirations in the same way as ours would initially support theirs. The ultimate benefit of this collaborative approach is that it will give us all access to skills and expertise that would otherwise be unilaterally unaffordable or would have to be commissioned through a joint venture.

As part of the next steps, confirmation is being sought from the partner authorities to have sufficient oven-ready projects in the pipeline to ensure there would be sufficient work for the company in the early months and years while Melton Borough Council gets itself in a position to do similar. Subject to the confirmation of available projects, the timescales for establishing the company will need to be considered and if there are insufficient projects in the short to medium term, establishment would need to be delayed or the rational ultimately reconsidered.

4.4 Any work carried out by the DevCo will need to be recharged to the project enabling all the shareholding authorities to recover some of the initial set up costs and therefore reduce our liability. There is a risk that if we ask only those who are using the company to pay for the initial set up costs then when they have completed their work and it is time for us to use it, there would be no incentive for them to remain engaged and the full cost liability could transfer to Melton Borough Council. One of the main benefits of the DevCo is to share liability and to balance our collective needs over time so we can sustain the relevant expertise with sufficient meaningful work.

4.5 The outline business case for a collaborative DevCo considers benefits, risks and issues specific to a joint delivery vehicle. Whilst it covers the strategic business case, it does not go into the details of commercial business case. The Council needs to commission market demand analysis to fill this gap which will investigate the current state of market, competition, developers pipeline, potential rate of return on investment, gaps in the offer in the current market etc. This information will feed into the detailed business case and contribute to creating a better understanding of cash flow management, investment potential, finance options and risk profile. This work is already funded and is underway; running in parallel to this work.

4.6 Also in parallel with options for the establishment of a Collaborative DevCo, officers have been looking at the options for establishing the Housing Company for Melton, which would be the recipient of any stock developed by the DevCo on behalf of the Council. The creation of local authority housing companies has become a national initiative with over 60 now established although many of them are not operational, or only partially operational or have had limited success. North West Leicestershire District Council and Charnwood Borough Council are also keen to explore the potential and ways of establishing housing companies for their areas. Whilst the option of establishing a jointly owned local housing company with landlord powers is not preferred, there is value in commissioning the work jointly to share the cost, even though the work will consider the issues and requirements specific to each authority area.

4.7 Next steps:

a. Commission a full business case for the Collaborative DevCo
b. Commission market demand analysis to inform the development pipeline
c. Review development pipeline for housing sites
d. Cary out capacity, viability and feasibility review of cattle market, leisure, housing and commercial sites

5 POLICY AND CORPORATE IMPLICATIONS

5.1 The Corporate Delivery Plan supports the development of projects such as cattle market, housing company and leisure site. The establishment of the development company has the potential to gain greater control and benefits of a number of key place related projects. Full details of the implications associated with the establishment of a DevCo will be considered by a future committee prior to any decision taken to enter such an arrangement.

6 FINANCIAL AND OTHER RESOURCE IMPLICATIONS

6.1 The total cost of the outline business case is £42,000 which is shared by 5 councils at £8,500 each. This is met from the budget the council has set aside for commercial activity.

6.2 The cost for developing a full business case of £53,000 will be shared by the 4 councils at up to £13,500 each. It is anticipated that this cost can be met from within the existing budget.

6.3 The full business case will examine in more detail the annual running costs of the development company, the contributions from each council based on the project costs that can be recharged, the apportionment of the residual costs on an equal share basis, the pay back period and the allocation of likely surpluses moving forward taking into account the information from the market demand analysis. These costs would need to be recharged to revenue however project costs can be charged to capital and included within the business case and investment decision for each individual project. The outline business case indicates total annual revenue costs of £350,000 to £550,000 without any allowance for a portion being charged as project costs. This would then be recharged to each authority as shareholder in the company. Currently there is no allowance in the revenue budget for these costs which has been highlighted to members as part for the consideration of the MTFS and therefore this will be a factor to finalise moving forward as to how these costs would be funded in the early years before any return is made from the investment.

6.4 The demand analysis being funded from the LEP grant money for Cattle Market project will inform the business case for housing development, hence there will not be an additional cost to the Council. In addition a report to the Place committee relating primarily to the Leisure facility highlighted the need to undertake master planning on specific areas in order to feed in to the commercial appraisal work required to support the full business case for the DevCo. This was estimated as being up to £60k.This estimate will be tested through the procurement process. At the September meeting Corporate Committee also approved expenditure of £40k to support commercial appraisals of key sites. The latest budget monitoring positon for 2018/19 indicate the £60k could be met from existing budgets however the financial position for the current and future year is proving challenging. Should that not be possible a recommendation is contained elsewhere within this agenda seeking delegated authority to utilise the reserves.

7 LEGAL IMPLICATIONS/POWERS

7.1 No direct legal implications arise from this report.

7.2 External legal advice has been sought in the drafting of the outline business case.

7.3 Full legal advice will be provided as part of the full business case if approved.

8 COMMUNITY SAFETY

8.1 There are no community safety implications associated with this report.

9.0 EQUALITIES

9.1 The equality issues of each specific development will be considered as they progress through the approval process.

10 RISKS

10.1 The key risks to consider are:

a. Abortive cost for detailed business case if the Council decides not to go ahead with establishing the Development Company.
This cost is being shared among four local authorities and hence is relatively low. Without doing the next stage of work it will not be possible for the Council to make an informed decision and there is a risk of missing out on a collaborative approach would could create significant advantage for the council.

b. Dispute among partners over sharing of risk and reward for the DevCo.
The outline business case has been prepared jointly in consultation with the four participative authorities. The detailed business case will provide more details and tease out any conflicts of interests.

LIKELIHOOD

A	**Very High**				
B	**High**				
C	**Significant**				
D	**Low**			a,b	
E	**Very Low**				
F	**Almost Impossible**				
		Negligible 1	**Marginal 2**	**Critical 3**	**Catastrophic 4**

IMPACT

11 CLIMATE CHANGE

11.1 The development of sites through the DevCo will consider and accommodate reasonable response to climate change challenges.

12 CONSULTATION

12.1 The Outline business case has been prepared in consultation with all four participative authorities with advice from finance and legal consultants and colleagues.

13 WARDS AFFECTED

13.1 All wards are affected.

Contact Officer	Pranali Parikh – Director for Growth and Regeneration
Date:	14 November 2018
Appendices :	Appendix A: Outline business case for Leicestershire District Councils collaborative development company

Background Papers:
Reference :

Appendix A

Outline Business Case for the Leicestershire District Councils collaborative Development Company

Leicestershire District Councils collaborative working Group, led by John East.
September 2018

Contents

1) Introduction
2) Key Priorities
3) Outline Options Appraisal
4) Scoring the Options
5) Benefits to the Councils from establishing a Development Company
6) Relationship between the Councils and Governance overview
7) Investment Decisions, Indicative Development Pipeline and Resourcing the Development Company
8) Overview of the Development Company
9) Funding
10) Risk Assessment
11) Summary and recommendation
12) Appendices

Outline Business Case

1. Introduction

Strategic and Local Context:

1.1 There is a requirement to meet Housing needs across Leicestershire. The direction of travel from Central Government to Local Authorities is for additional housing to be provided, Councils are also obliged to fulfil their 5-year housing supply requirements and meet demand for the longer term in accordance with their Local Plan, as well as fulfil their landlord objectives. Certain Districts also have wider regeneration and town centre improvement objectives. There are statutory, social and political needs to fulfil.

1.2 District Councils hold packages of land which may be suitable for development. The Councils are obliged to ensure that VfM is achieved in respect of any related transaction, and to maximise use of such public assets. At the same time resources within individual Councils are limited, particularly in terms of skill base and capacity to be able to independently undertake schemes of this nature. Certain Districts have been able to develop some housing on a small scale, but are limited by resource, capacity and cost. The nature of development is such that Councils acting independently are limited in what they are able to deliver.

1.3 A number of Leicestershire [i]District Councils have considered options for the potential establishment of a collaborative vehicle or similar which could be used to efficiently provide the expertise on behalf of the participating Districts to drive forward development and provision of the housing products and regeneration outcomes which they have prioritised.

1.4 The company is intended to provide councils with the expertise and capacity to carry out development by sharing the costs and therefore benefiting from the economies of scale. The company is not intended to be the asset holder, and a parallel business case will be developed looking at housing companies or centrally retained within agreed arrangements.

Collaborative assessment:

1.5 Four local authorities; Charnwood, Melton, NW Leicestershire and Oadby & Wigston are considering a partnership to create a company to lead regeneration development in local areas which will address the need. An Options Appraisal has been undertaken and is presented within this Outline Business Case (OBC). It is noted that Blaby District Council were initially considering being party to the company, however their circumstances are unique, in that they do not have housing stock nor currently have areas of land which are ready to be developed which are immediately available. At this stage Blaby has decided not to formally participate.

1.6 A common vision has been considered which addresses the Councils' corporate priorities for regeneration recognising the need for supply that meets local requirements and the need to ensure that they have control and share the risks and rewards associated with the regeneration. The Councils' dominant purpose in taking forward any proposal for a company is to bring forward sites for development in their areas, whether those sites remain in the ownership of the Councils or are otherwise transferred to other Council companies and in doing so enable access to joint expertise in promoting and managing development, thus ensuring that they are able to promote regeneration and the effective supply of housing. Participation in a company may result in the Councils sharing in profits generated although this is not a dominant purpose of the Councils in considering such a company, and is incidental to the regeneration and housing purposes outlined above.

1.7 There will be different approaches to the provision of housing and the affordable element. It is proposed that these will be addressed separately by the local authorities individually or their housing companies, with a jointly initiated company at the centre of the scheme to enable implementation of participating development initiatives.

1.8 The Company will be established by the participating Councils and will act as the lead developer on specific terms decided on viability and commercial models.

1.9 The Company will also have to be flexible, agile, responsive and act with pace to meet the needs of the shareholders by utilising its technical strength and position in the market over time. Further advice will be required on the legal relationship between the parties, but in principle the Company could act as a management contractor taking governance and procurement requirements into account.

1.10 The Company could be established in various forms. Detailed below in this paper is an assessment of the different options and an analysis which considers the needs of the Councils, and the structure of the company which would best meet those needs. The commercial considerations have been set out by Councils and most explicitly state that control, pace and financial risk awareness are key considerations.

1.11 The Shareholders/Partners (in this case the Councils) and the Company will adopt the principle of "surplus for a purpose" in ensuring that the required return expectations are met.

1.12 There is a need to fully investigate the financing arrangements and how these might differ for each option. This includes the need to consider the arrangements for the funding of the company, or any Housing Companies, and the development projects that are to be delivered. Scale and ambition cannot be met if the financing required is a risk too far for the participating authorities. Further examination of the funding requirements is considered within this OBC.

Draft vision statement

1.13 "In creating a Company, the Councils in Leicestershire will increase the housing supply, regeneration and commercial outcomes that meet local need, ensuring that long term value is maintained in publicly funded assets."

Why should the Councils jointly establish a Development Company?

1.14 The establishment of a development company (DevCo) is subject to an options analysis, this is set out within this OBC. The options analysis considers a number of options and reflects the advantages and disadvantages of each to determine the appropriate basis for Councils individually and jointly, to enable development.

1.15 Underlying the need for this OBC to consider a development company is the fact that such a company could offer the opportunity of a platform to enable each Council to deliver their strategic development objectives on a controlled and managed basis. The company being owned and controlled by them under a formal governance structure.

1.16 The development activities which the initiative is intended to enable, would then generate value for the respective Councils or help the Councils meet social and housing objectives.

1.17 Currently the Councils individually are limited by resource to be able to develop their land and assets, but this shared and controlled approach for a development company would enable the hurdles and restrictions that Councils are facing individually to be overcome.

1.18 By setting up a company (on a basis and form determined by the options analysis), the participating Councils will have access to jointly owned resources of a technical and specialist nature which each individually does not currently have. The shared cost of such resources would otherwise be at a total cost to each Council individually, should they need to provide for such resource themselves to meet their development requirements. Or represent a cost to the individual Councils to resource, procure and manage.

1.19 As a public sector initiative, value attained from land and assets would be retained within the public sector.

1.20 It is proposed that Councils support the scheme and their individual projects with funding, and that this may also offer opportunity for income to Councils in respect of certain asset types.

1.21 Set out within this OBC is a summary of benefits. Approval is requested to progress this initiative to Full Business Case (FBC) stage to enable further detail to be provided to inform the final case for the establishment of a development company. Councils may then individually assess the FBC and commit or otherwise to investment in the vehicle with colleague Councils. At this stage, only approval to move to FBC is requested, subject to the recommendation at the end of this document.

2. Key priorities

The key priorities of the Councils have been identified and are as follows:

2.1 Mixed use development activity that delivers development benefits including housing and commercial use.

- Councils have set out their policy and approaches to development in each area in their Local Plans and individual Needs Assessments. There are common approaches, challenges and opportunities across the County as recognised in their Local Plans and strategic housing assessments.
- The collaboration between local authorities in establishing a company will be to ensure as much flexibility and agility as possible in order to bring forward development by operating outside the ways in which local councils work.
- It will have the ability be a leading partner in key housing regeneration schemes and be a recognised in the local market as an active and serious player.

