Open

Cabinet

Agenda

6pm
Tuesday, 27th March 2018
Council Chamber
Wyre Forest House
Finepoint Way
Kidderminster

Cabinet

The Cabinet Members and their responsibilities:-

Councillor M J Hart	**Leader of the Council & Strategy**
Councillor I Hardiman	**Deputy Leader & Planning & Economic Regeneration**
Councillor R J Vale	**Operational Services**
Councillor N J Desmond	**Resources**
Councillor J Smith	**Culture, Leisure & Community Protection**
Councillor C Rogers	**Housing, Health & Well-being**

Scrutiny of Decisions of the Cabinet

The Council has one Scrutiny Committee that has power to investigate policy issues and question members of the Cabinet who have special responsibility for a particular area of the Council's activities. The Cabinet also considers recommendations from this Committee.

In accordance with Section 10 of the Council's Constitution, Overview and Scrutiny Procedure Rules, and Standing Order 2.4 of Section 7, any item on this agenda may be scrutinised by the Scrutiny Committee if it is "called in" by the Chairman or Vice-Chairman of the Overview & Scrutiny Committee and any other three non-Cabinet members.

The deadline for "calling in" Cabinet decisions is 5pm on 10th April 2018.

Councillors wishing to "call in" a decision on this agenda should contact Lynette Cadwallader, Committee Services Officer, Wyre Forest House, Finepoint Way, Kidderminster. Telephone: 01562 732729 or email lynette.cadwallader@wyreforestdc.gov.uk

Urgent Key Decisions

If the Cabinet needs to take an urgent key decision, the consent of the Scrutiny Committee Chairman must be obtained. If the Scrutiny Committee Chairman is unable to act the Chairman of the Council or in his/her absence the Vice-Chairman of the Council, must give consent. Such decisions will not be the subject to the call in procedure.

Declaration of Interests by Members – interests of members in contracts and other matters

Declarations of Interest are a standard item on every Council and Committee agenda and each Member must provide a full record of their interests in the Public Register.

In addition, alongside the Register of Interest, the Members Code of Conduct ("the Code") requires the Declaration of Interests at meetings. Members have to decide first whether or not they have a disclosable interest in the matter under discussion.

Please see the Members' Code of Conduct as set out in Section 14 of the Council's constitution for full details.

Disclosable Pecuniary Interest (DPI) / Other Disclosable Interest (ODI)

DPI's and ODI's are interests defined in the Code of Conduct that has been adopted by the District.

If you have a DPI (as defined in the Code) in a matter being considered at a meeting of the Council (as defined in the Code), the Council's Standing Orders require you to leave the room where the meeting is held, for the duration of any discussion or voting on that matter.

If you have an ODI (as defined in the Code) you will need to consider whether you need to leave the room during the consideration of the matter.

For further information

If you have any queries about this Agenda or require any details of background papers, further documents or information you should contact Lynette Cadwallader, Committee Services Officer, Wyre Forest House, Finepoint Way, Kidderminster, DY11 7WF. Telephone: 01562 732729 or email lynette.cadwallader@wyreforestdc.gov.uk

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* Unless there are no reports in the open session.

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Wyre Forest District Council

Cabinet

Tuesday, 27th March 2018

Council Chamber, Wyre Forest House, Finepoint Way, Kidderminster

Part 1

Open to the press and public

Agenda item	Subject	Page Number
1.	**Apologies for Absence**	
2.	**Declarations of Interests by Members** In accordance with the Code of Conduct, to invite Members to declare the existence and nature of any Disclosable Pecuniary Interests (DPI's) and / or Other Disclosable Interests (ODI's) in the following agenda items and indicate the action that they will be taking when the item is considered. Please see the Members' Code of Conduct as set out in Section 14 of the Council's Constitution for full details.	
3.	**Minutes** To confirm as a correct record the Minutes of the meeting held on the 7th February 2018 and the minutes of the meeting of the Cabinet Sub-Committee held on 15th March 2018.	7
4.	**CALL INS** a verbal update will be given on any decisions which have been "called in" since the last meeting of the Cabinet.	
5.	**Items Requiring Urgent Attention** To consider any item which, in the opinion of the Chairman requires consideration at the meeting as a matter of urgency.	
6.	**Public Participation** In accordance with the Council's Scheme for Public Speaking at Meetings of Full Council/Cabinet, to allow members of the public to present petitions, ask questions, or make statements, details of which have been received by 12 noon on 19th March 2018 (See front cover for contact details).	

7.		
7.1	***Councillor N Desmond*** **Capital Strategy** To consider a report from the Corporate Director: Resources and the Corporate Director: Economic Prosperity and Place which provides Members with information on the new Investment Guidance and considers a Capital Strategy for 2018-21 that has regard to the requirements of the new investment guidance with particular reference to non-financial investments. To also consider the recommendations from the Overview and Scrutiny Committee from its meeting on 22nd March 2018 (to follow)	17
7.2	**Budget Monitoring Third Quarter 2017-18** To consider a report from the Corporate Director: Resources which briefs members on the Council's financial performance for the period ending 31st December 2017 and to present the current projected outturn position for the 2017-18 financial year.	77

8.		
8.1	***Councillor Ian Hardiman*** **Acquisition of Land in Broadwaters Ward** To consider a report from the Property and Investment Manager which seeks support for the Council to acquire a vacant parcel of land at Radford Avenue/Horsefair in Kidderminster, using its compulsory purchase powers if necessary, to enable the bringing forward of a development scheme at a prominent gateway position within the Horsefair. To also consider the recommendations from the Overview and Scrutiny Committee from its meeting on 1st March 2018	93
8.2	**Acquisition of Land in Areley Kings and Riverside Ward and Procurement of a Development Partner** To consider a report from the Property and Investment Manager which requests that the Council consider the future use of a Compulsory Purchase Order to acquire land and agree the identification and selection of a Development Partner that the Council can work with to deliver housing. To also consider the recommendations from the Overview and Scrutiny Committee from its meeting on 1st March 2018	106

9.	**To consider any other business, details of which have been communicated to the Solicitor to the Council before the commencement of the meeting, which the Chairman by reason of special circumstances considers to be of so urgent a nature that it cannot wait until the next meeting.**	
10.	**Exclusion of the Press and Public** To consider passing the following resolution: "That under Section 100A(4) of the Local Government Act 1972 the press and public be excluded from the meeting during the consideration of the following item of business on the grounds that it involves the likely disclosure of "exempt information" as defined in paragraph 3 of Part 1 of Schedule 12A to the Act".	

Part 2

Not open to the Press and Public

11.		
11.1.	***Councillor Ian Hardiman*** **Acquisition of Land in Broadwaters Ward** Exempt Appendix 3.	-
11.2.	**Acquisition of Land in Areley Kings and Riverside Ward and Procurement of a Development Partner** Exempt Appendix 3.	-
11.3.	**Lion Fields Parcel Two – Former Magistrates Court – Development Proposals** To consider a report from the Head of Economic Development and Regeneration – North Worcs which agrees the development strategy for Parcel Two of the Lion Fields site. **To also consider the recommendations from the Overview and Scrutiny Committee from its meeting on 22nd March 2018 (to follow)**	-
12.	**To consider any other business, details of which have been communicated to the Solicitor to the Council before the commencement of the meeting, which the Chairman by reason of special circumstances considers to be of so urgent a nature that it cannot wait until the next meeting.**	

WYRE FOREST DISTRICT COUNCIL

CABINET

COUNCIL CHAMBER, WYRE FOREST HOUSE, FINEPOINT WAY, KIDDERMINSTER

7TH FEBRUARY 2018 (6.30PM)

Present:

Councillors: M J Hart (Chairman), N J Desmond, I Hardiman, C Rogers, J D Smith and R J Vale.

Observers:

Councillors: N Knowles, F M Oborski MBE and J A Shaw.

CAB.69 Apologies for Absence

Apologies for absence were received from the Chairman of the Overview and Scrutiny Committee, Councillor H Dyke.

CAB.70 Declarations of Interests by Members

No declarations of interest were made.

CAB.71 Minutes

Decision: The minutes of the Cabinet meeting held on 19th December 2017 be confirmed as a correct record and signed by the Chairman.

CAB.72 Call Ins

No decisions had been called in since the last Cabinet meeting.

CAB.73 Items Requiring Urgent Attention

There were no items requiring urgent attention.

CAB.74 Public Participation

There was no public participation.

CAB.75 Results of Budget Consultation, Alternative Budgets and Recommendations from the Cabinet Financial Strategy Advisory Panel

A report was considered from the Corporate Director: Resources which fed back the results of the budget consultation exercise which was launched following the presentation of the Financial Strategy 2018/21 to Cabinet on 19th December 2017, alternative budget proposals from the Labour Party and the Independent and Liberal Democrat Group and set out the recommendations from the Cabinet Financial Strategy Advisory Panel from its meeting on 30th January 2018.

The Cabinet Member for Resources presented the report and advised that 260 respondents had been received to the budget consultation. He was delighted to report that overall excellent feedback had been received across the 8 questions which were asked. He added that in response to question 2, 85% of the respondents strongly support / support increasing the target for income generation, and in relation to the question regarding the 1.94% increase in the District Council part of the Council Tax bill in 2018/19 to safeguard front line services, 62% of the respondents strongly support / support the proposal.

The Cabinet Member for Resources thanked the Labour Party and Independent and Liberal Democratic Group for submitting alternative budget proposals for consideration. He thanked all the opposition groups for their participation in the Cabinet Financial Strategy Advisory Panel, and formally moved the recommendations as set out in the report.

The Leader of the Council seconded the recommendations. He said he was disappointed that not more people had responded to the budget consultation. However the 260 responses which had been received were all valid and he thanked those who had responded. He was confident that the proposals the Cabinet were making were supported by the public at large, and was clearly demonstrated through the responses received in terms of supporting and strongly supporting. He added that increasing council tax was never a popular decision to make. However there was a clear majority of support for the modest increase which had been proposed. He thanked the Cabinet Member for Resources for chairing the Cabinet Financial Strategy Advisory Panel and all of the Members from across the political spectrum for playing an active part in the Panel.

Decision: In line with the recommendations of the Cabinet Financial Strategy Advisory Panel the results of the budget consultation exercise and the alternative budget proposals as detailed with the report and appendices be noted.

CAB.76 Medium Term Financial Strategy 2018/21

A report was considered from the Corporate Director: Resources which provided an update on the Medium Term Financial Strategy 2018/21 and made recommendations to Council on the proposed budget decision. It also asked for consideration of the report of the Corporate Director: Resources in respect of statutory duties placed on Local Authority Chief Financial Officers in relation to budget setting and monitoring.

The Cabinet Member for Resources presented the report and outlined the updated position since the December 2017 meeting. He advised Members that the Council Tax base for 2018/19 had been confirmed and was pleased to report that that there had been a rise of 424 properties across Wyre Forest which was an increase of 1.3% on the previous year. He added that this would generate a further additional Council Tax income of £89,000 in 2018/19.

He confirmed that the Central Government's provisional Local Government Finance Settlement figures which had been released in December 2017 had not changed, and the New Homes Bonus threshold had remained at 0.4%

which would benefit the authority to the sum of £73,000. He added that over the Medium Term Financial Strategy, the Council's reserves would increase from £1.6m which was reported in December 2017, to £2m which was very good news.

The Cabinet Member for Resources advised that another notable change to the December report was the creation of a one-off £250,000 capital fund to support income generation and commercial activity. He added that income generation had become a key cornerstone in the budget strategy and in order for the authority to become more commercially minded, the creation of the fund would enable Officers to act more swiftly to commercial opportunities when they arise and would speed up the decision making process. He said that the proposal was to set up a Commercial Activity Programme Board which would be chaired by the Corporate Director: Community Well-being and Environment, and would include other appropriate Officers and relevant Cabinet Members. The Board would ratify and approve business cases which would have to demonstrate that they were generating further and better income. He confirmed that all Members of the Council would be fully updated on how the fund were being spent. He formally moved the recommendations as set out in the report.

The Leader of the Council seconded the recommendations and stated he was proud to support the proposals put forward by the administration. He welcomed the news that the authority would have reserves of £2m at the end of the Medium Term Financial Strategy and hoped that the Section 151 Officer agreed that it was a sound financial position for the Council to be in.

In response to question from Councillor Knowles relating to the use of local business rates to help reduce the £1.6m funding gap, the Cabinet Member for Resources said that the authority now had a system where income was received on the growth element over the base line (26p in every £1), and providing the authority continued to attract new businesses into the Wyre Forest District, and the base line was met, any growth above the base line would contribute a small percentage towards reducing the funding deficit.

Decision: The CABINET having re-considered the Financial Strategy 2018-21, the results of the Budget consultation exercise and recommendations of the Cabinet Financial Strategy Advisory Panel RECOMMENDS TO COUNCIL that it:

1.1 <u>THREE YEAR BUDGET, CAPITAL PROGRAMME AND POLICY FRAMEWORK 2018-21</u>

1.1.1 APPROVES the updated Medium Term Financial Strategy 2018-21;

1.1.2 APPROVES the Cabinet Proposals – taking into account the impact on the Council's Capital and Revenue Budgets for 2018-21 as shown in paragraph 3.19 including:

a) Approval of a further tranche of £1.757m capital investment required for the refreshed ICT Strategy to be added to the capital programme as set out in Appendix 3 of the

December report;

b) Approval of the Community Leadership Fund for 2018-19 of £33,000;

c) Approval of a further Localism Fund allocation of £50,000 in 2018-19.

d) Approval of funding to allow the current level of Community Safety staffing to be maintained for 2018-19 while a review of all options is undertaken taking into account the Police and Crime Commissioner's (PCC) position regarding future funding strategies.

e) Approval of a further tranche of Wyre Forest Forward Efficiency Savings of £50k in 2018-19, £175k in 2019-20 and £400k in 2020-21.

f) Approval of an additional income generation targets of £50k in 2018-19, £75k in 2019-20 and £100k in 2020-21.

g) Approval of capital funding of £38k for the replacement of the Spennells Valley Boardwalk funded from the unused Leisure Centre contingency.

h) Approval of capital funding of £250k in 2018-19 to support a more commercial approach for income generation. Specific allocations from this generic capital funding pot to be delegated for approval to the Director of Community and Well-Being in consultation with the Commercial Activity Programme Board and Section 151 Officer see paragraphs 3.13 – 3.17 and also paragraph 1.1.6 below.

1.1.3 APPROVES the fees and charges in line with this Strategy and the impact on the Council's Revenue Budget for 2018-21, as shown in Appendix 3- Part 3;

1.1.4 APPROVES the Capital Programme and Vehicle, Equipment and Systems Renewal Schedule as set out in Appendix 2, Parts 1 and 2;

1.1.5 APPROVES that any Final Accounts savings arising from 2017-21 over and above the target allowed for in the Council's Financial Strategy, together with surplus Earmarked Reserves, be allocated by the Corporate Director: Resources in consultation with the Leader;

1.1.6 APPROVES that allocations from the Commercialism Capital Fund proposed at 2.1.2 (h) above is DELEGATED to Director of Community Well- Being and Environment in consultation with the Commercial Activity Programme Board and the Section 151

Officer to agree the viability of each business case;

1.1.7 The General Fund Revenue Budget be APPROVED including all updates from the position in December 2017 as set out in this report.

1.2 COUNCIL TAX

1.2.1 SETS the Council Tax for Wyre Forest District Council on a Band D Property at £209.34 for 2018-19 (£205.36 2017-18) which represents an increase of 1.94% on Council Tax from 2017-18.

1.2.2 ENDORSES the provisional Council Tax on a Band D Property in 2019-20 of £213.40 and £217.54 in 2020-21, being an increase of 1.94 % in both years.

1.2.3 APPROVES the proposal to increase Council Tax charge for dwellings empty for more than 2 years from 100% to 150% with effect from 1st April 2018 as per paragraph 5.3;

1.2.4 NOTES the Director of Resource's (as Chief Financial Officer) opinion on the budget proposals, recommended by the Cabinet in this report, as detailed in Appendix 4 of this report.

1.3 The Cabinet APPROVED:

1.3.1 Delegated authority be given to the Corporate Director: Resources, in consultation with the Cabinet Member for Resources and Leader of the Council, to make any appropriate adjustments to the General Fund Revenue Budget recommended under paragraph 1.1.7 above, as a result of Central Government confirming the final Local Government Finance Settlement, including final New Homes Bonus Allocations and associated Specific Grants for 2018-19.

1.3.2 The additional schedules of Fees and Charges as set out in Appendix 4- Parts 1 and 2.

CAB.77 Evaluation of Measured Term Contract(s) for Building Maintenance

A report was considered from the Corporate Director: Economic Prosperity and Place which sought approval for the tender evaluation model proposed for the procurement of Measured Term Contracts for General Building Maintenance, Electrical Services and Civil Engineering works.

The Cabinet Member for Planning and Economic Regeneration led Members through the report and advised that the Council's existing Building Maintenance Contract for planned and reactive maintenance of the Council's property portfolio expired on the 31st August 2018.

He said that in order to ensure that the Council's property assets continued to be maintained it was essential that new repairs and maintenance contract(s) were entered into. He added that the scope of the contract(s) would cover planned and reactive maintenance and would now provide inclusion for civil engineering work which was previously procured on an 'as required' basis.

He confirmed that as the as the combined contract value was estimated to be approximately £1,000,000, the procurement was being carried out in accordance with the Public Contracts Regulations 2015, which was subject to a strict procurement timetable. The Tender would be advertised on the Official Journal of the European Union (OJEU).

The Cabinet Member for Planning and Economic Regeneration said it was essential for the new contract(s) to be in place to commence on 1st September 2018 to enable continuity of provision of a repairs and maintenance service to the Council's property portfolio. He formally moved the recommendations as set out in 2.1 of the report.

The Leader of the Councillor seconded the recommendations. He said that it was a timely reminder of how important it was for the authority to procure this type of services in a proper manner. He was pleased by the proposal to split the procurement of building maintenance services into 4 lots which would provide competitiveness of costs and generate maximum interest in the tender and encourage large or smaller companies to submit a tender for their specialist area.

Decision: The procurement and tender evaluation model contained in Appendix 1 of the report be approved and delegated authority be given to the Director of Economic Prosperity & Place in consultation with the Cabinet Member for Planning & Economic Regeneration the award of the contract(s), in line with the approved evaluation model.

CAB.78 Community Led Housing Pledge

The Cabinet Member for Planning and Economic Regeneration presented a report which shared the progress on the Community Led Housing (CLH) and asked for agreement to the CLH Pledge and related policy.

He advised that in December 2016 and March 2017 the Council received a grant of £191,250 from the then Department for Communities and Local Government (dCLG) called the Community Housing Fund, which was paid in two tranches. The fund was paid to148 local authorities where there were issues of affordability and/ or a high density of second homes. Within Worcestershire, Malvern Hills and Wychavon District Councils also received an allocation.

The Council developed a proposal of how to utilise the funding, which was agreed by the dCLG and recruited a Community Led Housing Co-ordinator in 2017 to develop a range of approaches to support the growth of CLH within the District. The resources are primarily aimed at promoting CLH, helping communities to undertake housing schemes and to equip them with the support they may need.

He added that delivery of increased housing numbers is a key priority for the Government with the current target of 250,000 likely to rise in the coming years. The Government is keen to see the CLH supply grow over future years and make a contribution towards the overall target. Within Wyre Forest, the Local Plan Review and Worcestershire Housing Partnership Plan are both supporting a rise in housing numbers to meet housing need.

Crucially, for Local Authorities, there will not be any more grants directly allocated. However Officers understand that it would be possible for Councils to bid for funding alongside other organisations such as Registered Providers. Therefore it is important that the Council can demonstrate its on-going commitment to CLH and take up opportunities to work collaboratively and so the Pledge was an appropriate mechanism for doing this.

He noted that the Overview and Scrutiny Committee recommended approval of the report at its meeting on 1st February 2018 and formally moved the recommendations, which were seconded by the Leader of the Council.

Decision: In line with the recommendations from the Overview and Scrutiny Committee, 1st February 2018:

1.1 The principles of Community Led Housing be supported; and

1.2 the Community Led Housing Pledge and related policy be agreed.

CAB.79 Establishing a Group Structure of Local Authority Trading Companies

A report was considered from the Corporate Director: Economic Prosperity and Place with set out the Final Business Case (FBC) for establishing a group structure of Local Authority Trading Companies (LATCs).

The Leader of the Council presented the report and moved the recommendations for approval. He advised that the LATC concept was being adopted by Local Authorities across the Country. He added that the Council continued to look at new and innovative ways of working to support its corporate objectives to support the regeneration of the District, create job opportunities and to diversify and support the supply of new housing.

He said that to enable the Council to reinvest in the District and provide revenue generating schemes, the Council needed to be pro-active and look at the best way to do that from a financially and tax efficient way. It was unlawful for the Council to make a profit on its activities. Setting up a LATC is the legitimate structure to achieve this and he outlined the governance arrangements for the group structure.

The Cabinet Member for Resources was delighted to second the recommendations. He said that as a Council this had been discussed over many years and he was pleased that it was now progressing as it was the vehicle to enable the Council to achieve its corporate objectives and maximise the funds available.

Decision: In line with the recommendations from the Overview & Scrutiny Committee, 1st February 2018:

1.1 The Full Business Case for establishing a Group Structure of Local Authority Trading Companies and to proceed to the formation of the proposed Holding and Development Companies at Companies House under the Companies Act 2006 be agreed;

1.2 The finalisation of the Articles of Association and Shareholders Agreements for all the trading companies, be delegated to the Corporate Director: Economic Prosperity & Place in consultation with the Solicitor to the Council, the basis of which is contained in Appendices 5 & 6 of Appendix 1 to the report.

1.3 Delegated authority be given to the Corporate Director: Economic Prosperity & Place in consultation with the Solicitor to the Council and the Leader of the Council to make appointments to the Boards of the companies in accordance with the Articles of Association and Shareholder Agreement and to appoint an Independent Chairman to the Holding Company;

1.4 The schedule of responsibilities for decision taking set out in Appendix 7 of Appendix 1 to the report be agreed;

1.5 Delegated authority be given to the Corporate Director: Economic Prosperity & Place in consultation with the Corporate Director: Resources and the Solicitor to the Council authority to agree and/or implement any other matter expedient to the establishment of the companies.

1.6 All future Right to Buy receipts received from The Community Housing Group are directed to the Evergreen Investment Fund for use in supporting investments and the development of new residential properties either by the Council or through the companies be agreed.

RECOMMEND TO Council:

1.7 That the allocation of Right to Buy receipts identified at 1.6 above be agreed for use through the Evergreen Investment Fund to support investments and new residential developments undertaken by the Council or through its companies.

There being no further business, the meeting ended at 6.47pm.

WYRE FOREST DISTRICT COUNCIL

CABINET SUB-COMMITTEE

KIDDERMINSTER/ROCK ROOM, WYRE FOREST HOUSE, FINEPOINT WAY, KIDDERMINSTER

15TH MARCH 2018 (5.00 PM)

Present:

Councillors: I Hardiman (Chairman), M J Hart, R J Vale..

Observers:

There were no members present as observers.

CABSC.01 Apologies for Absence

There were no apologies for absence.

CABSC.02. Declarations of Interests by Members

No declarations of interest were made.

CABSC.03. Exclusion of Press and Public

Decision: "Under Section 100A(4) of the Local Government Act 1972 the press and public be excluded from the meeting during the consideration of the following items of business on the grounds that they involve the likely disclosure of "exempt information" as defined in paragraphs of Part 1 of Schedule 12A to the Act.

CABSC.04. Investment Proposal

The Sub-Committee considered a confidential report which set out a proposed investment using the Council's Capital Portfolio Fund.

The Property and Investment Manager led Members through the report. He provided the background to the investment opportunity, including its location, condition and valuation.

An in depth discussion ensued and the members of the Sub-Committee asked The Property and Investment Manager a number of questions.. The proposal was moved and seconded and was unanimously carried.

Decision:

1.1 **To agree the business case for the purchase of the Investment proposal ("the Property") subject to the existing leases.**

1.2 **To delegate authority to the Corporate Director: Economic Prosperity & Place in consultation with the Corporate Director: Resources, the Solicitor to the Council and the Cabinet Member for Planning & Economic Regeneration to determine the Council's final offer for the purchase of the property following review of the building condition survey and the legal documentation.**

1.3 **To delegate authority to the Corporate Director: Economic Prosperity & Place in consultation with the Solicitor to the Council authority to conclude the purchase of the property if the offer is accepted.**

The meeting closed at 5.30pm.

WYRE FOREST DISTRICT COUNCIL

CABINET MEETING
27th MARCH 2018

CAPITAL STRATEGY 2018-21

OPEN	
CABINET MEMBERS:	Councillor Nathan Desmond Cabinet Member for Resources and Councillor Ian Hardiman, Cabinet Member for Planning and Economic Regeneration
RESPONSIBLE OFFICERS:	Tracey Southall: Corporate Director: Resources and Mike Parker, Corporate Director: Economic Prosperity and Place
CONTACT OFFICERS:	Tracey Southall Ext 2100 e-mail tracey.southall@wyreforestdc.gov.uk Mike Parker Ext 2500 e-mail mike.parker@wyreforestdc.gov.uk
APPENDIX 1 **APPENDIX 2** **APPENDIX 3** **APPENDIX 4**	Quantitative Indicators for assessment of risk exposure Strategy for the Capital Portfolio Fund Capital Strategy/Scheme of Delegation The Role of the Section 151 Officer

1. PURPOSE OF REPORT

1.1 To provide members with information on the new Investment Guidance issued in early February 2018 by the Ministry for Housing, Communities and Local Government (MHCLG).

1.2 To seek Council approval of a Capital Strategy for 2018-21 that has regard to the requirements of the new investment guidance with particular reference to non-financial investments. This provides new guidance for property investments and loans outside the treasury management function; for the avoidance of doubt, this guidance also covers loans made by a local authority to one of its wholly-owned companies or associates, to a joint venture, or to a third party.

1.3 To seek approval of set limits for non financial investments.

1.4 To fulfil the key requirements of the new Investment Guidance.

2. RECOMMENDATIONS

2.1 The **CABINET RECOMMENDS TO COUNCIL** that it:

2.1.1 Approve the Capital Strategy 2018-21 including the associated Quantitative Indicators in Appendix 1 and the updated Strategy for Capital Portfolio Fund set out in Appendix 2:

2.1.2 Approve the limits for gross debt of non treasury investments compared to net service expenditure and for commercial income as a percentage of net service expenditure as set out in Appendix 1;

2.1.3 Approve the limits for loan investments as set out in Section 5.1.

3. BACKGROUND

3.1 Ownership of the Capital Strategy sits at the highest level - corporately with members and key officers. It is a primary document for all capital decision making, together with the Corporate Plan and other strategies

3.2 The Ministry for Housing, Communities and Local Government (MHCLG) issued new statutory Guidance on Local Government Investments in early February 2018. One of the key requirements of this new Guidance is the requirement for a Capital Strategy including a number of additional disclosures for non-financial investments to be approved by Full Council. These disclosures include the requirement for Council to agree set limits that cannot be exceeded for gross debt compared to net service expenditure and for commercial income as a percentage of net service expenditure. This impacts on this Council's approved policies for the £25m Capital Portfolio Fund and the £10m Development Loans Fund. Officers have spent the last 12 months working to put all due diligence processes in place and are actively developing proposals for presentation to Members. A Capital Report is already produced annually as part of the Medium Term Financial Strategy (MTFS) and the Strategies for the Capital Portfolio Fund and Loans to Third Parties (now renamed Development Loans Fund) were approved by Cabinet on 14th June 2017; these documents cover many but not all of the requirements in the new Investment Guidance. A new, more comprehensive Capital Strategy is now necessary to ensure the linkages between the separate policies is transparent and to meet the additional requirements of the new Guidance and is presented for approval in this report.

3.3 Strategic Context

3.3.1 This strategy is a high level summary of WFDC's approach to capital investment in the future of the district. It guides the development of service capital plans, and sets out the policies and practices that the authority uses to establish monitor and manage the Council's capital programme, in line with the Medium Term Financial Strategy. The Capital Strategy will take account of both local improvement priorities and national priorities that are established through effective consultation with residents and our partners; as well as recognising the contribution the Council makes within the Local Enterprise Partnership (LEP) geographies of which it is a member. These priorities inform resource allocation. Progress on achieving these objectives is closely monitored in accordance with the performance framework.

3.3.2 The Council's Wyre Forest Forward transformation programme is a key strategic document for the period 2018-2021. The Transformation Programme is being developed to meet the anticipated significant reduction in Government Funding. Its key objectives are to help the Council become non reliant on this source of funding, through reduced expenditure and increased income, but also to continue to provide its statutory services, protect its most vulnerable residents and focus investment on delivering economic development to the District.

