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Shropshire Council
Legal and Democratic Services
Shirehall
Abbey Foregate
Shrewsbury
SY2 6ND

Date: Tuesday, 4 December 2018

Committee: Cabinet

Date: **Wednesday, 12 December 2018**
Time: **11.00 am**
Venue: **Shrewsbury Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND**

You are requested to attend the above meeting.
The Agenda is attached

Claire Porter
Head of Legal and Democratic Services (Monitoring Officer)

Members of Cabinet	**Deputy Members of Cabinet**
Peter Nutting (Leader)	Dean Carroll
Steve Charmley (Deputy Leader)	Rob Gittins
Joyce Barrow	Simon Harris
Lezley Picton	Roger Hughes
David Minnery	Elliott Lynch
Robert Macey	Alex Phillips
Nicholas Bardsley	Ed Potter
Lee Chapman	
Steve Davenport	

Your Committee Officer is:

Jane Palmer Senior Democratic Services Officer
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AGENDA

1 **Apologies for Absence**

2 **Disclosable Pecuniary Interests**

Members are reminded that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

3 **Minutes**

To approve as a correct record and sign the Minutes of the Cabinet meeting held on 28 November 2018. **TO FOLLOW**

4 **Public Question Time**

To receive any questions or petitions from members of the public, notice of which has been given in accordance with Procedure Rule 14. Deadline for notification for this meeting is no later than 24 hours prior to the start of the meeting.

5 **Member Questions**

To receive any questions of which members of the Council have given due notice, the deadline for notification for this meeting is 5.00pm on Friday 7 December 2018.

6 **Scrutiny Items - Welfare Reform Task and Finish Group Final Report** (Pages 1 - 22)

To consider the final report of the Welfare Reform Task and Finish Group as supported by the Performance Management Scrutiny Committee.

7 **Financial Strategy 2019/20 to 2023/24** (Pages 23 - 42)

Lead Member – Councillor D Minnery – Portfolio Holder for Finance

Report of the Head of Finance, Governance and Assurance [s151 Officer]

Contact: James Walton Tel: 01743 258915

8 **Setting the Council Tax Taxbase and Council Tax Support for 2019/20** (Pages 43 - 76)

Lead Member – Councillor D Minnery – Portfolio Holder for Finance

Report of the Head of Finance, Governance and Assurance [s151 Officer]

Contact: James Walton Tel: 01743 258915

9 **Treasury Management Update Quarter 2 2018/19** (Pages 77 - 96)

Lead Member – Councillor D Minnery – Portfolio Holder for Finance

Report of the Head of Finance, Governance and Assurance [s151 Officer]

Contact: James Walton Tel: 01743 258915

10 **Addressing Unmet Housing Need - Outline Business Case to Establish a Wholly Owned Local Housing Company** (Pages 97 - 152)

Lead Member – Councillor R Macey – Portfolio Holder for Planning and Housing Development

Report of the Director of Place

Contact: Mark Barrow Tel: 01743 258919

11 **Designation of Norton in Hales, Adderley and Morton Say Parishes as a Neighbourhood Plan Area** (Pages 153 - 162)

Lead Member – Councillor R Macey – Portfolio Holder for Planning and Housing Development

Report of the Director of Place

Contact: Mark Barrow Tel: 01743 258919

12 **European Social Fund - Community Grants** (Pages 163 - 170)

Lead Members – Councillor P Nutting, Leader of the Council and Councillor S Charmley, Deputy Leader of the Council

Report of the Director of Place

Contact: Mark Barrow Tel: 01743 258919

13 **Shrewsbury Shopping Centres Next Phase** (Pages 171 - 178)

Lead Members – Councillor P Nutting, Leader of the Council and Councillor S Charmley, Deputy Leader of the Council

Report of the Director of Place

Contact: Mark Barrow Tel: 01743 258919

14 Exclusion of the Public and Press

To resolve that, in accordance with the provisions of Schedule 12A of the Local Government Act 1972 and Paragraph 10.4 (3) of the Council's Access to Information Rules, the public and press be excluded from the meeting during consideration of the following item/s.

15 Shrewsbury Business Park

Lead Members – Councillor P Nutting, Leader of the Council and Councillor S Charmley, Deputy Leader of the Council

Exempt Report of the Director of Place **TO FOLLOW**

Contact: Mark Barrow Tel: 01743 258919

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Committee and Date
Cabinet
12 December 2018

REPORT FROM THE TASK AND FINISH GROUP ON WELFARE REFORM

Responsible officer: Danial Webb, Overview and Scrutiny Officer
danial.webb@shropshire.gov.uk

1.0 Summary

1.1 This paper presents the report of the Performance Management Scrutiny Committee on welfare reform. Its work has focussed on measuring the impact of welfare reform on people in Shropshire, and how the Council can best support people who receive benefits.

2.0 Recommendations

2.1 The Group's recommendations are contained in the report, which is attached as **Appendix 1**.

3.0 Opportunities and risks

3.1 The increasing fragmentation of support services for Shropshire people, particularly with regard to housing, may result in piecemeal support. This may be exacerbated by relative lack of support for people in private-sector housing, in which the majority of people renting in Shropshire live. Closer working between agencies could result in better-coordinated support.

3.2 Shropshire Council currently commissions a number of preventative services, the purpose of which is to provide early support to Shropshire people. Any reduction in these services may result in those people needing more intensive support later on.

3.3 The introduction of Universal Credit in Shropshire may cause some recipients to experience temporary financial hardship, and lower rates of benefit may cause subsequent longer-term hardship. This may result in increased demands on the support services of both the council and its partners.

4.0 Financial assessment

4.1 Shropshire Council invests £4.5 million annually in supporting vulnerable adults through its programme of preventative services. These services provide universal support on matters such as benefits and housing, as well as targeted housing support for vulnerable adults. Cuts to these programmes could result in higher costs for the council and its partners, as a result of people losing their tenancies or requiring more intensive support to manage chronic health conditions.

5.0 Background

5.1 Since 2010 the UK government has undertaken comprehensive reform of state welfare. To look at the impact of this reform on people in Shropshire, the council's Performance Management Scrutiny Committee set up a task and finish group. The group focussed on how Shropshire Council:

- ensures that the council's own systems and processes are optimised so it provides the best advice and temporary support to people who need it;
- leads on working with its partners to create a strategy to support people in greatest need; and
- ensures that council resources are deployed wherever possible to support people into education, employment and training.

5.2 The group presented its final report to the Performance Management Scrutiny Committee in November 2018. The committee agreed to forward the report to Cabinet for consideration.

5.3 The Group's report is attached as A**ppendix 1**.

List of Background Papers • Performance Management Scrutiny Committee Welfare Reform Task and Finish Group Terms of Reference • Task and Finish Group briefing notes • Centre for Regional Economic and Social Research, Sheffield Hallam University, *The Uneven Impact of Welfare Reform*, March 2016 • Shropshire Council, Adult Service Preventative Contract details • Leeds City Council, Scrutiny Inquiry report, *Universal Credit*, February 2016 • Manchester City Council, The Roll Out of Universal Credit Full Service in Manchester, November 2017 • New Policy Institute, *The minimum wage, taxes and benefits*, February 2015
Cabinet Member Cllr Lee Chapman– Portfolio Holder for Health and Adult Social Care
Local Members All Members
Appendices • Report of the Welfare Reform Task and Finish Group • The financial loss to Shropshire from welfare reforms since 2010

Appendix 1

Performance Management Scrutiny Committee

Report of the welfare reform task and finish group

November 2018

Acknowledgments
The group would like to thank the council officers and representatives of other organisations that they spoke to during the course of this review.

Members of the Task and Finish Group

- Cllr Claire Wild (chair)
- Cllr Ted Clarke
- Cllr Heather Kidd
- Cllr Elliot Lynch
- Cllr Pam Moseley
- Cllr Alexander Philips
- Cllr David Turner
- Cllr Dave Tremellen

Introduction

Since 2010 the UK government has undertaken comprehensive reform of state welfare. This reform serves two main purposes; deficit reduction and supporting people into work. Following the economic crash of 2008, the 2010-2015 coalition government sought to reduce the cost of welfare by £18 billion, achieving savings of £14 billion by 2015. Post-2015 reforms have reduced the welfare bill by a further £13 billion. As well as deficit reduction, the government has sought to package a number of existing benefits into a single package, Universal Credit, which aims in part to smooth the transition into work or to avoid sudden drops in benefit payments when a claimant increases the hours that they work.

Scope and focus of the work

To look at the impact of this reform on people in Shropshire, the council's Performance Management Scrutiny Committee set up a task and finish group. This group's initial aims were to:

- understand the nature of Universal Credit, and the impact it will have on Shropshire residents;
- understand the impact of other benefit reforms on Shropshire residents;
- understand the different ways the Council supports people who receive benefits, and how this will and should change with the introduction of Universal Credit; and
- ensure that Shropshire Council has in the place the necessary functionality to deliver required services related to Universal Credit;

As the group progressed with its work, it decided to look more broadly at the nature of welfare reform, in particular how Shropshire Council:

- ensures that the council's own systems and processes are optimised so it provides the best advice and temporary support to people who need it;
- leads on working with its partners to create a strategy to support people in greatest need; and
- ensures that council resources are deployed wherever possible to support people into education, employment and training.

What has the task and finish group done?

The task and finish group met six times between February and May 2017. It was chaired by the chair of the Performance Management Scrutiny Committee and consisted of a number of members of Shropshire Council's overview and scrutiny committees.

To assist the group in their work, the following people and organisations took part in discussions with the group:

- Head of Finance, Shropshire Council

- Service Delivery and Improvement Manager, Customer Services, Shropshire Council
- Revenues and Benefits Service Manager, Shropshire Council
- Citizen’s Advice Shropshire
- Landau
- Barnabas Community Projects
- Bromford Housing
- Shropshire Housing
- Connexus
- Severnside Housing

Findings

Quantifying the impact of welfare reform on Shropshire

Since 2010 the UK government has undertaken comprehensive reform of state welfare. This reform serves two main purposes, to increase incentives to enter work, and to reduce the government’s deficit. Following the economic crash of 2008, the 2010-2015 coalition government sought to reduce the cost of welfare by £18 billion, achieving savings of £14 billion by 2015. Post-2015 reforms have reduced the welfare bill by a further £13 billion. As well as deficit reduction, welfare reforms have also sought to increase the incentive to enter the workplace. To do this, the government has sought to package a number of existing benefits into a single package, Universal Credit. This benefit tapers down rather than stops if the claimant begins or takes on more or better-paid work, meaning that claimants will always be better off if they enter employment.

Although the reforms are well known, what is less clear is the cumulative impact of these reforms on Shropshire residents. We do not know the financial loss to the Shropshire economy, nor do we know the impact of this financial loss.

The group considered a recent research paper by the Centre for Regional Economic and Social Research at Sheffield Hallam University, which has attempted to quantify the loss of income to Shropshire residents caused by changes to welfare rules since 2010. Appendix 2 lists:

- individual benefit rule changes;
- the groups of people most affected by the change;
- the number of individuals or households affected by each change;
- the total loss of income to Shropshire residents each year; and
- the loss per working age adult each year.

The research estimates that the loss of income to Shropshire resulting from these benefit rule changes to be **£102 million each year**, amounting to £550 for each working age adult, or £1,290 for each of the 17,500 working age households in social rented housing.

The loss does not fall equally on every working adult of course, although most working age adults with children will have lost out due to the changes to universal benefits such as Child Benefit. Individual circumstances will have a considerable impact on the amount of income lost, and some individuals and households will have lost a considerable percentage of their income as a result of these reforms. However the group made some very broad conclusions from this research

- Households in social rented accommodation have been particularly hard-hit. This might be a result of working-age adults in these households being more likely to be out of work, on low incomes, incapacitated or disabled.
- At least half of the loss will fall on in-work households. Although it is arguable that these households may be more amenable to taking on more paid work, they may already be working at the limit of their capacity. There may also be a lack of extra work available.
- In-work households receiving low incomes and living in private rented accommodation may however be more vulnerable, due to a relative lack of support compared to social housing tenants.
- Households with residents who are disabled or incapacitated make up 3% of all households in the borough. However this group has absorbed 14% of the loss from these reforms

Working together to support people in Shropshire

The group wanted to look at how Shropshire Council and other organisations support people in Shropshire who receive benefits. Welfare advice and benefits support in Shropshire is dispersed among numerous organisations, partly as a result of changes to social housing provision since 2000. It is also in some part the result of Shropshire's Council's approach to providing benefits advice, which focusses on investment in the voluntary sector and housing support services.

The creation of housing arm's length management organisations (ALMO) nationwide resulted in housing associations such as Shropshire Towns and Rural Housing (STAR Housing) becoming responsible for managing both housing stock and tenancies. This means that housing associations have a direct incentive to ensure the welfare of their tenants, many of whom are reliant to some extent (or entirely) on benefits. Housing associations are also uniquely placed to support their tenants as a result of the existing relationship through tenancies. This is partly funded by enhanced Housing Benefit, which funds the additional housing needs of some elderly and vulnerable adults, as well as by Shropshire Council through its preventative services contracting, which this report looks at later.

The relatively recent creation of Shropshire Council as a unitary authority meant that it has a particularly high number of housing associations in its area, an artefact of district councils each setting up their own ALMO. In addition, other housing associations originating from outside Shropshire now have some sort of presence in the county, for example Bromford Housing.

In addition, Shropshire has a large and active voluntary and community sector providing benefits advice and welfare support. As well as charities affiliated to national organisations such a Citizens Advice and Age Concern, who carry out considerable work in Shropshire, there exist hundreds of local and regional organisations and groups. Like the housing associations, their work is funded through a combination of their own fundraising and from carrying out time-limited work contracted by Shropshire Council, the UK government, and other charities and third sector organisations such as Big Lottery Fund. Since 2008 the voluntary and community sector in Shropshire has been augmented by the arrival of food banks. More recently these have recently expanded to offer a wider range of support to people, including practical help to find work such as CV writing support and interview clothing loans.

Although many of these organisations were heavily reliant on grant or contract funding, either from Shropshire Council or central government, others receive little or choose not to take up any such funding. The group heard, for example, from Barnabas Community Projects, who deliberately chose to remain reliant entirely on direct charitable donations, in order to remain in full control of its chosen projects.

Aside from its social care duties, the council itself provides limited direct support for people receiving benefits. This direct support sits primarily within the Revenues and Benefits and Welfare Reform Support teams. The Revenues and Benefits team is responsible for the administration of locally administered benefits such as Housing Benefit and Council Tax Support and some Discretionary Housing Payments. The Welfare Reform Support team, a part of the larger Customer Services team, administers some local crisis funding and Discretionary Housing Payments. This team has also handled the requests for personal budgeting and assisted digital support for Universal Credit and has been the focal point for public communications on Universal Credit. However due to the low take-up for personal budgeting and assisted digital support, the Department for Work and Pension is removing funding to councils for this support from April 2019, and will engage directly Citizens Advice organisations to deliver this support.

The group heard that Shropshire Council's policy when supporting people with these funds is to get people the help they need to make the required changes in their situation (for example, financial adjustments, finding more affordable property) and to support with crisis funding whilst this is done. However the group also heard from both the revenues and benefits and customers services managers that there were also situations when it would be appropriate to award a longer-term or ongoing award. Notwithstanding this, the group agreed that this time-limited approach struck a good balance between supporting people in need without creating long-term dependency on benefits.

Although Shropshire Council itself provides limited direct support for people who receive benefits, it also supports the work of housing associations and the voluntary and community sector to support benefit recipients through its procurement of 'preventative' support services. This package of services includes:

- Universal support services, principally the general welfare and benefits advices services offered by Citizens Advice Shropshire and other members of the CAAN consortium of organisations.
- Targeted early interventions support services for those at risk of requiring more costly support later, such as tenant support services, help at home for older vulnerable adults, and community-based social support. These services are offered by a large number of partner organisations, such as charities, community groups and housing associations.
- Targeted support to minimise the impact of existing health conditions. This included services such a stroke recovery support service and emergency respite care.

The group felt that having a large number of organisations supporting people had both its strengths and its risks. A contracted approach to support allowed the council considerable flexibility with its support, as well as helping to ensure that such support remained affordable to the local authority. Furthermore providing welfare support among numerous organisations provided considerable overall resilience, with expertise, capacity and access to different means of funding spread among different organisations. However the group also expressed concern that people might receive piecemeal or disjointed support as a result of engaging with several organisations.

To understand these opportunities and risks in greater detail, the group invited representatives from some of the housing associations, charities and community organisations that Shropshire Council had contracted to carry out preventative services. The following organisations met with the group:

- Bromford Housing
- Connexus
- Severnside Housing
- Shropshire Housing
- Age Concern
- Citizens Advice Shropshire

All of the housing associations who attended were contracted by the local authority to provide tenancy support to vulnerable adults who were at risk of losing their tenancy. Age Concern and Citizens Advice Shropshire were contracted to provide general welfare and benefits advice, available to anyone, as part of a consortium of advice providers.