- The company will be backed by the participating authorities acting together and making timely and consistent decisions.
- Provision of sufficient land that will benefit all the participating authorities. One consideration will be how those with limited development assets can be assisted.
- Participating Councils have access to different assets and different delivery objectives which the company will need to be able to service, work with and progress for development.

2.2 Housing outcomes meet local need reflecting affordability and people's income

- A consistent approach to the provision of house types and tenures and accommodation for all of the communities is to be taken. However, each Council will need to determine its own approach
- Most Councils would see their own housing company holding market and sub-market tenure units and at times a separate arrangement for rented units at affordable levels.
- A key driver for the non-social rent units is to ensure a level of surplus for the Councils but this driver relates primarily to the operation of the Councils' housing companies and not to the establishment of a company where the key drivers are set out above.
- Addressing statutory housing needs is also an issue for some Councils and the acquisition of street property and other stock will also be included if supported by strong viability testing.

2.3 Scale and Pace

- The participating authorities have several potential regeneration and development proposals, planned or forecast.
- The Company will support individual Councils' proposals to have an active role in the control of delivery, but the exact legal relationship will be dependent on the outcome of the options appraisal and proper consideration of legal implications.
- Each Council will make investment decisions taking into account the impact on the company and its own position. The scale and ambition of the overall initiative will be dependent on the rate of flow from participating Councils. Each scheme will need to be supported by funding and financial investment decisions made by the respective Council, as well as by the supply of development sites.
- The company and the Councils will set out property specifications from the outset which reflect viability, value for money and the Councils' approach to quality policies.
- There are several reviews of land, assets and office/commercial buildings in the general fund (GF) and Housing Revenue Account (HRA) that will provide Councils with more accurate information and options for disposal. This will enable a four year indicative pipeline to be agreed.
- The Company will also be able to act as a Management Contractor providing a range of services such as technical advice, design and cost consultancy. This will be dependent on how the company is structured and whether the company is an internal facing company or a legally compliant external/market facing business.
- The company will not have exclusive access to development opportunities and each Council will retain the right to pursue alternatives if pace and viability expectations cannot be met.
- Although the company will not have exclusivity, it is important for the initiative that agreement is reached on a basis for commitment of a flow of projects over a prolonged period to the scheme from all Councils to enable economies of scale and fulfilment of shareholder objectives.

2.4 Surplus for a purpose

- Councils seeking to increase the supply of housing overall also want to take a greater control in the local area across all tenures including private rented sector housing (PRS) and town centre regeneration schemes. Councils are prepared to take the risk and retain the value of their investment
- Councils will act as shareholder and funder, they must ensure that each role is different and accept that at times it may be contradictory. Governance arrangements within Councils and within the company will be established to ensure appropriate control of differing interests.
- As the provider of funds Councils will need to act commercially assessing risk and provide funding on commercial terms. Councils will only approve viable schemes which are shown to meet that Council's lending requirements.
- As shareholders/partners and funders Councils will expect not only a return on funding, but also to receive the benefit of future capital growth. Returns will depend on performance including that of the market over the term of the respective development schemes.
- Councils will generally have to borrow or use their own resources and assets to fund developments and will expect to make a return on loans and fees. One Council referred to this as being risk aware and it is critical that the financial position of each Council against that of the Company is properly set out.
- How the surplus is returned to the investor and shareholder/partner will be dependent on several options which will have different taxation implications.

2.5 Control

As well as ensuring delivery at pace and ensuring a calculated risk and reward approach, the Councils see control as key.

- Governance processes will be established for the company with control of the scheme at its heart.
- Each Council will appoint members with a casting vote agreement.
- It is recommended that lead members and chief officer influence over the operation of the company is managed through the shareholder function (for those operating executive arrangements), noting that this is an executive matter (for those operating executive arrangements) save where matters are outside of the budget and policy framework.
- Separate governance arrangements will need to be put in place by each Council to make decisions about land that it owns (or that it owns through its local housing company).
- A Business Plan will be submitted and approved in line with an approval stage process ensuring that the shareholders, funders and company have full opportunity to consider all relevant issues in advance of formal decisions
- Each Council will have the right to replace their members on the board and reject or amend the Business Plan including making recommendations at the draft stage.
- The Councils will control the viability conditions and ensure that no scheme that they are involved in can progress without funding.
- There will be security over assets through the funding arrangements and control of business bank accounts through a cascade mechanism.

3. Outline Options Appraisal

The Leicestershire District Council Working Group have set out the following options for the creation of a jointly owned company for further assessment and consideration. The options assume that the Councils' future decisions on individual developments are not restricted and remain available. For example, a Council or local housing company will not grant exclusivity to the Development Company (DevCo) or a third party.

3.1 **Options in detail**

3.2 **Traditional Options – Sale of land for capital receipt**

For many years, councils have used disposal of land to generate a receipt or support Registered Providers (RPs) to develop in their own areas. This approach carries less risk as the development risk is passed to the third party in exchange for full market value and/or nominations rights. However, once the land is sold, the Council has little control and any future asset value increase is to the benefit of the third party. There are some measures that a council can take, but any restrictions will have had a negative impact on the value of the land.

In the last few years councils have been able to build using HRA resources including Right to Buy (RTB) receipts. There are no GF benefits other than New Homes Bonus (NHB). Building directly, enables the Council to control the developments and retain the units for the long term unless sold under the RTB. However, the funding for such development may be limited by the Borrowing Headroom (although the Prime Minister has announced that the borrowing cap will be lifted, no details have been provided of what this will mean in practice) and HRA capital funding available. Within this regime, there are significant restrictions on the products that can be created and rent levels that can be set/achieved.

3.3 **Each District acts alone**

Currently, districts have the option to combine the development and landlord roles through one housing company, although this may have tax implications. Some limited activity relating to development and sale could potentially be undertaken directly by a Council provided that it acts in compliance with its housing powers. Residential rental activity for the Councils is limited by the Councils' housing powers.

The option of acting alone has the benefit of each district focusing on their own outcomes, at their own pace and not being restricted by others' limitations or contrary expectations. The extent of risk and how they are controlled, is limited to its own developments. However, the benefits of joint working are not achieved. One of the original considerations for a joint development arm was the collective strength that acting together would bring, especially by sharing resources/developing joint expertise, having a greater market strength and benefiting from economies of scale.

In terms of market presence, a smaller player will have less purchasing power and its overheads and technical skills base may not be fit for purpose especially on a limited pipeline of development. The principles for joint working also offer the flexibility of still being able to act alone when it is appropriate to do so. Land disposal also continues to be an option.

3.4 **Entering into a Joint Venture (JV) or Development Agreement (DA)**

These are well tested routes that local authorities have been carrying out for the last 20 years. Case law has provided clarity around procurement implications, but these are both positive and negative. Precise delivery outcomes from the outset are vital, as making changes further down the line is potentially complex and costly. The control that the authority retains is a contractual one and depends on the terms of its own investment. Getting to the agreed position may be lengthy and internal or external skills will be required to protect a Council's position. As one off, JVs or DAs are a good option, but the more Councils that are involved, then the greater complexity and the number of unknowns. In terms of development pipeline, this may increase the risk of additional costs, legal hurdles and prolonged timescales.

Dependency on a third party who is a private sector partner may also carry unforeseen risk, not only in terms of cost but also in relation to time, and influence by the third-party shareholders who may have other interests and priorities that could affect performance and ultimately reward to the Council whose scheme it is.

A joint venture may (depending upon how it is structured) require a public procurement process. A development agreement invariably will because it usually involves a contract for services, supplies and works.

3.5 **A Joint Collaborative Development Company (DevCo)**

The option of a Collaborative Company has been considered on the basis of two separate companies that operate sharing the same board and resources:

a) a company focussed on delivery to the Councils (Teckal), and

b) a company focussed on delivery to the market that develops land that it owns and provides supplies, services and works to third parties.

a. Company that has an inward focus to deliver goods, services and supplies to the Councils - Teckal company

This is the option of a company controlled by the Councils which is able to carry out development on behalf of the Councils. It has the benefits of being able to operate more competitively/flexibly than the Councils but is still required to comply with public procurement law when it engages with the market. The prime benefit is that the relationship between the Councils and the company falls outside of the public procurement regime. To achieve this the company will need to be a Teckal compliant vehicle passing two basic tests:

- the control test, and
- the activities test.

The Councils will be the sole shareholders and will exercise control over its affairs achieved through the governance structure. Further legal advice is included with this document. Within the advice it is confirmed that such a company must carry out more than 80% of its turnover (over three years) for its shareholders/partners. The company can undertake activities for non-controlling authorities, but these can only account for 19.99% of its overall activities.

b. Outward facing company

The clear distinction of an outward facing "commercial" company is that it operates just like any other developer or private sector company. This means that the Councils cannot contract with it for goods, services and works without following a public procurement process but the company itself should not have to comply with the public procurement rules when it engages with the market. This can give the company significantly more flexibility in how it acts and designs its business than the Council itself or a Teckal company.

3.6 Two reports: Market information on development specific delivery vehicles: The rise of Local Housing Companies (Published by the Smith Institute – 2016) and Local Authority Direct Provision of Housing (Published by the Royal Town Planning Institute and National Planning Forum – 2017) set out the various options which councils have taken to deliver housing directly through housing companies, the experiences of those authorities and what they have delivered, and some of the issues. These reports are contained in Appendix 5 and 6 of this report.

3.7 **Table 1: Summary of Options**

Option	Benefit	Loss	Opportunity	Risk
Traditional Options				
Land disposal to private party	Immediate Capital receipt	Once sold, Council has limited control	Capital receipt available to support council's priorities	Units mix and standards only controlled through planning process
Land disposal to RP	Delivers affordable housing and nominations rights	Long term value retained by the RP	Can use RTB receipts Can seek grant from HE	Nominations agreement may be time limited.
Build in HRA	Council retains units	Borrowing headroom may be limited		Housing Acts and rent control restrictions
Do Nothing - Each District acts alone	Able to set its own pace and not be restricted by other Councils' decisions Control over risk Locally focused Individual Housing Company (if they have one) act as developer	Economy of scale: Company costs Development costs Shared skills and experience with greater opportunity to standardise. Position in the market as a smaller player No new benefits gained May not be able to deliver to the scale required on a sole basis	Local control	Scale does not justify overheads If using Individual Housing Company then would need to ensure development/rental activities are structured for tax efficiency purposes.

Entering into a JV, development agreement or similar with a developer	Market tested and generally delivers what was agreed in contract Delivery pace once agreed Share of the risks and rewards as defined Land contribution as part of financial investment	Clarity about outcomes required when going to market Control and reward depending on the contract terms 'One size fits all' may not suit the Council for all its programme Value generated from public sector assets and initiatives is shared with Private sector	Utilising private sector expertise JV interest can be sold	Four Councils agreeing collective terms for JV or similar Could be more inflexible or changes at the cost to the Councils Being tied to a single partner Harder to exit if outcomes are not delivered Risk of dependency on private sector partner Relationship with private sector partner must comply with the public procurement regime.
Establishing a Collaborative Development Company (DevCo) – **Inward facing company (Teckal)**	Economies of scale Shared resources and expertise Focus on approved business plan Relationship with the Councils falls outside of the public procurement regime Able to deliver Council objectives Land receipt	Upfront set up costs Bound by public procurement law when it contracts with the market.	Able to invest and grant aid affordable housing Benefits from long term value	State aid compliance Takes market risk and reward Land disposals must comply with national law (best consideration)

Establish a DevCo – **Outward focussed company (CDV)**	For profit company free to operate as a private sector organisation It has greater freedom than the Councils and even if it acts commercially/makes a profit the Councils can still set the agenda. Land receipt Should not be bound by public procurement when its engages with the market.	Cannot take on works and services from the Councils without procurement compliance Land disposal at market value even for affordable housing	Investment at market rates Maybe be viewed as a stronger player as not restricted by Council's objectives	All transactions as with private companies, therefore certain transactions will be more complex Development of affordable housing will be subject to strict viability State aid compliance
Establishing a Collaborative Housing Company	Ability to pool assets, investment and share outputs Particular benefit for those with limited land	Complex pooling agreement and sharing agreement Host council will need to justify loss of local benefits Housing priorities/delivery driven by the Company, not by local autonomy Danger that Company moves at the pace of the slowest	Procurement specialism and contract management Pipeline of development control	Follows public sector rules Lack of local support may lead to inaction

4. Scoring the Options

The options appraisal will be scored against the set-out priorities. Each priority is scored based on the headings set out above, taking into account how the Council will be able to:

1. Deliver Mixed-use development;
2. Provide Housing outcomes that meet local need;
3. Achieve Scale and pace;

And enable

(a) opportunity to maximise its **Return**; and

(b) how much **Control** it will have in ensuring that outcomes are delivered.