The non treasury investment strategies for the Capital Portfolio Fund and Development Loans Fund are part of the transformation Programme forming a key part of the MTFS for 2017-20. Whilst they will not alone close the funding gap this Council continues to face they can make a proportionate contribution to achieving ongoing financial sustainability. The modest assumptions so far have reduced the funding gap by £136k or around 10% in 2020-21 and this could potentially contribute another circa £410k savings so a further 26% towards closing the remaining funding gap. Whilst there is undoubtedly risk attached to the progression of these strategies, the greater risk to our financial future is to do nothing. Risk analysis is set out and explored in detail as part of this report.

The diagram below shows how this Capital Strategy fits into the overall Strategic Planning Model for the Council.

3.4 **Strategic Links**

This report links to a number of other key strategies and approvals as follows:

- the Treasury Management Service Strategy (TMSS) 2018-19 approved by Council on 21st February 2018 that covers financial investments
- The Medium Term Financial Strategy 2018-21 including the Capital Programme Report Appendix 6 considered by Cabinet on 19th December 2017 and 7th February 2018 and approved by Full Council on 21st February 2018
- Approval of Cabinet Proposals for a £25m Capital Portfolio Fund and £10m Loans to Third Parties (now renamed Development Loans Fund) by Council as part of the MTFS 2016-19 on 22nd February 2017
- The Strategies for the Capital Portfolio Fund and Loans to Third parties approved by Cabinet on 14th June 2017
- Approval Process for Capital Portfolio and Loans to Third Parties approved by Cabinet 20th September 2017 and process for Scrutiny of business cases in respect of the Capital Portfolio Fund and Development Loan Fund approved by Overview and Scrutiny Committee 5th October 2017
- The Strategic Asset Management Plan (SAMP) approved by Council 2016
- The Enabling Enterprise and Business Growth In Wyre Forest strategy adopted in 2016
- ReWyre Initiative and Kidderminster Regeneration Prospectus adopted in 2009 and ReWyre ReNewed adopted in 2014.
- Greater Birminghan & Solihull LEP Strategic Economic Plan 2016-30 ‘A Greater Birmingham for a Greater Britain’ 2016
- Worcestershire LEP Strategic Economic Plan 2014-2024 ‘World Class Worcestershire’ 2014
- Corporate Plan 2014-19, Key Priorities and Local Plan Core Strategy 2006-2026

3.5 **The MHCLG Guidance gives the following definition of an investment:**

“The definition of an **investment** covers all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations.

For the avoidance of doubt, the definition of an investment also covers loans made by a local authority to one of its wholly-owned companies or associates, to a joint venture, or to a third party. “

Treasury Management investments are covered in the TMSS that was approved by Council on 21st February 2018. This Capital Strategy clearly links to, and is complementary to this key strategy document as the non treasury investments being the Capital Portfolio Fund and Development Loans Fund already approved by Council on 22nd February 2017, are included in the Capital Financing Requirement (CFR) and within the Operational Boundary and statutory Authorised

Limit for prudential borrowing. The Treasury Management Practices (TMPS) are also in the process of revision to include non treasury investments. The separate Strategies for the Capital Portfolio Fund and Loans to Third Parties set out specific detail including reporting, risk and governance of these non treasury investments; the Capital Portfolio Fund Strategy is updated in Appendix 2.

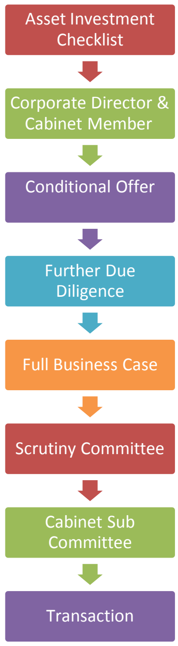
3.6 **Effective Date for Implementation**

3.6.1 MHCLG has set an effective date of 1st April 2018 for implementation of the revised Investment Guidance but have acknowledged that due to the publication so late in the annual planning process, Councils will take Capital Strategies as soon as reasonably possible. Detailed understanding and interpretation of the Guidance continues to emerge and this initial Strategy will be further developed for the 2019-22 report. However, since this Guidance comes just as plans to start spending the £35m approvals are being actively progressed it is important Members are provided with information on the new requirements. This is to ensure there is due regard to the new Guidance with increased focus on the potential exposure to risk in terms of proportionality to the overall financial strength of the Council

3.7 **Reporting Requirements**

3.7.1 The Council is required to receive and approve, as a minimum a Capital Strategy report once a year which incorporates a variety of polices, estimates and actual and meets the requirements of the MHCLG Guidance. The Strategy will be considered by the Overview and Scrutiny Committee before presentation to Cabinet and then onward recommendation to Council. The Treasury Management Review Panel will continue to be used for treasury management investments but the separate reporting and governance arrangements approved by Cabinet on the 20th September 2017 will be followed for non treasury investments. These are summarised in the diagram below:

Process Flow for Governance Process for Non Treasury Investments - Capital Portfolio Fund (note a more detailed process flow is included in Appendix 2)



3.7.2 This Capital Strategy will be reviewed and updated on an annual basis. This will ensure the strategy maintains strong and current links to the Council's priorities and to its key strategy documents as set out in 3.4 Strategic Links including consistency with the Medium Term Financial Strategy and the Corporate Plan.

3.7.3 The Strategy focuses on core principles that underpin the five year capital programme as presented in the draft budget report. It has regard to the requirements of the new MHCLG Investment Guidance therefore including investments that are not managed as part of normal treasury management processes or under treasury management delegations. It gives a position statement with regards to capital expenditure and the resources available in terms of funding for these non treasury policies. The Strategy focuses on the key issues and risks that will impact on the delivery of the Capital Portfolio Fund and Development Loans Fund Strategies and the governance framework required to ensure the overall Capital Strategy is delivered.

3.8 Capital Strategy for 2018-21

The strategy for 2018-21 covers the following mains areas:

1. Capital Issues

- The Council's Capital Programme is under-pinned by the borrowing strategy contained in the approved Treasury Management Service Strategy, the Property Disposal Strategy and also the Capital Portfolio and Development Loans Fund Strategies.

2. Disclosure and reporting requirements required by the Statutory Guidance on Local Government Investments

- Limits for non treasury investments
- Agreement of the types of loan to be made and self assessed limit that cannot be exceeded for such loans
- Agreement of the types of property investments to be made and self assessed limit for total exposure to these investments;
- Definition of types of contribution non-financial investments can make for this Council;
- Processes and procedures for how risk assessment will be managed including security, debt recovery, liquidity and performance monitoring;
- How balance is achieved between Security, Liquidity and Yield based on risk appetite and contributions of investment activities;
- Set out quantitative Indicators to help measure total risk exposure in terms of proportionality;
- Capacity, skills and culture including policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003 and the MHCLG Guidance on Local Authority Investments

4 KEY ISSUES

4.1 CAPITAL PROGRAMME REPORT –

The Capital Strategy explains how we will manage our capital resources to deliver our current and foreseeable capital programme.

The December 2017 MTFS Cabinet report considered the Capital Programme 2017-18 onwards in Appendix 6 that set out the detail to support the recommendations within the main Budget report. This can be found at http://www.wyreforest.gov.uk/council/docs/doc52595_20171219_cabinet_agenda.pdf (pages 117 -127). This report forms part of this overall Capital Strategy for 2018-21; in future years the Capital Report will be integrated with the annual Capital Strategy Report.

4.2 CORE PRINCIPLES OF CAPITAL STRATEGY INCLUDING NON FINANCIAL INVESTMENTS

Core principles of this Council's Capital Strategy can be summarised as follows:

Table 1 – Core Principles

Principle 1 – Managing the impact of investment decisions on our revenue budgets
We will do this by:
• Ensuring capital investment decisions do not place unnecessary additional pressure on Council Tax or our MTFS

• Taking investment decisions that generate an appropriate rate of return to cover costs of funding within an acceptable risk range as set out in the Capital Portfolio and Development Loans Fund Strategies, whilst ideally also meeting Corporate Priorities
• Purchase rather than leasing vehicles such as the refuse fleet with programmes for replacement that maximise efficiency and minimise revenue budget costs
• Promote capital investment which allows invest to save outcomes and which contribute to the Council's Corporate priorities and complement the Wyre Forest Forward Transformation programme .
• Focus on Resources and spending programmes the Council will use to maximise the use and financial return on assets within an acceptable risk appetite
• Have a defined framework for the management of risk for investments that applies the Security, Liquidity, Yield principles and considers longer term risks and opportunities.
• Have appropriate exit strategies and contingency plans in place to protect the Council's long term position including maintaining appropriate risk reserves
Principle 2 – Optimise the availability of capital funding where that funding supports the priorities of WFDC
We will do this by:
• Disposal of surplus assets and use them to reinvest via the Evergreen Investment Fund, using them to supplement prudential borrowing to expedite delivery of capital schemes in line with Corporate priorities.
• Effective working relationships with potential funders including the Worcestershire and GBSLEPs and through our Limited Liability Partnership with Public Sector Plc (PSP)
• Listen to and support effective partnering arrangements
• Generating capacity within the services' revenue budgets to deliver ongoing contributions towards necessary capital investment.
• Have clear policies for the consumption of our reserves
Principle 3 – Ensure we have effective pre and post project appraisal
We will do this by:
• Developing projects that fully support the council's Corporate Priorities and Wyre Forest Forward Programme
• Ensuring a system of competition exists for project/loan approval
• Build into project appraisal recognition of environmental sustainability
• Fully consider project risk
• Carefully consider Value for Money and Efficiency of every project
• Only adding schemes once an affordable business plan is in place
Principle 4 – Performance manage our capital programme
• Integrating the capital programme into our performance management framework

• Ensure our capital schemes use appropriate project management tools
• Expect responsibility for the delivery of the capital programme to be clearly defined
• Make sure our assets perform at an optimal level through effective ongoing asset management, consistent with levels of investment
• Reporting regularly on the performance of our property and non treasury portfolios including updates on risk and recommendations for appropriate mitigation measures.

Key Objectives for non-treasury capital portfolio property investments are:

- Acquire properties that provide investment value in accordance with the Council's corporate and financial objectives,
- Maximise return whilst minimising risk through the management processes as outlined in this strategy,
- Prioritise properties that yield optimal rental growth and stable income,
- Protect capital invested in acquired properties
- Work within the developed governance framework that enables the Council to move at a timely pace in line with the market
- Build a balanced property portfolio that is proportionate to the overall financial position of the Council

5 LIMITS FOR NON-TREASURY INVESTMENTS FOR 2018-21

5.1 LOAN TYPES AND SELF ASSESSED LIMIT FOR SUCH LOANS

Council on the 22nd February 2017 approved the £10m Loans to Third Parties (now renamed Development Loans Fund) as part of the MTFS. The detailed Strategy for the loans to third parties was subsequently approved by Cabinet on 14th June 2017; this set out types of loan that can be made and the detail in relation to the approval process. This Strategy will be refreshed when the Fund Management Agreement to deliver this initiative is in place. The current limit for expenditure on the Development Loans Fund is £10m to be funded in full from prudential borrowing. The Council is in the final stages of appointment of a Fund Manager to manage these loans and the plan is that loan durations are kept short to pump prime investment projects within the district that would not be supported by high street banks with the optimum loan period being 3 -5 years and the longest duration being up to 15 years. These relatively short durations will hopefully negate the need for a Minimum Revenue Provision to be made as the repayment of the funds will repay debt and thus make the proposals affordable. However, a prudent view that MRP will be levied for all loans has been taken in the business case for this proposal. The MHCLG recommended limit for debt compared to net service expenditure (NSE) is presented below, together with debt compared to gross service expenditure. These ratios are based on the current expenditure profiling for these loans included in the Capital Programme; **approval is requested for the upper limit in 2020-21** to provide cover if suitable loan applications are received at a faster pace than currently projected.

Development Loans Debt to gross and net service expenditure (GSE and NSE)		2018-19	2019-20	2020-21
DEBT TO GROSS SERVICE EXPENDITURE RATIOS				
Non treasury development loans investments debt to gross service expenditure (GSE) ratio	*Gross debt of non treasury development loans investments as a percentage of gross service expenditure, where gross service expenditure is a proxy for the size and financial strength of a local authority.*	11.94%	19.84%	19.95%
DEBT TO NET SERVICE EXPENDITURE RATIOS				
Non treasury development loans investments debt to net service expenditure (NSE) ratio	*Gross debt of non treasury development loans investments as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.*	50.66%	85.07%	86.45%

The limit for debt compared to NSE looks high since this is comparing the total gross debt for these loans classed as capital expenditure to the net revenue budget. As the financing costs in relation to such debt would be borne by the revenue budget rather than 100% of the debt at any one time, and debt will only be taken subject to affordability, with due regard to risk, this limit is considered to be acceptable.

However, Net Service Expenditure may not be the best measure of the Council's financial strength and for this reason a number of other quantitative ratios are also included in Appendix 1 to provide additional transparency around the potential risk of this proposal. Key indicators from this Appendix are also included in Section 7.4.1 and demonstrate that the Development Loans Fund planned capital expenditure is a relatively modest proportion of the total Balance Sheet Property Plant and Equipment and the total Capital Financing Requirement. The financing costs are also a small proportion of total NSE.

5.2 TYPES OF PROPERTY INVESTMENTS TO BE CONSIDERED AND SELF ASSESSED LIMIT FOR TOTAL EXPOSURE

Council on the 22nd February 2017 approved £25m Capital Portfolio Fund. The detailed Strategy for the Capital Portfolio Fund was subsequently approved by Cabinet on 14th June 2017 and is now updated in Appendix 2 of this report; this sets out the types of property investment to be considered. The current limit for expenditure on the Capital Portfolio Fund is £25m to be funded in full from prudential borrowing. The MHCLG recommended limit for debt compared to net service expenditure is presented below, together with debt compared to gross service expenditure. These ratios are based on the current expenditure profiling for Capital Portfolio purchases included in the Capital Programme; **approval is requested for the upper limit in 2020-21** to provide cover if suitable acquisition opportunities are identified at a faster pace than currently projected.

A number of other quantitative indicators to provide additional transparency and a better indicator of the potential risk of this policy are also provided in Appendix 1 and Section 7.4.2.

Property Investments Debt to gross and net service expenditure (GSE and NSE)		2018-19	2019-20	2020-21
DEBT TO GROSS SERVICE EXPENDITURE RATIOS				
Non treasury property investments debt to gross service expenditure (GSE) ratio	*Gross debt of non treasury property investments as a percentage of gross service expenditure, where gross service expenditure is a proxy for the size and financial strength of a local authority.*	39.79%	49.60%	49.87%
DEBT TO NET SERVICE EXPENDITURE RATIOS				
Non treasury property investments debt to net service expenditure (NSE) ratio	*Gross debt of non treasury property investments as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.*	168.85%	212.68%	216.12%

The limit for debt compared to NSE looks much higher than the ratio for the Development Loans Fund since this is comparing the total gross debt of £25m for these investments classed as capital expenditure to the net revenue budget. As the financing costs in relation to such debt would be borne by the revenue budget rather than 100% of the debt at any one time, and debt will only be taken subject to affordability, with due regard to risk exposure in each business case proposal, this limit is considered to be acceptable.

6. DETERMINATION OF TYPES OF CONTRIBUTION OF NON- FINANCIAL INVESTMENTS

6.1 Non- financial investments can be categorised in accordance with the different types of contribution they make to the corporate priorities of the Council recognising that each investment can have more than one type of contribution.

Types of contribution this Council will consider include:

- Regeneration including provision of housing
- Economic benefit/business rates growth
- Support for local business objectives (eg fulfilling demand for key target sectors); ReWyre led initiatives
- Enabling Enterprise and Business Growth in line with Wyre Forest Strategic aims
- Creation or protection of social value in the local area
- Safeguarding or creation of local jobs
- Supporting neighbourhood strategy
- Responding to local market failure/gaps in market supply of eg certain types of funding
- Regeneration, economic growth across the two Local Enterprise Partnerships (LEPS) – Worcestershire and Greater Birmingham and Solihull of which this Council enjoys membership in accordance with their Strategic Economic Plans (SEP) as this will benefit the district
- Investment in Local Authority Trading Company or associates, Joint Ventures or to other third parties
- Income generation
- Mix of the above

7. RISK ASSESSMENT FOR PROPOSALS AND FOR ONGOING MANAGEMENT OF PROPERTY PORTFOLIO

7.1 Processes and procedures for how risk assessment will be managed including security, debt recovery, liquidity and performance monitoring are set out in the updated Capital Portfolio Strategy contained in Appendix 2. An overarching Property Portfolio Management Strategy is also in the process of development and this will set out further detail in relation to the ongoing monitoring and management of the properties

7.2 The balance between security, liquidity and yield based on risk appetite and contributions of investment activities will be achieved by use of the more sophisticated Risk Matrix in Appendix 2. This set out a prescribed scoring threshold system. This will allow the Council to have a robust means of comparing multiple opportunities whilst taking into account balance between security, liquidity and yield.

7.3 Quantitative Indicators to help measure total risk exposure in terms of proportionality are as set out in full in Appendix 1 – key indicators around proportionality are detailed in Section 7 below and Section 9 Financial Implications provides further explanation and detail.

7.4. Proportionality

7.4.1 Development Loans Fund

These relatively short-term loans to pump prime the local economy and the £10m allocation spread over a number of different loan approvals mean that the Development Loans Fund carries less risk than the Capital Portfolio Fund.

This £10m approval is shown below as a proportion of the total CFR, together with the proportion of total Balance Sheet Fixed Assets (ie Property Plant and Equipment). These are a better indicator of proportionality than Debt to net service expenditure (NSE) ratio:

		2018-19	2019-20	2020-21
LOAN TO VALUE RATIOS				
Loan to PPE value ratio (development loans)	*The amount of non treasury development loans investment debt compared to the total asset value (Long term assets - PPE).*	8.56%	13.32%	13.32%
CFR RATIOS				
CFR - Development Loans	*Development Loans CFR as a proportion of the gross CFR*	11.78%	16.54%	12.02%
FINANCING COSTS TO NET SERVICE EXPENDITURE RATIOS				
Development loans investments financing costs to net service expenditure (NSE) ratio	*Non treasury development loans investments financing costs as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.*	2.49%	3.53%	4.11%
INCOME/INVESTMENT COVER RATIOS				
Developments loan investment cover ratio	*The total net income from development loans investments, compared to the interest expense.*	20.83%	14.00%	14.06%

7.4.2 Capital Portfolio Fund

The £25m total approval for the Capital Portfolio Fund is shown below as a proportion of the total CFR, together with the proportion of total Balance Sheet Fixed Assets (ie Property Plant and Equipment).

		2018-19	2019-20	2020-21
LOAN TO VALUE RATIOS				
Loan to PPE value ratio (property)	*The amount of non treasury property investment debt compared to the total asset value (Long term assets - PPE).*	28.54%	33.30%	33.30%
Loan to value ratio (property only)	*The amount of property debt compared to the total property asset value (property portfolio only).*	100.00%	100.00%	100.00%
CFR RATIOS				
CFR - Property	*Property CFR as a proportion of the gross CFR*	39.93%	41.52%	43.66%
FINANCING COSTS TO NET SERVICE EXPENDITURE RATIOS				
Property investments financing costs to net service expenditure (NSE) ratio	*Non treasury property investments financing costs as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.*	5.91%	10.10%	12.10%
INCOME/INVESTMENT COVER RATIOS				
Property investment cover ratio	*The total net income from property investments, compared to the interest expense.*	12.29%	9.45%	11.74%
Property target income returns (excluding financing costs)	*Net revenue income (excluding financing costs) compared to equity. This is a measure of achievement of the portfolio of properties.*	3.78%	5.01%	5.96%
Property target income returns (including financing costs)	*Net revenue income compared to equity. This is a measure of achievement of the portfolio of properties.*	0.28%	0.26%	0.36%
Commercial income to NSE ratio	*Dependence on non-fees and charges income to deliver core services. Fees and charges should be netted off gross service expenditure to calculate NSE.*	2.72%	4.27%	5.01%

Whilst this shows that the Capital Portfolio Fund is a relatively high proportion of the total CFR and Fixed Assets, risk will be mitigated by the robust due diligence included as part of each individual business case as proposals are progressed. The objective is to hold a balanced portfolio to spread risk that is proportionate to the overall financial position of the Council. As shown in section 9.1 the MTFS is only assuming a modest net return on investment leaving scope for a proportion of actual net yield achieved to be set aside as a Risk Reserve if appropriate.

8. CAPACITY, SKILLS AND CULTURE, INCLUDING POLICY ON USE OF EXTERNAL SERVICE PROVIDERS

8.1 The Council has recognised that it needs to resource this challenging new policy area appropriately including the blending of more commercial skills into its more traditional local government culture. It has appointed a RICS qualified Property & Investment Manager with external commercial experience to advise on its investment opportunities. Commercial property investment opportunities often arise unexpectedly and/or ‘off market’ and it is important to have appropriate professional net-working contacts and to be nimble in order to take advantage of opportunities when they arise. The Council’s Property and Investment Manager will be responsible for identifying suitable opportunities and has the necessary delegations to negotiate conditional offers and, in conjunction with the Council’s Financial Services Manager, developing the viability appraisal and business case for the Council to invest; this Strategy is important to provide a framework to guide the Council in identifying appropriate investment opportunities.

8.2 The Council has commissioned external experts to support its decision making process and has established a framework of suitably qualified valuers and building surveyors to ensure that decisions taken by the Council are based on appropriate valuations and building condition surveys. This framework will be renewed every three years and experts will only be used that hold the appropriate and current qualifications. Further, the Council has retained the services of KPMG, initially to provide an external independent health check reporting on the property evaluation model and process and also to provide advice on specific property acquisitions proposals at competitive call-off rates.

8.3 The contract that is currently in the final stages of agreement for FSA accredited Fund Managers with a proven track record, to deliver the Development Loans Fund Policy contains provision for regular reporting of performance management of the Fund. The option for a 2 year review and break clause is included within the contract to provide an exit strategy for the Council if the performance of the Fund is failing to reach projected expectations.

8.4 Member training will be provided at least annually as part of the Induction process. The external Fund Managers will prepare reports for development loan proposals and present to Overview and Scrutiny to provide full explanation to members. For particularly complex proposals external specialist advice will be taken and advisors may attend member meetings for additional assurance and explanation.

9. FINANCIAL IMPLICATIONS

9.1 There are no additional financial implications for the Council arising from this report. The financial implications of borrowing up to £35 million were set out in the reports to Cabinet and Council already mentioned. The very modest net income targets assumed in the original Cabinet Proposal have been retained in the current Medium Term Financial Strategy but profiled over future years based on early projections as summarised below:

	2017-18	2018-19	2019-20	2020-21
Development Loans Fund	£	£	£	£
Capital	2,000,000	4,000,000	4,000,000	
Revenue Budget Net Income	0	(25,000)	(35,000)	(45,000)
	2017-18	2018-19	2019-20	2020-21
Capital Portfolio Fund	£	£	£	£
Capital	10,000,000	10,000,000	5,000,000	
Revenue Budget Net Income	111,310	(55,310)	(65,000)	(91,000)
COMBINED NET INCOME IN MTFS	111,310	(80,310)	(100,000)	(136,000)

These very modest net returns have been assumed in line with the original Cabinet proposal to provide consistency whilst due diligence processes have been progressed and further market intelligence gathered. This also reduces the risk of failure to achieve these net income streams as these are new policy areas subject to external market influences and there is a risk that suitable investment opportunities/loan applications will not be secured within the scope/risk appetite of this Strategy. It is anticipated that more favourable returns will be achieved and these will be reported as each business case is approved and revisions reflected in the MTFS. The Table included in Section 26, Appendix 2 provides further scenario modelling for the Capital Portfolio Fund.

9.2 Two very modest allocations have been approved so far from the Capital Portfolio Fund as shown in the table below; they are both subject to the approval of full business cases. By the time this meeting takes place further approval should have been given for a small parade of retail units in Kidderminster Town Centre; this is in the region of £1m.

Capital Portfolio Fund	2017-18	2017/18	2018-19	2019-20
Allocated Schemes:	Original	Revised		
Silverwoods Way (former Frenco Site) (maximum allocation; subject to detailed Business Case)	-	428,190	-	-
Comberton Place Residential Investment – subject to detailed business case	-	-	250,000	-
Unallocated	**25,000,000**	**9,571,810**	**9,750,000**	**5,000,000**
Total	25,000,000	10,000,000	10,000,000	5,000,000

9.3 Table of Forecast Capital Financing Requirement (CFR)

The CFR is calculated from the Council's balance sheet, and is the underlying need to borrow for capital purposes – in effect the debt liability. It represents the cost of the Council's assets, less any capital receipts and allowable adjustments. Borrowing is undertaken for the CFR as total rather than being specific to individual capital programme items or eg individual property acquisitions.

Once calculated, the Corporate Director: Resources then decides how the debt liability is to be funded. It can be funded either from internal resources on a temporary basis (internal borrowing), or from the market (external borrowing). Internal borrowing is often an effective method of reducing funding costs whilst also avoiding counterparty risk (ie when investing reserves and balances). Whether to use internal or external borrowing is purely an operational decision based on current market conditions and cash balances available. Borrowing rates are currently very low and this authority has also signed up to the PWLB Certainty Rate Government Scheme giving us a reduction of 20bps on borrowing interest rates. The timing of external borrowing will be carefully considered in liaison with Link Asset Services our Treasury Management. The current CFR and the elements attributable to the Capital Portfolio Fund and Development Loans Fund are shown in the table that follows:

Description	2017-18 (and prior to 1/4/2017)	2018-19	2019-20	Closing CFR (at 31/3/2021)
	£'000	£'000	£'000	£'000
CFR – General Capital Programme	**19,530**	**23,883**	**24,493**	**23,981**
CFR – Capital Portfolio Fund	**10,000**	**19,750**	**24,250**	**23,625**
CFR – Development Loans Fund	**2,000**	**5,825**	**9,660**	**9,505**
Current estimated Capital Financing Requirement at 31st March	**31,530**	**49,458**	**58,403**	**57,111**

A more detailed analysis of the impact of planned capital expenditure, the CFR and Minimum Revenue Provision giving forward balance sheet projections is shown in the table below. These projections will be extended over a longer timeframe in future reports:

	2016-17	2017-18	2018-19	2019-20	2020-21
	Actual £'000	Estimate £'000	Estimate £'000	Estimate £'000	Estimate £'000
Capital Expenditure					
Supported Spend (RSG Settlement)	0	0	0	0	0
Unsupported Spend	5,821	18,317	22,865	11,586	1,755
Total Spend	5,821	18,317	22,865	11,586	1,755
Financed by:					
Borrowing/Leasing	3,598	14,567	19,047	10,586	755
Capital Receipts	644	1,188	2,240	0	0
Capital Grants	1,537	1,766	1,408	1,000	1,000
Revenue	42	796	170	0	0
Capital Financing Requirement (CFR)					
CFR	17,545	31,530	49,458	58,403	57,111
Movement in CFR	3,399	13,985	17,928	8,945	(1,292)
External Debt					
Borrowing	17,004	31,000	49,000	58,000	57,000
Other Long Term Liabilities	0	0	0	0	0
Total Debt at 31st March	17,004	31,000	49,000	58,000	57,000
Under/(Over) borrowing	541	530	458	403	111
Minimum Revenue Provision (MRP)	199	582	1,119	1,641	2,047

RATIO OF FINANCING COSTS TO NET REVENUE STREAM

	2016-17	2017-18	2018-19	2019-20	2020-21
	Actual %	Estimate %	Estimate %	Estimate %	Estimate %
General Fund *Prudential Code	3.63	8.80	15.96	23.76	28.70
General Fund *Local Indicator	N/A	N/A	9.18	12.70	15.72

* A local indicator has been introduced from 2018-19 onwards to reflect the impact of the estimated rental income stream for the Capital Portfolio Fund scheme (currently excluded from the Prudential Code calculation) demonstrating that the capital investment continues to be prudent and sustainable.

9.4 A detailed business case will be prepared including a full analysis of the financial viability including key risks for each specific proposal. The framework for managing and monitoring ongoing performance will ensure there is regular (at least annual) reporting of the financial performance of the capital portfolio fund and development loans fund. Performance measurement will be based on annual external revaluations of the properties. Reports will be presented to Cabinet and then on to Council including analysis of the performance with a view to making recommendations concerning amendments or alterations to the adopted strategy to ensure that the main objectives continue to be achieved. Suitable benchmarking will be set up so that the performance of the property portfolio may be measured against a suitable peer group or against nationally reported indices of property investment performance also geographical market differences may limit the usefulness of benchmark analysis.