The group wanted to know more about how the housing associations supported people in their tenancies. The group heard those organisations who provided tenancy support provided a mixed model of support, including:

- Crisis and time-limited support for a specific purpose, such as imminent risk of homelessness or discharge from hospital or temporary care settings, including access to supported accommodation where available.
- Higher-level support, often time-limited, for people whose housing support needs cannot be met by Low-Intensity support described below. This support is typically underpinned by an agreed support plan and will consist of regular, planned support sessions.
- Low-intensity, occasional support available on an ad-hoc basis designed to maintain people's independence through the knowledge that help and advice is available when needed. This includes maintenance of support hubs which are accessible to the wider community, partner organisations, and community and voluntary groups.

Shropshire Council continued to fund these services in order to prevent people developing more complex and costly problems, the greater costs of which would fall to the council and its partners. These services also deliver the council's statutory duties under the Care Act 2014 to:

- promote wellbeing;
- prevent needs for care and support;
- provide information and advice on care and support; and
- provide advocacy support for people to make decisions about their care.

The group was keen to understand how the council quantified the cost-effectiveness of these services. Officers told members that it had recently carried out such an exercise, asking current providers of housing support to profile their existing clients in order to understand the potential impact of the withdrawal of housing support funding. Providers were asked to assess for each client which negative outcomes their client was 'likely' to experience as a result of the withdrawal of housing support. A cost of each negative outcome was then applied using data from Shropshire Council Housing Services and Adult Services as well as the New Economy Manchester Unit Cost Database, an industry standard method of assessing the financial cost of adverse outcomes, for example a person becoming homeless. The exercise also identified where the cost of each negative outcome would be most likely to fall, for example, the NHS or local authority. This then enabled officers to calculate a total aggregate cost to the public sector. The group heard that this exercise calculated that approximately 1800 people in Shropshire received some form of housing support. Stopping housing support would result in a cost reduction of £1.9 million to the council. However the loss of housing support was forecast to result in consequent costs the public purse of £12.5 million, including £8.6 million of costs to Shropshire Council.

The group agree that funding preventative services is a cost-effective way to support people at an early stage, preventing problems from escalating and resulting in more costly interventions.

The group was also keen to understand the challenges the associations faced working with vulnerable tenants. The associations told the group that the tenants they worked most closely with often had numerous barriers to either entering work or taking on more work. Advisors often worked with tenants with poor mental health or significant caring responsibilities, and many tenants lacked the skills requires to manage a tenancy successfully. As many tenants were already in employment, an important component of advisors' work was to support people to either be able to work longer hours, or to develop their skills in order to move into higher-paid employment.

The group heard from Bromford Housing, a large housing association that works across the Midlands and South West of England, including Shropshire. It is one of the largest social landlords in England, managing 44,000 properties. It also plans to build 14,000 new properties over the next ten years. Bromford's development of new estates, containing a mixture of owner-occupied and social housing properties. Bromford has used the surplus generated from these developments to develop a comprehensive package of support for its tenants, known as the Bromford Deal. The group heard how Bromford proactively engages with all its tenants, with neighbourhood coaches offering all their tenants bespoke package of support, including:

- tenancy management, including financial management;
- work readiness and skills training; and
- connecting tenants with other support, such as community groups.

The group was very supportive of this approach. It agreed that working proactively with tenants allowed Bromford to not only identify early where people might be struggling with their tenancy, but also to support people who were not necessarily struggling to develop their work skills and to participate more in the life of their communities. Other housing associations in Shropshire, such as Severnside Housing, told the group that carry out similar support work, but lack the considerable resources and scale of Bromford to offer such comprehensive support. Nonetheless the group believe that other housing associations could do more. The group heard for example that Bromford employ one support manager for every 200 tenants, compared with other housing associations which have as many as 2,000 tenants for each support manager. A greater focus on working with people who have the potential to enter work, or to take up more or more highly-skilled (and better paid) work, could yield benefits to both tenants in terms of greater financial security and to housing associations in terms of reducing rent arrears.

While smaller housing associations were currently not able to provide the same level of comprehensive support as Bromford, the group also wanted to explore other ways that Shropshire Council could replicate Bromford's holistic approach. Group members asked about the extent to which the different organisations worked with the same people, and how they co-ordinated their work. Several of the organisations told the group they were confident there was some overlap, but no organisation had the capacity to quantify the size of the group or identify those people. All of the organisations at the meeting told the group they would refer their clients and tenants to other support organisations. Although they might follow up that advice with the client or tenant, they lacked the funding to systematically co-ordinate their support with any other organisation.

The group understands the limitations that organisations face in working together more closely. Nonetheless the group notes how client-focused joint working with vulnerable children, young people and adults elsewhere delivers better outcome and makes best use of resources by removing duplication. The group therefore recommends that the Performance Management Scrutiny Committee creates a task and finish group to explore the opportunities for partner organisations to carry out collaborative, client-focused joint working.

Throughout the course of its meetings, the groups discussed the lack of a common strategy from Shropshire Council to co-ordinate welfare support. Although the organisations that the group spoke share broadly similar aims, members felt that a single strategy would help facilitate closer working. More than one person that the group spoke with told them that there had been previous efforts to agree a joint strategy, but this had failed to come to fruition.

The group believes that although the different organisations had different purpose, they ought to be able to agree a common strategy for supporting vulnerable tenants. Shropshire Council, as a significant funder of tenancy support, was in a suitably central position to be able to co-ordinate this work. Indeed Shropshire Council had already created de-facto common objectives through its contract specification for preventative services. For example, the specification for the Information, Advocacy & Advice for Adults service requires targeted support for key groups, with the explicit aims of increasing independence, maximising income and reducing benefits dependency.

The group therefore recommends that the task and finish group also explore how Shropshire can develop a common strategy for welfare support, and implement any supporting actions from that strategy.

Supporting people into work
Throughout the course of this review, the group heard from other organisations, as well as Shropshire's Council's own officers, about how they supported people into work, into training in order to secure better-paid work, or to work longer hours if they only worked part-time. As discussed earlier in this report, the group heard that people who were out of work, but who could work, often faced significant barriers to entering paid work, such as poor mental health, significant caring responsibilities or a lack of work readiness or experience. The group therefore wanted to know more about what was being done to support these people.

Shropshire Council does not directly support people into entering the workplace. Nor does it directly fund other organisations to carry out such work. However through its preventative support contracting it requires partner organisations to address worklessness. For example its floating support contracting requires housing associations to work with people to “minimise dependence on welfare benefits and funded support and to support access to education training and employment.” The group heard how Connexus, a major recipient of preventative support funding, signposts the people that it supports into work and training opportunities. It also provided some funding for local groups and agencies to provide its tenants with education, training and employment.

The group also heard from local organisations who carried out work skills and employability training. The group was particularly interested to hear from Landau, a supported employment and training charity originally setup by Shropshire Council. Landau works with over 800 people a year across the West Midlands by providing routes to employment, access to learning, social enterprise help and support for personal development. Landau carries out this work through the delivery of supported employment and training contracts, including those from the Department for Work and Pensions.

Since January 2018 Landau has been the central partner of the Building Better Opportunities programme, funded by the Big Lottery Fund and the European Union European Social Fund. This programme aims to work with those furthest away from employment to engage them in volunteering, training and work placements. The group heard that in the first 15 months, Building Better Opportunities Shropshire had worked with 420 people in Shropshire, 40% of whom were aged over 50 and 53% of whom had some sort of disability. The group heard that Building Better Opportunities had been relatively successful in Shropshire compared to similar schemes elsewhere in the country, with around 40% of people taking part entering the workplace. Landau told the group that their success was due to several factors. It chose to develop the Building Better Opportunities project with 20 local organisations in Shropshire, who carry out most of the work. Although Landau supervises and measures outcomes from this outsourced work, it does not prescribe how these organisations work with their client groups, believing them to be best placed to understand the strengths and weaknesses of their clients. Landau also focusses on soft skills and work readiness, believing these skills to be far more marketable to employers than specific training.

The group noted Landau’s success and concluded that Shropshire Council should do what it could to support schemes such as this. It agreed that supporting people to support themselves through work was the most effective way that the council could work to counter the impact of lost income through welfare reform.

Any welfare reform strategy that the council produces should therefore look to how it can focus its resources and its partnerships into schemes that support people into entering the workplace.

Making the change to Universal Credit

Universal Credit represents a major overhaul of the current welfare system. It is intended to be simpler than the current system of work-related benefits and tax credits, replacing six existing means-tested benefits:

- Income Support
- Income-based Jobseeker's Allowance
- Income-related Employment and Support Allowance
- Housing Benefit
- Child Tax Credit
- Working Tax Credit

The Government's aim with Universal Credit is to make working easier, encouraging people to either begin work or to increase their hours up to 35 a week. It does this partly by incrementally reducing benefits by 63p for each £1 earned, avoiding 'cliff-edge' points at which benefits are withdrawn completely. This means that people who receive Universal Credit that begin work receive a top-up of 37p for each £1 earned.

Universal Credit also has a number of other salient features. Unlike Housing Benefit, the housing component of Universal Credit is paid to the recipient rather than their landlord. This makes recipients responsible for paying their rent. Applicants also require a bank account, photo identification, a CV, and an email account.

Universal Credit is paid monthly in arrears, with the amount paid dependent on the recipient's earned income during the previous month. Because Universal Credit requires a month of income data from Her Majesty's Revenue and Customs in order to calculate a payment, there is a delay of at least five weeks between making an application for Universal Credit and receiving a payment.

The Department for Work and Pensions (DWP) has been gradually rolling out Universal credit across the country, launching in Shropshire in May 2018.

The group wanted to scrutinise two aspects of Universal Credit. It wanted to assure itself that the council was adequately prepared for the rollout of Universal Credit. It also wanted to assure itself that it was supporting housing associations and other voluntary and community groups to manage any impact on their services. It therefore met with Shropshire Council's Head of Finance and its Revenues and Benefits Service Manager to understand the direct impact on Shropshire Council services.

Of the six benefits that Universal Credit will replace, Shropshire Council administered only Housing benefit. Although this meant that Universal Credit recipients would now receive their Housing Benefit allocation within their Universal Credit benefit, the council would continue to administer Housing Benefit for other groups of people, such as pensioners, people in supported or temporary accommodation, or families with more than two children. As a result, Universal Credit had had little overall impact on the workload of the revenue and benefits service. Although the service no longer administered housing benefit for people receiving Universal Credit, Universal Credit placed some burden in terms of assessing eligibility and verifying applications for council tax support. Other welfare reforms which focussed on housing payments, such as removal of the spare room subsidy and local social housing allowance caps had also created more work for the housing benefit team, but overall the service had been able to absorb the changes in their workload.

To support the change to Universal Credit, councils received Assisted Digital Support and Personal Budgeting Support grants from government. These grants were to support people to make the applications online and to learn how to budget with a monthly income. Shropshire Council had contracted Citizens Advice Shropshire to provide budgeting support, using council libraries to provide digital support to get people online. However the group heard that take up of these support services had been low.

Localising Council Tax Support

The group heard that localising Council Tax support had had a far larger impact on the revenue and benefits service than changes arising from Universal Credit. From 2012 Council Tax Benefit, a nationally determined but locally implemented benefit which reduced the amount of Council Tax low-income households had to pay, was replaced by a grant payment to local authorities for them to locally determine their own Council Tax Support scheme for working age adults. Pensioners continue to receive Council Tax Benefit. This devolution of support was accompanied by a 10% cut in funding. As a result Shropshire Council decided that from April 2018, all working age claimant for Council Tax Support (except for those in limited exempt groups) would now have to pay a minimum of 20% of their Council Tax, meaning that many benefits recipients would have to pay Council Tax for the first time. Shropshire Council estimates that this change to Council Tax Support will result in net savings to the council of £1.1 million.

Council officers told the group that this additional requirement for some Universal Credit recipients to pay Council Tax was likely to result in some families experiencing financial difficulties. Shropshire Council was able to support these people through a Discretionary Housing Payment (DHP). The group heard that the council received an annual DHP grant from government to help people where Housing Benefit or Universal Credit had been reduced because of:

- the benefit cap;
- the removal of the spare room subsidy (often called the “bedroom tax”);
- restrictions in the amount of help available with a private rent;
- a change in income; or
- the rent allowed in benefit is affected by other people living in the home.

DHP could also be used to support someone in housing by paying the deposit or advance rent on a new tenancy. The DHP grant to Shropshire Council had increased considerably since 2012, from £111,000 to £532,000 in 2017.

The council was unable to award a DHP to cover the cost of a Council Tax payment, meaning that any discretionary reduction in Council Tax would have to be paid by Shropshire Council. However if someone was receiving Universal Credit and was experiencing financial difficulties, the council could look at other aspects of the benefits and identify an eligible shortfall for it could award a DHP (at no cost to Shropshire Council. This allowed the council to use more of its DHP grant, of which there had been a consistent underspend. In the year to April 2015, Shropshire Council had spent 79% of its DHP grant from government. By the year to April 2018 this had dropped to 44.2%.

The group was keen to understand why the council had not awarded more of its allocation. It heard that two separate departments in the council were responsible for making awards. Payments to cover rent shortfalls resulting from changes to Council Tax support tended to be made by the revenue and benefits team, whereas one-off grants for items such as deposits were managed by the welfare reform team within customer services. This split responsibility appears to have weakened any co-ordination in ensuring that allocated funding was used in its entirety.

The group noted the challenge created by two separate teams within separate directorates performing overlapping roles. The group also felt that this split of responsibility could be detrimental to people approaching the council with financial hardship. For example, although the council has a policy for distributing discretionary housing payments, it was not clear that both teams were using this policy. This could potentially result in someone applying for support receiving a different decision depending on which team they approached first. Similarly, it was not immediately clear which team people seeking financial support should approach first. These unclear lines of responsibility, combined with a lack of a holistic strategy to manage the council's considerable welfare support across several directorates, mean that the local authority does not appear to manage its support as effectively as it could.

The group therefore recommends that Shropshire Council review its structures and processes, so that there are clear lines of responsibility for respective teams, together with clear procedures for managing claims of financial hardship. These processes and procedures should then better support the existing policy for managing discretionary housing payments, as well as any welfare support strategy that council agrees to undertake.

Conclusion
The previous ten years have seen significant change in national welfare legislation. A concerted effort to reduce government budget deficits has resulted in cuts to levels of and eligibility for some long-term benefits for those who are unable to work. This has happened in tandem with a reform of some out of work benefits. Although the aim of these reforms are to make work more attractive to people receiving out of work benefits, the nature of Universal Credit means that some people will experience short-term

hardship when they first apply for the benefit., which may be then be exacerbated by lower rates of benefit awarded.

It is unlikely that recent changes to welfare will be reversed any time soon. And although Shropshire Council and its partners cannot and should not look to fill the gaps caused by these changes, there is plenty that they can do to support Shropshire people. As a central provider of welfare support, Shropshire Council is well-placed to take a strategic role in this work, should it choose to. However to do this it must first ensure that its own structures and processes provide clear and consistent support to people experiencing short-term hardship. It should then look to how it works with and supports partners such as local housing associations and the voluntary and community sector to support people requiring longer-term support. A single strategy, together with new processes that encourage closer working to support individuals, should help ensure that the council and its partners make the most effective use of their resources. Finally, central to that strategy should be a focus on helping people to enter the workplace and to reduce their dependency on diminishing welfare resources.

Recommendations

The group recommends that Shropshire Council:

- produces a single process and procedure for managing applications for discretionary hardship support;
- works with partners to develop a single strategy for supporting people receiving benefits;
- focuses any welfare strategy on supporting people into work; and
- explores with partners ways to better co-ordinate its work to support individuals and families.