The score awarded will be high 4-5, medium 2-3, low 0-2 and multiplied on the same basis by return and control.

The final score for each option will the sum of 1 to 3 multiplied by the sum of a +b.

The total scores for each option have also been moderated by any individual disadvantages as explained in the narratives below.

The approach to scoring reflects that each of the Councils may have differing needs, purposes and priorities, and the joint position relative to how an option may best serve the participating Councils.

4.1 **Traditional routes:**

1. 5
2. 3
3. 2

Subtotal: 10 multiplied by

a. 1
b. 1

Total: 20

The scores reflect the risk that the Council is passing on to the third party but also reflect that selling individual plots will take time and that the development pace will be determined by the market. Equally, they reflect that while receipts will be available, the Council will not retain the long term value and control over developments. The HRA new build option has not been scored as it similar to the option below.

4.2 **Each District acts alone:**

1. 5
2. 5
3. 2

Sub-Total: 12 multiplied by

a. 3
b. 4

Total: 84

If each Council chose to act independently, it will have full control over the final outcomes in that it decides when and what to develop without external considerations. It can decide to carry out some developments and then stop if it chooses. However, its opportunity to maximise returns will be limited by the internal resources that it will require.

The scores need to reflect that in acting alone, it will not share the economies of scale, standardisation, expertise and knowledge of a long term development company that it owns with other Councils. Equally, setting up a local housing company or development team on its own will require the same skills and resources but at a cost which will not be as viable as contributing to and sharing the services of a collaborative DevCo. The scoring for criterion 3 has been lowered accordingly.

4.3 **JV Option:**

1. 5
2. 3
3. 2

Sub-Total: 10 multiplied by

a. 2
b. 3

Total: 50

For a JV to be successful there is a need for clear objectives. The private partner will need clear information about the requirements. Failure of the procuring Council to provide this detail from an early stage represents a risk to both price and the outcome of the project. The JV will be also be expected to be allowed to operate independently and outside of the Council focussing on growth, pace of delivery and cost reduction for the Councils. The temptation to make the JV another corporate directorate that acts in the same way as others needs to be resisted. The scoring for criterion 2 is therefore lower than for other options. The criterion 3 score also reflects the procurement complexity and time that it will take to establish it.

The biggest benefit of a joint venture approach is the coming together of parties to pool resources and share risks. However, setting up a joint venture and getting it right can be a costly exercise. It also involves sharing out the benefits generated by a project, so each party gets a smaller slice of the pie. Most joint ventures involve parties with partially overlapping interests – when their other interests come to the fore, difficulties often arise. Difficulties also arise where projects have to be changed or are aborted after expenditure is incurred.

The scoring for criteria a and b is reflected for these reasons and the fact the Council would have to share any of the benefits with the JV partner.

4.4 **Collaborative Development Company (DevCo) Option**

1. 5
2. 5
3. 3

Sub-Total: 13 multiplied by

a. 4
b. 4

Total: 104

The scoring for this option for the provision of a development company collectively has been set on the basis of the Councils acting as shareholders and investors and therefore controlling the objectives and outcomes, subject only to viability and planning policy. Outcomes including financial benefits arising from the development are also for the benefit of the participating Councils, rather than for the financial benefit of 3rd parties.

The scoring for criterion 3 is dependent on the level of investment and time taken to start up the business. Criteria a and b score higher because of the control that the Councils will retain over projects and the company, and also as the Councils will not have to share any savings or surplus with a 3rd party. However, they also need to reflect the costs the council will need to incur to support internal activities such as treasury management, and the need to incorporate the company(s) from an accounting and financial reporting perspective.

4.5 **Collaborative Housing Company Option**

1. 5
2. 3
3. 2

Sub-Total: 10 multiplied by

a. 4
b. 3

Total: 70

Criterion 3 has been scored on the basis that as a housing company the vehicle would have other purposes other than to enable development, as a consequence there may be some conflicts as to purpose and priorities. As a commercial entity it is also unlikely to be able to service requirements for the development of social assets as required without further complexity to the proposed structure. Further, the collaborative company's principle of pooling and sharing resources and outputs irrespective of where assets are built would need a complex agreement addressing collective and individual requirements. To succeed the company will require a degree of autonomy and ability to avoid deadlock scenarios, which could potentially have an impact on control. However, this may have a positive impact on the ability of the company to operate more commercially.

4.6 **Table 2: Summation of Option Appraisal Scores**

Option	Score	Comment
Traditional	[20]	Sale of land for capital receipt
Each District acts alone	[84]	Effectively Do -Nothing, as this is the current status quo
Enter into a JV, Development agreement	[50]	With a third-party private sector contractor
Collaborative Development Company	[104]	Teckal/Commercial Development company to service Inward looking and Outward looking development requirements
Collaborative Housing Company	[70]	Use of a Housing Company to undertake development

4.7 **Recommendation:** based on previous discussions, the group of chief officers recommend that the DevCo option is the preferred route and based on legal advice, two companies are formed as set out above. The proposal for two companies is suggested within the legal advice received in order to ensure the maximum flexibility for the Development Vehicle. Thus, DevCo will comprise of:

a) A TDV – a Teckal Entity which is purely focused upon delivery of supplies and services and works to the Councils, for example it would be able to efficiently manage affordable housing delivery, and

b) A CDV – a commercial delivery vehicle, being an outward facing entity that operates on commercial market terms, for example it would be able to develop PRS schemes. It may also work for third parties and be able to develop land itself for sale to the market.

4.8 This option requires 2 operating companies to be established for accounting purposes. The structural contractual relationship between the 2 operating companies is yet to be determined and will form part of the process for FBC. However, at this stage it is thought possible that CDV could be a subsidiary of TDV, or act as sister companies.

4.9 It is also considered that the companies would be operated jointly and in parallel, the differentiation being the type of business, and funding requirements that relate to each and for the funding needs of the business types that they will respectively undertake.

4.10 For the purpose of this document any further reference to either 'the Company' or 'DevCo' may mean either the Teckal 'TDV' or the commercial development company 'CDV', unless specifically stated otherwise.

5. Benefits to the Councils anticipated from jointly establishing a DevCo.

5.1 The following benefits have been identified:

- A key objective of the initiative is to provide a basis which will enable development to take place. The commissioning of a vehicle dedicated to this purpose enables this.

- As a jointly commissioned vehicle with an agreed programme over the life of the 3-5 year business plan, the costs of establishing a DevCo are shared, enabling access to the company and its benefits.

- As a public sector developed initiative, profits and returns are retained for the individual participating Councils.

- Delivery of a programme comprising of individual Council developments offers the opportunity for economies of scale, standardisation and potentially cost savings compared to those that a Council would otherwise encounter on smaller individual developments.

- The DevCo is to be structured and resourced so that a range of development types will be accommodated, and projects accordingly brought forward which might otherwise not be able to be economically resourced within individual Councils.

- Development activities on projects will be undertaken by the DevCo providing capacity or releasing resources within Councils to enable other projects or initiatives to be fulfilled. The approach may enable certain tax and other trading benefits to be achieved, subject to the final structure, prevailing tax regime, and independent tax and accounting treatment advice.

- It offers an alternative to conventional development mechanisms that Districts may have had to rely on, and the issues that these may carry such as negotiation of joint venture arrangements.

- The DevCo is to be staffed with experienced industry resources providing experienced support to Councils, local knowledge and advice.

- The DevCo will enter contractual arrangements with specialist suppliers, potentially offering volume discounts.

- As shareholders/partners in the vehicle participating Councils will have control through the shareholder decision-making process of the activities of DevCo.

- The procedures proposed are to ensure that schemes are only taken forward where viable and returns are projected to be achieved.

- The vehicle will enable assets to be developed which will be assets of the respective participating member Councils which will offer opportunity for income from sales, or value from rent revenues and sale over time where contracted with a Housing company.

- For Councils who wish to use the initiative together with their Housing company to develop a PRS scheme it offers the opportunity to build a flow of income derived from rents received and to accumulate value in assets that are held for rent at market rates over the longer term. The assets being held and owned by the Housing Company.

- The vehicle will potentially enable larger scale schemes to be entered into, compared to those which a district might individually be able to develop due to resource restrictions. For example, regeneration initiatives.

- Properties developed and held in a Housing company are anticipated to be outside of Right to Buy requirements however it should be noted that the Councils cannot set up a Housing company for the purposes of avoiding the application of Right to Buy.

6. Relationship between the Councils and Governance - Overview

6.1 The principles of the form of relationship between the Councils for the conduct of the initiative and the basis for the operation of the company has been discussed at a high level. It is suggested that with legal guidance a form of partnership agreement might be entered into in order to set out the principles. This would need to be developed further at FBC stage and would include aspects such as commitment to the scheme, basis on which projects are introduced, whether the company is to receive first refusal for qualifying projects (where the company is able to fulfil the delivery requirements), and other matters such as time frame for participation. It would also include the commitment to fund the company and should include the principles agreed for the handling of abortive costs and for the sharing of such costs where all participants might be liable.

6.2 The agreement would also make it clear that individual Councils would be able to influence delivery of schemes being undertaken by the company on that individual Council's behalf. The document would also include reference to the basis of governance that is agreed between the Councils for the company and for the operation of the scheme. Further details on governance are set out within this OBC.

6.3 Diagrams:

Diagram 1: Principle of joint ownership of a collaborative development vehicle

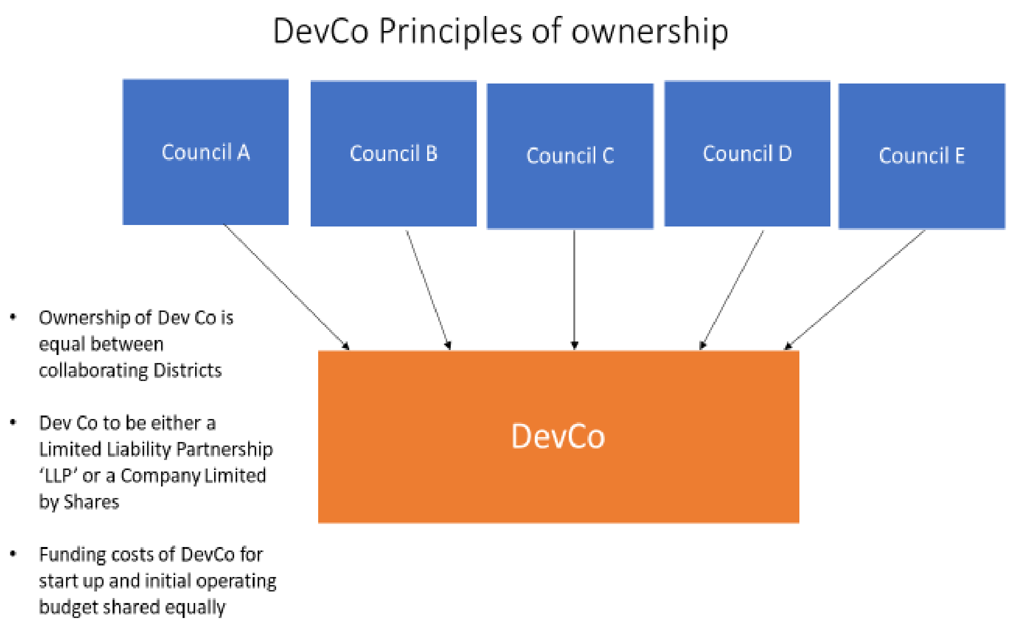
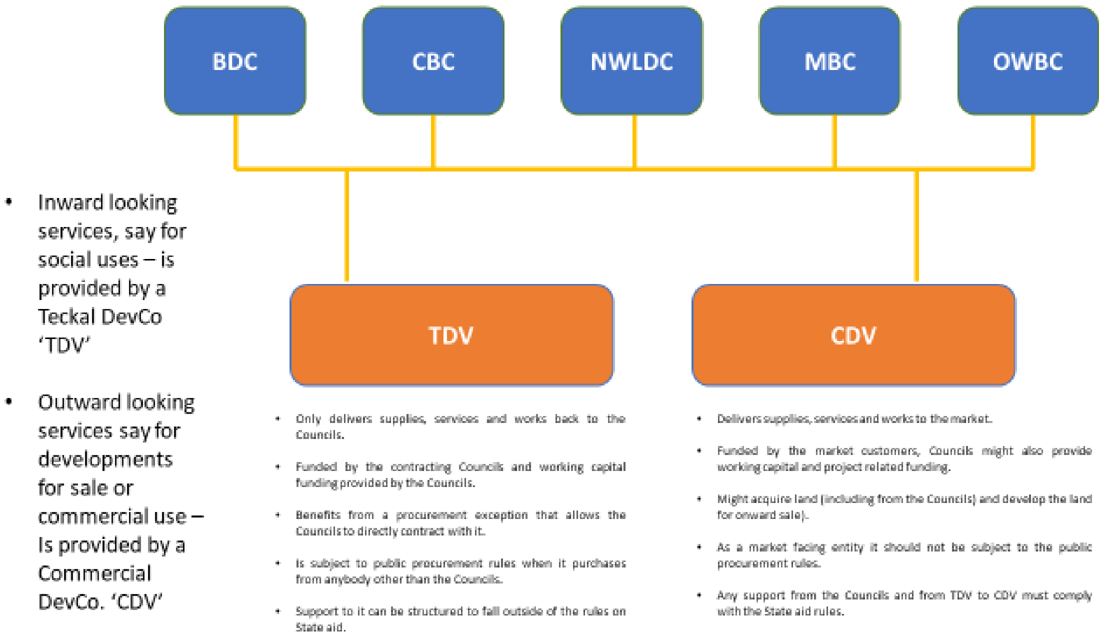


Diagram 2: Proposed Relationship structure chart*



Note *this and the following diagrams are illustrative as Blaby will not now be participating in the initial set up.