In the event of a failure to achieve the performance targets in the case of individual assets, the business plan for the property will be reviewed and amended as necessary to address the underperformance, or alternatively the asset can be disposed of. However, rather than a “fire-sale”, an exit strategy would be formulated to optimise the Council’s financial position; timing would be key to take account of dynamic market conditions.

9.5 Reserves and Balances

The Council held £4.914m in General Reserves at the 1st April 2017 including a £1m Working Balance. It also held £5.714m in Earmarked Reserves and is merging some of these to create a General Risk Reserve from the 31st March 2018. It is recognised that there may be limited scope within the current levels of Reserves to mitigate the risk arising from the £35m overall capital allocation and it is the intention to build up these reserves as part of the business case for each Capital Portfolio Fund and Development Loans Fund proposal. One approach will be to take a proportion of the net yield into reserve commensurate with assessed future risk, supplemented by transfers from future final accounts savings that this Council has a strong history of achieving. This should be feasible since very modest net income streams have been forecast so far in the MTFS.

Each business case proposal will include an assessment of cumulative risk in terms of the level of reserves required to mitigate such risk. If the Council is unable to maintain appropriate levels of reserve to mitigate risk, proposals will not be recommended for approval. Ongoing reporting of Portfolio Performance will include a review of risk vis a vis reserve levels.

9.6 Liquidity

9.6.1 Development Loans Fund

The planned relatively short term durations of the Development Loans Fund and engagement of external Fund Managers with FSA accreditation and proven, directly relevant private sector experience should ensure the £10m allocation remains relatively liquid. Whilst it is currently envisaged that repayments will be recycled into further loans, this can be revisited if appropriate to support the overall liquidity of the Council.

9.6.2 Capital Portfolio Fund

Property investments are by their very nature illiquid but regular valuation refreshes, structured project management and ongoing analysis of market conditions will enable risk to be continuously monitored. The weekly economic market analysis that Link Asset Services provide as part of retained Treasury Management Services contract will be useful as an overall indicator of market confidence and this will be supplemented with specific property market intelligence gathered regularly by the Property and Investment Manager.

A longer term view will be taken on property market risk with the intention to “ride-out” any downward spikes in the property market as a result of dynamic property market conditions; this is particularly important given the potential for volatility as a result of Brexit.

Subject to market conditions we may adopt a “revolving door” approach to the Capital Portfolio Fund investments. This could involve the disposal of assets once for example regeneration objectives have been met and the private sector is willing to take on the investments, to recycle resource by either the repayment of debt or use of capital receipts for further portfolio purchases. Decisions would be dependent on prevailing market conditions and consideration of each business case proposal.

9.7 Whilst the strategies will provide a very welcome contribution towards balancing the budget over the medium and longer term, it is difficult to forecast the size of the contribution until specific business cases are considered. It should be possible to include a more accurate forecast as part of the next medium term financial strategy. It is clear that these strategies alone will not close the funding gap and that they will need to be progressed together with other cost reduction/income generation initiatives over the next 2 to 3 years.

9.8 Fair Values – Implications of Proposals

In accordance with the most recent MHCLG Guidance, an allowed "expected credit loss" model for loans and receivables as set out in International Financial Reporting Standing (IFRS) 9 Financial Instruments as adopted by proper practices will be used to measure the credit risk of the £10m Development Loans Fund portfolio. The agreement with the external Fund Manager includes provision for appropriate credit control arrangements including the option for either the Fund Manager or the Council to undertake more complex debt recovery, to be assessed on a case by case basis.

10. LEGAL AND POLICY IMPLICATIONS

10.1 The Council has adopted policies for the Capital Portfolio Fund and Development Loans Fund. The legal considerations were set out in depth in appendices 3/1 and 3/2 to the medium term financial strategy report, which was considered by Cabinet on 20 December 2016. These remain current so will not be repeated but can be found at http://www.wyreforestdc.gov.uk/media/2639628/20161220FinancialStrategy2017-2020IncludingCover.pdf (pages 34 to 54).

10.2 The new MHCLG Guidance on investments that should be read in conjunction with the new Prudential Code introduces the requirement for regard to additional disclosures with increased emphasis on transparency, accountability, proportionality and the risk management framework. The Solicitor to the Council is satisfied that the underlying legal powers for these policies remain unchanged and can still be relied up and that this new Capital Strategy has appropriate regard to the new Investment Guidance.

10.3 The Council is further protected since for each proposal the Detailed Business Case /Due Diligence report will include a review of the legal basis for the specific proposal.

11. STRATEGIC RISK MANAGEMENT

11.1 The risks associated with the Capital Portfolio and Development Loans Fund Strategies and the steps to be adopted to mitigate them, were set out in depth in appendices 3/1 and 3/2 to the medium term financial strategy report, which was considered by Cabinet on 20 December 2016 (see hyperlink in 9.1 above). The new MHCLG Investment Guidance does introduce an element of new risk, key areas being of proportionality and purely commercial investments that are out of the area. Our current policy is that it will always be the Council's preference to invest within the district area to support regeneration and local economic development whilst also allowing the Council to consider opportunities with the wider geographical area of the two Local Enterprise Partnerships, (LEP) which the district is a member of. Due regard is evidenced in this Capital Strategy to proportionality and a transparent approach adopted to ensure Members are fully aware of the potential impact of these plans.

11.2 In addition to this, the new information contained in this report and refreshed policy for the Capital Portfolio fund in appendix 2 provides further assurance and risk mitigation.

11.3 The latest version of the CIPFA Prudential Code that must be read alongside the MHCLG Investment Guidance requires the chief financial officer reports explicitly on the risks associated with the capital strategy. These are summarised in the Risk Matrix that follows:

RISK REGISTER FOR CAPITAL PORTFOLIO FUND (CPF) & DEVELOPMENT LOANS FUND (DLF)	Impact (H/M/L)	Likelihood (H/M/L)	Risk Rating (R/A/G)	Risk Mitigation
External challenge that proposals do not satisfy MHCLG Investment Guidance/other statutory requirements	H	L	**A**	**Identification of objectives – links to corporate priorities/income generation – this will include determination of whether or not proposals meet regeneration and economic objectives; each proposal will be considered on a case by case basis.** **Due Diligence – including check against statutory powers ie legal basis for proposal.**
Market/economic conditions deteriorate from initial risk assessment and the Council is tied into long term borrowing costs that cannot be covered by future income.	M	M	**A**	**Risks will be refreshed as part of regular reporting on Property Portfolio and DLF and any "red flags" raised with mitigating actions proposed on a case by case basis. Risk assessments will be considered over the short, medium and longer term as part of due diligence. External borrowing will be profiled so there will be structural options for the**

RISK REGISTER FOR CAPITAL PORTFOLIO FUND (CPF) & DEVELOPMENT LOANS FUND (DLF)	**Impact (H/M/L)**	**Likelihood (H/M/L)**	**Risk Rating (R/A/G)**	**Risk Mitigation**
				future management of overall debt. The transparency of limits for these strategies mean the Council is fully cognisant of proportionality.
100% prudential borrowing due to lack of capital receipts available for funding reduces net yield and means the return is too low compared to the relative risk. This could lead to greater risks being taken to increase yields	H	M	**A**	**Due Diligence processes in place will ensure risk is fully assessed in each business case proposal. Funding by 100% prudential borrowing will reduce the number of viable opportunities but evidence shows this can still work and provide useful income streams whilst also meeting corporate priorities of regeneration etc, increasing business rates, council tax and potentially new homes bonus.**
Lack of internal capacity, commercial knowledge and skills; both officers and members.	M	L	**A**	**Successful recruitment of Property Investment Manager supplemented with external specialist advice. Member training will be provided. For DLF external Fund Managers will attend Overview and Scrutiny committee and for CPF external advice will be taken and provided as appropriate.**
Borrowing costs fluctuate and could increase; Council is unable to making ongoing costs of refinancing debt.	M	L	**A**	**Each business case proposal will consider forecasts for the costs of borrowing and build in headroom to allow for reasonable movement. External debt will be taken in different tranches taking advice from Link Asset Services (to give a spread of maturity dates) to spread this risk and internal borrowing used where possible to reduce costs. An appropriate level of reserves will be held and regularly reviewed to help mitigate this risk.**
Bad debts as a result of failure of third parties to make loan repayments or tenant rental default.	M	L	**A**	**Fund manager for DLF will manage debt portfolio, assessing the likelihood of default; provision for an appropriate percentage will be included in business case proposals. A proactive approach will be taken to debt management with advice and assistance offered by the Property Portfolio Management team and early legal action where necessary to**

RISK REGISTER FOR CAPITAL PORTFOLIO FUND (CPF) & DEVELOPMENT LOANS FUND (DLF)	Impact (H/M/L)	Likelihood (H/M/L)	Risk Rating (R/A/G)	Risk Mitigation
				realise security/collateral on DLF.
DLF - Failure to secure sufficient value of loans to cover the fixed cost of the external Fund Managers;	M	M	**A**	**Professional Fund Managers consider there is demand in the district to fill the gap in loan requirements left by banks. Flat fee for minimum 2 year contract period can be met from reserves in worst case scenario.**
DLF - Collateral/Security on loans granted is insufficient to cover bad debts;	M	L	**A**	**Ongoing monitoring of covenants and credit quality of borrower may require mitigating action, exit strategies and or risk reserves.**
DLF - State Aid considerations;	M	L	**G**	**Due diligence checks will explore State Aid requirements in full and a commercial rate will be set for loans well above the basic PWLB rates.**
Management costs are excessive	M	L	**A**	**For DLF Management costs are part of contract. For CPF Initially, existing internal resource to be used to manage portfolio with other options considered and evaluated as part of each business case, costs to be covered by income generated.**
Minimum Revenue Provision Policy is not sufficiently flexible	M	L	**G**	**Policy change to introduce further flexibility approved as part of TMSS Council 21st February 2018**
Capital values and rental values can fall as well as rise.	M	M	**A**	**Regular asset valuations will be undertaken and reported with Fair Values adjustments reflected in annual accounts as per accounting requirements. Historically, property investments have performed well and values increased over time.**
Vacancies (voids) in the portfolio will reduce average yield. As well as lost rental income on vacant units, the Council could find itself liable for a	M	M	**A**	**Proactive Property Portfolio Management and maintenance of appropriate risk reserves will mitigate this.**

RISK REGISTER FOR CAPITAL PORTFOLIO FUND (CPF) & DEVELOPMENT LOANS FUND (DLF)	Impact (H/M/L)	Likelihood (H/M/L)	Risk Rating (R/A/G)	Risk Mitigation
share of on- going costs which a tenant would normally pay such as empty property rates.				
Disputes with tenants. Common disputes include ongoing maintenance and repair costs of buildings and the ability to recover those costs from tenants	M	L	**A**	**Proactive Property Portfolio Management and maintenance of appropriate risk reserves will mitigate this.**
External factors. Property investment is subject to factors the Council cannot control, e.g. failure of tenants, poor building management, changes in perception of what is a good location, economic downturn etc.	H	L	**A**	**Property Investment Manager will scan external horizon and report as part of regular monitoring reports.**
Ease of market exit (sale)	H	M	**R**	**To be assessed on a case by case basis as part of initial business case and ongoing property portfolio management reports.**
Changes in government policy	H	L	**A**	**Latest MHCLG Investment Guidance received in February 2018**

11.4 The Council is further protected since for each proposal the Detailed Business Case /Due Diligence report will include a review of specific risks and also consider the cumulative risks of the Capital Portfolio and Development Loans Fund strategies with particular emphasis on proportionality.

11.5 A schedule setting out risk exposure will be maintained as proposals are progressed and presented to Members as part of the initial business case and also ongoing Property Portfolio reporting process.

11.6 The latest forecasts for interest rate rises present a risk to financial business case viability for potential property acquisitions since the historically low PWLB interest rates have proven extremely beneficial for local authorities over the last few years.

12. SCHEME OF DELEGATION

12.1 The Council’s Capital Strategy and Non-Treasury Investments Scheme of Delegation is detailed in Appendix 3.

13 ROLE OF SECTION 151 OFFICER

13.1 The Treasury Management Role of the Section 151 Officer is detailed in Appendix 4. The revised Treasury Management Code of Practice has significantly extended the specific role of this officer to include a series of new roles in respect of the capital strategy and also a specific role in respect of investment in non-financial assets.

14. EQUALITY IMPACT ASSESSMENT

14.1 This is a financial report and there is no requirement to consider an Equality Impact Assessment

15. CONCLUSION

15.1 This proposed Capital Strategy, focuses on non treasury investments that for this Council cover approvals for the Capital Portfolio Fund £25m and Development Loans Fund £10m and has due regard to the recent MHCLG Guidance on Investments. The Strategy also identifies and cross-references the various policies and strategies of the Council that are linked and together form the overall Corporate Governance Framework for non treasury investments. It is useful to have this in a single document for transparency of assurance around what is recognised to be an area where risk needs to be carefully managed in the short, medium and longer term.

15.2 The latest MHCLG Investment Guidance has proved challenging to interpret and apply due to the complexities of Local Government Finance and the potential for conflict with existing legislation. Advice from Link Asset Services has been fundamental to this process, particularly as they have discussed the anomalies directly with the MHCLG and has helped to assure that this Capital Strategy has due regard to the new Investment Guidance.

15.3 Clarification and more detailed understanding of the new Guidance will continue to emerge over the next 12 months. This early Capital strategy will be developed and improved for the 2019-22 report.

16. CONSULTEES

16.1 Link Asset Services
16.2 CLT
16.3 Cabinet
16.4 KPMG

15. BACKGROUND PAPERS

- the Treasury Management Service Strategy (TMSS) 2018-19 approved by Council on 21st February 2018 that covers financial investments
- The Medium Term Financial Strategy 2018-21 including the Capital Programme Report Appendix 6 considered by Cabinet on 19th December 2017 and 7th February 2018 and approved by Full Council on 21st February 2018
- Approval of Cabinet Proposals for a £25m Capital Portfolio Fund and £10m Loans to Third Parties (now renamed Development Loans Fund) by Council as part of the MTFS 2016-19 on 22nd February 2017
- The Strategies for the Capital Portfolio Fund and Loans to Third parties approved by Cabinet on 14th June 2017
- Approval Process for Capital Portfolio and Loans to Third Parties approved by Cabinet 20th September 2017 and process for Scrutiny of business cases in respect of the capital portfolio fund and development loan fund approved by Overview and Scrutiny Committee 5th October 2017
- The Strategic Asset Management Plan (SAMP) approved by Council 2016
- The Enabling Enterprise and Business Growth In Wyre Forest strategy adopted in 2016
- ReWyre Initiative and Kidderminster Regeneration Prospectus adopted in 2009 and ReWyre ReNewed adopted in 2014.
- Greater Birminghan & Solihull LEP Strategic Economic Plan 2016-30 'A Greater Birmingham for a Greater Britain' 2016
- Worcestershire LEP Strategic Economic Plan 2014-2024 'World Class Worcestershire' 2014
- Corporate Plan 2014-19, Key Priorities and Local Plan Core Strategy 2006-2026
- MHCLG Statutory Guidance on Local Government Investments (3rd edition) 2nd February 2018

Quantitative ratios are presented in this appendix in colour coded categories as follows:

Green	Debt to gross Service expenditure (GSE) ratios
Yellow	Debt to net service expenditure (NSE) ratios
	For these first two categories, ratios are provided for total debt and also for non treasury debt relating to the Capital Portfolio Fund (property) and separately for the Development Loan Fund
Pink	Loan to Value ratios
Beige	Capital Financing ratios
Purple	Financing costs to net service expenditure (NSE) ratio
Light Blue	Income/investment cover ratios
Light Yellow	Trends/benchmarks

		2018-19	2019-20	2020-21
DEBT TO GROSS SERVICE EXPENDITURE RATIOS				
Gross debt to gross service expenditure (GSE) ratio	*Gross debt as a percentage of gross service expenditure, where gross service expenditure is a proxy for the size and financial strength of a local authority.*	97.48%	115.08%	113.70%
Non treasury property investments debt to gross service expenditure (GSE) ratio	*Gross debt of non treasury property investments as a percentage of gross service expenditure, where gross service expenditure is a proxy for the size and financial strength of a local authority.*	39.79%	49.60%	49.87%
Non treasury development loans investments debt to gross service expenditure (GSE) ratio	*Gross debt of non treasury development loans investments as a percentage of gross service expenditure, where gross service expenditure is a proxy for the size and financial strength of a local authority.*	11.94%	19.84%	19.95%
DEBT TO NET SERVICE EXPENDITURE RATIOS				
Gross debt to net service expenditure (NSE) ratio	*Gross debt as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.*	413.69%	493.43%	492.75%
Non treasury property investments debt to net service expenditure (NSE) ratio	*Gross debt of non treasury property investments as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.*	168.85%	212.68%	216.12%
Non treasury development loans investments debt to net service expenditure (NSE) ratio	*Gross debt of non treasury development loans investments as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.*	50.66%	85.07%	86.45%
LOAN TO VALUE RATIOS				
Loan to value ratio (Gross)	*The amount of gross debt compared to the total asset value (Long term assets - PPE).*	69.92%	77.25%	75.92%
Loan to PPE value ratio (property)	*The amount of non treasury property investment debt compared to the total asset value (Long term assets - PPE).*	28.54%	33.30%	33.30%
Loan to PPE value ratio (development loans)	*The amount of non treasury development loans investment debt compared to the total asset value (Long term assets - PPE).*	8.56%	13.32%	13.32%
Loan to PPE value ratio (total non treasury investments)	*The amount of total non treasury investment debt compared to the total asset value (Long term assets - PPE).*	37.10%	46.62%	46.62%
Loan to value ratio (property only)	*The amount of property debt compared to the total property asset value (property portfolio only).*	100.00%	100.00%	100.00%

CFR RATIOS		2018-19	2019-20	2020-21
CFR - Property	*Property CFR as a proportion of the gross CFR*	39.93%	41.52%	43.66%
CFR - Development Loans	*Development Loans CFR as a proportion of the gross CFR*	11.78%	16.54%	12.02%
CFR - Combined	*Property and Development Loans CFR as a proportion of the gross CFR*	51.71%	58.06%	55.68%
FINANCING COSTS TO NET SERVICE EXPENDITURE RATIOS				
Property investments financing costs to net service expenditure (NSE) ratio	*Non treasury property investments financing costs as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.*	5.91%	10.10%	12.10%
Development loans investments financing costs to net service expenditure (NSE) ratio	*Non treasury development loans investments financing costs as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.*	2.49%	3.53%	4.11%
Total non treasury investments financing costs to net service expenditure (NSE) ratio	*Total non treasury investments financing costs as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.*	8.40%	13.63%	16.21%
INCOME/INVESTMENT COVER RATIOS				
Property investment cover ratio	*The total net income from property investments, compared to the interest expense.*	12.29%	9.45%	11.74%
Developments loan investment cover ratio	*The total net income from development loans investments, compared to the interest expense.*	20.83%	14.00%	14.06%
Total non treasury investment cover ratio	*The total net income from non treasury investments, compared to the interest expense.*	14.09%	10.67%	12.42%
Property target income returns (excluding financing costs)	*Net revenue income (excluding financing costs) compared to equity. This is a measure of achievement of the portfolio of properties.*	3.78%	5.01%	5.96%
Property target income returns (including financing costs)	*Net revenue income compared to equity. This is a measure of achievement of the portfolio of properties.*	0.28%	0.26%	0.36%
Commercial income to NSE ratio	*Dependence on non-fees and charges income to deliver core services. Fees and charges should be netted off gross service expenditure to calculate NSE.*	2.72%	4.27%	5.01%
TRENDS				
Gross income (combined)	*The income received from the combined non-treasury investments at a gross level over time. This is currently a prudent estimate based upon the income included in the MTFS.*	(£1,189,441)	(£1,843,294)	(£2,125,262)
Operating costs	*The trend in operating costs of the non-financial investment portfolio over time, as the portfolio of non-financial investments expands.*	£114,131	£140,794	£114,262
Financing costs	*The trend in financing costs of the non-financial investment portfolio over time, as the portfolio of non-financial investments expands.*	£995,000	£1,602,500	£1,875,000
Net income	*The income received from the investment portfolio at a net level (less costs) over time.*	(£80,310)	(£100,000)	(£136,000)

Capital Portfolio Fund Strategy

Background

1. As part of the Council's Medium Term Financial Strategy 2017-2020 the Council has established a Capital Portfolio Fund, initially of £25m sourced through borrowing from Public Works Loan Board (PWLB), to invest in assets that support its priority for regeneration and economic growth and to develop additional income streams.

2. One of the Council's Corporate Plan priorities for 2014-20 is to "support you to contribute to a successful local economy" and the Council sees its investment in assets through the Capital Portfolio Fund as one of the means by which it can actively deliver on this priority.

3. In 2016 the Council adopted a new Strategic Asset Management Plan (SAMP); of the stated objectives of the SAMP for the next 5 years, one is "to support business growth and economic development" which it is envisaged would include housing developments and another is to "maximise revenue potential from non-operational assets". The Capital Portfolio Fund is a key vehicle to deliver these objectives.

4. Also in 2016 the Council adopted a strategic approach to "Enabling Enterprise and Business Growth in Wyre Forest" which included strategic ambitions to provide flexible business accommodation as well as providing targeted financial assistance. Seen alongside the Council's proposed Loans to Third Parties initiative (renamed the Development Loan Fund), the Capital Portfolio Fund will also enable the Council to support local businesses and help them to grow, as well as attracting new business into the district.

5. The Council's plans to invest in assets also sits alongside its longstanding ReWyre regeneration initiative which has been the cornerstone of the Council's support of regeneration of the district since its adoption in 2009.

6. As part of the North Worcestershire group of authorities the Council is also a member of two Local Enterprise Partnerships – Worcestershire and Greater Birmingham & Solihull. The Council is an active LEP member and has successfully attracted funding from both through the Local Growth Fund for key regeneration projects such as Hoobrook Link Road, Kidderminster Railway Station and Churchfields Urban Village; as such the Council has a vested interest in the successful growth of the LEP areas where it has a functional economic geography and supports the delivery of their respective Strategic Economic Plans (SEP) as this will benefit the district as a whole. The Council has therefore decided that it will consider the investment of its Capital Portfolio Fund across this combined LEP geography.

7. In February 2018 the Council agreed to establish a group structure of local authority trading companies (LATC) with the purpose at this time to establish a development company that would undertake new residential developments or

would hold residential units purchased by the Council through the Capital Portfolio Fund.

The Investment Strategy

8. The Council has adopted a Capital Strategy for 2018/19 which will be reviewed annually; this strategy has been developed to explicitly meet the Statutory Guidance on Local Government Investments which was published in February 2018. This Capital Portfolio Fund Strategy forms part of a series of documents (including the Development Loan Fund) that support the Capital Strategy.

9. The purpose of this Strategy is to guide the use of the Capital Portfolio Fund to make property acquisitions and to invest in the development of the Council's own assets (or the acquisition of assets) to support economic redevelopment or regeneration in the District or within the combined LEP geography which will in turn generate income to support the continued delivery of Council services.

10. Currently the Council holds no assets for investment purposes under the current accounting procedures; going forward any assets supported through the Capital Portfolio Fund will be held for the benefit of regeneration and economic development purposes.

11. The Council has appointed a RICS qualified Property & Investment Manager with external commercial experience to advise on its investment opportunities. Commercial property investment opportunities often arise unexpectedly and/or 'off market' and it is important to have streamlined decision making processes in order to take advantage of opportunities when they arise. The Council's Property and Investment Manager will be responsible for identifying suitable opportunities and has the necessary delegations to negotiate conditional offers and, in conjunction with the Council's Financial Services Manager, developing the viability appraisal and business case for the Council to invest; this Strategy is important to provide a framework to guide the Council in identifying appropriate investment opportunities. The Council is mindful that in some circumstances it will need to respond without delay when opportunities arise and to be in a position to assess investment opportunities in a systematic manner but should also be able to move quickly when a compelling opportunity arises. The Council has been careful to balance this against the need for robust decisions to be made, involving its Members; the Council has decided that all investment proposals will be considered by its Overview and Scrutiny Committee and by its Cabinet before any final decisions are taken and it has established the ability to call a sub committee meeting of either or both of these committees if the need for timely decisions means that the normal scheduled meetings would not be suitable. The Council's process for determining investment opportunities is set out in Appendix 2 below

12. The Council has commissioned external experts to support its decision making process and has established a framework of suitably qualified valuers and building surveyors to ensure that decisions taken by the Council are based on appropriate valuations and building condition surveys. This framework will be renewed every three years and experts will only be used that hold the

appropriate and current qualifications. Further, the Council has retained the services of KPMG to ensure that its procedures are adhered to when it carries out any investments.

13. The Council is already well underway in assessing the development potential of its own assets and in developing business cases where there are opportunities to use its already established Evergreen Investment Fund (comprising capital receipts from asset disposals for reinvestment to support income generating proposals) and/or the Capital Portfolio Fund. What has become apparent in the preparation of the early business cases is that viability is marginal if these investments are viewed only through the commercial lens i.e. they would be unlikely to appeal to the private investor as the returns are too low. However, the Council's interest also lies in supporting economic regeneration and improving housing opportunities for its residents and has therefore accepted that lower returns than would normally be expected by a private investor are a trade off for addressing market failure where the private investor fails to act. However, as a minimum all the business cases agreed to date (including the use of Evergreen Investment Fund monies) have covered the costs of the Council's borrowing and minimum revenue provision and generated a predicted small revenue receipt.

14. In considering the use of the Capital Portfolio Fund going forward it is the Council's intention to continue to consider investment propositions within the district in its existing assets, in assets it might wish to acquire or working with partners where the principal consideration is to support economic regeneration in its widest sense which includes supporting new housing opportunities. Such investments will need to be justified on a business case by case basis and will need to generate a return for the Council which is determined on a case by case basis (see later).

15. Whilst it will always be the Council's preference to invest within the district area to support regeneration and local economic development, the Council recognises that it has an interest in the success of the LEPs of which the district council is a member . The Council has an interest in supporting the growth of the wider functional economic geography of the LEP areas on the basis that it will benefit locally from the wider City-Region success. To that end therefore the Council will consider investments that support this wider economic benefit covering Worcestershire, Birmingham, Solihull, Cannock, Lichfield, Tamworth and East Staffordshire areas (see map). The Council may also consider investing in capital property investment funds in order to broaden the investment portfolio, spread risk and utilise the expertise of fund managers. Any such proposals will involve a careful choice of fund to ensure the Council's objectives are met.

16. Each investment opportunity will be supported by the external 'Red Book' valuation and building condition information including where appropriate asbestos and mechanical and electrical and will be required to demonstrate through a robust business case and financial modelling that is proportionate to the level of investment that it meets or ideally exceeds the Council's minimum expectations for net return. Each business case will also recommend whether

the investment is to be held by the Council or through the group structure, recognising that returns to the Council on any asset held in the group structure will be through interest payments on loans made to it by the Council and/or in profit distribution by way of a dividend payment to the Council as sole shareholder.

17. It is necessary for the Council to take a prudent approach to the management of its financial affairs and when assessing investments the Council will need to carefully consider the balance of risk and reward and in doing so will consider such factors as the security against loss, the liquidity of the investment, the yield, affordability of the loan repayments, change in interest rates and property values (see Appendix 1 below). As part of this approach the Council will consider each investment carefully in terms of the ability of the underlying asset to provide security for the capital investment.

18. Returns from investment in property can be by way of both income (rent) received and appreciation of the underlying value (capital growth) and consideration will need to be given to both of these factors to understand the total return on an investment. The Council also recognises that by investing in property it can have direct benefits such as Business Rates or Council Tax income as well indirect benefits through increased confidence in the local economy. Property prices are a function of property type, location, age etc together with the lease arrangements and the covenant strength of tenants. Within the property investment market there can be a wide spread of returns (yields) relating to the characteristics of the asset investment in question. The yield reflects the risk that investors associate with securing a long term income, including the potential for growth. So in Appendix 1 below, those investments on the left hand side of the table will be associated with lower yields and those on the right with higher yields. The range might be anything from 2-4% in prime retail locations to 12-20% in secondary and tertiary locations. Indicatively, good quality office and industrial property investments will provide a gross income return of 7% or greater, whilst equivalent retail property income yields will be between 5-7%. The Council accepts that there isn't a strong office market within the district, nor are its town centres capable of commanding many national retailers and that new build industrial units are few; consequently it may have to consider carefully selected secondary and tertiary investment opportunities within the district.