Appendix 2: The financial loss to Shropshire from welfare reforms since 2010

Benefit change	Groups most affected	Number of households or individuals affected	Total loss to borough *£million per year*	Cost per working age adult *£ per year*
Housing Benefit – Local Housing Allowance Changes to the rules governing assistance with the cost of housing for low-income households in the private rented sector. The new rules apply to rent levels, 'excess' payments, property size, age limits for sole occupancy and indexation for inflation.	• Low-income households in the private rented sector.	**4,300**	**4**	**20**
Housing Benefit – Under-occupation in the social rented sector New rules governing the size of properties for which payments are made to working age claimants (widely known as the 'bedroom tax')	• Low-income households in the social rented sector.	**2,000**	**1.5**	**8**
Non-dependant deductions Increases in the deductions from Housing Benefit, Council Tax Support and other income-based benefits to reflect the contribution that non-dependant household members are expected to make towards the household's housing costs	• Low to middle income households, without children, in work and out of work	**1,100**	**0.8**	**4**
Benefit cap (1) New ceiling on total payments per household, applying to the sum of a wide range of benefits for working age claimants	• Larger out-of-work families • Out-of-work households in areas with high housing costs	**50**	**0.2**	**1**
Council Tax Support* Reductions in entitlement of working age claimants arising from 10 per cent reduction in total payments to local authorities		**0**	**0**	**0**

Benefit change	**Groups most affected**	**Number of households or individuals affected**	**Total loss to borough *£million per year***	**Cost per working age adult *£ per year***
Personal Independence Payment Replacement of Disability Living Allowance by PIP for working age claimants, including more stringent and frequent medical tests, as the basis for financial support to help offset the additional costs faced by individuals with disabilities *(anticipated impact by 2020/1)*	• Existing Disability Living Allowance claimants undergoing reassessment • Less severely disabled of working age, mostly older, mostly out-of-work	**4,000**	**12**	**64**
Employment and Support Allowance (1) Replacement of Incapacity Benefit and related benefits by ESA, with more stringent medical tests, greater conditionality and time-limiting of non-means tested entitlement for claimants in the Work-Related Activity Group	• Out-of-work, mainly older adults with less severe health problems or disabilities	**1,100**	**2.3**	**12**
Child Benefit Three-year freeze, and withdrawal of benefit from households including a higher earner	• Everyone with children, especially higher-income families	**33,900**	**13**	**68**
Tax Credits (1) Reductions in payment rates and eligibility for Child Tax Credit and Working Tax Credit, paid to lower and middle income households	• Low-income households in work	**17,400**	**17**	**90**
1 per cent up-rating Limit in annual up-rating of value of most working age benefits	• Everyone on the main working age benefits	**32,000**	**10**	**53**

Benefit change	**Groups most affected**	**Number of households or individuals affected**	**Total loss to borough *£million per year***	**Cost per working age adult *£ per year***
Universal Credit tapers and thresholds Reduction in the level of earnings and increase in the rate at which Universal Credit awards are withdrawn.	• Low-income households in work	**13,000**	**14**	**74**
Tax Credits (2) Reductions in payments and thresholds, notably the removal for new claims of the 'family' element and a limit on the 'child' element to two children for children born after March 2017	• Low to middle income families, including households in work and out of work • Larger families, especially those having a third or additional child	**8,000**	**8**	**43**
Mortgage interest support Change from welfare payment to a loan	• Long-term out-of-work households with a mortgage , including those on ESA • Some retirees	**600**	**1**	**5**
'Pay to stay' New requirement for higher-income tenants in the social rented sector in England to pay market rents, mandatory in local authority housing and voluntary for housing associations	• Higher income social housing tenants in England, mostly in work, especially in areas with high market rents	**300**	**0.4**	**2**
LHA cap in the social rented sector Housing Benefit in the social sector limited to the equivalent local private sector rate	• Out-of-work and low income social housing tenants, but not in all cases (depending on local rent levels and property type)	**1,100**	**0.8**	**4**
Housing Benefit: 18-21 year olds End of automatic entitlement for out-of-work 18-21 year olds	• Young unemployed not living with parents	**		

Benefit change	**Groups most affected**	**Number of households or individuals affected**	**Total loss to borough *£million per year***	**Cost per working age adult *£ per year***
Employment and Support Allowance (2) Reduction in payment to JSA rate for new claimants in the Work-Related Activity Group	• Out-of-work, mainly older adults with less severe health problems or disabilities • New claimants only	**1,700**	**2.1**	**11**
Benefit cap (2) Lower ceiling per household - £23,000 a year in London, £20,000 elsewhere – applying to total of wide range of working age benefits	• Larger out-of-work families • Out-of-work households in areas with high housing costs	**1,140**	**2.9**	**18**
Benefit freeze Four-year freeze in the value of most working-age benefits	• Everyone on the main working age benefits	**32,000**	**15**	**78**
Total* **			**102**	**550**
Total for households in social rented housing*			**17**	**1,290**

* Varies according to local authority. Not quantified by the research.
** Not quantified by the research
***Total includes rounding not included in line items.

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Committee and Date
Cabinet
12 December 2018

FINANCIAL STRATEGY 2019/20 – 2023/24

Responsible Officer James Walton
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1. Summary

On 22 February 2018 Council approved the Financial Strategy covering the years 2018/19 through to 2022/23. The report identified a funding gap of £59m by 2022/23 driven predominantly by cuts in government funding (Revenue Support Grant has already fallen by £54m in five years) and growth in costs to essential services such as Adults and Children's Social Care (an increase of £15m in 2018//19 alone). The funding gap identified in February could be partially closed through savings proposals identified across three main pillars of delivery; innovation, income generation and service cuts. In total, gross savings proposals of almost £43m were identified, and were front-loaded to 2018/19 and 2019/20 to begin the process of putting the Council on a financially sustainable footing as quickly as possible. Inevitably such proposals included some optimism bias in delivery timescales and furthermore were supplemented by the establishment of a Financial Strategy Reserve of £24.6m. The initial challenge facing the Council was to deliver £29.2m of gross revenue savings by 2019/20, using only £6m of the Financial Strategy Reserve to smooth delivery.

Although the 2018/19 Financial Year still has four months to run, in-year financial monitoring reports have identified growth in demographic and demand costs in key services, beyond those modelled in February. The 2018/19 budget includes unbudgeted pressures in the order of £8.2m with much of this pressure expected to impact on 2019/20 and beyond. Furthermore, Council approved a revised pay structure on 17 May 2018, adding a further £5.3m to the budget by 2019/20 with additional savings proposals identified to cover this cost.

This report provides an update on work completed over the autumn, including a review of delivery against the plans set out in February, and a range of proposals, new and existing, to enable a balanced budget to be set for 2019/20. In total, £14.2m of the original savings proposals have been removed or re-phased to later years and replaced by £8.3m of new, alternative savings proposals supplemented by additional one-off funding and resources.

The Financial Monitoring Report for Quarter 2 2018/19 identified significant management action to be undertaken over the autumn to bring the projected overspend down to manageable levels with a spending freeze in place to try to deliver

a balanced budget by year end. At the same time, a review of commitments and short-term reserves for 2018/19 has enabled additional funds to be added to the Financial Strategy Reserve to help support the 2019/20 budget and delayed delivery of savings proposals that have proved to be more challenging to deliver than originally anticipated.

2. Recommendations

It is recommended that members:

A. Approve the savings proposals which will deliver a balanced budget as outlined in Appendix 4, enabling the Leader of the Council to take his proposed budget to consultation before taking to Council on 28 February 2018.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1. The development and delivery of the Council's Financial Strategy is the key process in managing many of the Council's strategic risks. The opportunities and risks arising are assessed each time the document is refreshed for Cabinet consideration. The Council's Strategic Risks are reported separately, but the Financial Strategy makes specific reference to the Council's ability to set a sustainable budget (the highest of the Council's key strategic risks).

3.2. Setting the Financial Strategy and agreeing the detailed changes necessary to deliver the agreed budget for the next financial year, will take into account the requirements of the Human Rights Act, any necessary environmental appraisals and the need for Equality and Social Inclusion Impact Assessments (ESIIA) and any necessary service user consultation.

4. Developing the Financial Strategy

4.1. The Financial Monitoring Report – Quarter 2 2018/19 considered by Cabinet on 28th November 2018, identifies a number of financial pressures across the Council generated through growth in costs in Adults and Children's Services, delay and achievability of savings targets and one-off monitoring pressures including pothole repair costs. This represents a significant financial pressure in 2018/19, in the order of £8.2m, which also has implications for future year's budgets as a number of the issues are ongoing. As a result, it was agreed by Cabinet that there would be a 3 stage approach to the developing the Financial Strategy this year, as summarised below:

Stage I – Resolve the 2018/19 overspend to prevent any carry forward to 2019/20

Stage II – Revise spending and savings proposals and develop an appropriate plan for bringing the 2019/20 budget back into short-term balance

Stage III – Consider plans for addressing the funding gaps in years 2-5 of the financial strategy (2020 – 2024) on a more sustainable basis

4.2 The actions taken to address the 2018/19 budget overspend are considered elsewhere on the Cabinet agenda in the Financial Monitoring Report Quarter 2 – 2018/19, and it is believed that the actions identified will remove the majority of the overspend in 2018/19.

4.3 This Financial Strategy Report therefore focusses on Stage II of the budget setting process and considers the changes to resources and expenditure that have increased the funding gap in 2019/20.

4.4 It is intended that the long term financial strategy considered in Stage III will be discussed in more detail from April 2019, when it is anticipated that further clarity on future funding levels will be established.

Additional Demography and Growth

4.5 As highlighted above, the Council has experienced continued growth in Adult Services which is outstripping previous estimates of growth built into earlier iterations of the Financial Strategy. This growth is due to a combination of client demand and increases in the complexity and costs of care packages. As a result, the growth model within Adult Services, which predicts the level, type and seasonality of growth anticipated, has been re-run and estimates that further growth of approximated £4m is required in 2019/20 to bring the budget in line with the costs anticipated.

4.6 Children's Services are, similarly, experiencing increases in demand for services and increased costs from residential packages. The service is considering long term plans to develop in-house provision which should enable the Council to control the level of costs incurred and to increase foster placement sufficiency. Neither of these plans, however, will be delivered in the short term and therefore the cost pressure remains unaddressed. A growth model for Children's Services Safeguarding has been developed to map out the level of growth required to reflect expected demand. Initial modelling has shown that a further £2.3m is required for 2019/20.

4.7 The full year effect of implementing the pay policy has also been reflected within the financial strategy and so £5.280m has been built into the budget for 2019/20.

Savings Proposals

4.8 The Financial Strategy 2018/19 – 2022/23 agreed by Council on 22 February 2018, included savings proposals for 2018/19, and further savings identified for 2019/20. As referred to above, the 2018/19 monitoring position highlights that there are £2.686m of savings proposals currently RAG rated as red. In some cases, the proposals are classified as red due to a delayed implementation, although a number of these savings cannot be implemented as originally planned. It is therefore proposed that some of these savings are removed from the ongoing budget strategy and alternative savings identified. Details of the 2018/19 savings classified as undeliverable are shown in Appendix 5.

4.9 The savings previously identified for 2019/20 (including those identified for the pay award) have also been re-considered to evaluate if these savings are deliverable in 2019/20, and it has been confirmed that £14.2m of the £24.5m identified are now considered to be undeliverable. Some of these savings are categorised as red due to delayed delivery and have been removed from the 2019/20 budget strategy on a temporary basis only. They are built back in for 2020/21 onwards. Details of the 2019/20 savings considered as undeliverable are detailed in Appendix 4.

Additional Resources

4.10 In reviewing the Resources available to the Council, the level of Council Tax income due has been increased to reflect an updated taxbase calculation based on growth of just under 2% for 2019/20. Furthermore, a proposed council tax increase for 2019/20 has been retained at 2.99%, on the assumption that the increase to the referendum level that the Government announced in 2018/19 will remain for future years. These changes have resulted in additional income due to the Council of £1.8m.

4.11 The Government has also announced two funding sources for Local Government in the 2018 Autumn Statement. The first of these allocations is an additional £650m for adult social care, although individual authority allocations have not yet been announced. It is anticipated, however, that this will be distributed via the Relative Needs Formula (RNF) and on that basis, it is estimated that Shropshire Council will receive £3.775m in 2019/20. This figure has been built into specific grant funding and will be used on a one-off basis as shown in the Funding Gap below. The Government also announced an additional £420m for local authorities to fix potholes on roads and renew bridges and tunnels. Shropshire Council has received notification that it will receive £7.313m in 2018/19 towards these costs. This funding will, however, be capital and so cannot be used to directly fund the revenue budget.

New Savings

4.12 The need to remove a proportion of the original 2019/20 savings, has required new savings to be identified that can be delivered next year. The exercise to consider these has focussed on four principles:

i) Innovation

ii) Income Generation

iii) Service Cuts

iv) Transformation (following implementation of the Digital Transformation Programme)

4.13 The detailed savings proposals identified under these four headings are considered in detail in Appendix 4. A summary of the total new savings identified are shown in Table 1 below:

Table 1 : New Savings Proposals for 2019/20

	New Savings - Innovation £	New Savings Income Generation £	New Savings - Service Cuts £	New Savings - Transformation £	TOTAL £
Adult Services	0	0	0	0	0
Children's Services	717,000	0	0	50,980	767,980
Place & Enterprise	400,000	1,025,000	625,000	723,680	2,773,680
Public Health	0	0	0	59,260	59,260
Corporate	3,403,010	0	0	0	3,403,010
Finance, Governance & Assurance	0	0	80,000	81,200	161,200
Legal & Democratic Services	0	0	65,000	0	65,000
Workforce & Transformation	0	0	0	1,032,190	1,032,190
Total	**4,520,010**	**1,025,000**	**770,000**	**1,947,310**	**8,262,320**

5. The Funding Gap

5.1 The implications of amending the resources and expenditure projections for 2019/20 result in an increase in the Funding Gap for 2019/20 as demonstrated in Table 2 below. Full details of income and expenditure included within the Financial Strategy are shown in Appendices 1 and 2.

Table 2: Revised Funding Gap for 2019/20

	2019/20 £	2019/20 £
2019/20 Budget Gap as per Financial Strategy		**13,918,405**
Additional Demography and Growth		
Add in Full Year Cost of Pay Award	5,280,000	
Additional Adults Growth	4,080,356	
Additional Children's Growth	1,949,557	
		11,309,913
Resources		
Increase in Taxbase and Council Tax	-1,808,626	
		-1,808,626
Savings		
Remove 2018/19 Red Unachievable Savings	2,542,910	
Remove 2019/20 Red Unachievable Savings	14,294,300	
Pay Award Savings	-5,315,020	
New Savings - Innovation	-4,520,010	
New Savings - Income Generation	-1,025,000	
New Savings - Service Cuts	-770,000	
New Savings - Transformation	-1,947,310	
		3,259,870
Revised 2019/20 Budget Gap		**26,679,562**

5.2 It is proposed that the remaining funding gap is managed, in the short-term, through one-off sources including the use of one off grants and earmarked reserves. A review of budgets, as part of the exercise to bring the 2018/19 overspend into balance, has identified that potentially a further £1.1m of savings can be delivered in-year to provide a one-off saving that can be added to the Financial Strategy Reserve and carried forward to 2019/20. This exercise has also identified a further £1.5m that can be decommitted from Earmarked Reserves. While both of these proposals will undoubtedly have impacts, if only in-directly, for service delivery, they do provide short-term certainty.

5.3 The budget for 2019/20 also makes an allowance for the cost of investment that would be used to fund the revenue cost of borrowing for large investment projects that the Council plans to progress, to generate additional ongoing income. Delay in delivery of these projects over the remainder of 2018/19 does deliver a small saving in the short-term and as this budget would not, as a consequence, be required for 2019/20. This cannot be considered as a permanent saving as the commercial income target still needs to be delivered in future financial years. This has therefore been identified as a one-off budget that can be re-directed to close the funding gap in the short term.

5.4 The replacement of infrastructure phase of the Digital Transformation Programme is nearing completion in the next 6 months, and projections on expenditure within the project indicate that there is likely to be an underspend within the Programme. Over the implementation period, efforts have been made to ringfence grants, capital finance and IT savings to provide funding for as much of the programme as is possible. The Programme is expected to complete spending in 2019/20 and on this basis can now be considered fully funded. The anticipated underspend on the implementation of the project can therefore be reconsidered and by re-profiling funding sources a revenue saving on the programme can be delivered and used to help close the Council's funding gap. This underspend would otherwise have been available for development of a second phase of digital transformation and additional savings proposals.

5.5 Table 3 below shows that the 2019/20 funding gap has now been closed by utilising the one-off funds referred to above, and the full schedule is shown at Appendix 3.