Governance

6.4 There will need to be an established set of parameters and working boards with certain delegated responsibilities that will enable the company to operate effectively and in accordance with the requirements of the shareholders/partners. Control is a key requirement of the Councils.

6.5 The shareholders/partners will need to agree individual decision making processes and a collective shareholder governance arrangement.

6.6 The potential governance structure is likely to be different for a Company Limited by Shares 'CLS' compared to that which is a Limited Liability Partnership 'LLP'.

6.7 As the decision as to whether the company will be a LLP or a CLS is to be determined as part of the FBC, shown below are diagrams which reflect the structure suggested by the legal advisors for CLS and LLP respectively. The governance structure is proposed in order to enable the degree of control and independence whilst also enabling effective operation of the initiative, and will be considered further at FBC.

Key points for Governance and Decision making are:

6.8 The Councils will take decisions in different capacities including:

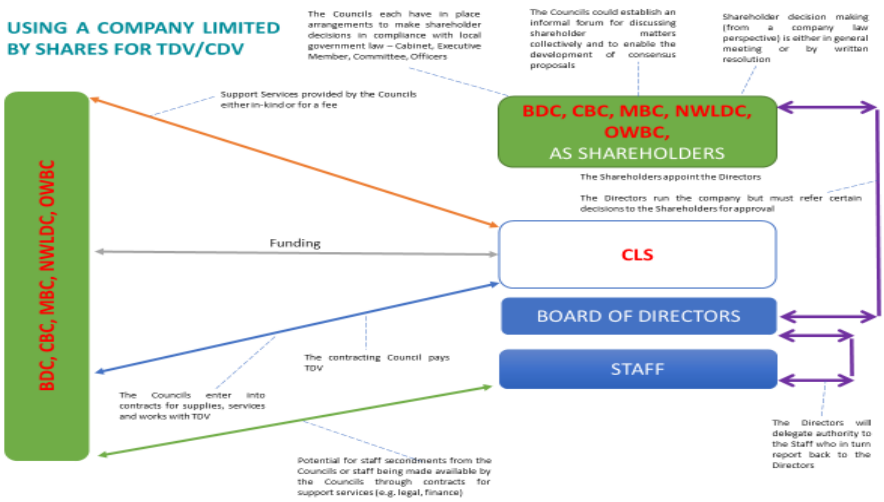
a) As a commissioner – focussed on the delivery of supplies, services and works back to it;
b) As an owner (Shareholder or LLP Member) – how the company operates and what it does;

c) As a lender/funder.

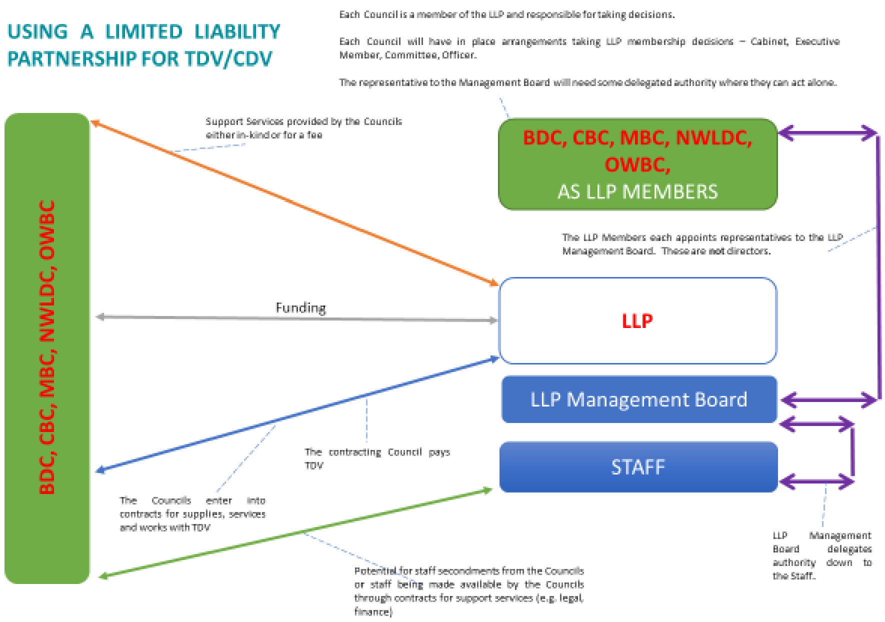
6.9 Officers and Elected Members must ensure that conflicts of interest do not arise – e.g. Directors of a company should not be involved in Council shareholder decision making. Officers and Elected Members might be involved in decision making where the Councils are acting in different capacities.

It is important to have clear terms of reference and defined areas of responsibility which also enable control. The following diagrams illustrate the proposed structures for governance to address this.

6.11 <u>Diagram 3: Proposed Governance Structure where the company is a Company Limited by Shares 'CLS'</u>



6.12 <u>Diagram 4: Proposed Governance Structure where the company is a Limited Liability Partnership 'LLP'.</u>



6.13 The above diagrams set out the relationship proposed between the Councils as shareholders/partners and the operation of the company. Integrated within the governance arrangements shown above there will need to be a defined decision making process to agree an investment strategy and how decisions will be made. An approach to this is to have an Investment Panel with an agreed decision making process which may be at LLP Management Board/Board of Directors level with 'authority' delegated from the LLP Members/Shareholders subject to defined limits and delivery of a Business Plan. Alternatively, the Investment Panel can sit outside the formal company arrangements, but this will be decided at FBC stage.

6.14 The Business Plan for the company is a key document that will be agreed at Partner/Shareholder level based on planned projects and investment requirements which the company will be required to work to.

6.15 The key responsibility of the Investment Panel or similar will be to decide whether an investment should be made or not, taking into account viability, risk and delivery. The company will need to operate on set financial principles. For example, if the Company purchases land or is commissioned to carry out a specific development, the Investment Panel will sign off, or not, the scheme as viable and whether it is projected to achieve the required financial outcomes that the Council expects. It will not be for the Panel to refuse the funding on the basis that the development is not in line with the Council's objectives.

6.16 Councils will also need to have a process in place for their Housing Companies when the decision is taken to use the vehicle for the commissioning of development.

6.17 Collectively, Councils will approve, reject or request changes to the Business Plan on formation of the Company and thereafter annually (or more frequently as the Councils require). In terms of individual schemes in each locality, it will be for the Council concerned to reserve their rights to approve them or not. Councils will need to agree how approvals take place and whether a collective Reference Board duplicates or supports local decision making.

6.18 Summary of the principles of governance arrangements relative to decision making:

Internal local decision making process for each council

- Local developments
- Funding decisions
- Formal approvals
- Commissioning arrangement for LHC

Joint decision making

- Terms of reference to be agreed by FBC completion
- Financial performance of company(s)
- Annual business plan

7. Investment Decisions, Indicative Development Pipeline and Resourcing the Development Company.

7.1 The DevCo will collaborate with the Councils and Housing Companies through an agreed investment protocol. This will not duplicate the role of the Shareholder (described above). Each

Council will act as the funder and it will ensure that each scheme is viable taking into account the Council's and the Housing Company's position.

7.2 The DevCo (and Housing Companies if involved in a scheme) will need to set out their proposals and an application for funding of a project to the respective Council who is to fund and invest in the scheme, having considered pre-agreed KPI's for the project and its viability. Different schemes are likely to have different outcomes, but all must be demonstrated to be viable in order to support the funding decision. Different types of schemes include: Affordable Rented, Intermediate Affordable, Private Sales, and Commercial schemes.

7.3 Proposed KPI's are set out at Appendix 7.

Development Pipeline

7.4 The development pipeline for a jointly owned DevCo will work on the basis of a collectively funded development core, but with individual agreements for each scheme funded by Councils individually. The development pipeline in the first three years, as an indicator of construction costs and company's resource requirements, is anticipated to be circa 100 units per shareholder. This is to ensure that funding and development risks are controlled. At this stage the development costs are the critical concern, not the end use which will be a viability exercise between the individual council and housing company.

7.5 Information provided by individual Councils has enabled a high-level pipeline to be assembled. The detail of the pipeline is provided below and in a larger format as an appendix to this OBC by way of a spreadsheet attachment (Appendix 4).

7.6 **Table 3: Summary Pipeline**

Council	Total units	Affordable Flats			Private Flats			Affordable Houses		Build Costs Flats			Build Cost Houses		Total
		1 (35%)	2 (50%)	3 (15%)	1	2	3	2	3	1	2	3	2	3	
Charnwood	200	9	12	4	51	73	21	18	12	5910000	9477500	3000000	1521000	1650000	21558500
Melton	200	9	12	4	51	73	21	18	12	5910000	9477500	3000000	1521000	1650000	21558500
NW Leics	75	0	0	0	10	20	0	25	20	985000	2230000	0	3137500	2750000	9102500
Oadby & Wigston	280	29	42	11	66	99	26	4	3	9357500	15721500	4440000	338000	412500	30269500
Total Dev	**755**	**47**	**66**	**19**	**178**	**265**	**68**	**65**	**47**	**22162500**	**36906500**	**10440000**	**6517500**	**6462500**	**82489000**

7.7 The figures and costs used are not market tested and are not therefore the final costs. Future regeneration and town centre schemes may also be included. This is subject to development plans, appraisals, further design and procurement strategy.

Resourcing the Development Company

7.8 It is intended that DevCo will be resourced in line with business requirements and an assumed operational budget has been built up on this basis. In order to minimise costs during the earlier years it is proposed that DevCo will operate from a participating Council office for the first 3 years, and then potentially move to its own premises subject to the outstanding pipeline at that time.

7.9 An indicative operating budget together with supporting assumptions is shown within the appendix and is in excel format. The detail shows that the highest cost is for staff. It may be possible to reduce these costs by purchasing experienced staff resources from Councils on a time restricted basis, if they have the required expertise available.

7.10 The following table is a brief summation of the key outputs from the assumed/indicative operating budget. It excludes VAT and funding for working capital (cost of borrowing input).

7.11 **Table 4: Indicative Operating Budget of the DevCo – Years 1-5**

Cost type	Year 1 £000	Year 2 £000	Year 3 £000	Year 4 £000	Year 5 £000
Staff	189	280	320	380	390
General overheads	59.9	53.3	54	75.6	71.8
Other Project related	90	120	95	95	90
Total	338.9	453.3	469	550.6	551.8

7.12 It will be for the Councils to agree and determine the resource requirements of the DevCo and to set the operating budget accordingly as part of the Business Plan. At this stage the assumed operating budget and resources proposed have been considered by the Working Group and will be developed in further detail for the FBC.

7.13 It may be that in formulating the Business Plan, and fee and income structure, the Councils determine that a specific level of profit or surplus be generated, either for reinvestment in DevCo, or as an income by way of dividends/profit share. Equally any losses arising from performance against the Business Plan would need to be addressed by the Councils.

7.14 It is therefore suggested that the Business Plan for the DevCo, when agreed by the Councils, should seek to ensure that the assumed pipeline is deliverable, or that there is sufficient pipeline and fee income committed to enable costs to be covered and the principle of a positive return to be achieved.

7.15 In principle from the table for the pipeline and estimated build costs presented at 7.6 above, it can be seen that a fee of just 2.5% of build costs would generate income for the DevCo approximate to the operating budget assumed for the first 2 years, based on a projected pipeline of 200 dwellings a year. This is given as an example to illustrate that even a fee only basis could in principle enable the company to operate profitably, although of course it will be for the Councils to set a fee/basis of income in line with the pipeline appropriately. This does not include any income from development of assets on land that it has acquired.

7.16 The following is an extract from the operational budget as currently assumed and presented. This shows indicative staff numbers for the first 3 years. The actual costs and budget will need to be determined by the Councils in joint agreement as part of the Full Business Plan process.

