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Cabinet Agenda

DARLINGTON
BOROUGH COUNCIL

5.00 pm Tuesday, 3 December 2019
Whessoe Parish Hall, Harrowgate Village, Darlington. DL1 3AA

Members and Members of the Public are welcome to attend this Meeting.

1. Introductions/Attendance at Meeting.

2. Declarations of Interest.

3. To hear relevant representation (from Members and the General Public) on items on this Cabinet agenda.

4. To approve the Minutes of the Meeting of this Cabinet held on 5 November 2019. (Pages 1 - 10)

5. Matters Referred to Cabinet –
There are no matters referred back for reconsideration to this meeting

6. Issues Arising from Scrutiny Committee –
There are no issues referred back from the Scrutiny Committees to this Meeting, other than where they have been specifically consulted on an issue and their comments are included in the contents of the relevant report on this agenda

7. Annual Audit Letter –
Report of the Managing Director. (Pages 11 - 36)

8. Key Decisions:-

   (a) Haughton Children's Centre –
   Report of the Director of Children and Adults Services.
   (Pages 37 - 44)

   (b) Warm Homes Project –
   Director of Economic Growth and Neighbourhood Services.
   (Pages 45 - 54)

(c) Delivery of New Homes Programme - Joint Venture Proposal –
Report of the Managing Director. (Pages 55 - 72)

9. Dolphin Centre Ten Pin Bowling –
Report of the Director of Economic Growth and Neighbourhood Services. (Pages 73 - 80)

10. The Northgate Initiative –
Report of the Managing Director. (Pages 81 - 98)

11. Proposed Waiting Restrictions McMullen Road Roundabout - Objections –
Report of the Director of Economic Growth and Neighbourhood Services. (Pages 99 - 104)

12. Review of Outcome of Complaints Made to Ombudsman –
Report of the Managing Director. (Pages 105 - 110)

13. Mid-Year Prudential Indicators and Treasury Management 2019/20 –
Report of the Managing Director. (Pages 111 - 126)

14. Membership Changes - To consider any Membership Changes to Other Bodies to which Cabinet appoints.

15. SUPPLEMENTARY ITEM(S) (if any) which in the opinion of the Chair of this Committee are of an urgent nature and can be discussed at this meeting.

16. Questions.

EXCLUSION OF THE PUBLIC AND PRESS

17. To consider the exclusion of the Public and Press :- –
RESOLVED - That, pursuant to Sections 100A(4) and (5) of the Local Government Act 1972, the public be excluded from the meeting during the consideration of the ensuing items on the grounds that they involve the likely disclosure of exempt information as defined in exclusion paragraph 3 of Part I of Schedule 12A of the Act.

Luke Swinhoe
Assistant Director Law and Governance

Monday, 25 November 2019

Town Hall
Darlington.

Membership
Councillors Crudass, Dulston, Johnson, Marshall, Mills, Mrs H Scott and Tostevin

If you need this information in a different language or format or you have any other queries on this agenda please contact Lynne Wood, Elections Manager, Resources Group, during normal office hours 8.30 a.m. to 4.45 p.m. Mondays to Thursdays and 8.30 a.m. to 4.15 p.m. Fridays (e-mail Lynne.Wood@darlington.gov.uk or telephone 01325 405803).

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DECISIONS SHOULD NOT BE IMPLEMENTED BEFORE MONDAY 18TH NOVEMBER, 2019

CABINET
Tuesday, 5 November 2019

PRESENT – Councilllors Mrs H Scott (Chair), Crudass, Dulston, Johnson, Mills and Tostevin

INVITEES – Councillors Curry, Harker and Snedker

APOLOGIES – Councillors Howell, K Nicholson and Marshall

ALSO IN ATTENDANCE – Councillors Durham, B Jones, Keir and McCollom

C60 DECLARATIONS OF INTEREST.

There were no declarations of interest reported at the meeting.

C61 TO HEAR RELEVANT REPRESENTATION (FROM MEMBERS AND THE GENERAL PUBLIC) ON ITEMS ON THIS CABINET AGENDA.

In respect of Minute C66 below, representations were made by members of the public in attendance at the meeting.

C62 TO APPROVE THE MINUTES OF THE MEETING OF THIS CABINET HELD ON TUESDAY, 8 OCTOBER 2019

Submitted - The Minutes (previously circulated) of the meeting of this Cabinet held on 8 October 2019.

RESOLVED - That the Minutes be confirmed as a correct record.

REASON - They represent an accurate record of the meeting.

C63 MATTERS REFERRED TO CABINET

There were no matters referred back for re-consideration to this meeting.

C64 ISSUES ARISING FROM SCRUTINY COMMITTEE

There were no issues arising from Scrutiny considered at this meeting.

C65 KEY DECISION - TEES VALLEY JOINT WASTE MANAGEMENT CONTRACT

The Leader of the Council introduced the report of the Director of Economic Growth and Neighbourhood Services (previously circulated) requesting that consideration be given to adopting the Outline Business Case (OBC) for the future treatment of municipal residual waste on behalf of the five Tees Valley (TV) Councils; entering into an Inter-Authority Agreement (IAA), between the five Tees Valley authorities in respect of the TV municipal residual waste treatment project; and the Terms of Reference for the Project Delivery Group (all also previously circulated).

The submitted report outlined the background to the project; stated that currently Hartlepool, Stockton, Middlesbrough and Redcar and Cleveland operated a single contract for waste disposal; Darlington operated a separate Waste Treatment and Disposal Contract; the OBC had been developed to address the future treatment of municipal residual waste (waste remaining after recycled material had been removed) when the current contract(s) expired in March 2025; the strategic outline case was agreed in 2017; and that the IAA had set out the terms of the joint working arrangements for the project and had appointed Hartlepool Borough Council as the Lead Authority in carrying out the procurement milestones. References were also made to the risk implications of the contract; financial considerations; legal implications; and the consultation undertaken.

It was reported that the Place Scrutiny Committee had consider the Cabinet report and in supporting the adoption of the OBC, IAA and Terms of Reference had recommended that the procurement process should consider the implications of the Government's climate change agenda and targets to reduce pollution from consumption, which if met, would result in a reduction in municipal waste.

Discussion ensued on the scrutiny of the procurement process.

RESOLVED - (a) That the Outline Business Case for the future treatment of municipal residual waste, on behalf of the five Tees Valley Authorities, as appended to the submitted report, be adopted.

(b) That the Council enter into the Inter-Authority Agreement (IAA) between the five Tees Valley Authorities in respect of the Tees Valley Municipal Residual Waste Treatment project, substantially on the terms as detailed in Appendix 2 to the submitted report, and that the Managing Director ba authorised to approve any minor amendments to the IAA.

(c) That the financial commitment to Darlington's share of the procurement and project costs of £1m, as detailed in the submitted report, be noted, and the funds be released subject to approval by full Council as part of the 2020/21 Medium Term Financial Plan, to be applied to the Project in accordance with the IAA.

(d) That the Council enter into an agreement with the Combined Authority to repay the £1m associated with the procurement over a 25-year period with the final details of the agreement being delegated to the Assistant Director Resources, in consultation with the Director of Economic Growth and Neighbourhood Services, Assistant Director Law and Governance and the Cabinet Member with the Leisure and Local Environment Portfolio.

(e) That the Director of Economic Growth and Neighbourhood Services, in consultation with the Assistant Director Resources, Assistant Director Law and Governance and the Cabinet Member with the Leisure and Local Environment Portfolio, be authorised to accept any minor changes to the Outline Business Case, the Inter Authority Agreement and Terms of Reference of the Project Board if required.

REASONS - (a) To enable Darlington to participate in the joint procurement of the wider Tees Valley residual waste treatment facility for post 2025.

(b) Entering into the IAA sets down the legal parameters for the procurement, ensuring that no individual authority can withdraw without financially compensating the other authorities for the relevant share of procurement costs and other losses.

C66 REPLACEMENT OF DOG CONTROL ORDERS WITH PUBLIC SPACE PROTECTION ORDERS

The Cabinet Member with Community Safety Portfolio introduced the report of the Director of Economic Growth and Neighbourhood Services (previously circulated) requesting that consideration be given to proceeding with an eight week period of public consultation to replace previous Dog Control Orders, with Public Space Protection Orders (PSPO's), and introduce wider powers concerning the walking and supervision of dogs and the exclusion of dogs from cemeteries (with some exceptions).

The submitted report stated that should the Council wish to enforce the provisions within the existing Dog Control Orders, which lapsed under legislation in October 2017, they would need to be replaced by 20 October 2020 with PSPO's; consultation would need to be undertaken prior to the PSPO's being implemented; dog related anti-social behaviour was still a concern to some residents and businesses; PSPO's were introduced in the Anti-Social Behaviour, Crime and Policing Act 2014; a PSPO was designed to deal with a particular nuisance or problem in an area, which must have a detrimental effect on the quality of life of those in the community; and that the PSPO's were designed to ensure that the law-abiding majority could enjoy public spaces, safely and free from anti-social behaviour.

Members of the public and representatives from dog walking businesses within the Borough, in attendance at the meeting, addressed Cabinet in respect of the proposal to replace the current dog control orders with Public Space Protection Orders and the proposal to limit the number of dogs that could be walked at the same time to four dogs.

Particular references were made to the differences between Dog Control Orders and PSPO's; the impact that the change from Dog Control Orders to PSPS's would have on responsible dog owners/walkers; the need to educate people rather than prosecute; the number of dogs that could be walked at the same time and the implications of introducing the proposed limit; to the fact that responsible dog owners/walkers were being penalised for those irresponsible dog owners/walkers; to the need to address and tackle the problems caused by irresponsible dog owners/walkers; and the consultation process.

The Cabinet Member with the Community Safety Portfolio responded to the issues raised, and in doing so, welcomed the comments raised at the meeting and encouraged as many people as posisble to respond to the consultation on the proposals.

RESOLVED - That a consultation period of eight weeks (prior to a further report being submitted to Cabinet) to consider the implementation of Public Space Protection Orders for control of dogs, as detailed in the submitted report, be approved.

REASON - To enable consultation to take place prior to Cabinet making the final decision on whether or not to introduce new PSPOs for dog control in Darlington.

C67 DARLINGTON TOWN CENTRE STRATEGY 2019/30 - CONSULTATION OUTCOME

The Leader introduced the report of the Director of Economic Growth and Neighbourhood Services (previously circulated) requesting that consideration be given to the responses received from the public consultation undertaken on the draft Darlington Town Centre Strategy (2019-2030). A full analysis of the consultation responses was appended to the submitted report.

The submitted report stated that the Darlington Town Centre Strategy proposed a new joint vision for the Town Centre and the development of several proposals that aimed at encouraging the delivery of key strategic sites in Darlington Town Centre, namely the Victorian Indoor Market; Skinnergate and the Yards and the Wynds; Northagte area; and Crown Street area. Reference was also made to the financial, legal and equality considerations.

Discussion ensued on the whether consideration would be given to re-introducing a bus station in the Town Centre; the responses received to the consultation; and to proposals for Town Centre living.

RESOLVED - That the Darlington Town Centre Strategy 2019-2030, be adopted.

REASONS - (a) To ensure that the Council has an established and agreed vision for the future of Darlington Town Centre.

(b) To contribute to the further economic wellbeing and vitality of the Town Centre.

C68 DARLINGTON TOWN CENTRE – PROPERTY ACQUISITIONS AND DEVELOPMENT SITE OPPORTUNITIES

The Leader introduced the report of the Director of Economic Growth and Neighbourhood Services (previously circulated) requesting that consideration be given to the proposed developments identified in Darlington Town Centre and to the use of Compulsory Purchase Order (CPO) powers in order to complete land assembly.

The submitted report stated that Cabinet approved the release of £10M funding from the Tees Valley Combined Authority Ingenious Growth Fund for key intervention areas within the Town Centre which would have the greatest impact and aligned to the Town Centre Strategy; outlined those key interventions which included strategic site assembly including purchase of land and buildings, ensuring sites were ‘development ready’ and public realm improvements and infrastructure investment; and outlined the work undertaken to date.

RESOLVED - (a) That the continued acquisition of properties to deliver the objectives of the Town Centre Strategy, be approved.

(b) That the Future High Street Fund bid for the development of a residential quarter in the Crown Street/East Street area of the town centre, be supported.

(c) That the use of Compulsory Purchase Order powers for the site assembly requirements for the delivery of a convenience store on Commercial Street car park, be agreed, and a further report be presented to Members on the next steps once negotiations with landowners has been completed and whether Compulsory Purchase Order was required.

REASONS - (a) To ensure that the Council delivers on the ambitions of the Darlington Town Centre Strategy.

(b) To contribute to the further economic wellbeing and vitality of the Town Centre.

C69 LOCAL WEALTH BUILDING AND SOCIAL VALUE PROCUREMENT

The Cabinet Member with the Efficiency and Resources Portfolio introduced the report of the Managing Director (previously circulated) requesting that consideration be given to the enhanced approach to local wealth building and social value within the Council's procurement process.

The submitted report stated that the Council had been working with the Darlington Partnership to utilise public sector procurement to help grow the local economy and maximise the benefits of such procurement for the Borough; stated that the cost and quality of the provision of services and products would always remain the major determining factors in public procurement; and that the additionality offered by tenderers would deliver additional benefits at no additional cost to the Council.

Particular references were made to the aims of the proposals which were to increase spend within the local areas to assist in growing the economy and, through the tender evaluation process, incentivise tenderers to deliver additional benefits for the residents and businesses of Darlington, known as social value in areas such as employment of local people; employment of care leavers; a positive impact on local environmental issues; and employment of apprentices.

RESOLVED - (a) That the Social Value Procurement Framework, as detailed at Appendix 2 of the submitted report, be approved.

(b) That the Social Value Charter, as detailed at Appendix 3 of the submitted report, be approved.

REASONS - (a) Enable the Council to continue to meet its obligations under the Public Services (Social Value) Act 2012.

(b) Deliver a range of additional social, economic and environmental benefits to Darlington's residents, businesses and the local economy from Council spend without increasing cost to the Council.

C70 LAND AT SNIPE LANE, DARLINGTON - PROPOSED ACQUISITION

The Cabinet Member with the Efficiency and Resources Portfolio introduced the report of the Director of Economic Growth and Neighbourhood Services (previously circulated) requesting that consideration be given to the acquisition of the house and 5.3 acres of land at Snipe Lane (as shown hatched on the plan appended to the submitted report).

The submitted report stated that the acquisition of 55 acres of land at Neasham Road for potential residential development had been agreed to facilitate the relocation of the Cattle Mart from Clifton Road; the land was proposed for development as private housing; the house and land as Snipe Lane was adjacent to the Neasham Road land; and that the owner had provisionally agreed to sell his land holding to the Council.

RESOLVED - (a) That the house and 5.3 acres of land at Snipe Lane, as identified in the submitted report, be acquired on the terms as set out in Appendix 2 of the submitted report.

(b) That the Assistant Director Law and Governance be authorised to document the acquisition of the property accordingly.

REASONS - (a) To acquire land for potential future residential development.

(b) To give the Council control of land adjacent to its currently proposed residential development site at Neasham Road.

C71 COUNCIL TAX SUPPORT - SCHEME APPROVAL 2020/21

The Cabinet Member with the Efficiency and Resources Portfolio introduced the report of the Managing Director (previously circulated) seeking approval of the draft Council Tax Support (CTS) scheme (also previously circulated) for 2020/21.

The submitted report stated that the Council was required to set a Council Tax Support scheme each year and that no changes were proposed to the existing scheme.

RESOLVED - That it be recommended to Council that the draft Council Tax Support scheme for 2020/21, as appended to the submitted report, be approved and adopted, including:-

(a) continuing to provide up to 100 per cent Council Tax Support for care leavers under the age of 25; and

(b) continuing to provide up to 80 per cent Council Tax Support for all other working people.

REASONS - (a) The Council is required to publish a local Council Tax Support scheme for 2020/21 by 11 March 2020.

(b) The Council Tax Support schemes since 2013 have all been implemented successfully without any major challenges.

(c) The continued application of a reduced entitlement for working aged people is still appropriate, given the current financial position of the Council.

C72 COUNCIL TAX EMPTY PROPERTY PREMIUM

The Cabinet Member with the Efficiency and Resources Portfolio introduced the report of the Managing Director (previously circulated) requesting that consideration be given to proposed changes to the Council Tax empty property premium.

The submitted report stated that a 50 per cent Council Tax premium was introduced in April 2013 for all unoccupied and unfurnished domestic properties which had been empty for two or more years; new legislation was introduced in November 2018 allowing Councils to increase the Council Tax premium; consultation had been undertaken with long-term empty properties on the proposals; and that the Efficiency and Resource Scrutiny Committee had considered the proposals and no amendments were proposed.

RESOLVED - (a) That the responses to the consultation, as as set out in Appendix 1 of the submitted report, be noted.

b) That it be recommended to Council that the proposed changes to the Council Tax empty property premium from April 2020, be approved and adopted, including:-

(i) increasing the Council Tax premium for properties empty for two years or more to 100 per cent from April 2020;
(ii) increasing the Council Tax premium for properties empty for five years or more to 200 per cent from April 2020;
(iii) increasing the Council Tax premium for properties empty for ten years or more to 300 per centre from April 2021; and
(iv) providing protection for those owners who were making genuine efforts to bring their long-term empty properties back into use.

REASONS - (a) To further encourage landlords and property owners to bring their empty homes back into use as soon as possible.

(b) To reduce the detrimental impact long-term empty properties can have on other nearby properties and local communities.

(c) To increase the supply of much needed housing in Darlington, as most long-term empty properties could be brought back into use as affordable homes.

(d) To penalise those owners who deliberately leave their properties empty for years.

C73 REVENUE BUDGET MONITORING 2019/20 - QUARTER 2

The Cabinet Member with the Efficiency and Resources Portfolio introduced the report of the Managing Director (previously circulated) providing an up-to-date forecast of the 2019/20 revenue budget outturn as part of the Council's continuous financial management process.

The submitted report stated that the latest projection showed an overall decline against the Medium Term Financial Plan (MTFP) of £0.125m which was a decrease of £0.804m from the position reported at Quarter 1 (Minute C29/Jul/19 refers); the decline was primarily due to a significant decline in Children's Services position of £1.822m caused by an increase in the number of children requiring support from the Local Authority; and that this decline had been offset in part by improvements in Adults of £0.309m, Resources of £0.168m, Council wide saving of £0.258m and the release of £0.188m from the demand and complexity risk contingency.

RESOLVED - (a) That the forecast revenue outturn for 2019/20, as detailed in the submitted report, be noted.

(b) That further regular reports be made to monitor progress and take prompt action if necessary.

REASONS - (a) To continue effective management of resources.

(b) To continue to deliver services to agreed levels.

C74 PROJECT POSITION STATEMENT AND CAPITAL PROGRAMME MONITORING - QUARTER 2 2019/20

The Cabinet Member with the Efficiency and Resources Portfolio introduced the report of the Managing Director and the Director of Economic Growth and Neighbourhood Services (previously circulated) providing a summary of the latest Capital resource and commitment position, to inform monitoring of the affordability and funding of the Council's capital programme; an update on the current status of all construction projects currently being undertaken by the Council; and seeking approval to a number of changes to the programme.

The submitted report stated that the projected outturn of the current Capital Programme was £205.456m against an approved programme of £205.487m; the investment was delivering a wide range of improvements to the Council's assets and services; the programme remained affordable; the Council had 33 live projects, with an overall project outturn value of £68.765m, the majority of which were running to time; and that the projects were managed either by the Council's in-house management team, a Framework Partner or by Consultants source via an open/OJEU tender process.

RESOLVED - (a) That the status position on construction projects, as detailed in the submitted report, be noted.

(b) That the projected capital expenditure and resources, as detailed in the submitted report, be noted.

(c) That the adjustments to resources, as detailed in paragraph 20 of the submitted report, be approved.

REASONS - (a) To inform Cabinet of the current status of construction projects.

(b) To make Cabinet aware of the latest financial position of the Council.

(c) To maintain effective management of resources.

DECISIONS DATED –
FRIDAY, 8TH NOVEMBER, 2019

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CABINET
3 DECEMBER 2019

ANNUAL AUDIT LETTER 2018/19

Responsible Cabinet Member - Councillor Charles Johnson,
Resources Portfolio

Responsible Director – Paul Wildsmith,
Managing Director

SUMMARY REPORT

Purpose of the Report

1. To present the Annual Audit Letter for 2018/19

Summary

2. The Annual Audit Letter **(Appendix 1)** provides a high level summary of the results from the 2018/19 audit work undertaken by Ernst and Young LLP (EY), the Council's external auditors, for the benefit of Members and other interested stakeholders.

3. The Letter will be presented at the meeting by a representative from EY.

4. The letter confirms the Council's accounts give a true and fair view for the year ending 31 March 2019 and that the Council have put in place proper arrangements to secure value for money in its use of resources.

Recommendation

5. It is recommended that the Annual Audit Letter be noted.

Reasons

6. The recommendation is supported to enable Cabinet to receive the results of external audit work carried out.

Paul Wildsmith
Managing Director

Background Papers

Annual Audit Letter 2018/19

Peter Carrick: Extension 5401

S17 Crime and Disorder	There are no specific issues which relate to crime and disorder.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact and Climate Change	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond a reflection on the Council's governance arrangements.
Efficiency	The External Auditors concluded that the Council had put in place proper arrangements to secure value for money in its use of resources.
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers

Darlington Borough Council

Annual Audit Letter for the year ended 31 March 2019

August 2019

Contents

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA set out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities and Terms of Appointment. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

01 Executive Summary

Executive Summary

We are required to issue an Annual Audit Letter to Darlington Borough Council ("the Council") following completion of our audit procedures for the year ended 31 March 2019.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2019 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the financial statements.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

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Area of Work	Conclusion
Reports by exception: ▶ Consistency of Annual Governance Statement	The Annual Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA)	The Council is below the specified audit threshold of £500m. Therefore, we did not perform any audit procedures on the consolidation pack.

Executive Summary (continued)

As a result of the areas on the previous page, we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit	Our Audit Results Report was presented to the Audit Committee on 31 July 2019.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice	Our certificate was issued on 31 July 2019.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Nicola Wright
Associate Partner
For and on behalf of Ernst & Young LLP

02 Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

The purpose of this Annual Audit Letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Report to the 31 July 2019 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Planning Report that we issued in March 2019 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2018/19 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the Annual Governance Statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £500m. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

03 Financial Statement Audit

Financial Statement Audit

Key Issues
The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health. We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office, and issued an unqualified audit report on 31 July 2019. Our detailed findings were reported to the 31 July 2019 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risks	Conclusion
Misstatements due to fraud or error As identified in auditing standards, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	We performed the following testing in relation to this risk: ▸ We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▸ We reviewed accounting estimates for evidence of management bias (as noted below relating to revenue and expenditure recognition); and ▸ We evaluated the business rationale for any significant unusual transactions. We did not identify any transactions during our audit which appeared unusual or outside of the Council's normal course of business. We did not identify any instances of inappropriate judgements being applied.

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Financial Statement Audit (continued)

Significant Risk	Conclusion
Risk of fraud in revenue and expenditure recognition Under auditing standards, there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Local authorities have a statutory duty to balance their annual budget and are operating in a financially challenged environment with reducing levels of government funding and increasing demand for services. Achievement of budget is critical to minimising the impact and usage of the Council's usable reserves and provides a basis for the following year's budget. Any deficit outturn against the budget is therefore not a desirable outcome for the Council and management, and therefore this desire to achieve budget increases the risk that the financial statements may be materially misstated.	We performed the following testing in relation to this risk: ▸ We reviewed and tested revenue and expenditure recognition policies; ▸ We reviewed, discussed with management and tested (where appropriate) any accounting estimates on revenue or expenditure recognition for evidence of bias; ▸ We tested a sample of additions to Property, Plant and Equipment assets to obtain assurance that the spend was capital in nature; ▸ We tested a sample of capital grants and contributions to confirm that terms and conditions had been met and recognition of revenue was appropriate; and ▸ We reviewed a sample of transactions recorded in the ledger and payments made from the bank account post year-end and confirmed that the associated income and expenditure had been recorded in the correct period. Our testing did not identify any material misstatements relating to revenue and expenditure recognition. We did not identify any areas of significant estimation or judgement as part of our audit work in these areas.
Valuation of land and buildings The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.	We performed the following testing in relation to this risk: ▸ We considered the work performed by the Council's external valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ▸ We sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre); ▸ We considered the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the CIPFA Code; ▸ We reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated; ▸ We considered changes to useful economic lives as a result of the most recent valuation; and ▸ We tested accounting entries to ensure they had been correctly processed in the financial statements. We did not identify any material misstatements in relation to the valuation of land and buildings.