19. The experience of the Council's investment business case development so far indicates that a gross yield of upwards of 6% on the value of the investment will be necessary for the investment to be of interest to the Council, taking into account its borrowing costs and other overheads. The Council will consider whether returns from investment opportunities are acceptable on a case by case basis taking into account the criteria set out in Appendix 1 below and the location of the investment opportunity. More risky investments (with a higher yield) should produce a higher return that less risky investments with a lower yield. All proposals will initially be screened against the pass/fail criteria of whether the costs of borrowing can be met and using Net Present Value (NPV) and Internal Rate of Return (IRR) calculations; schemes that produce a positive NPV and an IRR in excess of the cost of capital will then be assessed against

the criteria set out in Appendix 1.. Table 1 in section 26 illustrates scenarios and how this could make a contribution towards closing the funding gap of between £312,500 to £500,000 per annum.

20. In considering its costs against a gross return the Council will need to consider some or all of the following when developing the business case for investing:

- Finders' Fees approx. (1%)
- Legal Fees approx. (0.5%)
- Survey and Valuation and due diligence fees approx. (0.5%)
- Stamp Duty Land Tax (5% on freehold purchases over £250K)
- Finance Costs including minimum revenue provision (circa 5%)
- Marketing and other rent incentives
- Agents' letting fees
- Void Business Rates/Council Tax (tenants should be covering these in occupied units)
- Repairs and maintenance (depending on lease type (probably covered in a service charge)
- Running costs of building, including building management (depending on lease type again probably covered in a service charge)
- Opportunity cost of alternative use or sale of the asset
- Staff Costs to manage the portfolio (non-recoverable)

21. The Council may hold property assets either directly or indirectly. Direct property investment gives the Council full control over the property and responsibility for its management and the business cases brought forward so far for investment are envisaged to be held in this way. Indirect property investment is where the asset is held through the group structure and will be necessary primarily where the Council is to act in the private rented housing market.

The Criteria For Investing

22. The Council will select investments for the purpose of regeneration or economic development (including housing) or a mixture of both, that meet the tests of viability that the Council has set. The Council may acquire and hold properties directly or through the group structure; all of these factors will be determined on a business case by case basis. The Council will prioritise investment opportunities within the district but will also retain the discretion to make investments outside the district within the geography of the LEP areas where it is a member. The Council may invest in the development of its own assets, acquire assets for development or invest in existing assets or consider investing via capital property investment funds.

23. Officers will continue to monitor prevailing market conditions to enable the Council to reserve discretion to acquire assets that may fall outside the

investment criteria outlined above if a strong case can be made that the investment provides an exceptional opportunity to promote the Council's main priorities and values as described in this report. The Council will use the Estates Gazette Interactive (EGI) software to support its market analysis.

24. Having assessed opportunities against their ability to cover borrowing costs by calculating NPV and IRR of the proposed opportunity, further evaluation will then be undertaken against a comprehensive set of defined property specific criteria as set out in Appendix 1 below. The Council will consider these criteria and seek to achieve the appropriate balance of risk and reward proportionate to the size of the investment being considered. The Council will score each investment proposal using the matrix; any proposal will need to score a minimum of 250 to be considered acceptable as an investment candidate. Those proposals scoring 250 and above will then be subject to further appraisal including building survey and formal valuation work. The ideal property investment would be a freehold in a town centre, let to a tenant with a strong financial covenant for a long term on a full repairing and insuring lease.

25. Any direct asset acquisition would be subject to purchaser's costs, typically these would include legal fees, agent valuation and survey fees together with Stamp Duty Land Tax (SDLT), typically these will amount to 6-7% of the asset purchase price. In addition the Council will have to take into account the cost of borrowing through PWLB and an amount for minimum revenue provision. The following table illustrates the summary financial modelling that could be applicable to the Capital Portfolio Fund taking into account the outline financing and purchase costs as indicated above:

Table 1

Simplistic Scenario Modelling of the Potential Returns from Capital Portfolio Fund Proposals assuming 3% PWLB rate (average over term) - Full Year Revenue Budget ongoing effect	**Eventual Borrowing - 2% net return**	**Eventual Borrowing - 1.25% net return**	**Eventual Borrowing - 1.625% (average) net return**
Basic Investment before Stamp Duty and costs	£23,419,200	£23,419,200	£23,419,200
Acquisition Costs @ 6.75%	£1,580,800	£1,580,800	£1,580,800
Total Capital Expenditure	**£25,000,000**	**£25,000,000**	**£25,000,000**
Minimum Return Required to Cover Funding Costs			
Financing costs - PWLB Interest 3%	£750,000	£750,000	£750,000
Financing costs - MRP 50 year basis	£500,000	£500,000	£500,000
Total Funding annual costs	**£1,250,000**	**£1,250,000**	**£1,250,000**
Administration Costs	80,000	80,000	80,000
Total Costs	**1,330,000**	**1,330,000**	**1,330,000**
Net Revenue Income potential @2%, 1.25% & 1.625%	500,000	312,500	406,250
Total Rent Required to meet return £	**1,830,000**	**1,642,500**	**1,736,250**
% Total gross return on £25m investment	**7.320%**	**6.570%**	**6.945%**
Total return required to Break Even as % of £25m investment	**5.320%**	**5.320%**	**5.320%**
Difference is % Potential Net Return	**2.000%**	**1.250%**	**1.625%**

26. In terms of management of risk it is understood that there are inherent risks associated with investments and each business case will be required to identify the risks associated with that investment proposal and the Council will need to balance risk and reward proportionate to the scale of the investment proposed. It is to be expected that some of the risks the Council will be expected to consider will be:

- Capital values and rental values can fall as well as rise.
- Borrowing costs fluctuate and could increase.
- Vacancies (voids) in the portfolio will reduce average yield. As well as lost rental income on vacant units, the Council could find itself liable for a share of on- going costs which a tenant would normally pay such as empty property rates.
- Disputes with tenants. Common disputes include ongoing maintenance and repair costs of buildings and the ability to recover those costs from tenants.
- Tenant default, and that financing costs could rise.
- External factors. Property investment is subject to factors the Council cannot control, e.g. failure of tenants, poor building management, changes in perception of what is a good location, economic downturn etc.
- Ease of market exit (sale)
- Changes in government policy
- Sectoral changes

27. The overall investment value and range of assets acquired needs to represent a good mix and spread of risk, size and location across differing sectors to ensure that the portfolio is resilient to change that might lie outside the Council’s control. It is important that the Council maintains an adequate level of reserves and balances to ensure it can manage any down turn in the property market and limit the impact it will have on revenue income.

28. The Council aims to hold a mix of the following as its target portfolio:

I. Retail Investments that:

i. Are located in vibrant town centre or local centre locations; or

ii. Are located in out of town retail parks; or

iii. Are located on key transport corridors where there are local regeneration benefits; and

iv. Are let to tenants with a good covenant and a minimum of five years unexpired lease term; or

v. Are let to tenants with lesser terms where the Council has alternative regeneration reasons for investing; and

vi. Produce a gross return on investment that meets agreed viability criteria and

vii. Are in lot sizes of £250k - £5m.

II. Office Investments that:

i. Are in vibrant town centre or local centre locations; or

ii. Are located on business parks; and

iii. Are let to tenants with a good covenant and ideally at least five years unexpired lease term; and

iv. Produce a gross return on investment that meets agreed viability criteria and

v. Are in lot sizes of £1m - £5m.

III. Industrial/Warehouse Investments that:

i. Are located on good highway routes; or

ii. Are located on vibrant industrial estates; and

iii. Are of modern construction and capable of flexible layouts; and

iv. Are let to tenants with a good covenant and ideally a minimum of five years unexpired lease term; or

v. Are let to tenants with lesser terms where the Council has alternative regeneration reasons for investing; and

vi. Produce a gross return on investment that meets agreed viability criteria and

vii. Are in lot sizes of £250k - £5m.

IV. Leisure/ Food & Beverage Investments that:

i. Are located in vibrant town centre or local centre locations; or

ii. Are located in out of town retail parks; or

iii. Are let to tenants with a good covenant and ideally at least five years unexpired lease term; and

iv. Produce a gross return on investment that meets agreed viability criteria and

v. Are in lot sizes of £500k - £5m.

V. Mixed Use Investments:

i. The Council will consider combinations of mixed residential, retail, leisure and office investments that meet a blend of the criteria set out above.

29. It is also important that the Council actively manages the investment portfolio. At an operational level this will in most cases fall to the Council's Estates Officer with the support of the Facilities Management Team. Such work will include matters such as rent collection, service charge calculation and collection, building maintenance, security, dealing with tenants, re-letting empty units, negotiating terms of rent reviews, dilapidation claims and the general miscellany of property management. In terms of strategic management this will fall to the Property & Investment Manager to ensure that the portfolio is delivering the investment returns that were envisaged and to always act in the Council's financial interest which will also include appropriate disposal of investments that are underperforming or no longer meet the Council's objectives, as well as acquisition. As part of this management of the portfolio the Property & Investment Manager in conjunction with the Financial Services Manager will consider the liquidity needs of the Council and form a view of the prevailing market conditions to determine whether it would be necessary and/or advantageous to dispose of any of its investments. The Council has not yet adopted a Portfolio Management Strategy, but acknowledges that this will need to follow when the first investments are made.

30. The Property & Investment Manager will also be responsible for providing regular reports on management issues and the performance of the Council's investment portfolio. The Council's Cabinet and Corporate Leadership Team will receive a report from the Property & Investment Manager bi-annually which will update on the individual asset management plans, the overall asset investment portfolio against expectations at the time of purchase and performance against prevailing market conditions. This will then feed into the indicators established within the Capital Strategy. If any investment is failing to perform as expected it will be necessary to consider whether such investment should continue to be held (and whether the performance is expected to change) or whether it should be disposed of. These reports can be made available to other meetings of the Council as required.

Appendix 1

Criteria	**score** **weight**	**5** **Excellent/ very good**	**4** **Good**	**3** **Acceptable**	**2** **Marginal**	**1** **Poor***
Location	20	Major prime	Micro prime	Major secondary	Micro secondary	Tertiary
Tenancy strength	20	Single tenant with strong financial covenant	Single tenant with good financial covenant	Multiple tenants with strong financial covenant	Multiple tenants with good financial covenant	Tenants with poor financial covenant strength
Tenure	10	Freehold	Lease 125 years plus	Lease between 75 & 125 years	Lease between 10 & 75 years	Lease less than 10 years
Occupiers lease length	20	Greater than 15 years	Between 10 and 14 years	Between 9 & 6 years	Between 3 & 5 years	Less than 2 years or vacant
Repairing terms*	10	Full repairing & insuring	Internal repairing - 100% recoverable	Internal repairing - partially recoverable	Internal repairing - non recoverable	Landlord
Building Quality/ Obsolescence	15	Newly Built	Recently Refurbished	Average condition and likely to continue to be fit for current use for 25+ years	Aged property with redevelopment potential	Nearing end of useful life/ use unlikely to continue when lease expires
Investment size	5	Between £10m & £15m	Between £5m & £10m	Between £2m & £5m	Between £250k & £2m	Less than £250k or more than £25m

** unless there is an overwhelming case for investment that exceeds the Council's expectations*

Criteria Explained:

Location

Major Prime	Micro Prime	Major Secondary	Micro Secondary	Tertiary
Central Birmingham	Edge of Central Birmingham	Worcester, Solihull, Kidderminster, Lichfield, Tamworth, Burton, Cannock	Market and smaller Towns	Local Centres

Tenancy Strength

Single tenant with strong financial covenant	Single tenant with good financial covenant	Multiple tenants with strong financial covenant	Multiple tenants with good financial covenant	Tenants with poor financial covenant strength
All tenant covenants are considered in terms of their financial strength, risk of business failure, length of building occupancy and whether there are rent or rates arrears. The Council will use the conventional means of assessing tenant covenants which might for example include Dun and Bradstreet.				

Tenure:

Freehold	Lease 125 years plus	Lease between 75 & 125 years	Lease between 10 & 75 years	Lease less than 10 years
This is the best interest in the property and would be in perpetuity.	Leasehold interests can vary considerably in length, the longer the better.			

Lease Length:

Greater than 15 years	Between 10 and 14 years	Between 9 & 6 years	Between 3 & 5 years	Less than 2 years or vacant
The length of the tenants' lease will determine the guarantee of rental income; the longer the term remaining, the better and more secure the income. Most leases will have break and review options and these will need to be considered in the context of length of time the income can be guaranteed and also to potential for uplift in rent.				

Repairing Terms:

Full repairing & insuring	Internal repairing - 100% recoverable	Internal repairing - partially recoverable	Internal repairing - non recoverable	Landlord
The tenant has responsibility for all external and internal maintenance, decoration and repair as well as liability for insuring the building.	The tenant will have lesser obligations for maintenance, decoration, repairs and insurance confined to the parts the occupy. Some costs are recoverable by the landlord through a service charge. The landlord retains responsibility for structural and external repairs.			The landlord is responsible for all external and internal repairs.

Building Quality/Obsolescence:

Newly Built	Recently Refurbished	Average condition and likely to continue to be fit for current use for 25+ years	Aged property with redevelopment potential	Nearing end of useful life/ use unlikely to continue when lease expires
Consideration will be given to building age and quality in determining the repairs and maintenance that might be required immediately to comply with statutory requirements through to the likely general maintenance required from year to year.				

Newly Built	Recently Refurbished	Average condition and likely to continue to be fit for current use for 25+ years	Aged property with redevelopment potential	Nearing end of useful life/ use unlikely to continue when lease expires
The building condition surveys will advise on these elements.				

Investment Size:

Between £10m & £15m	Between £5m & £10m	Between £2m & £5m	Between £250k & £2m	Less than £250k or more than £25m
The lot size will be considered as part of the overall offer. The Council plans to develop a balanced portfolio of lot sizes.				

APPENDIX 2

Stage	By whom	Responsibility	Checklist Stage (Appendix 3)
Investment Opportunity Identification	Initial identification of investment opportunities	Property & Investment Manager	Stage 1 -Initial Screening
Initital screening	Basic assessment eg is it in the identified geography	Property & Investment Manager	
High level opportunity assessement	More detailed review of opportunity inc. scoring again criteria matrix	Property & Investment Manager/Financial Services Manager	Stage 2 - Initial Evaluation
Pre offer evaluation	Financial modelling to test returns on borrowing, NPV and IRR; initial property/leave due diligence	Property & Investment Manager/Financial Services Manager/Property Solicitor	Stage 3 - Detailed Assessment (pre offer)
Conditional offer		Corporate Director: EPP in consultation with Cabinet Member for Planning & Economic Regeneration	
Full business case	Full business case inc. valuation, building condition and financial modelling	Property & Investment Manger/Financial Services Manager	Stage 4 - Detailed & Independent Review
Member approval	Reports to Committees	Overview & Scrutiny (or sub Committee) and Cabinet (or sub Committee	
Proceed	Implement purchase	Property & Investment Manager	Stage 5 - Proceed

Asset Investment Checklist (Note: This checklist may be updated from time to time as appropriate)

Property Details
Address:
Guide Price:

Asset Investment Strategy - Workflow		
Stage 1	Investment Screening	✓
Stage 2	Initial Evaluation	
Stage 3	Detailed Assessment (pre-offer)	
Stage 4	Detailed Analysis & Independent review	
Stage 5	Proceed	

Stage 1: Investment Screening **Date:**

Ref	Action	Responsibility	Y/N	Comments
1.1	Have we received sufficient investment details (include price, passing rent,) to screen investment?	Property & Investment Manager		
1.2	Is the property within district or within the boundaries of the Worcestershire LEP and GBSLEP?	Property & Investment Manager		
1.3	Is the investment consistent with our Asset Investment Strategy?	Property & Investment Manager		
1.4	Has a '***Property Acquisition Summary'*** been prepared (and passed to Finance) to include:	Property & Investment Manager		
	a. Asking price			
	b. Location			

	c. Construction and Size			
	d. Basic Tenancy details			
	e. Timescales for Submission of Bids			
	f. Key contacts			
	g. Unique reference number			
	h. Initial (internal) assessment of asset life			
1.5	Has initial high level financial appraisal been completed?	Financial Services Manager		
1.6	Does the investment meet base requirements? (IRR & NPV show that investment returns cover the cost of borrowing)	Financial Services Manager		
1.7	Does the Corporate Director: Economic Prosperity and Place support the investment being evaluated further	Corporate Director: Economic Prosperity & Place		

Stage2: Initial Evaluation **Date:**

Ref	Action	Responsibility	Y/N	Comments
2.1	Has the legal title been considered?	Property		

		Solicitor		
2.2	Does the asset have planning permission/meet planning conditions?	Property & Investment Manager		
2.3	Have we assessed the tenancy strength/length?	Property & Investment Manager/ Financial Services Manager		
2.4	Have we modelled different asset lives?	Financial Services Manager		
2.5	Have we determined whether an option to tax has been taken?			
2.6	Have we included SDLT, agent fees and legal fees, survey fees, capital expenditure?	Financial Services Manager		
2.7	Have we modelled lease events – voids, reversion (note assumptions)?	Financial Services Manager		
2.8	Have we identified an exit strategy (explain)?	Property & Investment Manager		
2.9	Have we confirmed that this falls within the available approved budget?	Financial Services Manager		

2.10	Based on the above is the recommendation to proceed to detailed assessment?	Property & Investment Manager /Financial Services Manager Corporate Director: Economic Prosperity & Place/Corporate Director: Resources		

Stage 3: Detailed Assessment (Pre-Offer) **Date:**

Ref	Action	Responsibility	Y/N	Comments
3.1	Has a site visit been undertaken?	Property & Investment Manager		
3.2	Has an evaluation been undertaken of underlying economics?	Property & Investment Manager		
3.3	Has consideration of the prevailing property market been undertaken (to assess if rents are over rented and position if reversion)?	Property & Investment Manager		
3.4	Have the existing lease(s) been reviewed (breaks, rent review clause, alienation, tenant obligations) and lease summary completed for finance?	Property & Investment Manager		
3.5	Has consideration of prevailing capitalisation been undertaken?	Property & Investment Manager		
3.6	Is this a TOGC?	Financial Services Manager		
3.7	Has the risk matrix been completed and does the opportunity pass the 250 threshold?	Corporate Director: Economic Prosperity & Place/ Property & Investment		

		Manager		
3.8	Has a ‘***detailed financial assessment’*** been undertaken?	Financial Services Manager		
	a. Have assumptions been reviewed / tested?	Financial Services Manager/ Property & Investment Manager		
	b. rental income (include comment / explain outcome)	Financial Services Manager/ Property & Investment Manager		
	c. asset lives (include comment / explain outcome)	Financial Services Manager/ Property & Investment Manager		
	d. void rates (include comment / explain outcome)	Financial Services Manager/ Property & Investment Manager		

	e. management costs (include comment / explain outcome)	Financial Services Manager/ Property & Investment Manager		
	f. Have we modelled different offer prices MV, MV+-5%, MV+-10%?	Financial Services Manager/ Property & Investment Manager		
	g. Have we considered repairing and insuring liabilities?	Property & Investment Manager		
3.9	Does the detailed analysis confirm that the financial return from the opportunity is sufficiently robust to constitute a viable opportunity given the assessed risk score?	Corporate Director: Resources		
3.10	Have we confirmed that this still falls within the available approved budget?	Financial Services Manager		
3.11	Have the non treasury prudential indicators been updated to provide a draft set of results?	Financial Services Manager (Principal Accountant)		
3.12	Based on all of the above does the "Officer Panel" recommend making an offer?	Corporate Director:		

		Economic Prosperity & Place/ Property & Investment Manager Corporate Director: Resources/Financial Services Manager		
3.13	Have the Corporate Director: Resources and the Monitoring Officer agreed to proceed based on being provided with all the updated information and completed checklist?	Corporate Director: Resources/Solicitor to the Council		

Stage 4: Detailed Analysis & Independent review **Date:**

Ref	Action	Responsibility	Y/N	Comments
4.1	When was a financial offer submitted, level and what is the associated conditionality?	Property & Investment Manager		
4.2	Was the offer accepted?	Property & Investment Manager		
4.3	What are the timescales associated with the transaction? Have we agreed an exchange/completion date? (details)	Property & Investment Manager /Property Solicitor		
4.4	Will a deposit be paid on exchange? If so has the treasury management team been notified for cashflow purposes?	Property & Investment Manager /Property Solicitor		
4.5	If a deposit is payable on exchange of contract have we ensured that a tax point will not be created upon transfer (TOGC)?	Financial Services Manager		
4.6	Have dates been set for Cabinet and Scrutiny sub-committee consideration? (details)	Property & Investment Manager/ Corporate Director: Economic Prosperity &		

		Place		
4.7	Have we appointed a solicitor? (details)	Property Solicitor		
4.8	Have all tax implications been considered and appropriate advice sought (including TOGC)?	Financial Services Manager		
4.9	Has the timeline for opting to tax (OTT) been prepared?	Financial Services Manager		
4.10	Have we done an Environmental Check (Enviro Search)	Property & Investment Manager		
4.11	Have we requested a Structural Survey (Incl M&E) to be undertaken by an independent third party?	Property & Investment Manager		
	a. Are our detailed assumptions correct?	Property & Investment Manager		If No, revised ‘***detailed financial assessment’*** *required*
4.12	Have we requested a Market Valuation to be undertaken by an independent third party?	Property & Investment Manager		
	a. Are our detailed assumptions correct? (Asset value, market rent etc.)	Property & Investment Manager		If No, revised ‘***detailed financial assessment’*** *required*
4.13	Have we considered lease characteristics (include but limited to):	Property & Investment Manager		
	a. Rent review >5 years for lease renewal/tenant break option	Property & Investment		If No, revised ‘***detailed financial assessment’***

		Manager/ Financial Services Manager		*required*
	b. Rent review – upward only	Property & Investment Manager/ Financial Services Manager		If No, revised ‘***detailed financial assessment’*** *required*
	c. OTT and TOGC clauses within the contract	Property & Investment Manager/ Financial Services Manager		If No, revised ‘***detailed financial assessment’*** *required*
4.14	Have we sent the insurance clauses in the contract to insurers for review?	Property & Investment Manager		
	Action	**Responsibility**	**Y/N**	**Comments**
4.15	Have we obtained details of the Energy Performance Certificate?	Property Solicitor/ Property & Investment Manager		
	a. Is this at category D or above?	Property Solicitor/ Property & Investment Manager		

	b. If no to 4.15a. please provide further details to be considered	Property Solicitor/ Property & Investment Manager		
	c. If no to 4.15a. are there increased costs to be taken into account or future work to bring up to standard?	Property & Investment Manager		If Yes, revised ‘***detailed financial assessment’*** *required*
4.16	Have we undertaken Land searches? Please provide details.	Property Solicitor		
4.17	Have we adequately assessed tenant strength/covenants or is external advice/opinion required?	Property & Investment Manager /Financial Services Manager		
4.18	Has the risk matrix been completed and does the opportunity still pass the 250 threshold?	Corporate Director: Economic Prosperity & Place/ Property & Investment Manager		
4.19	Have the non treasury prudential indicators been updated to provide a revised draft set of results?	Financial Services Manager (Principal Accountant)		
4.20	In light of the due diligence undertaken do officers wish to proceed?	Corporate Director: Economic		

		Prosperity & Place/Corporate Director: Resources		
	If yes to 4.19			
4.21	Have we prepared a 'Full Business Case'	Property & Investment Manager		
4.22	Has independent scrutiny of the governance and due diligence checks been sought and report received?	Corporate Director: Resources		
4.23	Have all sections of the checklist above been completed?	Corporate Director: Resources/Solicitor to the Council		
4.24	Has the 'Full Business Case' been circulated to delegated Cabinet and Scrutiny sub-committees?	Property & Investment Manager Corporate Director: Economic Prosperity & Place		
4.25	Have members agreed to proceed following scrutiny and consideration of the business case	Corporate Director: Economic Prosperity & Place		

Stage 5: Proceed **Date:**

Ref	Action	Responsibility	Y/N	Comments
5.1	When was member approval given to proceed (O&S & Cabinet dates)	Property & Investment Manager		
5.2	Have we exchanged contracts? Date	Property Solicitor		
5.3	Have we paid a deposit on exchange? Attach CHAPS form	Property Solicitor/Financial Services Manager		
5.4	Has the treasury management team been notified of the intended completion date for cashflow purposes?	Financial Services Manager		
5.5	Have we notified insurers of the acquisition and is insurance in place?	Financial Services Manager		
5.6	Have we notified HMRC of decision to OTT and/or TOGC where applicable?	Financial Services Manager		

5.7	Has the instruction to pay been passed to the treasury team?	Property Solicitor/ Property & Investment Manager		
5.8	Completion Date	Property Solicitor/ Property & Investment Manager		
5.9	Have we paid SDLT?	Financial Services Manager		
5.10	Have we created an individual management plan?	Property & Investment Manager/ Estates Surveyor		
5.11	Has the Management plan been completed and circulated?	Property & Investment Manager /Estates Surveyor		

Checklist Complete: ______________________

Date: ______________________

Authorised: ....

CAPITAL STRATEGY SCHEME OF DELEGATION

(i) Full Council

- receiving and reviewing reports on Capital Strategy policies, practices and activities
- approval of annual strategy and strategies for Capital Portfolio Fund and Development Loans Fund.

(ii) responsible body - Cabinet after receiving recommendation from Overview and Scrutiny Committee

- recommending approval of/amendments to the organisation's Capital Strategy
- receiving and reviewing regular monitoring reports and acting on recommendations

(iii) Body/person(s) with responsibility for scrutiny – Overview and Scrutiny Committee

- reviewing the Capital Strategy policy and procedures and making recommendations to the responsible body.

Note: Cabinet on the 20th September 2017 delegated to a sub-committee its decisions on individual Capital Portfolio investments and on Loans from the Development Loans Fund.

The Overview and Scrutiny Committee decided on the 5th October 2017 to establish a sub-committee with terms of reference to scrutinise, and make recommendations upon business cases in respect of the capital portfolio fund and development loan fund.

<u>THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER (with revisions to include non-treasury investments)</u>

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term (20 year) timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following *(TM Code p54): -*
    - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
    - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
    - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury*

investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*

- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

WYRE FOREST DISTRICT COUNCIL

CABINET
27th March 2018

Budget Monitoring Third Quarter 2017-18

OPEN	
CABINET MEMBER:	Councillor N J Desmond, Cabinet Member for Resources
RESPONSIBLE OFFICER:	Corporate Director: Resources
CONTACT OFFICERS:	Tracey Southall Ext. 2100 Tracey.southall@wyreforestdc.gov.uk Helen Ogram Ext. 2907 Helen.Ogram@wyreforestdc.gov.uk Kath Pearsall Ext.2165 Kathryn.pearsall@wyreforestdc.gov.uk Lisa Hutchinson Ext. 2120 Lisa.Hutchinson@wyreforestdc.gov.uk
APPENDICES:	Appendix 1 - Wyre Forest District Council Revenue Budget Total Requirements - District Council Purposes Appendix 2 - Budgetary Control Report - Revenue Appendix 3 - Capital Programme 2017/18 Appendix 4 – Wyre Forest Forward Appendix 5 - Budget Risk Matrix *The appendices to this report have been circulated electronically and a public inspection copy is available on request. (See front cover for details.)*

1. PURPOSE

1.1 The purpose of the report is to brief members on the Council's financial performance for the period ending 31st December 2017 and to present the current projected outturn position for the 2017-18 financial year. It provides forecasts on revenue, the capital programme and the Medium term Financial Strategy (MTFS). Headlines are:

Revenue – the forecast outturn is an estimated underspend of £103,600.

Capital – the forecast outturn is £15.43m (£3.43m excluding the Capital Portfolio Fund and Development Loans Fund). Estimated under spend of £0.46m with £2.43m anticipated being slipped to future financial years.

1.2 The report also briefs members on current progress against the savings and efficiency targets being delivered by the Wyre Forest Forward Programme. The target for 2017-18 has been 100% achieved.

1.3 The report informs members of the Housing Benefit Overpayment debt position and the Sundry/Property debt position as at 31st December 2017.

- **Housing Benefits overpayment recovery**- The total debt outstanding at 31st December is £965,000 which represents an 8% increase over the balance outstanding at the end of quarter 2 (30th September).

- **Sundry/Property Debt** - The total debt outstanding at 31st December was £878,000 which represents a 34% increase over the balance outstanding at the end of quarter 2 (30th September). The overdue debt has increased by £5,000 or 3% during the quarter. The increase in total debt outstanding is due to quarterly invoices being raised for shared services at the end of the quarter. These invoices have now been settled.

