

Open

Overview & Scrutiny Committee

Agenda

6pm
Thursday, 7th November 2019
Council Chamber
Wyre Forest House
Finepoint Way
Kidderminster



Overview & Scrutiny Committee

Members of Committee:

Chairman: Councillor M J Hart
Vice-Chairman: Councillor S J Chambers

Councillor N J Desmond
Councillor S Griffiths
Councillor T L Onslow
Councillor S E N Rook

Councillor C E E Edginton-White
Councillor S Miah
Councillor M Rayner
Councillor D R Sheppard

Would Members please note that, to ensure continuity in scrutiny, substitutes should only be appointed for the Scrutiny Committee in exceptional circumstances.

Information for Members of the Public:

Part I of the Agenda includes items for discussion in public. You have the right to inspect copies of Minutes and reports on this Agenda as well as the background documents used in the preparation of these reports.

Part II of the Agenda (if applicable) deals with items of "Exempt Information" for which it is anticipated that the public may be excluded from the meeting and neither reports nor background papers are open to public inspection.

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.

Co-opted Members

Scrutiny Committees may wish to appoint Co-Opted Members to sit on their committee in order to add value to the scrutiny process. To appoint a Co-Opted Member, a Committee must first agree to appoint either a specific person or to approach a relevant organisation to request that they put forward a suitable representative (e.g. the local Police Authority). Co-Optees are non voting by default but Committees can decide to appoint voting rights to a Co-Optee. The Co-Option of the Member will last no longer than the remainder of the municipal year.

Scrutiny Committees can at any meeting agree to terminate the Co-Option of a Co-Opted Member with immediate effect. Where an organisation is appointed to put forward a Co-Opted Member, they are able to send a substitute in exceptional circumstances, provided that they notify Democratic Services in advance. Co-Opted Members must sign up to the Members Code of Conduct before attending their first meeting, failure to sign will mean that they are unable to participate. This also applies to substitute Co-Opted Members, who will need to allow sufficient time before a meeting in order to sign the Code of Conduct.

The following will apply:

- i) The total number of voting co-opted members on any Scrutiny Committee will not exceed 25% at any one time.
- ii) The total number of voting Co-opted Members on any Review Panel will not be limited.
- iii) Those Co-opted Members with voting rights will exercise their rights in accordance with the principles of decision making set out in the constitution.

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 Louisa Bright, Principal Committee and Member Services Officer, Wyre Forest House, Finepoint Way, Kidderminster, DY11 7WF. Telephone: 01562 732763 or email louisa.bright@wyreforestdc.gov.uk

Wyre Forest District Council
Overview & Scrutiny Committee

Thursday, 7th November 2019

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.	Appointment of Substitute Members To receive the name of any Councillor who is to act as a substitute, together with the name of the Councillor for whom he/she is acting.	
3.	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.	
4.	Minutes To confirm as a correct record the Minutes of the meeting held on the 5 th September 2019.	7
5.	How Are We Doing? Performance Update To consider a report from the Business Improvement Officer which updates Members on the performance of the Council for quarter 2 from 1 st July 2019 to 30 th September 2019.	12
6.	To consider whether to progress with establishing a local lottery for Wyre Forest To receive a report from the Corporate Director Community Well-Being and Environment considering whether to progress with establishing a local lottery for Wyre Forest. Gatherwell, the leading operators in this field will be attending the Meeting for this item.	42
7.	Capital Portfolio Fund – Quarterly Fund Report To consider a report from the Corporate Director Economic Prosperity & Place which provides an update on the performance of the Capital Portfolio Fund for the June 2019 Quarter period.	65

8.	<p>Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2019-20</p> <p>To consider a report from the Corporate Director: Resources which provides Members with a mid-year review of the Council's treasury management policies, practices and activities in accordance with the CIPFA Treasury Management Code of Practice.</p> <p>To also consider the recommendations from the Treasury Management Review Panel from its meeting on 4th November 2019. (To follow)</p>	72
9.	<p>Conversion of a property in Stourport on Severn</p> <p>To consider a report from the Head of Strategic Growth which presents the business case for converting a property in Stourport on Severn into temporary accommodation.</p>	102
10.	<p>Social Housing Update</p> <p>To consider a report from the Corporate Director Economic Prosperity & Place which provides an update on the delivery of social housing as requested by Council in May 2019.</p>	108
11.	<p>Feedback from Cabinet</p> <p>To note the content of the Cabinet action list, following consideration of the recommendations from its meeting on 18th September 2019.</p>	114
12.	<p>Work Programme</p> <p>To review the work programme for the current municipal year with regard to the Corporate Plan Priority, Annual Priorities and the Forward Plan.</p>	116
13.	<p>Press Involvement</p> <p>To consider any future items for scrutiny that might require publicity.</p>	
14.	<p>To consider any other business, details of which have been communicated to the Solicitor of 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.</p>	
15.	<p>Exclusion of the Press and Public</p> <p>To consider passing the following resolution:</p> <p>“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”.</p>	

Part 2

Not open to the Press and Public

16.	Agenda Item No. 7 Capital Portfolio Fund – Quarterly Fund Report Appendix 2 - Jones Valerio June Quarterly Performance Report	
17.	To consider any other business, details of which have been communicated to the Solicitor of 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

OVERVIEW & SCRUTINY COMMITTEE

COUNCIL CHAMBER, WYRE FOREST HOUSE, FINEPOINT WAY, KIDDERMINSTER

THURSDAY, 5TH SEPTEMBER 2019 (6PM)

Present:

Councillors: M J Hart (Chairman), S J Chambers (Vice-Chairman), N J Desmond, C E E Edginton-White, S Griffiths, S Miah, T L Onslow, M Rayner, S E N Rook and D R Sheppard.

Observers

Councillors: G W Ballinger and F M Oborski MBE.

OS.23 Apologies for Absence

Apologies for absence were received from Councillor A Totty.

OS.24 Appointment of Substitutes

Councillor S Miah was a substitute for Councillor A Totty.

OS.25 Declarations of Interests by Members

No declarations of interest were made.

OS.26 Minutes

Decision: The minutes of the meeting held on 4th July 2019 and the minutes of the meeting of the Overview and Scrutiny Sub-Committee held on 30th July 2019 be confirmed as a correct record and signed by the Chairman.

OS.27 How Are We Doing? Performance Update

The Committee considered a report from the Business Improvement Officer which updated Members on the performance of the Council for quarter 1 from 1st April to 30th June 2019.

The Principal HR Advisor presented the report and appendices which included a detailed report of performance against the Council's purposes of 'Enabling' and a detailed report on the progress of the Capital Projects. Members were advised that as to be expected for quarter 1, there were no overdue actions and therefore no exception report had been included on this occasion.

The Committee considered each page of the report and appendices in turn. In response to a Member question regarding CORPRISK07 – Not able to maintain a skilled and motivated workforce; in relation to retention issues of HGV drivers, the

Principal HR Advisor said that there was a national shortage of HGV drivers and the Council was actively working with the existing workforce to train up loaders to become drivers.

Agreed: The progress in performance for quarter 1 be noted.

OS.28 Annual Report on Treasury Management Service and Actual Prudential Indicators 2018-19

The Committee considered a report from the Corporate Director: Resources which provided a review of the treasury management activities for 2018-19, in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code). It also includes for the first time reporting on the non-treasury prudential indicators introduced under MHCLG Guidance issued in February 2018.

The Committee also considered recommendations from the Treasury Management Review Panel from its meeting on 2nd September 2019.

The Corporate Director: Resources presented the report and gave a summary of the main points. She advised Members that this was the first of three statutory reports which would be presented to the Committee during the municipal year. She added that the Council's Treasury Management Consultants, Link Asset Services, had provided a comprehensive Member training session on 2nd September, which was followed by a detailed scrutiny of the report by the Treasury Management Review Panel.

The Chairman of the Treasury Management Review Panel, Councillor N Desmond, said that there were still spaces left on the Review Panel if any other Members were interested in joining the Panel.

Agreed: Overview and Scrutiny Committee recommends to Council to:

- 1.1 Approve the actual 2018-19 prudential and treasury indicators in the report.;**
- 1.2 Approve the actual 2018-19 non-treasury prudential indicators for Capital Portfolio Fund property acquisitions;**
- 1.3 Note the annual treasury management report for 2018-19, including information on the non-treasury prudential indicators for Capital Portfolio Fund acquisitions.**

OS.29 Worcestershire's Homelessness and Rough Sleeping Strategy 2019 – 2022

The Committee considered a report from the Head of Strategic Growth which sought agreement that the new Homelessness and Rough Sleeping Strategy 2019 -2022 is publically consulted on in advance of adoption.

The Head of Strategic Growth led Members through the report and advised that the implementation of the Homelessness Reduction Act (HRA) which came into force on 3rd April 2018 and the new Homelessness Code of Guidance developed by Government to assist Local Authorities to implement the Act have placed further requirements on authorities' strategic response to preventing homelessness. She added that the Act strengthens statutory duties to prevent homelessness for all eligible applicants, including those who do not have priority need or may be considered intentionally homeless.

The Head of Strategic Growth tabled a briefing paper which illustrated the differences in homelessness pre and post the Homelessness Reduction Act 2017. In particular the paper considered the number of homeless decisions made before and after the acts introduction which provided an illustration of service volumes and changes therein. The paper also compared service volumes in Wyre Forest to other councils within the County.

A lengthy discussion ensued. Members welcomed the Strategy and were assured that it had been amended to take into consideration the government's Rough Sleeping Strategy 2018 and the requirement by the Ministry of Housing, Local Government and Communities (MHCLG) to update the Council's current strategy by the end of 2019.

The Committee unanimously supported the recommendations and was pleased that local volunteer groups that support homeless people within the District will have the opportunity to take part in the consultation exercise.

In response to Members' questions, the Head of Strategic Growth agreed to circulate a list of the County wide homeless / rough sleeper projects for 2019-20, which would include the amount of funding and resource for Wyre Forest, to Members for their information.

Agreed: Recommend to Cabinet that:

- 1. The Homelessness and Rough Sleeping Strategy 2019 – 2022 is publically consulted on in advance of being adopted AND;**
- 2. To recommend to Cabinet that they delegate to the Corporate Director: Economic Prosperity and Place, in consultation with the Cabinet Member for Housing, Health and Wellbeing, to agree the finalised strategy following any changes arising as a consequence of the consultation and that the final strategy be adopted from 31 December 2019.**

OS.30

Kidderminster Business Improvement District (BID) – Forward Funding

The Committee considered a report from the Corporate Director: Economic Prosperity & Place which set out a proposal to provide forward funding to the Kidderminster BID in advance of the initial collection of the additional business rates in 2020/21.

The Corporate Director: Economic Prosperity & Place led Members through the report. He advised Members that over the last two years the District Council had

supported businesses in Kidderminster Town Centre to undertake a ballot on whether to establish a BID. He added that a ballot was held in July 2018 which was unsuccessful, however the Businesses decided to amend the BID proposal, and a further BID ballot was held in May 2019 which was successful.

The Corporate Director: Economic Prosperity & Place said that the Council would be the body responsible for collecting the BID levy as part of its Business Rates collection.

The Committee discussed the report and in response to a Member question, the Corporate Director: Resources confirmed that the forward funding would come from general cash reserves. Members fully supported the proposal which would enable the continued progress to set up the BID Company and to appoint a BID Manager. The Committee agreed that the proposal supported the Council's corporate priority for supporting economic regeneration within the District.

Agreed: Recommend to Cabinet that the proposed forward funding by way of a Loan Agreement should proceed.

OS.31 North Worcestershire Economic Growth Strategy 2019-2024

The Committee considered a report from the Head of North Worcestershire Economic Development and Regeneration which provided a summary of the North Worcestershire Economic Growth Strategy 2019-2024 and outlines its four pillars of growth, strategic priorities and supporting projects and interventions.

The Head of North Worcestershire Economic Development and Regeneration led Members in detail through the document.

Members welcomed the strategy and acknowledged that it provided stronger evidence of the combined strengths of the three North Worcestershire districts to generate economic growth, and was an important evidence base document for potential investments from the UK shared Prosperity Fund.

There was unanimous support for the proposal. When making the recommendation the Committee noted that the Vibrant Economy Index (VEI) score for health, Wellbeing & Happiness in Wyre Forest was the lowest in North Worcestershire and below the GB average and made reference to the consultation paper on the proposed changes to the management structure of the Community Well-being and Environment Directorate.

Agreed: Recommend to Cabinet that the strategy be adopted.

OS.32 Feedback from Cabinet

Agreed: The content of the Cabinet action list, following consideration of the recommendations from its meeting on 16th July 2019 and the meeting of the Cabinet Sub-Committee held on 31st July 2019 be noted.

OS.33 Work Programme

Agreed: As there are no items to be considered at the Overview & Scrutiny Committee meeting scheduled to take place on Thursday 3rd October 2019, and therefore to ensure that officer resource and member time is used most efficiently and not wasted, the Chairman in consultation with the Committee members has decided to cancel the meeting.

OS.34 Press Involvement

There were no future items for scrutiny that might require publicity.

There being no further business, the meeting ended at 7.45pm.



Overview & Scrutiny Committee

Briefing Paper

Report of: Rhiannon Foxall, Business Improvement Officer
Date: Thursday 7th November 2019
Open

How Are We Doing? Performance Update

1. Summary

- 1.1 To update Members on the performance of the Council for Quarter 2 (from 1st July 2019 to 30th September 2019).

2. Background

- 2.1 Performance management is instrumental in all council activities as it helps us to keep track of how well we are performing and enables any potential issues to be identified at an early stage so remedial action can be taken. It also informs our decision making processes which underpin the delivery of our Corporate Plan 2019-23.
- 2.2 The Council has a number of processes in place to monitor our performance including:
- Corporate Plan Actions
 - Corporate Risks and associated actions
 - Leading Measures
 - Lagging Measures

3. Progress

- 3.1 **Appendix 1** is the [exception report](#) detailing those actions that are overdue or cancelled.
- 3.1 **Appendix 2** is a detailed report of performance against our purpose of '[Business](#)'.
- 3.2 **Appendix 3** is the [business tracker](#) report.
- 3.3 **Appendix 4** is a detailed report of the progress of our [People](#).

4. Key Achievements/Issues

- 4.1 The exception report features one overdue action which is:
- WFF19/20 55, We support each other and enable them to work well

The latest update on this action is:

Induction and Onboarding

Due date amended due to other work priorities. Initial information gathering work continues.

HR pages - COLIN

There will be ongoing work on the HR pages to ensure they remain up to date and the self service element is developed.

Ongoing support and advice provided

4.2 Measure LA048: Amount (m2) of new/extended business/ commercial floorspace built as a result of the LDO

Whilst we received LDO notifications within the year the work didn't begin until after March 19. Therefore, for the next years update we would be able to confirm the following, which are currently under construction:

- Land off Zortech Avenue - 2 storey office extension – 910m2
- Former Frencro Site – construction of 9 commercial units – 490m2

5. Options

- 5.1 That the progress in performance for quarter 2 be noted.

6. Consultation

- 6.1 Leader of the Council
- 6.2 Corporate Leadership Team

7. Related Decisions

- 7.1 None.

8. Relevant Council Policies/Strategies

- 8.1 Wyre Forest District Council Corporate Plan 2019-23.

9. Implications

- 9.1 Resources: No direct implications from this report.
- 9.2 Equalities: No direct implications from this report.
- 9.3 Partnership working: No direct implications from this report.
- 9.4 Human Rights: No direct implications from this report.
- 9.5 E-Government: No direct implications from this report.

10. Equality Impact Needs Assessment

- 10.1 An equality impact assessment has been undertaken and it is considered that there are no discernible impacts on the nine protected characteristics as set out by the Equality Act 2010.

11. Wards affected

11.1 None.

12. Appendices

- 12.1 Appendix 1 – Exception report
- 12.2 Appendix 2 – Full ‘Business’ report
- 12.3 Appendix 3 – Business tracker report
- 12.4 Appendix 4 – Full ‘People’ report

13. Background Papers

Corporate Plan action information is available on the Council's Performance Management System, Pentana Performance. Alternatively, reports can be requested from the Business Improvement Officer.

Officer Contact Details:

Name: Rhiannon Foxall
Title: Business Improvement Officer
Contact Number: Ext. 2786
Email: rhiannon.foxall@wyreforestdc.gov.uk

Exception report for all purposes

Those actions that are approaching their due date or are overdue



Enabling others to do what they need to do

WFF 19/20 55

We support our people and enable them to work well

82%



Due Date	Managed By	Latest Note	Latest Note Date
30-Sep-2019	Corporate Leadership Team; Rachael Simpson	<p>Induction and Onboarding Due date amended due to other work priorities. Initial information gathering work continues.</p> <p>HR pages - COLIN There will be ongoing work on the HR pages to ensure they remain up to date and the self service element is developed.</p> <p>Developing leadership and personal capability Ongoing support and advice provided</p>	09-Oct-2019

SUPPORT ME TO RUN A SUCCESSFUL BUSINESS

This report details the progress we have made against our purpose of 'support me to run a successful business'.



Actions

Listed below is the progress against our current major projects that support the delivery of our purpose of 'support me to run a successful business'



WFF 19/20 58

Business Rates Retention Scheme

25%



Due Date	Managed By	Latest Note	Latest Note Date
31-Mar-2020	Tracey Southall	LG Futures are working with the treasurers on the first quarters budget monitoring report for the business rates pilot. Funding Reform delayed until 2021-22.	17-Oct-2019

WFF 19/20 59

Apprenticeships Programme (Year 8)

25%

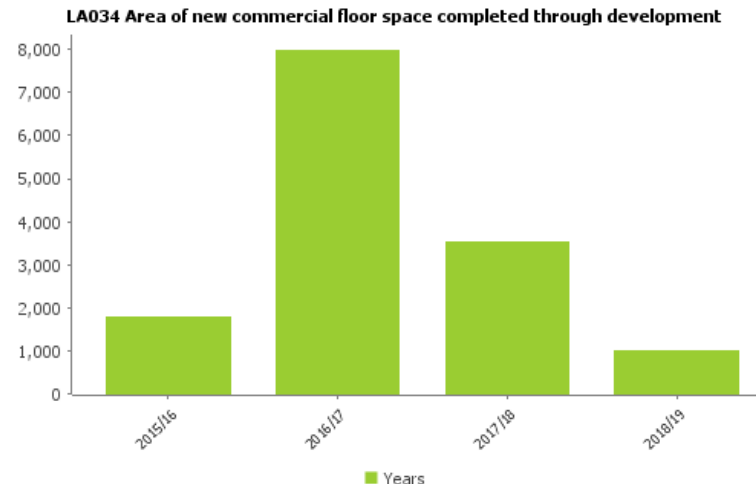


Due Date	Managed By	Latest Note	Latest Note Date
31-Mar-2020	Mike Parker	<p>2019/20 Apprenticeship Funding</p> <p>1 grant approved for Level 3 Business Administration Apprenticeship.</p> <p>2018/19 Apprenticeship Funding</p> <p>6 grants for Level 3 Apprenticeships approved, 2 claimed to date</p> <p>2 grants for Level 2 Apprenticeships approved, both claimed and paid in full</p>	02-Jul-2019

Measures

As a way of measuring the progress with our purpose, we collect key data to monitor trends and patterns. This data not only helps us to understand the impact of the work that we are doing but it also assists with decision making at a corporate level. The latest available data is detailed below:

LA034 Area of new commercial floor space completed through development
Aim to Maximise

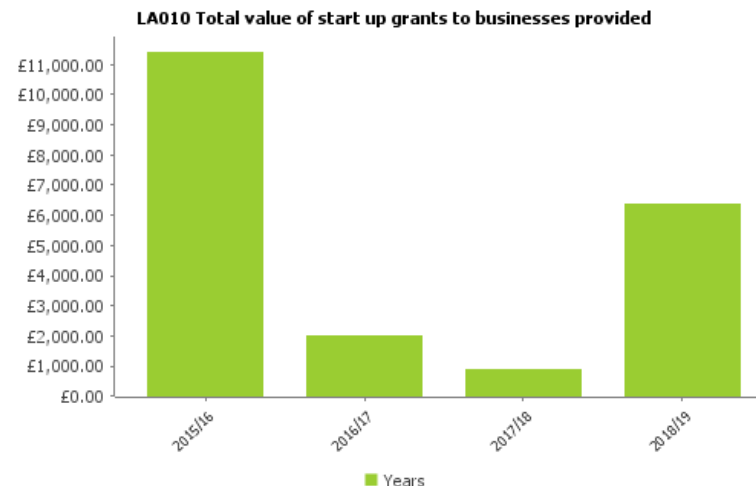


Current Value 1,004



Managed By Kate Bailey

LA010 Total value of start up grants to businesses provided
Aim to Maximise



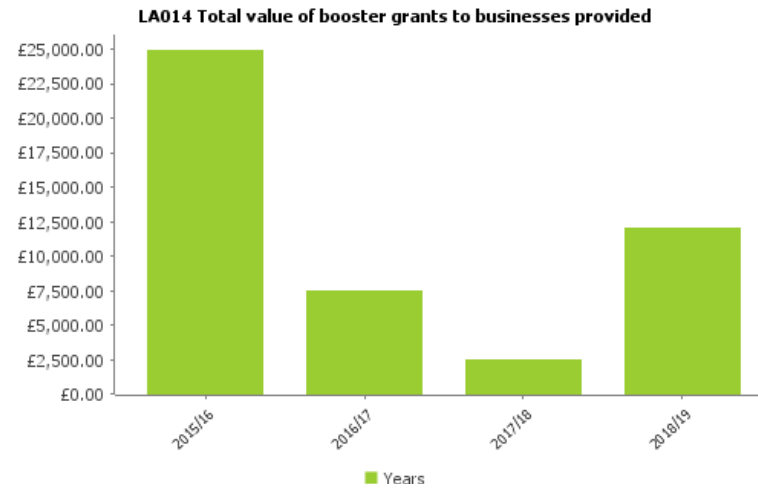
Current Value £6,372.12



Managed By Jonathan Elmer

LA014 Total value of booster grants to businesses provided

Aim to
Maximise



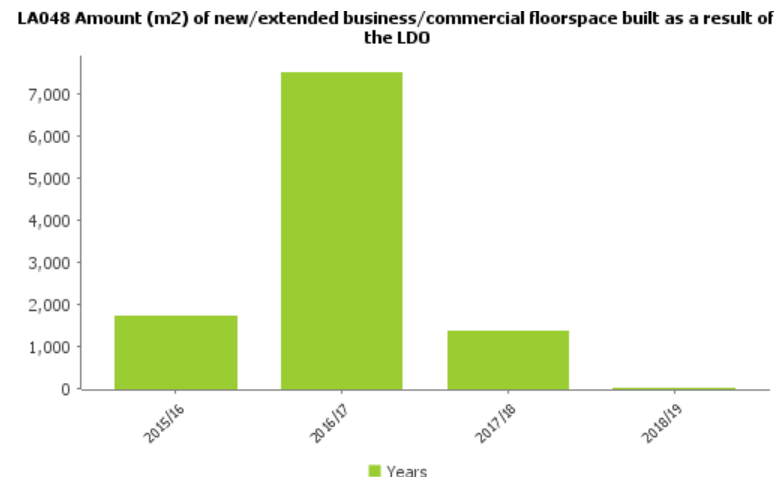
Current Value £11,984.08



Managed By Jonathan Elmer

LA048 Amount (m2) of new/extended business/commercial floorspace built as a result of the LDO

Aim to
Maximise



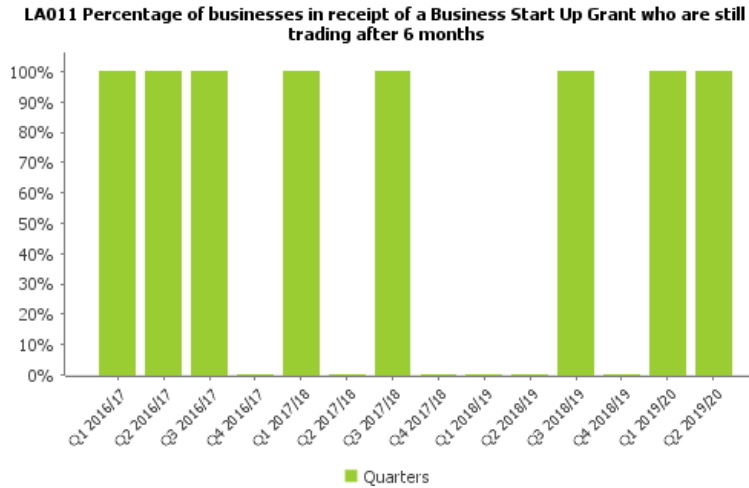
Current Value 0



Managed By Jonathan Elmer

LA011 Percentage of businesses in receipt of a Business Start Up Grant who are still trading after 6 months

Aim to Maximise



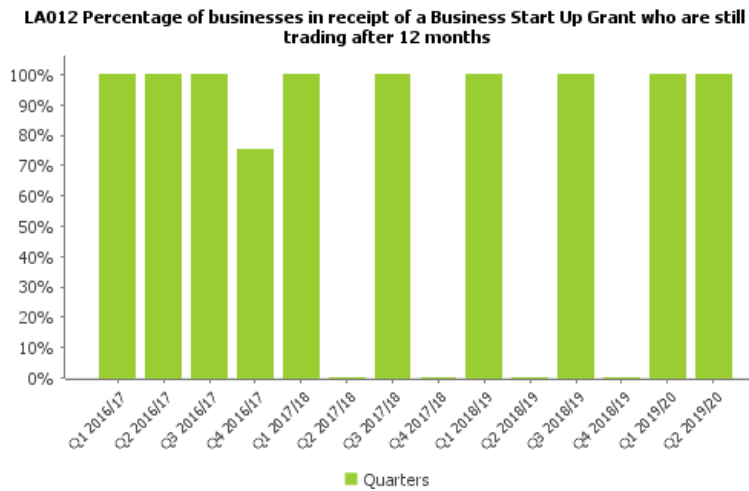
Current Value

100%

Managed By Jonathan Elmer

LA012 Percentage of businesses in receipt of a Business Start Up Grant who are still trading after 12 months