Financial Statement Audit (continued)

Other Key Findings	Conclusion
Pension liability valuation The Local Authority Accounting Code of Practice and accounting standards (IAS19) require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. Auditing standards require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We performed the following testing in relation to this risk: ▸ We liaised with the auditor for Durham County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council; ▸ We assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of the Consulting Actuaries commissioned by PSAA for all Local Government sector auditors, and considered any relevant reviews by the EY actuarial team; ▸ We liaised with the Council and our actuarial team to assess the reasonableness of additional pension liabilities recognised in the accounts this year, arising as a result of the McCloud judgement and Guaranteed Minimum Pension equalization; and ▸ We reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. During the audit period, a material adjustment relating to the McCloud judgement was identified, which has impacted upon all Local Government Pension Scheme Scheduled Bodies. The Council instructed their actuary to revisit the Pension Liability values they previously provided to include the impact of both the McCloud judgement and Guaranteed Minimum Pension as well as updated asset values. The revised Pension Values provided by the actuary saw the Pension Liability increase by £7.2m between the draft and final financial statements.
Implementation of new accounting standards The Local Authority Accounting Code of Practice required the Council to implement IFRS9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers) for the first time in 2018/19. The implementation of IFRS 9 changed how financial assets are classified and measured, how the impairment of financial assets is calculated, and the disclosure requirements for financial assets. The impact of IFRS 15 was expected to be limited as large revenue streams like council tax, non domestic rates and government grants are outside the scope of the standard.	We performed the following testing in relation to this risk: ▸ We obtained a copy of the impact assessment for IFRS 9 and 15 prepared by management and noted that there was not expected to be a material impact on the financial statements; ▸ We considered the impact of IFRS 9 and 15 as we performed our audit work on the financial statements to satisfy ourselves that there was no further impact of the new standards that had not been recognised or disclosed by management; and ▸ We completed the CIPFA disclosure checklist to satisfy ourselves that all of the relevant disclosures were included in the accounts. We did not identify any material issues with the implementation of the new accounting standards.

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Financial Statement Audit (continued)

Our application of materiality
When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £5.3m (2017/18: £5.1m), which is 2% of gross expenditure on the provision of services reported in the accounts. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.265m (2017/18: £0.257m).

04 Value for Money

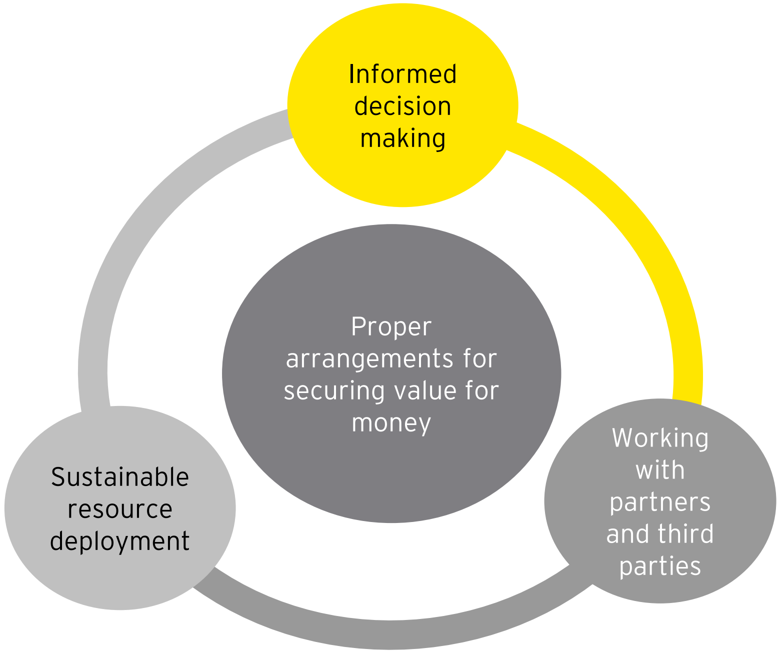
Value for Money

Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



Overall conclusion

We identified one significant risk around the value for money arrangements as part of our Audit Planning Report. The table on the following page presents our findings in response to this risk. We did not identify any further significant risks or weaknesses after the audit planning phase.

Based on the work performed we have no matters to report about your arrangements to secure economy, efficiency and effectiveness in the use of resources and issued an unqualified value for money conclusion.

Value for Money (continued)

What is the significant value for money risk?	What are our findings?
Deploying resources in a sustainable manner The Council continues to operate in a challenging financial environment. The main risks to the Council's finances are reductions in central government funding, increased reliance on locally raised taxes, increased budget pressures and increasing demands for services. In February 2019, the Council published its Medium Term Financial Plan (MTFP) for 2019/20 to 2022/23. The plan includes £9.1m of net pressures, which includes delivery of savings totalling £5.1m, over the duration of the plan. There is therefore significant pressure on the Council's finances over the coming years.	We reviewed the year end financial performance of the Council and noted that useable reserves have increased in 2018/19. We have also considered the level of reserves held by the Council in the context of the budgeted savings required over the life of the MTFP and have not identified any concerns over the viability of the Council. We reviewed and challenged some of the key assumptions in the MTFP and did not identify any specific areas of concern. We tested a sample of documentation to support the Cost Recovery Plans developed by the Council to check that plans were in place for delivering savings. We had no findings to raise in this area. Overall we were satisfied that the Council has appropriate arrangements in place for deploying financial resources.

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05 Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £500m. Therefore, we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2018/19 financial statements from members of the public.

Other Reporting Issues (continued)

Other Powers and Duties
We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence
We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 31 July 2019. In our professional judgement, the firm is independent and the objectivity of the audit engagement associate partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

Control Themes and Observations
As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control. We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

06 Focused on Your Future

Focused on Your Future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year. Whilst the definition of a lease remains similar to the current leasing standard, IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.	Until the 2020/21 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.
IASB Conceptual Framework	The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year. This introduces; - new definitions of assets, liabilities, income and expenses; - updates for the inclusion of the recognition process and criteria and new provisions on derecognition; - enhanced guidance on accounting measurement bases; and - enhanced objectives for financial reporting and the qualitative aspects of financial information. The Conceptual Framework is not in itself an accounting standard and as such it cannot be used to override or disapply the requirements of any applicable accounting standards. However, an understanding of concepts and principles can be helpful to preparers of Local Authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.	It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements. However, authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.

07 Audit Fees

Audit Fees

Our base audit fee for 2018/19 is in line with the scale fee set by Public Sector Audit Appointments and reported in our Audit Results Reports for the Council.

	Final Fee 2017/18	Planned Fee 2018/19	Scale Fee 2018/19
	£	£	£
Audit Fee – Code work	93,264	71,813	71,813
Audit Fee – scale fee variation for group accounting and the impact of additional pension work	-	TBC*	-
Total audit fee – Code work	**93,264**		**71,813**
Non-audit work – Housing Benefit Subsidy Claim	8,911	TBC**	N/A
Non-audit work – Other certification work	11,200	TBC**	N/A
Total non-audit services	**20,011**		**N/A**

** We anticipate a variation to the scale fee being required in 2018/19 to take into account that this is the first year of group accounts and the significant amendments that were required to the accounts for the McCloud judgement (pension liability). We are in the process of agreeing these fees with management.*

*** Housing Benefit Subsidy Claim and other certification fees to be agreed when work commences*

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ED None

EY-000070901-01 (UK) 07/18. CSG London.

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CABINET
3 DECEMBER 2019

HAUGHTON CHILDREN'S CENTRE

Responsible Cabinet Member -
Councillor Paul Cruddas, Children and Young People Portfolio

Responsible Director -
Suzanne Joyner, Director of Children and Adults Services

SUMMARY REPORT

Purpose of the Report

1. The purpose of this report is to seek approval for Education Village Academy Trust (EVAT) to take over the site of the Haughton Children's Centre subject to a lease under the Academies Act 2010 to provide Special Educational Needs and Disabilities (SEND) placements at Beaumont Hill Academy (BHA). The use of the site will support Darlington's strategic aim to education more pupils with SEND in the borough.

Summary

2. Darlington has faced increasing demand for specialist placements for pupils with SEND. Darlington's Local Area SEND strategy aims to retain more pupils in borough rather than at high cost out of area specialist placements. An opportunity has arisen to use the Haughton Children's Centre site to increase capacity at Beaumont Hill Academy, ensuring more pupils will be able to access specialist provision locally. By taking an invest to save approach the increased capacity will ensure more pupils are educated in Darlington at a lower placement cost.

3. Cabinet agreed in 2017 that the Haughton Children's Centre be closed as part of the new Children's Centre Delivery model and to seek alternative uses for the centre with interested parties, subject to not invoking the Department for Education (DfE) clawback of the grant funding for the centre at Haughton.

4. The lease of the building to EVAT may involve a £400,000 risk of a financial clawback from DfE. The Local Authority is in discussions with the DfE to try and mitigate this risk as far as possible..

Recommendation

5. It is recommended that:-

   (a) Cabinet approve EVAT to take over the site of the Haughton Children's Centre, on standard lease terms under the Academies Act 2010 as set out in this report.;

(b) £400,000 is earmarked from General Fund Reserves in case the DfE clawback is enacted.

(c) The Assistant Director Law and Governance be authorised to complete legal documents accordingly.

Reasons

6. The recommendations are supported by the following reasons:-

(a) It supports the aims of Darlington's Local Area SEND strategy to building capacity in mainstream and specialist settings to support children and young people to be educated in their local community and to reduce reliance on out of area placements 0-25 by providing additional capacity to BHA.

(b) It reduces the need for high cost out of area placements for pupils with SEND.

Suzanne Joyner,
Director of Children and Adults Services

Background Papers

Tony Murphy X5637

S17 Crime and Disorder	This report has no implications for Crime and Disorder
Health and Well Being	The use of the building by Beaumont Hill Academy will contribute to improved outcomes for children and young people with special educational needs and/or a disability in the borough.
Carbon Impact and Climate Control	There are no issues which this report needs to address.
Diversity	The use of the building by Beaumont Hill Academy will contribute to improved outcomes for children and young people with special educational needs and/or a disability in the borough
Wards Affected	Children and young people with SEND may live in any ward. All wards are affected-particularly Haughton
Groups Affected	Children and young people with special educational needs and/or disabilities
Budget and Policy Framework	This report does not represent a change to the budget and policy framework.
Key Decision	This is a key decision
Urgent Decision	For the purpose of the 'call in' procedure this does not represent an urgent matter.
One Darlington: Perfectly Placed	The report contributes to the Sustainable Community Strategy Priority 'the best start in life'.
Efficiency	There are no direct efficiencies to the Council from the information contained within this report.

Impact on Looked After Children and Care Leavers	The use of the building by Beaumont Hill Academy will contribute to improved outcomes for children and young people with special educational needs and/or a disability in the borough a number of these children are Looked After Children or Care Leavers.

MAIN REPORT

Background

7. Darlington faces increasing demand for specialist placements to address the needs of pupils with SEND. The most recent published national data (from January 2019, published in SEN in England in July 2019) shows that 3.9% of Darlington pupils have an Education, Health and Care Plan (EHCP). This is slightly higher than the North East average of 3.3% and above the England average of 3.1%. Darlington has seen a significant rise in the total number of EHCPs in the last 5 years. The number of plans has risen from 385 in January 2013 to 741 in January 2019 and is currently at 779 (October 2019). This equates to a rise of 102% throughout this period.

8. In England 39.2% pupils with EHCPs are placed in mainstream schools compared with 34.0% in Darlington, evidencing that a smaller proportion of young people are educated in mainstream schools. Darlington also places a higher proportion of young people with EHCPs in Special Schools (43.3% compared to 38.6% across England).

9. Pressures on local capacity are leading to a high level of placements in high cost specialist schools. Darlington places 5.5% of young people with ECHPs in Independent Special Schools, compared to 3.9% across England and only 2.7% across the North East. Darlington placed 5.1% of new EHCPs in Independent Special Schools in 2018 compared to 1.9% across the North East and 2.8% in England.

10. The increase in the number of children requiring SEN support has not been mirrored by increases within the funding available. The (adjusted) High Needs Block allocations for Darlington for the last five years along with the provisional allocation for 2020/21 are illustrated in the table below. The high needs block has only increased by small amounts over the last five years, until an expected larger increase in 2020/21.

Year	Allocation (£000's)	Increase (£000's)
2015/16	11,570	
2016/17	11,800	230
2017/18	11,980	180
2018/19	12,020	40
2019/20	12,841	821
2020/21	14,393	1,552

11. At the end of 2018/19, Darlington had a deficit on its high needs block of £3.2 million which was the combination of overspend in 2018/19 and 2019/20. The table below shows the difference between high needs spend and the high needs block.

Year	High Needs Block (£000's)	Expenditure (000's)	Block shortfall (000's)
2015/16	11,570	11,868	298
2016/17	11,800	12,464	664
2017/18	11,980	13,902	1,922
2018/19	12,020	14,151	2,131
2019/20	12,841	14,625*	1,784

*Estimated

12. As can be seen in the above table, each year the expenditure on high needs has been in excess of the high needs block allocation. This has resulted due to increased demand, complexity of need and a lack of local capacity to support children.

13. The Local Area SEND strategy has been written to respond to the key priorities set out in the SEND code of practice, and highlights local strategic aims associated with each priority area for implementation. These are set out below:

(a) Early identification of need ensuring that the right children and young people are in the right placement with the right support.

(b) Early identification and intervention is essential to prevent underachievement and improve outcomes and improve children's life chances.

(c) Building capacity in mainstream settings to enable children and young people to be educated in appropriate settings locally.

(d) Children and young people with SEND need to have good quality support in their mainstream and local settings so that they can achieve their academic potential and maintain their self-esteem and confidence.

(e) Ensuring that children and young people are educated in their local community and have an effective preparation for adulthood and access to work and leisure opportunities.

(f) Being educated in their local area enables pupils with SEND greater independence and a sense of contributing and belonging to their local community. Children and young people with SEND tell us that they want to make friends locally and access local facilities with their families.

(g) Increasing achievement and improving outcomes for children and young people with SEND.

(h) Address the underperformance in educational achievement across the Key Stages but particularly at Key Stage 4 through targeted interventions, appropriate curriculum, high quality training and effective quality assurance, monitoring and moderation.

(i) Focus on effective collaboration, co-production and communication.

(j) Ensuring that all policies, practices are co-produced with all stakeholders and with the active involvement of parent/carers and children and young people.

(k) Achieving 'Best Value' (human, physical and financial resources) from all our services.

(l) Effective, efficient and co-ordinated services that meet the needs of children and young people with SEND and their families. With increasing demand, we must ensure that the right resources are going to the right children in the right place.

14. The SEND Strategy sets out our vision in Darlington for a well-planned continuum of provision from birth to age 25 that meets the needs of children and young people with SEND and their families, and that we expect every early years' setting, post 16 provider, mainstream school and academy to have the capacity and confidence to deliver effective provision. The strategy aims to identify children with SEND at the earliest possible opportunity and provide them with the support they need to make good educational progress and achieve good outcomes so that they and their families feel well supported. It recognises the importance of providing good training for all staff, whichever setting they are working in, using the best expertise and knowledge, sharing best practice and by promoting a model of collaborative working and shared responsibility. The strategy aims to ensure education, care and health services are delivered in an integrated way so that the experience of families accessing services is positive and children's and young people's learning and development, safety, well-being and health outcomes are well promoted alongside their educational progress and achievement.

15. The opportunity to utilise the site of the Haughton Children's Centre, which is closely located to Beaumont Hill Academy, will support Darlington to meet the key strategic aims of the Local Area SEND strategy to ensure that children and young people with SEND are educated in their local community and achieve best value from resources.

16. Beaumont Hill Academy is a specialised academy serving pupils from an age range of 2 to 19 which is rated "Good" by Ofsted. Beaumont Hill is part of the Education Village Academy Trust (EVAT.) The Local Authority and EVAT will be working together through discussions with the Regional Schools Commissioner (RSC) to introduce additional pupil numbers at Beaumont Hill Academy through the use of the Haughton Children's Centre.

17. In September 2017, DBC's Cabinet approved a new Children's Centre Delivery Model with one main hub and other delivery points. Part of the approval was to close Haughton Children's Centre and to seek alternative uses for the centre with interested parties, subject to not invoking DfE clawback of the grant funding for the centre at Haughton.

Financial Implications

18. A grant from the DfE of £556,000 was received for Haughton Children's Centre with a clawback period in place until 2035. Clawback is the recovery of grant funding awarded for the original establishment of the centre, if we cease to use the asset for the original purpose of the grant. The risk at time of writing the report is anticipated to be in the region of £400,000

19. The DfE have been approached with details of the proposed use of the site for SEND placements. The initial advice received is that the condition for the Sure Start Early Years & Childcare Grant (SSEYCG) requires any capital assets funded by the grant to be used for predominately early years' purposes (0-5 year olds). Consequently there is a risk that a clawback of funding will be invoked

20. Discussions are ongoing with the DfE to try and mitigate any clawback if possible with regard to the future use of the site, however we are not anticipating receiving a decision in the near future. It is therefore prudent to earmark £400,000 from the Council's General Fund Reserves in case of clawback.

Legal Implications

21. The grant of a lease will be a disposal of an interest in land which may give rise to a claim for clawback by the DfE as funder unless it is satisfied that the use of the funded assets will be suitably similar to that for which the funding was provided. In this case the DfE may require commitment from the Council and EVAT as to the continuing use of the funded asset for the duration of the lease and the remainder of the clawback period.

22. Under Schedule 1 of the Academies Act 2010, if land owned by the Local Authority becomes in educational use by an Academy, the Local Authority may not change the use without the consent of the Secretary of State. The building would therefore cease to be a council asset.

23. Section 123 of the Local Government Act 1972 deals with the statutory requirements for a Local Authority in disposing of land. In general, the Council is required to achieve the 'best consideration reasonably obtainable' when it is disposing of an interest in land. In this case the premium or rent is likely to be less than the open market value for the land to the extent that any use must comply strictly with DfE requirements on use.

24. If the Council seeks to dispose of land at less than the market value, then it has to obtain the consent of the Secretary of State for Communities and Local Government. However, the Secretary of State has issued a number of 'general consents' i.e. a set of conditions which, if they apply to a particular transfer, means that the Council does not need to obtain specific permission to transfer at an 'undervalue'. The most important of these consents is the General Disposal Consent 2003 ('the General Consent') which permits the Council to dispose of land at less than its market value, without the need to seek specific permission from the Secretary of State, provided that two tests are met:

25. Firstly, the purpose for which the land is to be transferred is likely to contribute to the 'promotion or improvement' of the economic, social, or environmental well-being of the area; and promote economic/community benefit as below and to the extent that the arrangements will fulfil the Councils responsibilities as follows:

    (a) By creating additional placements at BHA which meet needs of pupils with SEND which Darlington Borough Council has a duty to provide and for which there is a shortfall.

    (b) By reducing the need for high cost out of area placements for pupils with SEND.

(c) EVAT is keen to develop a lease arrangement which would enable community groups, parental groups and other schools to use the building at any time it is not in use for educational purposes. Availability is envisaged on evenings, weekends and school holidays. Local ward councillors have also identified to EVAT a demand for meeting space and function rooms which could be accommodated within this proposal.

26. Secondly, the difference between the market value of the land and the actual price paid for the disposal (if any), is not more than £2,000,000.

27. Members are invited to agree that the matters referred to in para 23 (a) – (c) will contribute to the ‘promotion or improvement’ of the economic, social, or environmental well-being of the area which satisfies the first test outlined in para 21.

Valuation

28. It is anticipated that the open market value of the Children’s Centre will be in the range £150,000 to £200,000. Whilst a lease to EVAT under the Academies Act would have to be at a peppercorn rent, and therefore the asset value is reduced to very little, the loss in value is less than the £400,000 potential clawback if we were to try to sell for a commercial use and obviously much less than the £2M undervalue permitted by the General Disposal Consent.

Proposed Lease Terms

29. Under the Academies Act 2010, the basic lease terms for a grant of lease to EVAT will be a 125 year term at a peppercorn rent with EVAT being responsible for all repairs and maintenance, running costs, insurance, grounds maintenance and any other outgoings. The Council may have a liability to pay EVAT’s legal costs incurred in drafting and executing the lease but the Council will then have no ongoing financial responsibilities for the building going forward until the lease expires

CABINET
3 DECEMBER 2019

WARM HOMES PROJECT

Responsible Cabinet Member -
Councillor Jonathan Dulston, Stronger Communities Portfolio

Responsible Director -
Ian Williams, Director of Economic Growth and Neighbourhood Services

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SUMMARY REPORT

Purpose of the Report

1. The purpose of this report is an update on the previous Cabinet report of 9 January 2018, in relation to approval to participate in a Tees Valley partnership to deliver Warm Homes Fund project (WHF) to agree to share financial risk with four Local Authority partners.

Summary

2. In July 2017 National Grid and Community Interest Company, Affordable Warmth Solution (AWS) established a £150m Warm Homes Fund (WHF).

3. In 2017, in round 1 as part of a consortium bid led by Northumberland County Council, a consortium of seven local authorities including Darlington, registered housing providers and community partners made a joint bid and it was announced on the 23 October 2017, that the bid was successful. The initial bid secured approximately £1.8 million. Whilst this bid was successful, the number of measures delivered were much higher in Northumberland than any of the other partners.

4. The funders recognised the strength of the consortium bid and have since welcomed further bids in Years 2 and 3 of the funding cycle. A further Northumberland-led bid for funding was made in round 2, however, this was unsuccessful.

5. In early 2019, a round 3 bid for funding was submitted in February by a consortium of the Tees Valley Affordable Warmth Partnership, led by Stockton Borough Council. The bid for £4,054,688 was approved in April 2019. However, the offer was rejected in May 2019 due to some technical issues and it was not possible to amend the agreement.

6. A round 4 bid was submitted to AWS on 26 September 2019 again by the Tees Valley Affordable Warmth Partnership for £4,065,284.

7. The bid includes a consortium of the Tees Valley Affordable Warmth Partnership, led by Stockton Borough Council, as detailed in paragraph 19.

Recommendations

8. It is recommended that:-

   (a) Subject to successful award and acceptance of grant by Stockton Borough Council that participation in the Warm Homes Fund Partnership is continued to deliver energy efficiency measures across the Borough.

   (b) The potential clawback as detailed in paragraph 36 is underwritten by the Council.

   (c) The underspend on Housing Investment Programme Capital Grant (SHIP3) is allocated to Warm Homes Project to mitigate the potential clawback risk.

Reasons

9. The recommendations are supported by the following reasons:-

   (a) Participation in the project will deliver energy efficiency improvements for qualifying residents in the Borough. Funding availability elsewhere is now greatly reduced compared to previous years.

   (b) Fuel poverty levels in the Borough will be reduced and associated problems will be reduced.

Ian Williams
Director of Economic Growth and Neighbourhood Services

Background Papers
(i) Cabinet report 9 January 2018

Christine Booth: Extension 6445
CD

S17 Crime and Disorder	There are no implications on crime and disorder as a result of this report.
Health and Well Being	The health and wellbeing of residents living in properties with successful heating replacement systems will benefit from this project.
Carbon Impact and Climate Change	By installing modern, more energy efficient heating solutions there will be a positive impact on carbon impact and climate change.
Diversity	There are no implications as a result of this report.
Wards Affected	All qualifying residents in homes in all Wards have the potential to benefit from this scheme.
Groups Affected	Most vulnerable and low-income families have the potential to benefit from this project.
Budget and Policy Framework	There is no impact on the Council's Budget or Policy Framework.
Key Decision	Yes
Urgent Decision	No
One Darlington: Perfectly Placed	The Warm Homes Fund Project will have a positive impact on One Darlington.
Efficiency	There is no impact on the Council's Efficiency agenda.
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers

MAIN REPORT

Information and Analysis

10. Around 4 million UK households are in fuel poverty, unable to heat their home to the temperature needed to stay warm and healthy. As well as being on low incomes many of these households are also faced with the additional burden of relying on heating systems that are expensive to run and/or inadequate for their needs. Furthermore, because of their circumstances or property type they may not currently be able to benefit from existing mandated schemes.

11. From a local perspective Darlington has a good opportunity to benefit from the WHF project. Fuel poverty levels when last recorded in 2015, showed that 14.1% of residents were in fuel poverty representing 6,663 households. We have approximately 2,040 households not connected to the gas network. These are naturally higher in rural wards without a gas network but there are still significant numbers in gas supply network areas not connected to a gas supply. This likely means that they are using expensive and inefficient electric heating systems. Those using electric heating systems are more likely to be in fuel poverty because running costs are significantly higher. There are approximately 2,600 households in Darlington that use electricity as their main source of heating.

12. In July 2017 National Grid and Community Interest Company, Affordable Warmth Solution (AWS) established a £150m Warm Homes Fund (WHF) designed to support local authorities, registered social landlords and other organisations working in partnership with them, to address some of the issues affecting fuel poor households. The purpose of the grant funding was to address some of the issues

relating to fuel poverty.