2. RECOMMENDATIONS

The Cabinet is asked to DECIDE:-

2.1 That the projected budget variations and comments outlined within this report and appendices 2 to 5 be noted.

3. BACKGROUND

3.1. Budget projections are reviewed regularly and reported to Cabinet on a quarterly basis. The 2018-21 Medium Term Financial Strategy (MTFS) was approved by Council on 21st February 2018. The new MTFS incorporated growth or savings items that are impacting on 2017-18 budgets and performance is measured against the revised budget presented within the 2018-21 Strategy (Appendix 1). The current forecast shows a projected under spend of £107,600 against the revised budget and if achieved at year end will be a positive impact on the useable reserves available to support the MTFS in 2018-19 and beyond. Experience has shown that in general managers over estimate costs and under estimate income at this stage of the annual financial cycle, however the realignment of the budget to reflect previous trends in under spend/overachievement of income at Final Outturn should reduce the extent of under spends for 2017-18.

3.2. The balanced budget approved by Council focuses on ensuring that the Council optimises the full range of income sources that affect its overall budget including Council Tax and Business Rates revenue, external specific grants, fees and charges and other elements of income from commercial activities including returns from property and treasury investments.

3.3. The latest forward projection of business rates income for 2017-18 shows modest growth above the assumptions built into the MTFS. Wyre Forest District

Council is a member of the Worcestershire business rates pool and receives a share of growth achieved. The business rates equalisation reserve has been depleted during the year to support capital expenditure plans. Any over achievement of income from business rates will need to be transferred to this reserve to reinstate the balance held.

3.4. The 2018-21 Medium Term Financial Strategy makes modest assumptions about the income stream that is expected to be generated from the Capital Investment Fund and the Development Loans Fund. New guidance issued in late December on the affordability of capital spending plans includes new requirements for the capital strategy and new prudential indicators. The main objective of the new codes is to introduce greater focus on reporting and planning for long term financial risk implications in relation to non treasury investments. The new guidance is currently being interpreted and whilst it is anticipated that planned activity will not ultimately be constrained, further work is being progressed to refresh the Capital Portfolio Fund Strategy and Capital Strategy to incorporate the new requirements.

4. FINANCIAL PERFORMANCE

4.1 Overview

The monthly budget monitoring includes the forecast position for the current financial year. Revenue summary show gross expenditure by Directorate and where some costs are funded by reserves this is incorporated to provide the net position.

Revenue	The approved budget is £12.287 million and the forecast outturn is £12.183 million which is an under spend of £103,600. This represents an improvement on the previously reported position.
Capital	The original approved budget was £42.81million. Slippage from 2016-17 totalled £1.98 million, less the re-phasing (slippage) of £27.08 million to 2018-19, and additional in-year approvals of £0.61 million gave a revised total Capital Programme of £18.32 million. The net forecast outturn is £15.43 million. This represents a reduction of £27.45 million from the previously reported position.

4.2 Summary Revenue Forecast variances by Directorate

4.2.1 The following table details the current outturn position against the **REVISED** budget for each Directorate, also the net income from the Capital Account that determines the total net revenue expenditure, endorsed by Cabinet on 19th December 2017 (approved by Council on 21st February 2018).

	Original Budget 2017-18 £000	Revised Budget 2017-18 £000	Quarter 3 31st Dec 2017 £000	Final Predicted Outturn £000	Variance against Revised Budget £000
Community Well-Being and Environment	4,696	4,674	3,074	4,733	59DR
Economic Prosperity and Place	2,409	2,607	1,926	2,620	13CR
Resources	3,991	3,738	4,112	3,744	6DR
Chief Executive and Solicitor to the Council	1,708	1,776	1,280	1,776	-
Capital Account	299CR	508CR	878CR	538CR	30CR
Pay and Gen Admin				100CR	100CR
Business rates payable 2017 list adjustments				26CR	26CR
TOTALS	12,505	12,287	9,514	12,183	104CR

The projected outturn at 31st March 2018 is an under spend of £104,000. The main variances are:

Expenditure

- **£100,000 Favourable:** Corporate miscellaneous savings in pay and admin costs
- **£25,000 Favourable:** Reduction in external borrowing costs due to slippage in capital programme
- **£26,000 Favourable:** Business rates bills - transitional protection awarded to smooth the increase in rateable values in the 2017 valuation list
- **£19,900 Adverse:** Overall increase in net cost of the Town Hall (increased expenditure and reduced income)
- **£10,000 Adverse –** Increased cost of homelessness reduction due to delay in occupation of rooms at New Street, Stourport as a result of snagging issues with Contractor.

Income

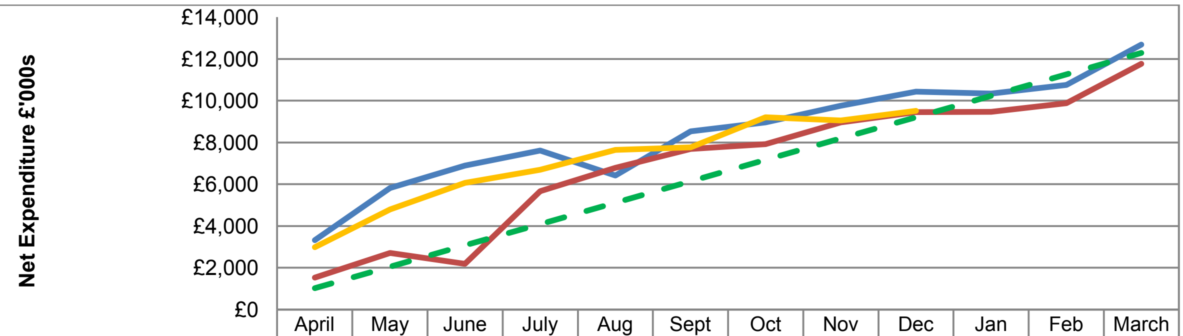
- **£37,000 Favourable:** Increase in private sector housing civil penalties and HMO licences
- **£10,000 Favourable:** Additional sales and events at Bewdley Museum and TIC
- **£5,000 Favourable:** Increased interest received on treasury investments.
- **£20,000 Favourable:** Increase in net income from on-street parking but offset by

- **£48,000 Adverse:** Net reduction in income from off-street car parking (£75k reduced income offset by £27k reduced costs)
- **£21,500 Adverse:** Reduction in cemetery income due to limited availability of new plots and irrecoverable costs of burial.
- **£15,000 Adverse:** Reduction in court costs awarded against local tax payers – an under achievement of higher income target as a result of budget realignment exercise in MTFS

4.2.2 **Earmarked Reserves**
Following the review of Earmarked Reserves, undertaken as part of the preparation of the 2018-21 MTFS, a new General Risk Reserve will be created as at 31st March 2018 and some individual reserves will be written back to service accounts. It is anticipated that circa £240k will be released back into General Reserves. The new methodology is likely to result in fewer reserves being created as carrying forward under spends as earmarked reserves is explicitly discouraged. This will increase the probability of general budget under spends.

4.2.3 **Net Revenue Expenditure profile (including commitments) during 2017-18 compared against Revised Budget** - The level of net expenditure represents the level of resource employed by the Council in order to undertake its statutory and discretionary services. The Council's commercial activity is only undertaken if the charges made cover the costs of the service provided or make a contribution to the Council's overheads.

4.2.4 The profile of net expenditure varies against budget, not only because of the fluctuation in income, but also to reflect the seasonal variations in activity and the way that payments are made to, and received from organisations, including Government and other Councils. This is shown in the following graph:



	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March
Cumulative 2015/16	£3,316	£5,823	£6,896	£7,621	£6,412	£8,527	£8,956	£9,766	£10,438	£10,339	£10,757	£12,687
Cumulative 2016/17	£1,536	£2,709	£2,192	£5,672	£6,785	£7,691	£7,926	£8,968	£9,457	£9,471	£9,875	£11,773
Cumulative 2017/18	£2,979	£4,792	£6,069	£6,690	£7,647	£7,770	£9,214	£9,049	£9,514			
Cumulative Budget	£1,024	£2,048	£3,072	£4,096	£5,119	£6,143	£7,167	£8,191	£9,215	£10,239	£11,263	£12,287

The Quarter 3 (December) position includes over £2,530k of commitments to cover expenditure for the whole financial year.

4.3 **Budget Realignment update**

4.3.1 The original approved budget was realigned during preparation of the 2018-21 MTFS in light of the 2016-17 final account savings to reduce the likelihood of recurrent under spends in 2017-18. An optimistic stance was taken on the anticipated demand on budgets and £240k was returned to general reserves in 2017-18. The projected outturn against the realigned budgets is provided below.

	Budget alignment savings £	**Projected outturn variance against realigned budget £**	**Performance**
Housing Benefits – improved recovery of overpayments	-150,000	0	Achieved
Council Tax Court costs	-30,000	15,000	Under achieved
Energy Costs – procurement savings and energy efficiency measures	-21,340	0	Achieved
On-Street parking enforcement	-10,000	-20,000	Over achieved
External Income Wyre Forest House	-4,600	0	Achieved
Business rates for Council premises	-4,700	-26,000	Over achieved
Other misc.	-26,820	0	Achieved
Total	238,160	-45,000	Achieved

4.4 **External Income Performance**

4.4.1 External Income is an important element within the finances of the Council, it affects the level of resources the Council can fund and makes an important contribution to a balanced budget. The level of external income predicted for 2017-18 is £6,434K, against a 2016-17 actual performance of £6,220K.

4.4.2 The Council will continue to expand its commercial activities during the period covered by the medium term financial strategy approved at Council on 21st March 2018. The Corporate Leadership Team has allocated £200k from the Innovation Fund to provide essential capacity and resource for marketing and sales support to capture potential growth in key income generation areas and

Council has approved £250k Capital Funding to support business cases for commercial projects.

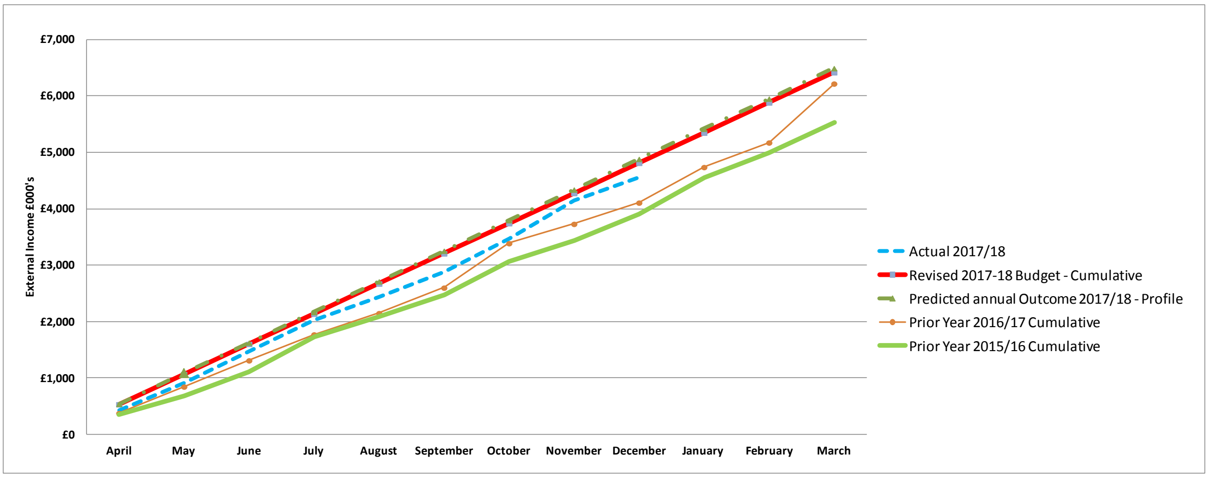
4.4.3 The increased reliance on demand led income to help close the funding gap is not without risk and performance against targets require careful monitoring. The Council is further developing its approach to forecasting income and enhancing its approach to budget forecasting. The new Commercial Activity Programme Board will review business cases for the development of income generating initiatives and will closely monitor performance against targets.

4.4.4 The actual year to date income at the end of quarter 3 is at 70% of the revised budget. When adjustments are made for contract arrangements paid annually in arrears (County Council, other Local Government bodies and treasury investments) the full year (outturn) projection is an over achievement of income, resulting in a positive variance to the revised budget, of £76,000. The table and graph below shows the performance against target for 2017-18.

	April **£000**	**May** **£000**	**June** **£000**	**July** **£000**	**Aug** **£000**	**Sept** **£000**	**Oct** **£000**	**Nov** **£000**	**Dec** **£000**	**Jan** **£000**	**Feb** **£000**	**Mar** **£000**
Prior Years												
2015/16	353	678	1,105	1,728	2,091	2,474	3,064	3,430	3,902	4,555	4,995	5,531
2016/17	380	849	1,314	1,774	2,151	2,603	3,390	3,733	4,109	4,740	5,175	6,220
Current Year												
Actual	426	909	1,468	2,026	2,433	2,879	3,477	4,152	4,559			
Income projections										5,419	5,954	6,496
Revised budget												6,420
Outturn variance												**76**

(Note figures are cumulative)

4.4.5 Actual performance to date exceeds comparative performance in 2016-17 by 11% (before adjustment for price inflation). The full year projection for 2017-18 is 3.4% above that achieved in 2016-17 suggesting that the projected additional growth is likely to be achieved.



4.4.6 Summary of Performance by Income Category

Category	Revised Budget 2017-18 £000	Actual December 2017 YTD £000	% Achieved Budget	Projected Year End Variance £000	% Achieved of projection
Fees and Charges	4,261	3,127	73.3%	82	74.5%
Grants and Subsidies	200	303	151.5%	-1	98.0%
Interest %	103	38	36.8%	5	35.1%
Other	56	39	69.6%	2	67.2%
Rental Income	884	634	71.7%	-30	74.2%
Shared Services Income	916	418	45.6%	18	45.9%
TOTAL	**6,420**	**4,559**	**71.0%**	**76**	**70.8%**

4.4.7 External Income budget variations - The following projected outturn variances against income budget have been identified.

	Variance £
Over achievement of targets	
Museum and TIC sales	17,800
Car Parking enforcement income	20,000
Private sector housing penalties	40,000
Jungle Gym	10,000
Additional contract work - Highways	30,000

Grounds maintenance	60,000
Misc. Small variances	25,120
Under achievement of target	
Kidderminster Town Hall	19,900
Temporary accommodation	10,000
Business continuity (offset by cost savings)	12,020
Cemetery – limited availability of plots	10,000
Car Parking – off street ticket sales	75,000
Net Total	**76,000**

Note these variances are reported gross and may be off-set by additional cost

4.5 **Capital Programme**

4.5.1 The approved (revised) capital programme 2017-18 is now £18.32m.This includes additional approvals of £0.61m in year, the re-phasing (slippage) from previous years of £1.98m, less the re-phasing to 2018-19 of £27.08m.

4.5.2 The gross expenditure to date is £1.78m (9.7%) and the Capital Programme is forecast to have an under spend of £0.46m.

4.5.3 The updated Capital Programme and Vehicle, Equipment and Systems Renewal Schedule for 2017-18, including slippage from 2016-17 is provided at Appendix 3.

4.5.4 Capital Programme variances are summarised in the table below:

	Commentary	**£000**
Over spends	None currently forecast	-
Under spends	Vehicle renewals – under spend on 10 vehicles	64
	Leisure Centre – release of contingency	395
	Miscellaneous	4
Re-phasing (Slippage)	Community Well-Being and Environment	211
	Economic Prosperity and Place	1,942
	Vehicle Renewals	273
Total		**2,889**

4.5.5 The majority of the spend on the Council's Capital Programme is financed from borrowing which has a revenue implication through interest charges and the statutory Minimum Revenue Provision (MRP).

5. **WYRE FOREST FORWARD SAVINGS PROGRAMME**

5.2 The programme was established to review of all aspects of the Council to ensure we deliver a balanced budget and services of real value to our residents. Substantial savings have already been achieved.

5.3 The budget approved for 2017-18 included budget reduction proposals totalling £1.816million, which is broken down in Appendix 4 and summarised in the table below. The target savings for 2017-18 have been fully achieved, helped greatly by the savings from the decision to pay 3 years in advance for the Pension Fund Deficit and the Budget realignment review.

	2017-18 £000	**2018-19 £000**	**2019-20 £000**	**2020-21 £000**
WFF Savings Target	1,816	2,426	2,732	2,737
WFF Savings achieved at 31/03/2017	1,716	1,709	1,805	1,816
Balance b/f 2017-18	**100**	**717**	**927**	**921**
WFF Savings achieved 2017/18				
- Pension deficit funding payment in advance	(143)	(259)	(358)	-
- Budget realignment	(233)	(156)	(155)	(150)
- Efficiency savings		(240)	(350)	(459)
WFF Savings Not Yet Achieved	(276)	62	64	312
New target MTFS 2018-21		50	75	100
Total WFF Savings Not Yet Achieved		**112**	**139**	**412**

5.4 The 2018-21 MTFS projects a funding gap in 2020-21 of £1.6 million, against this background it is essential that expenditure is kept within the overall approved budget and that longer term savings proposals continue to be developed so that the Council has as much flexibility as possible to meet the challenges which lie ahead.

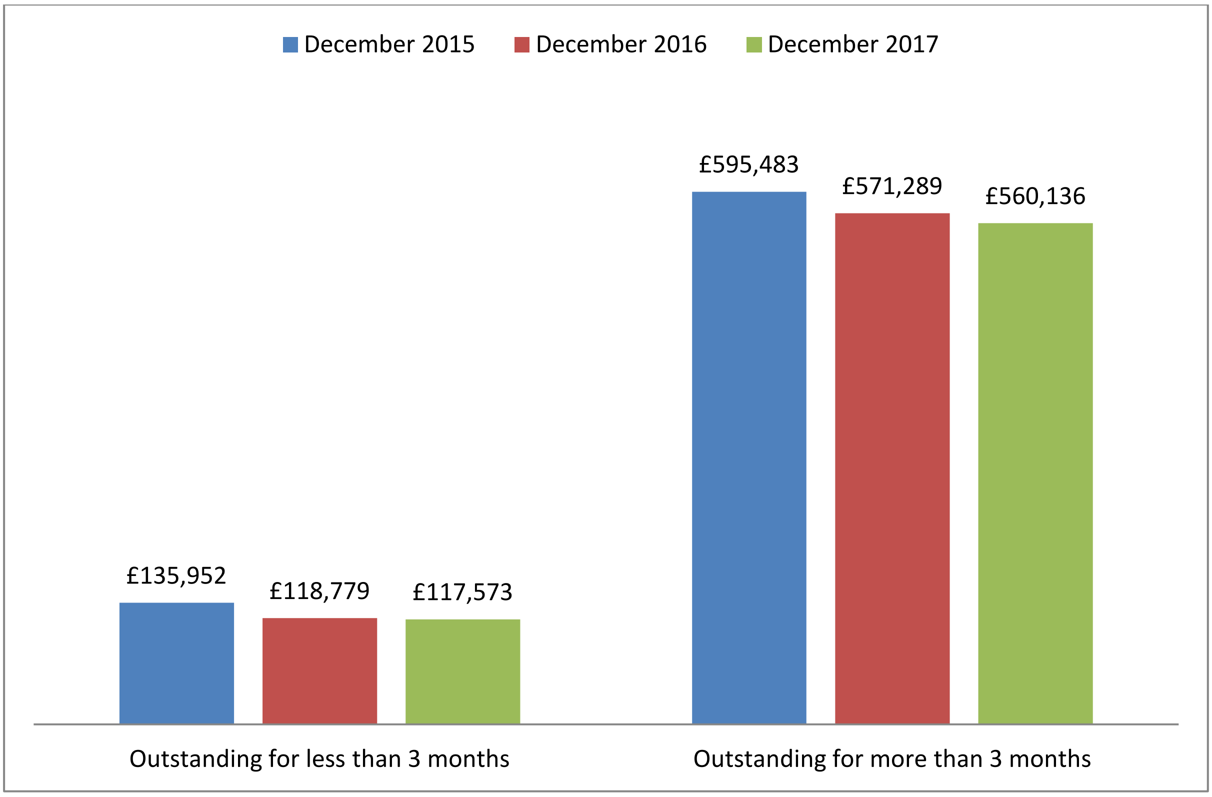
6. OUTSTANDING DEBT

6.1 This section details the Council's income collection position at the end of Quarter 3 (31st December 2017)

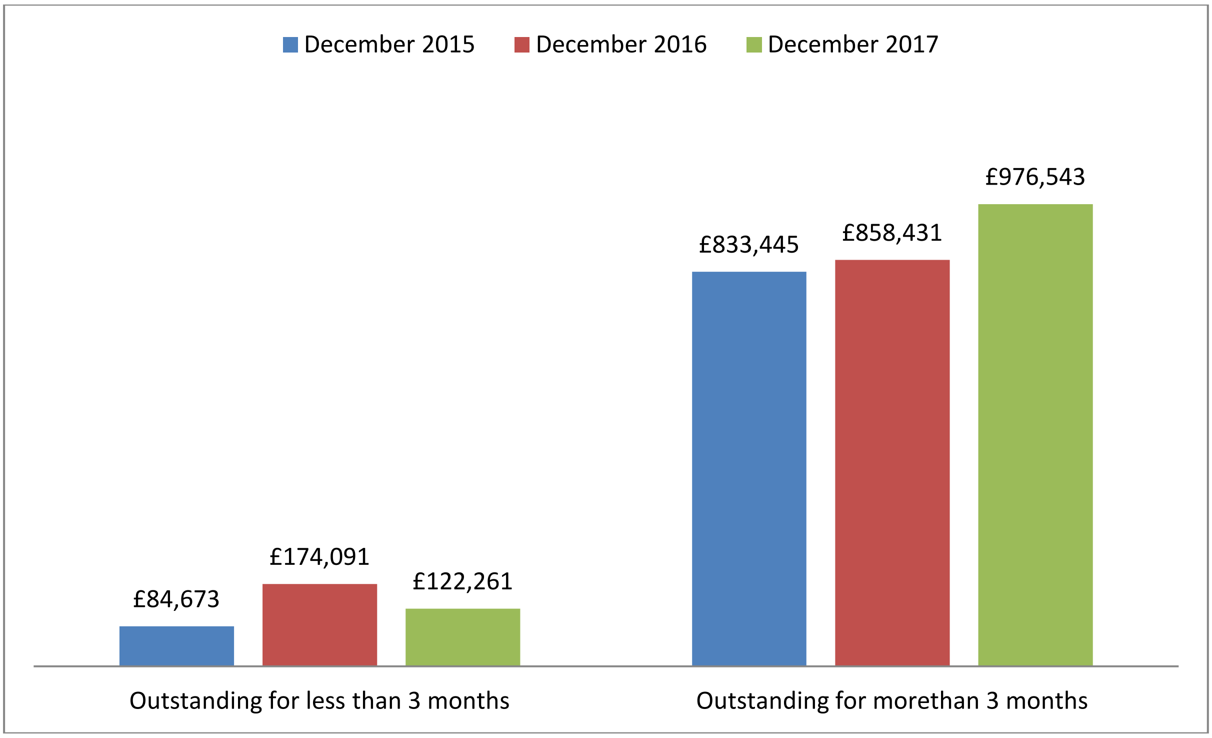
6.2 **Housing Benefit Overpayment Recovery**
Where customers have a change in their circumstances and we are later made aware of this, customers are expected to repay any Housing Benefit that has been overpaid. The overpayment is recovered from on-going benefit or if the

client no longer receives Housing Benefit via a customer invoice. The position relating to Housing Benefit overpayment is shown in the next two graphs:

<u>Recovery by On-going Benefit</u>

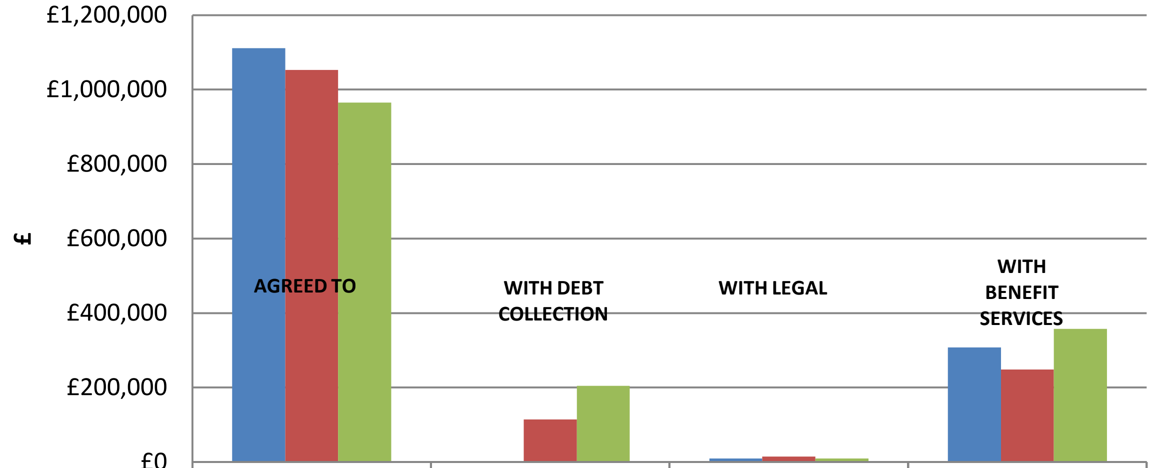


Recovery by Customer Invoice



Debts over three months old have agreements in place to pay, have been referred to the Council's Legal Services, or remain with the Benefit Service to pursue. The Council employs the Debt Collection Agency Dukes. Debts are referred as a last resort. As at December 2017 debts of £14,900 have been recovered at a cost of £2,317. The number of accounts, the value outstanding and how this will be collected is shown in the following graph:

Value and Number of Housing Benefit Overpayments Accounts and Status



	AGREED TO	WITH DEBT COLLECTION	WITH LEGAL	WITH BENEFIT SERVICES
	Dec 2017 - No of Accounts - 1266 Dec 2016 - No of Accounts - 1039 Dec 2015 - No of Accounts 1061	Dec 2017 - No of Accounts - 164 Dec 2016 - No of Accounts - 124 Dec 2015 - No of Accounts 16	Dec 2017 - No of Accounts 7 Dec 2016 - No of Accounts 12 Dec 2015 - No of Accounts 16	Dec 2017 - No of Accounts 425 Dec 2016 - No of Accounts 249 Dec 2015 - No of Accounts 382
December 2015	£1,110,958	£1,174	£9,514	£307,283
December 2016	£1,052,427	£114,195	£14,697	£248,402
December 2017	£965,017	£204,428	£9,593	£357,642

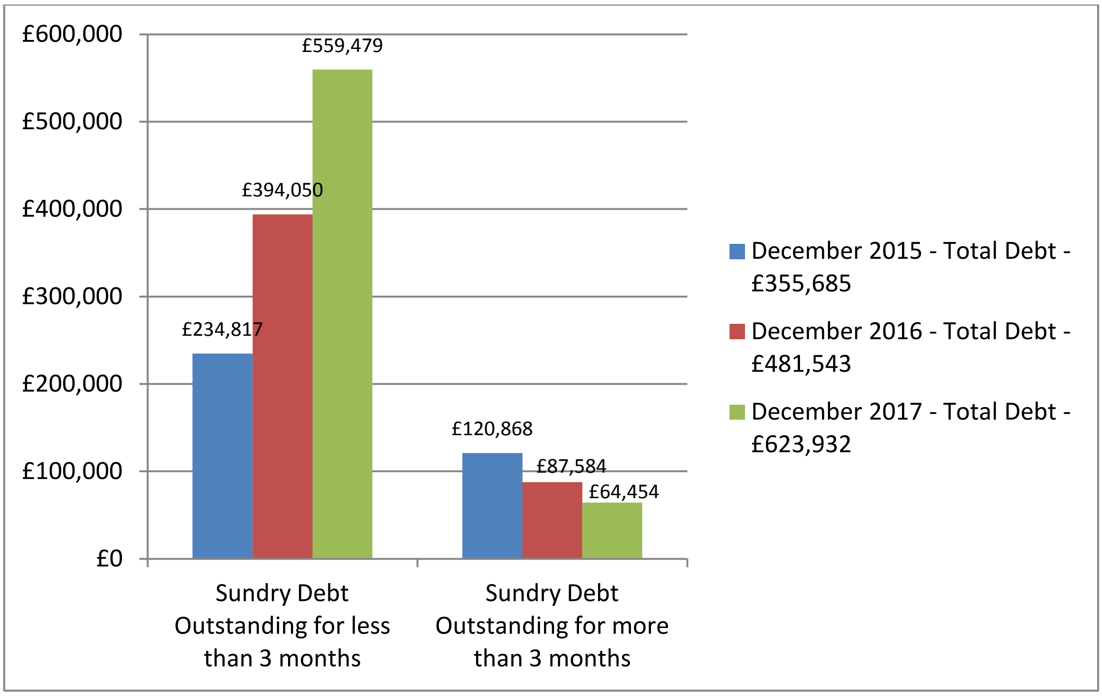
6.3 **Sundry/ Property Debt**
The total debt outstanding at 31st December was £878,000 which represents a 34% increase over the balance outstanding at the end of quarter 2 (30th September). The increase in total debt outstanding is due to quarterly invoices being raised for shared services at the end of the quarter. These invoices have now been settled. The overdue debt has increased by £5,000 or 3% during the quarter.