Aim to Maximise

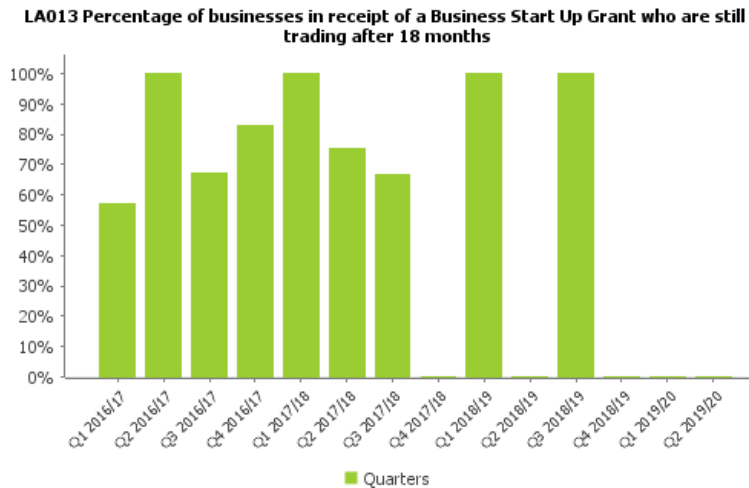


Current Value

100%

Managed By Jonathan Elmer

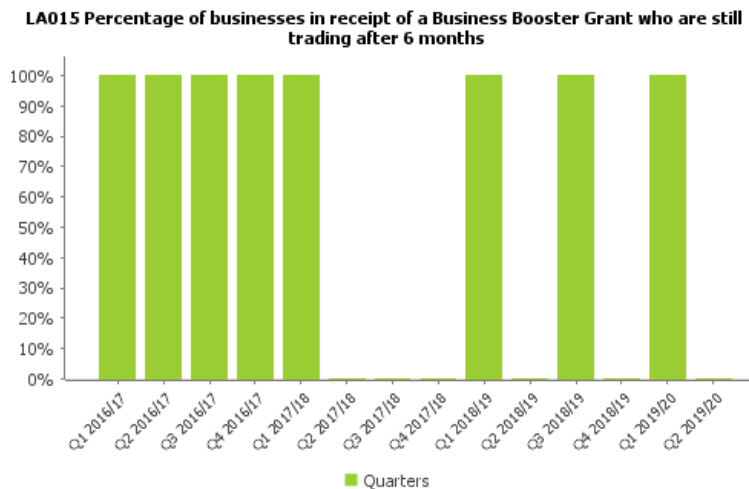
LA013 Percentage of businesses in receipt of a Business Start Up Grant who are still trading after 18 months
Aim to Maximise



Current Value 0%

Managed By Jonathan Elmer

LA015 Percentage of businesses in receipt of a Business Booster Grant who are still trading after 6 months
Aim to Maximise

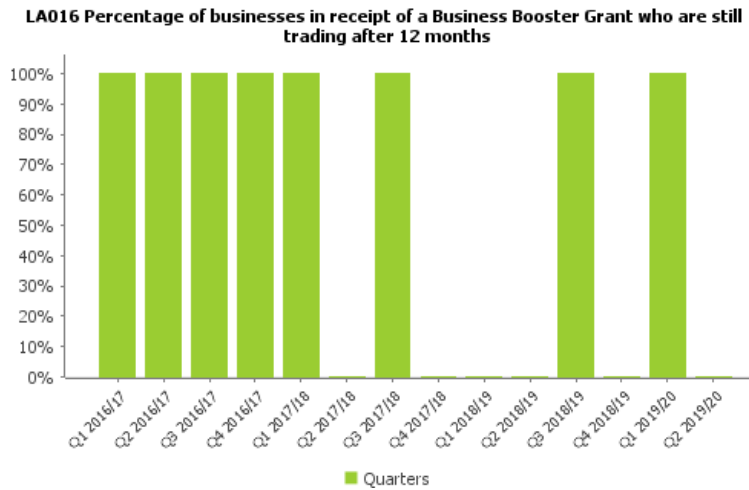


Current Value 0%

Managed By Jonathan Elmer

LA016 Percentage of businesses in receipt of a Business Booster Grant who are still trading after 12 months

Aim to
Maximise



Current
Value

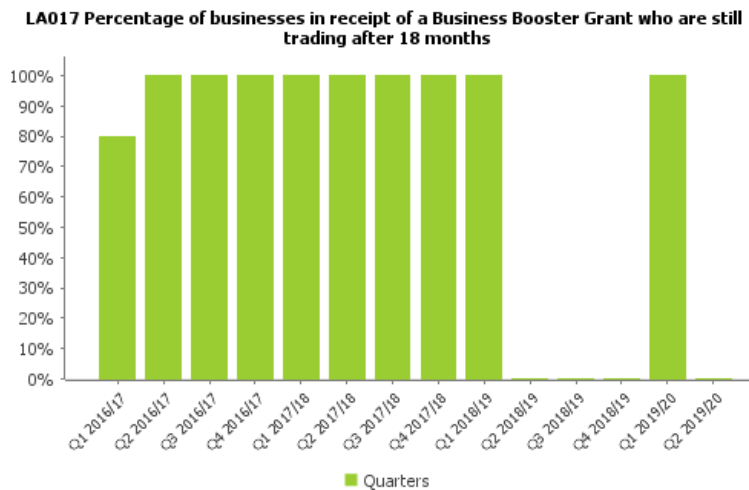
0%



Managed By Jonathan
Elmer

LA017 Percentage of businesses in receipt of a Business Booster Grant who are still trading after 18 months

Aim to
Maximise



Current
Value

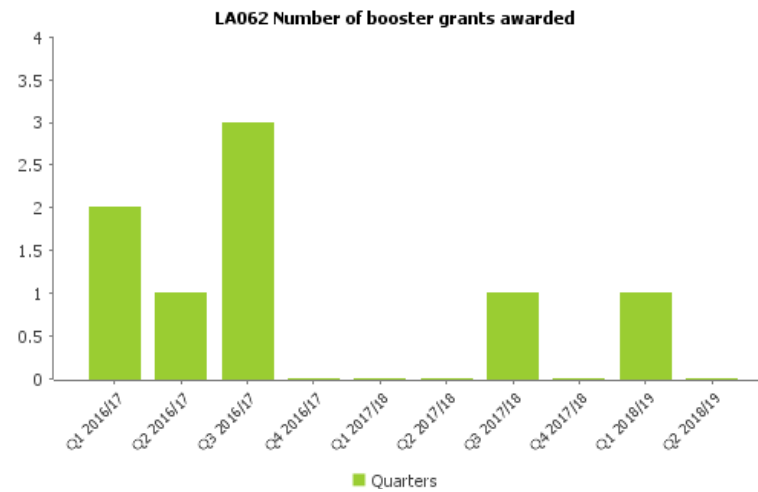
0%



Managed By Jonathan
Elmer

LA062 Number of booster grants awarded

Aim to
Maximise



Current
Value

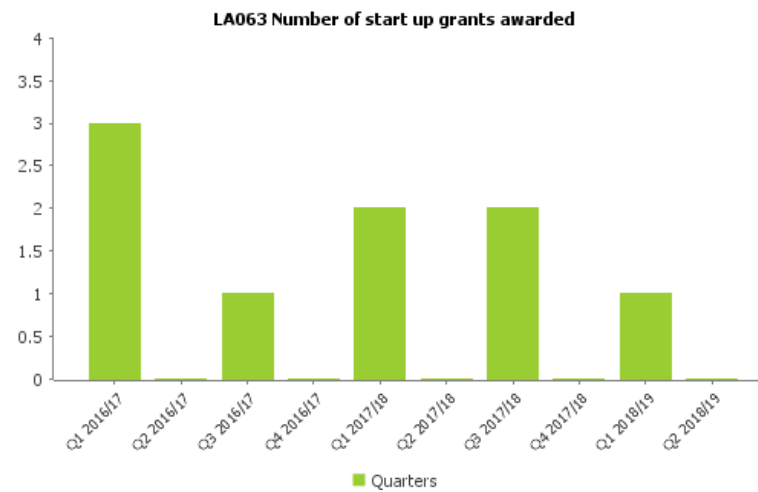
0



Managed By Jonathan
Elmer

LA063 Number of start up grants awarded

Aim to
Maximise



Current
Value

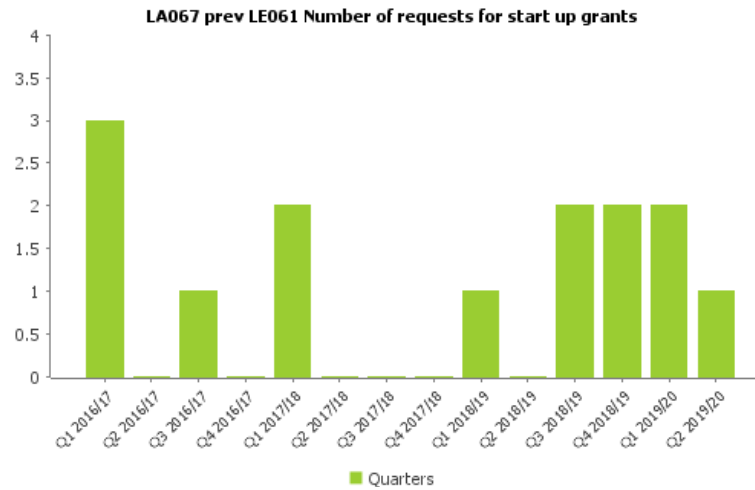
0



Managed By Jonathan
Elmer

LA067 Number of requests for start up grants
prev
LE061

Aim to
Maximise



Current
Value

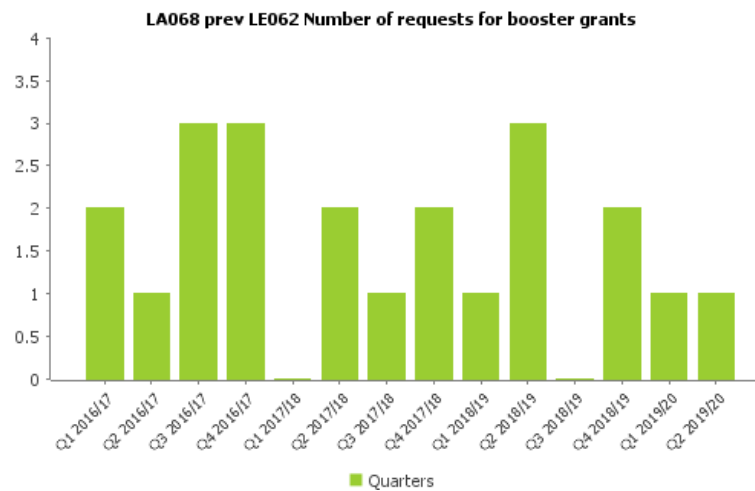
1



Managed By Jonathan
Elmer

LA068 Number of requests for
prev booster grants
LE062

Aim to
Maximise



Current
Value

1



Managed By Jonathan
Elmer

Risks

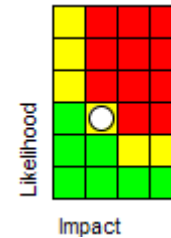
The below risk(s) has been identified as part of our Corporate Risk Register. All of the actions and measures detailed in this report aim to

mitigate this risk(s) as well as drive forward our purpose of 'support me to run a successful business'.

CORPRISK02

Unable to improve the economic prosperity of the district. Lack of vitality in the local economy – although the District is holding up reasonably well in the current economic conditions it still aims to stimulate growth to support the economic recovery and to support the recovery of the local economy. The Council is now in its eighth year of the State of the Area Programme which includes a number of projects to assist in the stimulation of economic recovery. The Council continues to host of the North Worcestershire Economic Development and Regeneration Service and a member of two Local Enterprise Partnerships and continues to maximise the benefit of that position. The Business Rates Retention Scheme introduced in 2013/14 increases the incentive to promote growth as there is significant financial risk to this Council if we are unable to sustain the baseline level of the business rates reflected in government projections. The detail in relation to reform of the Business Rates System towards 75% retention and Fair Funding Review is still emerging. We will continue to review our position as more information is released. Membership of the Worcestershire Business Rates Pool has only mitigated this risk to a certain extent and economic growth is key to the future financial sustainability of the Council, this may change following Business Rates Reform. Risk of LEP review removing right to be in two LEPs. Successful bid for 75% rate retention

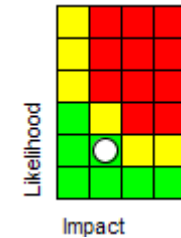
Current
Risk
Matrix



Impact Marginal
Likelihood Low



Target
Risk
Matrix



Impact Very Low
Likelihood Low



pilot for 2019/20 but all the net overall gain will be invested in activity to reduce social care pressure (subject to a no detrimental agreement for district councils). The 75% pilot will end 31st March 2020 so new pooling arrangement will be considered for 2020–21 now it has been confirmed that the funding reform has been delayed to 2021/22. The impact of Brexit influences this risk.

WYRE FOREST

		BUSINESS START-UP GRANTS				BUSINESS BOOSTER / GROWTH GRANTS			
		Grant Awarded	6 months Survival	12 months Survival	18 months Survival	Grant Awarded	6 months Survival	12 months Survival	18 months Survival
2011/12	Q1	1	-	-	-	0	-	-	-
	Q2	5	-	-	-	0	-	-	-
	Q3	5	1	-	-	0	-	-	-
	Q4	6	5	-	-	2	-	-	-
2012/13	Q1	7	5	1	-	1	-	-	-
	Q2	2	6	5	-	1	2	-	-
	Q3	5	7	5	1	5	1	-	-
	Q4	1	2	5	5	1	1	2	-
2013/14	Q1	1	5	6	5	1	5	1	-
	Q2	3	1	2	5	0	1	1	2
	Q3	8	1	4	4	2	1	5	1
	Q4	6	3	1	2	1	-	1	1
2014/15	Q1	4	8	1	4	6	2	1	5
	Q2	6	6	3	1	2	1	-	1
	Q3	7	4	8	1	10	6	2	1
	Q4	6	6	6	3	3	2	1	-
2015/16	Q1	6	7	4	7	4	10	6	2
	Q2	6	6	6	6	3	3	2	1
	Q3	3	6	5	4	5	4	9	6
	Q4	4	6	6	4	1	3	3	2
2016/17	Q1	3	3	6	5	2	5	4	8
	Q2	0	4	6	6	1	1	3	3
	Q3	1	3	3	4	3	2	5	4
	Q4	0	-	3	5	0	1	1	3
2017/18	Q1	2	1	3	3	0	3	2	5
	Q2	0	-	-	3	0	-	1	1
	Q3	0	2	1	3	1	-	3	2
	Q4	0	-	-	-	0	-	-	1
2018/19	Q1	1	-	2	1	2	1	-	3
	Q2	0	-	-	-	0	-	-	-
	Q3	2	1	-	-	4	2	1	-
	Q4	1	-	-	-	0	-	-	-
2019/20	Q1	2	2	1	-	1	4	2	1
	Q2	0	1	-	-	1	-	-	-

HELP ME WITH MY FINANCIAL SITUATION

This report details the progress we have made against our purpose of 'help me with my financial situation'.



Measures

As a way of measuring the progress with our purpose, we collect key data to monitor trends and patterns. This data not only helps us to understand the impact of the work that we are doing but it also assists with decision making at a corporate level. The latest available data is detailed below:

LA037 Average earnings

Aim to
Maximise



Current
Value

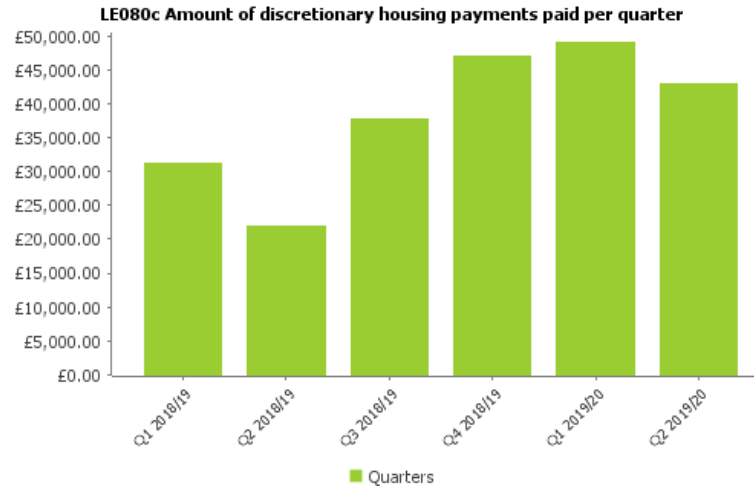
£25,131.6
0



Managed By Kate Bailey

LE080c Amount of discretionary housing payments paid per quarter

Goldilocks



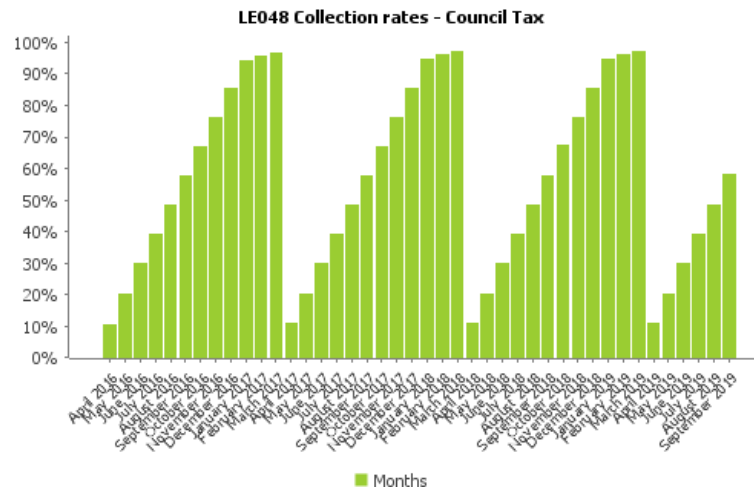
Current Value £43,047.00



Managed By Lucy Wright

LE048 Collection rates – Council Tax

Aim to Maximise



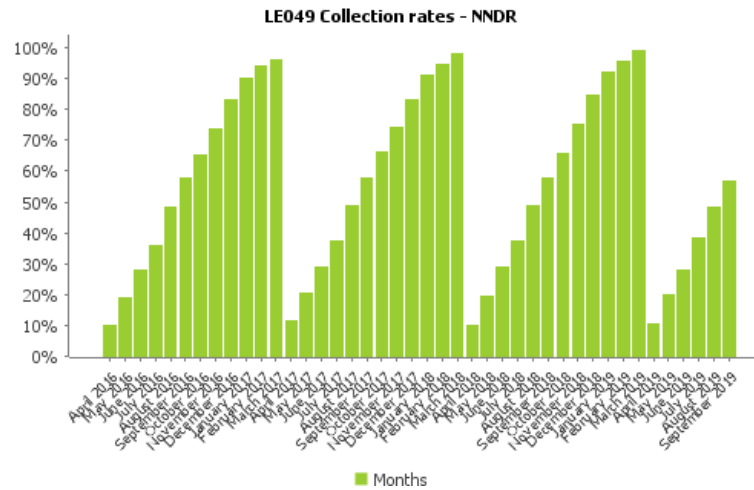
Current Value 57.92%



Managed By Lucy Wright

LE049 Collection rates – NNDR

Aim to
Maximise



Current
Value

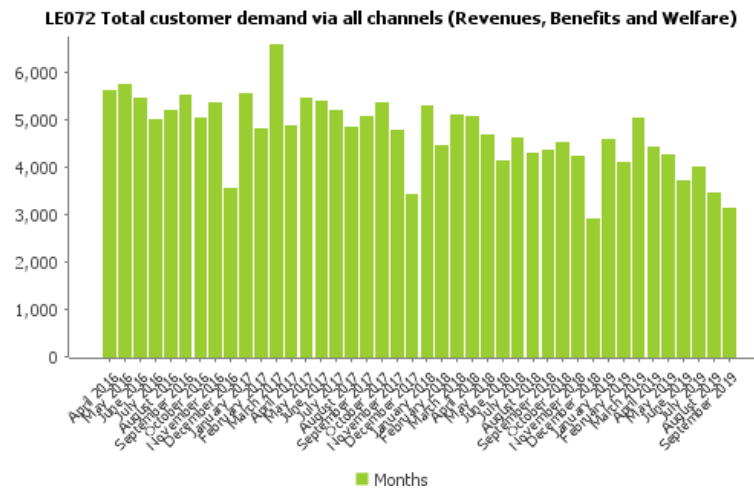
56.78%



Managed By Lucy Wright

LE072 Total customer demand via all
channels (Revenues, Benefits
and Welfare)

Goldilocks



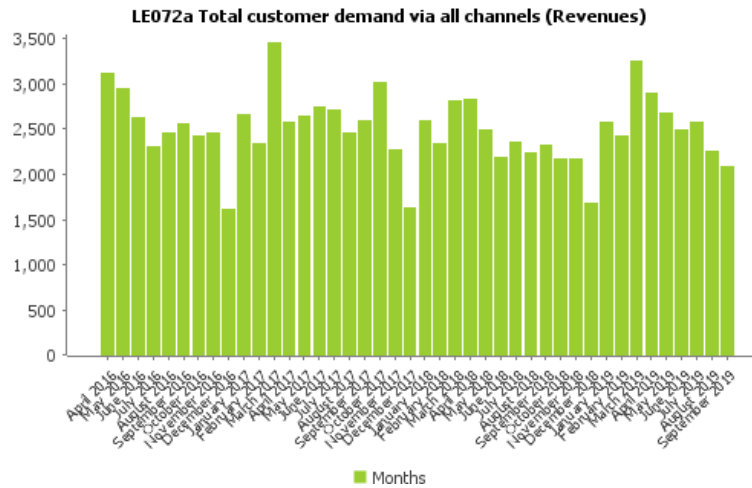
Current
Value

3,134



Managed By Lucy Wright

LE072a Total customer demand via all Goldilocks channels (Revenues)

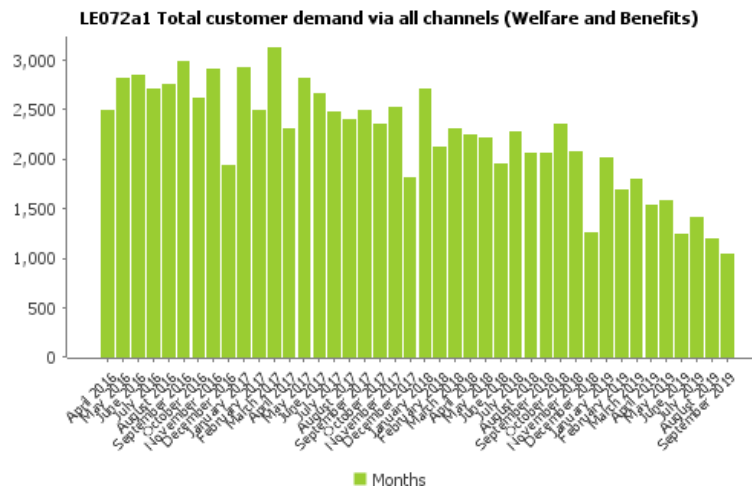


Current Value 2,090



Managed By Lucy Wright

LE072a Total customer demand via all Goldilocks channels (Welfare and Benefits)
1