13. The bid process required expressions of interest by 31 July 2017, followed by a detailed bid by 8 September 2017. Initially a partnership of all five Tees Valley authorities had intended to collectively bid to the fund, however we were subsequently invited to join a larger regional bid led by Northumberland County Council.

14. The consortium benefited from the successful track record of Northumberland County Council in delivering positive outcomes funded with the Central Heating Fund in 2016/17.

15. There were some concerns raised by Tees Valley Authorities about the management and delivery of the scheme, and disappointment about the inequality of the distribution of funding and, as a result of this, officers involved in the project agreed to look at working up a Tees Valley bid for future funding rounds and Stockton Borough Council offered to lead on this. Other partners to the bid would include Thirteen Housing Group, Middlesbrough Environment City and the Citizens Advice Bureaux.

16. A commitment was made to Stockton Borough Council in December 2018 to support them in developing and submitting a bid in round 3. A detailed bid for funding was worked up and submitted to Affordable Warmth Solutions in February 2019 and the bid for £4,054,688 was approved in April 2019. The breakdown of funding was as follows:-

Category 1:	£2,904,571
Category 2:	£771,250
Category 3:	£378,867

17. An offer was made by AWS for £4,054,688 requiring Stockton Borough Council, as the Lead Authority, to sign a Recipient Agreement. However, Stockton Borough Council's Legal team noted that there was a clause in the Recipient Agreement that created an absolute requirement for them to provide their own funds. This would have meant that at day one of the project, the risk to Stockton Borough Council (as the sole financially responsible body) would have been £1.92m. During their discussions Stockton Borough Council were previously led to understand that if there was a loss of third-party funds, such as the loss of ECO funding, that they would be allowed to reconcile the project and cease the scheme should alternative funding later not be available however this was not possible. On this basis, a decision was made by Stockton Borough Council to reject the offer at the end of May 2019.

18. The partnership was not precluded from making a further application in future bidding rounds. It was agreed that a further bid would be made by the consortium in round 4 and Stockton Borough Council would undertake preparatory work in order to minimise risk and to seek agreement to share the risk amongst the Local Authority partners.

19. A round 4 bid for funding was subsequently made on 26 September 2019. The bid included a consortium of the Tees Valley Affordable Warmth Partnership, led by Stockton Borough Council, the partnership includes:

    (a) Local Authorities

        (i) Darlington Borough Council
        (ii) Hartlepool Borough Council
        (iii) Middlesbrough Borough Council
        (iv) Redcar & Cleveland Borough Council
        (v) Stockton Borough Council – lead authority

    (b) Registered Social Landlords

        (i) Thirteen Group

    (c) Community Groups/Partners – (funded under separate Category 3 Funding)

        (i) Middlesbrough Environment City
        (ii) Stockton CAB
        (iii) Northern Gas Networks
        (iv) Communitas Energy

20. Subject to successful award and acceptance of grant by Stockton Borough Council the total funding that will be provided to administer the Programme is:-

Type of Household:	**Category 1** (urban homes and communities)	**Category 2** (rural homes and communities)	**Category 3** (Advice)
Amount of funding:	£2,915,167	£771,250	£378,867

21. A Memorandum of Understanding (MOU) will operate between all consortium partners to manage the expectations and relationships between partner members. This MOU is not onerous and does not specify specific performance criteria for any member.

22. Funding will be spent delivering installations and improvements on a needs basis across the Tees Valley and each partnership member area.

23. The WHF categories are outlined below. The three funding areas are as follows.

    (a) **Category 1**:
    Urban homes and communities – we anticipate this will involve new gas heating systems which provide space heating and domestic hot water. It could also include heat network solutions. Under this category new gas connections will continue to be undertaken by Gas Distribution Networks and funded through the Fuel Poor Network Extension Scheme. The WHF is therefore targeting the ‘in-house’ systems.

    (b) **Category 2**:
    Rural homes and communities – some of the most severely fuel poor households are those without a mains gas connection in rural locations. This

category will therefore primarily focus on 'non-gas' solutions which may include air source heat pumps, oil and LPG.

(c) **Category 3**:
Specific energy efficient/health related solutions – this may involve national or regional programmes which bring together relevant organisations and charities to promote energy efficiency and/or health related programmes in relation to fuel poverty. This is not intended to fund new central heating systems. Community partners will assist greatly in providing Category 3 services.

24. The funding is to install first time central heating in homes that qualify under the project criteria. This includes both 'on gas areas' and those 'areas off gas'. Assistance will be given to residents who are able to have a gas supply installed because they are in an area that has a gas main supply. The heating options available are gas central heating, LPG and air source heat pumps.

25. The priority is to provide gas central heating to those who are able to access a gas supply. Other measures can be provided to residents living in off gas rural areas. All tenure types can benefit under the project, owner occupiers, private renters and those living in social housing. It is both the property and occupiers that need to qualify for assistance. The property must not already have central heating and must need a central heating system.

26. The specific objectives of the fund are to increase comfort in non-gas, fuel poor households, to reduce fuel bills and improve health and therefore reduce fuel poverty. To maximise the impact of the WHF, all properties are expected to be insulated to the recommended industry standards and bidders and their partners are encouraged to seek additional funding to ensure these standards are met. The aims of the fund are to reduce bills, increase comfort in non-gas fuel poor households, and improve health outcomes for some of the most severe levels of fuel poverty.

27. The fund requires one or more of the following criteria to apply:

(a) The household must be:

(i) Within the 25% most deprived areas in the UK measured by the Index of Multiple Deprivation (IMD); or

(ii) Eligible for support under Home Heating Cost Reduction Obligation (HHCRO) in England (relevant means tested benefits); or

(iii) In fuel poverty based on the latest government definition; or

(iv) In one of the least energy efficient properties (rated E, F and G based on EPC ratings).

28. The Parties are aware that the Funding Agreement requires additional Third-Party Funding to deliver the Programme.

29. The table below confirms the funds that have been secured by funders for the Programme:

Third party funder	ECO funding	Renewable Heat Incentive (RHI) income	Private landlord contributions	Thirteen Group	Total Third-Party Funding
Amount	£933,400	£800,000	£140,000	£126,600	£2,000,000

30. Finding properties and matching qualifying households is the most challenging part of the project. The Private Sector Housing Team supported by the Communications Team will help to identify the right residents and properties via targeted publicity and press releases.

31. From initial work that has been carried out by the Private Sector Housing Team, 642 properties have been identified to benefit from Category 1 and 7,000 households from Category 3. Work is ongoing to identify potential properties benefiting from Category 2.

32. Stockton Borough Council will provide project management for the consortium, which will include overall project management and administration, procurement of installers and trade, and provision of a call centre.

Financial Implications

33. The risk at the start of the project to each Local Authority would be £316k diminishing to zero by the end of the project.

34. All the funding for this project comes from external sources, which covers project management and delivery. Darlington Borough Council's commitment is staffing time from the Private Sector Housing Team and communication to help identify appropriate properties within the Borough.

35. Stockton Borough Council undertook a procurement exercise in anticipation of a positive outcome of the application and have been able to procure approximately £933k of ECO and £650k of RHI as third-party funding through the tender process which will be ring-fenced until February. This will minimise the risk of changes to ECO or RHI during the lifetime of the project.

36. As part of the agreement there is potential of the scheme administrator, AWS, exercising a right to clawback funding for any particular property that has benefitted from funds to improve their heating system that didn't meet the criteria. However, the five local authorities have agreed that in the event of the administrator exercising their right of clawback, then value would be split equally between each of the five authorities. The maximum liability for each local authority is:

Local Authority	% of liability	Third Party Funding for the Programme £
Stockton	20%	£316,000.00
Darlington	20%	£316,000.00
Middlesbrough	20%	£316,000.00
Hartlepool	20%	£316,000.00
Redcar and Cleveland	20%	£316,000.00
TOTAL	**100%**	**£1,580,000.00**

37. Over the duration of the scheme, the value of the clawback will reduce.

38. The likelihood of any clawback is low as there are measures in place to mitigate this:-

    (a) The employment of a Project Manager at Stockton Borough Council to focus solely on the monitoring and administration of the programme.

    (b) Procurement evaluation of the Contractor and their project applications was undertaken before entering into the Contract.

    (c) The Contractor has formally confirmed that they are able to obtain ECO funding by providing a signed letter from four of the main energy suppliers.

39. Whilst we believe the risk is minimal and managed, we do have an underspend of £105,000 from a previous scheme, Single Housing Investment Programme Capital Grant (SHIP3) that could be used to offset should any risks ever materialise. Stockton Borough Council hold the risk against ineligible installations and have set aside a contingency budget of £50,000.

Legal Implications

40. The general power of competence power introduced by section 1(1) of the Localism Act 2011 allows local authorities in England to do anything an individual can do, unless prohibited by law (and subject to public law principles).

41. There is no relevant prohibition and the exercise of functions will be subject to public law principles. The grant funded purposes for the benefit of Darlington residents, will have a positive impact on and will promote or improve the economic, social, or environmental well-being of their area.

42. In this case the Council is delegating to Stockton Borough Council the receipt of relevant grant funding and the carrying out of a procurement process and management of the project for an installer(s) to deliver the grant funded purposes as further described in this report.

43. The sharing of the financial risks between the participating councils will be documented in a Risk Sharing Agreement by which the participating authorities will share financial risk equally and to including the maximum financial liability of

Darlington Borough Council of £316k subject to the mitigating factors described in this report.

44. Relevant contractual arrangements and warranties for the works will be in place directly between the installer(s) and residents.

Procurement Advice

45. Stockton Borough Council are the lead authority for the project. Therefore any procurement will follow their processes as documented in the Risk Sharing Agreement.

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CABINET
3 DECEMBER 2019

DELIVERY OF NEW HOMES PROGRAMME
JOINT VENTURE PROPOSAL

Responsible Cabinet Member -
Councillor Charles Johnson, Resources Portfolio

Responsible Director - Paul Wildsmith, Managing Director

SUMMARY REPORT

Purpose of the Report

1. To approve the establishment of a Joint Venture Company which will provide the infrastructure build and sale of homes under an investment programme within the North East under the company name Esh DBC JV Limited.

2. To seek approval for the Council to invest in the company and to acquire land for schemes meeting *qualifying investment criteria* for residential development, through the Council's Joint Venture arrangements.

Summary

3. The Council issued an OJEU procurement exercise in July 2017 to seek a joint venture partner for residential development. Esh Homes Limited was the successful bidder and was appointed to the Council Joint Venture Framework Agreement ("the Framework").

4. To date four Joint Venture schemes have been arranged under separate joint venture companies and brought forward for development at Eastbourne, Middleton St George, Heighington, and West Park Garden Village.

5. Results to date have exceeded the investment outcomes reported to Cabinet and overall the four joint venture companies are projected to provide 388 new homes; estimated new homes bonus of £2.1m; a post-tax profit of over £3m and a surplus on loan interest payments of £1.1m from a maximum engaged investment of £24.3m.

6. The investment returns above will be substantially delivered out in the next two to three years and this report proposes a further investment subject to meeting equivalent *qualifying investment criteria* for residential development to deliver investment returns on a similar basis under a single joint venture company.

7. This will be more efficient in terms of administration and ensures that relevant opportunities can be delivered under the joint venture approach to offer continuing investment returns to the Council.

8. The Joint Venture Company will be based on a 50:50 split between the Council and Esh Homes Limited and the Company will return developer profits equally to the Council and Esh Homes Limited.

9. The Joint Venture Company will be funded by the Council and Esh Homes, the Council element will be funded via prudential borrowing of up to £9.5m at its peak.

10. Overall it is estimated the scheme will deliver an average 17% annual return on Capital with pre-tax profits averaging over £1m per annum, which in the first three years will be reinvested back into the venture with the first dividend of £0.5M payable in year four.

11. The average annual net interest surplus in the first four yours on the commercial loan is anticipated at £0.180m charged at state aid compliant rate

12. Further documentation referred to by appendices to this report are as follows:-

    (a) Appendix 1 (Part III) – Model Appraisal
    (b) Appendix 2 (Part III) – JV Company Four Year Projection
    (c) Appendix 3 – Shareholders Reserved Matters

Recommendation

13. It is recommended that :-

    (a) Cabinet approve the establishment of the Joint Venture Company to acquire land, deliver, and build private sale and affordable homes over a nine year programme.

    (b) Cabinet approve £9.5m from the Investment Fund to fund the Joint Venture Company financed by prudential borrowing subject to a first Legal Charge in favour of the Council over the Land acquired by the Joint Venture Company together with a Guarantee from the Joint Venture Partner in respect of 50% of the Senior Loan sum.

    (c) That the Joint Venture Agreement be approved and delegated authority to the Assistant Director – Resources (Chief Finance Officer) be granted to finalise the establishment of the Joint Venture Company in line with the terms in this report.

    (d) The Assistant Director – Resources (CFO), the Assistant Director Housing and Building Services and the Assistant Director - Law and Governance are appointed to act as directors in the Joint Venture Company as part of its Executive Board and to delegated approval to agree on acquisitions of land and development of sites on behalf of the Council as Shareholder.

    (e) The Joint Venture to be funded from prudential borrowing from the Capital Investment Fund established by the report to Council dated November 2016.

Reasons

14. The recommendations are supported by the following reasons :-

    (a) To assist in the delivery of the Economic Strategy by speeding up the building of new homes.

    (b) To deliver income for the Council.

Paul Wildsmith
Managing Director

Background Papers

No background papers were used in the preparation of this report

Elizabeth Davison: 5830
Sarah Hutchinson: 5489

S17 Crime and Disorder	This report has no implications for crime and disorder
Health and Well Being	There are no Health and Well Being Issues
Carbon Impact and Climate Change	There are no sustainability issues
Diversity	There are no diversity issues
Wards Affected	All wards potentially
Groups Affected	Not Applicable
Budget and Policy Framework	This report does not represent a change to the budget and policy framework
Key Decision	This is a key decision
Urgent Decision	This is not an urgent decision
One Darlington: Perfectly Placed	There are no issues adversely affecting the Community Strategy
Efficiency	An investment return will help the Council's budget
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers

MAIN REPORT

Information and Analysis

15. The report recommends the establishment of a new Joint Venture Company between the Council and Esh Homes Limited to acquire the sites (yet to be identified) and to bring forward residential development of homes for private sale and affordable housing.

16. The Council has already established a number of Joint Venture Companies to build and sell homes with Esh Homes Ltd delivering meaningful investment returns.

17. Subject to approval and on the terms of this report, and subject to meeting *qualifying investment criteria* for residential development, and to the delegated approvals in this report, the Joint Venture Company will purchase the sites and procure infrastructure, including roads, sewers, drainage and services and

associated s.278 works to open up the sites and to deliver private and affordable housing.

18. The sites as selected will be subject to planning approval. It is envisaged that the sites may be outside of the borough of Darlington but within the north east region.

The Joint Venture Proposal

19. The Joint Venture Company will be based on a 50:50 split between the Council and Esh Homes Limited and the Company will return developer profits equally to the Council and Esh Homes Limited.

20. The Joint Venture Company will be funded by both parties. The Council funding for the programme will be via prudential borrowing of up to £9.5m secured primarily by legal charge on land to be acquired and by a floating charge on the company assets.

21. The Council will provide Senior Lending facility up to a maximum of £4.1m repayable in full over a year nine term and secured by a first legal charge on land acquisitions. Draw down of this facility will be subject to land security being in place. Interest will be charged at the State aid rate (as varied from time to time) and which provides an investment return to the Council.

22. The Repayment Date will be initially set at year nine (and set to be subject to interest payments re-payable over the term (monthly in arrears). There will be a provisional requirement for a capital repayment schedule over years four to nine (based on similar figures to expected dividends) to be waived at the Council’s discretion if a dividend if agreed in its place, or otherwise subject to satisfactory progress of schemes.

23. The Senior lending facility drawn down from time to time will be subject to no less than 100% loan to value ratio (LTV) and secured by first senior and legal charge over the land and assets of the company.

24. Both parties will provide Junior Lending facilities in equal amounts up to a maximum of £5m each. Draw down of this facility will be subject to land and other security being in place subject to no less than 100% LTV ratio.

25. A smaller amount of funding will be made available for initial development costs and securing options up to a maximum sum of £0.250m each to be drawn down equally. Both parties will control cash at bank by bank mandate and both parties own the company jointly. This funding will be subject to an enhanced interest rate to meet with state aid requirements.

26. The loan will be repaid by the Joint Venture Company to the Council subject to sales progress over the loan term and is expected to generate a net income after taking into account any cost of borrowing undertaken by the authority.

27. The estimated average pre-tax profit share for the Council per year is projected to be £1m however cash flows will be recycled into new land and work in progress until year four when a dividend of £1.0 m is scheduled of which Darlington’s share is £0.5m. See **Appendix 2 (Part III)**. Profits from year five onwards can be taken as dividend or used to repay the loan.

28. In addition, the net surplus on interest on the commercial loan to be repaid in year nine if not before will be approximately £0.180m per year charged at state aid compliant rate.

29. Based on the business plan the company activities are expected to generate enough profit to repay the loan in full from profits by the ninth anniversary of the scheme and (subject to sales outcomes) would then carry land and work in progress (WIP) to the value of c £14m to continue with the joint venture debt free.

Scheme Approval

30. The approval by the company to proceed with a scheme shall be a Shareholders Reserved Matter and brought forwards to the board for approval subject to a scheme meeting *the qualifying investment criteria.*

    (a) This is that the investment will provide the expected investment return set out in the model investment appraisal in the form annexed at **Appendix 1 –(Part III)** adequately supported as follows;
    (b) Independent land agent appraisal of disposal prices
    (c) Independent SIs report
    (d) Independent Title Report
    (e) Independent QS Report (as applicable)
    (f) Updated Legal and Audit advice
    (g) That the development is to be delivered in the region
    (h) That any land purchase or contract be at arms' length
    (i) That (in accordance with the Joint Venture Agreement) all contracts have been competitively tendered in accordance with the Public Contracts Regulations 2015.

Building works

31. The Joint Venture Company will contract with building contractors in respect of the substantive works in accordance with the development appraisal agreed for each project.

32. It is a condition of the joint venture that all contracts with a value over £25,000 require the approval of the Council (and Esh Homes Limited) and it is a requirement that all contracted works are competitively tendered in compliance with the Public Contracts Regulations 2015

Joint Venture Agreement

33. The Joint Venture agreement has the following heads of terms :-

    (a) The joint venture partner will deliver the overheads and sales services works and services as set out in the tender process (to include all necessary services and overheads)

    (b) The costs and profits are split 50:50.

(c) The number of homes built at any one time is limited to reduce risks associated with sales.

(d) The maximum funding requested is £9.5m. Subject to sites brought forward the drawdown of funding will be subject to satisfactory progress of works on site and the pre conditions to loan security. The repayment profile will be set to allow for full loan repayment during the nine year loan term.

(e) The making of a dividend to the shareholders for profit (over and above interest) will be agreed through the Joint Venture company. The joint venture partners have strictly equal voting rights (i.e. neither party can nominate a chairman to have a casting vote) and either party can if it wishes elect to exit the agreement and seek its dividend or continue the development arrangements, subject to a decision to be made by members at this time.

(f) Each joint venture partner will nominate three directors to the Executive Board.

(g) Decisions made by the Executive Board by simple majority will be binding on all partners save as to the shareholder reserved matters which must be agreed by both shareholders in writing.

(h) A process to resolve disputes is included.

(i) The Joint Venture will incur costs and execute sales in accordance with the Approved Appraisals (which will be produced on the model form to meet with the investment principles set out in the Model Appraisal).

(j) Agreed scheme appraisals will be annexed to and form part of the Joint Venture Agreement on approval.

(k) Sales may not be made at less than 95% of the appraisal value without the consent in writing of both shareholders.

(l) The Agreement can be terminated under defined circumstances.

(m) The Building contracts can be delayed or terminated under defined circumstances.

34. The principal elements of the Senior Loan Agreement are:

(a) A Senior Loan facility from the Council to the Joint Venture Company in the sum of up to £4.1m to fund the Joint Venture development programme. The business case cashflow is attached with drawdowns subject to property acquisition and satisfactory progress on site.

(b) Interest on the loan to be calculated at no less than the State Aid compliant rate, currently 4.9% and variable over the term.

(c) Security on the land to the extent of the advanced sum from the Council.

(d) Legal Charge over the land to secure the lending to be released as required for sales of housing units subject to satisfactory repayment of the loan and subject to an administrative fee to cover the costs of removal of £25.

(e) A final repayment date of 9 years from the date of the agreement unless otherwise approved by both parties in writing.

(f) The whole of the advance will be repayable as a debt if any instalment is not paid when due or in the event of any insolvency action. The Council in such a case will rely on its first legal charge over the land and development.

35. The principal elements of the Junior Loan Agreement are:

(a) A loan from each of the Joint Venture Partners to the Joint Venture on equivalent terms of up to £5.0m each to be drawn down in equal amounts on equal terms

(b) Subject to a debenture/ floating charge ranking second to the Senior Debt.

(c) Provision for an unsecured element at an enhanced state aid compliant interest rate

36. The principal elements of the Building contracts will be:

(a) Contract between Joint Venture Company and building contractor which shall be procured in accordance with the requirements of the Public Contracts Regulations.

(b) Defined CDM roles in accordance with the CDM Regulations 2015 and advice from the Council's Corporate Health and Safety Unit.

(c) Based on formal tenders for the works in accordance with Public Contracts Regulations 2015.

(d) Variations over £15,000 require consent in writing of both the Joint Venture parties; the Council and Esh Homes Limited.

(e) Works can be delayed at the instance of the Joint Venture Company with agreed delay costs of £5,000 per week.

(f) Terminable by the Joint Venture Company on notice with agreed termination payment for demobilisation costs of £25,000.

Risk Analysis and Valuation Comment

37. There are two main areas of risk on the expected return; *the cost of the build* (which if it increases will diminish profit) and the *achievement of the sales value*. Safeguards are in place on both elements as below:

Cost of the build

38. The Council's financial commitment is limited to the amount of the loan advance.

39. Over the course of a building project the building contracts allow for required variation instructions to be given. As increases to the Building contract costs affect

the profitability of the Council investment and financial risk these are managed in the joint venture agreement as follows;

(a) Mechanism in the Building contracts that no variation with a value in excess of £15,000 can be made without the approval in writing of the contract administrator

(b) Mechanism in the Joint Venture Agreement that no variation with a value in excess of £15,000 can be made by the Joint Venture Company save with the consent in writing of both the Council and Esh Homes Limited. This is recorded in the Joint Venture and in the Articles of Association of the Joint Venture Company as a shareholders reserved matter. A full list of the shareholders reserved matters is appended at **Appendix 3**

(c) Mechanism in the Joint Venture that the building contracts cannot be varied with cumulative variations with a total value in excess of £50,000 save with the consent in writing of both the Council and Esh Homes Limited. This will be recorded in the Joint Venture and in the Articles of Association of the Joint Venture Company as a shareholders reserved matter.

(d) A further mechanism in the building contracts provides that the works are released on a staged basis of five units at a time. These phased releases are to be approved by monthly governance meetings and the requirement for this is recorded in the Joint Venture. The approval for further releases shall not be given where the sales programme is behind targets to the extent that the Joint Venture Company does not have sufficient funds to meet the liability of the additional release.

(e) The Joint Venture Agreement governs the situation where consent is sought to sell properties for less than 5% below the appraisal value, or where the sales programme is behind the projections in the cash flows requiring a further advance on the loan agreement to maintain liquidity of the Joint Venture Company. In such a case (on a case by case basis) the parties will not continue with the building contracts unless there is agreement in writing by both parties to do so.

(f) The building contracts will contain express provision that delay payments of £5,000 per week are incurred for delay at the request of the Joint Venture Company.

Achievement of Sales Value

40. The expected sale values will be subject to a formal valuation exercise approved for each scheme as part of the qualifying investment criteria.

41. The sales values are further controlled through the risk mitigation processes below to ensure no disposal can be effected at less than 95% of the amount stated in the *Approved Development Appraisal.*

Financial Implications

42. The Joint Venture Company will be registered for VAT and the house sales will be zero rated any input tax on purchases paid by the Joint Venture will be able to be

claimed back from HMRC this is because new house sales are Zero rated rather than Exempt or Outside scope, the cash flow is net of VAT.

43. The sum of £9.5m allocated for the Joint Venture to be funded from the Capital Investment fund via prudential borrowing to be fully repaid by the Joint Venture Company.

44. After the finance costs and the Joint Venture Company costs of sale and professional costs, the pre-tax profit to each partner is estimated at an average £1m per year which will be reinvested in the company with the first dividend paid in year four of £0.5m. In addition the net surplus on loan interest payable on the Council lending is projected at £0.180m per year. Appendix 2 (Part III)

Mitigation of Risk

45. The Joint Venture will operate on a risk reward basis, and each parties risk share will be limited to half of the required lending to fund the scheme.