7.17 **Table 5: Indicative DevCo Staff Numbers and Costs - Years 1-3**

		YR1	YR2	YR3
Assumptions	**Financial Year**	**2019/20**	**2020/21**	**2021/22**
		Start up cost		
10 months yr 1	MD/Head	84,000	100,000	100,000
6 months yr 1	Devt Manager	40,000	80,000	80,000
PT 12mt All in costs	FD (PT)	50,000	50,000	50,000
2 head from end yr 2	Junior staff		30,000	60,000
Resource to meet peaks	Bought in time	15,000	20,000	30,000
Districts option to recharge for representation, from end year 3	Directors time	-	-	-
	Total	**£189,000**	**£280,000**	**£320,000**

7.18 The level of investment in staff would be reviewed as part of the governance process and could be reduced or increased in accordance with the flow of work and fees earned. The principle is that the company would be generating a sufficient level of income from the pipeline of projects to fund its costs including the level of staff proposed by the end of year 2. This will be developed in detail for the FBC and informed further by the detail of the development pipeline.

7.19 Individual Councils have already carried out development and have the benefit of testing the market for new build costs based on comparable quality and standards and these are reflected in the table mentioned above.

7.20 Potentially developing around 50 units each per year would require investment to be included in the participating Councils MTFS later in the financial year. Each Council will need to allow for the costs including any land costs (if applicable), and the Working Capital required for the company in order for it to be able to set up and commence development activities.

8. Overview of the DevCo

What type of business will each DevCo develop?

Various scenarios in respect of what participating Councils may need to be delivered have been considered in order to confirm that the proposed approach is able to meet their needs. The scenario table is set out in Appendix 2.

The following considers the characteristics of TDV and CDV and provides some examples of schemes for illustrative purposes.

Teckal Development Company (TDV)

8.1 TDV will be the relevant vehicle whenever a Council wants to enter into a contract with TDV which may be for minor works or full-scale development of directly owned Councils assets, which remain Council assets during development.

8.2 As TDV is an inward-looking company its purpose is to provide goods, services and works to Councils and (on current proposals) does not acquire land.

As an example, it could develop a site for a Council to provide stock which may on completion return say 20 affordable units for the HRA. It could in the same contract also develop say 10 homes for sale and be instructed by the Council to help manage the sale, but the assets and sale proceeds are for the Council.

8.3 When such assets are sold they must be sold at market price. It would also be possible for a Council to develop assets through the Teckal intended for long term private rental use, however, such assets would need to be sold on completion by the respective Council to their Housing Company at market value. The Housing Company would then own and manage them. This example is illustrated in the diagram below.

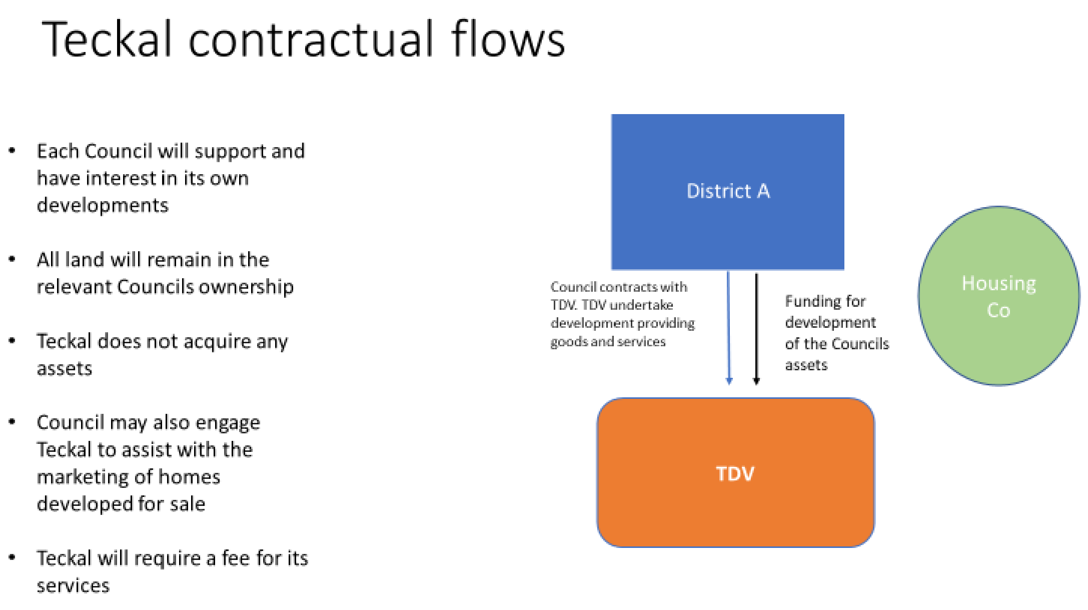
8.4 As it is inward looking there is no requirement on the Council engaging for the work to follow procurement requirements to procure the TDV.

8.5 In order for the Teckal to operate positively, there will need to be a form of renumeration agreed, perhaps by way of a conditions of engagement (to be determined by way of agreement between the Councils).

8.6 As it is inward looking the funding of the development may be on a basis as determined by the Council concerned. With affordable homes, to enable a rent to be set below market rent levels, the funding might include a form of subsidy/grant.

Whilst TDV is focused on servicing the Councils inwardly, it can have just under 20% of its business outward looking, and so may on occasions manage such business where it is efficient to do so, however, this would be unusual as a CDV is also proposed.

8.7 Diagram 5: TDV is engaged to develop land and generate housing assets



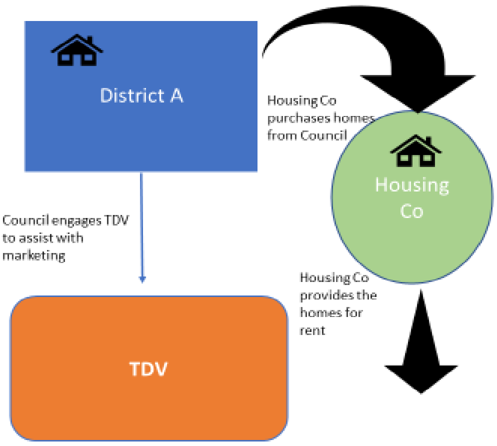
8.8 What happens to an asset once built by the DevCo is for the respective Council to decide.

8.9 Diagram 6: In this example, on completion some units are retained in the HRA, others are sold to the Housing Company who will let them for long term rent. (Other options also noted include sale to the market with TDV engaged to implement the marketing).

Contractual flows on completion

- Teckal has completed the development of the homes
- Council may engage Teckal to assist with the marketing of homes developed for sale
- Homes can be;
  a) sold on open market,
  b) sold to Housing Co and held to meet housing objectives including rental (as shown)
  c) Form part of the housing stock in the HRA (as shown).

Receipts received from sale help repay Council development funding



Commercial Development Vehicle (CDV)

As the CDV is outward looking it will be able to operate in the open market without any procurement restrictions and be free to compete. It will be able to buy land and to develop land for sale.

8.10 It can also fulfil a role of providing goods and services and entertain contracts which may be for minor works or full-scale development of assets owned by third parties. To this end it could therefore in principle develop Council owned assets provided that the Council has engaged it following an open procurement, (however, the need for this is unlikely as the proposal is to also have a Teckal company which would fulfil this function).

The CDV would be able to:

a) Purchase land from a Council at market value and develop it for sale itself;
b) Purchase land in the open market and develop it for sale itself; or
c) Be engaged by a Council's Housing Company to provide services to develop land owned by the Housing Company. In this case the Housing Company may have purchased the land from the Council, and the asset will remain an asset of the Housing Company;
d) Undertake engagements involving works and services from Councils and Housing Companies. In the case of works directly from Councils, that would need to be following procurement by the Council, which might be through a framework;
e) Undertake engagements directly with third parties.

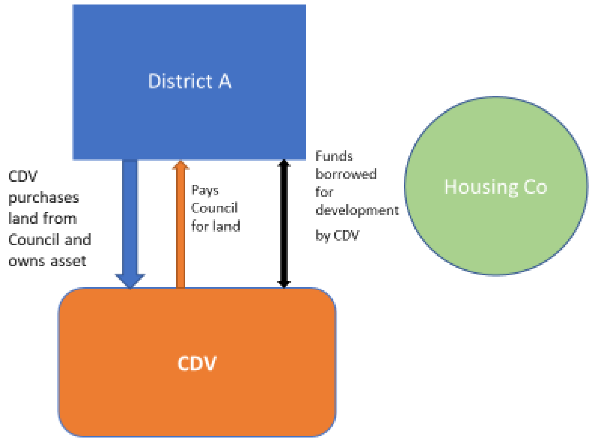
8.11 As an example, it could acquire land from a Council and develop that site to build stock which may on completion provide say 20 units which could be sold to the Housing Company to fulfil this purpose, or to the Council (subject to SDLT provisions). The houses could also be sold to the open market.

8.12 Diagram 7: The diagrams below shows the example of land sold to CDV who develop the site, then on completion CDV sell the completed homes to the Housing Company and to the open market.

CDV develops land and generates assets

- Each Council will support and have interest in its own developments
- There will be a land transaction at value, this can be to a) Housing Co, or b) CDV (as shown here)
- Where land transaction is to Dev Co, Dev Co will own the asset and will need to sell them at market value to Housing Co on completion as DevCo does not hold assets long term
- Where land transaction is to Housing Co, Housing Co retains the assets and engages CDV for works and services for a fee.

- Council will provide working capital to Dev Co, and
 - Funding for development and operations on commercial terms.

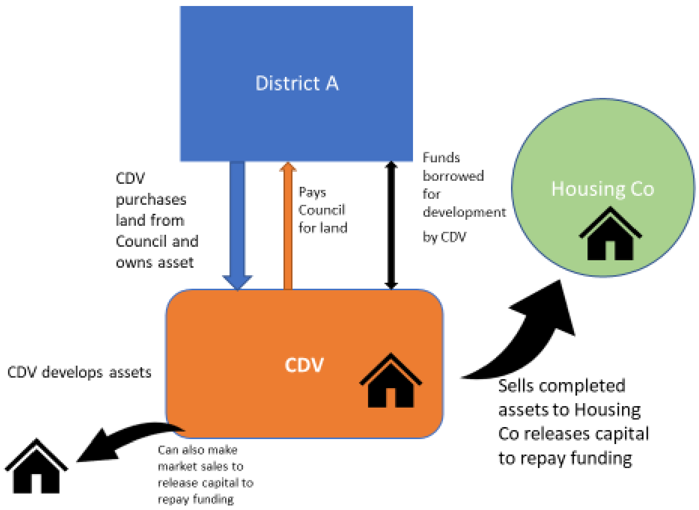


8.13 Then following completion:

CDV contractual flows

- There will be a land transaction at value, this can be to a) Housing Co, or b) CDV (as shown here)
- Where land transaction is to Dev Co (as shown here), Dev Co will own the asset and will need to sell them market value to Housing Co or to the market on completion. (This is shown here)
- DevCo does not hold assets long term
- Where land transaction is to Housing Co, Housing Co retains the assets and engages CDV for works and services for a fee.
- Council will provide working capital to Dev Co, and
 - Funding to CDV for development where CDV owns the assets, and then on operational terms to Housing Co to enable Housing Co to purchase the assets from Dev Co.

Where Housing Co has purchased the land -funding for development will be on commercial terms to Housing Co. On completion Housing Co can hold the assets or sell.



8.14 A further example (as noted in the diagrams above) is for the Housing Company to acquire the land from the Council, and for Housing Company to engage CDV to develop the site, following which the assets are retained for the long term by the Housing Company.

8.15 As CDV is outward looking there is no requirement to follow Council procurement requirements. The same applies to the Housing Company where it is assumed that the relationship with the relevant Council will not be Teckal compliant. Instead, the Housing Company will be outward focused, like the TDV.

8.16 For the CDV to operate positively, it may attain value from sale of assets and/ or attain a fee for goods and services provided. There will need to be a form of remuneration agreed, perhaps by way of a conditions of engagement (to be determined by way of agreement between the Councils).

8.17 As it is outward looking the funding arrangements need to be state aid compliant and will be on commercial terms.

9. Funding

9.1 There are two aspects of funding of this initiative to consider:

1) The funding requirements of the DevCo;
2) The funding needs and form of finance required to fund individual projects for construction and long term.

The funding requirements of the DevCo

9.2 It is assumed that the funding will be provided by the Councils for both the operation of the DevCo and the funding of projects. It is assumed that the Councils will fully support the DevCo with funding directly and receive a return on the funds provided.

9.3 As with all development projects it is assumed that in order to fund projects, the financing of individual schemes will have the benefit of a security package, secured by charges over the respective assets.

9.4 The DevCo effectively requires finance for 3 different purposes:

a) Capitalisation of the business;
b) Funding of day to day overheads and operational business costs. These are costs that as a business which employs staff and runs an office it will need to incur;
c) Funding needed to develop projects. These are typically expected to be costs that relate to the development of schemes.

a) <u>Capitalisation of the business</u>

9.5 Subject to the form of the company that is decided upon, it is likely to be either a Company Limited by Shares (CLS), or a Limited Liability Partnership (LLP).