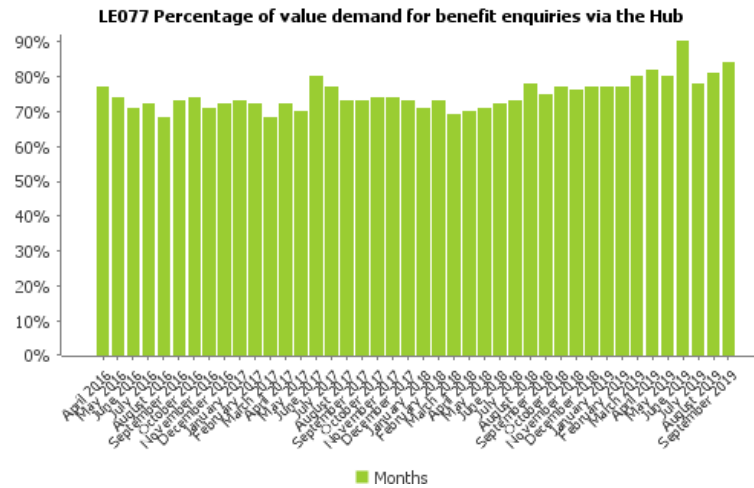
Current Value 1,044



Managed By Lucy Wright

LE077 Percentage of value demand for benefit enquiries via the Hub

Aim to
Maximise



Current
Value

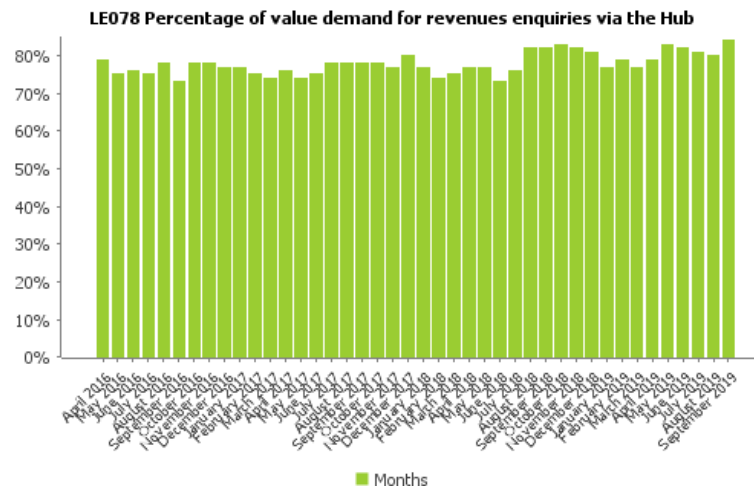
84%



Managed By Lucy Wright

LE078 Percentage of value demand for revenues enquiries via the Hub

Aim to
Maximise



Current
Value

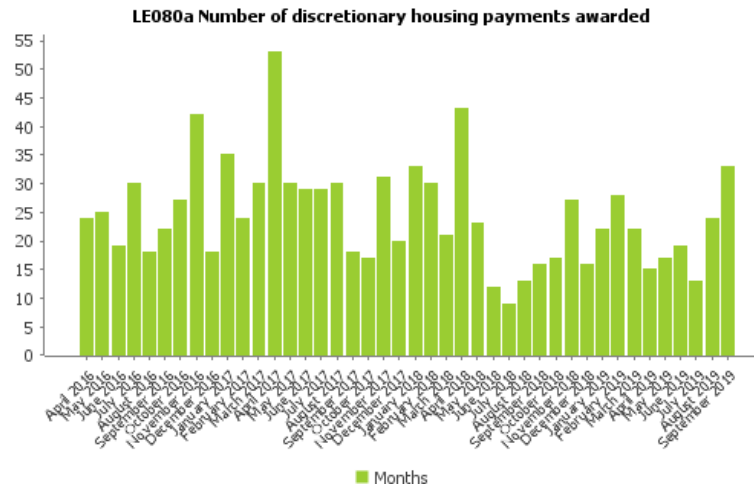
84%



Managed By Lucy Wright

LE080a Number of discretionary housing payments awarded

Goldilocks



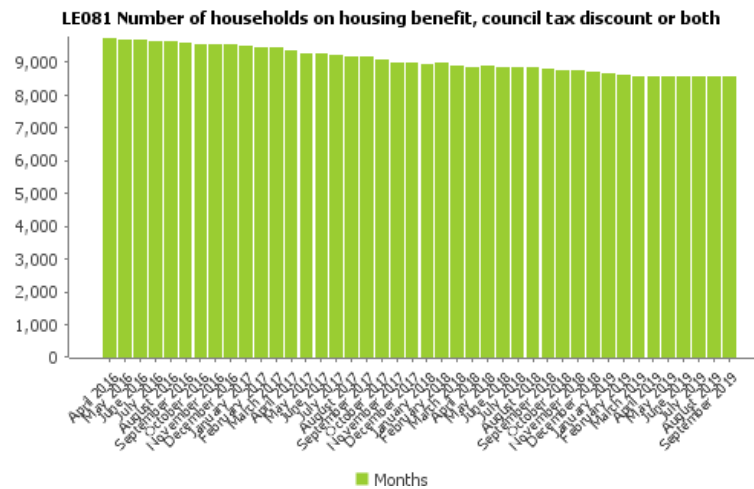
Current Value 33



Managed By Lucy Wright

LE081 Number of households on housing benefit, council tax discount or both

Aim to Minimise



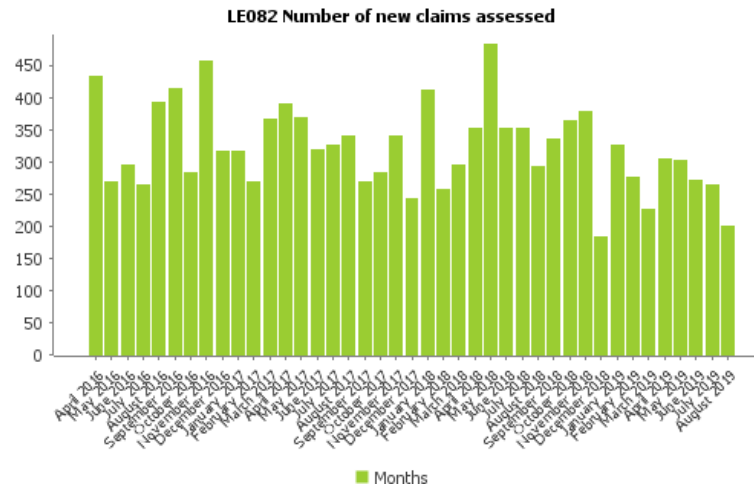
Current Value 8,555



Managed By Lucy Wright

LE082 Number of new claims assessed

Goldilocks



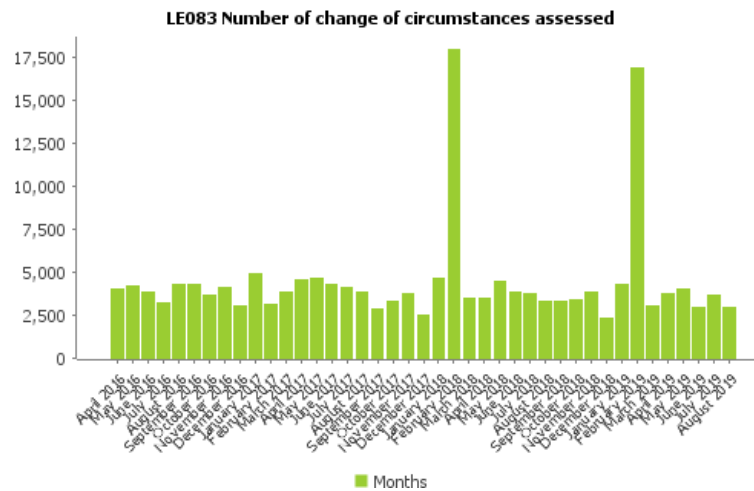
Current Value 200



Managed By Lucy Wright

LE083 Number of change of circumstances assessed

Goldilocks

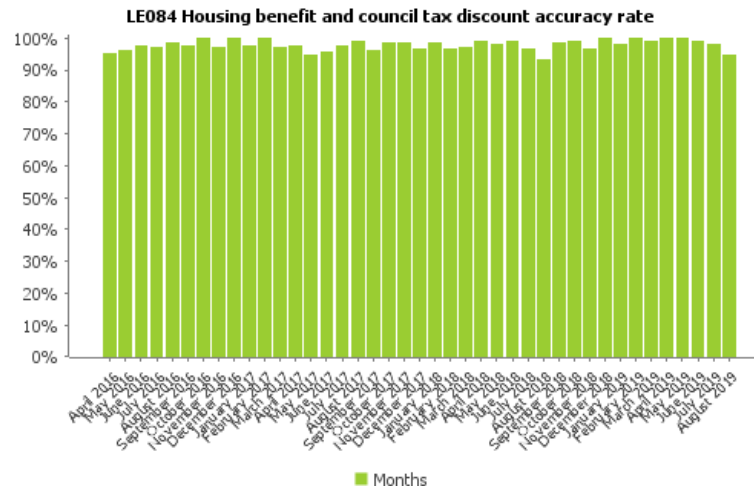


Current Value 3,003



Managed By Lucy Wright

LE084 Housing benefit and council
tax discount accuracy rate Aim to
Maximise



Current
Value 94.51%



Managed By Lucy Wright

GIVE ME A VOICE

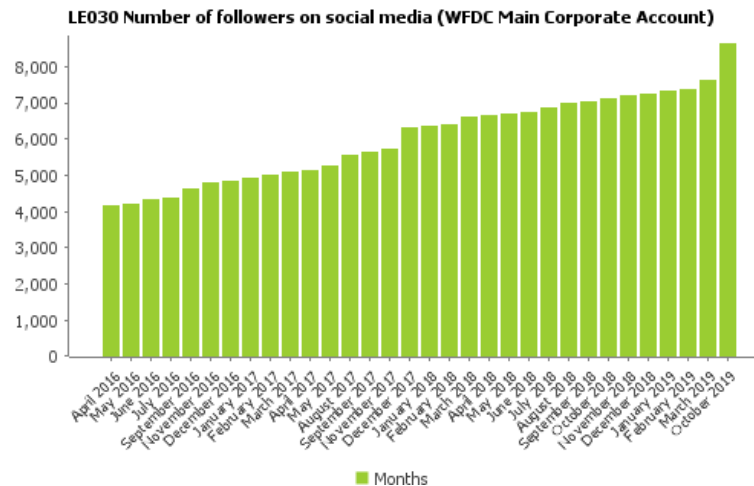
This report details the progress we have made against our purpose of 'give me a voice'.



Measures

As a way of measuring the progress with our purpose, we collect key data to monitor trends and patterns. This data not only helps us to understand the impact of the work that we are doing but it also assists with decision making at a corporate level. The latest available data is detailed below:

LE030 Number of followers on social media (WFDC Main Corporate Account) Aim to Maximise



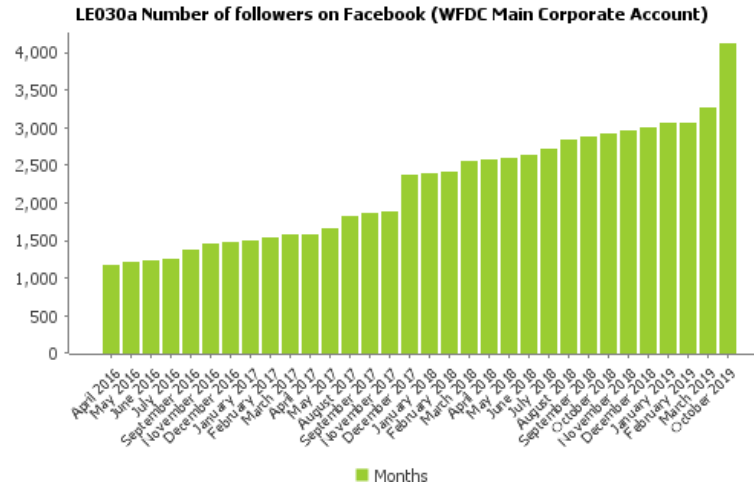
Current Value 8,624



Managed By Kay Higman

LE030a Number of followers on Facebook (WFDC Main Corporate Account)

Aim to
Maximise



Current
Value

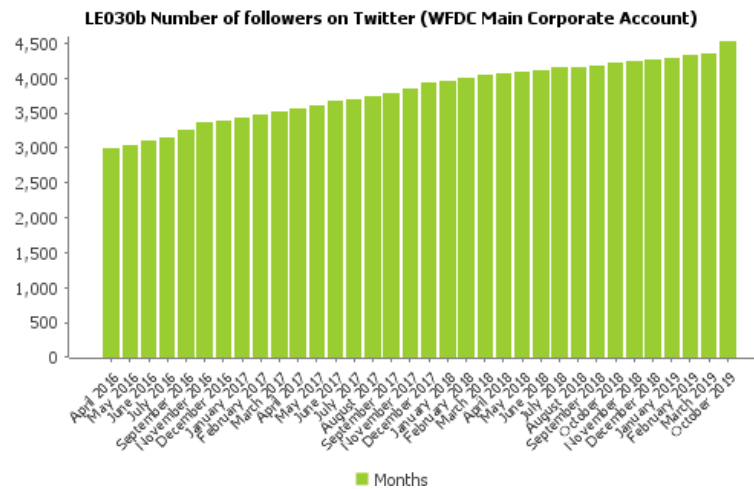
4,112



Managed By Kay Higman

LE030b Number of followers on Twitter (WFDC Main Corporate Account)

Aim to
Maximise



Current
Value

4,512



Managed By Kay Higman

HELP ME IMPROVE MY HEALTH AND WELL-BEING

This report details the progress we have made against our purpose of 'help me improve my health and well-being'.

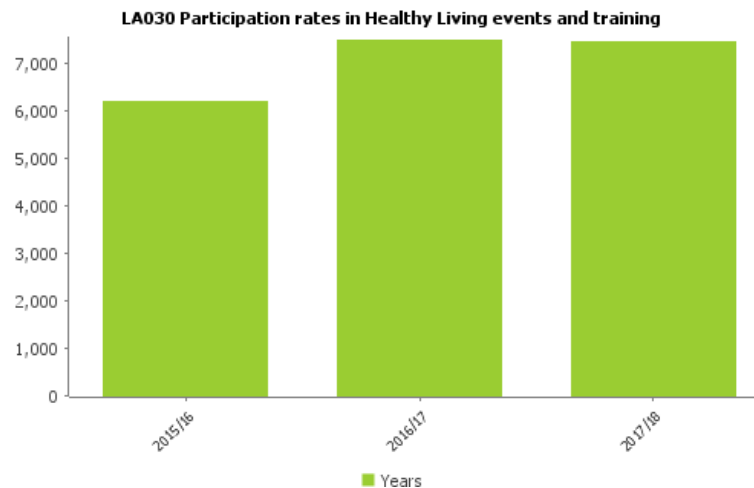


Measures

As a way of measuring the progress with our purpose, we collect key data to monitor trends and patterns. This data not only helps us to understand the impact of the work that we are doing but it also assists with decision making at a corporate level. The latest available data is detailed below:

LA030 Participation rates in Healthy Living events and training

Aim to
Maximise



Current
Value 7,467

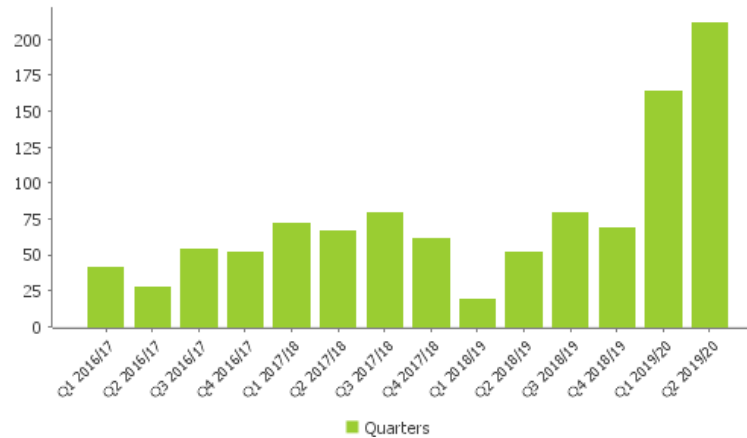


Managed By Kate Bailey

LA044 Number of residents who experience a positive health outcome as a consequence of a housing improvement intervention

Aim to
Maximise

LA044 Number of residents who experience a positive health outcome as a consequence of a housing improvement intervention



Current
Value

212

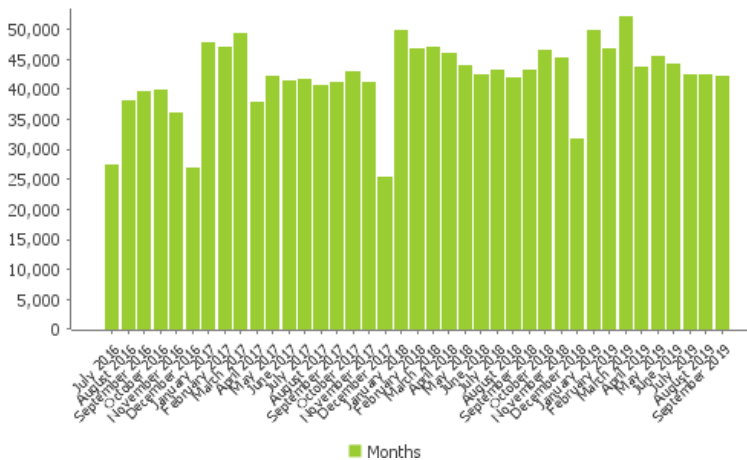


Managed By Kate Bailey

LE032 Participation rates in sport/leisure facilities – Wyre Forest Leisure Centre

Aim to
Maximise

LE032 Participation rates in sport/leisure facilities – Wyre Forest Leisure Centre



Current
Value

42,229



Managed By Kay Higman

PROVIDE ME WITH THE INFORMATION THAT I NEED

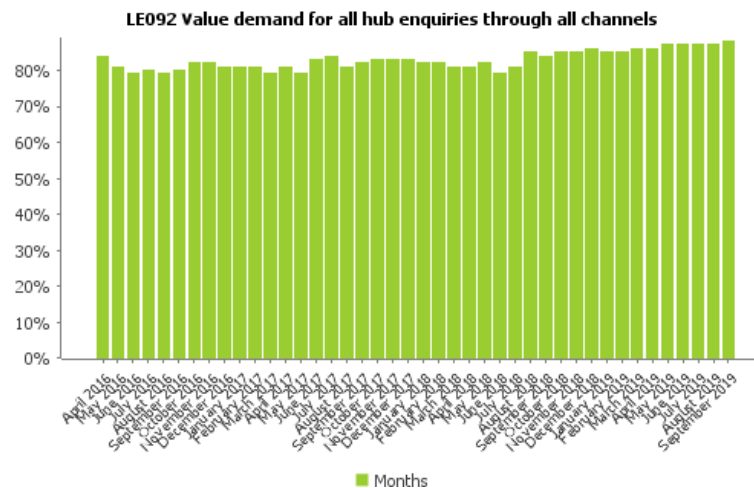
This report details the progress we have made against our purpose of 'provide me with the information that I need'.



Measures

As a way of measuring the progress with our purpose, we collect key data to monitor trends and patterns. This data not only helps us to understand the impact of the work that we are doing but it also assists with decision making at a corporate level. The latest available data is detailed below:

LE092 Value demand for all hub enquiries through all channels Aim to Maximise

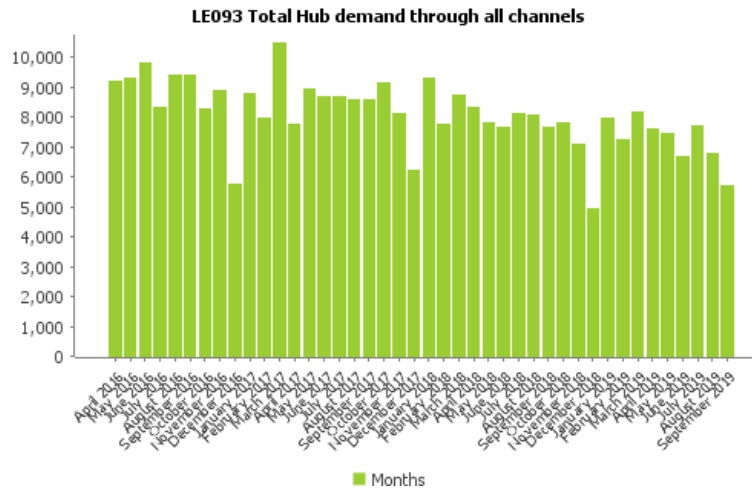


Current Value 88%



Managed By Lucy Wright

LE093 Total Hub demand through all Goldilocks channels



Current Value 5,731



Managed By Lucy Wright

Cross cutting measures

Listed below are primary measures for other purposes but also impact on this purpose:

LA045 Number of people presenting themselves in need of housing advice

LE030 Number of followers on social media (WFDC Main Corporate Account)

LE030a Number of followers on Facebook (WFDC Main Corporate Account)

LE030b Number of followers on Twitter (WFDC Main Corporate Account)

LE091 Number of requests for adaptations



Agenda Item No. 6

Overview & Scrutiny Committee

Briefing Paper

Report of: Corporate Director Community Well Being and Environment

Date: Thursday 7 November 2019

Open

To consider whether to progress with establishing a local lottery for Wyre Forest.

1. Summary

- 1.1 Many Councils run lotteries and Wyre Forest District Council is considering establishing one by engaging with Gatherwell, the leading operators in this field.

2. Background

- 2.1 A lottery is a form of gambling that has three essential elements:
- Payment is required to participate
 - One or more prizes are awarded
 - These prizes are awarded by chance.
- 2.2 Consideration was given to this issue in 2016 but it was not progressed. The leading operator, Gatherwell, is by now working with 80 councils. A promotional leaflet describing their service is attached in Appendix 2.
- 2.3 If WFDC is to follow the trend that many other types of council have now set, a local lottery would support community projects in the district and operates on the simple principle of raising money within the community for the community.
- 2.4 Tickets for the lottery cost £1 per week. Each ticket has a **1 in 50** chance to win a prize each week, with a top prize of £25,000. 60p in every pound goes to local charities – either to the “central fund” which the Council allocates or 50p to a specific good cause of the player’s choice with 10p going to the central fund. The Council approves which local charities can be recipients of funding by approving their application to join the lottery. The rest of the money goes towards running costs and the prize fund – WFDC would not take a penny.
- 2.5 Lotteries must return a minimum of 20% of the proceeds to the purpose of the society or local authority. In the Gatherwell model 60% of the ticket

sales collected is returned to the good causes.

3. Key Issues

Competition/Market Place

- 3.1 Apart from the three well-known national lotteries running in England and Wales – the National Lottery, Health Lottery and the Postcode Lottery, there are also a number of Wyre Forest local lotteries in existence including for example Headway Wyre Forest - Brain Injury Association and Wyre Forest Cricket Club lottery. Other local lotteries will no doubt exist and could be eligible to join a District Council wide scheme.
- 3.2 Depending on their fundraising activity and level of financial commitment, these competitors could be persuaded to join the Wyre Forest Lottery as a good cause. This would minimise competition, reduce or negate their overheads of managing a lottery and could even increase the revenue raised for their charity/ organisation. There is a “down side” risk that a Wyre Forest Lottery might not result in the same level of financial support for some organisations compared to whatever arrangements they make now. However the platform provides a different way of accessing a potentially much wider pool of lottery players and would avoid the administration and other overheads that small charities face in organising their own lotteries at present.
- 3.3 For the charity or community organisation there are no fees and no administration. All they need to do (once approved by the Council for participation) is promote the lottery to their supporters and community. By actively encouraging their members and family/friends to join and play, the lottery benefits from recommendations and a growing number of people playing the lottery regularly.

4. Options

- 4.1 In order for WFDC to run a lottery there are four management options:

- i. deliver in house
- ii. through an External Lottery Manager (ELM)
- iii. through an small society lottery provider
- iv. through a society lottery holder

☐ **Option 1 - In-house**

In order to operate a lottery in-house it would be necessary to create dedicated licensed, lottery posts. We would also need a dedicated IT system and infallible systems to run it. Whilst we have not, at this stage costed this approach it would involve a whole new software system and a licensed manager to run the lottery. Aylesbury Vale, who provided this information, costed this to be between £80 - £100K. We would need to build an appropriate website and have full responsibility for marketing and managing the lottery.

□ Option 2 - External Lottery Manager (ELM)

This option enables WFDC to partner with an established and experienced provider in this field. An ELM has the responsibility of all day to day operations of the lottery - the District Council's role would be minimal but would retain full control, oversight and governance. Our role would be to allocate the funding to good causes, and support the lottery with periodic press, PR and marketing to ensure continued support.

□ Option 3 - Through a small society lottery provider

A small society lottery is not required to hold a licence from the Gambling Commission but does need to be licenced by the local authority. Prize money cannot exceed £20,000. This type of lottery provider tends to be smaller clubs, groups and societies with small numbers of members.

□ Option 4 - A society lottery provider

The Hampshire & IOW Opportunity Society Ltd run and operate the IOW lottery, as a society lottery. Their primary objective is to create funding for start-up business and awarding small grants to SMEs. They have also been asked to manage the So Lotto on behalf of Southampton City Council, on the same basis. Like an ELM they can provide advice, daily management and operational benefits. The % given back to good causes is lower than Gatherwell and WFDC would be required to be much more 'hands on' and create their own website and a good proportion of marketing material etc.

Timetable

- 4.5 If WFDC partners with an ELM (Gatherwell appear to be the only established player in the field) it is anticipated that the Wyre Forest Lottery could be live within 6 months from an initial conversation. (Subject to licences being granted by the Gambling commission)

If WFDC chose an alternative provider, such as the IOW lottery company to manage a Lottery, there would be operational differences and costs. Where Gatherwell have an insurance policy to ensure every lottery win is and can be paid for, the IOW lottery module needs a minimum of 5000 players to subscribe until it can start to operate. In Southampton's case the Hampshire & IOW Opportunity Society Ltd anticipate that this will take a minimum of six months to achieve. In terms of risk to the authority and reputational damage in the event that insufficient cash funds have been generated it is noted that the Hampshire & IOW Opportunity Society Ltd has no insurance policy to protect the cash prizes.

Benefits to good causes

- 4.6 Importantly, the purpose for introducing a local lottery is to provide grants and cash funding to local good cause, charities and voluntary organisations. There are 197 registered charities in Wyre Forest. The maximum return on each ticket is therefore very important. The table below demonstrates the percentage return that would be available to give back to good causes.

IOW lottery					
% to Good Causes	% to Prizes	Lottery operator fees (inc. VAT)	Maximum prize £	Comments	Set up costs
40%	30%	30% (15% Admin & 15% marketing)	£50,000	No insurance policy exists to secure this prize money. This is a potential concern and risk.	£500 Licence fee

ELM - Gatherwell					
% to Good Causes	% to Prizes	Lottery operator fees (inc. VAT)	Maximum prize £	Comments	Set up costs
60%	20%	20% The 3% VAT can be reclaimed and used for marketing purposes.	£25,000	Gatherwell will secure the prize money with an insurance policy. This means that the lottery can launch as soon as the license is approved by the Gambling Commission.	£5000 exc. Licence fee Application fee of £147 to £293, plus annual fee of £348 to £1458

- 4.7 Gatherwell has provided comparative data for lotteries with similar sized populations showing the amounts raised for good causes from relatively low numbers of players.