46. Approval of a scheme is subject to a meeting *qualifying investment criteria* with supporting due diligence on title and site condition to establish there are no title matters adversely affecting a development and the site investigation reports (SIs) do not indicate known issues with the land. The final approval of an *Approved Development Appraisal* will be a shareholders reserved matter.

47. Assistant Director – Resources (CFO), the Assistant Director Housing and Building Services and the Assistant Director Law and Governance are appointed to act as directors in the Joint Venture Company as part of its Executive Board which meets regularly monitor progress on the programme of investment and developments; this will include review of sales progress, expenditure, health and safety compliance, social value benefits and any matters requiring board approval.

48. Control and governance of the company will be equally shared and neither shareholder will have a casting vote. In the event the parties do not agree then the matter will be covered by deadlock provisions in the joint venture agreement.

49. The risk of non-payment of lending will be secured firstly against the land and assets of the Joint Venture Company, as well as by a guarantee from the Joint Venture Partner for their share of the project (in respect of 50% of the Senior Lending).

50. Additionally building contracts will be let on flexible terms to ensure that they can be terminated early if needed and offering the Joint Venture Partners the opportunity to slow or phase development as needed to reflect changes in the market.

51. The advance from the Council will be on the basis of the required state aid compliant interest rate required by the relevant EU legal communication notice. This is currently calculated at 4.9% per annum (variable upwards in accordance with changes to the Bank of England base rate).

52. Funds at the bank will be protected as follows:

(a) Both of the Joint Venture members directors will be named on the company bank mandate have immediate direct access to account information.

(b) Each of the Joint Venture members i.e. Esh Homes Limited and the Council will cross guarantee to the other over the conduct of the bank account by their employee directors in the Joint Venture Agreement.

53. The Joint Venture Agreement governs the situation where consent is sought to sell properties for less than 5% below the appraisal value, or where in any scheme the sales programme is more than five units behind the projections in the cash flows.

Outcome of Consultations

54. Internal consultations with Housing, Estates, Finance, Legal, Capital Projects and Procurement have not raised any objections to the proposals and the expectations are considered reasonably achievable at the present time.

55. The development of each site as brought forwards will be subject to full consultation with residents as part of the planning process.

Legal Advice

56. The Localism Act 2011 includes a ‘general power of competence’ which gives local authorities the legal capacity to do anything that an individual can do that is not specifically prohibited. This gives the powers to enter into prudential investment and in this context the investment provides a financial return along with ancillary benefits in terms of delivery of housing, new homes bonus.

57. The Joint Venture is to be delivered with the Joint Venture partner appointed following an OJEU tender process conducted in Summer 2017.

58. Under the provisions of the Local Government Act 1999 the Council is subject to a general duty to obtain ‘best value’ in the exercise of its functions. Cabinet should consider in making the recommendations of this report that the deal represents value for money which is supported by obtaining independent valuation comment on the terms of each land disposal the Council’s professional appraisal of the sales values and by requiring that the engagement of the building contract be conducted in accordance with tendering processes on an arm’s length basis in accordance with the Council’s own tendering thresholds.

59. The Assistant Director, Law and Governance, will be required to document the Joint Venture on the basis set out in this report, specifically in the Joint Venture Agreement, the Loan Agreement, the Legal Charges, the Deed of Guarantee and register the necessary restrictions at the Land Registry and at Companies House to protect the Council’s interest in the schemes and mitigate investment risk.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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APPENDIX 3

Matters reserved for Shareholder approval

1. Amending, varying or changing in any respect the Articles or varying the rights attaching to any of the shares in the Company (except as expressly provided by this Agreement).

2. Amending, varying or changing the name of the Company or its registered office.

3. Amending, varying or changing the nature of the Company's Business or commencing any new business by the Company which is not ancillary or incidental to the Business or doing anything other than the development of the Site or matters ancillary or incidental to it, that is not included in the Appraisal.

4. Permitting the registration of any person as a member of the Company other than the Parties to this Agreement.

5. Increasing the amount of the Company's issued share capital except as provided in this Agreement, granting any option or other interest (in the form of convertible securities or in any other form) over or in its share capital, redeeming or purchasing any of its own shares or effecting any other reorganisation of its share capital.

6. Making any acquisition or disposal by the Company of any material assets, excluding, subject to paragraph 23, the sale of plots at the Site in the ordinary course of business.

7. Issuing any loan capital in the Company or entering into any commitment with any person with respect to the issue of any loan capital.

8. Passing any resolution for its winding up or presenting any petition for its administration other than in accordance with this Agreement (unless it has become insolvent).

9. Forming any subsidiary or acquiring shares in any other company or participating in any partnership or joint venture (incorporated or not).

10. Amalgamating or merging with any other company or business undertaking.

11. Creating or granting any Encumbrance over the whole or any part of the Business, undertaking or assets of the Company or over any shares in the Company or agreeing to do so.

12. Making changes to any funding arrangements (including and changes to the Shareholder Loans) or entering into any new funding arrangements.

13. Entering into, terminating or varying any arrangement or contract which exceeds £50,000 which is not included in the Appraisal.

14. Entering into any arrangement, contract or transaction outside the normal course of its business or otherwise than on arm's length terms that is not specifically identified and agreed in the Appraisal.

15. Incurring any financial commitments which exceed £50,000, which are not included in the Appraisal.

16. Giving notice of termination of any arrangements, contracts or transactions which are material in the nature of the Company's Business, or materially varying any such arrangements, contracts or transactions.

17. Declaring or paying any dividend or distributing any profits of the Company.

18. Establishing any profit-sharing, share option, bonus or other incentive scheme of any nature for directors or employees.

19. Instituting, settling or compromising any material legal proceedings (other than debt recovery proceedings in the ordinary course of business) instituted or threatened against the Company or submitting to arbitration or alternative dispute resolution any dispute involving the Company.

20. Making any payment to a Shareholder or any person connected to them, save to the extent that the services provided by a Shareholder to the Company are set out in this Agreement or identified and agreed in the Appraisal.

21. Entering into a contract, arrangement or transaction with any Shareholder save to the extent that such contract, arrangement or transaction is set out in this Agreement or is identified and agreed in the Appraisal.

22. Entering into any acquisition of freehold land save where the purchase has been agreed as a scheme meeting the *Qualifying Investment Criteria* in accordance with the Joint Venture Agreement and approved that a complete appraisal (in the agreed form) is approved by both Shareholders in writing ("the Appraisal")

23. Agreeing any plot sales or entering into a commitment to sell any plots at a discount of more than 5% from the sale price of the plot, as set out in the Appraisal.

24. Holding more than two-part exchange properties at any one time for a single Site/Scheme.

CABINET
3 DECEMBER 2019

DOLPHIN CENTRE TEN PIN BOWLING

Responsible Cabinet Member -
Councillor Lorraine Tostevin, Health and Housing Portfolio

Responsible Director -
Ian Williams, Director of Economic Growth and Neighbourhood Services

SUMMARY REPORT

Purpose of the Report

1. To release funding for the Dolphin Centre to:

   (a) Install a five-lane ten pin bowling alley

   (b) Extension to the existing soft play facility

Summary

2. The Dolphin Centre has long been a cornerstone of the town centre and a key facility to draw in families and young people. Following the decision by Cabinet last year to not relocate the Library to the Dolphin Centre, work has been ongoing on developing proposals to introduce a range of facilities that improve the family and teen offer within the building.

3. This work has resulted in the proposals within this report to install a five-rink Ten Pin Bowling Alley and extension to Soft Play as well as introducing other facilities for young people/teenagers.

4. The Town Centre Strategy received a number of comments stating support for a Ten Pin Bowling facility in Darlington.

Recommendation

5. It is recommended that Members approve the alterations to the Dolphin Centre with the introduction of new facilities and release £1million, which will be funded from additional revenue.

Reason

6. The recommendation is supported to enable the alterations to the Dolphin Centre with the introduction of Ten Pin Bowling and extensions to Soft Play alongside additional offer for young people/teenagers.

Ian Williams
Director of Economic Growth and Neighbourhood Services

Background Papers
No background papers were used in the preparation of this report.

Ian Thompson : Extension 6612
CD

S17 Crime and Disorder	The content of this report will not impact on crime and disorder but does provide positive activities for young people.
Health and Well Being	The Dolphin Centre is the Council's key facility for providing opportunities for residents to participate in an active and health lifestyle.
Carbon Impact and Climate Change	There will be a positive impact on carbon reduction as a result of installing modern, efficient mechanical and electrical installations.
Diversity	No specific group with a protected characteristic is adversely affected as a result of this report.
Wards Affected	The Dolphin Centre is located within Park East Ward.
Groups Affected	No particular group is affected as a result of this report or proposed changes.
Budget and Policy Framework	There is no change to the Council's budget or policy framework.
Key Decision	No
Urgent Decision	No
One Darlington: Perfectly Placed	The Dolphin Centre has a positive impact on a number of outcomes within One Darlington: Perfectly Placed, particularly Children the Best Start in Life, More People Healthy and independent, A Place Designed to Thrive, and More People Active and Involved.
Efficiency	Investment in new mechanical and electrical installation will have a positive impact on efficiency.
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers

MAIN REPORT

Proposal

7. Following the decision last year by Cabinet not to relocate the Library to the Dolphin Centre, officers have been looking at options to extend the family/teen offer within the building. There has been for a while a desire to include Ten Pin Bowling within the Dolphin Centre. This has also been borne out by the recent Town Centre Strategy Consultation where there were strong suggestions of support for the development of a Ten Pin Bowling Alley within the town centre.

8. Currently there are three Squash courts within the Dolphin Centre. In recent years, squash has continued to see a decline in participation nationally and this continues to be the case at the Dolphin Centre. This is a result of a greater choice of exercise for people, such as the gym, exercise classes and a greater range of organised activity taking place outdoors. The Squash income for the Dolphin Centre has reduced in recent years from £24,000 per annum to just under £18,000 in 2018/19. The indications for 2019/20 is this will further reduce. The overall utilisation of the three Squash courts is currently on average; weekday evenings 40%, available capacity; weekday daytime 8% of available capacity, and on a weekend only 13% of available capacity.

9. Whilst it will be disappointing to existing Squash users at the Dolphin Centre, there is the opportunity to close the three Squash courts, converting the space to accommodate at an upper level on a mezzanine floor, a five-rink Ten Pin Bowling Alley and at ground floor, extending the Soft Play facility.

10. There are four courts still available in Darlington at Darlington Squash Club, which is based on McMullen Road. Early discussions have taken place with the Squash Club who would be keen to work with Dolphin Centre management to encourage existing Squash customers to utilise that facility.

11. Attached at **Appendix 1** is the layout of the proposed alterations within the Dolphin Centre, which creates the five-rink Ten Pin Bowling Alley and extension to the existing Soft Play area.

12. The Ten Pin Bowling Alley will be located on the first floor and accessed through the Bistro onto what was the Squash Court Viewing Gallery. This allows easy access to the Bistro where drinks and refreshments can be purchased to take through into the bowling facility thereby increasing secondary spend.

13. In addition to these changes, it is also proposed to create a Teen Drop-in Area at the front of the Dolphin Centre in the current hub/old DAD offices. Within this area it is intended to include Pool, Air Hockey and other appropriate facilities and activities for young people.

Mechanical and Electrical Installation

14. The mechanical and electrical installations that cover the majority of the areas proposed for redevelopment were to be updated as part of the original Library project. Cabinet had previously released £600,000 on 17 January 2017 to enable this work to take place, therefore at the same time as introducing Ten Pin Bowling

and updating the Soft Play, the mechanical and electrical installations covering these areas will also be replaced.

Financial Implications

15. The overall cost of this work is estimated to be £1.6million; £600,000 for mechanical and electrical installations and £1million for building alterations and installation of Ten Pin Bowling and extension to the Soft Play facility.

16. As mentioned earlier, the £600,000 allocation for mechanical and electrical installations is already built into the Medium-Term Financial Plan and has been released by Cabinet in January 2017. The cost of the additional borrowing for the building work and equipment will be covered from additional income received through the new facilities.

17. Once all additional costs are taken into account for staffing, consumables, marketing, repairs and maintenance, loss of income from squash, as well as appropriate licences and borrowing costs, there is an anticipated surplus based on the industry average of 100 games per day at £7 per individual of £74,000.

18. Sensitivity analysis has been carried out on a range of games per day and is shown in the table below;

Games per day	**75 Games**	**100 Games**	**125 Games**	**150 Games**
Income Bowling	£157,400	£209,900	£262,400	£314,800
Income Catering	£56,200	£74,900	£93,600	£112,300
Gross Expenditure	£94,700	£101,200	£107,800	£114,300
Operational Expenditure	£109,600	£109,600	£120,100	£120,100
Net Surplus/(Deficit)	**£9,300**	**£74,000**	**£128,100**	**£192,700**

19. As can be seen from the sensitivity analysis the new facility will provide a small surplus of £9,300 based on 75 games per day but it is anticipated that the average games per day will be in equal or in excess of the industry average of 100 games.

Legal and Procurement Advice

20. The Localism Act 2011 includes a ‘general power of competence’ which gives local authorities the legal capacity to do anything that an individual can do that is not specifically prohibited which includes the power to provide and charge for leisure services to cover the cost of provision, and so the Council has the power to deliver the new services.

21. The alterations to the building will be carried out by the in-house Building Services Team.

22. It is proposed that the procurement of the Specialist Equipment and other required Works and Services (including as required maintenance services for the specialist equipment) is to be added to the Procurement Annual Plan and designated as non-strategic and that the decision for the contract award be delegated to Director of Economic Growth and Neighbourhood Services subject to procurement process in accordance with the Council Contract Procedure Rules.

23. Due diligence checks of the contractors will be carried out in accordance with the mandated Cabinet Office Selection questionnaire including a full health and safety assessment. Appropriate bonds/ warranties will be required as a part of the contract in accordance with the Council Contract Procedure Rules and good industry practice.

HR Implications

24. There is a requirement to employ additional staff to manage the new facilities which will happen in due course in line with Council procedures.

Consultation

25. As mentioned earlier in this report, consultation was carried out across the Borough as part of the Town Centre Strategy work there is strong support for the introduction of Ten Pin Bowling within the town centre.

26. Existing Squash users of the Dolphin Centre have all been written to with regard to the proposals, which are obviously subject to Cabinet approval after which a meeting will be held with interested individuals. Officers will continue to work closely with Darlington Squash Club as an alternative facility for Squash customers.

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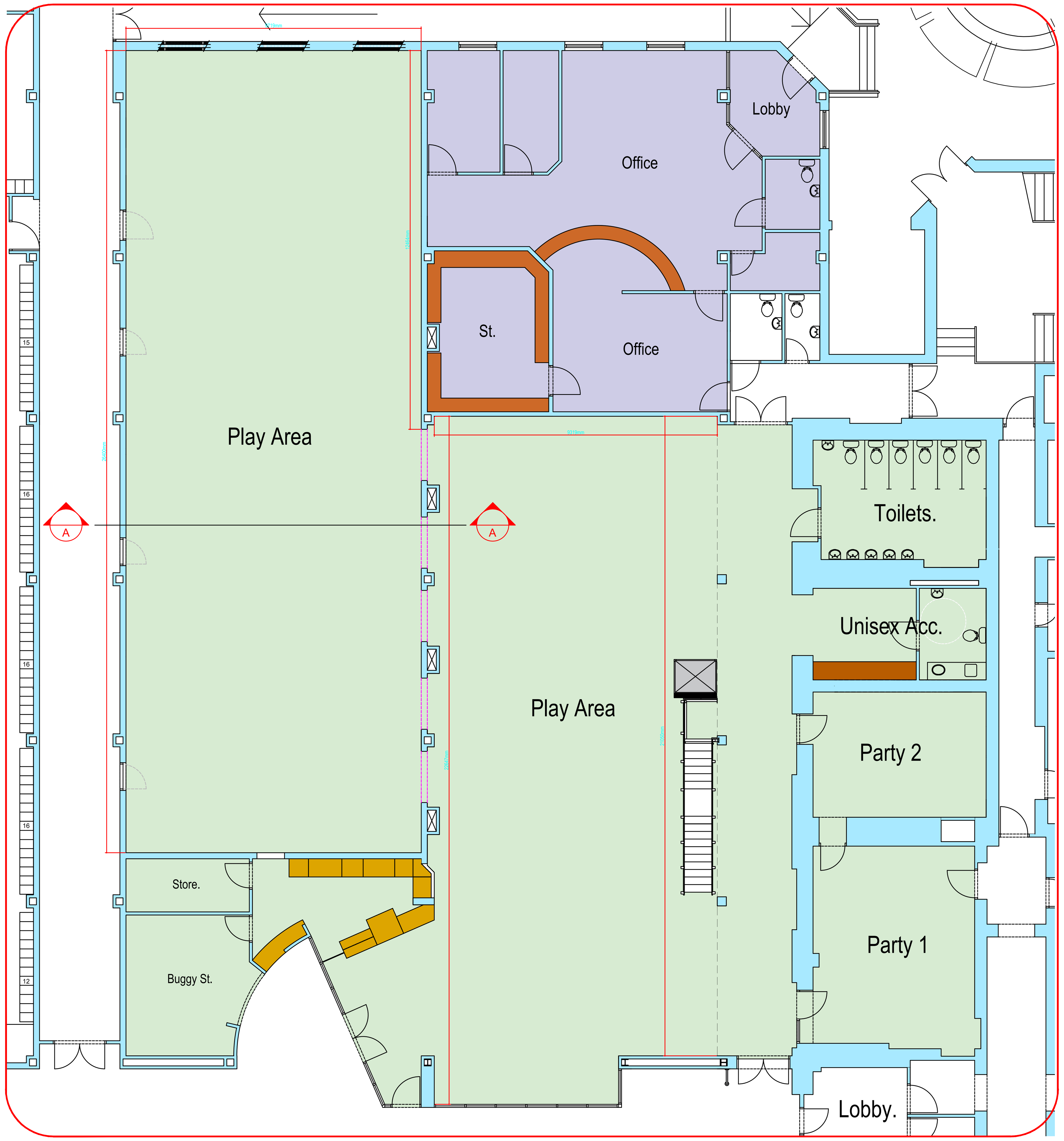
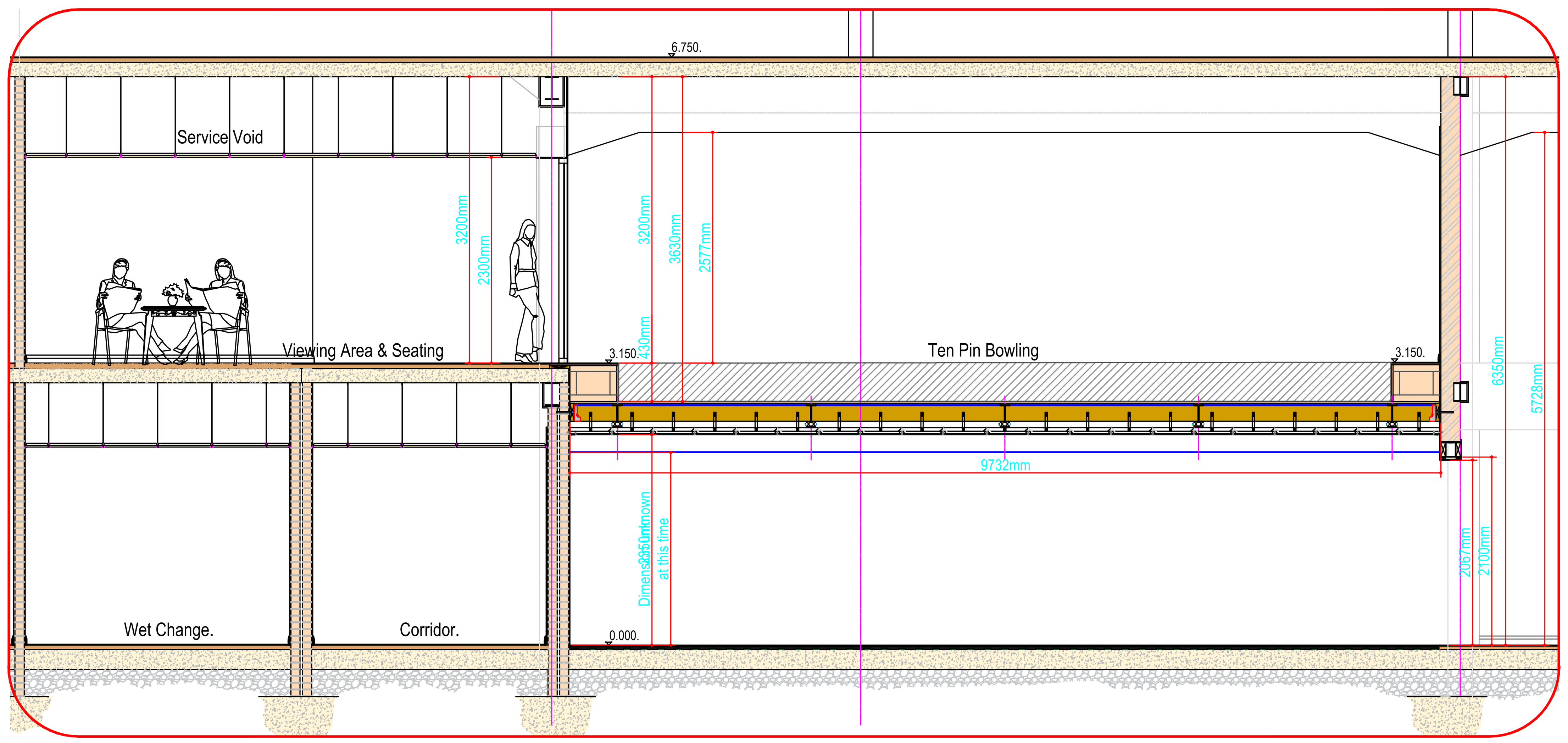
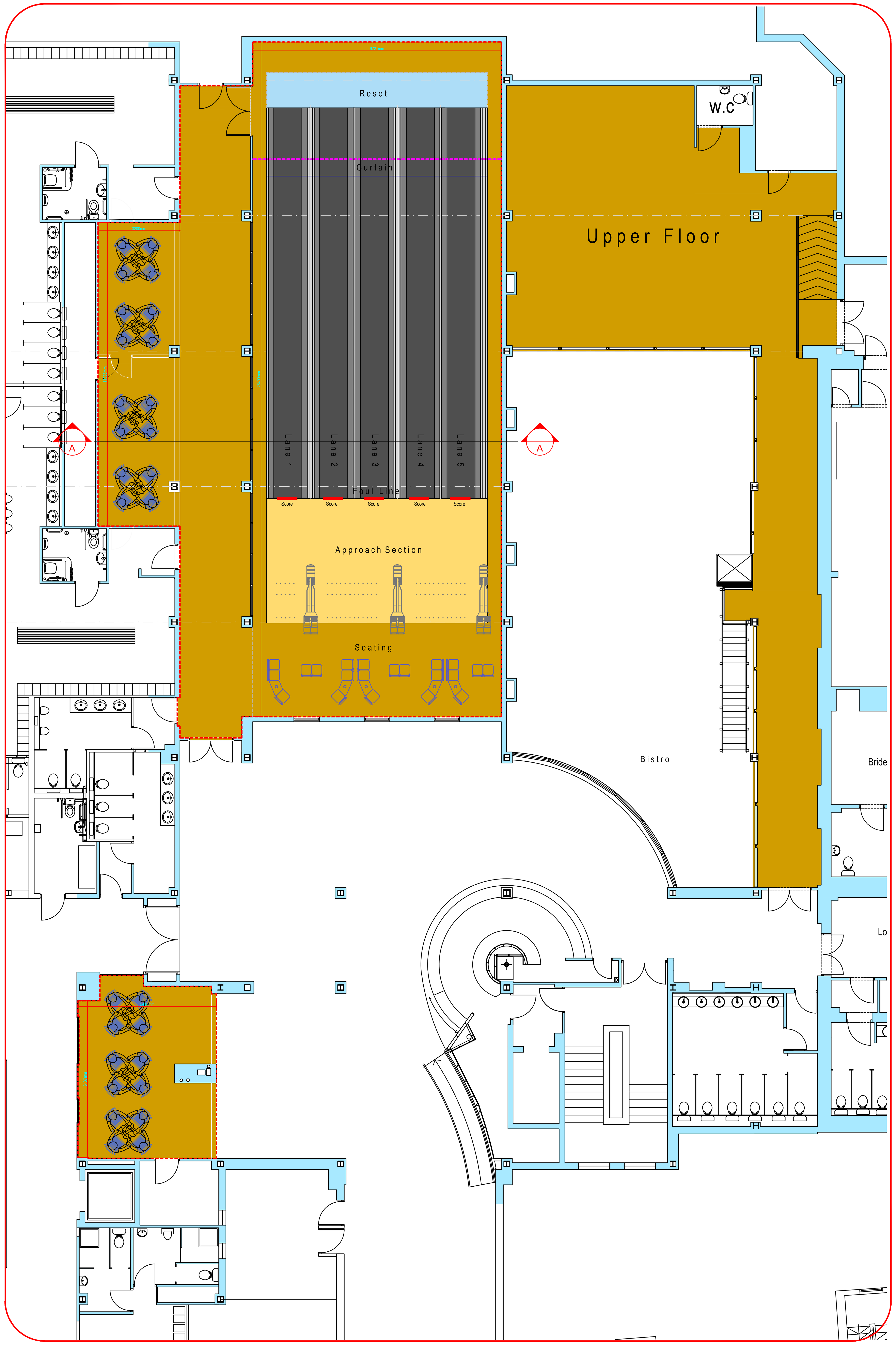


Ground Floor Plan Version D - Scale 1:100



Typical Section on A - A - Scale 1:50



First Floor Plan
Version D
Scale 1:100

Notes

- All dimensions are in millimeters, contractor is responsible for verification of dimensions on site with any discrepancies to be reported back to Architects prior starting works.
- Where proprietary references are used other or equal and approved is also acceptable.
- All work is to be undertaken to the satisfaction of the the Local Authority Building Control Officer. All materials must comply with the latest British Standards and Codes of Practice.
- This drawing is to be read in conjunction with Engineers drawings and details.
- This drawing is to be read in conjunction with M&E consultants drawings.
- Any discrepancies to be reported back to the Architect.
- Do not scale from this drawing.