	Quarter 2 30th Sept £	**Quarter 3 31st Dec £**	**Movement £**	**%**
Total Debt Outstanding	657,000	878,000	221,000	34%
Overdue Debt (older than 3 months)	170,000	175,000	5,000	3%

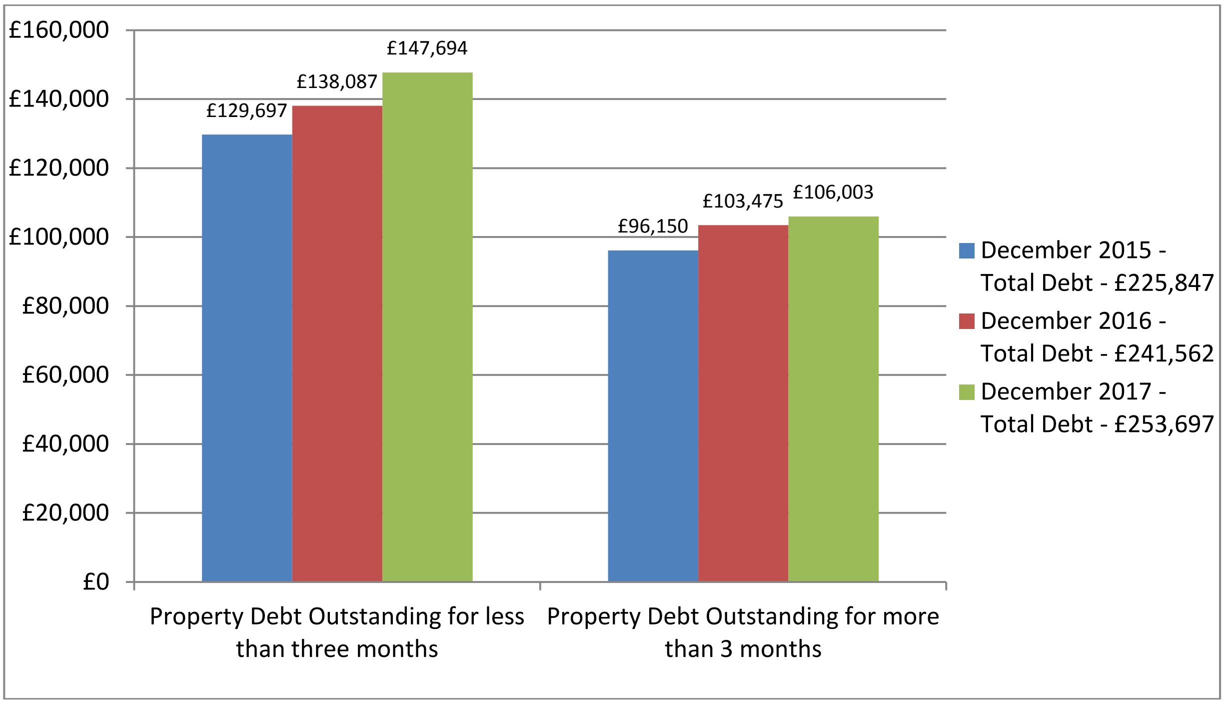
6.4 The overdue debt has fallen significantly over the past 3 years due to the introduction of a revised approach to the management of accounts in arrears.

The position relating to Sundry Debtor Invoices are as follows:

Sundry Debtors

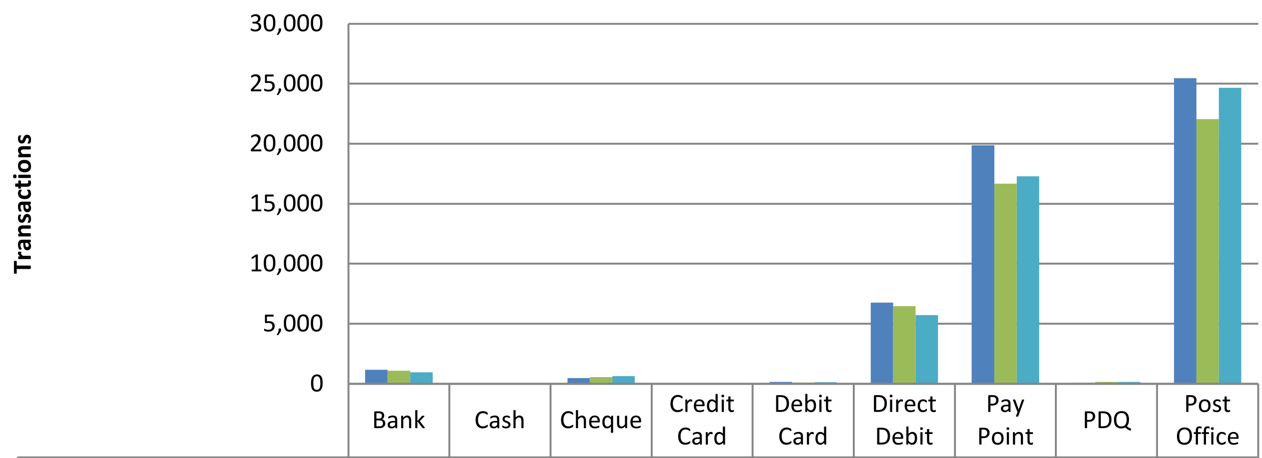


Property Invoices and Debt



6.5 The Council actively promotes digital methods of payment, with the aim of reducing transaction volumes for cash and cheque and reducing payment processing/handling costs.

6.6 The chart below illustrates the success achieved in switching customers to digital channels.



	Bank	Cash	Cheque	Credit Card	Debit Card	Direct Debit	Pay Point	PDQ	Post Office
2017-18 April - Dec Qtr3 - No. Of Transactions 53,985	1,163	10	476	28	152	6,770	19,858	69	25,459
2016-17 April - Dec Qtr3 - No. Of Transactions 47,162	1,084	32	559	19	111	6,476	16,668	164	22,049
2015-16 April - Dec Qtr3 - No. Of Transactions 49,577	960	38	626	15	123	5,721	17,293	144	24,657

7. LEGAL AND POLICY IMPLICATIONS

7.1 The Local Government Act 2003 (sections 25–29) placed additional duties on Local Authorities on how they set and prioritise budgets.

7.2 Section 28 places a statutory duty on an authority to review its budget from time to time during the year. If the Budget Monitoring Report shows that there has been deterioration in the Authority's financial position, the Authority must take such action as it concludes necessary. The Cabinet currently reviews the Budget on a quarterly basis.

7.3 Our External Auditor Grant Thornton makes an assessment based on the annual programme of external audit work. The focus is on ensuring there are proper arrangements in place for securing financial resilience and that the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

8. EQUALITY IMPACT ASSESSMENT

This is a financial report and there is no requirement to undertake an Equality Impact Assessment.

9. RISK MANAGEMENT

9.1 The inability to deliver a balanced budget is one of the Council's key corporate risks. The Budget Risk Matrix has been reviewed to reflect the current assessment of risk. A copy is enclosed for information as **Appendix 5**.

10. CONCLUSIONS/ACTION

10.1 The information contained within Appendices 2, 3, 4 and 5 provides Members with an overview of financial trends within the period to 30th December 2017.

11. CONSULTEES

Corporate Leadership Team.
Cabinet.
Service Managers

12. BACKGROUND PAPERS

Medium Term Financial Strategy 2018-21

APPENDIX 1

WYRE FOREST DISTRICT COUNCIL

REVENUE BUDGET TOTAL REQUIREMENTS - DISTRICT COUNCIL PURPOSES

SERVICE	2017/18		2018/19			2019/20			2020/21		
	Original Estimate £	Revised Estimate £	At Nov.17 Prices £	Inflation £	TOTAL £	At Nov.17 Prices £	Inflation £	TOTAL £	At Nov.17 Prices £	Inflation £	TOTAL £
CHIEF EXECUTIVE AND SOLICITOR TO THE COUNCIL	1,664,730	1,776,210	1,674,980	24,790	1,699,770	1,468,180	44,600	1,512,780	903,290	65,200	968,490
COMMUNITY WELL-BEING AND ENVIRONMENT	4,695,910	4,674,220	4,338,210	107,110	4,445,320	4,149,190	196,890	4,346,080	3,888,750	290,360	4,179,110
ECONOMIC PROSPERITY AND PLACE	2,484,260	2,571,000	2,341,730	58,740	2,400,470	2,135,120	108,440	2,243,560	2,010,450	160,030	2,170,480
RESOURCES	4,034,300	3,737,240	3,670,270	36,230	3,706,500	3,586,020	66,140	3,652,160	3,681,510	95,190	3,776,700
	12,879,200	12,758,670	12,025,190	226,870	12,252,060	11,338,510	416,070	11,754,580	10,484,000	610,780	11,094,780
LESS: CAPITAL ACCOUNT	(432,810)	(495,090)	(228,590)	1,030	(227,560)	(71,820)	1,760	(70,060)	218,880	2,460	221,340
INTEREST RECEIVED	(41,180)	(88,310)	(86,510)	0	(86,510)	(80,000)	0	(80,000)	(112,500)	0	(112,500)
CAPITAL PORTFOLIO FUND AND LOANS TO THIRD PARTIES	100,000	111,310	(73,870)	700	(73,170)	30,810	1,170	31,980	90,730	360	91,090
TOTAL NET EXPENDITURE ON SERVICES	**12,505,210**	**12,286,580**	**11,636,220**	**228,600**	**11,864,820**	**11,217,500**	**419,000**	**11,636,500**	**10,681,110**	**613,600**	**11,294,710**
LESS: CONTRIBUTION (FROM) TO RESERVES	(308,420)	(89,790)			(455,830)			(757,810)			(787,510)
NET BUDGET REQUIREMENT	**12,196,790**	**12,196,790**			**11,408,990**			**10,878,690**			**10,507,200**
LESS: REVENUE SUPPORT GRANT	(510,220)	(510,220)			(100,680)			356,790			356,790
BUSINESS RATES	(2,653,230)	(2,653,230)			(2,734,950)			(2,795,610)			(2,795,610)
BUSINESS RATES GROWTH	(220,000)	(220,000)			(246,560)			(323,200)			(248,200)
COLLECTION FUND SURPLUS	(90,000)	(90,000)			(50,000)			(50,000)			0
NEW HOMES BONUS	(1,896,400)	(1,896,400)			(1,272,700)			(862,710)			(411,200)
TRANSITION GRANT	(43,080)	(43,080)			0			0			0
GENERAL EXPENSES - COUNCIL TAX INCOME	**6,783,860**	**6,783,860**			**7,004,100**			**7,203,960**			**7,408,980**
COUNCIL TAX LEVY		**205.36**			**209.34**			**213.40**			**217.54**
COUNCIL TAX BASE		**33,034**			**33,458**			**33,758**			**34,058**

APPENDIX 2

BUDGETARY CONTROL REPORT
MAJOR REVENUE VARIATIONS QUARTER THREE (to 31st December 2017)

Total Revised Budget 2017/18 - Net Expenditure on Services	**12,286,580**
Reduced Expenditure on Services	**(103,600)**
TOTAL QUARTER THREE PROJECTION TO YEAR END 2017/18	**12,182,980**

Description of Estimated Major Variances	**Extra Costs/ Reduced Income £**	**Savings/ Additional Income £**
Community Well Being and Environment		
1. Kidderminster Town Hall - projected reduction in general income and increased expenditure	19,900	
2. Car parking - Increase in on street enforcement income (£20k), decrease in off street ticket sales (£75k), reduced running costs (£41k)	28,000	
3. Cemeteries - limit on spaces available for sale and additional cost of assisted burials	21,500	
4. Museum and ITC - additional income and misc.		(10,000)
Economic Prosperity and Place		
1. Homelessness - delay in occupation of rooms at New Street as a result of snagging issues with Contractor	10,000	
2. Commercial Property - reduction in rental income	5,500	
3. Private Sector Housing - Increased Penalties		(37,000)
4. Land Charges	8,500	
Resources		
1. ICT - Additional Shared Service for Gazetter		(9,000)
2. Revenues - reduction in court costs awarded against local tax payers	15,000	
Corporate Variations		
1. Capital - Reduction in external borrowing costs due to capital programme slippage		(25,000)
2. Pay and General Admin savings		(100,000)
3. Interest receivable on treasury investments		(5,000)
4. Business rates payable - Award of transitional relief to smooth the 2017 valuation list increases		(26,000)
	108,400	(212,000)
Reduction on Revised Budget (based on Quarter Three 2017/18 Projection)		**(103,600)**

Agenda Item No. 7.2

APPENDIX 3

Q3 Budget Monitoring 2017-18 (to December 2017)
Capital Programme 2017-18

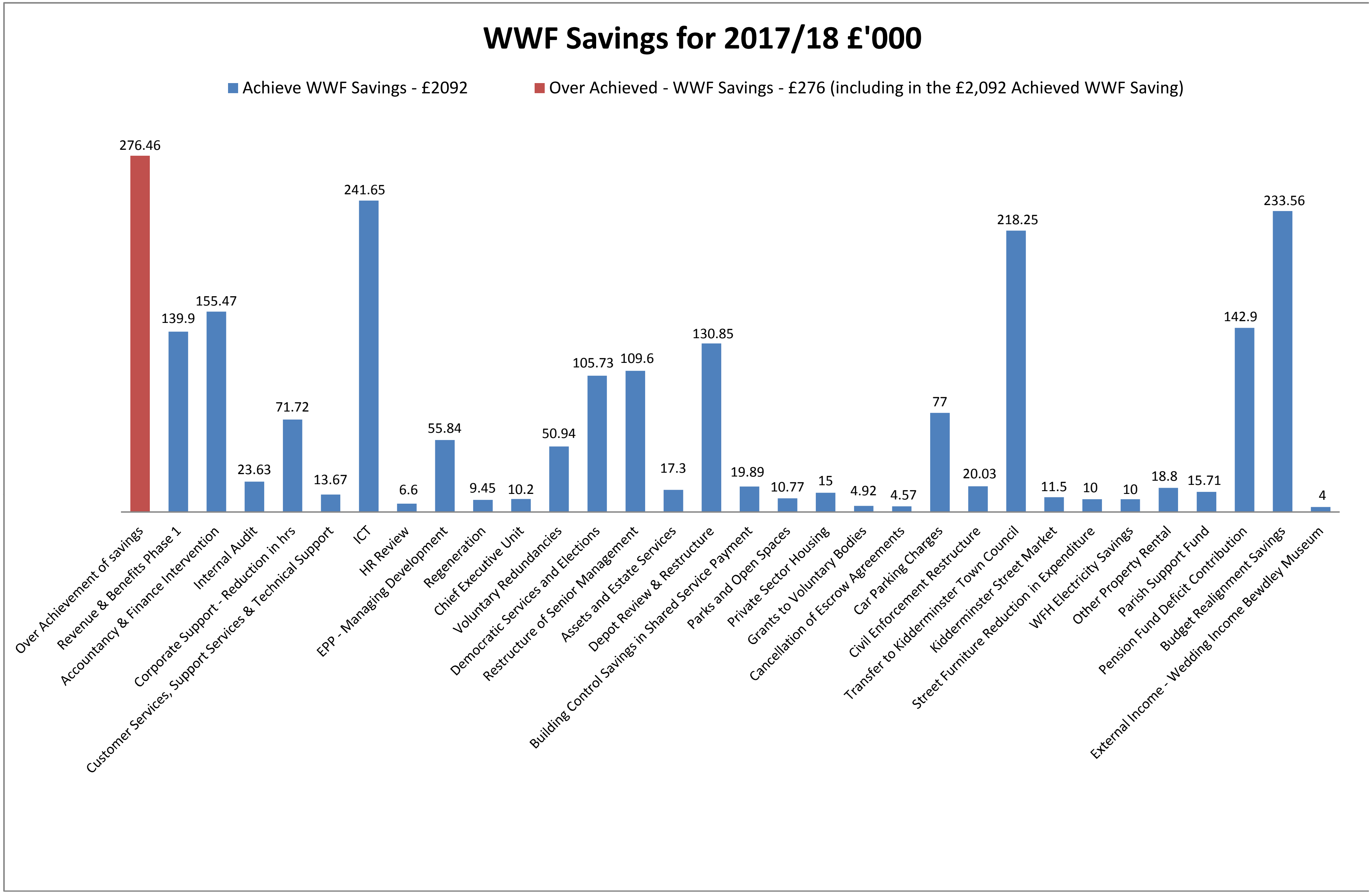
CAPITAL PROJECT DESCRIPTION (Based upon Revised Capital Budgets)	2017-18 Budget (Full Year) Includes slippage from 2016-17 £	YTD Actual Expenditure (Net Income) £	Commitment £	Year To Date Expenditure Including Commitments £	Projected Total 2017-18 Expenditure £	Slippage to 2018/19 £	Explanation
RESOURCES							
ICT Strategy	261,200	143,264	6,231	149,495	261,200	0	Purchase of replacement Multi Functional Devices (printers etc) to complete in 2017-18
TOTAL RESOURCES	**261,200**	**143,264**	**6,231**	**149,495**	**261,200**	**0**	
COMMUNITY WELL-BEING AND ENVIRONMENT							
Parking Facilities: Improvements to Car Parks	30,000	0	0	0	10,000	20,000	Metric machine upgrades. Balance to slip to 2018-19
Vehicle Renewals (Capital Programme)	974,000	143,587	317,370	460,957	636,723	273,000	See separate Vehicle, Equipment and System Renewals schedule.
Franchise St S106 - Brintons Pk/Habberley Valley	46,760	0	0	0	0	46,760	Project to slip into 2018-19
Future Leisure Provision	689,250	289,614	4,733	294,347	289,614	4,730	Car Park retention monies remain. Contingency to be released. Currently anticipate to finalise car park retentions in 2018-19
Northwood Lane Improvements	7,830	7,500	0	7,500	7,830	0	Scheme to complete in 2017-18
Green Street Depot Investment	150,000	86,242	10,351	96,593	138,000	12,000	Design work nearing completion. Procurement timeline expected to commence before the end of March 2018. Construction & conversion works anticipated to commence in 2018-19
Bewdley Museum Improvements (Grant Funded)	37,960	1,410	1,934	3,344	10,330	27,630	Improvement works commenced - anticipate to complete by August 2018-19, some slippage to 2018-19
Bewdley Medical Centre	750,090	121,194	958	122,152	650,090	100,000	Ongoing scheme - anticipated to complete in early 2018/19
TOTAL COMMUNITY WELL BEING & ENVIRONMENT	**2,685,890**	**649,547**	**335,346**	**984,893**	**1,742,587**	**484,120**	
ECONOMIC PROSPERITY AND PLACE							
Disabled Facilities Grants	1,212,050	626,378	20,619	646,997	825,000	387,050	Work ongoing. Recruiting an additional Occupational Therapist to fasttrack work.
Private Sector Measures	185,260	36,733	0	36,733	100,000	85,260	Grant takeup has been slow to develop and many people assisted through DFG given eligibility. Area based pilot projects to be rolled out further in 2018/19.
Planning Delivery Grant Capital Projects	19,250	8,250	11,000	19,250	19,250	0	Land Charges System upgrade anticipated to complete in 2017-18.
Flood Relief	10,000	0	0	0	0	10,000	Flood relief measures have all been achieved through smaller scale revenue scheme this year. A significant potential scheme that would require some contribution funding form WFDC in Areley Kings area is awaiting Severn Trent modelling before funding bids can be submitted. £10,000 now expected to be spent in 2018/19.
Regeneration and Economic Development	364,110	176,433	0	176,433	176,433	187,680	Balance to slip to 2018/19.
Carbon Management Plan	5,000	0	0	0	0	5,000	Balance to slip to 2018/19.
North Worcs Water Management Capital Projects-Redditch	43,460	2,210	0	2,210	20,000	23,460	Work in progress. Some slippage to 2018/19 anticipated.
North Worcs Water Management Capital Projects-Bromsgrove	280	0	0	0	0	0	Scheme complete
Repair & Renew Flood Grants	3,200	0	0	0	0	0	Scheme complete
Future Investment Evergreen Fund	160,580	0	0	0	0	160,580	Balance to slip to 2018/19.
New Street Conversion	291,650	138,566	133,311	271,877	283,874	7,780	Final payment currently being progressed. Any remaining budget to be returned to DFG.
Industrial Units Development	1,075,020	0	0	0	0	1,075,020	Scheme being developed. Anticipated to begin 2018/19.
Capital Portfolio Fund	10,000,000	0	0	0	10,000,000	0	Appraisal model being developed.
Development Loans Fund	2,000,000	0	0	0	2,000,000	0	Scheme being developed.
TOTAL ECONOMIC PROSPERITY & PLACE	**15,369,860**	**988,570**	**164,930**	**1,153,500**	**13,424,557**	**1,941,830**	
TOTAL	**18,316,950**	**1,781,381**	**506,507**	**2,287,888**	**15,428,344**	**2,425,950**	

Q3 Budget Monitoring 2017-18 (to December 2017)
Vehicle, Equipment and System Renewals 2017-18

APPENDIX 3

VEHICLE AND EQUIPMENT RENEWALS (Based upon Revised Capital Budgets)	2017-18 Budget (Full Year) Includes slippage from 2016-17 £	Q3 Expenditure 2017-18 £	Projected Total 2017/18 Expenditure £	Slippage to 2018/19 £	Old Vehicle Fleet Number to be replaced	COST CENTRE	Comments
1. VEHICLES							
REFUSE FREIGHTER 26,000kg	95,500	0	0	95,500	AV237	R002	Order placed, to complete in 2018/19.
REFUSE FREIGHTER 26,000kg	95,500	0	0	95,500	AV238	R002	Order placed, to complete in 2018/19.
REFURBISHMENT FUND	25,000	0	25,000	0	N/A		Contingency fund. Will slip to 18/19 if not required in 17/18.
REFUSE FREIGHTER 24,000kg	165,500	0	165,500	0	AV235	R002	New freighter - delivered 23rd February.
REFUSE FREIGHTER 24,000kg	165,500	0	165,500	0	AV236	R002	New freighter - delivery due week commencing 26th February.
CMP ELECTRIC BIN LIFTS	4,500	0	4,500	0	AV235, AV236	R002	Part of new freighter purchases.
CMP ENGINE MANAGEMENT SYSTEM	4,500	0	4,500	0	AV235, AV236	R002	Part of new freighter purchases.
7500kg TIPPER	45,000	42,069	42,069	0	AV033	R002	Complete - new vehicle AV284
3500KG TIPPER	40,000	25,521	25,521	0	AV180	R002	Complete - new vehicle AV286
LIGHT VAN	18,000	15,009	15,009	0	AV204	R185	Complete - new vehicle AV281
4x4	23,000	20,542	20,542	0	AV191	R163	Complete - new vehicle AV288
3500KG TIPPER	30,000	0	30,000	0	AV179	R200	Due to complete in 2017/18.
PAVEMENT SWEEPER	70,000	66,310	66,310	0	AV270	R200	Complete - new vehicle AV289
3500KG VAN	20,000	10,427	10,427	0	AV174	R200	Complete - new vehicle AV285
LIGHT VAN	20,000	15,009	15,009	0	AV203	R035	Complete - new vehicle AV282
3500KG TIPPER	20,000	0	0	20,000	AV063	R236	Slipped to 2018/19.
MIDI TRACTOR	30,000	0	0	30,000	AV189	R236	Slipped to 2018/19.
RIDE ON MOWER	30,000	18,527	18,527	0	AV250	R236	Complete - new vehicle AV287
TRACTOR	32,000	0	0	32,000	AV070	R236	Slipped to 2018/19.
LIGHT VAN	20,000	15,009	15,009	0	AV043	R193	Complete - new vehicle AV283
2. OTHER							
Flail Equipment replacement	20,000	13,300	13,300	0	N/A	R430	Complete - R476
Total	**974,000**	**241,723**	**636,723**	**273,000**			

Agenda Item No. 7.2
APPENDIX 4



BUDGET RISK MATRIX 2018/2021

APPENDIX 5 (Part 1)

IMPACT: HIGH / MEDIUM / LOW

QUADRANT 3 -REVIEW RISK - CONTINGENCY PLANS - *LOW RISK, HIGH IMPACT*

1. Finance Strategy/Accountability
2. Car Parking Income
3. Council Tax - increases in base to increase funding
4. Wyre Forest House - final sign off of all retentions
5. Industrial Estates & Other Property
6. Lion Fields - Future Development
7. Land Charges Ringfencing/Charging/HIPs
8. ICT Investment -review of functionality and rolling programme of replacement/channel shift
9. Shared Services/Joint Working
10. Budgetary Control/Austerity Measures post Brexit
11. Prudential Code for Capital Accounting and Treasury Management Code Revisions from April 2018
12. Diminishing Reserves/Cashflow
13. Pension Costs - 2020 triennial revaluations
14. Recovery of Icelandic investments
15. MMI Clawback Scheme - further claims
16. Retention of Depot site - further investment - Depot 2020
17. Information governance - ensure the Council is safeguarded in view of addtional requirement of GDPR from 2018
18. Income generation - maintaining current market share
19. Homelessness Reduction Act

QUADRANT 4 - IMMEDIATE ACTION
HIGH RISK, HIGH IMPACT

1. Government Grant - Funding reductions, New Homes Bonus and further Spending Reviews/fair funding review.
2. Business Rates Retention Scheme - Appeals, Pooling and reform including Baseline reset 2020
3. Devolution debate and Combined Authorities
4. Transformational Programme/pace of change
5. Council Tax/Business Rates collection levels
6. Business Rates growth - achievement to secure funding position
7. Capital Receipts - Realisation of, to fund expenditure
8. Environment and Economic Regeneration
9. Changes to Benefit Scheme/Universal Credit full roll-out Nov 2018 continued uncertainty and impact on poorer residents
10. Wyre Forest Forward Efficiency/Cabinet Proposal Savings
11. Potential local government reorganisation
12. "Realignment of area" /Alignment of political area: Worcestershire v. Greater Birmingham
13. Commercial investment - failure to deliver returns/mitigate risks

Note: High Impact is risk assessed to be in excess of £100,000 in line with the Risk Management Implementation Strategy