Lotteries with similar size 16+ population to Wyre Forest (83,325)						
Council	16+ Pop	Time since launch	Annual revenue raised for good causes based on current ticket sales	Number of players	Tickets/player	% of 16+ population
Blaby	80,000	18 months	£29,000	569	1.63	0.71%
Eastbourne	85,000	16 months	£50,000	837	1.94	0.98%
Worcester	83,000	5 months	£33,000	609	1.75	0.73%
South Staffs	94,500	24 months	£30,000	571	1.63	0.60%

- 4.8 The projections below are based on Wyre Forest 16+ population. The accuracy of these projections will vary on a number of factors such as engagement with the Community and Voluntary Sector, marketing effort put in to the launch campaign, demographic of local population and then the support given by the community. BH Coastal (Bournemouth) is currently the best performing local authority lottery, although it only launched in March this year. They have an older population with higher levels of disposable income but they also had a very effective launch campaign within the community.

Wyre Forest Community Lottery Projections							
£1 Ticket Price / 1 Ticket per week							
<i>Ticket Price£</i>	<i>Number of players</i>	<i>% of Pop</i>	<i>Tickets bought per week</i>	<i>Number of weeks</i>	<i>Gross Return</i>	<i>Central Fund (10%)</i>	<i>Good Causes (50%)</i>
1	416.625	0.5	1.8	52	£38,996	£3,900	£19,498
1	833.25	1	1.8	52	£77,992	£7,799	£38,996
1	1249.875	1.5	1.8	52	£116,988	£11,699	£58,494
1	1666.5	2	1.8	52	£155,984	£15,598	£77,992
1	2083.125	2.5	1.8	52	£194,981	£19,498	£97,490
WF Estimated 16+ Population =			83325				

5. Financial Implications

- 5.1 Although it could be anticipated that the Wyre Forest Lottery would be as successful as those organised elsewhere, should play of the lottery be suspended or fail entirely, Gatherwell's terms and conditions ensure that neither Gatherwell nor WFDC will be liable for any loss or failure. There are modest one off and ongoing costs associated with the Council initiating a local lottery managed by Gatherwell, namely £5000 exc. Licence fee and an application fee of £147 to £293, plus annual fee of £348 to £1458. It might be possible to charge some of these costs to the "central fund" if this is not the case this will be contained within existing budget resources.
- 5.2 If successfully established, the Council would have the ability to consider whether the Community Leadership Fund is required any more or at its current level – most of the community leadership funds are allocated by councillors to local charitable organisations in any

case. The difference with allowing these organisations to be funded instead through a local lottery is that the lottery players themselves would choose what good causes should be supported.

- 5.3 The use of an External Lottery Management company could represent a cost effective and efficient method for providing a Local Authority Lottery in Wyre Forest.

To produce and deliver a Lottery in-house would **not** be financially viable against the backdrop of the Council's financial gap. Alternative providers to an ELM would incur additional set up and operational costs, offer less prize money as well as providing a potential financial and reputation risk by providing a financial prize which is not underwritten or guaranteed from weekly ticket sales. Initial set up costs would be £5000 plus the cost of a licence (dependent on estimated turnover)

- 5.4 A budget of £2000 will be allocated to support marketing and launch costs.

6. Equality Impact Needs Assessment

- 6.1 A preliminary Equality Impact Assessment (EIA) is not required as no new services are being recommended and there will be no negative impact on the protected characteristic groups. There will continue to be work with the voluntary and community sector to achieve the aims set out within the report.

7. LEGAL AND POLICY IMPLICATIONS

- 7.1 Appendix 1 sets out the legal position for Local Authority Lotteries and the steps needed to run a lottery under The Gambling Act 2005. Local Authority lotteries permit various types of Gambling, including all types of lottery with varying degrees of control, dependent upon the size of the lottery being operated.
- 7.2 An Application would need to be made to the Gambling Commission and appropriate authorities for a Lottery Operating Licence, and a Remote Gambling Licence.
- 7.3 The Licence will be subject to conditions laid down by the Commission.
- 7.4 The establishment and promotion of any lottery by the Council is an executive function. This function sits separate from licensing which is undertaken by the Licensing Committee.
- 7.5 A cross party group of Members would be established to oversee the smooth running of the lottery and to determine which charities join the lottery.

8. RISK MANAGEMENT

- 8.1 Whilst the District Council's role would be minimal, an officer resource would be required to allocate the funding to good causes, and support the lottery with periodic press, PR and marketing to ensure continued support.
- 8.2 The issue of encouraging problem gambling has been examined as part of the planning for this new lottery and it has been concluded that this scheme is very low risk.

9. Wards affected

- 9.1 All Wards

10. Appendices

- 10.1 Local Authority Lotteries
- 10.2 Gatherwell Local Lottery Solution
- 10.3 Gambling Commission

Officer Contact Details:

Name Linda Draycott
Title Corporate Director Community Well Being and Environment
Contact Number x 2900



Local Authority Lotteries – Briefing Note

This note sets out the legal position in regard to Local Authority Lotteries and the steps needed to run such a lottery.

The Gambling Act 2005 is the primary legislation, which permits various types of Gambling, including all types of lottery with varying degrees of control dependent upon the size of the lottery being operated. In basic terms a lottery is a kind of gambling that has three essential elements:

- Payment is required to participate
- One or more prizes are awarded
- These prizes are awarded by chance.

A local authority lottery is a lottery promoted by local authorities themselves. Authorities may use the net proceeds of such lotteries for any purpose for which they have the power to incur expenditure.

Up to a maximum of 80% of the gross proceeds of each lottery may be divided between prizes and the expenses of the lottery. There is also a minimum figure of 20% of the gross proceeds of each lottery, which must be applied to the purpose for which the authority has the power to incur expenditure.

In a single local authority lottery the maximum value of tickets that can be sold is £4 million. The maximum aggregate value of lottery tickets that can be sold in any calendar year is £10 million. In regard to prizes the sum of £25,000 or 10% of the ticket sales, whichever is greater, is permissible. Therefore if the maximum number of tickets is sold the maximum top prize is £400,000. Rollovers subject to limits are permissible.

An authority would need to appoint a person to run the lottery on their behalf and the individual would need to be licensed with the Gambling Commission to operate the lottery (although this could of course be an existing officer). All ELMs must hold a lottery manager's operating licence issued by the Gambling Commission before they can manage a council lottery. The use of ELM to manage part or all of its lottery does not absolve the Council from its responsibility for ensuring that the lottery is conducted in such a way as to ensure that it is lawful and fully complies with all conditions and codes of practice. ELMs will also need to hold a remote gambling licence if they intend to sell tickets by means of remote communications (internet, telephone etc). I have attached a guidance note, from the Gambling Commission, which gives more details.

Financial and Budget Framework Implications

There are cost implications, but these cannot be quantified without further research and would need to be the subject of a detailed study.

A useful report dated the 3rd February 2016 from Amber Valley Borough Council covers the options of either establishing an in-house lottery (which they estimate at a cost of between £80-£100,000 for set up costs alone) or using external lottery managers, where a partnership is entered into with an existing deliverer of lotteries.

The report compares the possible cost to the Council using lottery provided A or lottery provider B. Interestingly lottery provider A indicated that there would be no set up costs to the Council. Lottery provided B said there would be compulsory start up costs to the Council of £5,000.

Notably, whilst both external lottery providers operate a similar price structure, they have different percentage splits to operator, the Council and good causes.

Legal Powers Relied on and any Legal Implications.

The Gambling Act 2005 is the primary legislation, which makes a Local Authority Lottery lawful.

The background of the slide features a photograph of three elderly women sitting in a row, smiling and exercising with yellow resistance bands. They are in a well-lit room with large windows. The image is partially overlaid by a large, semi-transparent blue heart shape that frames the text below.

Gatherwell Local Authority Lottery Specialists

**WINNER of The Lotteries Council
'Lottery Operator of the Year 2019'**



Aylesbury Vale
have raised
£250,000
for local causes
to date

Raising money in your community

In response to the ever increasing pressures on local authorities to maintain community grant funding levels, our innovative, low-cost solution has been designed to help you and the third sector gain access to new funding streams.

Pioneered in collaboration with Aylesbury Vale District Council in 2015, our online lottery platform offers higher contributions to good causes than any other major lottery in the UK.

Our model also lets supporters choose the good cause they want to support and has minimal administration requirements. Our lottery model revolutionises the way that lotteries work at a grassroots community level.

Why develop a lottery?

We are committed to helping local communities and empowering them to fundraise. We wanted to create a solution that:

- Helped to alleviate the pressures on council's grant funding budgets.
- Provided a lottery to help the third sector raise funds and maintain long-term relationships with their supporters.
- Supported the third sector whilst moving the council's role from provider/funder to enabler.
- Enabled the third sector to access a lottery product that is designed for them and at no cost to them.
- Helped to shift in the minds of the community the role their council takes in third sector matters and their innovative approach to service delivery.

How it works



Lottery tickets are £1 per ticket, per week. Players can choose their own numbers.



The more numbers they match the bigger the prize. **Match all 6 in the correct order and they win the £25,000 jackpot.**



60% of ticket price goes to local good causes. Players can choose which cause they want to support.

Draws are conducted every Saturday at 8pm and results are posted online immediately. Winners will also be notified via email.

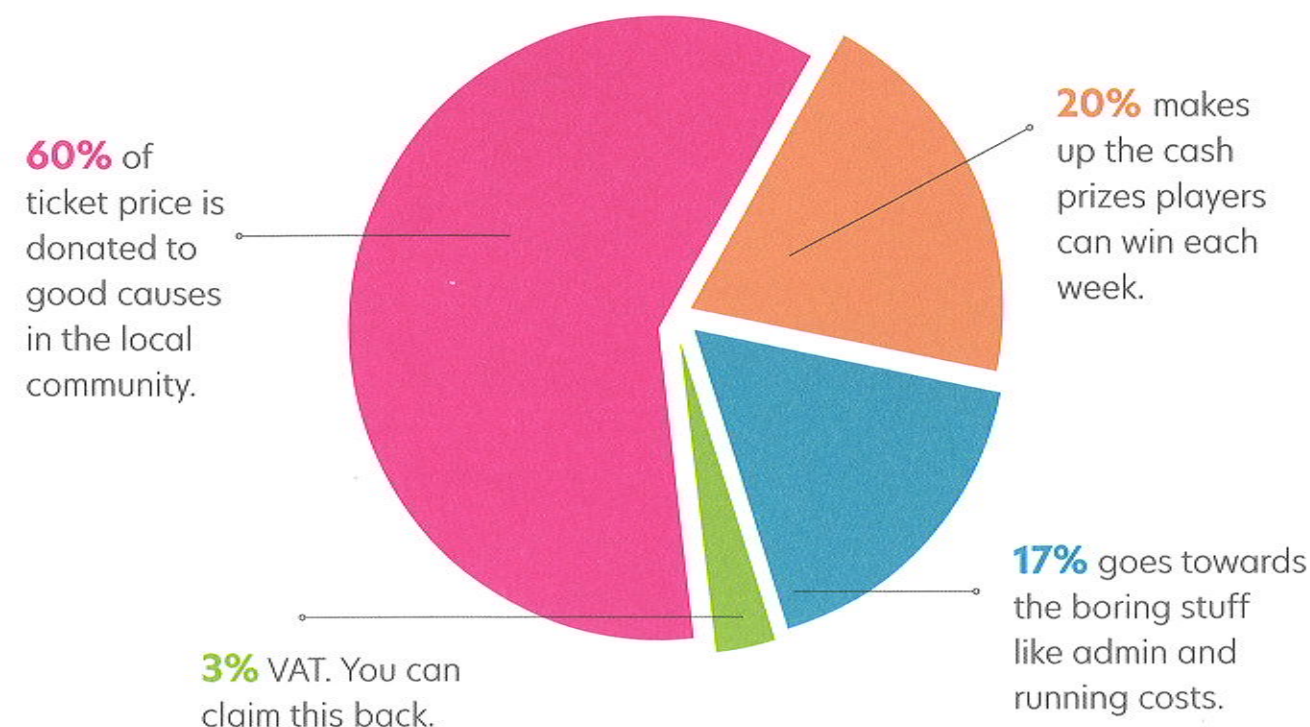
Players are encouraged to sign up to recurring monthly payments. This generates stable monthly income for your good causes and players get a hassle free way of supporting their favourite causes.

Whilst the lottery is online we do allow players to sign up over the phone. These accounts can be linked to an email address or we can arrange for all communication to be done by letter and telephone for those with no email address.

We also offer an option for paper Direct Debit mandate that can be filled in and posted to our freepost address.

Where does the money go?

The pie chart below shows how the ticket revenues are distributed.



Giving People Choices

When players buy tickets they are given a choice as to which good cause they want to support.

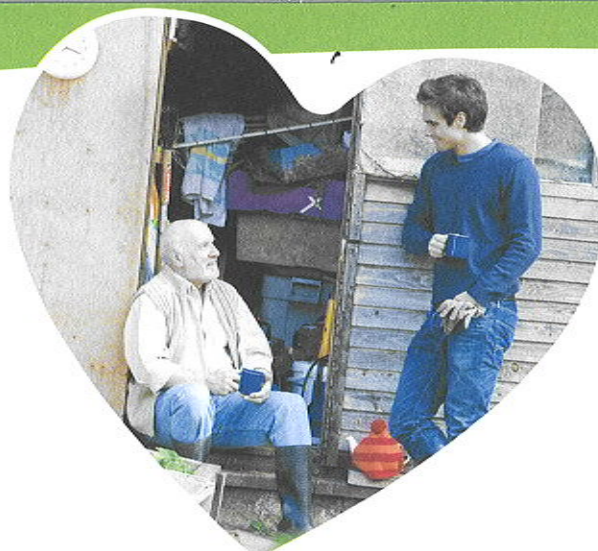
Central Fund

Choosing the central fund ensures that 60% of the ticket price goes to the central fund to be awarded by the council's chosen process.

All funds allocated to the central fund can either be used to increase the council's existing community grant funding budget or used to replace/reduce committed funding, thereby releasing general funds back to the council.

Specific Good Cause

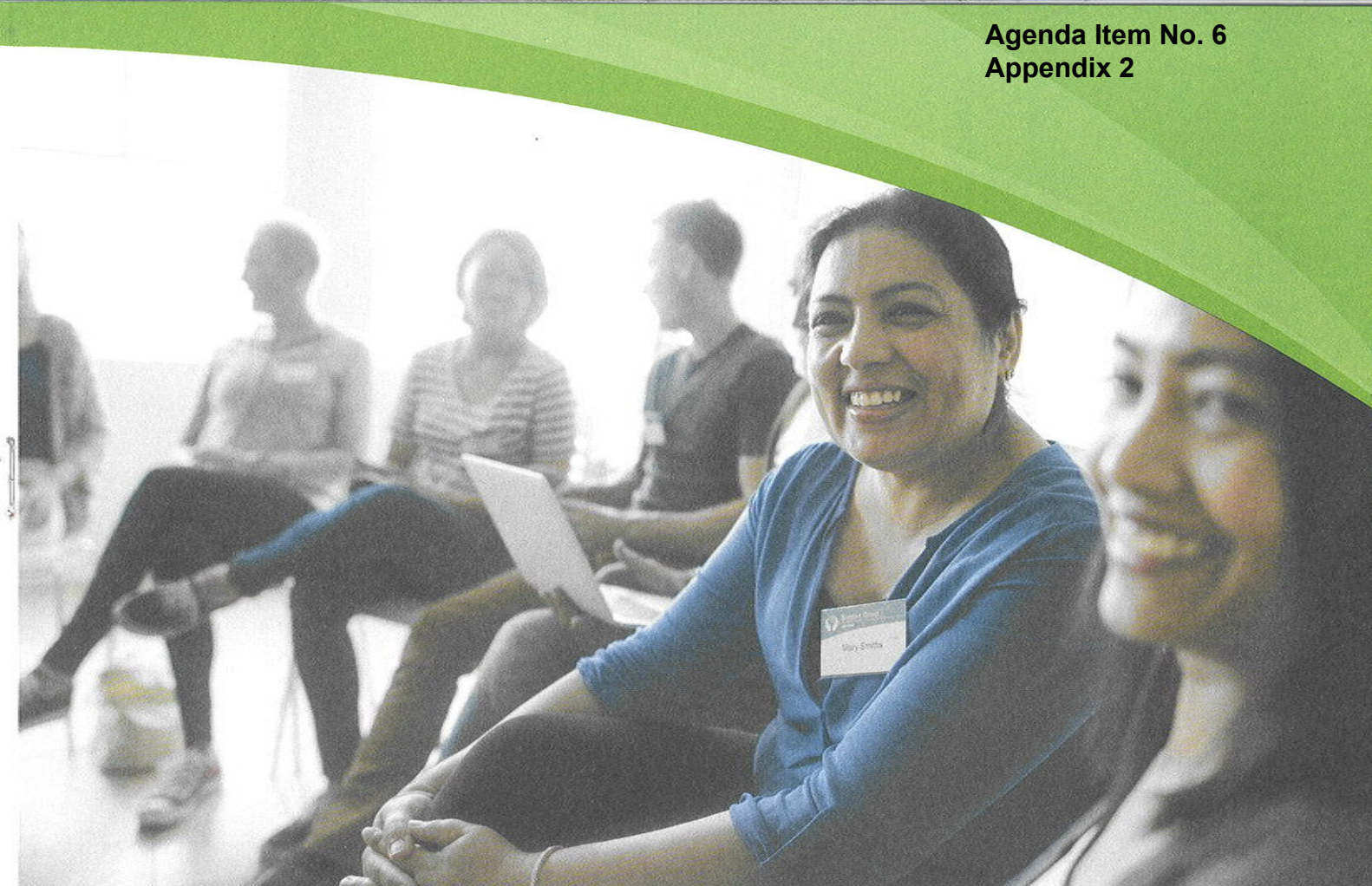
Choosing a specific good cause ensures that 50% of the ticket price goes directly to that cause, with the other 10% going to the central fund.



Recruiting Good Causes

Good causes apply to join the lottery via the website. Once you have approved their application, they are provided with their own branded page within the site and provided with regularly updated, bespoke marketing materials to help them spread the word about the lottery.

The causes keep 50% of all ticket sales generated through their page. There are no fees for the good causes and no administration. All they need to do is market their page to their supporters. They receive all the funds raised directly into their nominated account each month.



What about the prizes?

The lottery offers an exciting breadth of prizes for your players. The more numbers they match the bigger the prize - up to £25,000 jackpot! Gatherwell manage the prize fund and any associated insurance - relieving you of any exposure.

WIN
up to
£25,000

Matching numbers	Prize	Winning Odds
6 numbers	£25,000	1:1,000,000
5 numbers	£2,000	1:55,556
4 numbers	£250	1:5,556
3 numbers	£25	1:556
2 numbers	3 free tickets	1:56

Overall odds of winning any prize is 1:50

Ben Speare*
Managing Director

*Likes running marathons in pink tutus.



Martin Woodhead*
Technical Director

*Prefers saving lambs to eating them.



About Gatherwell

At the start of Gatherwell's journey we were just raising funds for our kids' school. Our drive to make fundraising easy, transparent, fun and rewarding led us to become the UK's fastest growing lottery provider. As an External Lottery Manager (ELM) we work passionately to revolutionise the way that lotteries work at a grassroots community level, working to constantly evolve our successful fundraising platform that makes an astonishing difference to the lives of

people of all ages through 5,000 inspiring good causes. We are committed to helping to educate, motivate and inspire people to build a better life for themselves and improve the communities they live in.

Based in Oxford UK. Gatherwell are a relaxed, friendly and driven team that are committed to helping good causes raise money by delivering engaging lotteries that supporters enjoy.



Who runs the lottery?

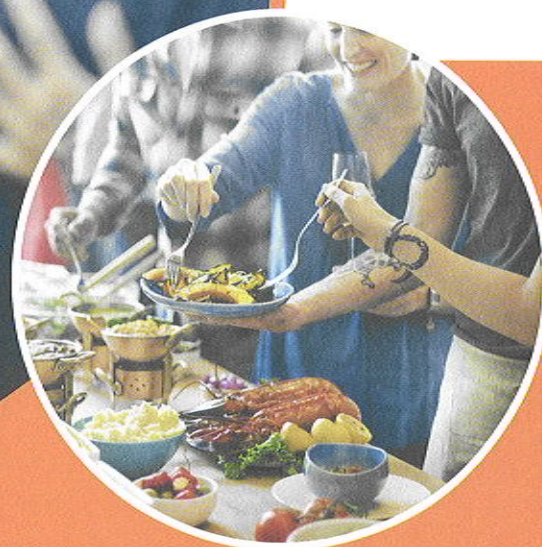
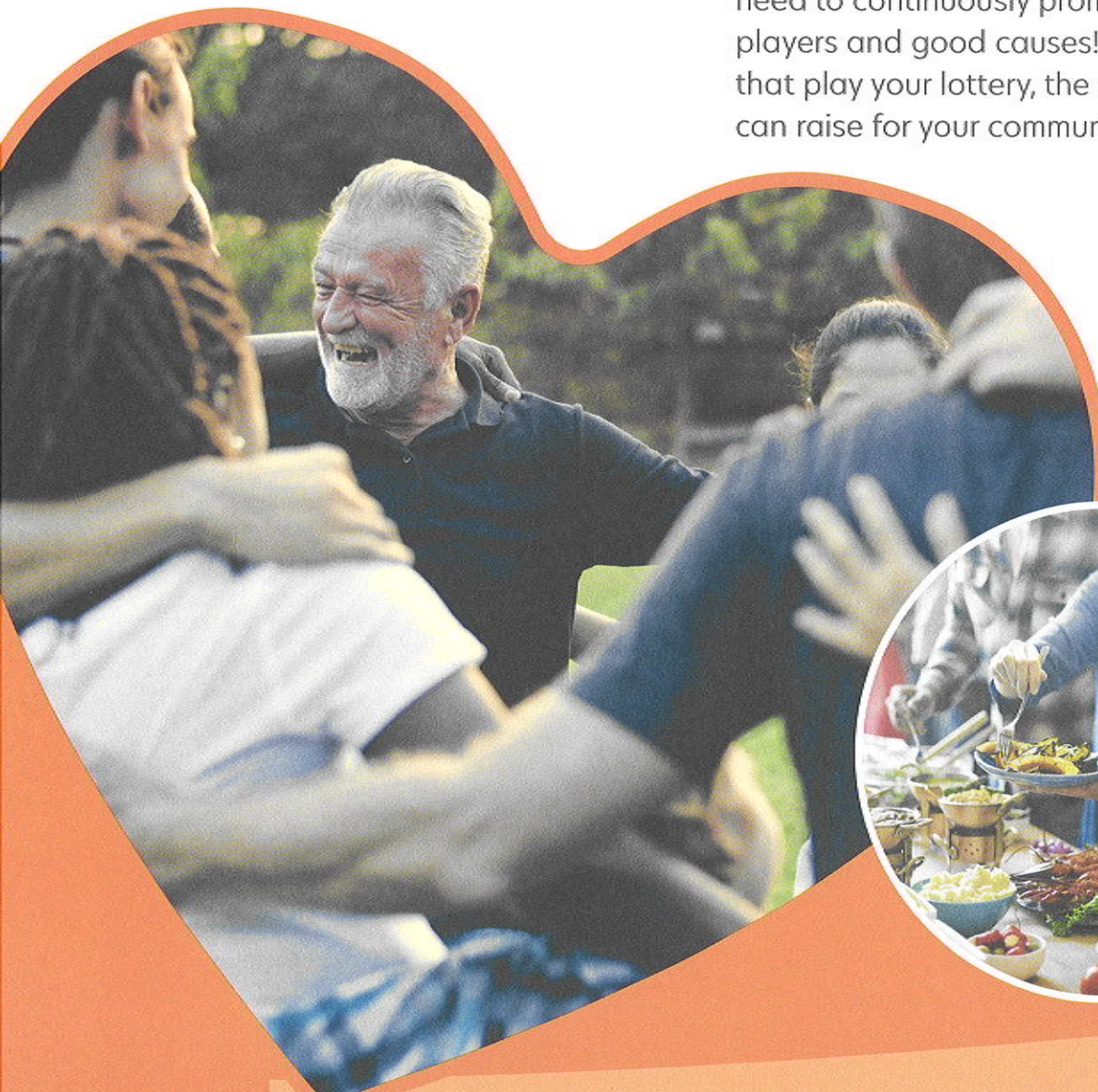
The lottery is run by you through Gatherwell. We are an external lottery manager (ELM). We run all day-to-day operations of the lottery, but you control oversight and governance.

What do you need to do?

We take care of all operation and administrative requirements. We even provide marketing strategies and advice pre and post launch. The only remaining responsibilities for you are:

- Application/compliance of a Local Authority Licence from the Gambling Commission. We will guide you through this process.
- Approval of new good causes as applications are submitted online.
- Authorisation of monthly cause payments and Gambling Commission lottery return.

Finally, the most important thing - you need to continuously promote the lottery to players and good causes! The more people that play your lottery, the more money you can raise for your community.



What does it cost?

We are an ethical company - we are built to keep costs down so the money goes where it's supposed to, to the good causes.