Rev	Date	By	Note
Rev. P = Preliminary		O = Tender	A-Z = Construction

DARLINGTON BOROUGH COUNCIL
ECONOMIC GROWTH
Darlington Borough Council
17 Allington Way
Darlington. DL1 4QB
01325 406613

PROJECT
Dolphin Centre
Ground & First
Floors.

Version D

SCALE	DATE
1:100 @ A1	March 2019
DRAWN: M Johnson	CHECKED: T.C.M
REF. 2018_041	
DRAWING NO. 2018_041_A_D	REV. O

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CABINET
3 DECEMBER 2019

THE NORTHGATE INITIATIVE

Responsible Cabinet Member – Councillor Jonathan Dulston, Stronger Communities Portfolio

Responsible Director - Paul Wildsmith, Managing Director

SUMMARY REPORT

Purpose of the Report

1. The report seeks Cabinet's approval for an initiative in the Northgate ward which aims to work with partner agencies to address a broad range of issues including environment, education, health, employment, safety and social relationships.

Summary

2. The initiative will comprise of a multi-agency programme to pilot a range of interventions, from support and advice to enforcement activities where required, in order to improve outcomes for local residents' in all areas of wellbeing including economy, education and childhood, health, environment and social relationships.

3. Work will focus on the area of Northgate ward to the west of North Road.

Recommendation

4. It is recommended that Cabinet:-

   (a) Approve the Northgate Initiative.

   (b) Note the proposal to earmark £100,000 from the Futures Fund for the project intiation.

Reasons

5. The recommendations are supported by the following reasons:-

   (a) Northgate ward has one of the highest concentrations of private rented property in the borough.

   (b) There is also a relatively high number of younger deprived families living in the area, suffering from a range of interrelated issues of deprivation including child poverty, fuel poverty, high incidences of crime and antisocial behaviour and poor health outcomes.

   (c) To allocate funding to the initiative.

Paul Wildsmith
Managing Director

Seth Pearson: Extension 6090

S17 Crime and Disorder	These proposals seek to deliver a significant element of the Fairer Richer Darlington programme. The intended long term aim of this programme is to improve Darlington residents' wellbeing, including environmental outcomes such as crime and antisocial behaviour.
Health and Well Being	These proposals seek to deliver a significant element of the Fairer Richer Darlington programme. The intended long term aim of this programme is to improve Darlington residents' wellbeing, including health outcomes.
Carbon Impact and Climate Change	Activities to improve the local environment will form part of the programme, including initiatives to improve housing conditions and reduce fuel poverty by improving the energy efficiency of homes in Northgate which will have a beneficial effect in terms of carbon impact and climate change.
Diversity	There are no foreseen negative impacts on diversity. However, the proposals may well create better opportunities for people with protected characteristics.
Wards Affected	Work will focus, at least initially, on a defined area of the Northgate ward. Where interventions are found to be particularly effective, they may be rolled out elsewhere in the borough.
Groups Affected	There are no implications for specific groups of this proposal.
Budget and Policy Framework	This decision does not represent a change to the budget and policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	This report outlines proposals which seek to make a significant contribution to the Fairer Richer Darlington programme adopted by the Council, which aims to deliver the vision of One Darlington: Perfectly Placed.
Efficiency	This proposal intends to deliver better value for residents of Darlington from Council spend, without increasing its costs.
Impact on Looked After Children and Care Leavers	This report does not impact directly on Looked After Children or Care Leavers

MAIN REPORT

Background

6. The comprehensive evidence base that was compiled and analysed during the development of Fairer Richer Darlington identified that many of the target group, younger deprived families, were living in private rented accommodation with a high prevalence in Northgate ward (see **Appendix 1**).

7. Separate to this, the private rented sector has been a growing area of focus for local and national government as a result of its rapid growth over recent years, increasing concerns around issues such as rogue landlords and the availability of

effective support for tenants, and as our knowledge about the importance of good quality housing for health and wellbeing has advanced.

8. Council officers were keen to investigate what interventions might be able to be undertaken, given limited resources, to help support private tenants and address issues including environmental crime and antisocial behaviour which are consistently concentrated in areas with higher levels of private rented accommodation.

9. Research was undertaken to identify a focus area for the Private Sector Housing team to target with new pilot approaches to improve housing conditions. This data analysis found that Northgate ward was a key hotspot for many measures related to poor housing conditions, including fuel poverty, homes in poor condition and number of long-term empty properties. It also found, however, that Northgate is a hotspot for many wider measures relating to deprivation generally, including child poverty and households in receipt of welfare benefits, and for the incidence of households which correspond with the target group for Fairer Richer Darlington: deprived younger families.

10. In light of these findings, it was agreed that a broader, more holistic approach should be undertaken in order to maximise the likelihood of delivering meaningful and sustained outcomes working with partner agencies to address all the domains that collectively determine Northgate residents' wellbeing.

Terms of Reference

11. A multi-agency programme to pilot a range of interventions, from support and advice to enforcement activities where required, in order to improve outcomes for local residents in all areas of wellbeing including economy, education and childhood, health, environment, crime and security, and social relationships.

12. This area-based programme will act as a testbed for Fairer Richer Darlington activities, with ongoing evaluation built in and designed from the outset.

13. Different organisations will be tasked with leading on various domains, in line with their function. The proposed domains (and their underlying sub-domains) are:

    (a) Economy
        (i) Unemployment
        (ii) Job Quality
        (iii) Material Deprivation

    (b) Education and Childhood
        (i) Child Learning
        (ii) Adult learning
        (iii) Children's Wellbeing

    (c) Health
        (i) Health Behaviour
        (ii) Overall Health
        (iii) Mental Health

    (d) Environment
        (i) Green Space

(ii) Housing
(iii) Democracy
(iv) Local Environment
(v) Culture

(e) Crime and Security
(i) Crime
(iii) Community Safety

(f) Social Relationships
(i) Close Support
(ii) Community Cohesion
(ii) Volunteering

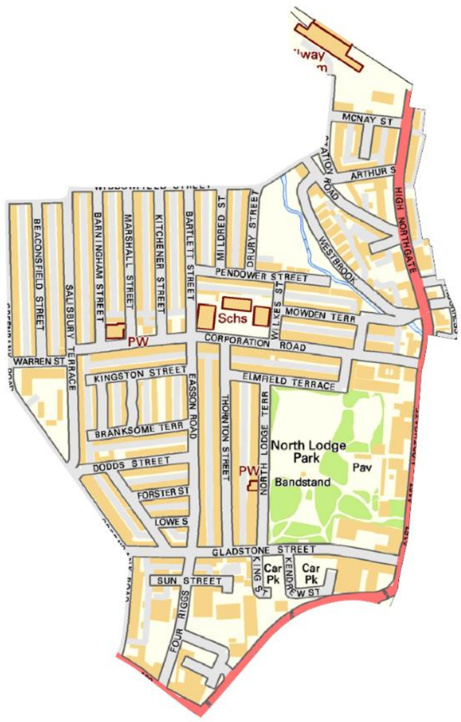
14. These domains align with the Local Framework for Wellbeing indicator set, which was developed by the ONS, Public Health England, that What Works Centre for Wellbeing and Happy City to identify a consistent means of monitoring residents' wellbeing at a local level. The framework is built around domains reflecting the different areas which evidence shows determine residents' overall quality of life.

15. This framework will also allow for progress to be monitored against local and national outcomes.

16. It is expected that there will be some 'quick wins' however it is also recognised that measurable improvement will take years to effect and the initial programme will be planned to 2024.

Area

17. Work will focus on the area identified in the maps below, specifically the area of Northgate ward to the west of North Road.



Vision (illustrative)

18. A final vision will be agreed by the Project Board and Political lead, following Cabinet's approval of the Northgate Initiative. However, it could include the following:

    'Northgate is a place where residents are empowered to take control of and improve their wellbeing and life outcomes, by helping deliver the following conditions:

    (a) Fairly paid, quality employment opportunities.
    (b) Access to continuous learning.
    (c) Enough information and support to get and stay healthy.
    (d) A clean and green local environment that people can take pride in.
    (e) A safe place to live.
    (f) A community that cares for each other.'

Next Steps

19. The following actions will underpin the development of a Northgate Initiative action plan by helping to identify priority issues and actions for each domain:

    (a) Gather, analyse and present baseline data.

    (b) Undertake a gap analysis of current services / provision in Northgate.

    (c) Undertake research to learn from best practice in other areas.

    (d) Develop an effective community engagement plan, including a comprehensive baseline survey for residents.

20. A lead for each domain will be agreed from agencies in line with their function and a programme of action will be developed under each domain.

21. Learning from previous regeneration programmes, for the initiative to generate lasting benefit it will include elements of physical regeneration focused on the housing stock, support for improving the wellbeing of residents and, importantly, meaningful community engagement.

Targets (Draft)

22. It will be important to establish a series of headline targets for the initiative which could include, for example:

By 2024:

(a) X% of the homes identified as empty in 2019 have been brought back into use.

(b) X residents and landlords have been made aware of what constitutes a decent and safe home and are aware of the what remedies are available to them should their home not meet these standards.

(c) No child in Northgate is living in a home that is not decent and safe.

(d) X people in poor quality employment have been helped into quality jobs.

(e) The gap between reported crime in Northgate and the average for Darlington has reduced.

(f) All children leaving Corporation Road Primary School have been engaged in at least one enrichment activity over and above their expected education.

(g) X people in Northgate have been made better aware of healthy lifestyles.

Governance

23. Work will be overseen by a Project Board chaired by the Director of Darlington Partnership (Seth Pearson) who will act as Programme Manager. The Council will be represented on the Project Board by The Assistant Director for Community Services (Ian Thompson) and Assistant Director for Housing and Building Services (Pauline Mitchell). Other members of the Board will include the leads from other key partners.

24. The Council will be the principal sponsor and the Project Board will be accountable to Darlington Borough Council's Chief Officer Executive which will receive regular updates from the Project Board.

25. The Portfolio Holder for Community Safety (Councillor Dulston) will act as the political lead for the programme.

26. A Darlington Partnership Programme Development Officer will be tasked with overall coordination of work.

Financial Implications

27. It is expected that the majority of actions undertaken will be delivered through the Council and other agencies' programmed spend. However, where a particular intervention requires additional resource, £100,000 of the Council's Neighbourhood Renewal futures fund has been allocated to support the programme.

28. As per the current process for neighbourhood renewal funding, any proposals will be required to demonstrate they meet the following criteria:

(a) Evidence-led: both in terms of a robust needs analysis and theory.

(b) Match-funded: proposals that seek to exploit opportunities to lever in external funding into the borough will be prioritised.

(c) Cost-effective: a clear business case outlining how initiatives will seek to avoid significant downstream costs or deliver significant benefit to residents should be provided.

(d) Added value: proposals that seek to engage local partners and or involve volunteers will be prioritised.

(e) Sustainable: proposals that require a one-time injection of seed corn funding will also be prioritised.

29. Identifying additional external funding opportunities will be a standing action for the Project Board.

Legal Implications

30. There are no legal implications.

HR Implications

31. There are no direct HR implications though officer time will be devoted to developing and overseeing the initiative as outlined in paragraphs 10 to 13.

Equalities considerations

32. There are no direct equalities considerations, however this project is intended to support some of the most vulnerable communities in Darlington which tend to include higher proportions of people with protected characteristics. In addition, the Northgate ward has the highest concentration of ethnic minorities in Darlington.

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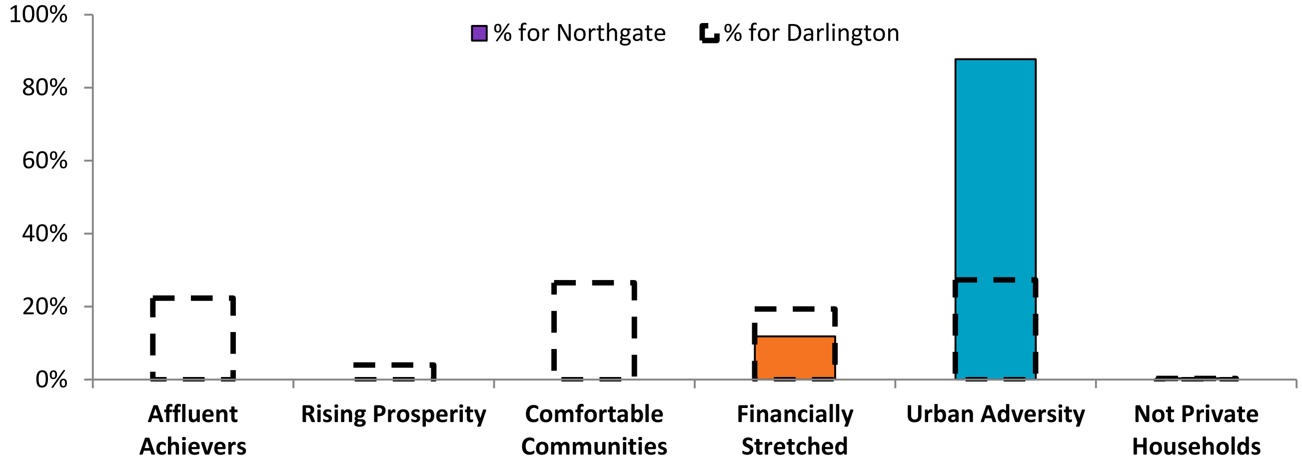
APPENDIX 1

Northgate ward profile

Households



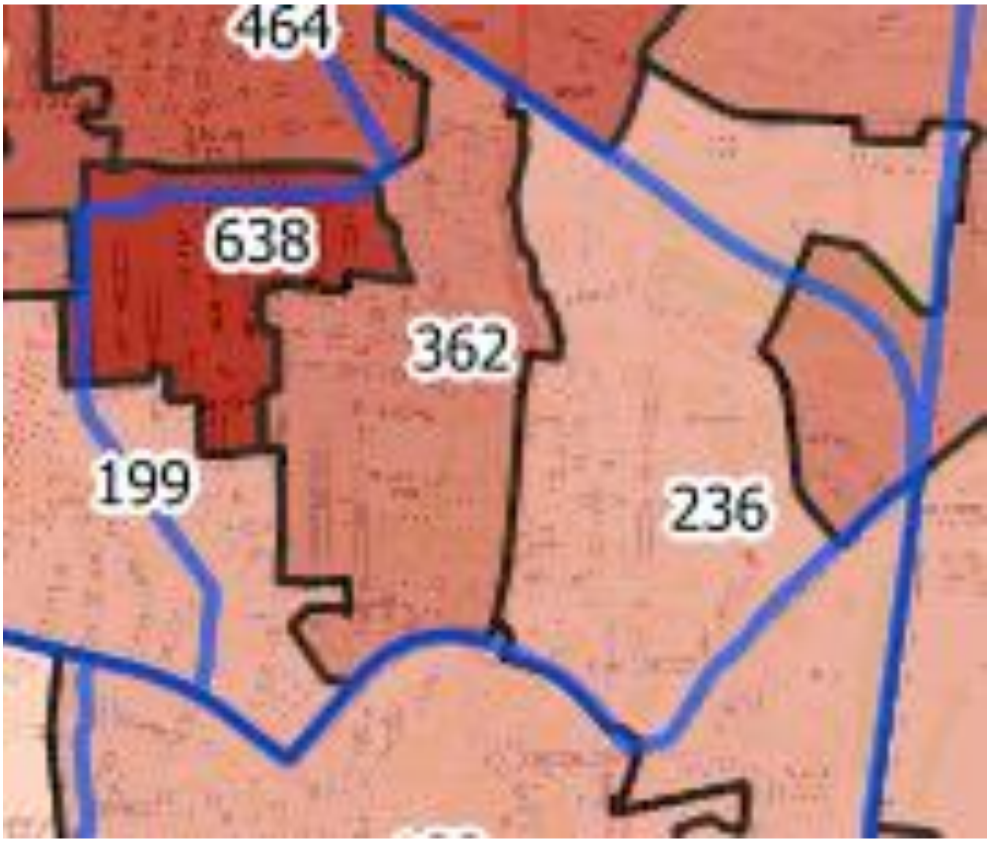
	Area Profile	% for Northgate	% for Darlington	Index
Affluent Achievers	0	0.0	22.3	0
Rising Prosperity	0	0.0	4.0	0
Comfortable Communities	0	0.0	26.6	0
Financially Stretched	252	11.9	19.4	61
Urban Adversity	1,865	87.8	27.3	321
Not Private Households	8	0.4	0.4	100

Financially Stretched				
Student flats	0	0.0	0.0	0
Student terraces	0	0.0	0.0	0
Young renters in flats	14	0.7	0.7	97
Squeezed singles and couples	20	0.9	1.8	52
Squeezed young families	13	0.6	2.8	22
Renting young families	21	1.0	2.8	35
Struggling social renting families	18	0.8	2.1	41
High occupancy families	58	2.7	0.1	2,085
Conventional middle-agers	13	0.6	2.2	28
Rooted pensioners	15	0.7	0.0	2,229
Elderly in terraced estates	13	0.6	0.9	67
Post-industrial pensioners	5	0.2	1.5	16
Elderly in semi-detached estates	3	0.1	2.1	7
Pensioners in social rented flats	59	2.8	2.4	116
Urban Adversity				
Younger privately rented adversity	182	8.6	1.8	480
Younger social renting adversity	9	0.4	1.2	35
Deprived multicultural renters	0	0.0	0.0	0
Poorer social renting families	39	1.8	3.2	57
Deprived younger families	747	35.2	7.2	487
Struggling owner occupier families	438	20.6	5.3	388
Older people in social rented estates	49	2.3	1.7	134
Struggling older owners	183	8.6	2.6	332
Retired couples in social rented estates	3	0.1	0.9	15
Deprived elderly renters	161	7.6	2.3	328
Deprived older people renting flats	54	2.5	1.0	254

APPENDIX 1

Younger Deprived Families

LSOA



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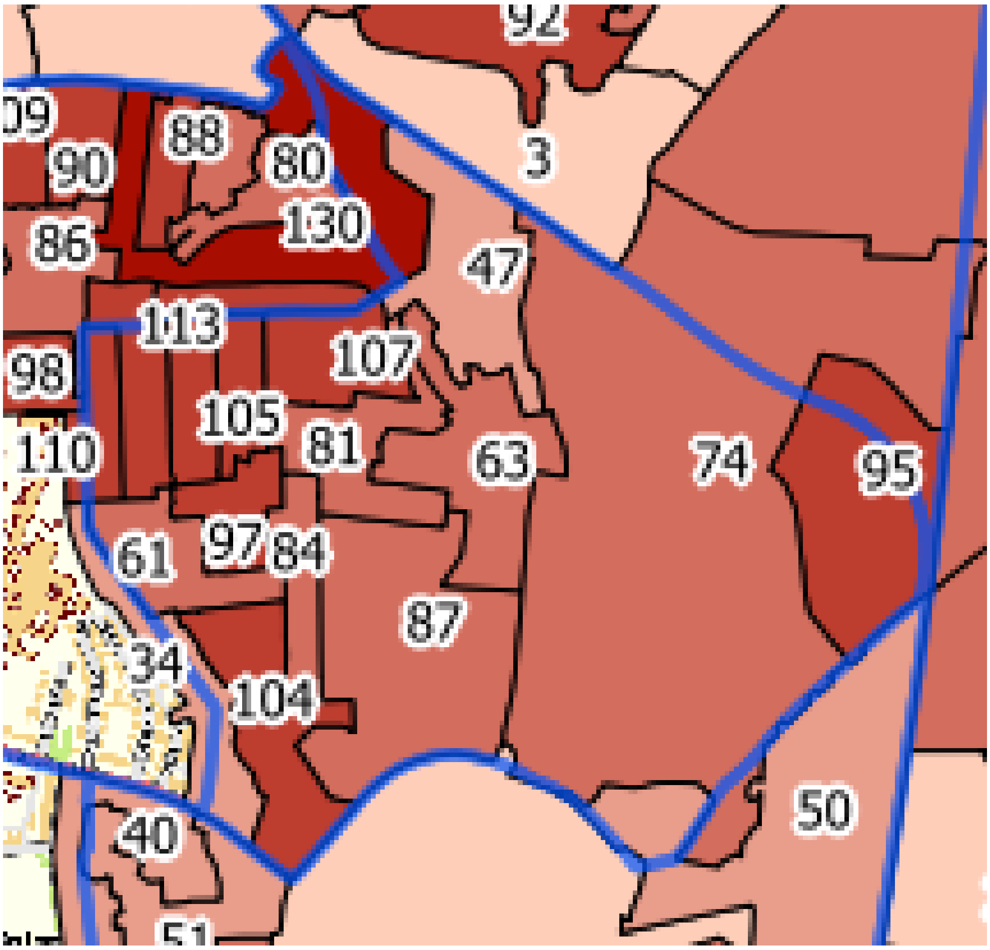
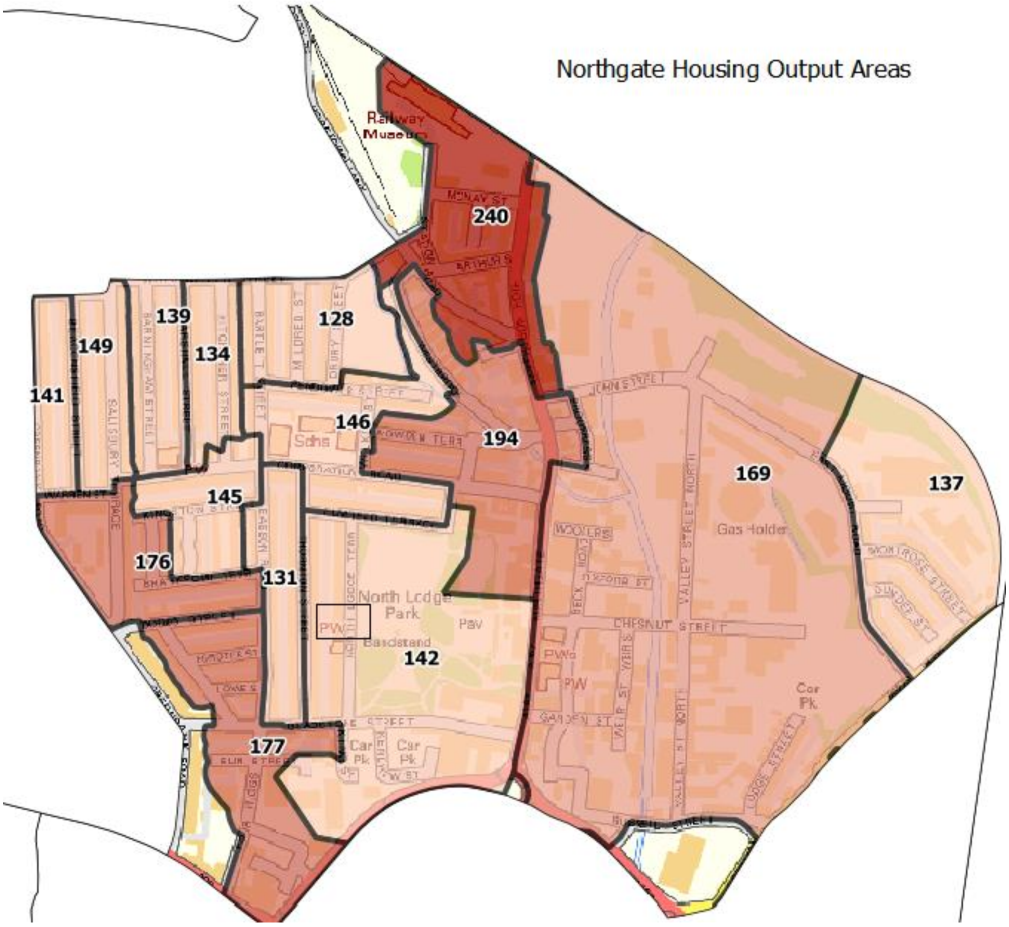
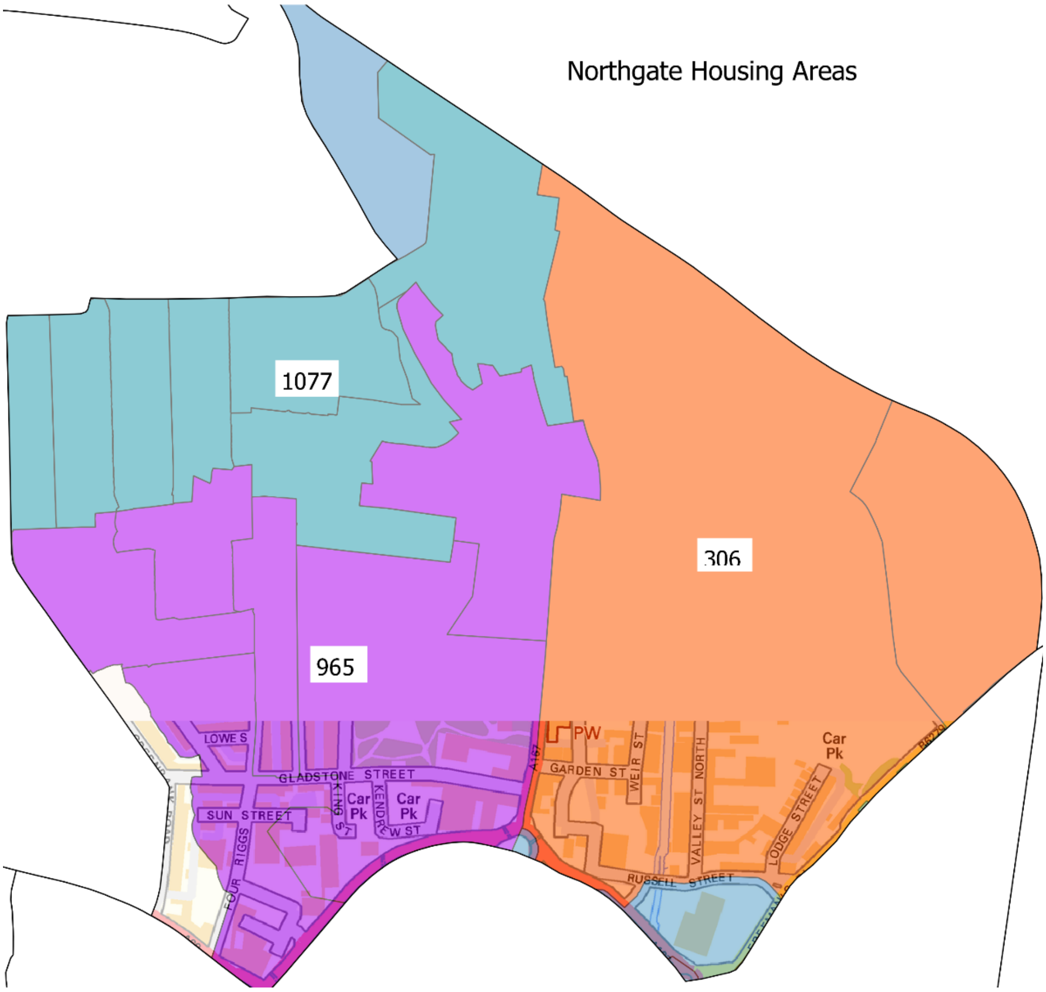