Table 3: One Off Funding Used to Close 2019/20 Funding Gap

	2019/20 £	2019/20 £
Revised 2019/20 Budget Gap		**26,679,562**
One Off Funding to be used:		
One off Grants:		
Rural Services Delivery grant	-5,307,640	
New Homes Bonus - One Off	-1,606,418	
Improved Better Care Funding	-8,153,520	
Social Care Funding - One Off	-3,775,000	
		-18,842,578
Use of Reserves:		
Earmarked Reserves - Freed up	-1,553,211	
One off Savings Identified in 2018/19 - C/f in Reserve	-1,139,774	
One off use of Cost of Investment Budget	-2,142,800	
One off DTP Underspend - c/f in Reserve	-3,001,199	
		-7,836,984
Remaining Gap to be Funded		**0**

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Financial Strategy 2018/19 – 2022/23 – Council, 22nd February 2018 Financial Strategy 2019/20 – 2021/22 – Cabinet, 4th July 2018 Financial Monitoring Report Quarter 2 – 2018/19 – Cabinet, 28th November 2018
Cabinet Member (Portfolio Holder) David Minnery
Local Member All
Appendices Appendix 1 – Resource Projections Appendix 2 – Expenditure Projections Appendix 3 – Funding Gap Appendix 4 – Savings Proposals Appendix 5 - 2018/19 Red Savings Unachievable

Appendix 1 – Resource Projections

	2019/20 £	2020/21 £	2021/22 £	2022/23 £	2023/24 £
Council Tax	154,426,844	163,398,728	172,891,859	182,935,553	193,563,989
Business Rates:					
Business Rates Collected	41,038,625	41,780,603	42,535,997	43,305,048	44,088,003
Top Up Grant	9,863,325	9,863,325	9,863,325	9,863,325	9,863,325
RSG	6,119,050	4,079,367	2,039,683	0	0
Collection Fund:					
Council Tax	500,000	500,000	500,000	500,000	500,000
Business Rates	-500,000	-500,000	-500,000	-500,000	-500,000
NET BUDGET	**211,447,844**	**219,122,023**	**227,330,865**	**236,103,926**	**247,515,316**
Grants included in Core Funding:					
Improved Better Care Fund	8,153,520	0	0	0	0
New Homes Bonus	7,151,200	6,909,550	7,238,810	6,497,840	4,873,380
Rural Services Delivery Grant	5,307,640	0	0	0	0
CORE FUNDING	**232,060,204**	**226,031,573**	**234,569,675**	**242,601,766**	**252,388,696**
Local Income					
Fees and charges (including income savings deliverable from prior years)	73,895,828	75,803,208	77,842,584	80,016,997	80,016,997
Other Grants and contributions	23,061,550	23,061,550	23,061,550	23,061,550	23,061,550
Specific Grants (excluding Core Funding Grants above)	227,526,083	223,449,900	223,040,550	222,752,260	222,752,260
Specific Grants - Social Care Funding	3,775,000				
Internal Recharges	8,280,870	8,280,870	8,280,870	8,280,870	8,280,870
TOTAL FUNDING	**568,599,535**	**556,627,101**	**566,795,229**	**576,713,442**	**586,500,373**

Appendix 2 – Expenditure Projections

	2019/20 £	2020/21 £	2021/22 £	2022/23 £	2023/24 £
Original Gross Budget Requirement	**582,151,393**	**595,279,098**	**590,700,450**	**608,951,628**	**626,336,853**
Inflationary Growth :					
Pay	7,936,400	2,711,800	2,768,040	2,819,700	
Prices	2,661,433	2,908,430	3,147,842	3,179,325	3,179,328
Pensions	14,575				
Demography & Demand	13,915,537	12,757,784	14,290,156	15,813,740	14,920,933
Service Specific Pressures	-7,503	9,810	10,230	10,650	11,070
Local Generated Pressures:					
Elections			700,000	-700,000	
Specific Grants Changes between years	2,411,162	-21,553,993	-80,090	-1,029,260	
Estimated Cost of Investment - *Approved*	2,142,800	1,485,000	1,265,000	1,760,000	
Savings					
Savings from prior years- 2018/19 - Approved	*-19,206,570*	*-13,180*	*-3,850,000*	*-4,468,930*	
Pay Award Savings Proposals	*-5,315,020*				
Remove 2018/19 Red Savings Unachievable	*2,542,910*				
Remove 2019/20 Red Savings Unachievable	*14,294,300*	*-2,884,300*			
New Savings - Innovation	*-4,520,010*				
New Savings - Income Generation	*-1,025,000*				
New Savings - Service Cuts	*-770,000*				
New Savings - Transformation	*-1,947,310*				
TOTAL EXPENDITURE	**595,279,098**	**590,700,450**	**608,951,628**	**626,336,853**	**644,448,183**

Appendix 3 – Funding Gap

	2019/20 £	2020/21 £	2021/22 £	2022/23 £	2023/24 £
Resources	568,599,535	556,627,101	566,795,229	576,713,442	586,500,373
Expenditure	595,279,098	590,700,450	608,951,628	626,336,853	644,448,183
Gap in year	**26,679,562**	**34,073,348**	**42,156,400**	**49,623,410**	**57,947,810**
One Off Funding to be used:					
<u>One off Grants:</u>					
Rural Services Delivery grant	5,307,640	0	0	0	
New Homes Bonus - One Off	1,606,418	1,888,502	2,260,750	1,379,000	
Improved Better Care Funding	8,153,520	0	0	0	
Social Care Funding - One Off	3,775,000				
<u>Use of Reserves:</u>					
Earmarked Reserves - Freed up	1,553,211	6,178,157			
One off Savings Identified in 2018/19 - C/f in Reserve	1,139,774				
One off use of Cost of Investment Budget	2,142,800				
One off DTP Underspend - c/f in Reserve	3,001,199				
Freed up Conditional Release Reserves	0	11,251,849			
Freed up Conditional Reserves - Pensions	0				
TOTAL ONE OFF FUNDING	**26,679,562**	**19,318,508**	**2,260,750**	**1,379,000**	**0**
Remaining Gap to be Funded	**0**	**14,754,841**	**39,895,650**	**48,244,410**	**57,947,810**

Appendix 4 – Savings Proposals

	2019/20 Savings Previously Agreed £	Pay Award Savings £	Remove 2019/20 Red Savings £	New Savings - Innovation £	New Savings Income Generation £	New Savings - Service Cuts £	New Savings - Transformation £	TOTAL £
Adult Services	1,975,240	1,000,000	-802,600	0	0	0	0	2,172,640
Children's Services	794,000	0	-700,000	717,000	0	0	50,980	861,980
Place & Enterprise	5,999,330	0	-2,521,700	400,000	1,025,000	625,000	723,680	6,251,310
Public Health	288,000	3,615,020	-870,000	0	0	0	59,260	3,092,280
Corporate	0	700,000	0	3,403,010	0	0	0	4,103,010
Finance, Governance & Assurance	1,100,000	0	-400,000	0	0	80,000	81,200	861,200
Legal & Democratic Services	0	0	0	0	0	65,000	0	65,000
Workforce & Transformation	9,050,000	0	-9,000,000	0	0	0	1,032,190	1,082,190
Total	**19,206,570**	**5,315,020**	**-14,294,300**	**4,520,010**	**1,025,000**	**770,000**	**1,947,310**	**18,489,610**

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Adult Services

Ref	Directorate	Portfolio Holder	Description	2019/20 Saving	Removal of 2019/20 Red Savings	Amended 2019/20 Savings
2019/20 Savings Previously Agreed						
A01	Adults Services	Lee Chapman	Day Services - The outsourcing of Aquamira, Albert Road, Greenacreas and Avalon.	96,700		96,700
A02	Adults Services	Lee Chapman	Joint Training (part 1) - Reduction of costs and increases to course fees	77,000		77,000
A03	Adults Services	Lee Chapman	Enable - Secure further income from external contracts	50,000		50,000
A04	Adults Services	Lee Chapman	Positive Steps - Contract review.	43,900		43,900
A05	Adult Services	Lee Chapman	Use of HOLD (capital) funding to reduce the cost of high cost placements	100,000		100,000
A07	Adult Services	Lee Chapman	Utilise vacant properties and maximise housing benefit	25,000		25,000
A10	Adult Services	Lee Chapman	Bring the HIA back in house	100,000		100,000
A15	Adult Services	Lee Chapman	Invest in digital health technologies	250,000		250,000
A16	Adult Services	Lee Chapman	Telecare/telehealth developments	400,000		400,000
A17	Adult Services	Lee Chapman	Explore joint housing and social care opportunities with partners	300,000		300,000
A18	Adult Services	Lee Chapman	Provider market stewardship and micro-commissioning	200,000		200,000
A21	Adult Services	Lee Chapman	Review of client property	15,040		15,040
A22	Adult Services	Lee Chapman	Reduce the number of double handed care packages by investing in technology such as hoists	50,000		50,000
A23	Adult Services	Lee Chapman	Increased number of Shared Lives placements and Positive Steps contract review	43,900	-43,900	0
A24	Adult Services	Lee Chapman	Efficiencies and additional income within Joint Training	77,000	-77,000	0
A25	Adult Services	Lee Chapman	New income generation within Enable	50,000	-50,000	0
A26	Adult Services	Lee Chapman	Review of day centres	96,700	-96,700	0
				1,975,240	**-267,600**	**1,707,640**
Pay Award						
A28	Adult Services	Lee Chapman	Joint commissioning of adult social care placements with Shropshire CCG	**1,000,000**	**-535,000**	**465,000**
Total Adult Services Savings				**2,975,240**	**-802,600**	**2,172,640**

Children's Services

Ref	Directorate	Portfolio Holder	Description	2019/20 Saving	Removal of 2019/20 Red Savings	Amended 2019/20 Savings
2019/20 Savings Previously Agreed						
C06 & C13	Children's Services	Nick Bardsley	Reductions to external placement costs within Children's Safeguarding	500,000	-500,000	0
C11	Children's Services	Nick Bardsley	Creation of supply teacher service	200,000	-200,000	0
C17	Children's Services	Nick Bardsley	Restructure of business support functions within Learning and Skills	94,000	0	94,000
				794,000	**-700,000**	**94,000**
New Savings - Innovation						
C18	Children's Services	Nick Bardsley	Passenger Transport Commissioning Savings in Learning and Skills	**717,000**	**0**	**717,000**
New Savings - Transformation						
C19	Children's Services	Nick Bardsley	Transformation – first phase savings identified	**50,980**	**0**	**50,980**
Total Children's Services Savings				**1,561,980**	**-700,000**	**861,980**

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Place & Enterprise

Ref	Directorate	Portfolio Holder	Description	2019/20 Saving	Removal of 2019/20 Red Savings	Amended 2019/20 Savings
2019/20 Savings Previously Agreed						
P02	Place	Joyce Barrow	End agreement with Rockspring Community Centre	2,000	0	2,000
P03	Place	Steve Charmley	15% reduction in repairs and maintenance and office moves budgets	145,700	-145,700	0
P04	Place	Joyce Barrow	Review of waste collection and recycling services	1,500,000	0	1,500,000
P05	Place	Steve Charmley	Review of car parking at administrative sites	96,000	-96,000	0
P10	Place	Joyce Barrow	Review of Community Enablement Team	648,480	0	648,480
P13	Place	Steve Charmley	Review of workshops and economic development land	81,050	0	81,050
P16	Place	Steve Charmley	Reduction in facilities management costs	55,000	0	55,000
P28	Place	Steve Charmley	Increased installation and use of solar panels	100,000	0	100,000
P29	Place	Steve Davenport	Review of concessionary travel	50,000	0	50,000
P36 & P65	Place	Steve Charmley	Purchase Shrewsbury shopping centres	280,000	-280,000	0
P34 & P39	Place	Steve Charmley	Land acquisition, development and investment	2,050,000	-2,000,000	50,000
P59	Place	Steve Davenport	Increase income generated from car parks	400,000	0	400,000
P62	Place	Steve Davenport	Reduction in agency staff within transport and fleet services	60,000	0	60,000
P64	Place	Steve Davenport	Review of bus subsidies	405,000	0	405,000
P66	Place	Steve Charmley	Innovation and efficiencies within Shire Services	126,100	0	126,100
				5,999,330	**-2,521,700**	**3,477,630**
New Saving - Innovation						
P68	Place	Steve Charmley	Stretch income target in Shire Servies	300,000	-	300,000
P69	Place	Steve Charmley	Infrastructure related to new development	100,000	-	100,000
				400,000	**-**	**400,000**
New Saving - Income Generation						
P72	Place	Steve Charmley	New Development Dividend	**1,025,000**	**-**	**1,025,000**
New Saving - Service Cuts						
P71	Place	Steve Charmley	Reduced R&M Spend by capitalisation	250,000	-	250,000
P74	Place	Rob Macey	Planning Services - Savings/Commercial activity	140,000	-	140,000
P75	Place	Lezley Picton	Rights of Way - risk based approach	50,000	-	50,000
P76	Place	Lezley Picton	Libraries Review commercial review	98,000	-	98,000
P77	Place	Steve Charmley	Economic Growth - savings/commercial activity	35,000	-	35,000
P78	Place	Steve Davenport	Additional income Fleet Management	52,000	-	52,000
				625,000	**-**	**625,000**
New Saving - Transformation						
P79	Place	Lezley Picton	Theatre - New operating model	50,000	-	50,000
P80	Place	Steve Charmley	Heritage Buildings - New operating model	100,000	-	100,000
P70	Place	Steve Charmley	Reduction in Admin Buildings spendng	100,000	-	100,000
P73	Place	Steve Charmley	Transformation – first phase savings identified	473,680	-	473,680
				723,680	**-**	**723,680**
Total Place & Enterprise Savings				**8,773,010**	**-2,521,700**	**6,251,310**

Public Health

Ref	Directorate	Portfolio Holder	Description	2019/20 Saving	Removal of 2019/20 Red Savings	Amended 2019/20 Savings	
2019/20 Savings Previously Agreed							
H04	Public Health	Lee Chapman	Efficiencies and additional income generation within Registrars	40,000	0	40,000	
H12	Public Health	Lee Chapman	Additional income generation within Help2Change - Offer the health check service to other orga	20,000	0	20,000	
H13	Public Health	Lee Chapman	Innovation within Help2Change - Introduction of 'health TVs' and sale of advertising space	63,000	0	63,000	
H14	Public Health	Lee Chapman	Reduction in posts within Help2Change and review of Nicotine Therapy Service	65,000	0	65,000	
H16	Public Health	Joyce Barrow	Review of parking enforcement (employ more officers to generate more income)	100,000	-100,000	0	
				288,000	**-100,000**	**188,000**	
Pay Award - Savings in Public Health Grant will be redirected to fund other Public health related expenditure in other Council service areas, thereby generating savings in Council funded budgets							
A29	Public Health	Lee Chapman	Improved service integration - NHS Health checks, Help to Quit	69,250	0	69,250	*
A30	Public Health	Lee Chapman	Staffing restructure - Help to Change	75,590	0	75,590	*
A31	Public Health	Lee Chapman	Contract review	86,000	0	86,000	*
A32	Public Health	Lee Chapman	Roll out of social prescribing with Adults Services Lets Talk Local hubs	135,000	0	135,000	*
C18	Public Health	Lee Chapman	0-25 PHNS to take over management of one EH hub	75,000	0	75,000	
C19	Public Health	Lee Chapman	Remove non-mandated activity from current 0-25 PHNS contract	380,000	-380,000	0	
H20	Public Health	Lee Chapman	Senior management salary saving	36,000	0	36,000	*
H21	Public Health	Lee Chapman	Vision screening allocation	23,180	0	23,180	*
H22	Public Health	Lee Chapman	LAC funding	23,000	0	23,000	*
H23	Public Health	Lee Chapman	Health Visitor services in Wales	40,000	0	40,000	*
H24	Public Health	Lee Chapman	Redesign of integrated sexual health services	50,000	-50,000	0	
H25	Public Health	Lee Chapman	Integrated sexual health services - Recharge for Welsh residents	90,000	-90,000	0	*
H26	Public Health	Lee Chapman	Pathology tests to be contracted to single provider	30,000	0	30,000	
H27	Public Health	Lee Chapman	Library Contract	5,000	0	5,000	*
H28	Public Health	Lee Chapman	Infection Prevention Control	30,000	0	30,000	*
H29	Public Health	Lee Chapman	Mental Health Promotion	20,000	0	20,000	*
H30	Public Health	Lee Chapman	Remove budget for specialist advice	12,040	0	12,040	
H31	Public Health	Lee Chapman	Reduction in community training	54,960	0	54,960	*
H32	Public Health	Lee Chapman	Retender of inpatient detox contract	30,000	0	30,000	*
H33	Public Health	Lee Chapman	Retender substance misuse service	250,000	-250,000	0	
H34	Public Health	Lee Chapman	Review prescribing budget	80,000	0	80,000	*
H35	Public Health	Lee Chapman	Reduce supervised pharmacy consumption	20,000	0	20,000	
H36	Public Health	Lee Chapman	Recommissioning across Adults, Children's and Public Health	2,000,000	0	2,000,000	
				3,615,020	**-770,000**	**2,845,020**	
New Saving - Transformation							
H37	Public Health	Lee Chapman	Transformation – first phase savings identified	**59,260**	**0**	**59,260**	
Total Public Health Saving				**3,962,280**	**-870,000**	**3,092,280**	

* Includes 2018/19 savings currently being consulted on to fund part year Pay Award in 2018/19

Corporate

Ref	Directorate	Portfolio Holder	Description	2019/20 Saving	Removal of 2019/20 Red Savings	Amended 2019/20 Savings	
Pay Award							
R25	Corporate Budgets	David Minnery	Removal of inflationary growth	**700,000**	**-**	**700,000**	*
New Saving - Innovation							
R36	Corporate Budgets	David Minnery	Removal of Apprenticeship Levy and Minimum Wage Growth	1,553,010	-	1,553,010	
R37	Corporate Budgets	David Minnery	Minimum Revenue Provision	1,850,000	-	1,850,000	
				3,403,010	**-**	**3,403,010**	
Total Corporate Savings				**4,103,010**	**-**	**4,103,010**	

* Includes 2018/19 savings currently being consulted on to fund part year Pay Award in 2018/19