There is a small upfront fee to cover the cost of set up (£5,000) plus the Local Authority Lottery License fee from the Gambling Commission, and some dedicated officer time.

The good causes do not have to pay anything. All running costs are covered

within the administration charge (17%) on ticket sales.

There is no annual fee from Gatherwell. It is advisable to set aside an annual marketing budget to help maintain and grow the lottery - this can be deducted from the central fund before it is distributed each year, or 3% of the ticket price is VAT. This can be claimed back and re-used for marketing purposes.

Next steps

The lotteries we support are **raising over £4 million** each year for local good causes.

We'd love to talk with you to explain how we can help your local good causes raise funds.

Please get in touch, we'd be happy to help!



gatherwell

01865 582 482
info@gatherwell.co.uk
www.gatherwell.co.uk

GAMBLING COMMISSION

Promoting society and local authority lotteries

Advice for society and local authority lotteries which require a licence or registration

September 2014 (updated April 2018)

1 Introduction

- 1.1** Lotteries are illegal unless they fall into one of the categories specifically permitted by law. Apart from the National Lottery (which has its own dedicated legislation), the relevant law is contained in the Gambling Act 2005 (the Act). The Act creates eight categories of permitted lottery. Three of these categories (small and large society lotteries and local authority lotteries) require either a licence from the Gambling Commission (the Commission) if they are a large society or local authority lottery, or registration with a licensing authority if they are a small society lottery. This advice relates to these lotteries. Advice on the remaining five categories can be found in *Organising small lotteries (Gambling Act 2005)*.
- 1.2** This advice is not comprehensive or a binding interpretation of the law and anyone intending to run a lottery should refer to the Act and if necessary seek independent legal advice to ensure that they conform to the law before proceeding. Separate advice has been issued to local authorities in respect of small society lotteries under their jurisdiction.
- 1.3** The Act has three licensing objectives that are central to the regulatory regime and underpin the functions that the Commission and licensing authorities perform in respect of all types of gambling, including lotteries. These are:
- preventing gambling from being a source of crime or disorder, being associated with crime or disorder, or being used to support crime
 - ensuring that gambling is conducted in a fair and open way
 - protecting children and other vulnerable people from being harmed or exploited by gambling.

2 Definition of a lottery

- 2.1** In simple terms a lottery is a kind of gambling that has three essential elements:
- payment is required to participate
 - one or more prizes are awarded
 - those prizes are awarded by chance.

This is set out more formally in the Act which defines two types of lottery, a simple lottery and a complex lottery.

- 2.2** An arrangement is a simple lottery if:
- people are required to pay to participate in the arrangement
 - in the course of the arrangement one or more prizes are allocated to one or more people in a class
 - the prizes are allocated by a process which relies wholly on chance.

- 2.3** An arrangement is a complex lottery if:
- people are required to pay to participate in the arrangement
 - in the course of the arrangement one or more prizes are allocated to one or more people in a class
 - the prizes are allocated by a series of processes
 - the first of those processes relies wholly on chance.
- 2.4** In addition, section 14(5) of the Act stipulates that, for the purpose of these definitions, a process that requires people to exercise skill or judgment or display knowledge is to be treated as relying wholly on chance if:
- the requirement cannot reasonably be expected to prevent a significant proportion of people who participate in the arrangement from receiving a prize
 - it cannot reasonably be expected to prevent a significant proportion of people who wish to participate in the arrangement from doing so.

3 Meaning of society and local authority lotteries

Society lotteries

- 3.1** Society lotteries are lotteries promoted for the benefit of a non-commercial society. Such societies are organisations that have distinct aims and objectives and meet the definition of a non-commercial society set out in the Act.
- 3.2** A society is non-commercial if it is established and conducted:
- for charitable purposes
 - for the purpose of enabling participation in, or of supporting, sport, athletics or a cultural activity
 - for any other non-commercial purpose other than that of private gain.

Local authority lotteries

- 3.3** Local authority lotteries are lotteries promoted by local authorities themselves. These differ from society lotteries registered with a licensing authority. Authorities may use the net proceeds of such lotteries for any purpose for which they have power to incur expenditure.

4 Large society and local authority lottery licensing requirements

- 4.1** A society lottery is a large lottery and may only be run under an operating licence issued by the Commission if the arrangements for that lottery are such that total proceeds (ticket sales) from it:
- may in a single society lottery exceed £20,000,
 - or the proceeds of previous lotteries in the same calendar year have already reached or may, taking into account the lottery in question reach £250,000 in one calendar year.
- 4.2** If a society promotes a lottery which, applying the above rules, is a large lottery (the first lottery) then every subsequent lottery it promotes in that year and in the following three years will also be a large lottery and will require the society to hold a lottery operating licence issued by the Commission.
- 4.3** All local authority lotteries must be run under an operating licence issued by the Commission.
- 4.4** Societies and local authorities that allow players to participate in their lotteries by means of remote communication (internet, telephone etc) will be required to hold a remote lottery operating licence, whether or not their activities also require them to hold a non-remote lottery operating licence.

- 4.5** General information about the Commission's licensing requirements is given in this document. Specific guidance is available on the Commission's website.

5 Small society lotteries

- 5.1** Societies that run small society lotteries, that is to say lotteries in which no more than £20,000 worth of tickets are put on sale and where the society's aggregate proceeds from lotteries do not exceed £250,000 a year may operate without a Commission licence provided they register with their licensing authority. Where it becomes apparent that a small society lottery will exceed either of the monetary limits, it is the responsibility of the society to ensure they apply to the Commission for a licence, before the limit is exceeded.
- 5.2** The promoting society of a small society lottery must, throughout the period during which the lottery is promoted, be registered with a licensing authority in England and Wales or a licensing board in Scotland.
- 5.3** The societies are required to be registered with their licensing authority in the area where their principal office is located. If the local authority believes that the society's principal office is situated in another area it should inform the society as soon as possible and if possible inform that other authority.
- 5.4** Details of registration requirements and procedures can be obtained from the licensing department of the relevant local authority.
- 5.5** Societies that run small society lotteries under registration with a licensing authority and that sell tickets by means of remote communication (internet, telephone etc) are not required to hold a remote gambling licence issued by the Commission.

6 Personal Management Licences

- 6.1** A society or local authority licensed by the Gambling Commission is required to have at least one Personal Management Licence (PML) holder if they have more than three people in qualifying positions.
- 6.2** A qualifying position is one where an individual by the terms of their appointment has primary responsibility for:
- the management of the licensed activity (ie the lottery)
 - the financial affairs of the society
 - ensuring the society complies with the requirements of the Gambling Act
 - the marketing of the lottery
 - management of the IT used in connection with the lottery.
- 6.3** In deciding who should hold the PML a society or local authority should identify the relevant senior individual who takes overall management responsibility for the promotion and proper management of the lottery and for compliance with the regulatory regime as a whole. The PML holder must be a trustee or officer of an unincorporated society, a director of a corporate society or a partner where the society is a partnership. In the case of a local authority lottery the PML holder must be someone in a senior management post who holds the relevant delegated authority from the licensing authority.
- 6.4** If a society has three or fewer people in qualifying positions they will qualify as a small scale operator and will be exempt from the need to have a PML holder. In those circumstances one individual from the society who is identified as the senior person responsible for the overall conduct of the lottery (usually the chief executive, a trustee, director or member of the senior management board) must complete the personal declaration (Annex A) of the Operating Licence application form and submit it to the Commission along with a Criminal Records Bureau form.

6.5 A society must not operate any lottery unless it has at least one PML holder or at least one Individual who has submitted an Annex A and is named on the operating licence. If the people holding PMLs or the people who have previously submitted Annex A Personal Declarations under the small scale operator exemption change, the society must notify the Commission as soon as possible. If departures leave the society without a PML holder or anyone who has submitted an Annex A, then a new individual needs to make an application for a PML, or in the case of those operators subject to the small scale operator exemption, submit an Annex A. The latter will also require an amendment to the operating licence. Both instances will require a Criminal Records Bureau check as well as appropriate payment.

6.6 Detailed guidance on PMLs and the small scale operator exemption are available on the Commission's website.

7 External Lottery Managers

7.1 A licensed or registered society or local authority may employ an external lottery manager (ELM) to manage all or part of its lottery. An ELM is defined in section 257 of the Act as someone that is a person or a body who makes arrangements for a lottery on behalf of a society or local authority but is not a member, officer or employee of the society or authority.

7.2 All ELMs must hold a lottery manager's operating licence issued by the Commission before they can manage a licensed society or local authority lottery or a society lottery registered with a local authority. It is the responsibility of the society or local authority to ensure that before employing anyone to manage all or part of their lottery that person or body holds a valid lottery manager's operating licence issued by the Commission. A list of licensed ELMs is available on the Commission's website.

7.3 The fact that a society or local authority may employ a licensed ELM to manage all or part of its lottery does not absolve the society or local authority from its responsibility for ensuring that the lottery is conducted in such a way as to ensure that it is lawful and fully complies with all licence conditions and the codes of practice. Both the society or local authority and the ELM require an operating licence from the Commission.

7.4 ELMs are also required to hold Personal Management Licences for a range of directors and senior managers, including the managing director, chief executive, finance director, compliance manager, marketing manager and IT manager.

7.5 ELMs also need to hold a remote gambling licence if they intend to sell tickets by means of remote communication (internet, telephone etc).

8 External Lottery Managers and service providers

8.1 Uncertainty can arise as to whether services provided to societies or local authorities amount to the promotion or facilitation of a lottery, in which case the provider needs an ELM licence if they are to avoid committing an offence, or instead amount to the provision of services which do not amount to promotion or facilitation, in which case no licence is needed. The following paragraphs give some guidance on the distinction. But anyone who is uncertain whether the services provided require the provider to hold an ELM licence should contact the Commission for advice.

8.2 Under section 252 of the Act, a person promotes a lottery if they make or participate in making the arrangements for a lottery. It says further that a person promotes a lottery in particular if they:

- make arrangements for the printing of tickets
- make arrangements for the printing, publication and distribution of promotional material
- make arrangements to advertise a lottery

- invite an individual to participate in a lottery
- sell or supply tickets
- offer to sell or supply tickets
- use premises for the purpose of allocating prizes or for any other purpose connected with the administration of a lottery.

Promotional material is defined as a document that advertises, invites participation, contains information about how to participate, or lists winners, in a particular lottery.

- 8.3** A person commits an offence under the Act if they carry out any of these activities on behalf of a society or local authority unless:
- they are an officer, employee or a member of a licensed or registered society or local authority
 - or they are a licensed ELM directed by a society or local authority to run all or part of its lottery.

- 8.4** Under section 259, a person facilitates a lottery if they:
- print lottery tickets for a specified lottery
 - print promotional material for a specified lottery
 - advertise a specified lottery.

A person commits an offence of facilitating a society or local authority lottery unless they act in accordance with an operating licence.

- 8.5** Whether or not a person or body carrying out activities on behalf of a society or local authority requires licensing as an ELM will depend on the activities they conduct and whether they amount to either promoting or facilitating a lottery and, if so, the circumstances in which they carry out those activities. For instance companies which print tickets for or which advertise lotteries under direction from licensed or registered societies or licensed ELMs do not themselves require a licence because, although they are facilitating a lottery, they are acting in accordance with a licence held by someone else.

- 8.6** To take another example, direct mailing companies employed by society lotteries may be classed as either a service provider or ELM, depending on the functions they carry out. If their only role is to post tickets to people to participate in the lottery from a list provided by the society or ELM, the Commission does not think they are doing any of the things that fall into the definition above of promoting a lottery. However, where a person or body is responsible for and manages part or all of the lottery and decides issues such as where to target promotional material, sources people to enter the lottery and deals with ticket transactions, they are carrying out functions that are caught by the definition of promoting a lottery and require a licence.

- 8.7** The Commission considers that the Act provides a comprehensive definition of what amounts to promoting or facilitating a lottery for the purpose of determining whether an ELM licence is needed for people or bodies providing services to societies or local authorities. In cases where there is doubt whether or not a person or body is acting in the role of an ELM, the Commission will have regard to the overall management and degree of control of the lottery undertaken by the society and the other party in question. Where the person or body making any of the arrangements for a society or local authority lottery, for example, has control of how the lottery is promoted and managed, the Commission's view is that they will be acting as an ELM and will need to hold the relevant operating licence issued by the Commission if they are to avoid committing an offence under the Act. Key indicators the Commission uses in reaching a conclusion include:
- who decides how the lottery scheme will operate and when changes to the scheme should be made
 - who controls the promotion, marketing and advertising of the lottery
 - who sells the tickets
 - who pays the prizes
 - who appoints and manages sub-contractors
 - banking arrangements and the process for handling the proceeds of the lottery
 - the contractual agreements between the society and the other party.

9 Remote lotteries

- 9.1** Section 4 of the Gambling Act specifies that remote gambling means gambling in which people participate by the use of remote communication including the internet, telephone, television, radio or any other electronic or technological method of communication. Normal letter post is not a form of remote communication for the purposes of the Act.
- 9.2** Societies and local authorities requiring licensing by the Commission and which allow players to participate in their lotteries by means of remote communication will be required to hold a remote lottery operating licence. For example, those accepting payments by telephone, or over the internet, will require a remote operating licence.
- 9.3** Holders of a remote lottery operating licence will be required to comply with the technical standards and the other specific licence conditions and codes of practice issued by the Commission that relate to remote gambling. Only remote lottery operating licence holders that accept more than £250,000 worth of entries by remote means per year will be required to meet the full testing and third party security audit requirements. The remote technical standards do not apply to holders of an ancillary remote lottery licence. Further details are available on the Commission's website.
- 9.4** Societies registered with licensing authorities that allow people to participate in their lottery by way of remote communication are not required to hold a remote lottery operating licence.

10 Gambling Commission licence conditions and codes of practice

- 10.1** All societies and local authorities licensed by the Commission to run lotteries are required to comply with the specific licence conditions and codes of practice relevant to them. The specific licence conditions are set out at the time a licence is issued.
- 10.2** Some of the licence conditions and requirements of the codes of practice are referred to below. Specific details are contained in the Commission's *Licence Conditions and Codes of Practice*, which is available on the Commission's website.

11 Society and local authority lotteries - proceeds and other monetary limits

- 11.1** A society or local authority lottery must apply a minimum of 20% of the gross proceeds of each lottery directly to the purposes of the society or in the case of a local authority a purpose for which the authority has power to incur expenditure.
- 11.2** Each year, every licensed society and local authority lottery operator must display the proportion of lottery proceeds (as a percentage) returned to the purposes of the society or local authority in the previous calendar year. This should be through either their annual report, lottery page of their society/local authority website or any other means appropriate to the size and scale of the organisation. Each society or local authority may – if they wish – provide further supporting information regarding spend on prizes and expenses for their lotteries. This information should be displayed in a timely manner and as soon as practicably possible.
- 11.3** Up to a maximum of 80% of the gross proceeds of each lottery may be divided between prizes and the expenses of the lottery.
- 11.4** In a single large society or local authority lottery the maximum value of tickets that can be sold is £4 million. The maximum aggregate value of lottery tickets that can be sold in any calendar year is £10 million.

- 11.5** The maximum prize in a single lottery is £25,000 in the case of a small society lottery and £25,000 or 10% of the proceeds (gross ticket sales), whichever is greater, in the case of a large society or local authority lottery. Therefore, a society that sells the maximum number of tickets in a single large lottery (£4 million) could award a maximum top prize of £400,000.
- 11.6** Rollovers are permitted provided the maximum single prize limit is not breached.
- 11.7** Every ticket in the lottery must be the same price and the cost of purchased tickets must be paid to the society before entry into the draw is allowed.
- 11.8** There is no maximum price of a lottery ticket.
- 11.9** No lottery organised by a large society or local authority may operate in such a way that a player can win a prize greater than the statutory prize limit of £400,000.
- 11.10** No lottery organised by a large society or local authority may be linked to any other lottery in such a way that a person who wins a prize in one also wins a prize in another, unless the aggregate of those prizes is less than or equal to the statutory prize limit of £400,000.
- 11.11** Where separate lotteries have a feature that allows a player to win a larger prize than the statutory maximum of £400,000 by selecting the same numbers in different lotteries and these lotteries are decided by the same draw, no advertisement or other marketing of the lotteries may refer to this feature. A lottery cannot be linked to a prize competition or free draw if the maximum amount which a person can win is more than £400,000 in aggregate.

12 Ticket information

- 12.1** All tickets in a society lottery licensed by the Commission or registered with a local authority must state:
- the name of the society on whose behalf the lottery is being promoted
 - the price of the ticket
 - the name and address of the member of the society responsible for the promotion of the lottery. In the case of a small society lottery run under local authority registration the name and address of the ELM if there is one may be given as an alternative
 - the date of the draw, or the means by which the date may be determined
 - the fact, where that is the case, that the society is licensed by the Commission
 - the website address of the Commission, if licensed by the Commission.
- 12.2** Tickets that are issued through a form of remote communication or any other electronic manner must specify the information above to the purchaser of the ticket and ensure that the message can be either retained (saved) or printed.

13 Sale of tickets

- 13.1** Tickets in society and local authority lotteries promoted under licence from the Commission must not be sold to anyone in a street. Tickets may be sold by a person in a static structure such as a kiosk or display stand, from a shop premises in a street, or door to door. For this purpose a 'street' includes any bridges, road, lane, footway, subway, square, court, alley or passage (including passages through enclosed premises such as shopping malls) whether a thoroughfare or not. Society lotteries and/or the responsible ELM must also ensure that they have any necessary local authority permissions, such as a street trading licence. The Commission has recommended to licensing authorities that they also apply this restriction to small society lotteries. Small societies should check with the licensing authority they are registered with.
- 13.2** Lottery tickets must not be sold to, or by, those under the age of 16.

- 13.3** Society lottery tickets may be sold from vending machines. These machines may be sited anywhere that a society lottery ticket can be sold (see 13.1). They are not subject to restrictions on the number that can be sited and no licence is required to site or supply them. However, licensed operators (societies and/or ELMs) must ensure that they fulfil their social responsibility duties under the licence conditions and codes of practice in respect of preventing underage play and problem gambling. In the case of lottery ticket vending machines the operator may wish to ensure that the machine is located in a supervised area or that some other arrangements are put in place to prevent underage and problem gambling.
- 13.4** To minimise the risk of fraud, societies licensed by the Commission should adopt one or more of the following measures when sending unsolicited mailings of lottery tickets:
- prohibit the unsolicited mailing of lottery tickets to non-members of the promoting society
 - limit the value of tickets sent to any one address which is not that of a member of the promoting society to £20
 - maintain records of tickets distributed and not returned. The Commission recommends that these records should include details of the address to which the tickets have been sent, their total value and their serial number. Information on unsold tickets not returned by the date of the lottery draw should be retained for at least six months.
- 13.5** Society lottery operator licences (remote and non-remote) from the Commission allow societies to sell lottery tickets within Great Britain (England, Scotland, and Wales). If you wish to sell lottery tickets outside of Great Britain you will need to check the laws that apply in that jurisdiction.

14 Financial requirements

- 14.1** For society and local authority lotteries promoted under licence from the Commission, accounting records must be retained for a minimum of three years from the date of any lottery to which they relate and they must be made available for inspection by the Commission on request. These records must contain, in respect of each lottery, details of the:
- the total proceeds
 - the amount allocated to prizes
 - the amount of proceeds allocated to expenses, and details of those expenses
 - the amount applied directly to the purposes of the society or the purposes for which the local authority has power to incur expenditure as the case may be
 - the number of sold and unsold tickets in each lottery.
- 14.2** Where the cumulative proceeds of lotteries promoted by a society or local authority exceed £1,000,000 in a calendar year, the Commission must be sent a written confirmation from a statutory auditor that the proceeds of those lotteries have been fully accounted for in annual audited accounts. Such confirmation must be provided within ten months of the end of the period to which the accounts relate.
- 14.3** A statutory auditor is someone who is eligible for appointment as a company auditor under section 1210 of the Companies Act 2006 but is not, in the case of a society:
- a) a member of the society
 - b) a partner, officer or employee of such a member
 - c) a partnership of which a person falling within (a) or (b) is a partner.

15 Lottery submissions

- 15.1** Every society and local authority licensed by the Commission must provide a submission for each lottery. This must show the total proceeds and how they have been distributed between prizes and expenses and the amount applied directly to the society's purposes, or purpose for which the local authority has power to incur expenditure.

- 15.2** A licensed society's or local authority's submission must be sent to the Gambling Commission no later than three months after the date of the lottery draw or in the case of an instant (scratchcard) lottery within three months of the last date on which tickets in the lottery were on sale. At the time it is submitted each submission must be verified by a Personal Management Licence holder, a qualified person in the case of a small scale operator or the person (in the case of societies) named on the lottery tickets as being responsible for the promotion of the lottery.
- 15.3** Submissions can be sent to the Commission on-line using the relevant form or the form can be downloaded and sent through the post.
- 15.4** Every society registered with a local authority to run small society lotteries must submit a statement providing the following information:
- the date on which tickets were available for sale or supply and the date of the draw
 - the total proceeds of the lottery (remote and non-remote)
 - the amounts deducted by promoters of the lottery in providing prizes, including rollovers
 - the amounts deducted by the promoters of the lottery in respect of costs incurred in organising the lottery
 - the amount applied directly to the purpose for which the promoting society is conducted or for which the local authority has power to incur expenditure (at least 20% of the gross proceeds)
 - whether any expenses incurred in connection with the lottery were not paid for by deduction from the proceeds, and, if so, the amount of expenses and the sources from which they were paid.
- 15.5** A registered society's statement must be sent to the local authority within three months beginning on the day the draw (or last draw) in the lottery took place. It must be signed by two members of the society appointed in writing for that purpose by the society's governing body and accompanied by a copy of that appointment.

16 Social responsibility

- 16.1** Lotteries are a form of gambling and as such societies and local authorities are required to ensure that children and other vulnerable people are not exploited by their lottery.
- 16.2** The minimum age for participation in a society or local authority lottery is 16 years of age. A person commits an offence if they invite or allow a child to enter such a lottery. Licensed societies and local authorities running lotteries must have written policies and procedures in place to help prevent and deal with cases of under-age play.
- 16.3** Licence holders must take all reasonable steps to ensure that information about how to gamble responsibly and how to access information and help in respect of problem gambling is readily available.
- 16.4** Further information about social responsibility requirements is contained in the Commission's *Licence Conditions and Codes of Practice*.

17 B3A lottery machines

- 17.1** Section 235(2)(d) of the Act and Regulations under that section define a B3A machine as one where the results of the lottery are determined by the machine and/or the machine displays the results of the lottery without an interval of at least one hour between the sale of the ticket and the announcement of the result. These machines can only be sited in a members' club or miners' welfare institute holding a club gaming or club machine permit issued by the licensing authority. Clubs and institutes are entitled to site one category B3A machine on the premises.

18 Proceeds and profits

- 18.1** Section 254 of the Act clarifies what is meant by ‘proceeds’ and ‘profits’ of a lottery.
- 18.2** ‘Proceeds’ are the total amount paid for tickets before any deductions.
- 18.3** ‘Profits’ are the amount of proceeds less any deductions for prizes, rollovers, and reasonable expenses incurred in connection with running the lottery.

19 Misusing profits of lotteries

- 19.1** Under section 260 of the Act it is an offence to use or permit profits from a large society or local authority lottery to be used for any purposes other than for the purpose for which the lottery was permitted or promoted. Section 261 applies the same offence to small society lotteries.

April 2018

making gambling fairer and safer

[**www.gamblingcommission.gov.uk**](http://www.gamblingcommission.gov.uk)



Overview & Scrutiny Committee

Briefing Paper

Report of: Mike Parker – Corporate Director Economic Prosperity
& Place
Date: 7th November 2019
Open with and Exempt Appendix

Capital Portfolio Fund – Quarterly Fund Report

1. Summary

- 1.1 This report provides an update on the performance of the Capital Portfolio Fund for the June 2019 Quarter period. Appendix 1 (open) provides an overall summary and Appendix 2 (exempt) is the detailed Quarter Fund Report (QFR).

2. Background

- 2.1 In July 2019 the Council's Cabinet agreed the Asset Management Strategy (AMS) 2019-22 and this was adopted at the July Council meeting. The adoption of the AMS is a key document for the Council as part of its Capital Strategy; the AMS sits alongside the Capital Portfolio Fund Strategy as the means by which the Council can monitor the performance of properties acquired using the Capital Portfolio Fund.
- 2.2 The Council has appointed Jones Valerio to support the acquisition and overall management of the portfolio of assets and they were instrumental in supporting the development of the Asset Management Strategy.
- 2.3 The Asset Management Strategy is structured around each of the acquired assets having an individual Strategic Asset Level Business Plan (SALBP). This enables the Council to oversee the individual assets and at a glance determine their 'live' status in terms of planned activity and performance. All decisions made by the Council on each asset are transparently made using the Procedure Guidance and Client Approval process which gives a clear audit of decisions made regarding each asset. In turn the collective SALBPs then forms the overall Asset Management Strategy where the Council is able to monitor performance against the strategic objectives of growing capital and revenue value as well as taking holistic decisions about the overall balance of the portfolio in terms of asset sector, location, lot size etc and to form a view about relative performance against agreed KPIs and local and regional market benchmarks.
- 2.4 Performance reporting is a key tenet of the Strategy and Part 9 sets out the manner in which regular reporting will take place to ensure the Council is always up to date with the performance of individual assets as well as the overall performance of the portfolio. This is the first performance report to

Overview and Scrutiny since the adoption of the AMS and it is proposed to introduce such reporting on a biannual basis. Members will note that there is some data missing from the QFR and that is because information is awaited from the fund valuers and the property managers, both of whom have only recently been appointed.