9.6 Both are likely to require some funds as a capital investment, which for the CLS would be through the issue of shares. In addition, as set out at b) above, both would need loans from the Shareholders/Partners to enable the business to operate. The extent of the requirement for share capital or Partnership investment has not yet been determined and is to be considered as part of the FBC. This would be determined through agreement between the participating District Councils.

b) Funding of day to day overheads and operational business costs

9.7 Whatever the extent of the capital invested, a balance in the form of loans will be required. It is proposed that such loans may either be in the form of a bullet loan or working capital facility and will be provided by each of the participating member Councils equally.

9.8 A driver of the interest rates and terms applied against the facilities is the need to comply with the requirements relating to state aid, consequently, the commercial vehicle CDV must be funded with facilities that mirror those available in the market.

9.9 At this stage in respect of working capital Loans to the CDV, an interest rate of circa 6% over base is assumed, subject to market comparisons at FBC.

9.10 For the TDV, as this is an inward-looking vehicle servicing the participating Councils, it is assumed that a lower rate of interest may be applied, (subject to legal confirmation relating to the status of the TDV for state aid).

The Size/Scale of funding facility that may be required for DevCo operational business costs

9.11 To gain a sense of the extent of funding that may be required to enable the business to meet its operational overhead costs during the initial years a draft operating budget has been assumed. This is provided within the appendices (see appendix 3). Although it is very high level at this stage and is subject to further consideration and firming up of key costs at the FBC stage, it helps provide an indication of the level of working capital/loans that may be required for the first 2 years. It should be noted that these figures currently exclude VAT, debt servicing costs and remain subject to change.

The actual operating budget will be determined by the Shareholders and agreed annually as part of the business plan, as set out within the section on Resourcing.

9.12 The level of funding requirement indicated from the assumed operating budget provided in the appendices, for the first 2 years is summarised in the following table:

Table 6: Assumed Operating Budget of the DevCo – Years 1-2

	Year 1 £000	Year 2 £000
Total of operating costs for DevCo from assumed operating budget (excluding VAT) and cost of funding – Shared costs	338	453

This funding would be provided by the participating Councils jointly. It is probable that the company would earn fee income within this period and reduce the level of requirement, however, for prudency the full operating budget to be set by the Councils as part of the Business Plan should be provided for.

9.13 As there are likely to be 2 different vehicles, it is not proposed that the funding requirement will be double, rather that this be a budget for both companies, the budget being based on overhead costs including staff, which is the largest single cost.

9.14 The consideration is only for the first 2 years as it is suggested that it be an objective within the Business Plan set by the Councils, for the company to be able to generate sufficient income to service its debts and become self-sufficient within 2 years. This period is suggested as it relates to initial developments within the pipeline provided by the Councils which are anticipated to be in construction or have reached completion by the end of this period. Thereafter, the plan should provide for the company to have sufficient income to cover its operational overheads and also repay remaining working capital loans which relate to the funding of base operating costs.

9.15 Within the costs assumed in the operating budget, there are some that may qualify as being of a project expenditure nature, for example, the portion of staff time that may be incurred on the development of a project. As the purpose of the company is development, various costs may fall into this category.

9.16 When a scheme is sufficiently developed to the point of entering a construction contract, development funding facilities may be entered into to fund the construction. The costs incurred during development of a project to that point will form part of the facility. Consequently, when the construction loans are entered into funds would be released for qualifying expenditure, enabling repayment of this aspect of the operating budget working capital facility.

This means that a much lower net position on base costs may arise. The following table illustrates this:

Table 7: Net Assumed Operating Budget of the DevCo – Years 1-2

	Year 1 £000	Year 2 £000
Total of operating costs for DevCo from assumed operating budget (ex vat) and cost of funding – Shared costs	338	453
Element of costs assumed to apply to development (forms part of individual Council project funding costs)	278	400
Net cost - Net shared costs assumed, after repayment from project funding	60	53

Source: Assumed operating budget.

As can be seen, provided that the costs which are assumed to be appropriated to development of a project, are able to be utilised (as per the information provided by individual Councils), then the Net Costs which the Councils would jointly need to provide for reduces from £338k excluding VAT for year 1 to £60k, and from £453k to £53k for year 2. It is worth emphasising however, that the full value would need to be funded in full as working capital jointly until such time as projects reached the point of entering construction contract, or alternatively that it was agreed by the benefitting Council(s) to fund such costs directly.

9.17 Project related expenditure may (subject to qualification and accounting advice) if apportioned to a project be able to be capitalised. Independent tax and accounting advice will be required during the FBC stage to ensure that the company (and the relationship Housing Companies) are established to work effectively and efficiently on a compliant basis.

9.18 For clarity the operating costs assumed in the Operating Budget are in the main base costs such as staff, and certain core project related costs which the business would need to provide to perform its objectives. Other costs that a scheme will attract will need to be funded separately, by individual Councils as described at c), below.

c) Funding needed in order to develop projects

9.19 Details regarding the funding of development projects is provided within the appendix. Please see appendix 8. The key principles that apply to the funding of the projects directly are as follows:

- Social assets that are owned by a Council will be developed through the Teckal company and funded directly by the Council. The basis of that funding will be determined by the Council and may include use of subsidy (where compliant with State Aid law).

- Other non-social assets will be funded on a commercial basis in order to be compliant with state aid requirements. The facilities, rates and terms will be those that are prevailing in the market at that time.

- As land and assets subject of such development will have been acquired by the DevCo or Housing Company, the funding provided by the lending Council will be to the company that owns the assets, to enable the development.

- For every scheme a viability assessment will be undertaken, and projects will only be brought forward for funding where it is evidenced that the loans are capable of being repaid in full, inclusive of returns on the funding lent.

9.20 For the early stages of the development of a project, the funding from the respective Council is anticipated to be in the form of working capital. This will then be repaid on entering into the construction phase (Development Finance).

9.21 Development finance facilities will reflect those available in the market for developments through the CDV (or Housing Company). Details of typical funding facilities together with example rates and terms are set out for reference in the appendix.

9.22 As the DevCo is not able to hold assets for the long term, any financial commitments of the DevCo relating to the development of projects will be repaid following completion. This may be through sale of the assets or refinancing where assets are intended for long term use such as rental. In this circumstance, the refinancing will be on Operational Finance terms provided to the company who will own them for the long term (such as a Housing Company). Further details of the Operational funding facilities, including example rates and terms are set out within appendix 8.

9.23 Whilst the development costs of a project are repaid when a project reaches a point of entering construction, there is a risk that a project may not mature or may fail. To mitigate against this, it is proposed that DevCo provides a service of reviewing all opportunities at an early stage and provides a viability report. Thus, the intention is that there will be checks and balances to ensure that unviable or flawed schemes, or those which carry excessive risk are not progressed.

9.24 It is currently assumed that any costs incurred relating to failed projects are a risk equally to the Councils where such expenditure is not able to be appropriated to the failed project but will be solely for the sponsoring party where specific development expenditure has been incurred. The process for this is to be determined as part of the FBC.

9.25 Similarly, where a project is delayed, and interest costs arise as a consequence, the risk of the additional interest is apportioned as described. It is important that as part of the governance that a process is put into place to oversee project progress and the early viability assessment for investment. See investment protocol, above.

Minimum Revenue Provision (MRP)

9.26 Subject to advice at the FBC stage MRP may need to be provided for in respect of a certain portion of the funds for construction and long term finance where the funding provided by the Council is not repaid within a specified framework. The use of funds raised from development (sales) may help reduce or relieve the need for such a provision subject to each Councils own considerations of whether the requirements for this are met within the detail of a specific scheme. Where it is considered that the provision should be made, this may form part of the costs to the lending Council of the project and be addressed as part of the development strategy applied to the scheme.

9.27 At this stage it is thought that if a provision were to be required it would most likely arise following commitment to any long term/operational funding to the Housing Company.

9.28 The funding profile and repayment schedules including any need for provisioning for MRP would be considered in the model and an assessment provided for the evaluation of the project.

Practical considerations for Councils

9.29 It should be noted that whilst the DevCo provides capacity and technical resources as well as the basis for development to deliver an increase in the volume of homes more speedily than would otherwise be the case, there will also need to be some consideration of the change in the status quo within the Councils and respective roles and responsibilities.

9.30 As an example, the provision of funding will need to be facilitated, and whilst the flow of loans may be irregular (relative to a single Council), there will be a need for an officer to be allocated responsibility when required to ensure that operations work from the Council perspective, such as for approvals, release of funds, and also monitoring.

9.31 The formation of the company will also mean additional financial reporting. Representation on respective boards, is also a consideration.

9.32 Respective Roles and Responsibilities

Setting out the respective roles of the Finance officers within the DevCo, Housing Company, and Local Authority, they would have the following responsibilities:

Development Company Finance Director

- Involvement with the development of a scheme from an early stage including the case for the assessment of the viability of a project and appraisal of the funding requirement.
- Initial drafts of the loan agreements and applying the product mix and commercial rates in line with state aid/transfer pricing report. Liaison with respective lawyers appointed to complete the development and funding transactions.
- Preparing and signing off the DevCo accounts in sufficient time to inform the LA Statement of Accounts deadline.
- Accounting for Corporation Tax applicable to the DevCo.
- Producing all internal DevCo returns and reports.

Housing Company Finance director

- Preparing and signing off the Housing Company Accounts in sufficient time to inform the LA Statement of Accounts deadline.
- Accounting for Corporation Tax applicable to the Housing Company.

Local Authority Finance Team

- Point of liaison with DevCo for provision of funding, and reporting.
- Assuring for the authority that the loan agreements are in line with legislative requirements and the business plan and is in the best interests of the Council. This will need to be undertaken for every loan for each company (although schemes could potentially be batched).
- Identifying the appropriate accounting treatment of the loan in the revenue account and in the statement of accounts in line with IFRS9.
- Incorporating the revenue and capital implications of the DevCo into the council's revenue and capital budgets.
- Incorporating the Development company accounts into the LA Statement of Accounts under Group Accounting requirements.

9.33 As a guide and taking into consideration the assumed operating budget net of project costs, the potential initial costs estimated to enable this initiative to progress through OBC to FBC and into implementation are shown in the table below. Such costs would need to be reassessed at FBC stage, but would be shared between the participating Councils.

9.34 **Table 8: Costs of DevCo from Initial Consideration to End-Year 2 Operation**

	Pre trading £k	**Year 1 £k**	**Year 2 £k**	**Cumulative**
OBC	£35k	-	-	£35k
FBC	£50k	-	-	£50k
Implementation/ set up	£30k	-	-	£30k
Trading – assumed net position (as above)	-	£60k	£53k	£113k
Total	**£115k**	**£60k**	**£53k**	**£228k**

Note: a) this excludes the funding of projects by individual Councils, and the interest costs/ funding of the DevCo working capital facility. b) The costs are based on a net position after VAT, and assuming repayment of qualifying project costs. c) Figures to be updated for FBC (following receipt of updated cost quotations/advice).

10. Risk assessment and mitigation

9.1 Consideration has been given to the major risks that could arise.

9.2 As this is at OBC stage the assessment is outline in nature and high level, but seeks to follow the principles of an established risk management strategy used in Local Government relating to recognised categories of risk.

9.3 The assessment relates purely to the provision of a DevCo as a collaborative vehicle engaged in provision of housing and associated assets.

9.4 It does not consider the risks associated with individual projects that a Council may decide to engage in, as this would be specific to each Council, the nature of the type of scheme and how that Council chose to fund the respective project or projects. Such considerations would be a matter for each individual Council if needed as part of their own internal considerations at FBC (when the pipeline and project details may be more progressed).

9.5 The categories of risk and assessment considers the likelihood of risk considered on a range from Very High, to Almost impossible (Very High, High, Significant, Low, Very Low, Almost impossible).

The potential impact of the consequence of a risk occurring has also been considered. This ranges from Negligible to Catastrophic.

9.6 The risk assessment is provided in a table within the appendices, please see appendix 9. For most risks the outcome is considered to be low or very low, but it is up to the participating individual Councils to determine the risk relative to their own considerations.

9.7 It should however, be noted that to have a development vehicle the principle of engaging in development is being raised and that the development of projects commercially would bring the opportunity of the benefits and rewards of development as well as any associated risks.

9.8 As can be seen from the assessment appended, the greatest risks are:

- Lack of commitment to participate by Councils – leading to insufficient pipeline: Mitigated/overcome by the parties agreeing to enter into a partnering arrangement for a minimum period;

- Recession leading to collapse in the housing market, resulting in all Councils agreeing to refrain from development/defer: Mitigated by completion of existing works and run down of staff and costs.

10. Summary and Recommendation

11.1 This OBC helps evidence that the provision of a development company on a collaborative basis would be beneficial to the Councils who participated in the Working Group..

11.2 The assessment sets out the most effective basis to take forward the participating Councils ambitions..

11.3 The detail within this document also highlights the benefits and disadvantages of options that the Councils have considered.

11.4 The provision of a vehicle as proposed would enable the Councils joint objectives to be achieved.

Councils to add any further statements, recommendation, and basis for recommendation.