Finance Governance & Assurance

Ref	Directorate	Portfolio Holder	Description	2019/20 Saving	Removal of 2019/20 Red Savings	Amended 2019/20 Savings	
2019/20 Savings Previously Agreed							
P41	Finance, Governance and Assurance	Steve Charmley	Negotiate contract savings upon renewal, through better contract management	300,000	0	300,000	
R02	Finance, Governance and Assurance	David Minnery	Revision of council tax support scheme	200,000	-200,000	0	#
R16	Finance, Governance and Assurance	David Minnery	Service reconfiguration within Finance, Governance and Assurance	300,000	0	300,000	
R17	Finance, Governance and Assurance	David Minnery	Additional income generation within Finance, Governance and Assurance	100,000	0	100,000	
R23	Finance, Governance and Assurance	David Minnery	Additional premium for empty homes	200,000	-200,000	0	#
				1,100,000	**-400,000**	**700,000**	
New Saving - Service Cuts							
R28	Finance, Governance and Assurance	David Minnery	Reduction in service costs (not linked to DTP)	**80,000**	**0**	**80,000**	
New Saving - Transformation							
R29	Finance, Governance and Assurance	David Minnery	Transformation – first phase savings identified	**81,200**	**0**	**81,200**	
Total Finance, Governance & Assurance Savings				**1,261,200**	**-400,000**	**861,200**	

Removed from savings as now included within Resources

Legal & Democratic

Ref	Directorate	Portfolio Holder	Description	2019/20 Saving	Removal of 2019/20 Red Savings	Amended 2019/20 Savings
New Saving - Service Cuts						
R30	Legal and Democratic Services	Steve Charmley	Elections reductions	20,000	-	20,000
R33	Legal and Democratic Services	Steve Charmley	Review of Committee and Member budgets	45,000	-	45,000
Total Legal & Democratic Savings				**65,000**	**-**	**65,000**

Workforce & Transformation

Ref	Directorate	Portfolio Holder	Description	2019/20 Saving	Removal of 2019/20 Red Savings	Amended 2019/20 Savings
2019/20 Savings Previously Agreed						
R03	Workforce and Transformation	Steve Charmley	Contract review within Customer Involvement	50,000	0	50,000
R13	Workforce and Transformation	Steve Charmley	Redesign following digital transformation	9,000,000	-9,000,000	0
				9,050,000	**-9,000,000**	**50,000**
New Saving - Transformation						
R34	Workforce and Transformation	Steve Charmley	Digital Transformation	990,430	0	990,430
R35	Workforce and Transformation	Steve Charmley	Transformation – first phase savings identified	41,760	0	41,760
				1,032,190	**0**	**1,032,190**
Total Workforce & Transformation Saving				**10,082,190**	**-9,000,000**	**1,082,190**

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Appendix 5 – 2018/19 Red Savings Unachievable

Ref	Directorate	Portfolio Holder	Description	2018/19 Saving Unachievable £
C04 & C07	Children's Services	Nick Bardsley	Home to school transport - Stop nursery SEN and post 16 SEN provision	556,500
C05	Children's Services	Nick Bardsley	Further promotion of independent travel training and SEN personal budgets	164,630
C06 & C13	Children's Services	Nick Bardsley	Reductions to external placement costs within Children's Safeguarding	430,000
P35	Place & Enterprise	Steve Charmley	Efficiencies within administrative buildings, including ending use of Mount McKinley	500,000
P36 & P65	Place & Enterprise	Steve Charmley	Generate income from investment in assets	520,000
H02	Public Health	Lee Chapman	Review of maintenance of closed churchyards	47,120
H15	Public Health	Robert Macey	Reduction in posts within Regulatory Services	93,480
R24	Workforce and Transformation	Steve Charmley	Limited voluntary redundancy programme	231,180
Total				**2,542,910**

Committee and Date
Cabinet
12 December 2018

SETTING THE COUNCIL TAX TAXBASE AND COUNCIL TAX SUPPORT SCHEME 2019/20

Responsible Officer James Walton
e-mail: james.walton@shropshire.gov.uk Tel:(01743)258915

1. Summary

1.1. In order to determine the appropriate Council Tax levels for Shropshire Council, it is necessary to determine the Council Tax taxbase for the area. The budget requirements of the various precepting authorities are divided by this figure to arrive at the Band D Council Tax.

1.2. For 2019/20 the Council Tax taxbase will be 111,240.10 Band D equivalents, this is an increase of 1.97% from 2018/19.

1.3. The Council Tax taxbase has a direct impact on the Council Tax that will be levied by the Council for 2019/20.

2. Recommendations

Cabinet members are asked to agree and recommend to full Council for approval:

2.1 In accordance with the Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Act 2018 to approve the revised discretionary power to levy a Council Tax premium in relation to dwellings which have been empty for more than two years i.e. increasing the premium to 100% in relation to dwellings which have been empty for more than two years and the resulting inclusion of an additional 503.34 Band D equivalents in the taxbase.

2.2 To approve the publication of a notice regarding the new discretionary Council Tax discount policy awarded in respect of vacant properties within 21 days of the determination.

2.3 To approve two amendments to the Council Tax Support Scheme to exempt claimants from the 20% minimum payment that are in receipt of Universal Credit that meet the qualifying criteria for the severe disability premium, and claimants in receipt of Universal Credit in receipt of limited capability for work related activity element in Universal Credit (that is the equivalent to the support element of employment and support allowance).

2.4 To approve the Council's localised Council Tax Support (CTS) scheme in 2019/20 (as amended). The scheme summary is attached at Appendix B.

On the assumption that the changes to the discount policy in relation to vacant dwellings detailed in Sections 2.1 and 7.3 of this report have been approved, Cabinet members are asked to agree and recommend to full Council:

2.5 To approve, in accordance with the Local Authorities (Calculation of Tax Base) (England) Regulations 2012, the amount calculated by Shropshire Council as its Council Tax taxbase for the year 2019/20, as detailed in Appendix A, totalling 111,240.10 Band D equivalents**.**

2.6 To note the exclusion of 9,211.79 Band D equivalents from the taxbase as a result of localised Council Tax Support.

2.7 To note continuation of the discretionary Council Tax discount policy of 0% in respect of second homes (other than those that retain a 50% discount through regulation as a result of job related protection) and note the inclusion of 729.45 Band D equivalents in the Council Tax taxbase as a result of this discount policy.

2.8 To note continuation of the discretionary Council Tax discount policy to not award a discount in respect of vacant dwellings undergoing major repair, i.e. former Class A exempt properties.

2.9 To note continuation of the discretionary Council Tax discount policy in respect of vacant dwellings, i.e. former Class C exempt properties, of 100% for one month i.e. effectively reinstating the exemption and the resulting exclusion of 294.56 band D equivalents from the taxbase.

2.10 To note continuation of the "six week rule" in respect of vacant dwellings, i.e. former Class C exempt properties.

2.11 To note the Council Tax Support Scheme amendments detailed in Section 2.3 and 6 have no impact on the taxbase determination.

2.12 To approve a collection rate for the year 2019/20 of 98.0%.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 Expression of Council Tax Support in terms of Band D equivalents results in a higher potential for inaccuracies in the determination process as Council Tax Support is a significantly more volatile discount element.

3.2 Details of the potential risk in relation to establishing a collection rate allowance is detailed within this report in Section 9.

4. Financial Implications

4.1 The Council Tax taxbase figure impacts on the Council Tax that will be levied by the Council for 2019/20.

4.2 The implication of the Council's localised Council Tax Support scheme are detailed in Section 6.

4.3 The implications of maintaining the discount in respect of second homes at 0% are detailed in Section 7.1.

4.4 The implications of maintaining the discount in respect of vacant dwellings are detailed in Section 7.2.

4.5 The implications of increasing the premium from 50% to 100% in respect of properties which have been empty for more than two years are detailed in Section 7.3.

4.6 The implications regarding the determined collection rate are detailed in Section 9.

5. Background

5.1 Shropshire Council has responsibility for determining the Council Tax taxbase for the Council's geographical area.

5.2 The taxbase for Council Tax must be set between 1 December 2018 and 31 January 2019 in relation to 2019/20, as prescribed by the Local Authorities (Calculation of Council Tax Base) Regulations 2012.

5.3 The Council is also required to inform the major precepting authorities, West Mercia Police & Crime Commissioner and Shropshire & Wrekin Fire Authority, of the taxbase in order to enable the calculation of Council Tax for the following year. Each town and parish council is also notified of its own Council Tax taxbase.

5.4 The purpose of this report, therefore, is to determine and approve the Council Tax taxbase for Shropshire Council for 2019/20.

6. Council Tax Support

6.1 The 2010 Spending Review announced the localisation of council tax support and The Welfare Reform Act 2012 abolished Council Tax Benefit from 31 March 2013 and required that Local Government created a localised Council Tax Support (CTS) scheme effective from 1 April 2013, accommodating a reduction in funding of 10%.

6.2 Shropshire Council's localised CTS scheme was approved in December 2017. Two minor changes are proposed to the existing scheme to take effect from 1 April 2019. The current scheme summary that reflects these amendments is attached at Appendix B.

6.3 The current scheme exempts certain claimants from the 20% minimum payment. These include claimants in receipt of Severe Disability Premium and claimants in receipt of the support element of Employment and Support Allowance. Shropshire Council went live for full service Universal Credit in May 2018. The Severe Disability Premium does not exist in Universal Credit. Employment and Support Allowance does not form part of Universal Credit.

6.4 In order to ensure the identified exemptions continue for claimants that have moved into Universal Credit it is proposed to amend the Council Tax Support Scheme to exempt claimants from the 20% minimum payment where:

- Claimants or couples have moved into Universal Credit but meet the qualifying criteria for the severe disability premium

- Claimants or partners in receipt of the limited capability for work related activity element in Universal Credit (that is the equivalent to the support element of employment and support allowance)

6.5 There is no cost or saving expected as a result of these amendments as the amendments align the existing exemptions for Universal Credit claimants.

6.6 A consultation on these amendments ran from 16 November 2018 to 11 December 2018.

6.7 An Equality and Social Inclusion Impact Assessment has been completed and the result is that these amendments are not likely to have an adverse impact on any particular group. The ESIIA is at Appendix C. Part 2 of the ESIIA has not been included as it is not required for this consultation.

6.8 From 2013, therefore, council tax support has taken the form of reductions within the council tax system, replacing national council tax benefit. Making reductions part of the council tax system reduces a billing authority's Council Tax taxbase. Billing and major precepting authorities receive funding (Council Tax Support Grant) which reduce their council tax requirement and, depending on the design of the local council tax scheme, can help offset the council tax revenue foregone through reductions.

6.9 An estimate of the effect of the local Council Tax Support Scheme on the Council Tax taxbase has been determined for Shropshire. It is estimated that the Council Tax Support Scheme will reduce the Council Tax taxbase by 9,211.79 Band D equivalents.

6.10 As Council Tax Support entitlement will vary throughout the year and this will affect the taxbase it is more likely that the amount of Council Tax collected in 2019/20 will vary from the estimate.

7. Discretionary Discount Policies

7.1 *Second Homes*

7.1.1 Second homes are defined as furnished properties which are not occupied as a person's main residence and include furnished properties that are unoccupied between tenancies.

7.1.2 The Local Government Act 2003 gave councils new discretionary powers to reduce the 50% Council Tax discount previously awarded in respect of second homes to between 10% and 50% with effect from 1st April 2004. Councils retain the additional income raised by reducing the second homes Council Tax discount.

7.1.3 The Local Government Act 2012 further extended billing authorities' discretion over the second homes discount to between 0% and 50%. On 17 October 2012 Cabinet approved the reduction of the second homes Council Tax discount from 10% to 0%.

7.1.4 The figures used for the 2018/19 Council Tax taxbase incorporate a 0% Council Tax discount in respect of second homes (other than those that retain a 50% discount through regulation as a result of job related protection). Implementation of this policy results in the inclusion of 729.45 Band D equivalents in the taxbase.

Vacant Properties

7.2 ***Former Class A & Class C Exempt Properties***

7.2.1 The Local Government Act 2012 abolished both Class A and Class C exemptions and gave billing authorities' discretion to give discounts of between 0% and 100%. Class A exemptions were previously available for up to 12 months in respect of a vacant property which required, was undergoing, or had recently undergone major repair work to render it habitable, or structural alteration. Class C exemptions were previously available for up to six months after a dwelling became vacant.

7.2.2 On 14 December 2017 Council approved the removal of a 50% Council Tax discount in respect of vacant dwellings undergoing major repair, i.e. former Class A exempt properties.

7.2.3 In respect of former Class A exempt properties the figures used for the 2019/20 Council Tax taxbase allow for the continuation of the decision previously approved by Council, i.e. to award no discount.

7.2.4 On 17 October 2012 Cabinet approved the award of a 25% Council Tax discount in respect of vacant dwellings, i.e. former Class C exempt properties.

7.2.5 Implementation of this policy resulted in a large number of low value Council Tax demands being raised primarily in relation to landlords whose properties are between tenants. A significant number of landlord complaints were received in relation to these Council Tax demands and these small amounts proved to be very difficult to collect. It was, therefore, proposed and approved that a 100% discount be awarded for one month, i.e. effectively reinstating the exemption, and then a 25% discount be awarded for the remaining five months.

7.2.6 In order to avoid fraudulent 100% claims in respect of these types of properties it was also proposed and approved that the "six week rule" be applied, i.e. if a dwelling which is unoccupied and unfurnished is either exempt or entitled to a discount, becomes occupied or substantially furnished for a period of less than six weeks, after which it falls empty again, it will only resume exemption or discount for any of the original exemption or discount period which remains.

7.2.7 On 14 December 2017 Council approved the continuation of the policy to award one month exemption when a property becomes unoccupied and unfurnished (subject to the six week rule) and approved a revised policy to remove the 25% for the following five months. This means that when a property becomes unoccupied and unfurnished it would attract one month exemption, then pay full charge for the following twenty three months, then attract an additional 100% council tax premium after two years.

7.2.8 In respect of former Class C exempt properties the figures used for the 2019/20 Council Tax taxbase incorporates a discount of 100% for one month. Continuation of this policy to award the one month exemption results in the exclusion of 294.56 Band D equivalents from the taxbase.

7.3 ***Empty Homes Premium***

7.3.1 The Local Government Act 2012 amended the Local Government Finance Act 1992 and also gave billing authorities' discretion to levy an empty homes premium of 50% after a dwelling has been empty and unfurnished for at least two years. In December 2013 Shropshire Council chose to enact this discretionary power with effect from April 2014.

7.3.2 On 1 November 2018 the Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Act 2018 was passed which further amended the Local Government Finance Act 1992. This gave billing authorities' discretion to levy an empty homes premium of 100% for the financial year beginning 1 April 2019 after a dwelling has been empty and unfurnished for at least two years. The Act also allows for a 200% premium from 1 April 2020 for properties empty and unfurnished for at least 5 years and a 300% premium from 1 April 2021 for properties empty and unfurnished for at least 10 years.

7.3.3 Members are asked to approve a revised policy to levy an empty homes premium of 100% after a dwelling has been empty and unfurnished for at least two years.

7.3.4 The figures used for the 2019/20 Council Tax taxbase incorporate a 100% Council Tax premium in respect of dwellings which have been empty for more than two years. Implementation of this policy results in the inclusion of 503.34 Band D equivalents in the taxbase.

8. Taxbase Calculation

8.1 Based on the valuation list, the Council Tax taxbase is the number of properties in the area falling within each council tax property valuation band, modified to take account of the adjustments set out below. Taxbase is expressed as a Band D equivalent.

8.2 An analysis of Council Tax bands within Shropshire Council is detailed below:

Property Band	House Value	Ratio to Band D	Analysis of Dwellings on the Valuation List (%) (as at 10th September 2018)	% Increase / (Decrease) over 2017/18
A	Under £40,000	6/9	18.8	1.1
B	40,001 - 52,000	7/9	25.8	1.3
C	52,001 - 68,000	8/9	20.7	1.3
D	68,001 - 88,000	9/9	14.3	1.0

E	88,001 - 120,000	11/9	11.1	2.1
F	120,001 - 160,000	13/9	5.9	2.3
G	160,001 - 320,000	15/9	3.2	0.7
H	Over 320,000	18/9	0.2	(0.3)

8.3 There are 142,967 properties in the valuation list for the Shropshire Council area. This compares with a figure of 141,074 in the list at the same time last year. There has been an increase of 1,893 properties overall, which equates to 1.34%. The number of properties in property bands A – G has increased, the number of properties in band H has decreased.

8.4 The methodology followed for calculating the taxbase is as follows:

- Ascertain the number of properties in each Council Tax band (A to H) shown in the valuation list as at 10 September 2018. (For 2019-20 only billing authorities were allowed to add any additional properties that were referred to the Valuation Office Agency for banding prior to 31 July 2018 and added to the valuation list between 10 September 2018 and 28 September 2018. This was in recognition of a Valuation Office Agency backlog in adding new properties to the Valuation List. Shropshire Council took advantage of this and have included 88 properties in addition to the totals on the Valuation List as at 10 September 2018).
- Adjust for estimated changes in the number of properties through new build, demolitions and exemptions.
- The number of discounts and disabled relief allowances which apply as at 1 October 2018.
- Convert the number of properties in each Council Tax band to Band D equivalents by using the ratio of each band to Band D and so arrive at the total number of Band D equivalents for the Council.
- Adjust the total number of Band D equivalents by the estimated Council Tax collection rate for the year

These calculations are undertaken for each property band in each parish.