3 Key Issues

- 3.1 Appendix one is an overarching report from Jones Valerio with a commentary on the wider investment market, acquisitions and disposals and a high level performance report for the overall portfolio.
- 3.2 Appendix two is the detailed QFR which contains a more detailed commentary on the overall strategy of the portfolio together with a detailed report on performance and some specifics on developing proposals for some of the acquisitions to increase capital value and revenue returns.
- 3.3 The QFR indicates that the portfolio is still well balanced across retail, office and industrial sectors. No rent reviews, lettings or lease renewals have been completed in the quarter. No tenant breaks or lease terminations have occurred during the quarter. More detail will be available at the next quarterly report when complete information is available from the Property Manager and the valuer.

4. Conclusion

- 4.1 This is the first QFR that has been produced and it sets out the extensive indicators of the performance of the acquisitions in the Capital Portfolio Fund. The intention is to report to Overview and Scrutiny on a biannual basis and it is expected that for the next report the data will be complete from the valuers and property managers.

5. Options

- 5.1 The Overview and Scrutiny Committee is requested to note the performance of the Capital Portfolio Fund:

6. Appendices

Appendix 1 – Jones Valerio overarching report on performance

Appendix 2 (Exempt) – Jones Valerio June Quarterly Performance Report

7. Background Papers

None

Officer Contact Details:

Name: Mike Parker

Title: Corporate Director: Economic Prosperity & Place

Contact Number: 2500

Wyre Forest District Council

Capital Portfolio Fund

Investment & Portfolio Asset Management



Background

The Council's Cabinet agreed the Asset Management Strategy 2019-22 in July this year and it was formally adopted by Council later in July. Part 9 of the Strategy sets out the reporting arrangements to ensure that the Council is kept up to date with the performance of the portfolio and describes the Quarterly Fund Report (QFR).

This paper sets out an initial high level QFR. The final and more detailed QFR is under development and requires the input from Bruton Knowles to provide portfolio valuation advice and by BNP Paribas who have been appointed as the Council's Property Managers; as both of these appointments are very recent it has not yet been possible for us to capture all of the data we require to complete the full QFR.

Executive Summary June Quarter 2019

Strategic Report

In the context of our following commentary we focus on the 3 main sectors, (Retail, Office and Industrial) as these are the sectors in which WFDC's Capital Portfolio Fund (CPF) are currently invested.

The Capital Portfolio Fund is balanced across retail (23%), office (50%) and industrial (27%) sectors, with a total combined capital value of £15,107,000 (subject to 2019 valuation).

Investment Market Summary

Despite increases in capital and rental values across the Office and Industrial Sectors, at the All Property Level, capital values fell -0.4% in September. Total returns and Rental values were therefore flat.

In the third quarter of 2019, UK commercial property values decreased -0.9% overall, the weakest quarterly performance of 2019 so far, which was driven primarily by the fall in capital values and rental values in the Retail sector.

Despite the further downturn in the Retail sector, Resilience continues to define the UK economy even as the political and global trading environment remains challenging. In these challenging circumstances, UK property will nevertheless deliver stable returns, underpinned by a robust income profile.

Investment Market Sector Overview

Retail Sector

Retail sector capital values fell -1.7% in September, pulled down by Shopping Centres (-2.6%). Retail Warehouses and Rest of UK High Street Shops reported falls of -1.8% and -1.2% respectively. Rental values decreased -0.6% for the month.

However, retail sales have performed surprisingly well so far in 2019, despite all the economic and political noise. The Office for National Statistics (ONS) reported a 0.6% 3 month on 3 month increase in sales volumes in August. However, retail assets are suffering from a lack of occupier demand across many locations.

The labour market remains in good shape and real wages are continuing to rise, hence, we do not expect sales to collapse. Despite continued sales growth positives, high street shops still face the same issues - business rates, a move towards online shopping and other structural changes.

Office Sector

In the Office sector, capital values increased 0.4%. Central London Office capital values outperformed the rest of the UK increasing 0.6%. Rental values increased 0.4% across the sector in August.

Vacancy rates in London dipped below 5% for the first time in over two years, driven by a prolonged shortage of prime product and above average take-up.

Take-up figures across the Central Business Districts (CBDs) are healthy and strong leasing activity continues to limit supply for prime space across most markets. In Birmingham, for example, Q2 take-up was up by 65% compared to Q1 figures.

A lack of available grade A space is likely to exert further upward pressure on rents going forward. Serviced offices continue to make up a growing share of take-up.

Industrial Sector

In the Industrial sector, capital values increased 0.3%. South East Industrials continue to outperform Rest of UK (0.4%). Rental values increased 0.3% across the sector in August.

Official data from the ONS showed that industrial production was down by 0.5% 3 month on 3 month in July, with a particular weakness across the food products, beverages and tobacco and chemicals industries. The transport sector bounced back slightly, following the factory shutdown earlier in the year.

The outlook indicates that further rental growth in 2019 is likely, given steady demand, but not to the same extent seen in 2018. Rents in some locations may be approaching a ceiling.

Acquisitions and Disposals

The investment market traditionally slows down in July and August in terms of new opportunities coming to the market. Since the start of September the number of new opportunities made available to the CPF have steadily increased, including both on-market and off-market opportunities. However, the volume of opportunities available is considerably lower than that which would have been available during the same period in 2018.

Whilst there have been no acquisitions or sales during the quarter there are a number of acquisition opportunities that are currently under consideration. The main challenge faced by the CPF, in terms of new acquisitions, relates to vendors' price aspirations which on many occasions are proving hard to justify. This will be affected further given the recent increase in PWLB rates which will impact on viability.

Measuring Performance

The portfolio is measured against a range of key performance indicators on a quarterly basis with the following highlights for the quarter.

Tenant Retention Rate

Remains at 100% with no tenants breaking their lease and all tenants renewing their leases at expiry. This helps demonstrate the overall strength of tenant relationships and the appeal and competitiveness of the market product.

The Void Management Rate

Remains at 8.9% with the percentage based upon the Estimated Rental Value (ERV) across the entire portfolio with all vacant property at Stratford Court, Solihull. There have been two new letting deals being agreed in the quarter but one has outside of this reported quarter now been confirmed as not proceeding.

Energy Performance

Remains unchanged at an average Energy Performance Certificate Rating of C 78. The recent appointment of BNP Paribas as Property Manager should present an opportunity to improve this average rating especially where energy use is under direct control of the Landlord.

The Principle Risks

In relation to Investment and Asset Management Activity and Non-compliance with Health & Safety have been raised to Medium due to issues surrounding letting premises and general landlord's health and safety compliance in common areas.

Asset Management

All assets within the CPF now have completed Strategic Asset Level Business Plans (SALBP's) which identify all risks and opportunities at an asset level. Actions required and proposals identified are reported on a quarterly basis.

Added Value Opportunities

This process has already identified a number of opportunities including a potential development opportunity on existing owned land for a children's nursery on one site and a separate potential conversion of under-utilised first floor retail space into residential use on another site.

There is a further planned development of additional car parking at Stratford Court, Solihull on a section of grassed land within the ownership to increase the ability to let vacant space with more favourable car parking provision.

Critical Lease Events

All rent reviews, break options, lease expiries, dilapidations, vacant property, new lettings, capital expenditure and major projects and initiatives are also reported in the quarterly report and pro-active actions recommended where necessary.

There are three lease renewal deals agreed and with solicitors to conclude the lease documentation at High Street, Kidderminster plus a completion of a car parking licence.

New Lettings

There have been two new lettings agreed during the quarter, both at Stratford Court, Solihull. One is a small letting of 677 Sq Ft, at market rent, and the other is a deal with an existing tenant on their current suite, plus an additional 1,000 Sq Ft of adjoining vacant space. Outside of this reported quarter it has now been confirmed that the smaller letting shall not be as proceeding.

The Quarter Ahead

Property Management

The appointment of BNP Paribas during the current quarter provides a positive opportunity to improve the performance of the assets in a number of areas and the Asset Manager is seeking to coordinate their activity.

Fund Valuers

The appointment of Bruton Knowles during the current quarter (to provide portfolio valuation advice) provides a positive opportunity to improve the reporting data for the next quarterly report and provide an opportunity to model further initiatives across the portfolio and the Asset Manager is seeking to coordinate their activity.

Lease Renewals and New Lettings

It is essential that the current lease renewals and new letting is pro-actively taken forward and completed to reduce risk and secure further income for the portfolio. There is currently a Rental Guarantee drawn down by the fund for vacant premises which expires in March 2020, further enforcing the need to focus on maximising letting opportunities.

WYRE FOREST DISTRICT COUNCIL

OVERVIEW AND SCRUTINY COMMITTEE

7TH NOVEMBER 2019

**Treasury Management Strategy Statement and
Annual Investment Strategy Mid-year Review Report 2019-20**

OPEN	
CABINET MEMBER:	Councillor G Ballinger
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 Lisa Hutchinson lisa.hutchinson@wyreforesdc.gov.uk
APPENDICES:	Appendix 1 - Prudential and Treasury Indicators Appendix 2 - Capital Portfolio Fund Prudential Indicators & Ratios

1. PURPOSE OF REPORT

- 1.1 To provide Members with a mid-year review of the Council's treasury management policies, practices and activities in accordance with the CIPFA Treasury Management Code of Practice.

2. RECOMMENDATION

Overview and Scrutiny Committee recommends to Council to:-

- 2.1 Approve this Treasury Management Mid-year Review and updated Prudential Indicators & Ratios.**

3. BACKGROUND

- 3.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
- 3.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending

operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

3.3 Accordingly, treasury management is defined as:

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

3.4 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice on Treasury Management (revised 2017).

3.5 The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement that sets out the policies and objectives of the Council’s treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the Full Council of an Annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Treasury Management Review Panel who considered and endorsed this report on 4th November 2019, and made recommendations to this Committee. Council approval will then be sought.

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

- An economic update for the first half of the 2019-20 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;

Agenda Item No. 8

- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio for 2019-20;
- A review of the Council's borrowing strategy for 2019-20;
- A review of any debt rescheduling undertaken during 2012-20;
- A review of compliance with Treasury and Prudential Limits for 2019-20.

3.7 As previously reported; in December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019-20, all local authorities are required to prepare a Capital Strategy (although this Council prepared a Capital Strategy for 2018-21 that was approved by Council in May 2018, ahead of the planned implementation date) that is intended to provide the following:

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

A report setting out the revised Capital Strategy will be taken to full Council, in February 2020.

4. ECONOMIC UPDATE (as provided by Link Asset Services)

4.1 Economic performance to date and outlook

4.1.1 United Kingdom (UK)

This first half year has been a time of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the European Union (EU) on or 31st October 2019, with or without a deal. However, in September 2019, his proroguing of Parliament was overturned by the Supreme Court and Parliament carried a bill to delay Brexit until 31st January 2020 if there is no deal by 31st October 2019. Members of Parliament (MPs) also voted down holding a general election before 31st October 2019, though it is felt that one is likely before the end of 2019. So far, there has been no majority of MPs for any one option to move forward on enabling Brexit to be implemented. At the time of writing, (first week in October), the whole Brexit situation is highly fluid and could change radically by the day. Given these circumstances and the likelihood of an imminent general election, any interest rate forecasts are subject to material change as the situation evolves. If the UK does soon achieve a deal on Brexit agreed with the EU, including some additional clarification wording on the Irish border backstop, then it is possible that growth could recover relatively quickly. The Bank of England Monetary

Policy Committee (MPC) could then need to address the issue of whether to raise Bank Rate when there is very little slack left in the labour market; this could cause wage inflation to accelerate which would then feed through into general inflation. On the other hand, if there was a no deal Brexit and there was a significant level of disruption to the economy, then growth could weaken even further than currently and the MPC would be likely to cut Bank Rate in order to support growth. However, with Bank Rate still only at 0.75%, it has relatively little room to make a big impact and the MPC would probably suggest that it would be up to the Chancellor of the Exchequer (the Chancellor) to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in government departments and services annual expenditure budgets and expenditure on infrastructure projects, to boost the economy.

The first half of 2019-20 has seen UK **economic growth** fall as Brexit uncertainty took a toll. In its Inflation Report of 1st August 2019, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The MPC meeting of 19th September 2019 reemphasised their concern about the downturn in world growth and also expressed concern that the prolonged Brexit uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth. This mirrored investor concerns around the world which are now expecting a significant downturn or possibly even a recession in some major developed economies. It was therefore no surprise that the MPC left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit. However, it is also worth noting that the new Prime Minister is making some significant promises on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and, conversely, take some pressure off the MPC to cut Bank Rate to support growth.

As for **inflation** itself, the Consumer Price Index (CPI) has been hovering around the Bank of England's target of 2% during 2019, but fell to 1.7% in August 2019. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

With regard to the **labour market**, despite the contraction in quarterly Gross Domestic Product (GDP) growth of -0.2%q/q, (+1.3% y/y), in quarter 2, employment continued to rise, but at only a muted rate of 31,000 in the three months to July 2019 after having risen by no less than 115,000 in quarter 2 itself; the latter figure, in particular, suggests that firms are preparing to expand output and suggests there could be a return to positive growth in quarter 3. Unemployment continued at a 44 year low of 3.8% on the Independent Labour Organisation measure in July 2019 and the participation rate of 76.1% achieved a new all-time

high. Job vacancies fell for a seventh consecutive month after having previously hit record levels. However, with unemployment continuing to fall, this month by 11,000, employers will still be having difficulty filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to a high point of 3.9% in June 2019 before easing back slightly to 3.8% in July 2019, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The latest GDP statistics also included a revision of the savings ratio from 4.1% to 6.4% which provides reassurance that consumers' balance sheets are not over stretched and so will be able to support growth going forward. This would then mean that the MPC will need to consider carefully at what point to take action to raise Bank Rate if there is an agreed Brexit deal, as the recent pick-up in wage costs is consistent with a rise in core services inflation to more than 4% in 2020.

In the **political arena**, if there is a general election soon, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up although, conversely, a weak international backdrop could provide further support for low yielding government bonds and gilts.

4.1.2 United States of America (US)

President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of strong growth to 2.9% y/y. Growth in 2019 has been falling back after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2. Quarter 3 is expected to fall further. The strong growth in employment numbers during 2018 has reversed into a falling trend during 2019, indicating that the economy is cooling, while inflationary pressures are also weakening. The US Federal Reserve Bank (Fed) finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August 2019, (reducing its holdings of treasuries etc). It then cut rates again in September 2019 to 1.75% - 2.00% and is thought likely to cut another 25 bps in December 2019. Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This trade war is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.

4.1.3 Eurozone (EZ)

Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1 and then fell to +0.2% q/q (+1.0% y/y) in quarter 2; there appears to be little upside potential to the growth rate in the rest of 2019. German GDP growth fell to -0.1% in quarter 2; industrial production was down 4% y/y in June 2019 with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March 2019 meeting it said that it expected to leave interest rates at their present levels “at least through the end of 2019”, but that was of little help to boosting growth in the near term. Consequently, it announced a third round of Targeted Longer-term Refinancing Operations (TLTROs); this provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank is making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank’s eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum so at its meeting on 12th September 2019, it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a resumption of quantitative easing purchases of debt. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and unsurprisingly, the ECB stated that governments will need to help stimulate growth by fiscal policy. On the political front, Austria, Spain and Italy are in the throes of forming coalition governments with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The recent results of two German state elections will put further pressure on the frail German Christian Democratic Union (CDU)/Social Democratic Party (SDP) coalition government.

4.1.4 China and Japan

Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. Progress also still needs to be made to eliminate excess industrial capacity and to switch investment from property construction and

Agenda Item No. 8

infrastructure to consumer goods production. The trade war with the US does not appear currently to have had a significant effect on GDP growth as some of the impact of tariffs has been offset by falls in the exchange rate and by transshipping exports through other countries, rather than directly to the US.

Japan has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

4.1.5 World Growth

The trade war between the US and China is a major concern to financial markets and is depressing worldwide growth, as any downturn in China will spill over into impacting countries supplying raw materials to China. Concerns are focused on the synchronised general weakening of growth in the major economies of the world compounded by fears that there could even be a recession looming in the US, though this is probably overblown. These concerns have resulted in government bond yields in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US), and there are concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks. The latest Purchasing Managers' Index (PMI) survey statistics of economic health for the US, UK, EU and China have all been sub 50 which gives a forward indication of a downturn in growth; this confirms investor sentiment that the outlook for growth during the rest of this financial year is weak.

4.2 Link's interest rate forecast:

- 4.2.1 The Council's treasury advisor, Link Asset Services (Link), provides the following forecast (the forecasts are for Public Works Loan Board (PWLB) certainty rates; ie, 20 basis points below the standard PWLB rates):

Link Asset Services Interest Rate View											
	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	1.20	1.30	1.50	1.60	1.70	1.70	1.80	1.90	2.00	2.00	2.10
10yr PWLB Rate	1.50	1.60	1.80	1.90	2.00	2.00	2.10	2.20	2.30	2.30	2.40
25yr PWLB Rate	2.10	2.30	2.40	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00
50yr PWLB Rate	2.00	2.20	2.30	2.40	2.50	2.60	2.60	2.70	2.80	2.90	2.90

4.2.2 The above forecasts have been based on an assumption that there is some sort of muddle through to an agreed deal on Brexit at some point in time. Given the current level of uncertainties, this is a huge assumption and so forecasts may need to be materially reassessed in the light of events over the next few weeks or months.

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its meeting on 1st August 2019, the MPC became more dovish as it was more concerned about the outlook for both the global and domestic economies. That is shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a “gradual pace and to a limited extent” is now also conditional on “some recovery in global growth”. Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth. The September 2019 MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth.

Bond yields / PWLB rates. There has been much speculation recently that we are currently in a bond market bubble. However, given the context that there are heightened expectations that the US could be heading for a recession, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen

over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

What we saw during the last half year up to 30th September 2019 is a near halving of longer term PWLB rates to completely unprecedented historic low levels. There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but due to a correlation between US treasuries and UK gilts, which at various times has been strong but at other times weaker, in the UK. However, forecasting the timing of this and how strong the correlation is likely to be, is very difficult to forecast with any degree of confidence.

One potential danger that may be lurking in investor minds is that Japan has become mired in a twenty year 'bog' of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be fretting that this condition might become contagious.

Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt fuelled boom which now makes it harder for economies to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential 'doom loop'. (A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

- 4.2.3 The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture. The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.

One risk that is both an upside and downside risk is that all central banks are now working in very different economic conditions than before the 2008 financial crash. There has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for eleven years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could, therefore, over or under-do increases in central interest rates.

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

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**. In 2018, Italy was a major concern due to having a populist coalition government which was anti-austerity and anti-EU. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government**. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration Alternative for Germany (AfD) party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD had a major internal debate as to whether it could continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018. However, this makes

little practical difference as she has continued as Chancellor, though more recently concerns have arisen over her health.

- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Italy, Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks**, for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

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

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

5. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY UPDATE

- 5.1 The Treasury Management Strategy Statement (TMSS) for 2019-20 was approved by this Council on 27th February 2019.
- 5.2 There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

- 5.3 The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:
- Security of Capital
 - Liquidity
- 5.4 The Council will also aim to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term, and only invest with highly credit rated financial institutions, using Link's suggested creditworthiness approach and credit default swap (CDS) overlay information provided by Link. However, consideration is given to special tranche rates that are occasionally offered by those banks that are part-nationalised.
- 5.5 A breakdown of the Council's current investment portfolio as at 30th September 2019 is shown in Section 7 of this report.
- 5.6 The Council will potentially be required to consider further external borrowing during the next six months and will monitor the market to secure the most advantageous rates. Investments during the first six months of the year have been in line with the strategy, and there have been no deviations from the strategy.
- 5.7 As outlined in Section 4 above, there is still considerable uncertainty and volatility in the financial and banking market, both globally and in the UK.

6. THE COUNCIL'S CAPITAL POSITION (PRUDENTIAL INDICATORS)

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

6.2 Prudential Indicator for Capital Expenditure

The table below shows the revised estimates for capital expenditure and the changes since the capital programme was agreed for the Budget. The change in the totals is a result of slippage between years of the programme following a review of expected cash outflows and any amendments to the Capital Programme approved by Council in the first half of 2019-20.

Agenda Item No. 8

Capital Expenditure by Service/Major Schemes	2019-20 Original Estimate £'000	2019-20 Mid Year Position £'000	2019-20 Latest Revised Estimate £'000
Community Well-being and Environment	35	2,079	2,740
Economic Prosperity and Place	4,575	1,378	3,130
Capital Portfolio Fund/Development Loans Fund	8,750	6,929	24,695
Resources	558	201	566
Vehicle, Equipment and Systems Renewals	1,017	236	1,465
Total	14,935	10,823	32,596

The latest revised estimates contain slippage from 2018-19 and take into account any estimated re-profiling of capital schemes to future years.

6.3 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2019-20 Original Estimate £'000	2019-20 Mid Year Position £'000	2019-20 Latest Revised Estimate £'000
Total capital expenditure	14,935	10,823	32,596
Financed by:			
Capital receipts	696	460	921
Capital grants	1,639	941	1,613
Revenue	-	93	524
Total financing	2,335	1,494	3,058
Borrowing need	12,600	9,329	29,538

6.4 Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

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

Prudential Indicator – Capital Financing Requirement

Agenda Item No. 8

The latest estimate of the Capital Financing Requirement is slightly higher than original budget due to some capital programme slippage. In addition, the Capital Portfolio Fund and Development Loans Fund capital schemes have been, and will continue to be re-profiled once individual business cases are approved.

Prudential Indicator – External Debt / the Operational Boundary

	2019-20 Original Estimate £'000	2019-20 Latest Revised Estimate £'000
CFR	59,040	59,089
External Debt/Operational Boundary	65,000	65,000

The External Debt/Operational Boundary prudential indicator allows for maximum flexibility should there be a suitable call on the Capital Portfolio/Development Loans Fund schemes.

6.5 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, gross borrowing will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2019-20 and next two financial years. This allows some flexibility for limited borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent (TMSS Section 8.5).

Limits to Borrowing Activity	2019-20 Original Estimate £'000	2019-20 Latest Revised Estimate £'000
Gross Borrowing	59,000	59,000
Less Investments	(12,000)	(18,000)
Less Icelandic Investments (currently frozen)	-	(13)
Net Borrowing	47,000	40,987
CFR (year end position)	59,040	59,089

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

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

Authorised Limit for External Debt	2019-20 Original Indicator £'000	2019-20 Revised Indicator £'000
Borrowing	75,000	75,000

7. INVESTMENT PORTFOLIO 2019-20

- 7.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.
- 7.2 The investment portfolio yield for the first six months of the year against the benchmark (7 Day LIBID) is shown below:

Benchmark	Benchmark Return	Council Performance to 30/09/2019	Investment Interest Earned to 30/09/2019
7 day LIBID	0.567%	0.849%	£93,790

As illustrated, the authority out-performed the benchmark by approximately 28 bank basis points (bps). The Council's original budgeted investment return for 2019-20 was £120,000. The original budget assumed an average rate of return of 0.80% on estimated average investments of £15m. The increase is mainly due to the continued use of some higher yielding notice accounts and fixed investments, along with slightly higher average investment balances.

Agenda Item No. 8

The Council is also a member of the Link Benchmarking Club, the results of which are reported separately to the Treasury Management Review Panel at its September and January meetings.

- 7.3 The tables below show investments held at 1st April 2019 compared to investments held at 30th September 2019, excluding Icelandic investments.

Investments Held With	1 st April 2019 £	Average Rate of Return	Duration
Lloyds	250,000	0.65%	Instant Access
Handelsbanken plc	1,055,000	0.60%	Instant Access
Aberdeen Money Market Fund	4,000,000	0.70%	Instant Access
Black Rock Money Market Fund	4,000,000	0.72%	Instant Access
Federated Prime Money Market Fund	4,000,000	0.70%	Instant Access
Lloyds	2,000,000	1.10%	95 Day Notice
Santander	2,000,000	0.75%	35 Day Notice
Santander	1,000,000	0.85%	95 Day Notice
Santander	1,000,000	1.10%	180 Day Notice
Lloyds	1,000,000	1.00%	Fixed to 02/07/19
Lloyds	1,000,000	1.25%	Fixed to 21/02/20
Nat West	1,000,000	0.93%	Fixed to 30/04/19
Nat West	1,000,000	0.98%	Fixed to 30/07/19
Total	23,305,000		

Agenda Item No. 8

Investments Held With	30 th September 2019 £	Average Rate of Return	Duration
Lloyds	60,000	0.65%	Instant Access
Handelsbanken plc	1,060,000	0.60%	Instant Access
Aberdeen Money Market Fund	1,385,000	0.70%	Instant Access
Black Rock Money Market Fund	1,895,000	0.71%	Instant Access
Federated Prime Money Market Fund	1,055,000	0.70%	Instant Access
Federated Prime Cash Plus Fund	1,000,000	0.93%	Trade Plus 1 Day
Santander	2,000,000	0.75%	35 Day Notice
Santander	1,000,000	0.90%	95 Day Notice
Lloyds	2,000,000	1.10%	95 Day Notice
Nat West	2,000,000	0.85%	95 Day Notice
Santander	1,000,000	1.10%	180 Day Notice
Goldman Sachs	1,000,000	0.84%	Fixed to 02/01/20
Goldman Sachs	1,000,000	0.91%	Fixed to 20/02/20
Lloyds	1,000,000	1.25%	Fixed to 21/02/20
Lloyds	1,000,000	1.25%	Fixed to 02/07/20
Nat West	1,000,000	0.90%	Fixed to 03/03/20
Nat West	1,000,000	0.81%	Fixed to 03/01/20
Coventry Building Society	1,000,000	0.86%	Fixed to 31/01/20
Total	21,455,000		

- 7.4 As illustrated in the economic background section above, investment rates available in the market remain at historically low levels. The average level of funds available for investment purposes in the first six months of 2019-20 was £22,089,360. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme, including the timing of prudential borrowing. As detailed in 7.3, the Council has protected its budgetary position to some extent by fixing out some deposits for longer periods, i.e. 6 months to 1 year, therefore protecting an element of the portfolio from any further potential drop in rates.