11. Appendices

Appendix 1) Legal advice received from Anthony Collins Solicitors.
Report: Collaborative Development Vehicle. *Provided as an attachment.*

Appendix 2) Table: Project Scenarios. *Provided as an attachment.*

Appendix 3) DevCo initial operating period cost budget assumptions – to be updated for FBC against pipeline and cost confirmations. *Provided as attachment.*

Appendix 4) Potential development pipeline. *Provided as attachment.*

Appendix 5) Report – Market information on development specific delivery vehicles: The rise of Local Housing Companies. Published by the Smith Institute. *Provided as attachment.*

Appendix 6) Report – Local Authority Direct Provision of Housing – Report of Professor Janice Morphet and Dr Ben Clifford (Bartlett School of Planning) for Royal Town Planning Institute and National Planning Forum – December 2017. *Provided as attachment.*

Appendix 7) Suggested KPI 's – *Given below.*

Appendix 8) Overview of proposed basis for the Funding of individual projects/schemes - *Given below.*

Appendix 9) Risk Matrix – *Given below.*

Appendix 10) Extract from the UK Price Index - Average Prices August 2000 to 2018 for East Midlands – Provided to illustrate the level of growth in house prices in the East Midlands over recent years, and average values being achieved. *Provided as an attachment.*

Appendix 11) Glossary – *Given below.*

Appendices noted as ‘Given below’

Appendix 7) - Suggested KPI‘s

Development KPIs

Gross Development Value of scheme
Average value of unit
Value per square foot
Land cost as % of GDV
Land cost per unit
Build and fees cost per m2
Build and fees cost per f2
Average build costs per unit
Capitalised Interests as % of GDV
Cost to value %

Operational KPIs

Business Plan Years
Type of NPV modelled
% of 1st tranche sold
Rental Income years 1
Gross yield to cost year 1
Net yield to cost year 1
Year of 1st net surplus
Loan debt at completion
Peak debt
Year of peak debt
Year loan repaid
Cash/loan at end of business plan
Loan as % of OMV at end of BP
Internal rate of return
Discount rate
Interest rate charged during development
Interest rate charged operation

Vehicle KPIs

Overheads as a % of turnover
Profit Margin within scheme
% repayment of working capital
Accumulative cost of overhead per quarter and yearly
Accumulative profit by quarter and yearly
Accumulative % of working capital repaid against target

Appendix 8) - Over view of proposed basis for the Funding of individual projects/schemes

This appendix considers the funding needs and form of finance required in order to fund individual projects for construction and long term retention of stock.

Funding needed in order to develop projects

Early Stage Funding - Working Capital

For the early stages of the development of a project (meaning progression of a project inclusive of all costs to the point of entering a construction agreement) the funding is assumed to be in the form of working capital or loans. For CDV this will be on a commercial basis.

As the DevCo will be providing the development service for the scheme to the benefitting Council, that respective Council will provide the funds for the costs of the development.

Depending on the nature of the project, the funding may be from the Council sponsoring the project to the DevCo, or through their Housing Company. The contractual and funding relationships are discussed further below and are subject to legal advice.

Once the point of entering construction is reached supported by construction contracts, formal project loan agreements will apply and construction finance facilities specific to a project entered into. The facilities being supported by security as is standard for development finance and construction contracts.

For projects developed through the TDV (Teckal company) the Council will own the asset and will provide funding inclusive of any subsidies directly to the scheme.

The costs that will be funded include all project development costs that are required for a specific project, such as technical, legal, architect, and planning. With CDV where commercial terms are applied all costs incurred in the development of a project will form part of the construction finance facility. Thus, effectively enabling the working capital/loan facility for the formulation of the project to be repaid.

As described in the main text, the qualifying costs that relate to the project are assumed to be capitalised (subject to independent accounting and tax advice at FBC stage).

The interest rate to be charged will depend on the type of facility that the Councils decide to put into place, but based on a working capital arrangement to support the early stages of the development of a scheme, the interest rate is currently assumed to be in the region of 6% over base.

Finance for construction and long term project funding.

1) Funding for projects through TDV

As the Teckal company is inward looking its funding arrangements do not need to be based on market terms provided that funding is ringfenced to delivery back to the Councils.

As the funding does not need to be on market terms it will be for the respective Council to decide whether the funding of these projects (which are likely to be mainly of a social nature) is to be provided at cost, or inclusive of a margin. This can be considered further for the FBC.

Each scheme needs to be viable and therefore may need a margin to enable repayment of any underlying long-term loans.

It is a matter for the Council that has engaged the Teckal to develop the assets to see how that Council is able to raise funds and on what basis it supplies them.

Funding for a project may work as follows:

Example: A scheme is for development of 20 properties which are to comprise of say 10 Affordable Home products such as shared equity, and some social rents, as well as 10 houses for sale to the market. The Council would need to fund the development in full, with the funding released in tranches as the houses are constructed.

As development of the houses may be in stages this would enable the early completions to be sold to generate and release funds for recycling into the scheme. Profit achieved from the sales, can also be used as a subsidy. On completion of the full site and sale of shared equity homes further funding repayments would be received against the Council's debt.

Homes to be used for rental purposes, depending on their nature, will either be financed by and held in the HRA, or purchased by the Housing Company.

Sources of subsidy:

*Grants
*Section 106 receipts/commuted sums/affordable housing contributions
*Lent from the HRA (Local Treasury decision)
*Surpluses that may be generated within the scheme from sales/staircasing

2) <u>Funding for Projects through CDV</u>

Funding for CDV needs to be on commercial rates and terms in order to be State Aid compliant.

Development Finance during Construction

As with the funding of projects through the Teckal company the Councils will effectively be funding 100% of the costs of the development but will do so on the basis of facilities that are the same as those which a commercial lender would provide for the same transaction.

Thus, margin and fees are applied which generate a return to the lending Council. It also means that different loan products in line with the market are applied which generate different returns and are documented separately.

The facilities, rates and terms assumed are subject to comparison with the market. It is assumed that the funding will comprise of 3 elements, these are equity/initial investment, sub debt and senior debt. All of the funding required for a project will be supported by the respective Council, and provided in line with commercial lending terms.

For explanatory purposes, a table which sets out these facilities including an indicative split of the funding is provided below.

As with all lending arrangements the Councils will want to ensure that the loan facilities will be fully repaid, and that if they have borrowed funds to finance the arrangement, that the underlying loan is fully serviced by the income received. A detailed financial assessment prior to entering the loans known as the Full Viability Assessment will be provided by the DevCo and reviewed and approved or otherwise by the lending Council as part of the process, whether the borrower is the Devco, or the Housing Company.

An assessment would also be provided for funding requirements for projects through the Teckal company.

During construction funding is lent on a basis of a Loan to Cost ratio 'LTC.'

Both senior and sub debt are contracted to be repaid. The sub debt is lent in the form of loan notes, and the senior as a loan in the form of a loan agreement.

Equity investment is either from equity interest/value already accumulated in a project or from shareholder funds. As this is for development finance of new projects typically the expectation will be for the sponsors to contribute the equity funding.

Example: A scheme costs £3m to develop a site (in this example there is no sub debt).

Based on the indicative terms in the table below the funding during the development period would comprise of:

50% equity	£1.5m
50% senior debt	£1.5m

The equity is the investors investment which will be realised over time following completion and the determination of the use of the asset. If it is for long term use it may stay or a portion of it may be retained within the value of the asset. Repayment is met in time following say a sale, or by way of dividends on performance.

Whilst the facilities are intended to generate a return to the Council, during the construction period the senior debt cannot be repaid, nor is interest serviced as there is no operational asset to generate income. Interest is therefore rolled up. The senior debt commitment is then repaid inclusive of the rolled-up interest after completion of the asset following sale, or if the asset is to be used for long term rent, notionally on refinancing to operational terms.

Refinancing onto Operational funding terms effectively resets the debt arrangements and provides a profile for regular repayments of the senior and sub debt over the contract period.

As the funding attracts fees these may be apportioned to the Council on commencement of the loans.

The terms of the funding would be modelled to ensure servicing of any funding commitments that the Council may have entered into in order to raise the funds, or to meet internal return requirements.

Where the assets are for long term housing social rent use, funding may be on a fixed loan debt profile against anticipated rents.

Operational Funding

Operational funding is lent on a basis of Loan to Asset Value (LTV) which is the market value of the asset.

If for example the assets which cost £3m to build are considered to be worth £4m in the market once built, then the funding requirement for the operational period will from the example table be:

30% equity £1.2m

10% sub debt £400k

60% senior debt £2.4m

Senior debt and sub debt loans will be fully amortising.

Note the cost of rolled up interest would also be factored into the refinance facilities as well as the funding fees that may apply.

Typically where a Council has borrowed funds in order to provide the facilities the Council would be expected to match and hedge commitments. It will however, be up to the lending Council as to the basis (fixed or variable) on which they wish to lend the funds, and the type of facilities available in the market at that time.

The table below provides for indicative purposes an example of the mix of commercial funding facilities and terms that might be applied (subject to the market at the time of lending). It outlines a typical proportion of debt for each category of funding, which determines the interest rate that would be payable to the Council as the funder.

Summary Table of Funding Terms: For example purposes

Funding Type					The rate shown is the margin, not the total rate.		Cost of Money assumed, including additional funding costs		All in rate senior debt
	Equity%		Sub debt %		Senior debt %		MLA costs	0.04	
	Rate	Ratio	Rate	Ratio	Rate	Ratio	Credit spread	0.1	
Development	*	50	N/A	0	4.00	50	(Example)Libor [25 yr fixed swap rate]	1.86	6
Operations	*	30	10	10	3.25	60	Total	2	5.25
Working capital facility					(Example) 6% assumed over base, current rate would be 6.75% variable.				

Note: Rates and product mix to be applied will need to be referenced to the market ideally from a Transfer Pricing or State Aid report.

Roll up of senior debt interest and roll up of sub debt interest during the investment phase is disregarded for the purpose of the table.

The interest rate to be charged is the margin plus the cost of funds (Libor, in this example).

For the final rates to be used consideration will be given to the Councils internal cost of funds, or cost of funds to the Council to enable a return to the Council.

The above assumes funding on a fixed rate basis. Consideration also needs to be made of variable rates available in the market at the time of funding a project.

Typical Fees

Arrangement fee – Sub debt likely on development loan.	1 - 2% Payable on draw down. Higher more
Arrangement Fee – Senior debt	1- 2% Payable on draw down
Non Utilisation fee (Commitment fee)	50% of loan margin
Exit fee at PC/on refinance (from the devt. loan)	1% of outstanding balance.
Agency fee at:	£10,000 plus per annum on the senior debt – but can vary.

Fees and margins enable a revenue return to the lending Council.

Appendix 9) - Risk Matrix

Table: Risk Matrix

Risk category	Description/ Identification of specific risk	Likelihood	Impact	Mitigation	Control	Comment
Political	**Local and National Political Issues / Interaction and decision making**					
	Change at a National level politically in the agenda for provision of housing and regeneration.	Very Low. Especially in the short and medium term. Currently both major parties support provision of housing, regeneration, and infrastructure.	Critical	Development is on a planned basis with a known horizon for the projected pipeline.	Commitments are managed, and governance arrangements are provided to enable control	
	General change at a local level politically away from housing priorities	Very Low. Especially in the short and medium term given national focus and local pressures for housing	Critical	Development is on a planned basis with a known horizon for the projected pipeline	Commitments are managed, and governance arrangements are provided to enable control	
	Change by a single Council mid term to invest resources elsewhere away from the initiative.	Low. Particularly given the national focus and local pressures for housing. However, demands on a Councils planned expenditure and priorities for resources arising from political change could arise.	Marginal	Councils are to be equal within DevCo with share of base costs, which would be contracted. Main risk would be to the differentiating Councils own individual schemes that were not contracted.	No control over individual Councils but DevCo works to a business plan from the Councils jointly and most likely any decision by a single Council would manifest in a managed gradual process due to contracted pipeline.	For example might arise following a change in leader/political control or from new manifesto commit-ment.
	Impact of Brexit If impact on the economy is adverse it may generate a reduction in demand for housing and development.	Currently not known, but may have impact on the economy.	Negligible / Marginal	Pipeline of development can be managed to meet demand. Main operating cost of Dev Co is staff and can be managed against pipeline, reducing cost and commitments.	Business Plan	
Economic	**Local and National economic issues including interest rates/ suppliers/ inflation**					
	Supplier issues	Low	Negligible / Marginal	A purpose of DevCo is to enable a dedicated entity that engages with suppliers and as a dedicated entity has a panel or range of suppliers. Mitigation will be the industry relationships that arise and ability for CDV to employ new	Experienced dedicated resource. Supplier contracts and ability to engage in market.	