9. Collection Rate

9.1 In determining the taxbase, an allowance has to be made to provide for changes to the taxbase during the year (e.g. due to new properties, appeals against banding, additional discounts, Council Tax Support award changes, etc.) as well as losses on collection arising from non-payment. This is achieved by estimating a Council Tax collection rate for the year and must be common for the whole of Shropshire.

9.2 A collection rate of 97.8% was assumed for the 2018/19 financial year and it is recommended that a collection rate of 98.0% should be assumed for the purpose of determining the Council Tax taxbase in 2019/20.

9.3 Actual in year collection rates in 2015/16, 2016/17 and 2017/18 were 98.4%, 98.4% and 98.4% respectively. The collection rate for 2018/19 is currently projected to outturn at around 97.9%.

9.4 The reduction in the projected Collection Rate for 2018/19 is mainly due to the changes to the Council Tax Support scheme that were implemented in 2018/19.

9.5 A survey of other Councils that have introduced a minimum payment to their Council Tax Support scheme has shown that there is a detrimental effect on their overall council tax collection rate. This has varied among different Councils between 0.3% and 0.7% in the first year, but gradually improving over subsequent years. Therefore, the proposed collection rate for 2019/20 has been increased from 2018/19.

9.6 A rate of 98.0% is considered prudent given the current level of recovery, the collection rates of the last 3 years and the continued impact of the Council Tax Support scheme changes.

9.7 If the actual rate exceeds 98.0% a surplus is generated, which is shared between the Unitary Council, West Mercia Police & Crime Commissioner and Shropshire & Wrekin Fire Authority, pro rata to their demand on the Collection Fund for the relevant year. Conversely, any shortfall in the collection rate results in a deficit, which is shared in a similar manner. The surplus or deficit is taken into account in setting the Council Tax in the following year.

10. Council Tax Base

10.1 The estimated Council Tax taxbase for the whole of the area will be used by this Council to calculate its Council Tax Levy. It will also be used by West Mercia Police & Crime Commissioner and Shropshire & Wrekin Fire Authority to calculate the levy in respect of their precepts.

10.2 The Council Tax taxbase for this purpose in 2019/20 is 111,240.10 Band D equivalents, an increase of 1.97% from 2018/19. The detailed build of this figure analysed by both parish and town council and Environment Agency region is shown in Appendix A.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) N/A
Cabinet Member (Portfolio Holder) David Minnery
Local Member N/A
Appendices Appendix A: 2019/20 Parish and Town Council Tax Taxbase Summary for Shropshire Council. Appendix B: Shropshire Council's Localised Council Tax Support Scheme Appendix C: ESIIA

2019/20 Parish and Town Council Council Tax Taxbase Summary for Shropshire Council	APPENDIX A
Parish / Town Council	**Council Tax Taxbase**
	(Band D Equivalents)
Abdon & Heath	105.51
Acton Burnell, Frodesley, Pitchford, Ruckley & Langley	259.86
Acton Scott	40.30
Adderley	203.50
Alberbury with Cardeston	378.53
Albrighton	1,511.40
All Stretton, Smethcott & Woolstaston	171.64
Alveley & Romsley	851.24
Ashford Bowdler	37.04
Ashford Carbonel	183.29
Astley	195.89
Astley Abbotts	243.62
Aston Bottrell, Burwarton & Cleobury North	113.56
Atcham	99.25
Badger	59.17
Barrow	262.41
Baschurch	1,097.63
Bayston Hill	1,794.57
Beckbury	152.62
Bedstone & Bucknell	313.27
Berrington	414.56
Bettws-Y-Crwyn	89.58
Bicton	409.44
Billingsley, Deuxhill, Glazeley & Middleton Scriven	163.90
Bishops Castle Town	646.56
Bitterley	350.39
Bomere Heath & District	814.92
Boningale	141.31
Boraston	73.38
Bridgnorth Town	4,552.26
Bromfield	117.92
Broseley Town	1,530.35
Buildwas	105.17
Burford	428.21
Cardington	201.77
Caynham	522.52
Chelmarsh	230.20
Cheswardine	390.20
Chetton	156.69
Childs Ercall	299.00
Chirbury with Brompton	341.18
Church Preen, Hughley & Kenley	125.20
Church Pulverbatch	161.50
Church Stretton & Little Stretton Town	2,156.90
Claverley	855.71
Clee St. Margaret	69.94
Cleobury Mortimer	1,154.01
Clive	243.25
Clun Town with Chapel Lawn	507.03
Clunbury	246.08

2019/20 Parish and Town Council Council Tax Taxbase Summary for Shropshire Council	APPENDIX A
Parish / Town Council	**Council Tax Taxbase**
	(Band D Equivalents)
Clungunford	151.52
Cockshutt-cum-Petton	302.13
Condover	864.66
Coreley	135.08
Cound	208.91
Craven Arms Town	796.50
Cressage, Harley & Sheinton	411.41
Culmington	169.91
Diddlebury	265.70
Ditton Priors	324.23
Donington & Boscobel	577.43
Eardington	238.67
Easthope, Shipton & Stanton Long	202.52
Eaton-Under-Heywood & Hope Bowdler	184.83
Edgton	48.22
Ellesmere Rural	922.35
Ellesmere Town	1,420.35
Farlow	182.98
Ford	297.66
Great Hanwood	392.15
Great Ness & Little Ness	476.60
Greete	49.87
Grinshill	112.34
Hadnall	348.60
Highley	1,062.28
Hinstock	486.05
Hodnet	569.31
Hope Bagot	28.96
Hopesay	234.47
Hopton Cangeford & Stoke St. Milborough	161.41
Hopton Castle	47.12
Hopton Wafers	281.38
Hordley	101.52
Ightfield & Calverhall	193.15
Kemberton	116.88
Kinlet	410.69
Kinnerley	489.73
Knockin	114.66
Leebotwood & Longnor	200.81
Leighton & Eaton Constantine	205.93
Llanfairwaterdine	100.16
Llanyblodwel	265.29
Llanymynech & Pant	668.74
Longden	524.28
Loppington	282.55
Ludford	242.81
Ludlow Town	3,500.87
Lydbury North	221.13
Lydham & More	127.32
Mainstone & Colebatch	87.30

2019/20 Parish and Town Council Council Tax Taxbase Summary for Shropshire Council	APPENDIX A
Parish / Town Council	**Council Tax Taxbase (Band D Equivalents)**
Market Drayton Town	3,824.92
Melverley	52.20
Milson & Neen Sollars	117.97
Minsterley	583.98
Montford	251.76
Moreton Corbett & Lee Brockhurst	125.18
Moreton Say	201.84
Morville, Acton Round, Aston Eyre, Monkhopton & Upton Cressett	358.42
Much Wenlock Town	1,207.49
Munslow	174.99
Myddle & Broughton	610.69
Myndtown, Norbury, Ratlinghope & Wentnor	258.54
Nash	139.30
Neen Savage	153.17
Neenton	62.67
Newcastle	126.30
Norton-In-Hales	314.18
Onibury	130.90
Oswestry Rural	1,637.44
Oswestry Town	5,278.11
Pontesbury	1,205.28
Prees	1,083.93
Quatt Malvern	96.93
Richards Castle	141.19
Rushbury	264.95
Ruyton-XI-Towns	457.99
Ryton & Grindle	77.66
Selattyn & Gobowen	1,248.11
Shawbury	838.95
Sheriffhales	318.90
Shifnal Town	3,085.13
Shrewsbury Town	24,565.77
Sibdon Carwood	49.60
St. Martins	910.19
Stanton Lacy	164.34
Stanton-Upon-Hine Heath	235.55
Stockton	132.29
Stoke-Upon-Tern	474.13
Stottesdon & Sidbury	326.80
Stowe	48.06
Sutton Maddock	107.73
Sutton-Upon-Tern	406.45
Tasley	416.30
Tong	119.90
Uffington	104.89
Upton Magna	157.58
Welshampton & Lyneal	369.79
Wem Rural	672.26
Wem Town	1,986.33
West Felton	541.17

2019/20 Parish and Town Council Council Tax Taxbase Summary for Shropshire Council	**APPENDIX A**
Parish / Town Council	**Council Tax Taxbase**
	(Band D Equivalents)
Westbury	523.96
Weston Rhyn	839.56
Weston-Under-Redcastle	120.51
Wheathill	74.37
Whitchurch Rural	591.72
Whitchurch Town	3,349.83
Whittington	845.86
Whitton	61.26
Whixall	339.81
Wistanstow	328.65
Withington	105.20
Woore	597.26
Worfield & Rudge	921.02
Worthen with Shelve	783.26
Wroxeter & Uppington	156.78
Shropshire Council Total	**111,240.10**
Environment Agency - Severn Trent Region	104,422.84
Environment Agency - Welsh Region	4,365.72
Environment Agency - North West Region	2,451.54
Shropshire Council Total	**111,240.10**

APPENDIX B

SHROPSHIRE COUNCIL – BENEFITS SERVICE

COUNCIL TAX SUPPORT (CTS)

Introduction

The current Council Tax Benefit scheme is a means tested benefit that helps people with a low income to pay their Council Tax.
From April 2013 this will be abolished and all local authorities will provide a new scheme called 'Council Tax Support'. The funding that is provided for this scheme will be reduced by 10% and therefore it is likely that some people will have to pay more towards their Council Tax bill.
The changes will not affect pensioners even though they will move into the new scheme.
The Government have confirmed that all pensioners will be protected and receive the same amount of benefit they do now under the current Council Tax Benefit Scheme.
Each local authority will be able to provide Council Tax support in a different way depending on local needs, funding available and how it can be administered. Each Council is expected to devise a new scheme and then put this to public consultation by the end of 2012.
Our new scheme was devised and published on the Shropshire Council website for customers, stakeholders and other agencies to comment on. Public consultation closed on the 14th December and the new scheme was formally adopted by the Council on 16th January 2013.
Anyone of working age will now be subject to the new scheme from April 2013. The differences that you will see in the new Council Tax Support Scheme are: -

- Removal of second adult rebate
- Reduction of the capital limit from £16,000 to £10,0000
- Removal of earnings disregards
- Removal of child benefit disregard
- Increase in non-dependant deductions

Please note the following amendments are for the calculation of Council Tax Support only and do not affect Housing Benefit calculations.

Removal of Second Adult Rebate

Second Adult Rebate (2AR) is awarded to a customer based on the circumstances of a second adult living in the property. Under the new scheme this has been abolished and will no longer be effective from 01.04.13.

Reduction of the capital limit

For working age people the capital limit will reduce to £10,000 from 01.04.13. This will mean that if a customer's savings amounts to more than £10,000 they will not be entitled to CTS. The lower capital limit of £6,000 remains the same.

Tariff income calculations remain as is i.e. from the total amount if capital £6,000 is deducted, the remainder is then dived by 250 if the result is not an exact multiple of £1 the result is rounded up to the next whole £1

All other capital rules including static savings, land and property, shares, etc remain the same.

Removal of Earnings disregards

All income disregards for working age people will cease from the 01.04.13.

Removal of Child Benefit disregards

Child benefit will no longer be disregarded from the calculation of CTS from the 01.04.03.

Increase in non-dependant earned income deductions (working age only)

From 01.04.13 non dep deductions will increase to the following: -

£5 for anyone earning under £100,
£10 for anyone earning between £100 and £150
£20 for anyone earning over £150 per week

This deduction will only be made from their earned income. It won't affect any other income they receive.

Non-dependant earned income deductions (pension age only)

Gross income less than £186.00	=	£3.65
Gross income £186.00 to £321.99	=	£7.25
Gross income £322.00 to £400.99	=	£9.15
Gross income £401.00 or above	=	£10.95

Unearned income will attract the following disregards (working age and pension age):

Others aged 18 or over incl. JSAC & ESAC	=	£3.65
In receipt of Pension Credit, IS, JSA (IB), ESA(IR)	=	nil

(If nil income is added to the claim for the non-dep it appears to take the maximum deduction).

(This disregard will be up-rated annually in line with figures provided annually by DCLG)

A new minimum earnings threshold will be introduced with effect from 01/04/15 to reflect the current arrangements in the Housing Benefit scheme.

This minimum earnings threshold will help to determine whether a European Economic Area (EEA) national's previous or current work can be treated as genuine and effective for the purposes of deciding whether they have a right to reside in the UK as a worker or self-employed person.

The minimum earnings threshold has been set at the level at which workers start to pay National Insurance Contributions (NICs), currently £153 a week in the 2014/15 tax year. If an EEA national can prove that they have been earning at least this amount for a period of 3 months immediately before they claim CTS their work can be treated as genuine and effective and they will have a right to reside as a worker or self-employed person.

If they do not satisfy the minimum earnings threshold criteria, a further assessment will be undertaken against a broader range of criteria (such as hours worked, pattern of work, nature of employment contract etc.) to determine whether their employment is genuine and effective.

Ultimately, if an EEA national's income does not meet the minimum earnings threshold or the additional criteria to be classified as genuine and effective employment they will not be eligible for CTS.

Special Educations Needs Allowance – to be disregarded in full with effect from 01/09/14

War Pensions / Armed Forces Compensation Scheme Guaranteed Income Payments – to be disregarded in full with effect from 01/04/13 (and to be consistent with Housing Benefit)

From 01/04/15 the CTR scheme will include changes to the habitual residency test to reflect changes to the Housing Benefit (HB) regulations.

The amendments to the CTS scheme removes access to CTS for EEA jobseekers who make a new claim for CTS on or after 1 April 2015. EEA nationals who are self-employed, are workers or who are unemployed but retain their worker status have the same rights to CTS as a UK national and their situation remains unchanged.

EEA jobseekers who are entitled to CTS and JSA(IB) on 31 March 2015 will be protected until they have a break in their claim for CTS or JSA. If their JSA ends because they have started work, then as long as we can be satisfied that their employment is genuine and effective they will be able to access in-work CTS as either a worker or a self-employed person. Claimants receiving in-work CTS beyond 1 April will continue to be able to access CTS, if they become entitled to JSA(IB) on or after that date, but only if they retain their worker status. If they are a jobseeker then their CTS entitlement ends from the Monday following the cessation of work.

Changes with effect from 1 April 2018 to bring the scheme in line with Housing Benefit changes

- **2 child cap**

The Government has announced that they will limit benefit support by only taking into account a maximum of two dependent children per family. It affects all claims where new children are born after April 2017. This will applies in Housing Benefit to families that make a new claim from April 2017

- **Loss of the family premium**
  The Government removed the family premium for new claims within the assessment of Housing Benefit with effect from May 2016

- **Bereavement Support Payments to be disregarded in full**
  This was introduced into Housing Benefit with effect from April 2017

- **Any payments from the 'We love Manchester Fund' and the 'London Emergency Trust' to be disregarded in full**

- **Maximum backdate period of 1 month**

- **Absence from home limited to 4 weeks when outside GB**
  The temporary absence rules for Housing Benefit were amended in 2015 reducing the allowable period of temporary absence outside Great Britain from 13 weeks to 4 weeks.

  The limit applies to new periods of absence only. Exceptions are when an absence is in relation to
  - Death of a partner, child or close relative
  - Receiving medical treatment
  - A person who has fled their home due to fear of violence
  - A member of Her Majesty's forces posted overseas

- **Beneficial changes in circumstances to be reported within one month of the change in order for the claim to be updated from the date of change, otherwise changes will take effect from the Monday following date notified.**

- **All working aged claimants who receive Council Tax Support (unless they are a pensioner or classed as vulnerable) will pay 20% of their council tax liability, (after appropriate discounts have been awarded)**

  An example of this change is as follows:
  1) Current scheme (which allows for 100% reduction)
     The customer's liability is £20.00 per week. As they are in receipt of Jobseekers Allowance they are entitled to full Council tax reduction making their council tax balance for the year £0.00
  2) Proposed new scheme (20% minimum payment)

The customer liability is £20.00. Before any calculation takes place 20% of this amount is reduced from the liability to be used. This means that any calculation will be carried out on a figure of £16.00. Again the customer is on Jobseekers Allowance and so they are entitled to a full award. This will mean their council tax balance for the year will be £208.00 (£4.00 x 52).