7.5 Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function. However, yields continue to be low whilst the Council adheres to the low risk strategy due to the current economic climate.

The investment counterparty criteria continue to be very sensitive to any changes in the banking sector; this is particularly true for changes in the Credit Default Swap (CDS) overlay.

8. EXTERNAL BORROWING

8.1 The Council's capital financing requirement (CFR) – as at 1st April 2019 was £30.395m, currently projected to rise to £59.089m by 31st March 2020 if all 2019-20 capital schemes are completed. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council's external borrowing totalled £29m at 1st April 2019.

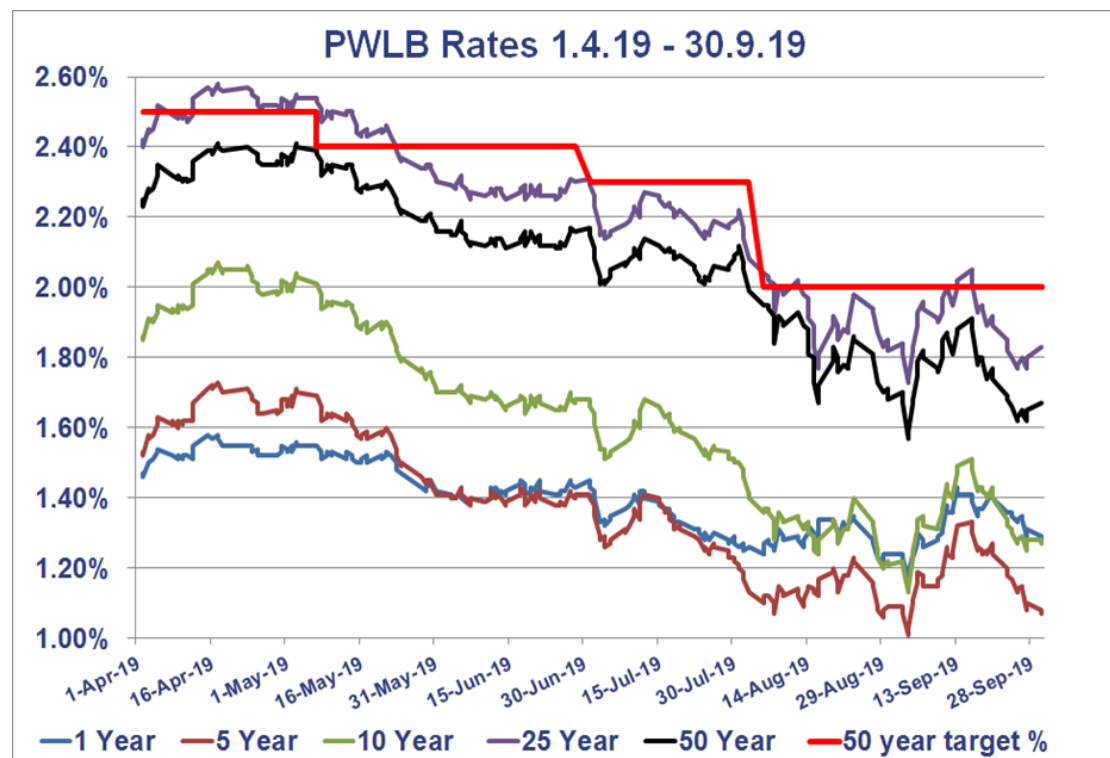
8.2 The table below shows the Council's external borrowing as at 30th September 2019.

Lender	Principal	Date	Type	Interest Rate	Maturity
PWLB	£1m	15/03/13	Fixed interest rate	2.62%	15/03/22 (9 years)
PWLB	£1m	29/07/14	Fixed interest rate	3.99%	29/07/33 (19 years)
PWLB	£1m	20/10/14	Fixed interest rate	3.54%	20/10/56 (42 years)
PWLB	£1m	02/12/14	Fixed interest rate	3.44%	02/12/39 (25 years)
PWLB	£1m	20/01/15	Fixed interest rate	2.99%	20/01/39 (24 years)
PWLB	£1m	04/02/15	Fixed interest rate	2.87%	04/02/41 (26 years)
PWLB	£1m	04/02/15	Fixed interest rate	2.80%	04/02/37 (22 years)
PWLB	£1m	08/04/15	Fixed interest rate	2.96%	08/04/35 (20 years)
PWLB	£1m	02/07/15	Fixed interest rate	3.35%	02/07/32 (17 years)
PWLB	£1m	20/07/15	Fixed interest rate	3.40%	20/07/31 (16 years)
PWLB	£1m	29/07/15	Fixed interest rate	3.13%	29/07/30 (15 years)

Agenda Item No. 8

Lender	Principal	Date	Type	Interest Rate	Maturity
PWLB	£1m	06/08/15	Fixed interest rate	2.96%	06/08/28 (13 years)
PWLB	£1m	02/02/16	Fixed interest rate	2.99%	02/02/63 (48 years)
PWLB	£1m	24/06/16	Fixed interest rate	2.21%	24/06/26 (10 years)
PWLB	£1m	03/03/17	Fixed interest rate	2.42%	03/03/62 (45 years)
PWLB	£1m	26/03/18	Fixed interest rate	2.28%	26/03/64 (46 years)
PWLB	£1m	14/09/18	Fixed interest rate	2.49%	14/09/68 (50 years)
PWLB	£1m	14/09/18	Fixed interest rate	2.53%	14/09/60 (42 years)
PWLB	£1m	25/09/18	Fixed interest rate	2.59%	25/03/62 (43.5 years)
Charnwood Borough Council	£2m	12/10/18	Fixed interest rate	1.40%	09/10/20 (2 years)
PWLB	£1m	03/12/18	Fixed interest rate	1.79%	03/12/24 (6 years)
PWLB	£1m	12/12/18	Fixed interest rate	2.47%	12/12/68 (50 years)
PWLB	£1m	17/12/18	Fixed interest rate	2.46%	17/12/66 (48 years)
PWLB	£1m	11/02/19	Fixed interest rate	2.38%	11/02/65 (46 years)
PWLB	£1m	12/03/19	Fixed interest rate	2.36%	12/03/66 (47 years)
PWLB	£1m	25/03/19	Fixed interest rate	1.82%	25/09/27 (8.5 years)
PWLB	£1m	25/03/19	Fixed interest rate	2.29%	25/09/59 (40.5 years)
PWLB	£1m	26/03/19	Fixed interest rate	2.20%	26/09/67 (48.5 years)
PWLB	£1m	01/04/19	Fixed interest rate	1.80%	01/04/29 (10 years)
PWLB	£1m	04/06/19	Fixed interest rate	1.74%	04/11/29 (10.5 years)
PWLB	£1m	04/06/19	Fixed interest rate	2.17%	04/11/69 (50 years)
PWLB	£1m	24/06/19	Fixed interest rate	2.13%	26/01/61 (41.7 years)
PWLB	£1m	08/07/19	Fixed interest rate	1.86%	08/07/34 (15 years)
PWLB	£1m	20/08/19	Fixed interest rate	1.67%	20/08/69 (50 years)
Total	£35m				

- 8.3 Further borrowing may be scheduled in 2019-20 if the Council acquires any further properties utilising the Capital Portfolio Fund. Borrowing will be secured at the most appropriate time relating to the Council's cash flow and the borrowing rates. The Corporate Director: Resources is monitoring the rates closely, along with our treasury advisors, Link, to seek the most advantageous rates when the cash flow is required, although internal borrowing may also be utilised.
- 8.4 The graph below shows the movement in PWLB certainty rates for the first six months of the year.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.17%	1.01%	1.13%	1.73%	1.57%
Date	03/09/2019	03/09/2019	03/09/2019	03/09/2019	03/09/2019
High	1.58%	1.73%	2.07%	2.58%	2.41%
Date	15/04/2019	17/04/2019	17/04/2019	17/04/2019	17/04/2019
Average	1.40%	1.37%	1.62%	2.20%	2.07%

8.5 Increase in the cost of borrowing from the PWLB

On 9th October 2019 the Treasury and PWLB announced an increase in the margin over gilt yields of 100bps on top of the rates that this authority has paid prior to this date for new borrowing from the PWLB. There was no prior warning that this would happen and it now means that every local authority has to reassess how to finance their external borrowing needs and the financial viability of capital projects in their capital programme due

to this unexpected increase in the cost of borrowing. Representations are going to be made to HM Treasury to suggest that areas of capital expenditure that the Government are keen to see move forward e.g. housing, should not be subject to such a large increase in borrowing.

Whereas this authority has previously relied on the PWLB as its main source of funding, it will now reconsider alternative cheaper sources of borrowing. At the current time, this is a developmental area as this event has also taken the financial services industry by surprise. It is expected that various financial institutions will enter the market or make products available to local authorities. Members will be updated as this area evolves.

It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. This Authority may make use of this new source of borrowing as and when appropriate.

In the short-term, for the balance of the Capital Portfolio Fund, it should be possible to manage this risk by a combination of internal and short-term borrowing. However, it may make the Development Loans Fund less attractive and may mean future capital schemes fail to be financially viable once the increased costs of borrowing are factored in. The position will continue to be monitored and reported to members as appropriate but we are in a fortunate position as we have taken most of this risk off the table in relation to the Capital Portfolio Fund by taking tranches of borrowing at the historically low rates.

9. DEBT RESCHEDULING

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

10. COMPLIANCE WITH TREASURY AND PRUDENTIAL LIMITS

- 10.1 It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". Council's approved Treasury and Prudential Indicators (affordability limits) are outlined in the approved Treasury Management Policy and Strategy Report.
- 10.2 During the financial year to date the Corporate Director: Resources confirms that the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

Agenda Item No. 8

- 10.3 The Prudential and Treasury Indicators are shown in Appendix 1. These have been updated for the slippage in the Capital Programme and the associated requirements to undertake external borrowing.
- 10.4 Prudential indicators in respect of the Capital Portfolio Fund completed schemes up to 30th September 2019 are reported in Appendix 2. More information on the performance of the Capital Portfolio Fund will be reported separately in future property focussed reports.

11. LOCAL ISSUES

- 11.1 The table below details the Council's remaining Icelandic investments as at 30th September 2019.

Bank	Original Investment £	Interest Claimed £	Total Claim £	Dividends Received £	Balance Outstanding including Interest Due £	Balance Outstanding Principal Only £
Kaupthing Singer & Friedlander	5,000,000	156,378	5,156,378	4,442,220	714,158	692,500
Heritable Bank	1,000,000	31,110	1,031,110	1,010,488	20,622	20,357
Total	6,000,000	187,488	6,187,488	5,432,082	734,780	712,857

- 11.2 As the capital programme expenditure progresses and balances of reserves that contribute to the make-up of the cash reserves available for investment reduce, external borrowing will be sourced within affordability limits to fund approved projects. The recent increase in the PWLB rates means that we may no longer rely on borrowing from HM Treasury and will work with our Treasury advisors to explore alternative means of cheaper borrowing. The Corporate Director: Resources currently considers that cash balances should be held at no less than £5m for a Council of our size (including the Council's Working Balance of £1.2m). This forecast reduction in daily cash balances, together with the current limitations on the counterparty list, that are highly likely to continue, will make longer term investments more challenging to manage.
- 11.3 The most significant issue facing the Council remains its financial position. The net revenue budget will have reduced from £16.4m in 2009-10 to £10.7m in 2021-22 based upon current plans. This represents a fall of around 35% in absolute terms, and more in real terms. The Wyre Forest Forward Programme, the Commercial Activity Programme and the Capital Portfolio fund acquisitions contribute towards closing the gap between what we are spending and our income.

- 11.4 Significant funding challenges will continue for local government. Further consultation from the Government of plans for reform of local government finance that has now been delayed until 2021 is still awaited; it seems unlikely that the fair funding formula and other changes to the local government finance system are going to improve the Council's position dramatically in 2021. Indeed, the prospect is that district councils generally might suffer if resources are diverted away to fund the spiralling cost of social care and children's services.
- 11.5 The Chartered Institute of Public Finance and Accountancy, (CIPFA), revised the Treasury Management Code and the Prudential Code in December 2017. MHCLG issued additional guidance in February 2018 to be effective from April 2019 regarding non-treasury investments. This Council confirms that it has fully complied with these requirements and has done so ahead of the formal timeline due to the significant Capital Portfolio Fund activity in 2018-19. Whilst, in accordance with approved policies and strategies, these property acquisitions are not investments a new suite of prudential indicators is included in this report for full transparency.
- 11.6 Following the introduction of regulations under The Markets in Financial Instruments Directive 2 (MIFID II) on 3rd January 2018 this Council has successfully elected up to professional status for investment purposes. These regulations govern the relationship that financial institutions conducting lending and borrowing transactions have with local authorities. As previously reported, this has had little effect on this Council as we met criteria to elect to opt up to professional status that allows us to continue to use the range of investment options within our Treasury Management Service Strategy.
- 11.7 The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), were required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

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

Agenda Item No. 8

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

- 11.8 The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports. There are no such changes to treasury risk management to report at this mid-year stage.
- 11.9 The legal agreement for the external fund management of the £10m Development Loans Fund is now complete. There are no loans completed at 30th September 2019 and the impact of the increase in PWLB rates on the 9th October is currently being assessed.

12. KEY ISSUES

- 12.1 The Key issues are contained in sections 3 to 11 of this report.
- 12.2 As reported previously, the returns the Council is currently receiving from investments are significantly lower than those achieved during years up to 2007-08. Although we are forecasting increases in interest rates in later years, increases are expected to be modest and implemented over a long period and funds available for investment are forecast to decrease.
- 12.3 The recent increase in the Treasury PWLB rates was unexpected and means that alternative less costly sources of borrowing will now be explored. This is a developmental area and Members will be updated as this information emerges.

13. FINANCIAL IMPLICATIONS

- 13.1 The Financial Implications of the treasury management function will be included in the Council's Medium Term Financial Strategy and Budget and Policy Framework, currently being prepared.

14. LEGAL AND POLICY IMPLICATIONS

- 14.1 The Local Government Act 2003 supplemented by Regulations set out a new framework for a prudential system for local authority capital finance. This Act, together with CIPFA's Prudential Code for Capital Finance in Local Authorities, came into effect on 1st April 2004. This code together with recent revised editions, guides decisions on what Local Authorities can afford to borrow and has statutory backing under Regulations issued in accordance with the Local Government Act 2003.
- 14.2 Adoption of the CIPFA Code of Practice on Treasury Management in the Public Services as part of the Authority's Standing Orders and Financial Regulations, gives it the status of a "code of practice made or approved by or under any enactment", and hence proper practice under the provisions of the Local Government and Housing Act 1989.
- 14.3 The new Treasury Management Code and Prudential Code were issued in December 2017. The February 2018 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 impact of these changes is reflected in the Treasury Management Service Strategy for 2019-20 and an updated Capital Strategy was approved by Council in February 2019.

15. RISK MANAGEMENT

- 15.1 The Council is aware of the risks of passive management of the treasury portfolio. With the support of its external consultants we continue to proactively manage our investments. Link Asset Services (formerly Capita Asset Services – Treasury Solutions) are the Council's advisors. The current contract for Treasury Services was secured from 1st September 2015 for 3 years with the option to extend for a further 2 years on favourable terms; this option was exercised and the contract extended to September 2020. The Corporate Director: Resources has commenced early work into the procurement process relating to the September 2020 renewal of the Council's treasury services contract.
- 15.2 Shorter-term variable rates and likely future movement in these rates predominantly determine the Council's investment return. These returns can therefore be volatile and, whilst the risk of loss of principal is minimised through the lending list, accurately forecasting returns can be difficult.
- 15.3 The Council continues to progress its most significant capital investment proposals in many years as well as major injections of finance in its key priority of securing the economic prosperity of the district. Until the recent increase in PWLB rate the affordability of capital was helped by historically low interest rates keeping the costs of borrowing relatively low. The recent unexpected rise in PWLB

borrowing rates increases risk, however this is a developmental area that we will monitor closely.

- 15.4 The one-year Spending Round announced in early September 2019 should be confirmed in the 2020-21 Provisional Local Government Finance Settlement expected in early December. This included deferment of the Fair Funding Review until 2021, and a change to the Council Tax referendum limits to 2% or £5 whichever is the higher. Further consultation is awaited, but the lack of detailed information on future funding represents a risk to the ensuing budget cycle as we are planning against many unknowns and have little/no ability to influence future funding levels going into the future. These macro-economic issues will have a knock-on effect to treasury management for all councils.
- 15.5 The risks associated with property acquisitions that the MHCLG Guidance allies to treasury management are well documented in the approved Capital Strategy 2019-22 report at http://www.wyreforest.gov.uk/council/docs/doc54089_20181218_cabinet_agenda.pdf and are regularly updated in annual Capital Strategy reports and individual business case proposals.

16. EQUALITY IMPACT ASSESSMENT

- 16.1 This is a financial report and there is no requirement to consider an Equality Impact Assessment.

17. CONCLUSION

- 17.1 See Recommendations.

18. CONSULTEES

- 18.1 Link Asset Services (Treasury Advisors).
18.2 Leader of the Council/Cabinet Member for Strategy and Finance
18.3 Corporate Leadership Team.

19. BACKGROUND PAPERS

- 19.1 Local Government Act 2003.
19.2 CIPFA's Revised Prudential Code for Capital Finance in Local Authorities, 2017.
19.3 CIPFA's Revised Code of Practice on Treasury Management in the Public Services, 2017.
19.4 Local Government and Housing Act 1989.
19.5 Council 22nd February 2017 – approval of £25m Capital Portfolio
19.6 Council 23rd May 2018 – Approval of Capital Strategy

Agenda Item No. 8

- 19.5 Council 27/02/19 – Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and updated Prudential Indicators 2019-20.
- 19.6 Council 27/02/19 – Capital Strategy 2019-22
- 19.7 Council 24/07/19 – Asset Management Strategy
- 19.8 Council 25/09/19 - Annual Report on Treasury Management Service and Actual Prudential Indicators 2018-19.

APPENDIX 1 Prudential and Treasury Indicators

PRUDENTIAL INDICATORS	2018-19	2019-20	2020-21	2021-22	2022-23
	actual	estimate	estimate	estimate	estimate
	£'000	£'000	£'000	£'000	£'000
Capital Expenditure	14,622	32,596	5,005	2,045	1,199
Ratio of financing costs to net revenue stream	7.77%	13.61%	21.84%	23.97%	23.95%
Local Indicator - Ratio of financing costs to net revenue stream including Capital Portfolio Income (2018-19 onwards)	4.45%	4.02%	11.04%	13.08%	13.44%
Gross Borrowing					
brought forward 1 April	18,001	29,000	59,000	59,000	58,000
carried forward 31 March	29,000	59,000	59,000	58,000	56,000
Capital Financing Requirement as at 31 March	30,395	59,089	59,081	58,383	56,796
Annual change in Capital Financing Requirement	12,328	28,694	(8)	(698)	(1,587)
Incremental impact of capital investment decisions		£ p	£ p	£ p	£ p
Increase in council tax (band D) per annum		-	-	-	-

Agenda Item No. 8

TREASURY MANAGEMENT INDICATORS	2018-19	2019-20	2020-21	2021-22	2022-23
	actual	estimate	estimate	estimate	estimate
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt -					
borrowing	65,000	75,000	75,000	75,000	75,000
other long term liabilities	0	0	0	0	0
TOTAL	65,000	75,000	75,000	75,000	75,000
Operational Boundary for external debt -					
borrowing	55,000	65,000	65,000	65,000	65,000
other long term liabilities	0	0	0	0	0
TOTAL	55,000	65,000	65,000	65,000	65,000
Actual/Forecast external debt	29,000	59,000	59,000	58,000	56,000
Upper limit for fixed interest rate exposure					
Net principal re fixed rate investments	100%	100%	100%	100%	100%
Upper limit for variable rate exposure					
Net principal re variable rate borrowing / investments	100%	100%	100%	100%	100%
Upper limit for total principal sums invested for over 364 days	£	£	£	£	£
(per maturity date)	2m	2m	2m	2m	2m

Maturity structure of fixed rate borrowing	upper limit	lower limit
under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

APPENDIX 2 Capital Portfolio Fund Prudential Indicators & Ratios.
Note that the performance of the Property Portfolio fund will be separately reported in property focused reports.

Calculated for acquisitions up to 30th September 2019

Capital Portfolio Fund as at 30th September 2019		2019-20	2020-21	2021-22
DEBT TO GROSS SERVICE EXPENDITURE RATIOS				
Non treasury property investments debt to gross service expenditure (GSE) ratio	<i>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.</i>	33.29%	34.11%	33.29%
DEBT TO NET SERVICE EXPENDITURE RATIOS				
Non treasury property investments debt to net service expenditure (NSE) ratio	<i>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.</i>	148.33%	150.37%	143.08%
LOAN TO VALUE RATIOS				
Loan to PPE value ratio (property)	<i>The amount of non treasury property investment debt compared to the total asset value (Long term assets - PPE).</i>	28.89%	28.44%	27.99%
Loan to value ratio (property only)	<i>The amount of property debt compared to the total property asset value (property portfolio only).</i>	100.70%	99.14%	97.57%
CFR RATIOS				
CFR - Property	<i>Property CFR as a proportion of the gross CFR</i>	41.60%	41.49%	41.41%
FINANCING COSTS TO NET SERVICE EXPENDITURE RATIOS				
Property investments financing costs to net service expenditure (NSE) ratio	<i>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.</i>	4.49%	6.40%	6.20%
INCOME/INVESTMENT COVER RATIOS				
Property investment cover ratio	<i>The total net income from property investments, compared to the interest expense.</i>	100.11%	74.11%	70.66%
Property target income returns (excluding financing costs)	<i>Net revenue income (excluding financing costs) compared to equity. This is a measure of achievement of the portfolio of properties.</i>	5.54%	6.19%	6.11%
Property target income returns (including financing costs)	<i>Net revenue income compared to equity. This is a measure of achievement of the portfolio of properties.</i>	2.50%	1.97%	1.88%
Commercial income to NSE ratio	<i>Dependence on non-fees and charges income to deliver core services. Fees and charges should be netted off gross service expenditure to calculate NSE.</i>	2.87%	3.14%	3.26%
TRENDS				
Gross income	<i>The income received from the investment portfolio at a gross level over time.</i>	(£1,279,330)	(£1,323,620)	(£1,384,800)
Operating costs	<i>The trend in operating costs of the non-financial investment portfolio over time, as the portfolio of non-financial investments expands.</i>	£346,890	£282,090	£357,460
Financing costs	<i>The trend in financing costs of the non-financial investment portfolio over time, as the portfolio of non-financial investments expands.</i>	£512,730	£710,280	£711,500
Net income	<i>The income received from the non-financial investment portfolio at a net level (less costs) over time.</i>	(£419,710)	(£331,250)	(£315,840)

Whilst, in accordance with approved policies and strategies, these property acquisitions are not investments, the above suite of prudential indicators is included in this report for full transparency.



Overview & Scrutiny Committee

Briefing Paper

Report of: Kate Bailey
Date: 7th November 2019
Open

Conversion of a property in Stourport on Severn

1. Summary

- 1.1 The purpose of this report is to consider the business case for converting a property in Stourport in Severn into temporary accommodation, to be run by the Council as an alternative to using private sector Bed and Breakfast (B&B) facilities particularly for families. This represents an opportunity for the Council to reduce its B&B costs going forward and generate additional revenue.

2. Background

- 2.1 The property located at 11b Raven Street is in the ownership of the District Council. The ground floor is currently a fishing tackle shop. The Council are working with the proprietor to sign a new lease for ten years. The first floor flat has previously been used as residential accommodation but has been vacant for some time.
- 2.2 The property is poorly maintained and will require refurbishment to bring it up to current required standard including fire separation between the flat and the shop beneath. However the property has the potential to support the Council's need for emergency accommodation to fulfil the legal duties under the Housing Act 1996 (as amended by the Homelessness Reduction Act 2017). The Council currently uses a combination of B&B and 2-3 New Street to meet these legal duties however B&B is costly as the Council is unable to recover all the Housing Benefit paid out (please see Table One below). If demand outstrips the procured B&B or New Street supply then the Council has to look for more costly and/or out of district placements.