APPENDIX 1

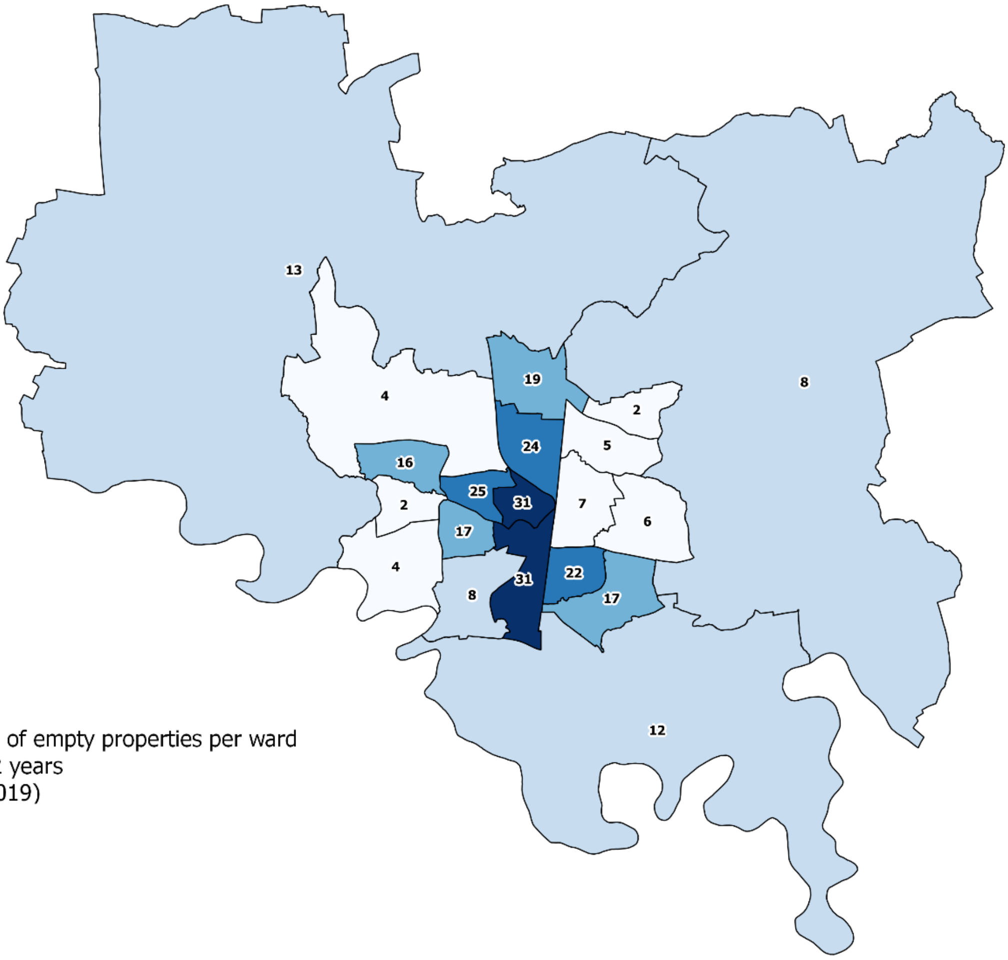
Household Numbers



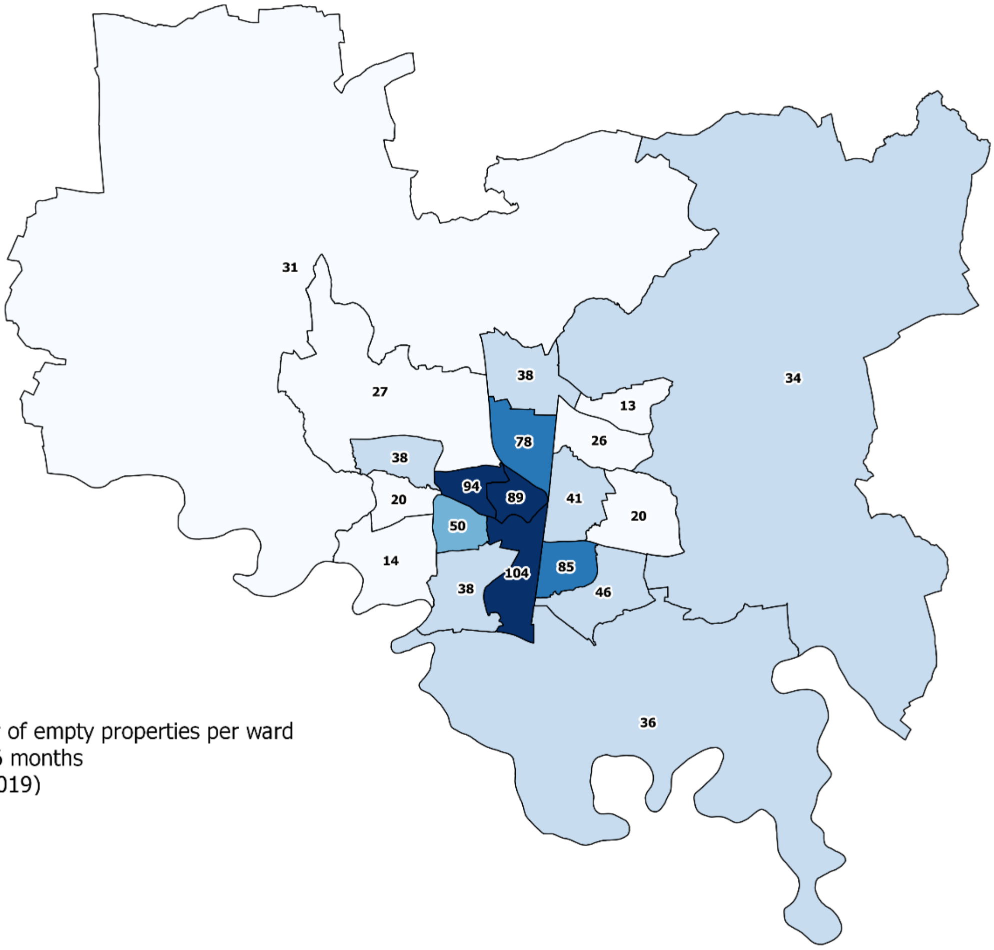


APPENDIX 1

Empty Properties

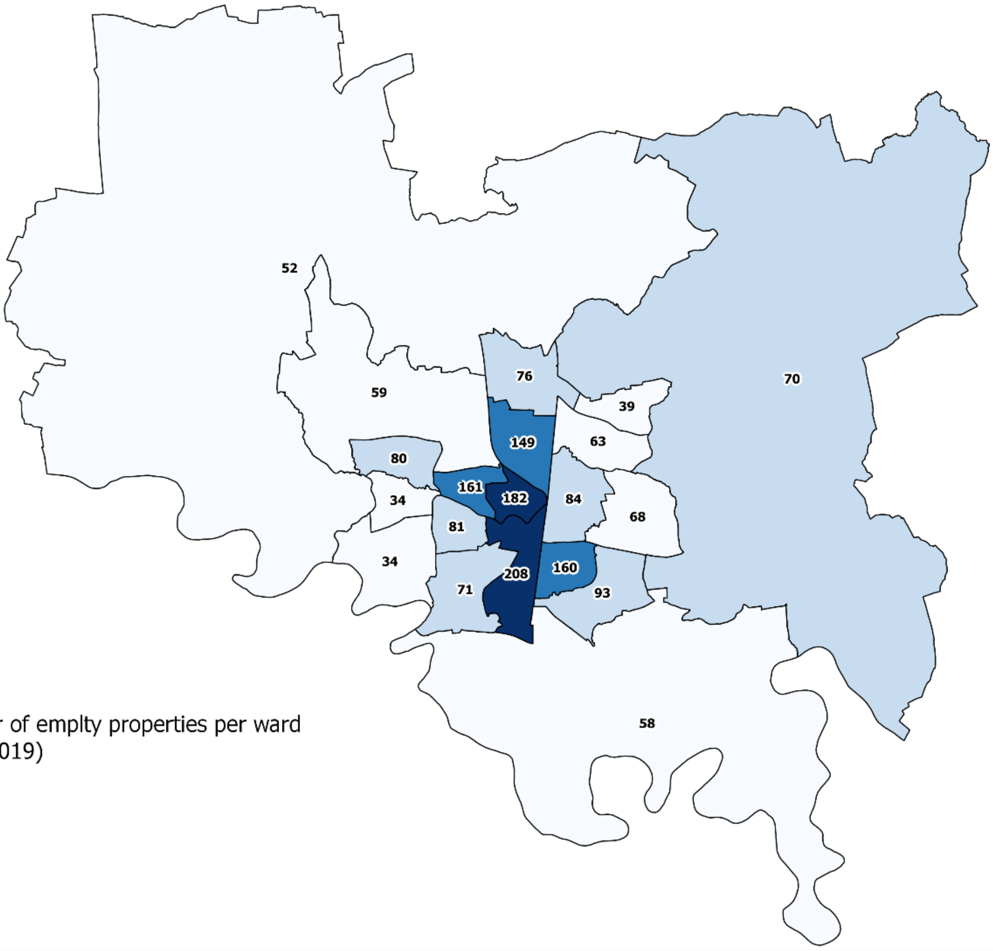


Number of empty properties per ward
- Over 2 years
(June 2019)



Number of empty properties per ward
- Over 6 months
(June 2019)

APPENDIX 1



Number of emplty properties per ward
(June 2019)

Empty properties in Northgate ward
- Over 2 years
(2019)

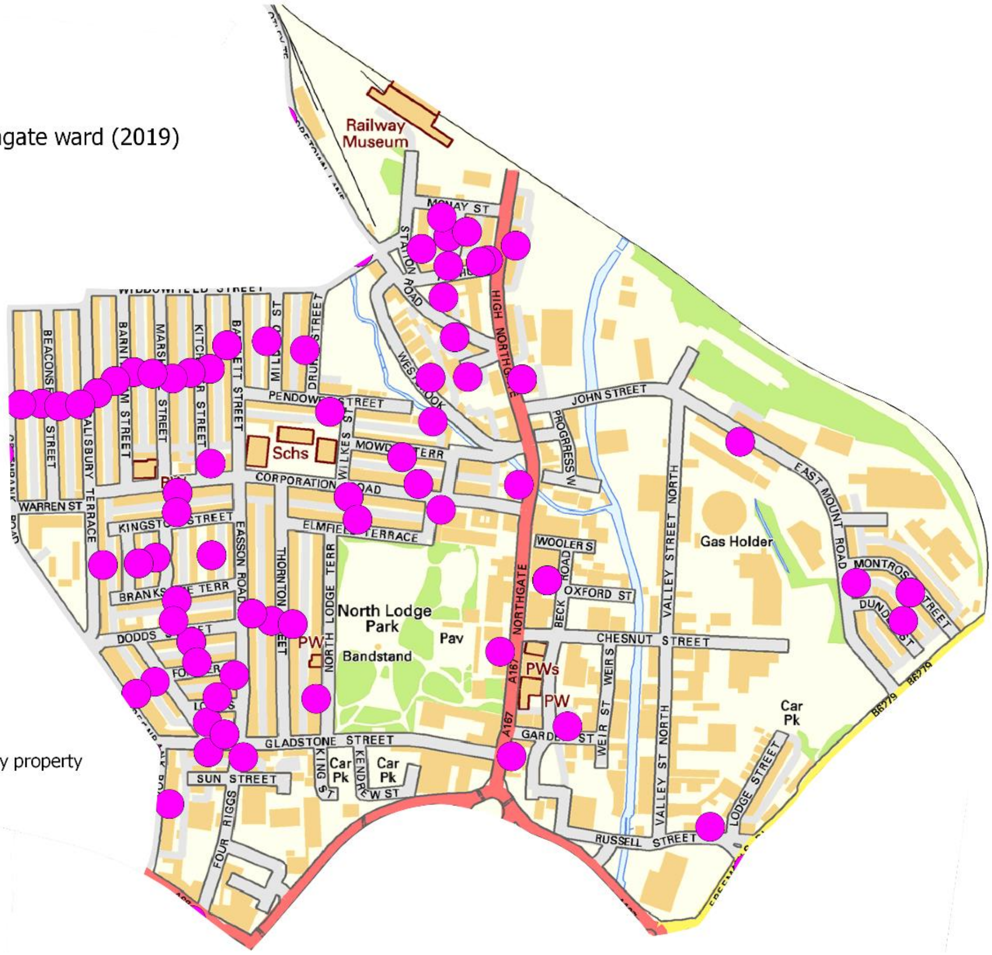
Postcodes with at least one empty property for more than 2 years

APPENDIX 1

Empty properties in Northgate ward
- Over 6 months
(2019)

Postcodes with at least one empty property for more than 6 months

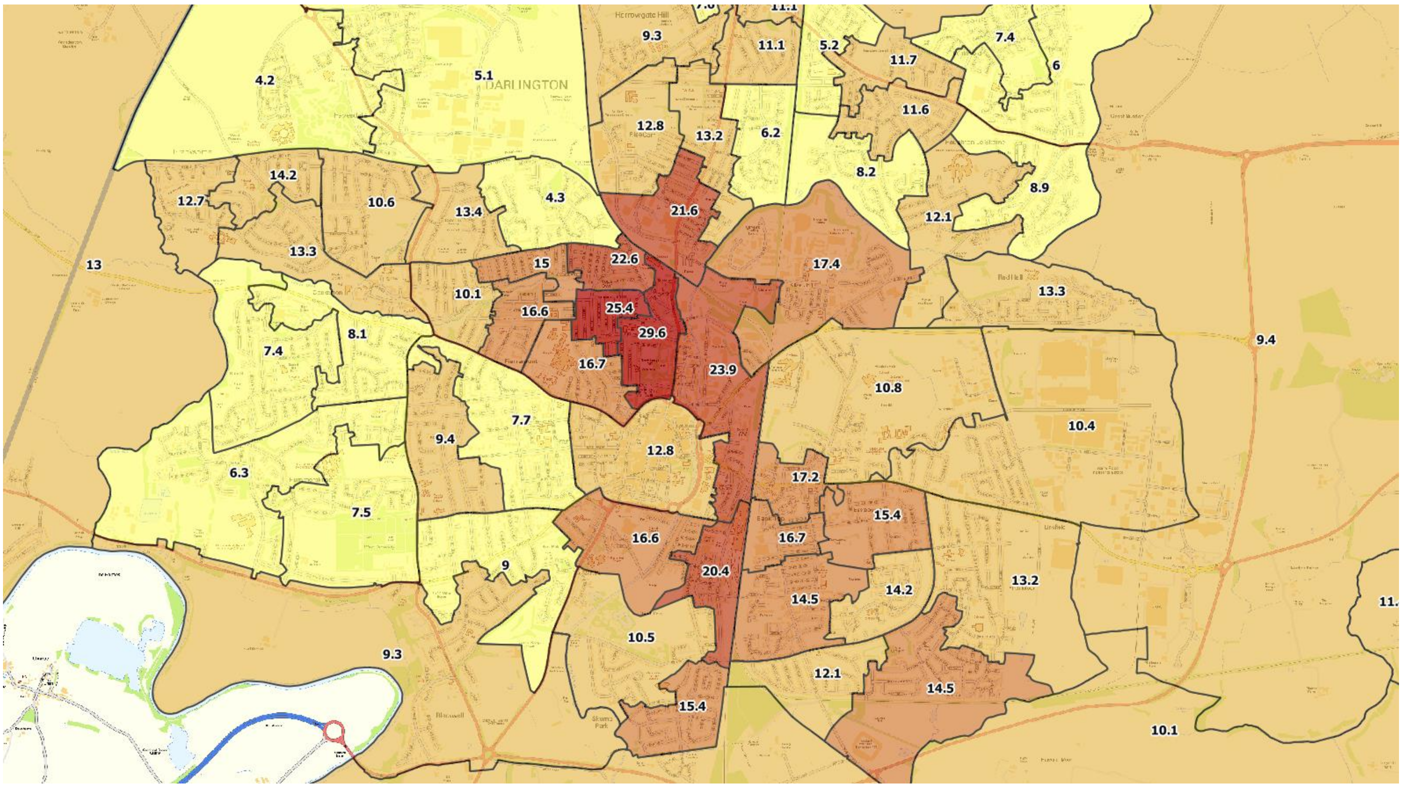
Empty properties in Northgate ward (2019)



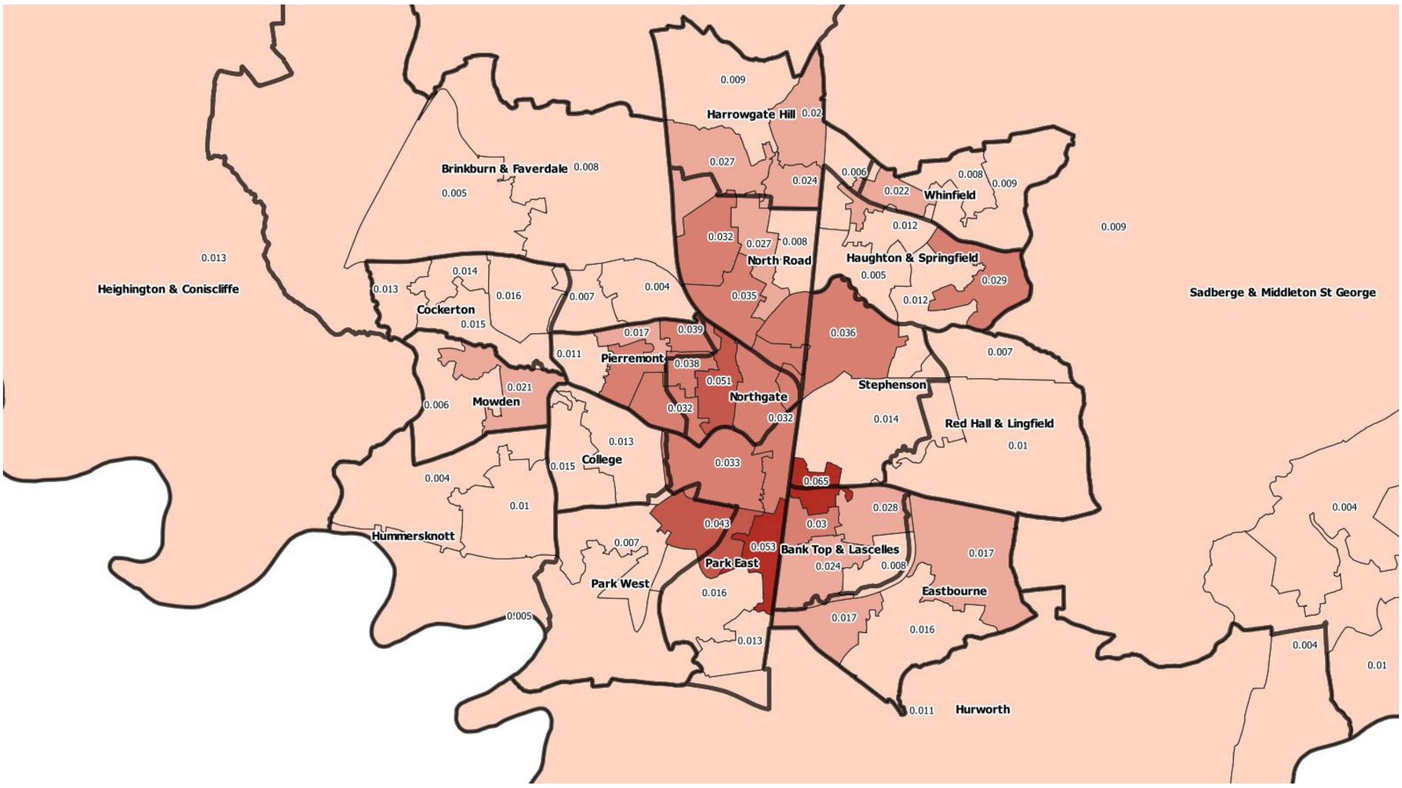
Postcodes with at least one empty property