QUADRANT 1 - KEEP UNDER PERIODIC REVIEW
LOW RISK, LOW IMPACT

1. External Funding, Partnerships
2. Impact of investment returns
3. Underlying Borrowing Requirement (CFR)

QUADRANT 2 - CONSIDER ACTION
HIGH RISK, LOW IMPACT

1. Exit from the European Union - impact on local government

LOW / MEDIUM / HIGH

RISK

BUDGET RISK MATRIX 2018-21

BUDGETARY RESPONE TO EACH RISK MANAGEMENT ISSUE IN ORDER OF QUADRANT

ISSUE	BUDGETARY RESPONSE
Quadrant 1 - Low Risk, Low Impact	**Keep under periodic review**
1. External Funding, Partnerships	Continue to evaluate sustainability of each scheme as part of project appraisal.
2. Impact of Investment Returns	Continue to monitor and report as appropriate. The Bank of England raised interest rates for the first time since 2007 by 0.25% to 0.5% from November 2017. Indications are that the rate may increase by a further 0.25% in May 2018. Balances available for investment are reducing over the MTFP and this together with the lower returns has been taken into account in the base budget. We continue to work with Link Asset Services (formerly Capita) in this area.
3. Underlying Borrowing Requirement (CFR)	The rising CFR over the term of the Budget Strategy will be carefully monitored in close liaison with Link Asset Services to gauge both the timing and type of external borrowing.
Quadrant 2 - High Risk, Low Impact	**Consider Action**
1. Exit from the European Union	To-date the impact has not been significant but this will be closely monitored.
Quadrant 3 - Low Risk, High Impact	**Review Risk - Contingency Plans**
1. Finance Strategy/Accountability	Council are required to adopt a three year Balanced Budget Strategy.
2. Car Parking Income	Usages/Income level closely monitored, New simplified policy introduced from October 2017 and is factored into the MTFP
3. Council Tax - increase in base to increase funding	Assumption of increase of 300 dwellings pa should hopefully be realised.
4. Wyre Forest House final sign off of all retentions	Managed closely by Chief Executive and CLT/Cabinet
5. Industrial Estates and Other Property	Managed through Property Disposal Strategy
6. Lions Field - Future Development	Preferred developer for Phase One chosen. This project will continue to be carefully managed.
7. Land Charges Ring fencing /Charging/HIPs	Reduced income allowed for within Base Budget reduces the scale of any challenge.
8. ICT Investment-review of functionality and rolling programme of replacement/Channel Shift	New ICT Strategy and £1.757M Capital Programme approved by Council on 21st February 2018. ICT Strategy Group to oversee/enhance the governance, planning and delivery arrangements of the strategy between ICT and council service areas.
9. Shared Services Joint working	Shared Services partnerships continue to contribute to collaborative efficiencies but will be monitored to ensure risk is managed and mitigated.
10. Budgetary Control/Austerity Measures post Brexit	Continue to discourage non-essential expenditure, monthly budget monitoring reports provide more management information. Focus on income generation and innovative alternative service delivery models.
11. Prudential Code for Capital Accounting and Treasury Management Code Revisions for April 2018	External borrowing is £17m, rates remain low but the economy is still volatile and future rates difficult to predict; Link Asset Services continue to provide technical advice. Revision of the Treasury Management Code and production of a Capital Strategy report will enable members to receive a high level summary between treasury and none treasury investments.
12. Diminishing Reserves/Cash flow	Cash flow management will be tighter given reduction in capital and revenue reserves and use of the Cash flow models are being used to improve management information to help mitigate any risk in this area
13. Pension Costs - 2020 triennial revaluations	Higher payments made as a result of the 2013 year's triennial revaluation and upfront pension fund deficit payment of £5.26m as a result of the 2016 year's triennial resulting in a cash saving of £360K have improved our position. The impact of further review will be carefully assessed.
14. Recovery of Icelandic Investments	Under £1m is outstanding and work will continue to achieve maximum recovery.
Quadrant 3 Continued	
15. MMI Claw Scheme	Claims received and settled so far, ear marked reserve to be merged with new General
16. Retention of Depot site - further investment - Depot 2020	The Business case and an additional £3.3m for investment in Green Street Depot was approved by Council on 13th December 2017 and will receive robust project management.
17. Information Governance - ensure the Council is safeguarded in view of additional requirement of General Data Protection Regulations (GDPR) from 2018	Internal working group chaired by the Chief Executive is reviewing this area to ensure the Council continues to be safeguarded
18. Income Generation - maintaining current market share	Allocation of additonal resources to provide essential capacity and resource for marketing and sales.
19 Homelessness Reduction Act	The Act will places new legal duties on the Council to assist those who are homeless or at risk of homelessness where eligible. The impact of this legislation will be closely monitored by CLT/Cabinet
Quadrant 4 - High Risk, High Impact	**Immediate Action**
1. Government Grant – Funding Changes, New Homes Bonus and further Spending Reviews/fair funding review	Significant issue given the scale of the Spending deficit. The Cabinet Financial Strategy Advisory Panel process will assist Wyre Forest Forward coordinating Councils future Plans.
2. Business Rates - Retention Scheme, Appeals, Pooling and reform including Baseline reset 2020	Proposed changes to funding arrangements introduce uncertainty and risk, the Worcestershire Pool may mitigate this. Annual review of pooling arrangements but future of pooling uncertain. Our robust regeneration programme is a mitigation factor.
3. Devolution debate and Combined Authorities	Monitored closely by CLT/Cabinet
4. Transformational Programme/pace of change	Managed by CLT/Cabinet with reports to Group Leaders.
5. Council Tax/Business Rates collection levels	Assumptions in relation to decreased collection rates have been made in the Council Tax Base calculations as a result of the Local Council Tax Discount Scheme and these will be carefully managed and reported on.
6. Business Rate Growth - achievement to secure funding position	Given proposed funding reform independent business rates growth is of key importance to funding streams. Our regeneration policy, innovative service delivery options and proposed loans to third parties policy all help mitigate risk.
7. Capital Receipts - Realisation of to fund expenditure	Capital Programme funding reflects realistic timescale for the realisation of asset disposal receipts. Temporary borrowing will be used when necessary.
8. Environment and Economic Regeneration	The Council continues to be proactive in this area and this is closely monitored by Cabinet/CLT
9. Changes to Benefit Scheme/Universal Credit full roll our November 2018 – continued uncertainty and impact of poorer residents	The continued overhaul of the benefits systems will be carefully managed and monitored.
10. Wyre Forest Forward Efficiency savings/Cabinet Proposals Savings	Progress continues to be monitored and reported regularly to members.
11. Potential Local Government Reorganisation	Macroeconomic area strategically assessed and managed by the Leadership team.
12. Realignment of area/alignment of political area: Worcestershire V Greater Birmingham	Kept under strategic review by the Leadership team in liaison with two LEPS. The three LEP footprint proposals are also within our radar.
13. Commercial investment - failure to deliver returns/mitigate risks	All commercial activity to be monitored closely by the set up of the new Commercial Activity Programme Board

WYRE FOREST DISTRICT COUNCIL

CABINET
27th March 2018

Acquisition of Land in Broadwaters Ward

OPEN WITH AN EXEMPT APPENDIX	
CORPORATE PLAN AIM:	Support you to live in clean, green and safe communities
CABINET MEMBER:	Cllr Ian Hardiman – Member for Planning and Economic Regeneration
RESPONSIBLE OFFICER:	Corporate Director: Economic Prosperity and Place
CONTACT OFFICER:	Rupert Detheridge
APPENDICES	**Appendix 1:** Plan of land subject to proposed CPO **Appendix 2:** The Proposed Wider Development site **Appendix 3 (Exempt) – Valuation Report**

1. PURPOSE OF REPORT

To seek support for the Council to acquire a vacant parcel of land at Radford Avenue/Horsefair in Kidderminster, using its compulsory purchase powers if necessary, to enable the bringing forward of a development scheme at a prominent gateway position within the Horsefair.

2. RECOMMENDATION

Cabinet is asked to DECIDE that if satisfactory progress has not been made to acquire the land at Radford Avenue described in the report through private treaty within three months of this decision

2.1 **the Council makes a Compulsory Purchase Order ("CPO") under section 226(i) (a) of the Town and Country Planning Act 1990 and section 13 of the Local Government (Miscellaneous Provisions) Act 1976 for the acquisition of the land and new rights within the areas shown edged on the attached Plan for the purpose of securing the redevelopment of the land**

2.2 **the Corporate Director: Economic Prosperity and Place in consultation with the Solicitor to the Council be authorised to:**

2.2.1. **Take all necessary steps to secure the making, confirmation and implementation of the Compulsory Purchase Order, including the publication and service of all notices and the presentation of the Council's case at any Public Inquiry.**

2.2.2. **Acquire interests in land and new rights within the Compulsory Purchase Order either by agreement or compulsorily.**

2.2.3. **Approve agreements with land owners setting out the terms for the withdrawal of objections to the Order, including, where appropriate, seeking exclusion of land from the Order and/or making arrangements for relocation of occupiers.**

2.3 **the Corporate Director: Economic Prosperity and Place in consultation with the Cabinet Member for Planning & Economic Regeneration be given delegated authority to determine the most appropriate method by which the site will be developed in a timely manner, whether by the Council or through disposal.**

3. BACKGROUND

3.1. The land to be acquired by private treaty or to be included in the CPO ("the Order Land") extends to approximately 0.045 acres and is located to the north-east of Kidderminster town centre, within the historic Horsefair area of Kidderminster. The Order Land is described in paragraph 0 of this report, and a plan illustrating the land is provided as Appendix 1

3.2. The Council has an ambition to facilitate the redevelopment of the Order Land, which is located on a key gateway into Kidderminster from the north and has lain vacant for many years, currently cleared, but until last year occupied by the derelict former Post office building. The land is an eyesore and undermines the aesthetics of the area and detracts from the economic viability of the local centre. The Council owns land adjoining the site fronting Radford Avenue and proposes developing the combined sites.. This wider site is illustrated on the plan provided as Appendix 2

3.3. The Council has been in discussion with the land owner over a number of years to discuss the prospects of bringing the sites forward for redevelopment but, with no agreement being reached. There has been little active dialogue since 2014. The owner of the Order Land had previously made a low financial offer for the Council's land but nothing was agreed due to the low offer and because of the reluctance by the party to disclose projected financial outcomes from a development. Irrespective of this no works have been undertaken during the course of the ownership to restore the subject property and prevent the partial collapse, which then required comprehensive demolition.

3.4. Although demolition has taken place this has now left an unsightly corner plot of land, with the gable of the retained property left un-restored.

3.5. Due to the length of time that the property remained vacant, before the collapse of the building and with no active promotion of the site since demolition was completed, it is considered that redevelopment of the Order Land by the present owner is considered to be unlikely, and furthermore it is a challenging project for a constrained site next to a busy highway. It is considered that a comprehensive redevelopment including the Council's adjoining land holding appears to be the only realistic solutionin the foreseeable future and that this will only be achieved with the Council taking ownership of a comprehensive redevelopment, which encompasses the Order and the adjoining Council land.

3.6. Although the Order Land does not have an individual site allocation within the adopted Local Plan the land is within the area of both the Churchfields Masterplan (adopted 2011) and the Kidderminster Central Area Action Plan (Adopted 2013)

3.7. The Churchfields Masterplan covers an area of some 30 Hectares (74 Acres) and provides a development framework for both Churchfields and The Horsefair, an area recognised as a key regeneration area.

3.8. Although the Churchfields area is the primary focus for the Masterplan, the Horsefair is recognised as an important 'Local Centre' to support both the vitality of the town centre and the regeneration of Churchfields. Community consultation related to the Horsefair indentified that the condition of properties on the Horsefair is of concern to the town's residents. Furthermore within the plan, Blackwell Street was acknowledged as providing an ageing retail experience and a poor quality pedestrian environment.

3.9. Chapter Eight of the Kidderminster Central Area Action Plan provides specific policy for the Horsefair. The document recognises that The Horsefair has been neglected and many of the buildings require refurbishment and repair. Specifically the Council aims to improve the built area.

3.10. Within paragraph 9.47 of the Action Plan, the role of The Horsefair as a neighbourhood centre is recognised and *"should be enhanced as part of a high density mixed use area'*

3.11. Within Policy KCA.Ch8 support will be given to new office development in the Horsefair, retention of the Blackwell Street frontage and residential development above ground level. The current proposals for the redevelopment of the wider site accord with this with the proposed restoration of the Blackwell Street frontage, provision of a ground floor office and residential uses in the floors above.

3.12. The Government wish to bring forward new housing to address a significant lack of under supply. This was addressed in the Housing White Paper 'Fixing our Broken Housing Market', released in February 2017, with the Government proposing a range of initiatives to address the issue of housing supply. In September 2017 WFDC Cabinet approved the *'Compulsory Acquisition of Land and Properties, and Empty Properties* Strategy', in recognition of the encouragement for Local Authorities use of Compulsory Purchase Powers as set out in the White Paper. The Strategy promotes the use of compulsory purchase powers to acquire under-utilised and vacant land and buildings.

3.13. The Council remains committed to acquiring the Order Land by private treaty negotiation where practicable and to this end a dialogue has been opened with the Order Land owner; however, in order to provide certainty exercise of the Council's compulsory purchase powers may be necessary to enable a scheme to be brought forward within a reasonable timescale. This report outlines what the Council needs to have regard to when making a Compulsory Purchase Order (CPO), with a recommendation that the Council allows a period of three months to make progress with the acquisition of the land through private treaty, but that the Council resolves to use its compulsory purchase powers if such discussions prove fruitless .

4. <u>THE DEVELOPMENT PROPOSALS</u>

4.1 The Council owned land comprises a small parcel of undeveloped land which fronts Radford Avenue. The two land parcels comprise a small cleared site which extends in total to 0.056 Hectares (0.14 acres).

4.2 There is significant merit in a development encompassing both sites. Development of the Council's land in isolation would result in a development next to an unattractive cleared site, worsened by the lack of treatment of the flank of the properties retained post demolition. Furthermore the issues of the Order Land potentially remaining undeveloped and unsightly would not be resolved

4.3 In order to progress the opportunity presented by the potential redevelopment of the combined land a topographical survey was undertaken and architects appointed to assess the site and prepare an appropriate indicative redevelopment proposal.

4.4 The indicative scheme prepared by the architects extends to four storeys, with a small office, residential and ancillary uses on the ground floor, with residential uses on the upper floors. The scheme has an approximate total gross area of 1,117sqm (12,028 sq ft). At this stage the purpose of this exercise is to demonstrate that the site is capable of accommodating a modest mixed use development. Further refinement of a proposal will be ongoing and involve discussion with the local community regarding a possible community led housing initiative.

4.5 A small ground floor office/retail unit has already been included in the indicative layout as there is local demand from community organisations who require a more permanent locational presence in the Horsefair. A comprehensive ground floor retail scheme would not be appropriate as the locality has a significant amount of vacant retail space and the 'convenience' market is satisfied.

4.6 A pedestrian right of way bisects the site, aligned north south and this has been preserved, with a ground floor vehicular passageway, which would also provide access to 6 dedicated car parking spaces.

4.7 It is the Council's intention to continue to finesse a redevelopment proposal with a view to bringing forward a proposal through the Council's Capital Portfolio Fund for the Council to undertake the redevelopment of the site (and that will be re-presented to Overview and Scrutiny and Cabinet through the procedure established for considering such proposals). However, if such a proposal is not financially viable for the Council (based on its 100% loan to value ratio) then the intention would be to obtain a planning permission and dispose of the site on the open market for a private developer to deliver.

4.8 The current indicative scheme has been discussed in detail with the Council's Development Management team, who support the proposal. It is intended that a planning application will be advanced following acquisition by private treaty or in parallel with any CPO process if that proves necessary

5. THE ORDER LAND

5.1 The proposed CPO is to include all of the land edged in black on the indicative CPO Boundary Plan appended to this report as Appendix 1

5.2 In addition, if any other rights not referred to in the report come to light that impact development of the Order Land, the CPO will need to extinguish those rights.

5.3 The Order Land is located to the north-east of Kidderminster Town Centre, within the historic Horsefair area of Kidderminster. The land is bounded to the west by Horsefair and to the north by Radford Avenue.

5.4 The Order Land does not contain any statutorily listed buildings or locally listed buildings.

5.5 There are no existing residential uses within the Order Land.

5.6 A 'Red Book' valuation of the Order Land was prepared by Bruton Knowles in January 2018 (Appendix 3). The valuation basis was the 'Market Value' of the land as existing and without the benefit of planning consent for an alternative use.

5.7 The owner of the Order Land was approached in September 2017 as a consequence of the demolition of the standing buildings on the Order Land. Access for the topographical survey was established and a scheme prepared.

5.8 An offer has been made for the purchase of the Order Land based on the Bruton Knowles valuation. A response is awaited from the land owner and private treaty negotiation will continue to seek to reach agreement.

5.9 Based on previous discussions, it is anticipated that the land owner's price aspirations will not be met by thefinancial offer submitted. Depending on the response received to the Council's offer, further negotiations may follow, but in order for these not to become protracted it is suggested that a three month period be allowed from the date of this meeting and if satisfactory progress is not made to negotiate the purchase of the land during that time, that the Council proceeds with the CPO process. The Council's commitment to use its CPO powers by the passing of a CPO resolution at this stage of the negotiations will show the seriousness of the Council's intentions and provide added focus to the private treaty negotiations and a means of delivering the scheme in the event that agreement cannot be reached.

6. THE COUNCIL'S POWERS AND USE OF COMPULSORY PURCHASE

6.1 The Council has the power under Section 226(1) of the Town and Country Planning Act 1990 to acquire land compulsorily for planning purposes. The relevant tests are set out in Section 226(1)(a). First, the local authority must think that the acquisition will facilitate the development, redevelopment or improvement of the land. The Council considers that this first test will be met by the implementation of the Scheme which will facilitate the development and improvement of the land.

6.2 Further Section 226(1A) requires local authorities utilising the powers under Section 226(1)(a) to show that they think that the development, redevelopment or improvement is likely to contribute to the promotion or improvement of the economic, social or environmental well-being of the area. The Council should also have regard to the CPO Guidance published by the Government-currently the "Guidance on Compulsory purchase process and The Crichel Down Rules 2018" ("the Guidance")

6.3 The Council's preference is that if at all reasonably practicable, the interests will be acquired through private treaty negotiation and attempts to do this are being made and will continue to be made throughout the CPO process. The signalling of its intentions to use compulsory purchase powers if within three months of this report no satisfactory progress has been made will demonstrate that the Council is committed to the proposal. With a CPO timetable, meaningful negotiations will be easier to undertake.

7. REASONS FOR THE DECISION AND THE JUSTIFICATION FOR MAKING THE PROPOSED CPO

7.1 Paragraph 1 of the Guidance states "Compulsory purchase powers are an important tool to use as a means of assembling the land needed to help deliver social, environmental and economic change. Used properly, they can contribute towards effective and efficient urban and rural regeneration, essential infrastructure, the revitalisation of communities, and the promotion of business – leading to improvements in quality of life."

7.2 Paragraph 2 of the Guidance goes on to state "Acquiring authorities should use compulsory purchase powers where it is expedient to do so. However, a compulsory purchase order should only be made where there is a compelling case in the public interest" and that authorities "should be sure that the purposes for which the compulsory purchase order is made justify interfering with the human rights of those with an interest in the land affected".

7.3 Compulsory purchase is intended as a last resort to secure land assembly. However, the CPO Guidance does acknowledge that given the length of time it can take to secure a CPO, it can be sensible to plan for and initiate the formal CPO process alongside the negotiation process.

7.4 A CPO requires confirmation from the Secretary of State unless no objections are made or are not withdrawn, in which event the Council can confirm the CPO itself. In the event that the CPO is made and objections are made and not withdrawn, it is likely that a public inquiry will be held and a planning inspector appointed to consider the case and to make a recommendation to the Secretary of State who will decide whether or not to confirm the CPO.

7.5 The key matters that the Secretary of State will have regard to when considering whether to confirm a CPO and what an acquiring authority will need to demonstrate are, in particular:

7.5.1 whether the purpose for acquisition fits with the planning framework for the area;

7.5.2 the extent to which the scheme will contribute to the achievement of the economic, social and/or environmental well being of the area;

7.5.3 whether the necessary resources are available to achieve the purpose of the Order within a reasonable timescale;

7.5.4 that the scheme is unlikely to be blocked by legal or physical impediments

7.5.5 whether the purpose for which the Order land is to be acquired could be achieved by any other means.

7.6 The Council will need to demonstrate having regard to the above, and having particular consideration to the impact of the proposed CPO on Human Rights, and Section 149 of the Equality Act 2010, that there is a compelling case in the public interest for the making and confirmation of the CPO.

These matters are addressed in the balance of this report.

7.7 The Order Land largely comprises a prominent site, previously occupied by a historic post office which was purchased by the present owner and left to dilapidate to the point of partial collapse. This in turn required total demolition and clearance of the standing building. The site is a under-utilised brownfield town centre site with no architectural or heritage merit.

7.8 There is no confidence that the present owner of the Order Land will redevelop the subject site, having held the subject property as a commercial property for a considerable period of time and not having undertaken any works to restore the property.

7.9 It is the Council's view that the significant public benefit which will be derived from these proposals outweighs the interference caused by the CPO with the human rights of those parties affected by the CPO.

7.10 The Council is content that there are no financial impediments to the Scheme proceeding. Funding of the proposed scheme can be by means of the Council's Community Led Housing budget which is immediately available, but the Council will also consider the possibility of investing in a redevelopment of the site using its Capital Portfolio Fund. There are no physical impediments to the scheme proceeding. The Council is satisfied that if the CPO is made and confirmed there is a good prospect that the scheme will proceed within a reasonable timescale.

7.11 The proposed development has the benefit of an architectural scheme, which has considered the site environs, constraints and surrounding built form. In terms of conformity to national and local planning policy this has been addressed earlier in this report.

7.12 The Scheme also conforms to national planning policy as set out in the National Planning Policy Framework (NPPF) which came into effect in March 2012 and replaced nearly all of the previous national planning policy statements and guidance and the NPPG which supports it. At the heart of the NPPF is the presumption in favour of sustainable development.

7.13 The proposed re-development will deliver a significant number of improvements for the benefit of the area. The existing site comprises under-utilised brownfield land with little architectural merit. The regeneration benefits are summarised as:

1.13.1 Redeveloping a prominent corner site, which prior to demolition was derelict and detracting from the wider historic Horsefair area of Kidderminster.

1.13.2 Provide new town centre residential units and a potential ground floor office, provided to respond to demand for a community based function that serves the local area.

1.13.3 Assisting the future viability of The Horsefair Contributing to future housing completions

7.14 It is unlikely that development could be achieved by any other means, as the development of the Order Land in isolation would be exceptionally challenging, due to its constrained nature and position fronting a busy highway. The development of the Order Land is deliverable if the wider site encompassing the adjoining Council land is developed.

8. <u>HUMAN RIGHTS ACT 1998 AND EQUALITIES ACT 2010 CONSIDERATIONS</u>

Human Rights Act considerations

8.1 In reaching their decision, members should take account of the provisions of the Human Rights Act 1998. As a public authority, the Council must not act in a way which is incompatible with a Convention right protected by the Human Rights Act 1998. As outlined above, in officers' view there are strong grounds on which to conclude that there is a compelling public interest sufficient to justify interfering with the human rights of those with an interest in the Order Land, in compulsorily acquiring the third party interests.

The proposed CPO does not include the acquisition of any residential properties.

8.2 The key provision of the Guidance is paragraph 2, quoted in section 5 above. This not only summarises the national policy and the need for there to be a "compelling case in the public interest" for compulsory acquisition, but also meets the requirements of the Convention. In relation to Article 1 of the First Protocol of the European Convention, a fair balance is required to be struck between the public interest and private rights and in relation to Article 8, any interference with the right to respect for a person's private and family life and home must be proportionate.

8.3 Human rights protected by the 1998 Act of particular importance to the decision on compulsory purchase are those under Articles 6 and 8 and Article 1 of the First Protocol of the Convention.

Article 6 provides:

"*In the determination of his civil rights and obligations or of any criminal charge against him, everyone is entitled to a fair and public hearing within a reasonable time by an independent and impartial tribunal established by law."*

The statutory procedures require that all those likely to be affected by the Order are notified and given an opportunity to object. If there are objections the Secretary of State will arrange a public local inquiry so that their objections can be heard (unless all parties agree to the written representations procedure). The legislation provides for statutory review in the event of challenge to the decision of the Secretary of State on confirmation of the Order. Disputes over compensation can be referred for hearing by the Lands Chamber of the Upper Tribunal. Taken together, the availability of these procedures satisfies the requirements of Article 6.

Article 1 of the First Protocol provides:

"Every natural or legal person is entitled to the peaceful enjoyment of his possessions. No one shall be deprived of his possessions except in the public interest and subject to the conditions provided for by law and by the general principles of international law."

Article 1 of the First Protocol again indicates that compulsory purchase must strike a fair balance between the public interest and the private rights protected by Article 1, equivalent to proportionality under Article 8. For the reasons set out above, it is considered that there is a compelling case in the public interest for the Order to be made and this satisfies the requirements of proportionality and fair balance.

Equality Act Considerations

8.4 The Equality Act 2010 provides protection from discrimination in respect of certain protected characteristics namely: age, disability, gender re-assignment, pregnancy and maternity, race, religion or beliefs and sex and sexual orientation. It places the Council under a legal duty to have due regard to the advancement of equality in the exercise of its powers. In particular the Council must pay due regard to the need to:

8.4.1 eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act;

8.4.2 advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and

8.4.3 foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

8.5 The Council considers that the Scheme is fully compliant with the Equality Act. The Order required to facilitate the Scheme is not anticipated to have any additional effects. The Council will undertake an Equality Impact Assessment before making the CPO.

9. PROPOSALS

9.1 The Council proposes to acquire this parcel of land to bring forward a comprehensive redevelopment of this and adjoining land which it owns. Should private treaty negotiations between the Council and the landowner not progress satisfactorilywithin three months of the date of this meeting then the Council will use its compulsory purchase powers to seek to acquire the land interests.

10. FINANCIAL IMPLICATIONS

10.1 Purchase of the Order Land and the proposed development scheme outlined will be delivered by means of the Council's Community Led Housing budget or, if a viability case is proven, may be funded through the Council's Capital Portfolio Fund. A 'Market Valuation' of the Order land prepared by Bruton Knowles has provided the necessary guidance concerning valuation of the Order Land.

11. LEGAL AND POLICY IMPLICATIONS

11.1 The power to make a CPO and the necessary tests to consider is set out in the body of the report. The procedures for compulsory purchase under planning powers are mainly governed by the Acquisition of Land Act 1981, the Compulsory Purchase (Vesting Declarations) Act 1981 and the Compulsory Purchase Act 1965 and the Guidance.

Compensation for affected parties is governed by a number of statutes including, in particular, the Land Compensation Acts 1961 and 1973, the Compulsory Purchase Act 1965 and case law.

12. RISK MANAGEMENT

12.1 There is a risk that the development scheme for the wider site does not progress post purchase of the Order Land. If the Council is unable to make a viability case for leading redevelopment through its Capital Portfolio Fund then the site will be marketed with the benefit of planning permission for a private development. There is a greater risk though that if the Council does not proceed that the Order Land will remain an undeveloped eyesore located in a prominent gateway position.

13. CONCLUSION

13.1 The Council has been working to bring forward the redevelopment of land at the Horsefair, Kidderminster which includes the Order Land and adjoining Council owned land.

13.1.1 The acquisition of the Order land will enable this development and the regeneration of this prominent site.

13.1.2 Negotiations with the land owner to date have not reached agreement, so the order is likely to be required to deliver the redevelopment of the subject site at this prominent location. The Council is able to justify the use of CPO and meet the legislative and guidance tests for doing so.

13.1.3 The impact on the human rights of those likely to be affected by the proposed CPO and the impact of the Order in the context of the Equalities Act 2010 is considered in this report. In officers' view, there are considerable public benefits resulting in environmental, social and economic improvements to the local area to be derived from implementation of the scheme. It is considered that these benefits outweigh the harm caused by interference with the human and other rights of those likely to be affected by compulsory purchase. In officers' view, there is a compelling case in the public interest sufficient to justify the making of the CPO.

14. CONSULTEES

Corporate Leadership Team.