Table One: Costs of B&B table including HB payments and benefit clawback

	2015/16	2016/17	2017/18	2018/19
Revenue Costs				
Gross cost of emergency housing	48,109	72,226	84,482	123,878
Total Expenditure	48,109	72,226	84,482	123,878

Income				
Benefit Receipts	(42,002)	(71,440)	(66,985)	(91,294)
Less: Benefit Clawback	25,417	47,657	34,399	50,166
Contributions towards Non-Eligible Costs	(262)	(1,308)	0	(7,818)
Total Income	(16,847)	(25,091)	(32,586)	(48,946)
Net Revenue Position	31,262	47,135	51,896	74,932

- 2.3 There is an ongoing liability for standing charges for water and electricity and insurance for the first floor flat. This is estimated in the region of £600 –800 p.a. There is currently no council tax liability as the Council's Private Sector Housing (PSH) team have served a prohibition order.
- 2.4 In addition to Bed and Breakfasts and New Street the Council also utilise Crash Pads in St Basils and Compton Valley House, No Second Night Out provision in Worcester and will work with Caring for Communities and People (CCP) to operate the Severe Winter Emergency Provision in Wyre Forest during the winter months.
- 2.5 The PSH Team have undertaken a survey of the property at Raven Street and obtained estimated quotes for undertaking the work required. It is estimated the costs will be approximately £60,000 including a contingency budget.
- 2.6 This accommodation could be used for the provision of emergency short-term accommodation for both statutory and non-statutory homeless that the Council has a duty (or a power) to assist. In particular the accommodation could be used to house larger family units that currently have to be accommodated elsewhere, as New Street only has one unit of family style accommodation, at much higher costs. This will compliment the provision at New Street and other potential accommodation schemes where larger families would need to be split across several units of accommodation as opposed to being able to be housed together in a single unit.
- 2.7 The proximity of the accommodation to 2 -3 New Street means the current staffing resource can be deployed to oversee the accommodation and support the households.

3. Key Issues

- 3.1 In 2018/19 there were 857 formal homeless approaches; of which 151 were prevented from becoming homeless, 119 had their homelessness relieved and 11 had the main rehousing duty accepted. In 2018/19 the Council accommodated 181 households into B&B accommodation and 66 into New Street. Analysis of utilisation rates shows there is a requirement, on average, for a further 12 units of temporary accommodation in addition to New Street. Whilst other proposals regarding temporary accommodation, previously considered by Cabinet will address some of this need it wouldn't be appropriate for large families for longer periods of time due to the need to split them over more than one unit of accommodation.

- 3.2 In 2018/19 the Council saw a large number of households with 3 or more children approaching as homeless and requiring temporary accommodation (15 single parents with 3 or more children and another family with two parents and two children). The rooms at New Street are not really suited to families of this size and this normally means they are placed in two rooms at a B&B. There were two months during the year where there were no larger families requiring accommodation, but for most of the other months there was more than one family requiring a larger unit of accommodation which would indicate the unit at Raven Street would be occupied for most months of the year by larger families alone and then can be utilised for smaller family units at other times.
- 3.3 Using this and the New Street data it can be assumed that occupancy of the units will be for 52 weeks less normal 'turnover time' taken for repairs or cleaning between lets (this is approximately 4 weeks per unit on average at New Street) then the annual income that would be derived from the use of the building for B&B purposes is projected to be £4,418 (based on weekly rent of £92.05). There shouldn't be any issue pertaining to housing benefit subsidy for this type of accommodation / use. The equivalent costs using the 2018-19 average cost per room per night for B&B accommodation for a year (with the same void rate) would be a cost of £13,104.00 per annum less housing benefit. Once HB subsidy has been paid there would be an overall net cost to the Council of £8,685 p.a.
- 3.4 Case law (Nzolameso v Westminster 2015) and subsequent advice from the Ministry of Housing, Communities and Local Government (MHCLG) has reduced the ability for councils to place households out of the district and have made it a requirement for councils to have a policy in place that clearly outlines when a placement can be made out of district (WFDC policy was approved in July 2016). With the lack of viable alternatives in the district the Council regularly has to place people outside the district which exposes the Council to risk of challenge.
- 3.5 The accommodation at Raven Street needs to be converted and modernised and officers have obtained two quotes for this work to get an estimated cost. It is proposed that the funding required for the project can be met through the reallocation of the Evergreen Fund which was originally allocated for new residential units at Comberton Place which are now no longer being pursued.
- 3.6 The cost of furnishing the property will be met from the earmarked reserve for welfare funding reserve (currently £112k) which includes an element for furniture for residents who move into a new home.
- 3.7 The project would be overseen by the Council officers but once established, the future running of the building including lettings and management would be undertaken by the Temporary Accommodation Manager, Housing Services Officer and Housing Advice Team (as per New Street arrangements). A small number of additional hours have been included in the expenditure to cover any hours required above the normal contracted hours e.g. for out of hours call outs.

- 3.8 All other contracts and arrangements for management would be an extension of existing services for New Street including the floating support element

4. Financial Implications

- 4.1. The Raven Street Property is currently managed by the Council's Estates team. It is valued at Existing Use Value at £45,000 (last valued at 31st March 2017) and is included on the balance sheet under surplus assets. The ground floor retail unit lease has expired and Legal Services are working with the tenant to sign a new 10 year lease with break clauses at 2.5, 5 and 7.5 years (for the tenant) and 5 years for the Council. The annual income of the lease is £6350. The total annual revenue cost is circa £600 - 800
- 4.2 The contract for the works will be tendered in accordance with the Council's contract procedure rules
- 4.3 The table below summarises the approved Evergreen Investment Fund Capital Programme allocations. The proposal can be accommodated within available resources created by the Comberton Place proposal no longer being pursued. This funding is shown as £105,583 in the table below and related to the purchase of units of accommodation from Community Housing Group (CHG) agreed in July 2017.

Evergreen Fund Capital Receipts	£
Current Balance on Evergreen Fund	865,583
Committments:	
Industrial Units Development	(500,000)
Silverwoods Way (former Frencos site)	(200,000)
Silverwoods Way (former Frencos site) Council May 19	(60,000)
UNALLOCATED BALANCE	105,583

- 4.4 The Council currently uses third party provision and bed and breakfast accommodation to meet its obligations under the Housing Act 1996. The use of Bed and Breakfast has an impact on Council resources as the full cost is not eligible for Housing benefit subsidy. The provision of a directly owned Local Authority unit would qualify for a set weekly rent payment of £92.05 plus eligible service charges and be eligible for full subsidy at this level.
- 4.5 In considering the financial case, measured assumptions have been made reviewing the potential for voids, the staff costs of operating temporary accommodation, running expenses and the savings that will accrue from reduced utilisation of third party emergency accommodation provision. The business case is based on depreciating the capital expenditure over 10 years. The asset's useful economic life is considered to be in excess of this duration.

- 4.6 Analysis of the impact on the Medium Term Financial Strategy (MTFS) (4 years) shows that the proposal represents a good opportunity to reduce the net cost of the homeless service. The net MTFS impact in the medium term, based on the occupancy levels achieved at New Street is a saving of £5,800
- 4.7 If demand for temporary accommodation falls there will be scope to offer spare capacity to assist homeless households who do not meet the statutory minimum threshold or to neighbouring or partner authorities which would generate a commercial income stream
- 4.8 The cost information below assumes a completion date of 1st April 2020. This will be subject to revision when the contract for works has been tendered. The costs prepared have assumed a full year effect of both income and expenditure.

Raven Street Temporary Accommodation	Revenue Impact of Proposal			
	Medium Term Impact			
	Year 1 £	Year 2 £	Year 3 £	Year 4 £
Expenditure				
Staffing	1,300	1,326	1,353	1,380
Annual Repairs and Maintenance	980	1,000	1,020	1,040
Other Running Expenses	701	715	729	744
Void expenses	234	239	243	248
Management O/H	431	439	448	457
Cost of Capital				
Depreciation	6,000	6,000	6,000	6,000
Loss on investment interest	480	480	480	480
Income				
Rental Income	(4,308)	(4,394)	(4,482)	(4,572)
Service Charge	(2,340)	(2,387)	(2,435)	(2,483)
Less: Bad Debt Provision	548	559	570	581
Service Efficiency/Savings				
Reduced Cost of B&B	(8,690)	(8,864)	(9,041)	(9,222)
Operational expense (vacant property)	(800)	(816)	(832)	(849)
TOTAL	(5,464)	(5,703)	(5,947)	(6,195)
Average Impact				(5,827)

- 4.9 Depreciation has currently been worked out on the basis of the property having a 10 year life span. Once the work has been undertaken a condition survey will be obtained to ensure the depreciation is spread over the lifespan of the asset.
- 4.10 An initial planned maintenance / sinking fund has been agreed following discussion with the Asset Maintenance and Compliance Manager but further

work will be commissioned to identify an appropriate level of planned maintenance following the condition survey

5. Options

5.1 Overview and Scrutiny Committee has two options:

5.1.1 To recommend to Cabinet that the proposal to refurbish 11b Raven Street, Stourport on Severn into temporary accommodation is agreed

5.1.2 To make any other recommendations the Committee feel appropriate for Cabinet to consider. O

6. Consultation

6.1 CLT

7. Related Decisions

7.1 Not applicable.

8. Relevant Council Policies/Strategies

8.1 Worcestershire Homelessness and Rough Sleeping Strategy 2019 – 2022.

9. Equality Needs Impact Assessment

9.1 An Equalities Impact Screening Assessment has been undertaken and this indicates there are no adverse effects of this decision on any groups with protected characteristics so a full EIA is not required.

10. Wards affected

10.1 Areley Kings & Riverside

11. Appendices

None

12. Background papers

None

Officer Contact Details:

Name: Kate Bailey

Title: Head of Strategic Growth

Contact Number: 01562 732560



Overview & Scrutiny Committee

Briefing Paper

Report of: Mike Parker – Corporate Director Economic Prosperity
& Place
Date: 7th November 2019
Open

Social Housing Update

1. Summary

- 1.1 This report provides an update on the delivery of social housing as requested by Council in May 2019.

2. Background

- 2.1 At the May 2019 Council the following Motion as agreed “*Council recognises that the huge housing waiting list and number of homeless and rough sleepers present a human tragedy that requires early action. Council therefore requires the Corporate Director: Economic Property and Place to bring a report to Cabinet within six months on how the Council can be enabled to build social rental housing, constructed on land already in public ownership.*”
- 2.2 There are just under 47,000 dwellings in Wyre Forest, housing just under 45,000 households. The majority of those properties are owned either outright or with a mortgage, loan or through shared ownership (71%), the remainder are rented, with about 14.5% in private rented (inc living rent free) and the same in social rented accommodation. Based on 2017 VOA data 46% of the housing stock in 3 bed, 13% 1 or 2 bed, 14% 4+ bed; 7% are 1 bed flats and 6% 2 bed flats; 8% are 1 or 2 bed bungalows and 3% bungalows with 3 or more bedrooms.
- 2.3 Just over 60% of the Wyre Forest population are economically active and the median income is £21,832 (2017 figure) compared to £26,819 across the West Midlands. Taking the same 2017 date median house prices in the district were £174,000 compared to £179,000 across the West Midlands.
- 2.4 Using the 2016 household projections the Draft Submission Local Plan indicates that the district needs a minimum of 276 new dwellings delivered each year. Using the 2018 housing register data it is calculated that there is a net annual imbalance of 158 affordable dwellings being provided each year. The housing register data indicates that there are 3276 households on the housing register and the greatest need is for one and two bed dwellings. The district has a growing population of elderly residents and it is estimated that by the end of the Plan period in 2036 there will be a 31% increase in older people living in the district, consequently a further 1,640 specialist older person units will be required with a further 487 care units; a further 800 will

require adaptations to enable them to remain independent and living in their own home

- 2.5 Affordable Housing is defined in the National Planning Policy Framework (NPPF) at Annex 2 and includes:
- a. Affordable Housing for rent – usually provided by a Registered Provider (RP) with a rent set in accordance with the government’s rent policy or at least 20% below market rents.
 - b. Starter Homes – as defined by the Housing & Planning Act
 - c. Discounted Market Sales – sold at a discount of at least 20% below local market value
 - d. Other Affordable Routes to Home Ownership – housing for sale provided with a route to which people can access it who wouldn’t otherwise be able to own their home – examples include shared ownership, equity loans and other low cost home sales.

3. Key Issues

- 3.1 The District Council’s Local Plan is the primary document the Council relies on to deliver all forms of housing across the district for a minimum of fifteen years into the future. Local plans have to be reviewed every five years and new requirements roll forward at each review. The Local Plan is important because it allocates new land to be developed for housing and sets out the types of dwellings required and importantly the policy for new developments to provide affordable housing which the Development Management Team use to negotiate provision through planning applications using s106 Agreements to secure amount and timing of delivery.
- 3.2 The current Adopted Local Plan (and the one against which current planning applications are determined) envisages an annual average of at least 60 units of affordable housing being delivered in the Plan period which aims for a tenure split of 70% social rented and 30% intermediate/shared housing. The policy (CP04) indicates that the Council will “seek to secure” the provision on 30% affordable units on sites of 10 or more dwellings in Kidderminster and Stourport and on 6 or more in Bewdley and the rural areas (these thresholds accord with the national Planning Practice Guidance. However the policy also recognises that where there are proven viability issues that would prevent sites being developed with this level of affordable housing (together with other requirements in s106s) the Council may accept a lesser percentage.
- 3.3 Over the past years the delivery of new housing and numbers of affordable units has been variable:

	Number of Residential Dwellings Approved	Number of Affordable Units Secured by S.106	Number of Affordable Units Provided by RP
2016	136	0	47
2017	317	11	84
2018	275	35	66
2019 (to date)	965	108	65

- 3.4 The Pre Submission Local Plan which has recently been consulted on aims for an annual average target of 90 affordable dwellings a year provided over the Plan period (2036); The policy (8B) indicates that a minimum of 25% affordable housing provision on sites of 10 or more dwellings or on sites larger than 0.5 Ha will “generally be required”. This reflects the increasing difficulty the Council faces in demonstrating the viability of sites (and without which the Plan will not be found ‘sound’). The Plan sets an indicative tenure split of 65% rented (inc social rent) and 35% intermediate. Ensuring that the Local Plan is adopted remains the most important function the Council can pursue in its efforts to deliver new housing growth and the provision of affordable housing.
- 3.5 The District Council has not had a council housing stock since it undertook the transfer to The Community Housing Group (TCHG) in 2000. Since that date TCHG and other Registered Providers have had the sole responsibility for providing social housing across the district. As well as transferring the stock, the Council transferred all of the officer resource associated with delivering and managing council housing.
- 3.6 It is in theory possible for the Council to become a Registered Provider to deliver social housing, however there are ‘rules of entry’ and strict regulation over the way RPs operate and that is undertaken by Homes England. Guidance on becoming a RP is contained within the Regulator of Social Housing May 2019 document “Becoming a Registered Provider”. To be considered for registration as a RP an applicant has to be an English body intending to provide social housing. A series of Regulatory Standards then have to be met; in summary these Standards are:
- e. Governance and Financial Viability
 - f. Value for Money from assets and resources
 - g. Rent in line with Government rules
 - h. Keeping homes in good repair
 - i. Letting homes in a fair and transparent way
 - j. Keeping the wider area clean and well maintained and promoting community wellbeing
 - k. Involving and empowering tenants
- 3.7 There are two stages to the registration process, firstly a ‘preliminary application process’ designed to demonstrate the body meets the minimum pre requisites to be considered as a RP and then the ‘detailed application process’. There is helpful advice provided within the registration guidance and it makes clear that there is a good deal of preparedness required before making an application to become a RP and in demonstrating that the body has in place everything that is required to become a RP, it is not a case of ‘apply first and then set up’. For example an applicant has to show that it has adopted governing documents that reflect its business and is acting in accordance with them; it must identify the appropriate skills and experience and that it understands the risks involved. It must also demonstrate support from local stakeholders. Further the guidance advises that the timing of an application should follow the setting up of the Board, development of the business plan, engagement of stakeholders and has deliverable plans in

place. Thus if the Council were to consider applying for RP status there is considerable ground to be prepared before any application could be made with confidence. Importantly the Council would be expected to have existing housing that is to become social housing or to have financial provision for leasing, buying or developing new social housing and have funding in place and be able to deliver social housing within 12 months of registration. Realistically, especially in terms of these latter points, the Council is not in a position to make an application to become a Registered Provider of social housing.

- 3.8 There is an alternative open to the Council which does not involve becoming a RP. The Council may hold up to 199 residential units outside the Housing Revenue Account (HRA) under Direction. This is designed for stock transfer authorities wishing to retain low levels of housing and to enable borrowing through the General Fund to begin building. The Council would need permission from the Secretary of State for Housing, Communities and Local Government to be able to do this. More than 200 units will require the Council to hold them within the HRA. The HRA is in effect a separate budget that records expenditure and income from the Council running its own housing stock and related services.
- 3.9 This is the opportunity that the Council considered in 2017/18 as part of an extensive piece of work on establishing a Local Authority Trading Company (LATC) to deliver housing. Cabinet considered a report on 7th February 2018 at which time it was agreed that a LATC should be set up (Wyre Forest Holdings Ltd and ReWyre Developments Ltd have both now been formally established) to enable the Council to deliver new housing and become a private landlord without the complications of the 1986 Housing Act regarding security of tenure for tenants if they were Council tenants (the Council cannot grant Assured Shorthold Tenancies) and the Right to Buy. As part of the due diligence forming the Business Case to support the decision to establish the companies the Council commissioned Mazars to provide legal and tax advice and they in turn used Anthony Collins and FPM. The FPM financial business modelling proved to be extremely useful in that it demonstrated that it was not financially viable for the Council to borrow 100% of the cost of constructing new housing, which is the basis upon which the Council is funding its acquisition of new assets and would have been the same source of capital for constructing new dwellings. This was modelling a possible private rented housing solution which is more commercially viable than would be a social housing rented model which would be even more financially challenging. The conclusions that can be drawn from the report are that in order for the housing delivery model to be viable no more than 50% of the funding should be borrowed, which of course means that at least 50% would need to be met from the Council's capital receipts, which currently it does not have.
- 3.10 Borrowing rates remained low until the 9th October 2019 when they were increased by a whole percentage point by HM Treasury making rates far less attractive despite this authority having also signed up to the PWLB Certainty Rate Scheme giving us a reduction of 20bps on borrowing interest rates. Link Asset Services our Treasury Management advisors are

now investigating other less costly funding options for the sector. In the short-term, for the balance of the Capital Portfolio Fund, it should be possible to manage this risk by a combination of internal and short-term borrowing. However it may mean future capital schemes fail to be financially viable taking into account the increased costs of borrowing are factored in. The position will continue to be monitored and reported to members as appropriate but unfortunately this will add to the challenges of future business cases for the provision of housing.

- 3.11 The Right to Buy(RTB) exists for any tenants in Council houses which were transferred as part of the Stock Transfer in 2000 to TCHG; the Right to Acquire (RTA) is different and applies to all tenants of TCHG stock that were not Council tenants. Both offer the opportunity for tenants to purchase their property at a reduced rate. For RTA to apply, it only does so for properties built or bought by the landlord after 1997. Tenants in occupation before January 2005 had to have been in occupation for two years before they can apply for RTA, after that date the qualifying period is five or more years. The amount of discount can vary and within Worcestershire varies from £9k in Wyre Forest to £10k in Redditch and Bromsgrove and £11k in the other districts. The RTB applies to ex Council tenants who have had a tenancy for three years; for a house the discount for a tenancy of 3 to 5 years is 35% rising by 1% each year up to a maximum of 70%; for a flat the discount for a tenancy of 3 to 5 years is 50% rising by 2% each year up to maximum of 70%. The maximum discount available outside of London is £82,800. Right to Acquire figures obtained from TCHG indicate that since 2016/17 there have been 10 RTAs. In terms of RTB over the past 5 years the average receipt from RTB has been £143k per year.
- 3.12 The Council continues though to identify opportunities, working in partnership with others and through alternative funding streams where they are available, to bring forward new affordable housing. Examples include the site at Radford Avenue where the Council has agreed to pursue the compulsory purchase of third party land to join its own to create a site which has potential to be delivered in partnership with a RP. The Council has also brought forward its vision for Lion Fields Parcel 4 which was considered by Cabinet at its meeting on 12th February 2019 which involves new residential development, which although currently lacking viability, could be delivered if the Council's Future High Streets Fund bid is successful.
- 3.13 The Council has also been working with local authority partners on a new innovative housing delivery model which would be deliverable with 100% borrowing and would provide entry to the housing market for prospective homeowners as a tenant of the Council, leading to outright purchase, without the need for a deposit. This in turn offers an opportunity to free up some space in the social housing sector, thus increasing overall supply of social housing. The Council and partners are currently undertaking due diligence on this model, which cannot be set out in detail at this stage as it contains commercially sensitive information and intellectual property rights, and officers will provide further information as this progresses. It should be noted though that such innovative models are extremely difficult to deliver and there is a

very high risk that due diligence demonstrates that this model may not be capable of delivering what the Council wishes.

4. Conclusion

- 4.1 As can be seen from the above, there is no simple solution open to the Council to meet the objective in the motion to enable the Council to build social housing on land already in public ownership. Whilst the Council can hold up to 199 units of housing without the need for an active HRA, it does not have the necessary capital receipts to be able to support the financial viability of a housing delivery model; the financial modelling associated with the establishment of the LATC suggests that a deliverable model only works where borrowing makes up no more than 50% of the construction cost is going to be feasible. Viability issues will be further exacerbated by the recent increase in PWLB rates, making delivery of social housing funded through borrowing harder still. If the Council has aspirations to construct more than 199 units then it will need to have an active HRA. The potential route to accessing Homes England social housing grant funding by becoming a Registered Provider is also an unrealistic objective, the degree and cost of set up required before the Council would be likely to be able to make a successful application to become registered is prohibitive. The Council will continue to identify funding sources and initiatives to enable it to enter the housing market and will report on these separately where a suitable initiative is identified.

5. Options

- 5.1 The Overview and Scrutiny has two options:
- 5.1.1 To note the Council's situation regarding options for delivery of social housing;
- 5.1.2 To make any recommendations to Cabinet arising from this report.

6. Appendices

None

7. Background Papers

"Becoming a Registered Provider" - Regulator of Social Housing May 2019

Lion Fields Parcel 4 - Cabinet 12th February 2019

Officer Contact Details:

Name: Mike Parker

Title: Corporate Director: Economic Prosperity & Place

Contact Number: 2500

WYRE FOREST DISTRICT COUNCIL
FEEDBACK FROM CABINET MEETING HELD ON
WEDNESDAY 18TH SEPTEMBER 2019

Agenda Item No.	Decision
8.1	<p>North Worcestershire Economic Growth Strategy 2019-2024</p> <p>Decision: In line with the recommendations from the Overview and Scrutiny Committee from its meeting on 5th September 2019:</p> <p>Cabinet agreed the Strategy and its strategic priorities and Interventions.</p>
8.2	<p>Kidderminster Business Improvement District (BID) – Forward Funding</p> <p>Decision: In line with the recommendations from the Overview and Scrutiny Committee from its meeting on 5th September 2019:</p> <p>Cabinet agreed:</p> <ul style="list-style-type: none">1.1 That up to £75,000 be made available to the BID Company, once it is formally established, to enable it to continue to make set up arrangements in advance of 2020/21 when the levy will first be collected; the sum to be repaid to the District Council from the 2020/21 levy;1.2 That delegated authority be granted to the Corporate Director: Economic Prosperity and Place in consultation with the Corporate Director: Resources to decide the precise amount to be loaned;1.3 That delegated authority be granted to the Solicitor to the Council, in consultation with the Corporate Director: Resources to enter into a Loan Agreement with the BID Company;1.4 That Councillor Helen Dyke represents the Council on the BID Company Board if there is an appointment to be made for the remainder of the municipal year 2019/2020.

**9.1 Worcestershire's Homelessness and Rough Sleeping Strategy
2019 – 2022**

Decision: In line with the recommendations from the Overview and Scrutiny Committee from its meeting on 5th September 2019:

Cabinet agreed:

- 1.1 The new Homelessness and Rough Sleeping Strategy 2019 – 2022 is publically consulted on from 23 September – 4th November 2019.**
- 1.2 To delegate to the Corporate Director: Economic Prosperity and Place, in consultation with the Cabinet Member for Housing, Health and Wellbeing to agree the Finalised strategy following any changes arising as a consequence of the consultation and that the final strategy be adopted no later than 31 December 2019.**

Overview & Scrutiny Committee Work Programme 2019-2020

June 2019

“How are we doing?” Q4 update

Wyre Forest District Local Plan: Revised Local Development Scheme (Project Plan 2019-21)

Tracking Recommendations 2018-2019

July 2019

Treasury Management Review Panel – request for nominations

Wyre Forest District Local Plan: Pre-Submission Publication

Asset Management Strategy

EXEMPT Disposal of Land in Stourport

July 2019 – Sub-Committee

EXEMPT Capital Portfolio Fund – Development Funding Proposal

September 2019

“How are we doing?” Q1 update (Enabling)

Annual Report on Treasury Management Service and Actual Prudential Indicators 2018-19

Worcestershire’s Homelessness and Rough Sleeping Strategy 2019 – 2022

Kidderminster Business Improvement District (BID) – Forward Funding

North Worcestershire Economic Growth Strategy 2019-2024

October 2019 – Meeting cancelled

November 2019

“How are we doing?” Q2 update (Business and People)

To consider whether to progress with establishing a local lottery for Wyre Forest

Capital Portfolio Fund – Quarterly Fund Report

Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2019-20

Conversion of a property in Stourport on Severn

Social Housing Delivery

December 2019

Effectiveness of PACT Action Plan

Car park charges review

Health and Wellbeing Action Plan Update

Climate Change Action Plan Update

February 2020

“How are we doing?” Q3 update (Place)

Treasury Management Strategy Statement and Annual Investment Strategy 2020-21

Annual review of the North Worcestershire Community Safety Partnership 2019/20

Submission Local Plan

2020-2021 Municipal Year

June 2020

“How are we doing?” Q4 update (Housing and Planning)