APPENDIX 1

Fuel Poverty

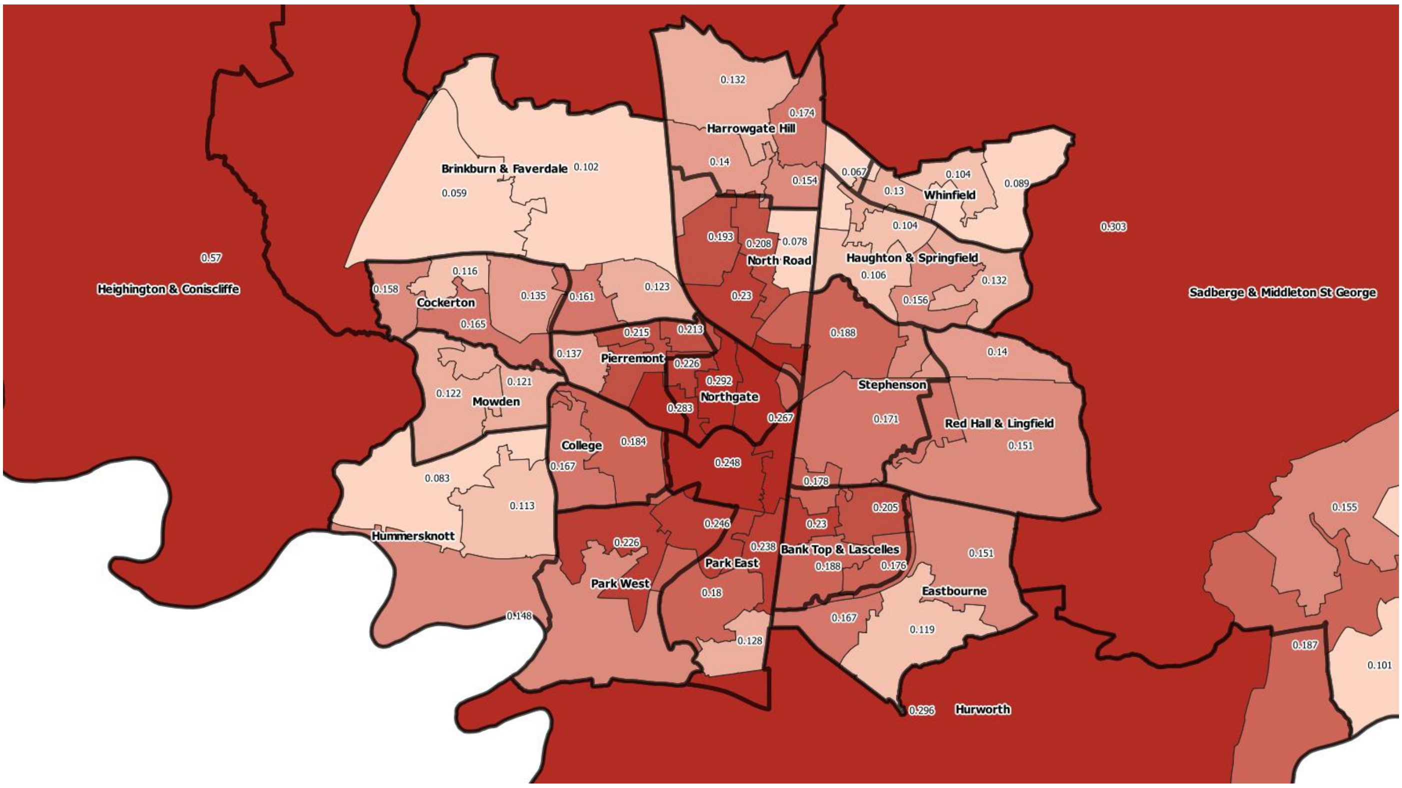


House without central heating (2011)

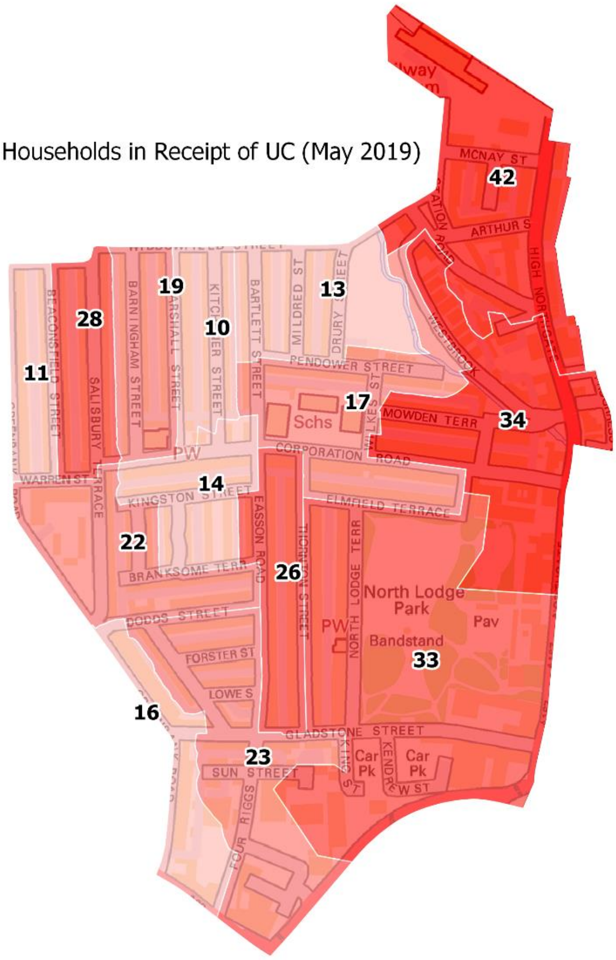


APPENDIX 1

Homes in Poor Condition

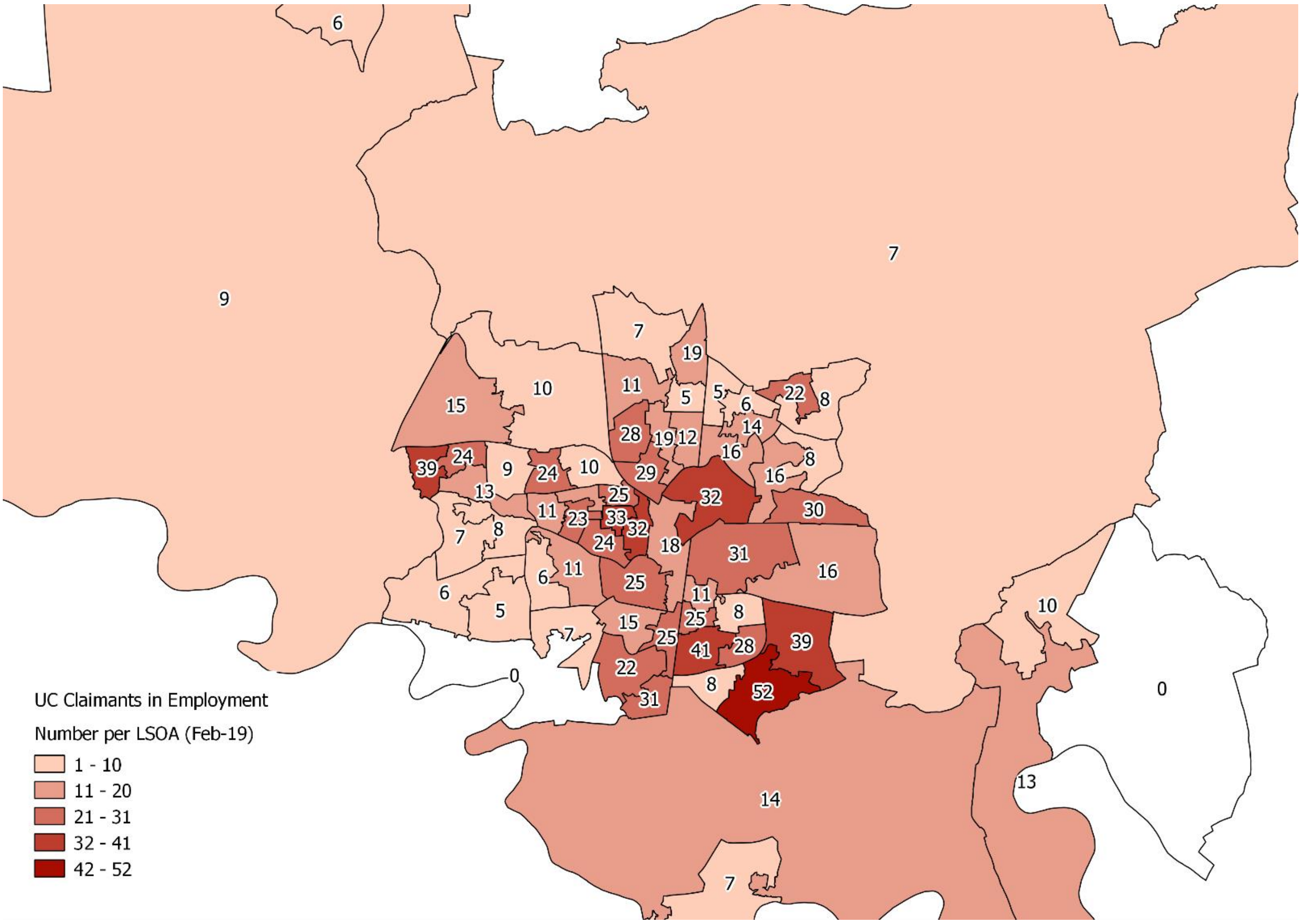


UC Claimants



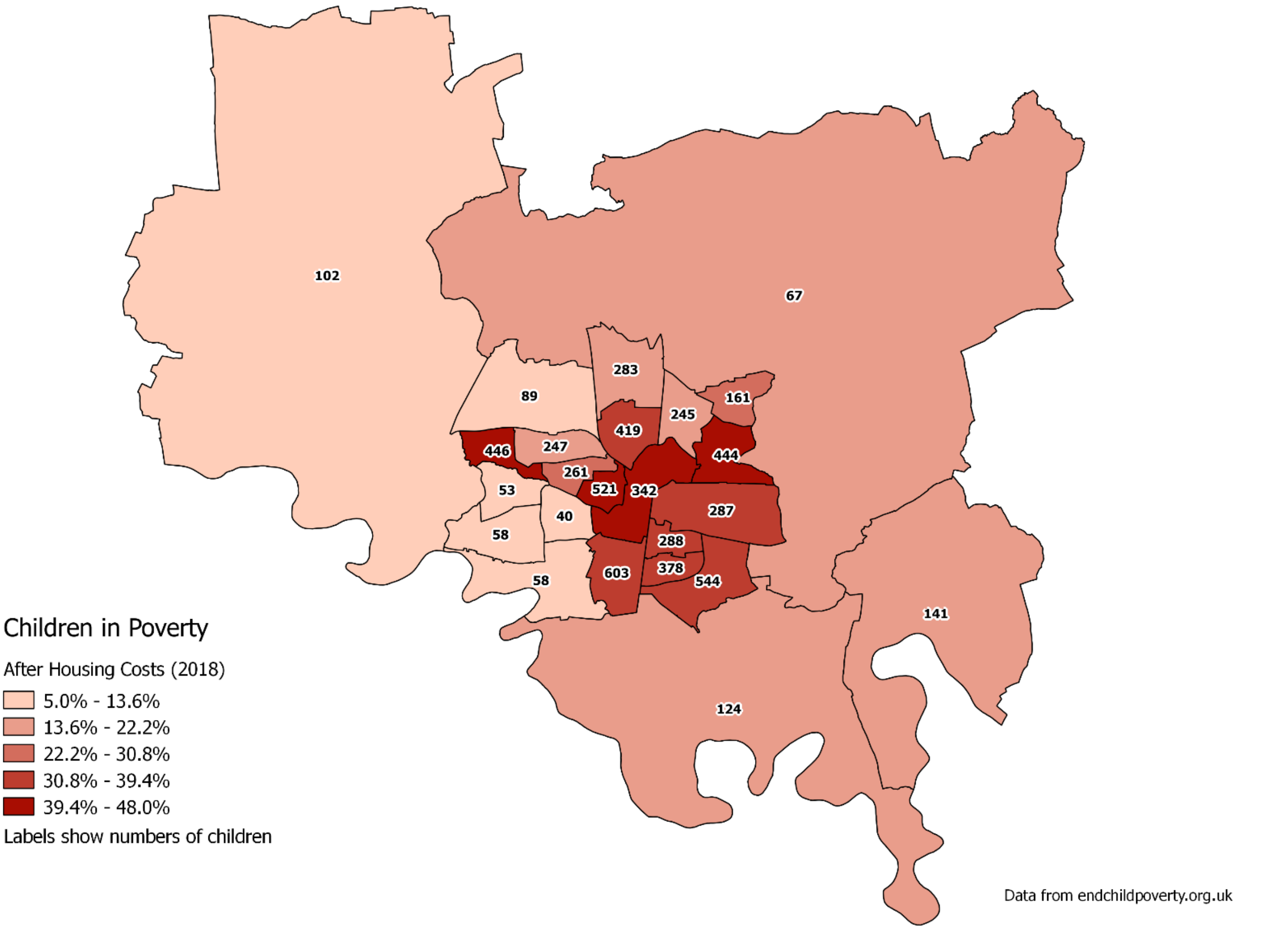
APPENDIX 1

UC Claimants in Work



APPENDIX 1

Child Poverty



CABINET
3 DECEMBER 2019

PROPOSED WAITING RESTRICTIONS MCMULLEN ROAD ROUNDABOUT - OBJECTIONS

Responsible Cabinet Member – Councillor Heather Scott
Leader and Local Services Portfolio

Responsible Director – Ian Williams
Director of Economic Growth and Neighbourhood Services

SUMMARY REPORT

Purpose of the Report

1. To advise Members of an objection received to a proposal for waiting restrictions at McMullen Road/Yarm Road roundabout and to seek a decision on whether to proceed with the proposal.

Summary

2. As part of the design of the recent roundabout improvement scheme at McMullen Road/Yarm Road, it was proposed to introduce waiting restrictions to ensure traffic flow is unimpeded on the approach/exit of the roundabout.

3. The Yarm Road approach/exit of the roundabout is fronted by residential properties, a shop, café and chip shop are also in close proximity. Vehicles parking in this location are causing traffic flow issues and potential road safety issues with vehicles encroaching into the opposing lane.

4. Waiting restriction proposals were developed and advertised to prevent parking and resolve the traffic flow/road safety (see plan at **Appendix A**). These were consulted upon.

5. An objection was received from a resident who owns one of the affected properties. The objector does not have off street parking due to having a mature tree outside his property which prevents construction of a vehicle access. They are concerned it will have an adverse effect on the property and prospective tenants will be deterred by the lack of off-street parking.

6. It should be noted that the only right the general public have on the public highway is a right of passage along it. The Council, acting in its capacity as the Highway Authority, have a duty of care to ensure the safety of the travelling public and a duty under the Traffic Management Act 2004 to maintain the expeditious movement of traffic.

Recommendation

7. It is recommended that Members consider the objection and set it aside for reasons outlined in this report and authorise officers to proceed with the proposal to introduce and no waiting at any time and no waiting 8.00am – 6.00pm.

Reasons

8. The recommendation is supported to improve the traffic flow and road safety of the roundabout.

Ian Williams
Director of Economic Growth and Neighbourhood Services

Background Papers
No Background papers were used in the preparation of this report

Chris Easby: Extension 6707

S17 Crime and Disorder	There are no direct implications
Health and Well Being	There are no direct implications
Carbon Impact and Climate Change	There are no significant impact implications in this report
Diversity	There are no direct implications
Wards Affected	Eastbourne
Groups Affected	All
Budget and Policy Framework	This decision does not represent a change to the budget and policy framework
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	No significant implications.
Efficiency	The proposal will prevent obstructive parking

MAIN REPORT

Information and Analysis

9. Yarm Road/McMullen Road roundabout is an extremely busy junction. Capacity improvements have recently been undertaken to manage congestion and traffic flow. However, the absence of waiting restrictions at the approach/exit of the roundabout permits vehicles to park at all times which is causing an obstruction.

10. The vehicles observed to be parking belong to residents, visitors and customers to the shop, chip shop and café. The parking causes traffic flow issues on a daily basis and potential road safety concerns.

11. The Council, acting in its capacity as the Highway Authority, have a duty of care to ensure the safety of the travelling public and a duty under the Traffic Management Act 2004 to maintain the expeditious movement of traffic.

12. A waiting restriction scheme was developed to address these concerns and consulted upon with those residential and business properties possibly affected.

13. A resident from Yarm Road has made an objection to the proposed waiting restrictions. The reason for this objection is he doesn't have off street parking due to having a mature tree outside his property which prevents construction of a vehicle access. They are concerned it will have an adverse effect on the property and prospective tenants will be deterred by the lack of off-street parking.

14. It should be noted that the only right the general public have on the public highway is a right of passage along it. The Council, acting in its capacity as the Highway Authority, have a duty of care to ensure the safety of the travelling public and a duty under the Traffic Management Act 2004 to maintain the expeditious movement of traffic. The Council will generally allow parking where it is considered safe to do so and where it does not impact on performance of the highway.

15. The Ward Councillors were consulted, and no comments were made on the proposal.

16. The proposed restrictions will improve the traffic flow and road safety and are considered necessary.

17. Subject to Cabinet approval, the restrictions will be introduced in accordance with the Council's powers as set out in Part 1 of the Road Traffic Regulations Act 1984.

Financial Implications

18. The proposal will be funded from the traffic management budget.

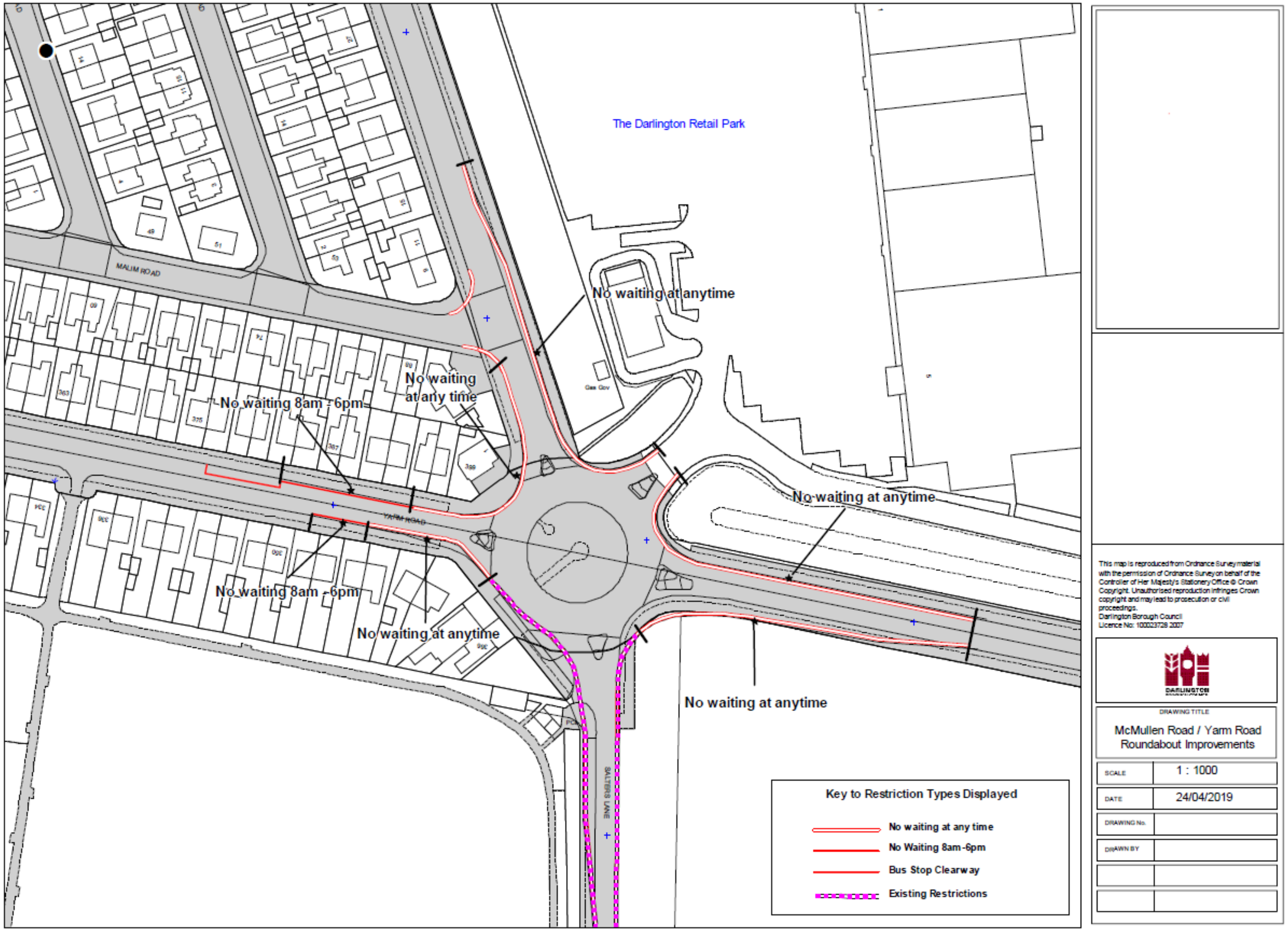
Legal Implications

19. The required legal process has been followed and traffic orders have been statutorily advertised for the required period.

Consultation

20. Officers have consulted the residents of 344 – 366, 377 – 399 Yarm Road and the owner of the Cutting Edge with the proposed waiting restrictions. The proposal has also been statutorily advertised in the press, following delegated authority to progress a traffic order. The outcome of the consultation is covered within the report.

APPENDIX A


The Darlington Retail Park
MALIM ROAD
YARM ROAD
SALTERS LANE
No waiting at anytime
No waiting
at any time
No waiting 8am - 6pm
No waiting at anytime
No waiting 8am - 6pm
No waiting at anytime
No waiting at anytime
Key to Restriction Types Displayed
No waiting at any time
No Waiting 8am -6pm
Bus Stop Clearway
Existing Restrictions
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Darlington Borough Council
Licence No: 100023728 2007
DRAWING TITLE
McMullen Road / Yarm Road
Roundabout Improvements
SCALE
1 : 1000
DATE
24/04/2019
DRAWING No.
DRAWN BY

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CABINET
3 DECEMBER 2019

REVIEW OF OUTCOME OF COMPLAINTS MADE TO OMBUDSMAN

Responsible Cabinet Members:-
Councillor Charles Johnson – Resources Portfolio
Councillor Rachel Mills – Adults Portfolio
Councillor Paul Crudass - Children and Young People Portfolio
Councilor Lorraine Tostevin - Health and Housing Portfolio

Responsible Directors :-
Paul Wildsmith, Managing Director
Suzanne Joyner, Director of Children and Adults Services
Ian Williams, Director of Economic Growth and Neighbourhood Services

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SUMMARY REPORT

Purpose of the Report

1. To provide Members with an update of the outcome of cases which have been determined by the Local Government and Social Care Ombudsman (LGSCO) and the Housing Ombudsman (HO) since the preparation of the previous report to Cabinet on 10 September 2019.

Summary

2. This report sets out in abbreviated form the decisions reached by the LGSCO and the HO since the last report to Cabinet and outlines actions taken as a result.

Recommendation

3. It is recommended that the contents of the report be noted.

Reasons

4. The recommendation is supported by the following reasons :-

   (a) It is important that Members are aware of the outcome of complaints made to the LGSCO and the HO in respect of the Council's activities.

   (b) The contents of this report do not suggest that further action, other than detailed in the report, is required.

Paul Wildsmith
Managing Director

Background Papers

Note: Correspondence with the LGSCO and HO is treated as confidential to preserve anonymity of complainants.

Lee Downey- Extension 5451

S17 Crime and Disorder	This report is for information to members and requires no decision. Therefore there are no issues in relation to Crime and Disorder.
Health and Well Being	This report is for information to members and requires no decision. Therefore there are no issues in relation to Health and Well Being.
Carbon Impact and Climate Change	This report is for information to members and requires no decision. Therefore there are no issues in relation to Carbon and Climate Change Impact.
Diversity	This report is for information to members and requires no decision. Therefore there are no issues in relation to Diversity.
Wards Affected	This report affects all wards equally.
Groups Affected	This report is for information to members and requires no decision. Therefore there is no impact on any particular group.
Budget and Policy Framework	This report does not recommend any changes to the Budget or Policy Framework.
Key Decision	This is not a Key Decision.
Urgent Decision	This is not an Urgent Decision.
One Darlington: Perfectly Placed	This report contributes to all the delivery themes.
Efficiency	Efficiency issues are highlighted through complaints.
Impact on Looked After Children and Care Leavers	This proposal does not affect Looked After Children and Care Leavers

MAIN REPORT

Background

5. Cabinet has previously resolved that they would consider reports on the outcome of cases referred to the LGSCO and HO during the Municipal Year on a bi-annual basis.

6. The opportunity is normally taken to analyse the areas of the Council's functions where complaints have arisen. It is appropriate to do that in order to establish whether there is any pattern to complaints received or whether there is a particular Directorate affected or a type of complaint which is prevalent. If there were a significant number of cases in any one particular area, that might indicate a problem which the Council would seek to address.

Information

7. Between 1 April 2019 and 30 September 2019, 11 cases were the subject of decision by the LGSCO.

8. Between 1 April 2019 and 30 September 2019, 0 cases were the subject of decision by the HO.

9. The outcome of cases on which the LGSCO reached a view is as follows:

LGSCO Findings	No. of Cases
Closed after initial enquiries: no further action	4
Closed after initial enquiries: out of jurisdiction	2
Upheld: Maladministration Injustice	4
Not upheld: No Maladministration	1

Local Government and Social Care Ombudsman (LGSCO)

Closed after initial enquiries: no further action

10. The first of these was for Children's Services, Safeguarding Team A. The LGSCO concluded they would not investigate the complaint that the Council made false allegations about the complainant and made a false report to the police as there was insufficient evidence of fault by the Council.

11. The second of these was for Customer Services Housing (Telephone). The complaint concerned the removal of the hash key option. The LGSCO would not investigate the complaint as further consideration of the complaint would not achieve any more for the complaint.