- **De Minimis change amount of £10.00 per week for claimants in receipt of Universal Credit**

- **Apply a minimum award of £1.50**

- **Claimant or partner who meet the specific criteria of severe disablement contained within the policy will be protected from any percentage reduction in council tax support. Claimant or partner in receipt of Employment and Support Allowance will be protected from any percentage reduction in council tax support. This will also apply to customers who meet the criteria for receiving a war compensation related benefit or pension. Specifically this includes**

<u>Criteria to be awarded for the severe disability premium:</u>

- The customer has to be in receipt of
  1) Attendance allowance or
  2) Higher or middle rate care component of disability living allowance or
  3) The daily living allowance rate of personal independence payments
- They must not have a resident non-dependant
- No person is entitled to, and in receipt of, carers allowance in respect of caring for the customer and;
- If the customer has a partner they must also meet all above criteria

<u>Criteria to be awarded the support component of employment and support allowance</u>

It is accepted that some people's difficulties or disabilities are such that not only is the person not expected to look for work but are also not expected to undertake an work related activities or plan for starting work due to the severity of their difficulties

<u>Criteria to qualify for the war pension's exemption</u>

The customer and/or partner has to be in receipt of either:

- War pension
- War disablement pension
- War service attributable pension
- War widows pension
- War mobility supplement

Changes with effect from 1 April 2019

Severe Disability Premium does not exist in Universal Credit. From 1 April 2019 claimants or couples that have moved into Universal Credit but meet the above criteria for the severe disablement premium will be exempt from the percentage reduction.

Employment and support allowance does not form part of Universal Credit. Instead there is a limited capability for work and limited capability for work related activity element in Universal Credit which is similar to that used for identifying the work related activity group and support group of Employment Support Allowance. From 1 April 2019 claimants or partners in receipt of the limited capability for work related activity element in Universal Credit that is the equivalent to the support element of employment and support allowance will be exempt from the percentage reduction.

SUMMARY OF CHANGES FROM 01.04.13

Current Council Tax Benefit Scheme (CTB)	Council Tax Support (CTS)
Second Adult Rebate - Awarded to the customer based on the circumstances of 'second adult'. Can be awarded due to a 'better buy' comparison	No award due for second person. On 'better buy' calculation customer will only be awarded any CTS due.
Reduction of the capital limit - Upper capital limit of £16,000. Above this limit the person would not qualify for CTB. Lower capital of £6,000. Below this figure amount is ignored. Amounts above £6,000 attract tariff income at £1 for every £250 or part of above the lower capital limit	Upper capital limit of £10,000. Above this limit the person would not qualify for CTB. Lower capital of £6,000. Below this figure amount is ignored. Amounts above £6,000 attract tariff income at £1 for every £250 or part of above the lower capital limit
Removal of earnings disregards – Permitted work - £97.50 Lone parents - £25.00 Disabled, carers or special occupations - £20.00 Couples - £10 Single £5	Permitted work - £0 Lone parents - £0 Disabled, carers or special occupations - £0 Couples - £0 Single £0
Removal of Child Benefit disregard – Child Benefit is fully disregarded for the calculation of CTB	Child benefit is fully included for the calculation of CTS
Increase in non-dependant deductions (using current figures) On pass ported benefit - £0.00 On JSA C/ESAC - £3.30 Works less than 16 hours on maternity, paternity, adoption or sick leave - £3.30 Income more than £394.00 per week – £9.90 £316.00 to £393.99 per week – £8.25 £238.00 to £315.99 per week - £6.55 £183.00 to £237.00 per week - £3.30 £124.00 to £182.99 per week – £3.30 Under £124.00 – £3.30	On pass ported benefit - £0.00 On JSA C/ESAC - £3.30 Works less than 16 hours on maternity, paternity, adoption or sick leave - £3.30 Earnings less than £100 - £5.00 Earnings between £100 and £150 - £10.00 Earnings above £150 - £20.00

APPEALS

There will be no joint HB/CTR appeals – they will be heard separately by different bodies. First Tier Tribunals will hear the Housing Benefit appeals (as now) and the Valuation Tribunals Service will hear Council Tax Support appeals.

The legislation is contained within the Local Government Finance Act. Appeals against the local Council Tax Support Scheme will be covered by Regulation 16(b).

Process:

- The customer firstly needs to write to the Council saying they disagree with the decision. There is no time limit to do this. They can request this at any time.
- If we do not alter our original decision the customer has the right to appeal to the Valuation Tribunal.
- To appeal to the Valuation Tribunal the customer will need to do this on line at www.valuationtribunal.gov.uk
- The customer must complete the on line appeal application within two months of the date of the decision notice sent by ourselves upholding the original decision

As local schemes are not legislation, but are locally defined schemes, the Valuation Tribunal will not consider an appeal against a billing authority's actual scheme, as that is beyond their jurisdiction. However, the Valuation Tribunal will advise dissatisfied claimants of their right to apply to the billing authority for a discretionary discount under section 13 (1) (c) of the Local Government Finance Act 1992. They will also hear appeals where the authority refuses to exercise this discretion.

<u>Shropshire Council Equality and Social Inclusion Impact Assessment (ESIIA)</u>

<u>Name of service change</u>: *<u>Minor amendment to Local Council Tax Support Scheme</u>*

<u>Contextual Notes 2016</u>

The What and the Why:

The Shropshire Council Equality and Social Inclusion Impact Assessment (ESIIA) approach helps to identify whether or not any new or significant changes to services, including policies, procedures, functions or projects, may have an adverse impact on a particular group of people, and whether the human rights of individuals may be affected.
This assessment encompasses consideration of social inclusion. This is so that we are thinking as carefully and completely as possible about all Shropshire groups and communities, including people in rural areas and people we may describe as vulnerable, for example due to low income or to safeguarding concerns, as well as people in what are described as the nine 'protected characteristics' of groups of people in our population, eg Age. We demonstrate equal treatment to people who are in these groups and to people who are not, through having what is termed 'due regard' to their needs and views when developing and implementing policy and strategy and when commissioning, procuring, arranging or delivering services.
It is a legal requirement for local authorities to assess the equality and human rights impact of changes proposed or made to services. Carrying out ESIIAs helps us as a public authority to ensure that, as far as possible, we are taking actions to meet the general equality duty placed on us by the Equality Act 2010, and to thus demonstrate that the three equality aims are integral to our decision making processes. These are: eliminating discrimination, harassment and victimisation; advancing equality of opportunity; and fostering good relations.

The How:

The guidance and the evidence template are combined into one document for ease of access and usage, including questions that set out to act as useful prompts to service areas at each stage. The assessment comprises two parts: a screening part, and a full report part.

Screening (Part One) enables energies to be focussed on the service changes for which there are potentially important equalities and human rights implications. If screening indicates that the impact is likely to be positive overall, or is likely to have a medium or low negative or positive impact on certain groups of people, a full report is not required. Energies should instead focus on review and monitoring and ongoing evidence collection, enabling incremental improvements and adjustments that will lead to overall positive impacts for all groups in Shropshire.

A ***full report (Part Two)*** needs to be carried out where screening indicates that there are considered to be or likely to be significant negative impacts for certain groups of people, and/or where there are human rights implications. Where there is some uncertainty as to what decision to reach based on the evidence available, a full report is recommended, as it enables more evidence to be collected that will help the service area to reach an informed opinion.

Shropshire Council Part 1 ESIIA: initial screening and assessment

Please note: prompt questions and guidance within boxes are in italics. You are welcome to type over them when completing this form. Please extend the boxes if you need more space for your commentary.

Name of service change
Minor amendment to existing local Council Tax Support scheme. Proposed change is to align existing exemptions within the scheme for claimants that have moved into Universal Credit. *Certain groups are proposed as being exempt from these changes.*

Aims of the service change and description

The former national Council Tax Benefit scheme was abolished on 31 March 2013 and replaced with a new system of localised Council Tax Support, which requires each billing authority to design and implement its own scheme for awarding council tax discounts to working age customers on low incomes, while accommodating a 10% reduction in Government funding.
Shropshire Council's current scheme was approved by Council on 14 December 2017. The changes that were agreed that took effect from 1 April 2018 were:

- *Make changes to our current scheme to align with Housing Benefit changes*
  - *Removal of the family premium*
  - *Applying the two child limitation*
  - *Restricting backdating to a maximum of 1 month*
  - *Bereavement Support payments and payments from either the 'We love Manchester Fund' or the 'London Emergency Trust' to be disregarded in full*
  - *Absence from home to be limited to 4 weeks when outside GB*
  - *Beneficial changes to be reported within one month of date of change*

- *Apply a minimum award of £1.50*
- *Introduce a de minimus amount of £10.00 per week for claimants in receipt of Universal Credit*
- *Apply a minimum 20% payment in Council Tax Support*

A link to the report considered by Council including a summary of the scheme is below.
http://shropshire.gov.uk/committee-services/documents/s17354/15%20Council%20Tax%20Support%20002.pdf
In order to ensure that the most vulnerable groups in society are protected it was agreed that the following would be exempt from the 20% minimum

payment.
- *Claimants in receipt of severe disability premium*
- *Claimants in receipt of the support component of employment and support allowance*
- *Claimants in receipt of war pension*

Proposed changes to Shropshire Council's Council Tax Support Scheme with effect from 1 April 2019.
Shropshire Council went live with Universal Credit full service in May 2018. The Severe Disability Premium does not exist in Universal Credit. Employment and Support Allowance does not form part of Universal Credit. This means that claimants that have moved into Universal Credit that would otherwise have been exempt from the 20% minimum payment will not be exempt.
In order to ensure that affected claimants that have moved into Universal Credit retain the exemption from the 20% minimum payment it is proposed that:
- *Claimants or couples that have moved into Universal Credit but meet the qualifying criteria for the severe disablement premium will be exempt from the 20% minimum payment.*

- *Claimants or partners in receipt of the limited capability for work related activity element in Universal Credit (that is the equivalent to the support element of employment and support allowance) will be exempt from the 20% minimum payment.*

There is no expected cost or saving as a result of this amendment.

Intended audiences and target groups for the service change

- *Members of the public*
- *Members*
- *Registered Social Landlords*
- *Working age claimants*
- *Other Council departments*
- *Advice agencies*

Evidence used for screening of the service change

Specific consultation and engagement with intended audiences and target groups for the service change

A consultation will commence on 16 November 2018 and run until 11 December 2018. The proposed changes have been discussed with Citizens Advice Bureau who are supportive of these two amendments.

Potential impact on Protected Characteristic groups and on social inclusion

Using the results of evidence gathering and specific consultation and engagement, please consider how the service change as proposed may affect people within the nine Protected Characteristic groups and people at risk of social exclusion.

1. Have the intended audiences and target groups been consulted about:
    - their current needs and aspirations and what is important to them;
    - the potential impact of this service change on them, whether positive or negative, intended or unintended;
    - the potential barriers they may face.
2. If the intended audience and target groups have not been consulted directly, have their representatives or people with specialist knowledge been consulted, or has research been explored?
3. Have other stakeholder groups and secondary groups, for example carers of service users, been explored in terms of potential unintended impacts?
4. Are there systems set up to:
    - monitor the impact, positive or negative, intended or intended, for different groups;
    - enable open feedback and suggestions from a variety of audiences through a variety of methods.
5. Are there any Human Rights implications? For example, is there a breach of one or more of the human rights of an individual or group?
6. Will the service change as proposed have a positive or negative impact on:
    - fostering good relations?
    - social inclusion?

Initial assessment for each group

Please rate the impact that you perceive the service change is likely to have on a group, through inserting a tick in the relevant column. Please add any extra notes that you think might be helpful for readers.

Protected Characteristic groups and other groups in Shropshire	**High negative impact** *Part Two ESIIA required*	**High positive impact** *Part One ESIIA required*	**Medium positive or negative impact** *Part One ESIIA required*	**Low positive or negative impact** *Part One ESIIA required*
Age (please include children, young people, people of working age, older people. Some people may belong to more than one group eg child for whom there are safeguarding concerns eg older person with disability)				√
Disability (please include: mental health conditions and syndromes including autism; physical disabilities or impairments;		√	The proposal will ensure that exemption will continue where claimant or partner has moved into Universal	

learning disabilities; Multiple Sclerosis; cancer; HIV)			Credit and would otherwise have been exempt from the 20% minimum payment due to being in receipt of receipt of severe disability premium, or the support component of Employment Support Allowance and War pensions	
Gender re-assignment (please include associated aspects: safety, caring responsibility, potential for bullying and harassment)				√
Marriage and Civil Partnership (please include associated aspects: caring responsibility, potential for bullying and harassment)				√
Pregnancy & Maternity (please include associated aspects: safety, caring responsibility, potential for bullying and harassment)				√
Race (please include: ethnicity, nationality, culture, language, gypsy, traveller)				√
Religion and belief (please include: Buddhism, Christianity, Hinduism, Islam, Judaism, Non conformists; Rastafarianism; Sikhism, Shinto, Taoism, Zoroastrianism, and any others)				√
Sex (please include associated aspects: safety, caring responsibility, potential for bullying and harassment)				√
Sexual Orientation (please include associated aspects: safety; caring responsibility; potential for bullying and harassment)				√
Other: Social Inclusion (please include families and friends with caring responsibilities; people with health inequalities; households in poverty; refugees and asylum seekers; rural communities; people for whom there are safeguarding concerns; people you consider to be vulnerable)				√

Guidance on what a negative impact might look like

High	Significant potential impact, risk of exposure, history of complaints, no

Negative	mitigating measures in place or no evidence available: urgent need for consultation with customers, general public, workforce
Medium Negative	Some potential impact, some mitigating measures in place but no evidence available how effective they are: would be beneficial to consult with customers, general public, workforce
Low Negative	Almost bordering on non-relevance to the ESIIA process (heavily legislation led, very little discretion can be exercised, limited public facing aspect, national policy affecting degree of local impact possible)

Decision, review and monitoring

Decision	**Yes**	**No**
Part One ESIIA Only?	√	
Proceed to Part Two Full Report?		√

If Part One, please now use the boxes below and sign off at the foot of the page. If Part Two, please move on to the full report stage.

Actions to mitigate negative impact or enhance positive impact of the service change
This is the section where you can explain what the service area is already planning to do. Check: for the groups who may be affected, what actions will you now take to mitigate or enhance impact of the service change? For example, if you are reducing a service there may be further use you could make of publicity and awareness raising through social media and other channels to reach more people who may be affected.

Actions to review and monitor the impact of the service change
This is the section where you can explain what actions the service area will be taking to review and monitor the impact of the service change, and with what frequency. Check: what arrangements will you have in place to continue to collect evidence and data and to continue to engage with all groups who may be affected by the service change, including the intended audiences? For example, customer feedback and wider community engagement opportunities, including involvement of elected Shropshire Council councillors for a locality.

Scrutiny at Part One screening stage

People involved	Signatures	Date
Lead officer carrying out the screening	Phil Weir	16 November 2018
*Any internal support**		
*Any external support***		
Head of service	James Walton	16 November 2018

This refers to other officers within the service area
*****This refers either to support external to the service but within the Council, eg from the Rurality and Equalities Specialist, or support external to the Council, eg from a peer authority***

Sign off at Part One screening stage

Name	Signatures	Date
Lead officer's name	Phil Weir	16 November 2018
Head of service's name	James Walton	16 November 2018

Note: Shropshire Council has referred to good practice elsewhere in refreshing previous equality impact assessment material in 2014 and replacing it with this ESIIA material. The Council is grateful in particular to Leicestershire County Council, for graciously allowing use to be made of their Equality and Human Rights Impact Assessments (EHRIAs) material and associated documentation.

For further information on the use of ESIIAs: please contact your head of service or contact Mrs Lois Dale, Rurality and Equalities Specialist and Council policy support on equality, via telephone 01743 255684, or email lois.dale@shropshire.gov.uk.

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Committee and Date
Cabinet
12 December 2018

TREASURY MANAGEMENT UPDATE – QUARTER 2 2018/19

Responsible Officer James Walton
e-mail: james.walton@shropshire.gov.uk Tel: (01743) 258915

1. Summary

1.1. The report outlines the treasury management activities of the Council in the last quarter. It highlights the economic environment in which treasury management decisions have been made and the interest rate forecasts of the Council's Treasury Advisor, Link Asset Services. It also updates Members on the internal treasury team's performance.

1.2. During the second quarter of 2018/19 the internal treasury team achieved a return of 0.78% on the Council's cash balances, outperforming the benchmark by 0.27%. This amounts to additional income of £87,060 during the quarter which is included within the Council's outturn position in the monthly revenue monitor.

2. Recommendations

2.1. Members are asked to accept the position as set out in the report.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1. The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

3.2. There are no direct environmental, equalities or climate change consequences arising from this report.

3.3. Compliance with the CIPFA Code of Practice on Treasury Management, the Council's Treasury Policy Statement and Treasury Management Practices and the Prudential Code for Capital Finance together with the rigorous internal controls will enable the Council to manage the risk associated with Treasury Management activities and the potential for financial loss.

4. Financial Implications

4.1. The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation or delays in delivery of the capital programme will both have a positive impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in year about borrowing and returns based on the strategies agreed by Council in the preceding February. Performance outside of these assumptions results in increased or reduced income for the Council.

4.2. The Quarter 2 performance is above benchmark and has delivered additional income of £87,060 which is reflected in the Period 6 Revenue Monitor.

4.3. As at 30 September 2018 the Council held £118 million in investments as detailed in Appendix A and borrowing of £312 million at fixed interest rates.