15. BACKGROUND PAPERS

Wyre Forest District Council

Agenda Item No. 8.1
Appendix 1

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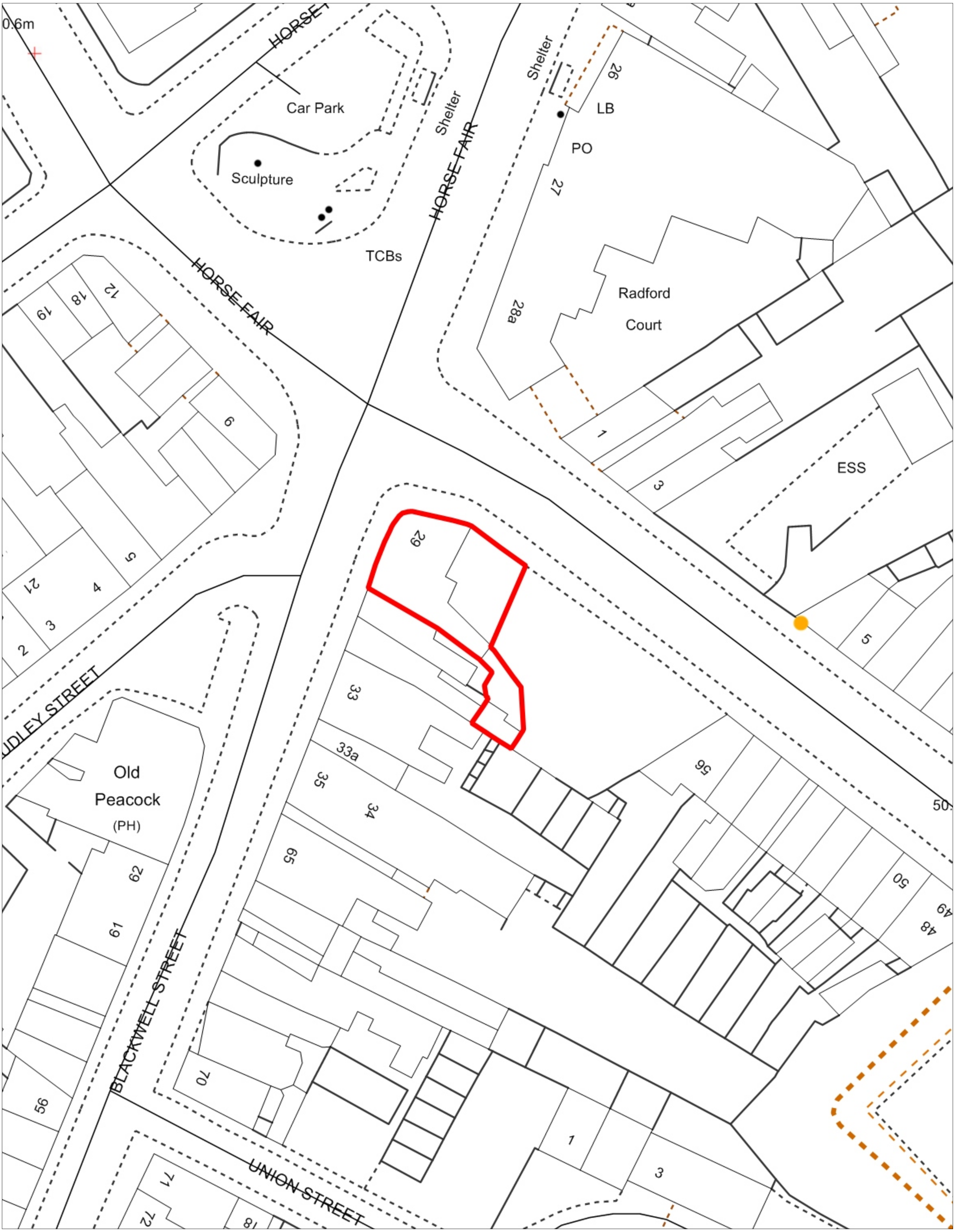

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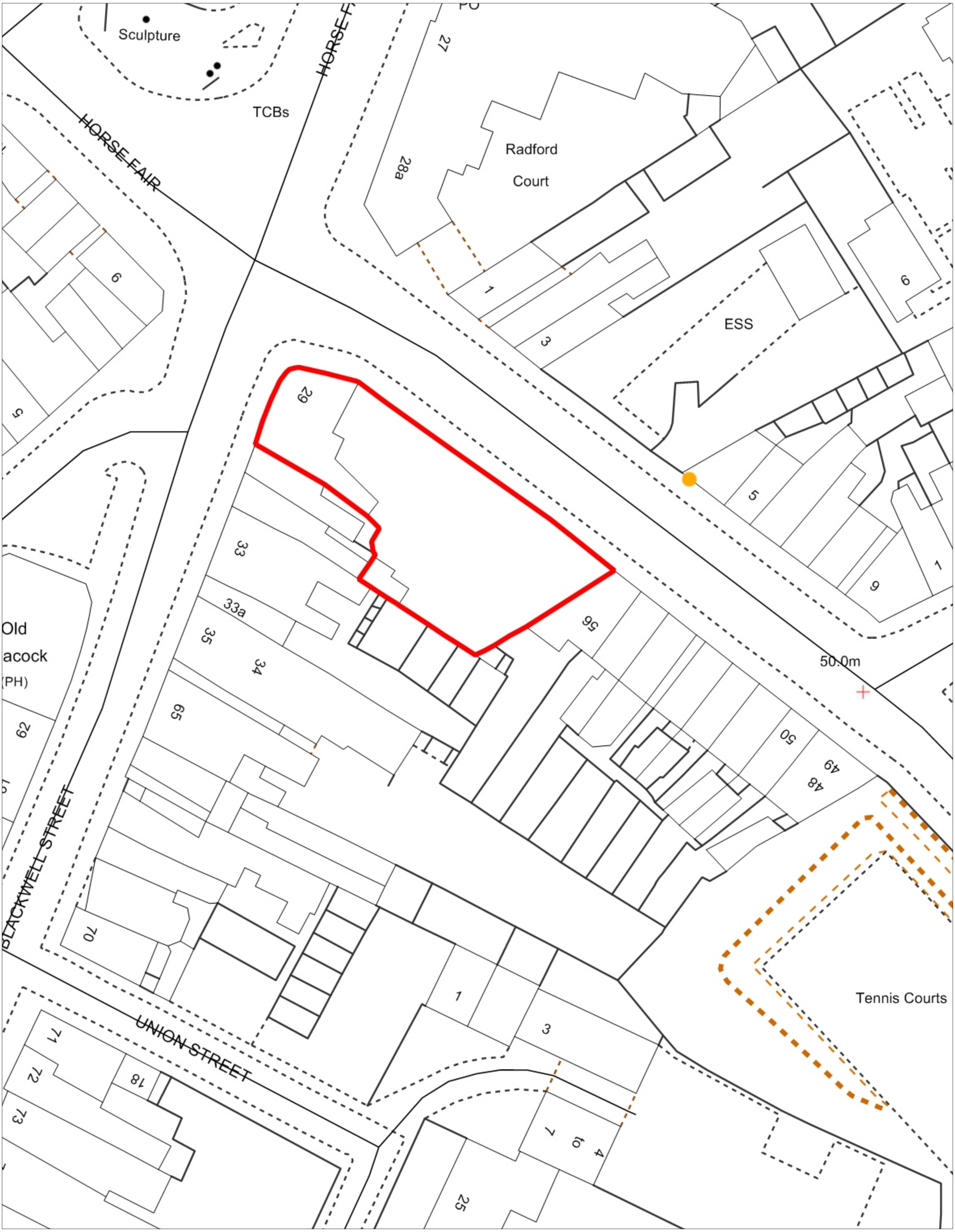
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WYRE FOREST DISTRICT COUNCIL

Cabinet
Tuesday 27th March 2018

Overview and Scrutiny Committee
Thursday 1st March 2018

Acquisition of Land in Broadwaters Ward

The Committee considered a report from the Property and Investment Manager which sought authority to for the Council to use its compulsory purchase powers to acquire land at Radford Avenue / Horsefair in Kidderminster, to enable the bringing forward of a development scheme at a prominent gateway position within the Horsefair.

Members discussed the report and were in agreement that development of the land would have a positive impact on the area.

Recommend to Cabinet:

1 The Council makes a Compulsory Purchase Order ('CPO') to acquire The Order' land as detailed. This will be subject to:

- A business case being agreed to acquire 'The Order' Land and develop the wider site utilising the 'Capital Portfolio Fund'
- Planning permission being granted for a scheme which encompasses the land.

Background papers:
Report to the Overview and Scrutiny Committee, Thursday 1st March 2018.

http://www.wyreforest.gov.uk/council/meetings/com193.htm#mt7616

WYRE FOREST DISTRICT COUNCIL

CABINET
27th MARCH 2018

Acquisition of Land in Areley Kings & Riverside Ward and Procurement of a Development Partner

OPEN WITH AN EXEMPT APPENDIX	
CORPORATE PLAN AIM:	Support you to live in clean, green and safe communities
CABINET MEMBER:	Ian Hardiman – Cabinet Member for Planning & Economic Regeneration
RESPONSIBLE OFFICER:	Mike Parker – Corporate Director: Economic Prosperity and Place
CONTACT OFFICER:	Rupert Detheridge
APPENDICES	Appendix 1 – Location Plan Appendix 2 – Land Plan Appendix 3 – Valuer advice letter

1. PURPOSE OF REPORT

To request that:

1.1 The Council consider the future use of a Compulsory Purchase Order (CPO) to acquire land at Severn Road, Stourport (known as the Carpets of Worth Land), to bring the land forward for residential led redevelopment (including consideration of the potential of also incorporating a medical centre, depending on discussions with NHS England).

1.2 The Council agrees to the identification and selection of a 'Development Partner' that the Council can work with to successfully deliver housing.

2. RECOMMENDATION

Cabinet is asked to DECIDE:

2.1. **To agree to:**

- **The principle of acquiring the subject land through 'Private Treaty' negotiation**
- **The principle of using CPO powers to acquire the land, should 'Private Treaty' negotiations prove to be unsuccessful. (A more detailed report would be submitted should the use of CPO Powers be requested)**
- **Authorise the procurement of a 'Development Partner' to whom the Land would pass upon acquisition.**

2.2. **That delegated authority be given to the Corporate Director: Director Economic Prosperity and Place in consultation with the Solicitor to the Council and the Cabinet Member for Planning & Economic Regeneration to:**

2.1.1 **Enter into negotiations Land for the acquisition of land at the former Carpets of Worth, Severn Road, Stourport on Severn.**

2.1.2 **Procure and appoint a suitable 'Development Partner' to work with the Council to acquire the Land including agreeing the evaluation model for procuring such a development partner based on financial advantage, deliverability and securing planning policy objectives and appointing based on the outcome of the evaluation.**

2.3. **Once a Development Partner has been identified and subject to the submission to Cabinet of a detailed report for approval, to agree the principle of future use of Compulsory Purchase Powers over land at the former Carpets of Worth, Severn Road, Stourport-on-Severn in the event that the current landowner is unwilling to dispose of the Land.**

3. BACKGROUND

3.1. The Land in question ("the Land") is located to the south-east of Stourport-on-Severn town centre, directly to the south of the inner ring road (Gilgal/Mitton Street). A location plan is provided as Appendix 1. The Land is known as the former Carpets of Worth Land.

3.2. The Land comprises a roughly rectangular block of land, which extends to 3.2 Hectares (7.9 Acres), located directly to the south of a Tesco Foodstore. A Land plan is provided as Appendix 2.

3.3. The Land and the site of the Tesco Foodstore is the location of the former Bond Worth Carpet Factory, with three standing locally listed buildings being all that remain of the former factory.

3.4. Save for the three locally listed buildings (The Gatehouse, The White House and The Riverside Building), the Land has been comprehensively cleared and the perimeter secured with timber hoarding. The Land benefits from the delivery of the Foodstore which required the completion of an internal site road for the wider Land from Severn Road. An access spur from an internal roundabout, provides a site access to the Land.

3.5. The Land has an extensive planning history and planning permissions have now expired.

3.6. An outline planning application for a mixed-use scheme was submitted by Arab Investments in 2009(09/0588), achieving permission at appeal in April 2011. The permission provided for:

- 159 residential units (94 of which were apartments)
- 3,300 sqm (35,527 sq ft) of mixed commercial space
- Retention of the three locally listed buildings

3.7. In 2011 Stourport Corporation NV submitted a reserved matters application (11/0534/RESE) related to the above permission, which was granted in November 2012.

3.8. The last planning activity was in 2013, with a planning application(13/0082) to demolish the Riverside Building and replace this with apartments. The applicants never concluded the s106 agreement and so, whilst the principle of development was agreed, the permission was not granted.

3.9. The Land currently benefits from the allocation SAL.EA1in the adopted Local Plan. This allocation refers to the totality of the site, including the now constructed Tesco supermarket. Uses associated with the allocation are:

- Provision for a mix of land uses to include B1 Business, small scale retail and housing
- Potential to deliver a new supermarket
- Requirement to preserve and enhance the Conservation area
- Enhance the natural assets of the site, provided by the River Stour
- Bring existing buildings back into use.

3.10. The residential development market collapsed in early 2008 as a consequence of the economic downturn, with a following period of inactivity and limited construction. 2011/2012 witnessed the gradual restoration of house builder appetite to acquire new opportunities and build new houses. Although the residential development market has been restored for a number of years, housing still has not come forward on the Land.

3.11. Dialogue with house builder contacts suggests that owner aspiration concerning price is the most probable barrier to the sale of the Land, and consequently the housing coming forward. The profile of the companies that have submitted the planning applications are those of property companies, rather than house builders. It is considered that development of the Land would be only by house builder due to majority residential component, therefore it is unlikely the present owners would have wish to develop a consented scheme themselves.

3.12. Should the Land be marketed at a value which reflects current market value for similar opportunities it is considered that it would generate strong interest from the national house builders, affordable housing providers and regional house builders. The opportunity has the advantages of a previous positive planning history for a majority residential development, a cleared site, established site access and full technical reporting.

3.13. At 7.9 acres this is within the desired acquisition criteria for the national housing builders, who are currently seek to acquire sites that can deliver in excess of 75- 100 residential units.

3.14. The Council is also aware that there is interest in the site from the NHS as a potential location for a medical centre in Stourport if the existing health centre were to relocate from the existing County Buildings location on Bewdley Road. The Council will continue to engage in this dialogue but it should be acknowledged that plans are at a very early stage and the development of the business case for relocation of medical facilities can take considerable time to mature.

3.15. In December 2017 Bruton Knowles were instructed on behalf of the Council to contact the Land owners to identify their intentions for the Land and their aspirations concerning price. Additionally Bruton Knowles were instructed to provide an indicative value for the Land, should this be sold as a housing site (Appendix 3).

3.16. Unfortunately Bruton Knowles have not been able to establish a dialogue with the owners, despite writing and telephoning the holding company, contacting planning consultants responsible for previous applications and property agents who reputedly have some association.

3.17. Furthermore the Council having undertaken a recent Land Registry Title search has written to the holding company and the accountants for Stourport Corporation NV.

4. THE RATIONALE FOR FUTURE USE OF COMPULSORY PURCHASE POWERS

4.1 The current position of a substantial undeveloped housing site is clearly un-sustainable in regard to both local and national requirements for an increased supply of housing.

4.2 From a local perspective this is even more immediate with the Local Plan review process underway, and requirements to meet 5 year housing supply numbers. This has necessitated consultation on potential housing allocations within the 'Greenbelt'.

4.3 The lack of dialogue with the landowner and their reluctance to engage, necessitates a more robust approach to ensure that they respond or are encouraged to dispose of the Land, marketing this at a level which is attractive to potential purchasers.

4.4 The ability to inform the landowners that the Council have 'agreed in principle' to use CPO powers to acquire the Land, should substantially increase the Council's ability to persuade the landowners to dispose of the Land. Often this is all that is needed to influence landowner intention.

4.5 Ultimately matters may need to progress to a full CPO, if the landowner resists or chooses to continue their lack of engagement. Should this be the case then the Council will need to indentify and secure a development partner to acquire the Land and subsequently deliver the housing, which is discussed in greater detail later in this report.

4.6 Government policy on housing recognises the issue of undeveloped housing sites and how this matter should be addressed.

4.7 Specific Government thinking is provided within '*Fixing Our Broken Housing Market'* , the Housing White Paper of February 2017. This in turn provides justification for the potential of using CPO powers to acquire the Land.

4.8 The Paper identifies the current broken nature of the housing market to be one of the greatest barriers to progress in Britain. The Government's intention is to deliver a number of initiatives to both make housing more affordable and to increase supply. The Paper identifies that c.160,000 new houses are currently built per year against a projected requirement of 225,000 – 275,000 new homes per year. Furthermore nationally of the new homes granted planning permission in the period 2011 to 2015,a third are yet to be built.

4.9 The White Paper focuses on Councils ensuring that Local plans are adequate to assist delivery, mechanisms to deliver homes faster, encouraging and widening the players in the residential development market and potential measures to help people now.

4.10 The White Paper wants Local Authorities to have more effective tools to deal with circumstances where planning permission has been granted but no substantive progress has been made. The Paper notes that CPO gives Local Authorities extensive powers to assemble land for development and these powers should now be used to deal with stalled housing sites. This is clear in the extracts set out beneath:

'Local Planning Authorities should think about how they can use these powers to promote development' (2.42) and:

'Encourage more active use of Compulsory Purchase Powers to promote development on stalled sites for housing' (2.44)

4.11 Justification at a District level is set out in the Cabinet Report 'Compulsory Acquisition of Land & Properties & Empty Property Strategy', prepared by the Corporate Director: Economic Prosperity and Place, and agreed in September 2017.

4.12 Cabinet agreed to the principle of use of CPO powers under s17 of the Housing Act 1985 and s226(1)(a) of the Town and Country Planning Act 1990 to acquire vacant and/or under used land and empty properties, subject to reports being received and approved on an individual case by case basis.

4.13 The Report set out how the utilisation of such powers will assist with housing delivery, clearly required to assist in the District's required level of new housing completions and provide housing to alleviate the Council's housing waiting list.

4.14 Furthermore the Cabinet report identified the financial consequences for the Council in having undeveloped land, missing out on Council Tax revenue and receiving a lesser amount of New Homes Bonus.

5. <u>IDENTIFICATION AND SELECTION OF A DEVELOPMENT PARTNER</u>

5.1 Although legislation is in place that permits the Council to utilise CPO powers to acquire the subject Land, this is not something that the Council should undertake on a solus basis.

5.2 Bruton Knowles as part of their instruction have provided a budget acquisition cost for the Land..

5.3 The figure provided by Bruton Knowles is not a Red Book valuation, but is currently sufficient guidance. Bruton Knowles have a highly skilled and experienced 'Land Development Team' based in Gloucester who focus on residential land valuation, housing land disposal and strategic land. Consequently they have an accurate view of current land values.

5.4 Clearly should the Council acquire the Land for the figures advised by Bruton Knowles then this would be a substantial financial undertaking for the Council, at a time when finances are constrained.

5.5 More significantly the Council has no experience in the construction and delivery of a substantial housing scheme and there would be massive inherent risk should a decision be made to act as 'developer' and deliver housing at the location. While this risk could be mitigated somewhat should project management of the development be undertaken externally, this would come at a significant cost.

5.6 Consequently a mechanism to avoid this financial and delivery risk would be to identify and procure a development partner to whom the Land would pass immediately, on a ‘back to back’ basis and whom would be asked to underwrite the Council’s CPO costs.

5.7 Such a ‘development partner’ would ideally be a national house builder or a substantial registered social landlord. The party would need to demonstrate ability to deliver such a scheme, resolve technical and Land issues and successfully market and dispose of completed housing units on leasehold or freehold basis. Homes England (formerly the Homes and Communities Agency) has a Delivery Partner Panel (DPP) of suitable partners that the Council could engage with. The advantage of the DPP is that it has already been procured and is available for public sector partners to utilise.

5.8 The basis of procurement of the ‘development partner’ would be that they would financially indemnify the Council’s costs in acquiring the Land and the making of the CPO.

5.9 The opportunity presented by the Land, it is considered, would be attractive to a potential development partner. The Land is cleared, has an established access and benefits from historic planning permissions for residential led schemes.

6. <u>THE COUNCIL’S POWERS AND USE OF COMPULSORY PURCHASE</u>

6.1 The Council has the power under Section 226(1) of the Town and Country Planning Act 1990 to acquire land compulsorily for planning purposes. The relevant tests are set out in Section 226(1)(a). The local authority must think that the acquisition will facilitate the development, redevelopment or improvement of the land and there should be no financial or physical impediments to bringing a scheme forward. Securing a development partner would ensure that the finances are in place to guarantee delivery.

7. <u>PROPOSALS</u>

7.1 It is proposed that the Council continues to try to progress an acquisition of the Land but also agrees to the principle of the future use of compulsory purchase powers to acquire the Land if that becomes necessary and to receive a detailed report at a later date to justify the use of CPO powers to acquire the Land should that prove necessary; and to source and procure a ‘Development Partner’ to acquire the land on a ‘back to back’ basis and, indemnify the Council to all costs associated with an Order, if sought.

8. <u>FINANCIAL IMPLICATIONS</u>

8.1 Before proceeding, the Council will be fully indemnified against costs associated with acquisition, including any agreed purchase price

8.2 Despite the full indemnification of all costs, if the CPO is made, this expenditure will still be classed as the Council’s capital expenditure for accounting purposes. Accordingly, revision to the Capital programme to include the associated expenditure and matching funding will be required. This would be sought as part of a future report.

9. LEGAL AND POLICY IMPLICATIONS

9.1 The Town & Country Planning Act 1990 (s226) is the legislative background which enables the Council to use compulsory purchase powers to acquire land, as long as it is satisfied that the pre-requisites of the legislation are met in so doing. A full report will need to be considered before a CPO can be made to address all of the necessary considerations against the up to date position at that time.

9.2 The procurement of a Development Partner will be undertaken in accordance with the relevant procurement procedures

10. RISK MANAGEMENT

10.1 The presence of the indemnity agreement proposed will ensure that the Council is protected from any risks associated with this proposal to purchase the land interests identified.

11. CONCLUSION

11.1 The Council proposes that the land at Severn Street, Stourport-on-Severn known as the ‘Carpets of Worth’ Land should come forward for housing development. To date the landowner has remained elusive and has not engaged with Council or its representatives when approached to determine their intentions for the land. Should the Council agree to the principle of the future use of a Compulsory Purchase Order to acquire the land then if the landowner is informed of this then this will help to motivate the landowner to sell the Land. Should the landowner continue their inactivity then the Council should consider a further more detailed report to utilise Compulsory Purchase powers to acquire the land, but only on the basis that an agreement has previously reached a ‘back to back’ agreement with a ‘Development Partner’ so the Council will be indemnified for costs an the land passing to a party capable and motivated to deliver housing.

12. CONSULTEES

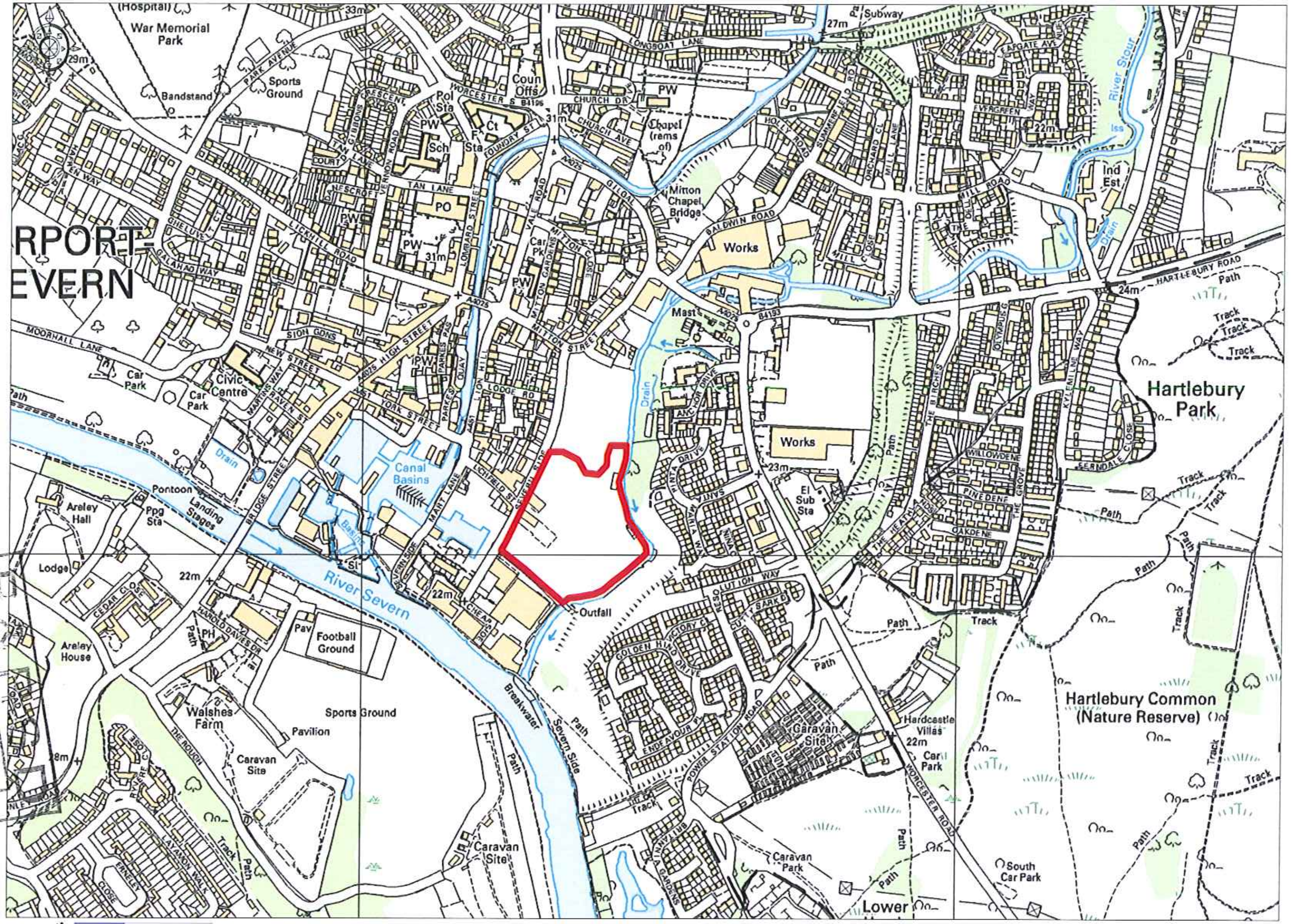
12.1 Corporate Leadership Team.

13. APPENDICES

Appendix 1 – Location Plan
Appendix 2 – Land Plan
Appendix 3 – Valuer advice letter

Agenda Item No. 8.2
Appendix 1

Carpets of Worth, Stourport - Site Location Plan



For Indicative Purposes Only

Wyre Forest District Council

Agenda Item No. 8.2
Appendix 2

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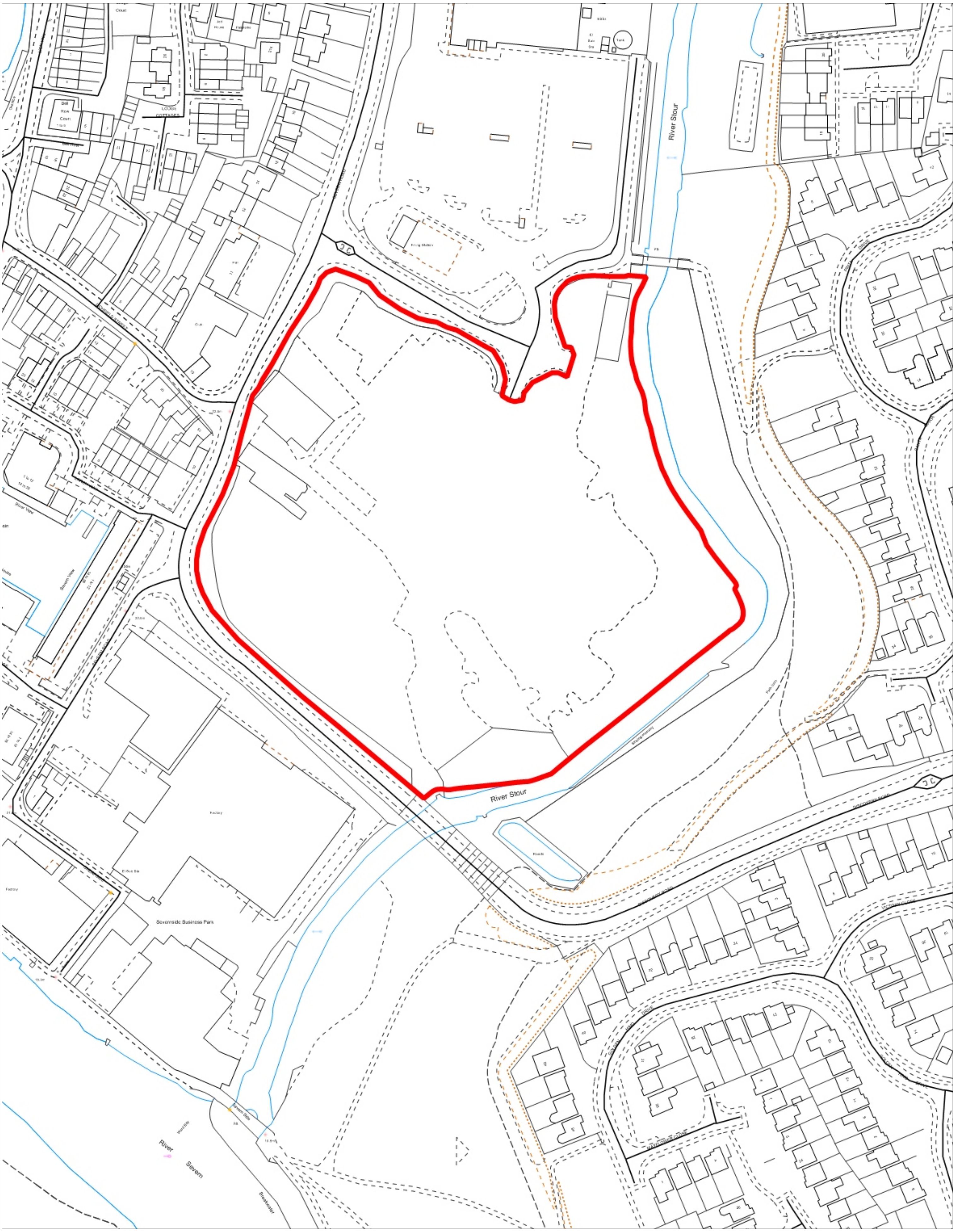

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WYRE FOREST DISTRICT COUNCIL

Cabinet
Tuesday 27th March 2018

Overview and Scrutiny Committee
Thursday 1st March 2018

Acquisition of Land in Areley Kings and Riverside Ward

The Committee considered a confidential report from the Property and Investment Manager which considered an acquisition of land in the Areley Kings and Riverside Ward.

Members discussed the report and fully supported the future use of Compulsory Purchase Powers to acquire the land.

Recommend to Cabinet:

That the Council:

1.1 Considers the future use of Compulsory Purchase Powers to acquire land at Severn Road, Stourport (known as the Carpets of Worth Land), to bring the land for residential led development, with the potential of also incorporating a medical centre

1.2 Agrees to the identification and selection of a 'Development Partner' that the Council can work with to successfully deliver housing.