12. The third of these was for Anti-Social Behaviour & Civic Enforcement Operations. The complainant was dissatisfied with the Council's failure to take action over people in their street owning particular brands of car. The LGSCO would not investigate the complaint as there was no evidence of fault by the Council which would warrant an investigation.

13. The fourth of these was for Development Management. The complainant was dissatisfied with the Council's decision to grant planning permission for a neighbour's roof terrace and a subsequent lack of enforcement action. The LGSCO would not investigate the complaint because there is no evidence of fault by the Council.

Closed after initial enquiries: out of jurisdiction

14. The first of these was for Council Tax. The LGSCO concluded they could not investigate the complaint as it was about a council tax bill and the complainant could appeal to the Valuation Tribunal, therefore it was outside the LGSCO's legal remit.

15. The second of these was also for Council Tax. The LGSCO concluded they could not investigate a complaint about whether or not it was fair that when a house is converted into flats, each flat has a council tax liability. The LGSCO advised it is the Valuation Office Agency (VOA) rather than the Council that decides whether a property is entered on the valuation list and the LGSCO cannot investigate the VOA's decision.

Upheld: Maladministration Injustice

16. The first of these was for Safeguarding Adults. The complainant was dissatisfied the Council failed to take appropriate action in 2017 after they reported the alleged financial abuse of their father. The LGSCO found the Council were at fault for not conducting a full capacity assessment after the complainant reported the concerns. The LGSCO concluded the remedy the Council offered following an internal investigation of the complaint was suitable and did not recommend anything further.

17. The second of these was for Contracts & Quality and concerned the standard of care in a residential care home. The LGSCO found the Council was at fault for the Care Provider's failure to ensure its staff were familiar with the resident's care plan prior to them falling in the care home. The LGSCO was satisfied with the action the Council and the Care Provider had taken to remedy the injustice and improve the service following an internal investigation of the complaint. The LGSCO did not consider any further action was necessary. The LGSCO did find the Council at fault for delaying in investigating the complaint and recommended a payment of £100 to the complainant.

18. The third of these was for Highway Network Management. The LGSCO found the Council was at fault in its handling of the complainant's request for a disabled parking bay. The Council agreed to reconsider the request and undertake an Equalities Impact Assessment as part of the decision-making process.

19. The fourth of these was for the Financial Assessment Team. The LGSCO concluded the Council was at fault in the way it handled the complainant's care fees between 2014 and present. The LGSCO found the Council failed to carry out a financial assessment until 2018, leading to a large backdated invoice for care fees which caused distress. The Council was also at fault for the delay in invoicing for the care and for its poor complaint handling which caused further distress and frustration. The Council agreed to pay the complainant a total of £700 to acknowledge the distress, frustration and uncertainty caused. The Council also

agreed to arrange an appropriate payment plan for the complainant to pay the outstanding invoice.

Not upheld: No Maladministration

20. This complaint was for the Mental Capacity Act/Deprivation of Liberty Safeguards (MCA/DOLS) Team. The LGSCO found no fault in the actions of the Council when handling a safeguarding concern.

Analysis

21. During the first half of 2019/20 the Council received four Upheld: Maladministration Injustice decisions from the LGSCO, compared to six for the same period in 2018/19.

22. Three of the four Upheld: Maladministration Injustice decisions related to matters associated with the provision of adult social care services. The other Upheld: Maladministration Injustice decision related to highways.

23. There were no identifiable themes running through the complaints determined during the first half of 2019/20 and the actions identified to remedy the complaints should ensure there is not a re-occurrence.

Outcome of Consultation

24. The issues contained within this report do not require formal consultation.

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CABINET
3 DECEMBER 2019

ITEM NO. ....

MID YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT MONITORING REPORT 2019/20

Responsible Cabinet Member -
Councillor Charles Johnson, Resources Portfolio

Responsible Director - Paul Wildsmith, Managing Director

SUMMARY REPORT

Purpose of the Report

1. This report seeks approval of the revised Treasury Management Strategy, Prudential Indicators and provides a half–yearly review of the Council's borrowing and investment activities. Cabinet are requested to forward the revised Strategy and indicators to Council for their approval and note changes to the MTFP with regard to the Treasury Management Budget (Financing Costs).

Summary

2. This report and the prudential indicators contained in it were examined by Audit Committee on 20 November 2019 and it was agreed at the meeting that the report be referred to Council via Cabinet to enable the updated indicators, revised Operational Boundary and Authorised Limit for borrowing, be approved and that the Audit Committee is satisfied with the Council's borrowing and investment activities, the reported indicators and the revised borrowing limits

3. The mandatory Prudential Code, which governs Council's borrowing, requires Council approval of controls, called Prudential Indicators, relating to capital spending and borrowing. Prudential Indicators are set in three statutory annual reports, a forward looking annual treasury management strategy, a backward looking annual treasury management report and this mid-year update. The mid-year update follows Council's approval in February 2019 of the 2019/20 Prudential Indicators and Treasury Management Strategy.

4. The key objectives of the three annual reports are:

   (a) to ensure the governance of the large amounts of public money under the Council's Treasury Management activities:

      (i) Complies with legislation

(ii) Meets high standards set out in codes of practice

(b) To ensure that borrowing is affordable

(c) To report performance of the key activities of borrowing and investments.

5. The key proposed revisions to Prudential Indicators relate to:

(a) The Operational Boundary will reduce to £185.498m and the Authorised Limit to £194.673m to allow for any additional cashflow requirement.

(b) The facility to lend to Registered Social Landlords (RSL's) of £100m that was included in previous reports has been removed.

6. Investments now include £30m in property funds which are expected to increase our net return on investments by around £0.700m in future years.

Recommendation

7. It is recommended that :

(a) The revised prudential indicators and limits within the report in Tables 1 to 6, 8 and 15 to 18 are examined.

(b) The over-spend in the Treasury Management Budget (Financing Costs) of £0.033m shown in Table 12 is noted.

(c) That this report is forwarded to Council with comments from this committee, in order for the updated prudential indicators to be approved.

Reasons

8. The recommendations are supported by the following reasons :-

(a) In order to comply with the Prudential Code for Capital Finance in Local Authorities;

(b) To inform Members of the performance of the Treasury Management function;

(c) To comply with the Local Government Act 2003;

(d) To enable further improvements to be made in the Council's Treasury Management function.

Paul Wildsmith
Managing Director

Background Papers

(i) Capital Medium Term Financial Plan 2019/20
(ii) Accounting records
(iii) The Prudential Code for Capital Finance in Local Authorities

Peter Carrick: Extension 5401

S17 Crime and Disorder	This report has no implications for S17 Crime and Disorder.
Health and Well Being	This report has no implications for the Council's Health and Well Being agenda.
Carbon Impact and Climate Change	There are no implications in this report.
Diversity	There are no specific implications for the Council's diversity agenda.
Wards Affected	All Wards.
Groups Affected	All Groups.
Budget and Policy Framework	This report must be considered by Council.
Key Decision	This is not an executive decision.
Urgent Decision	For the purposes of call in this report is not an urgent decision.
One Darlington: Perfectly Placed	This report has no particular implications for the sustainable Community Strategy.
Efficiency	The report refers to actions taken to reduce costs and manage risks.
Impact on Looked After Children and Care Leavers	This report does not impact on Looked After Children or Care Leavers

MAIN REPORT

Information and Analysis

9. This mid-year review report meets the regulatory framework requirement of treasury management. It also incorporates the needs of the Prudential Code to ensure monitoring of the capital expenditure plans and the Council's prudential indicators (PIs). The Treasury Strategy and the PIs were previously reported to Council on 21 February 2019.

10. This report concentrates on the revised positions for 2019/20. Future year's indicators will be revised when the impact of the MTFP 2020/21 onwards is known.

11. A summary of the revised headline indicators for 2019/20 is presented in Table 1 below. More detailed explanations of each indicator and any proposed changes are contained in the report. The revised indicators reflect the movement in the Capital MTFP since its approval in February 2019 and the means by which it is financed.

Table 1 Headline Indicators

	2019/20 Original Estimate	2019/20 Revised Estimate
	£m	£m
Capital Expenditure (Tables 2 and 3)	34.149	38.658
Capital Financing Requirement (Table 4)	321.264	216.930
Operational Boundary for External Debt (Table 4)	310.498	185.498
Authorised Limit for External Debt (Table 6)	326.023	194.773
Ratio of Financing Costs to net revenue stream- General Fund (Table 15)	2.74%	2.57%
Ratio of Financing Costs to net revenue stream- Housing Revenue Account (HRA)(Table 15)	17.48%	17.11%

12. The capital expenditure plans and prudential indicators for capital expenditure are set out initially, as these provide the framework for the subsequent treasury management activity. The actual treasury management activity follows the capital framework and the position against the treasury management indicators is shown at the end.

13. The purpose of the report supports the objective in the revised CIPFA Code of Practice on Treasury Management and the Ministry of Housing, Communities and Local Government Investment Guidance which state that Members receive and adequately scrutinise the treasury service.

14. The underlying economic environment remains difficult for Councils and concerns over counterparty risk are still around. This background encourages the Council to continue investing over the shorter term and with high quality counterparties, the downside is that investment returns remain low.

Key Prudential Indicators

15. This part of the report is structured to update:

    (a) The Council's capital expenditure plans
    (b) How these plans are financed
    (c) The impact of the changes in the capital expenditure plans on the PI's and the underlying need to borrow
    (d) Compliance and limits in place for borrowing activity
    (e) Changes to the Annual Investment Strategy
    (f) The revised financing costs budget for 2019/20

Capital Expenditure PI

16. Table 2 shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the budget.

Table 2

Capital Expenditure by Service	2019/20 Original Estimate	2019/20 Revised Estimate
	£m	£m
General Fund	7.615	17.280
HRA	22.534	10.834
Total Estimated Capital Expenditure	**30.149**	**28.114**
Loans to Joint Ventures	4.000	10.544
Total	**34.149**	**38.658**

17. The changes to the 2019/20 capital expenditure estimates have been notified to Cabinet as part of the Capital Budget monitoring process (Quarterly Project Position Statement Report).

18. The current capital programme, that has not already been financed, now stands at £87.520m. The expenditure against these schemes will fall over a number of years and not just during 2019/20. A reduction of £49.000m has been allowed for schemes where it is known completion will be in 2020/21 onwards, however by the very nature of capital schemes it is likely that others will also slip into future years.

Impact of Capital Expenditure Plans

Changes to the financing of the Capital Programme

19. Table 3 draws together the main strategy elements of the capital expenditure plans shown above, highlighting the original elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element (Borrowing Need) increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR). Borrowing need has increased for 2019/20 due to slipped schemes from previous years being completed this financial year. This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Table 3

Capital Expenditure	2019/20 Original Estimate	2019/20 Revised Estimate
	£m	£m
General Fund	7.615	17.280
HRA	22.534	10.834
Loans to Joint Ventures	4.000	10.544
Total Capital expenditure	34.149	38.658
Financed By:		
Capital Receipts - Housing	0.200	0.200
Capital Receipts –General Fund	1.686	1.705
Capital grants	5.929	14.753
Revenue Contributions – Housing	10.634	10.634
Total Financing	18.449	27.292

Borrowing Need	**15.700**	**11.366**

The Capital Financing Requirement (PI), External Debt (PI) and the Operational Boundary

20. Table 4 shows the Capital Financing Requirement (CFR), which is the underlying external need to borrow for capital purposes. It also shows the expected actual debt position over the period which is called the Operational Boundary. The reduction in Borrowing Need (Table 3) is around £4.3m and currently actual borrowing for the Council is £171.761m, it is proposed to set an actual borrowing figure of £174.000m this will accommodate the additional borrowing need and any debt requirements for cash flow purposes. Other Long term liabilities (the PFI scheme) will be added to give the revised operational boundary for 2019/20.

Prudential Indicator- External Debt/ Operational Boundary

Table 4

	2019/20 Original Estimate	2019/20 Revised Estimate
	£m	£m
Prudential Indicator- Capital Financing Requirement		
Opening CFR- Post Audit of Accounts	307.348	307.348
Closing CFR	321.264	216.930
CFR General Fund	131.799	125.921
CFR General Fund PFI/Leasing IFRS	11.498	11.498
CFR – Housing	68.967	68.967
CFR – Loans to RSL's	100.000	0.000
CFR – Loans to Joint Ventures	9.000	10.544
Total Closing CFR	**321.264**	**216.930**
Net Movement in CFR	13.916	(90.418)
Borrowing	299.000	174.000
Other long Term Liabilities	11.498	11.498
Total Debt 31 March- Operational Boundary	**310.498**	**185.498**

Limits to Borrowing Activity

21. The first key control over the treasury activity is a PI to ensure that over the medium term gross borrowing should not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the next two financial years. As shown in Table 5 below.

Table 5

	2019/20 Original Estimate £m	2019/20 Revised Estimate £m	2020/21 Revised Estimate £m	2021/22 Original Estimate £m
Gross borrowing	299.000	174.000	176.760	176.760
Plus Other Long Term Liabilities	11.498	11.498	10.358	9.232
Total Gross Borrowing	310.498	185.498	187.118	185.992
CFR* (year-end position)	321.264	216.930	215.729	210.519

* includes on balance sheet PFI schemes and finance leases

22. The Assistant Director Resources reports that no difficulties are envisaged for the current and future years in complying with this PI.

23. A further PI 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 desirable, could be afforded in the short term, but is not sustainable in the longer term. The Authorised Limit for 2019/20 is currently set 5% above the Operational Boundary to allow for any additional cashflow needs. Whilst it is not expected that borrowing would be at these levels this would allow additional borrowing to take place should market conditions change suddenly and swift action was required. This is a Statutory limit determined under section 3 (1) of the Local Government Act 2003.

24. It is proposed to move the Authorised Limit in Table 6 in line with the movement in the overall Capital Financing Requirement.

Table 6

Authorised Limit for External Debt	2019/20 Original Indicator £m	2019/20 Revised Indicator £m
Operational Boundary	310.498	185.498
Additional headroom to Capital Financing Requirement	15.525	9.275
Total Authorised Limit for External Debt	326.023	194.773

Interest Rate Forecasts Provided by Link Asset Services

Table 7

	Bank Rate	**PWLB rates for borrowing purposes***			
		5 year	10 year	25 year	50 year
	%	%	%	%	%
2019/20					
Dec 2019	0.75	2.30	2.60	3.30	3.20
March 2020	0.75	2.50	2.80	3.40	3.30
2020/21					

June 2020	0.75	2.60	2.90	3.50	3.40
Sept 2020	0.75	2.70	3.00	3.60	3.50
Dec 2020	1.00	2.70	3.00	3.70	3.60
March 2021	1.00	2.80	3.10	3.70	3.60
2021/22					
June 2021	1.00	2.90	3.20	3.80	3.70
Sept 2021	1.00	3.00	3.30	3.90	3.80
Dec 2021	1.00	3.00	3.30	4.00	3.90
March 2022	1.25	3.10	3.40	4.00	3.90

*****PWLB rates above are for certainty rates (which are provided for those authorities that have disclosed their borrowing/capital plans to the government. Darlington Borough Council will be able to access these certainty rates which are 0.2% below PWLB's normal borrowing rates.

25. The above forecasts have been based on an assumption that there will be 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.

26. 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 1 August, the MPC became more dovish as it was more concerned about the outlook for both the global and domestic economies. That's 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 MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth.

27. 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 similar to the downside.

28. The downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

    (a) Brexit – if it were to cause significant economic disruption and a major downturn in the rate of growth.

    (b) 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.

    (c) A resurgence of the Eurozone sovereign debt crisis. In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. 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.

(d) Weak capitalisation of some European banks, particularly Italian banks.

(e) German minority government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD 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.

(f) Other minority EU governments. Austria, Sweden, Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile.

(g) 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.

(h) 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.

(i) Geopolitical risks, for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

29. The upside risks to current forecasts for UK gilts and PWLB rates are:

(a) Brexit – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.

(b) 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.

(c) UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Treasury Management Strategy 2019/20 and Annual Investment Strategy Update

30. The Treasury Management Strategy Statement, (TMSS), for 2019/20 was approved by this Council on 21 February 2019.

31. 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.

Debt Activity during 2019/20

32. The expected net borrowing need is set out in Table 8

Table 8

	2019/20 Original Estimate £m	**2019/20 Revised Estimate £m**
CFR (year-end position) from Table 4	321.264	216.930
Less other long term liabilities PFI and finance leases	11.498	11.498
Net adjusted CFR (net year end position)	309.766	205.432
Expected Borrowing	299.000	174.000
(Under)/ Over borrowing	(10.766)	(31.432)
Expected Net movement in CFR	13.916	(90.418)
Expected Net Movement in CFR represented by		
Net financing need for the year from table 3	15.700	11.366
Less MRP General Fund	0.000	0.000
Less MRP Housing	0.629	0.629
Less MRP relating to finance leases including PFI	1.155	1.155
Less RSL’s removed	0.000	100.000
Movement in CFR (Net Borrowing Need)	13.916	(90.418)

33. The following new borrowing has been taken to date.

Table 9

Date Taken	Term	Amount £m	Interest Rate	Purpose	Lender
24/05/2019	1 year	2	1.02	Property Funds	Other Local Authority
24/05/2019	1 year	3	1.02	Property Funds	Other Local Authority
27/09/2019	1 year	5	0.83	Property Funds	Other Local Authority
03/10/2019	2 years	5	0.87	General	Other Local Authority
17/10/2019	3 months	5	0.70	General	Other Local Authority

34. The amount borrowed by the Council now stands at £171.761m, this excludes any additional cashflow loans which may be required.

35. There will still be an element of under-borrowing by the Council at the end of March 2020.

Increase in the cost of borrowing by the PWLB

36. On 9 October 2019 the Treasury and PWLB announced an increase in the margin over gilt yields of 100bps on top of the current margin of 80 bps which 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 fundamentally 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.

37. Whereas this authority has previously relied on the PWLB as its main source of long-term funding, it now has to fundamentally 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. We are expecting that various financial institutions will enter the market or make products available to local authorities. Members will be updated as this area evolves.

38. The 100bps increase in PWLB rates from 09/10/2019 only applied to new borrowing rates, not to premature repayment rates.

Debt Rescheduling

39. 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.

Annual Investment Strategy 2019/20

Investment Portfolio

40. 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. It is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous years 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 together with other risks which could impact on the creditworthiness of banks prompts a low risk strategy. Given this risk environment investment returns are likely to remain low.

Treasury Management Activity from 1 April 2019 to 22 October 2019

41. Current investment position – The Council held £59.499m of investments at 22/10/2019 and this is made up of the following types of investment.

Table 10

Sector	Country	Up to 1 year
		£m
Banks	UK	9.000
AAA Money Market Funds	Sterling Funds	20.500
Property Funds - CCLA	UK	10.000
Hermes		10.000
Lothbury	UK	9.999
Total		**59.499**

Short Term Cashflow Investments

42. Cash balances are invested on a daily basis to maximise the benefit of temporary surplus funds. These include investments in Money Market Funds, the Government's Debt Management Office and bank short term notice accounts. A total of 42 investments were made in the period 1 April 2019 to 30 September 2019 totalling c£79m these were for short periods of up to 100 days and earned interest of £108k on an average balance of £28.171m which equated to an annual average interest rate of 0.75%

Investment returns measured against the Service Performance Indicators

43. The target for our investment returns is to better or at least match a number of external comparators, this performance indicator is also known as yield benchmarking. As can be seen from Table 11, the short and long term investment achievements are above market expectations.

Table 11

	Cashflow Investments %
Darlington Borough Council - Actual	**0.75**
External Comparators	
London Interbank Bid Rate 7 day	0.57
London Interbank Bid Rate 3 months	0.70
London Interbank Bid Rate one year	1.00

Treasury Management Budget

44. There are three main elements within the Treasury Management Budget:-

(a) Longer term capital investments interest earned – a cash amount of which earns interest and represents the Councils revenue balances, unused capital receipts, reserves and provisions, this will now include Property Funds.

(b) Cash flow interest earned – since becoming a unitary council in 1997, the authority has consistently had a positive cash flow. Unlike long term capital investments it does not represent any particular sum but it is the consequence of many different influences such as receipt of grants, the relationship between debtors and creditors, cashing of cheques and payments to suppliers.

(c) Debt serving costs – this is the principal and interest costs on the Council's long term debt to finance the capital programme.

Table 12 - Changes to the Financing Costs Budget 2019/20

	£m	£m
Original Financing Costs Budget 2019/20		**(0.702)**
Add reduced Repayment of Principal	(0.105)	
Add increased Interest payments paid on debt	(0.077)	
Less reduced interest earned on Investments	0.089	
Less reduced returns on Property Funds and Commercial Ventures	0.126	
Total adjustments		**0.033**
Revised Treasury Management Budget 2019/20		**(0.669)**

45. This statement concludes that the Treasury Management budget is forecast to overspend by £0.033m in 2019/20 due to a combination of less than expected returns on Commercial Ventures and investments and reduced interest/principal repayments, these have been reflected in the current MTFP projections.

Risk Benchmarking

46. A regulatory development is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance and these are shown in Table 10. Discrete security and liquidity benchmarks are also requirements of member reporting.

47. The following reports the current position against the benchmarks originally approved.

48. **Security** – The Council's maximum security risk benchmarks for the current portfolio of investments, when compared to historic default tables were set as follows;

0.077% historic risk of default when compared to the whole portfolio

Table 13

Maximum	**Benchmark 2019/20**	**Actual July**	**Actual September**
Year 1	0.077%	0.002%	0.002%

N.B. this excludes Property Funds

49. The counterparties that we use are all high rated therefore our actual risk of default based on ratings attached to counterparties is very low.

Liquidity

50. In respect of this area the Council set liquidity facilities/ benchmark to maintain:

    (a) Bank overdraft - £0.100M

    (b) Liquid short term deposits of a least £3.000M available within a weeks notice

    (c) Weighted Average Life benchmark is expected to be 0.4 years with a maximum of 1 year

51. The Assistant Director Resources can report that liquidity arrangements have been adequate for the year to date as shown in Table 13

Table 14

	Benchmark 2019/20	**Actual June**	**Actual September**
Weighted Average Life	0.4 – 1 year	0.10 years	0.12 years

52. The figures are for the whole portfolio of cash flow investments deposited with Money Market funds on a call basis (i.e. can be drawn on without notice) as well as call accounts that include a certain amount of notice required to recall the funds.

Treasury Management Indicators

53. **Actual and estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (financing costs net of interest and investment income) against the net revenue stream. The reduction in % relates to reduced financing costs for General Fund of £0.140m.

Table 15

	2019/20 Original Indicator	2019/20 Revised Indicator
General Fund	**2.74%**	**2.57%**
HRA	**17.48%**	**17.11%**

Treasury Management Prudential indicators

54. **Upper Limits on Variable Rate Exposure –** This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments.

55. **Upper Limits on Fixed Rate Exposure –** Similar to the previous indicator this cover a maximum limit on fixed interest rates

56. Historically for a number of years this Council has used these percentages; together they give flexibility to the treasury management strategy allowing the Council to take advantage of both fixed and variable rates in its portfolio whilst ensuring that its exposure to variable rates is limited.

Table 16

	2019/20 Original Indicator	2019/20 Revised Indicator
Limits on fixed interest rates	100%	100%
Limits on variable interest rates	40%	40%

Maturity Structures of Borrowing

57. These gross limits are set to reduce the Council's exposure to large fixed rate loans (those instruments which carry a fixed interest for the duration of the instrument) falling due for refinancing. The higher limits for longer periods reflect the fact that longer maturity periods give more stability to the debt portfolio.

Table 17

Maturity Structures of Borrowing

	2019/20 Original indicator	2019/20 Actual to Date	2019/20 Revised Indicator
Under 12 months	25%	17%	30%
12 months to 2 years	40%	6%	40%
2 years to 5 years	60%	12%	60%
5 years to 10 years	80%	9%	80%
10 years and above	100%	57%	100%

Total Principal Funds Invested

58. These limits are set having regard to the amount of reserves available for longer term investment and show the limits to be placed on investments with final maturities beyond 1 year. This limit allows the authority to invest for longer periods if they give better rates than shorter periods. It also allows some stability in the interest returned to the Authority.

Table 18

Principal Funds Invested

	2019/20 Original Indicator	2019/20 Revised Indicator
Maximum principal sums invested greater than 1 year	£50m	£30m

Conclusion

59. The prudential indicators have been produced to take account of the Council's borrowing position. The key borrowing indicator (the Operational Boundary) is £185.498m. The Council's return on investments has been good, exceeding both of the targets. Based on the first six months of 2019/20 the Council's borrowing and investments is forecast to overspend by £0.033m on the approved 2019/20 budget.

60. The Council's treasury management activities comply with the required legislation and meet the high standards set out in the relevant codes of practice.

Outcome of Consultation

61. No consultation was undertaken in the production of this report.