				suppliers. TDV would benefit from CDV relationships but would need to procure if a supplier was unable to deliver. Mitigated by use of framework.		
	Inflation	Low	Negligible	Increases in wages and construction costs may be matched or exceeded by property and rent inflation.	A financial plan will need to be developed at FBC and may need to make inflation assumptions. It s possible that inflation will change and scenarios should be modelled to test outcomes.	
	Interest Rates	Low Interest rates are stated to be increased gradually in the short and medium term. There may be some fluctuation in interest rates and availability of capital following Brexit depending on the nature of the deal.	Negligible	Impact of interest rates on DevCo and its funding facilities can be modelled to test viability. Funding of schemes particularly for assets held for the long term can be on fixed rate products tied into the current low interest rate environment.	Interest rates are set by Bank of England but influenced by outside economic factors. Short and medium term environment looks controlled. If needed the Councils can control impact on projects by use of fixed rate funding products and management of working capital facilities to DevCo.	Returns to Councils from lending on commercial terms are likely to be at a margin which moves with the market
	Property Inflation	Low Risk is fall in property values making projects unviable.	Marginal	There has been continued growth in house values during last 10 years. At some point growth will slow, but long term in the UK there has been strong annual average property value increases. Should property prices fall whilst DevCo is developing a project the asset on completion can be held for long term by the Housing Co, rather than for sale. DevCo would need to be remunerated for its service.	Viability assessment is undertaken on all projects unviable projects will not be progressed, and are also unlikely to meet requirements for funding, funding being controlled by the respective Council.	
	Recession	Low	Critical	UK economic growth is upward. The initial period of the pipeline is likely to be 4 to 5 years. It is for the Councils to plan the business accordingly.	Mitigated by Business Plan, enabling management of business. Depending on the purpose of a scheme, might be positive.	The UK is subject to national and worldwide recession, which are typically

				If provision of housing is key, a slight downward curve giving rise to reduced costs might be positive to Council delivery objectives.		cyclical currently markets are inclined upwards recovering from the 2008 recession
Social	**Social and demographic issues in local population and workforce**					
	Demographic change affects type of houses needed	Very Low	Negligible	Able to use land to meet demand and apply for planning permission that meets needs	Development is managed and aligned to the Business plan set by the Councils.	
	Lack of skilled work force	Low, availability of suitable staff may change.	Marginal	DevCo is a dedicated company with small workforce. If required can change business plan to meet /attract required resource.	Ultimately Councils are able to influence the company and staffing.	
	Demographic changes lead to fall in demand for housing within the region.	Almost impossible, especially in the short term	Negligible	Pipeline of development can be managed to meet demand. Main operating cost of Dev Co is staff and can be managed against pipeline, reducing cost and commitments.	Business Plan.	
Tech-nological	**Reliability and ability of technology to meet the needs**					
	Technology Failure	Very Low	Negligible	DevCo is to be based at a Council office and have access to technology and support services. It is not high technology dependent.	Able to invest in new technology if needed. The development processes are also typically conformed and not dependent on new technology.	
Environ-mental	**Environmental Consequences**					
	Development has impact on the environment.	Very Low.	Negligible	DevCo will act as a developer and be required to follow guidelines and legislation relevant to impact on the environment.	All developments will need to have met planning, protecting DevCo from entering any development that could have an adverse impact.	
Professio-nal Manage-rial	**Managerial abilities and skills**					
	Failure of appointed senior staff and lack of required skills	Low. Recruitment error leading to staff failings.	Negligible /Marginal	DevCo is a dedicated company with small workforce. If required it can act quickly and recruit replacement staff.	Ultimately Councils are able to influence the company and staffing. Regular performance and reporting.	

				As work is subcontracted core projects will carry contractor warranties and have been advised by professional parties, mitigating impact of any staff inadequacy/inexperience. Training.		
Financial	**Financial Planning and Control**					
	No or ineffective financial planning and control	Almost Impossible	Marginal	A key post will be a dedicated FD. The FD will be a qualified individual responsible for financial reporting and financial planning of projects. As an early resource engagement the FD is likely to be appointed by stakeholder representatives from the Councils.	Councils through the governance arrangements have direct insight into performance, and also determine the Business Plan. Councils have control and also determine funding to DevCo and projects.	Company is subject to audit
Financial	**Expenditure**					
	Operational Costs exceeded	Low	Marginal	Working Capital expenditure managed against budgeted operational and project costs.	Operational costs of DevCo are a matter for the Councils who will set the budget and the Business plan. Reporting and management controls	
	Repayment of working capital is delayed due to project delays	Low	Negligible	Working capital /loan commitment will attract interest and be repaid on financing to project funding terms	Management of the working capital/loan facility	
	Project fails during early stage and working capital is expended	Low	Marginal	It is possible that a project might fail for reasons outside of the control of the company/respective Council. Viability assessment in place to mitigate this risk. An example risk might be refusal of planning permission.	Certain base costs accrued may be shared (be a company cost), working capital accrued is suggested to be to the account of the interested Council (subject to any other agreement to address this risk between the Councils). Controls and management of project expenditure and development against programme are tools to protect against failure.	

Legal	**Risk of breaching legislation and meeting regulatory requirements**					
	Risk of breaching legislation and not meeting regulatory requirements	Very Low. Supported by professional legal advice. DevCo to be developed and delivered following appropriate due diligence and respective Council approvals Once established risk management and reporting regimes to be in place.	Marginal	Formation of DevCo has been subject to legal advice. Company documents and structure is to be implemented with legal support. Funding arrange-ments are to follow guidance and will use documents provided by legal advisors. Projects by their nature will be subject to legal represent-ation and support.	Signatories with delegated authorisation only will ensure control	
	State Aid	Low Funding for CDV and TDV to be State Aid compliant and will be implemented with legal advice.	Critical	Councils will lend to CDV and projects through CDV on a commercial basis including utilisation of market rates, and terms. Funding to TDV to be ringfenced to Council provision.	Funding terms and facilities to Dev Co and projects will be confirmed as part of the viability assess-ment and loan provision arrangements	
Physical	**Fire, security, accident prevention to workforce and population**					
	Construction arrangements do not meet regulations	Almost impossible	Marginal	This is a risk passed onto the appointed construction contractors, works are not undertaken by DevCo directly.		
	Office premises	Almost impossible	Negligible	DevCo is to be based in a Council office during the initial trading period.		
Partner-ship/ Contrac-tual	**Associated with failure of contractors and partnership arrangements to deliver services and products to an agreed cost and specification**					
	Failure of contractors	Low	Negligible / Marginal	Mitigated by ability to work with the market without procurement restrictions, and to have access to a range of suppliers		
	Delivery to cost budget	Very Low	Marginal	Development contracts are recommended to be on a fixed price contract basis.	Projects to be managed by DevCo against budget, funding released by Council against milestones. Prudent to contract on fixed cost basis	

					with financial plan inclusive of contingency	
Compe-titive	**Risks that may affect competitiveness and/or ability to deliver best value**					
	Competition	Very Low	Marginal	DevCo is a company dedicated to delivering for the Councils. Therefore competition would only arise from a decision by a Council to procure a development through a different route such as a JV (for example). N.B To do this value which through Devco would remain with the public sector would be lost to the JV developer, thus DevCo should always be better VfM on a project basis, especially when long term use of assets developed is also considered.	Councils both benefit and have control. DevCo provides a means for a range of public sector assets to be developed by the public sector for the public sector and enable value to be achieved.	
Customer /Citizen	**Risk of failure to meet current and changing citizen needs**					
	See Social above.					

Appendix 11) - Glossary

- DA means Development Agreement
- GF means General Fund
- HE means Homes England
- HRA means Housing Revenue Account
- JV means Joint Venture
- LLP means Limited Liability Partnership
- MTFS means Medium Term Financial Strategy
- NHB means National House Builder
- PRS means Private Rented Sector
- RP means registered provider
- RTB means Right To Buy

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CORPORATE COMMITTEE

28 NOVEMBER 2018

REPORT OF CHIEF EXECUTIVE

COLLABORATIVE REVIEW IN TO IMPROVING PUBLIC SERVICES

1.0 **PURPOSE OF REPORT**

1.1 Over the last few months there have been a number of discussions regarding the future of local government within Leicestershire. This is part of a wider debate regarding public sector reform across the country. This report updates members on collaborative work being undertaken by all 7 District and Borough Councils within Leicestershire to explore ways to improve partnerships and identify opportunities for service integration, efficiency and improvement.

2.0 **RECOMMENDATIONS**

2.1 **For members to note the current position and confirm their support to Melton Borough Council's continued support of collaborative efforts to improve public services within the area and county.**

3.0 **KEY ISSUES**

3.1 The District and Borough Councils in Leicestershire have a well established and strong partnership and are committed to work together for the benefits of the residents we serve. In July 2018, Leicestershire County Council announced their intention to explore the feasibility of establishing unitary local government within Leicestershire. The District and Borough Councils are committed to ensuring local government within Leicestershire is as effective and efficient as possible whilst also remaining connected and relevant to the communities they serve. Consequently an initial commitment was made by the Districts to review all structural and functional reform options so as to inform and influence the wider discussion.

3.2 In October 2018, following a meeting with the Secretary of State for Housing, Communities and Local Government, all 7 MPs in Leicestershire sent a letter to the leaders of the County and all District Councils. The letter set out that there is unanimous agreement amongst the MPs that now is not the time to launch a review of local authority structures in Leicestershire and they have called upon the County Council to cease their current review process and in so doing have suggested that the District and Borough Councils would no longer need to undertake their own parallel review work.

3.3 The MPs have advised that they feel no more public funds should be spent on this issue and that there are more pressing regional and national policy matters which should be the focus of our attention and resources over the next few months and years.

3.4 Given local government reorganisation requires parliamentary approval, and therefore the support of the MPs, it is clearly no longer necessary or appropriate to commission a review of existing local authority structures within Leicestershire and consequently all 7 District and Borough Councils have agreed not to undertake any further work exploring this.

3.5 The District and Boroughs do however continue to recognise that public funds are under pressure and that all public services have an obligation to deliver the best possible and most efficient services to our residents. Consequently the District and Borough Councils will continue to work collaboratively with our colleagues in the County Council, other public services and our MPs to ensure we can meet this ambition.

3.6 In line with their original commitment to work collaboratively, all 7 District and Borough Councils have agreed to commission a review of place based public services to consider how best to build strong and effective partnerships and explore opportunities to integrate services, reduce cost and improve impact.

4.0 POLICY AND CORPORATE IMPLICATIONS

4.1 This work contributes primarily to two of the Council's priorities:

OG1: Delivering quality services to business and residents, understanding what matters to our customers.

OG3: Becoming a more agile and commercial council; securing our financial future

5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS

5.1 The cost of the review will be shared between all 7 District and Borough Councils and it is anticipated will not exceed £5k per authority. The cost of this work can be contained within existing budgets.

6.0 LEGAL IMPLICATIONS/POWERS

6.1 Specific legal advice will be sought throughout any collaborative review work.

6.2 The unitary model was established under the *Local Government Act 1992*. There are two legislative powers which can enable single tier reform.

6.3 The first power is contained in the *Local Government and Public Involvement in Health Act 2007*. This gives the Secretary of State the power to invite any principal authority to make a proposal on single tier reform. On 1st November 2018, the Secretary of State for the Ministry of Housing, Communities and Local Government stated that the specific circumstances in which he would formally invite proposals "will be set out in due course". If a formal invitation is received, the Secretary of State will develop criteria upon which the proposals should be made which is likely to include the requirement to have broad cross section support for the proposals.

6.4 The second power is contained in the *Cities and Local Government Devolution Act 2016*. This allows the Secretary of State to make regulations prescribing the governance arrangements, the constitution or membership, or the structural and boundary arrangements for local authorities. This power allows the Secretary of State to make regulations which allows for the practicalities of transferring functions from district councils to the county council. The Secretary of State can currently make regulations without the consent of all relevant local authorities; however this power will expire on 31 March 2019. Therefore without the consent of Leicestershire District Councils from 31 March 2019, this power can not be used.

7.0 **COMMUNITY SAFETY**

7.1 There are no direct community safety implications, though any review of public sector reform will likely include consideration of the how the council works with other community safety partners, therefore it is possible any recommendations or proposals which emerge from this work could have wider community safety implications.

8.0 **EQUALITIES**

8.1 Undertaking an equality impact assessment is included within the scope of the work being commissioned.

9.0 **RISKS**

9.1

LIKELIHOOD

A	Very High				
B	High				
C	Significant				
D	Low		1		
E	Very Low				
F	Almost Impossible				
		Negligible 1	Marginal 2	Critical 3	Catastrophic 4

IMPACT

Risk No	Risk Description
1	Reviewing options for change has the potential to de-stabilise existing structures however local government is well used to and adept at change and therefore any consideration of new ways of working represent an opportunity to improve services.

10.0 **CLIMATE CHANGE**

10.1 There are no direct implications associated with climate change.

11.0 **CONSULTATION**

11.1 Consultation and engagement with key stakeholders will be considered as part of the review.

12.0 **WARDS AFFECTED**

12.1 Public sector reform has the potential to affect the way in which services are provided in all wards within the borough but as this stage the review is just about exploring and considering options.

Contact Officer Edd de Coverly

Date: 8th November 2018

Appendices :	N/a
Background Papers:	N/a