5. Background

5.1. The Council defines its treasury management activities as "the management of the authority's borrowing, investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks". The report informs Members of the treasury activities of the Council between 1 July 2018 and 30 September 2018.

6. Economic Background

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

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

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

6.4. There is a risk that the current government may be unable to secure a majority in the Commons over Brexit. However, Link's central position is that the government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

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

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

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

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

7. Economic Forecast

7.1. The Council receives its treasury advice from Link Asset Services. Their latest interest rate forecasts to 31 March 2021 are shown below:

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

7.2. The flow of generally positive economic statistics after the end of the June quarter 2018 meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. We do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. We also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

7.3. The overall balance of risks to economic growth in the UK is probably neutral. The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

7.4. Long term PWLB rates are expected to rise to 2.9% in June 2019 before steadily increasing over time to reach 3.3% by December 2020.

8. Treasury Management Strategy

8.1. The Treasury Management Strategy (TMS) for 2018/19 was approved by Full Council on 22 February 2018. The Council's Annual Investment Strategy, which is incorporated in the TMS, outlines the Council's investment priorities as the security and liquidity of its capital.

8.2. The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term (up to 1 year), and only invest with highly credit rated financial institutions using Link's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Link. The Treasury Team continue to take a prudent approach keeping investments short term and with the most highly credit rated organisations.

8.3. In the second quarter of 2018/19 the internal treasury team outperformed its benchmark by 0.27%. The investment return was 0.78% compared to the benchmark of 0.51%. This amounts to additional income of £87,060 during the quarter which is included in the Council's outturn position in the monthly revenue monitor.

7.4. A full list of investments held as at 30 September 2018, compared to Link's counterparty list, and changes to Fitch, Moody's and Standard & Poor's credit ratings are shown in Appendix A. None of the approved limits within the Annual Investment Strategy were breached during the second quarter of 2018/19. Officers continue to monitor the credit ratings of institutions on a daily basis. Delegated authority has been put in place to make any amendments to the approved lending list.

7.5. As illustrated in the economic forecast section above, investment rates available in the market for three months and longer have increased slightly as a result of the increase in Bank Rate in August. The average level of funds available for investment purposes in the second quarter of 2018/19 was £129 million.

9. Borrowing

9.1. It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved Treasury Management Strategy. A list of the approved limits is shown in Appendix B. The Prudential Indicators were not breached during the second quarter of 2018/19 and have not been previously breached. The schedule at Appendix C details the Prudential Borrowing approved and utilised to date.

9.2. Link's target rate for new long term borrowing (50 years) for the second quarter of 2018/19 started at 2.50% and went up to 2.60% during the quarter. No new external borrowing has been undertaken to date in 2018/19. The low and high points during the quarter can be seen in the table below.

	1 Year	5 Year	10 Year	25 Year	50 Year
1.7.18	1.39%	1.75%	2.16%	2.57%	2.35%
30.9.18	1.55%	1.93%	2.33%	2.74%	2.56%
Low	1.58%	1.73%	2.09%	2.50%	2.31%
Date	04/07/2018	04/07/2018	20/07/2018	20/07/2018	20/07/2018
High	1.37%	1.99%	2.42%	2.83%	2.64%
Date	19/09/2018	25/09/2018	25/09/2018	25/09/2018	25/09/2018
Average	1.48%	1.82%	2.22%	2.62%	2.42%

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Cabinet, 17 September 2018, Treasury Management Update Quarter 1 2018/19 Council, 22 February 2018, Treasury Strategy 2018/19.
Cabinet Member: David Minnery, Portfolio Holder for Finance
Local Member N/A
Appendices A. Investment Report as at 30 September 2018 B. Prudential Limits C. Prudential Borrowing Schedule

Shropshire Council

Monthly Investment Analysis Review

September 2018

Monthly Economic Summary

General Economy

The data releases for the month began with August's Markit/CIPS Manufacturing Purchasing Managers Index (PMI) activity survey. This saw a decrease from the previous figure of 53.8, to a weaker 52.8. Construction PMI also took a hit, as it went down to 52.9 from 55.8, a huge fall and far lower than what was predicted. However, Services PMI was a stronger performer, rising from 53.5 to 54.3. GDP figures were stronger than expected; the m/m measure for July came in at 0.3%, an increase from 0.1% previously and above forecasts. The y/y measure was 1.6%. beating both the previous figure and forecasts. Brexit-related uncertainty is still a factor but the data provided a positive sign that growth has improved at the start of the quarter.

In terms of the UK's trade balance, the overall deficit decreased to £9.97bn. This was a drop of nearly £2bn, showing a narrowing of the current account deficit. The non-EU figure also fell to £2.8bn. Both of these figures beat forecasts, and provide evidence of a rebalancing of the UK's trade.

Unemployment remained at 4% for July, in line with forecasts and still at the lowest level since 1975. After a long wait, this continually low level seems to finally be feeding into wage growth, with an increase 2.9% excluding bonuses. The 3M y/y figure is 2.6% including bonuses, both increases from the previous month. Whether the low unemployment rate will have a more sustained impact on wage growth is yet to be seen.

In mid-September, the Bank of England's Monetary Policy Committee chose to hold the base rate at 0.75% following the August hike. Bank Governor Mark Carney reiterated that the Committee is in no rush to raise rates back to more "normal" levels, and with Brexit uncertainty coming to the fore, markets are showing little to no expectation of a further rate hike until Q2/Q3 2019.

The inflation figures for August came out far higher than expected, with Consumer Price Index (CPI) y/y at 2.7%, up from 2.4% in July. The rise in inflation was driven by particularly volatile components so forecasters expect the pickup to be temporary. The monthly CPI figure was 0.7%, up from 0.5%, while Core CPI y/y rose unexpectedly to 2.1% from a previous figure of 1.8%. Despite the increase in price pressures, market participants continued to play down any expectations of a near-term rate hike. Their belief is primarily based on Brexit uncertainty and the fact that inflation is likely to fall towards the Bank's inflation target of 2% through this year and 2019.

Retail sales were expected to show negative growth in August after a strong summer of good weather. However, the figure surprisingly stayed positive at 0.3% m/m, and the y/y figure only fell to 3.3%, well above forecasts of a drop to 2.3%. Within the overall data, food sales did register a small fall, but this was more than offset by the largest monthly increase in sales of household goods since May 2016.

In terms of public finances, the data was disappointing for August. Public sector net borrowing excluding banks rose to £6.753bn, up from £3.4bn, and the figure including banks rose by slightly less, to £5.889bn. There are increasing expectations that the OBR may lower its borrowing forecast in November, which could allow the Chancellor to increase spending in his upcoming budget, without having to raise income from other sources or make cuts elsewhere.

GDP figures at the end of the month were another source of disappointment for the UK. While there was no chance to the Q2 q/q figure (0.4%), Q1 was revised down from 0.2% to just 0.1%. Furthermore, the Q2 y/y figure was revised downwards to 1.2% from 1.3%.

The Eurozone's Q2 y/y GDP figure was also revised lower, down from 2.2% to 2.1%. Meanwhile, US y/y GDP remained unchanged, at 4.2% evidencing the effects of President Trump's expansionary fiscal policy, and paved the way for the US Federal Reserve to action a rate rise at the end of September. Accompanying the move, the Fed's "dot plot" of member expectations for future policy rates suggested another rate hike may occur in 2018, and potentially another three in 2019.

Housing

The Halifax house prices measure showed a 0.1% m/m increase in August, rebounding from a negative value in July. The y/y measure showed a 3.7% increase, an uplift from 3.3% previously but lower than the 3.9% forecast. House.
Nationwide also showed a small rise in m/m house prices, up to 0.3%, whilst the y/y figure also increased by 0.1% to 2%.

Currency

Sterling opened the month at $1.29 against the US Dollar and closed at $1.30, with varied fluctuations throughout the period. Against the Euro, Sterling opened at €1.115 and closed at €1.125.

Forecast

Link Asset Services suggests that the next interest rate rise will be to 1% in the third quarter of 2019, with further rises of 25 basis points in Q2 2020, and Q4 2020. Capital Economics expect the next rate rise will be Q2 2019, followed by another rise in Q4 2019 and a further change in Q4 2020.

Bank Rate	NOW	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	**0.75%**	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
Capital Economics	**0.75%**	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%	1.75%	-

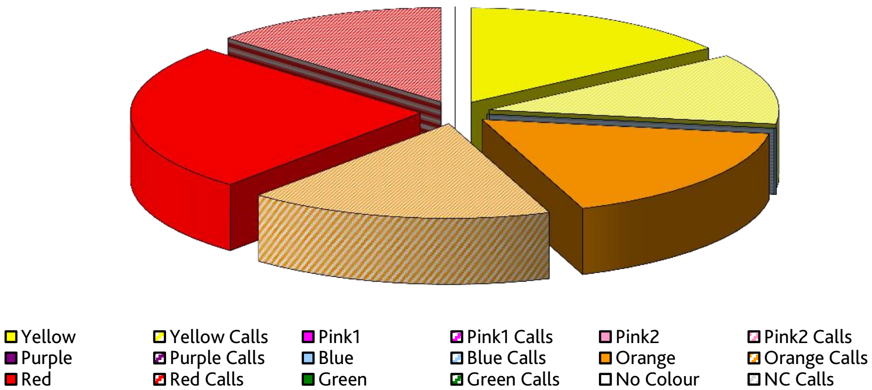
Shropshire Council

Current Investment List

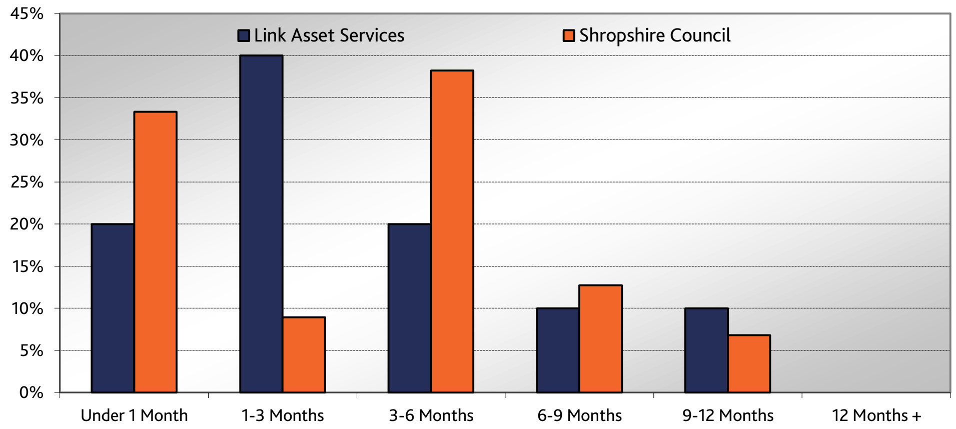
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
HSBC UK Bank Plc (RFB)	20,000,000	1.05%		Call	AA-	0.000%
MMF Standard Life	8,630,000	0.67%		MMF	AAA	0.000%
MMF Insight	5,630,000	0.68%		MMF	AAA	0.000%
Goldman Sachs International Bank	5,000,000	0.96%	03/04/2018	03/10/2018	A	0.000%
Barclays Bank Plc (NRFB)	500,000	0.82%		Call32	A	0.005%
Telford & Wrekin Council	5,000,000	0.75%	22/08/2018	22/11/2018	AA	0.004%
Goldman Sachs International Bank	5,000,000	0.80%	07/06/2018	07/12/2018	A	0.010%
Santander UK Plc	15,000,000	0.85%		Call95	A	0.014%
Barclays Bank Plc (NRFB)	5,450,000	0.76%	16/07/2018	16/01/2019	A	0.016%
Coventry Building Society	5,000,000	0.69%	17/07/2018	17/01/2019	A	0.016%
Barclays Bank Plc (NRFB)	4,550,000	0.77%	17/07/2018	17/01/2019	A	0.016%
Lloyds Bank Plc (RFB)	5,000,000	0.75%	25/07/2018	25/01/2019	A+	0.017%
Nationwide Building Society	5,000,000	0.72%	01/08/2018	31/01/2019	A	0.018%
Slough Borough Council	5,000,000	0.74%	09/08/2018	11/02/2019	AA	0.009%
Lancashire County Council	5,000,000	0.98%	04/05/2018	16/04/2019	AA	0.013%
Lloyds Bank Plc (RFB)	5,000,000	1.00%	05/06/2018	05/06/2019	A+	0.037%
Lloyds Bank Plc (RFB)	5,000,000	1.00%	15/06/2018	14/06/2019	A+	0.038%
Lloyds Bank Plc (RFB)	5,000,000	1.00%	13/07/2018	12/07/2019	A+	0.042%
Bury Metropolitan Borough Council	3,000,000	1.05%	31/08/2018	30/08/2019	AA	0.022%
Total Investments	**£117,760,000**	**0.86%**				0.012%

Shropshire Council

Portfolio Composition by Link Asset Services' Suggested Lending Criteria



Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour



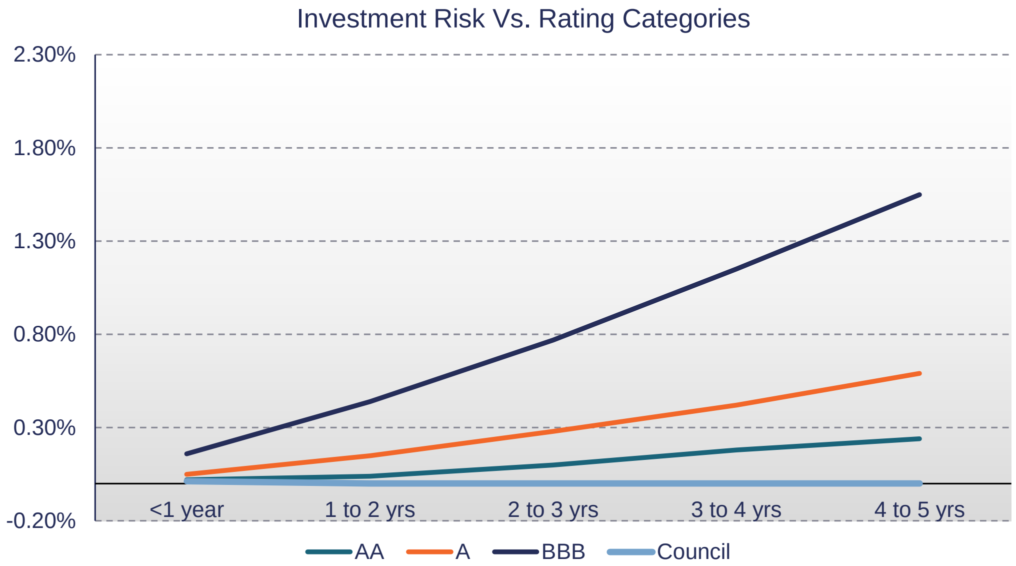
Portfolios weighted average risk number = 3.56

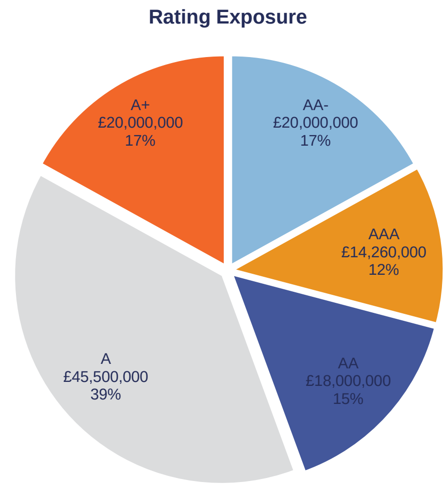
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/USDBFs WAM	Excluding Calls/MMFs/USDBFs WAM at Execution
Yellow	27.39%	£32,260,000	44.20%	£14,260,000	12.11%	0.78%	91	131	163	234
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Orange	33.97%	£40,000,000	50.00%	£20,000,000	16.98%	0.99%	113	160	227	319
Red	38.64%	£45,500,000	34.07%	£15,500,000	13.16%	0.81%	89	153	87	184
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	**£117,760,000**	**42.26%**	**£49,760,000**	**42.26%**	**0.86%**	**98**	**149**	**148**	**237**

Shropshire Council

Investment Risk and Rating Exposure





Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.02%	0.04%	0.10%	0.18%	0.24%
A	0.05%	0.15%	0.28%	0.42%	0.59%
BBB	0.16%	0.44%	0.77%	1.15%	1.55%
Council	0.012%	0.000%	0.000%	0.000%	0.000%

Historic Risk of Default
This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment.

Chart Relative Risk
This is the authority's risk weightings compared to the average % risk of default for “AA”, “A” and “BBB” rated investments.

Rating Exposures
This pie chart provides a clear view of your investment exposures to particular ratings.

Shropshire Council

Monthly Credit Rating Changes
FITCH

Date	Update Number	Institution	Country	Rating Action
25/09/2018	1641	Danske A/S	Denmark	Outlook on the Long Term Rating changed to Negative from Stable

Shropshire Council

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
21/09/2018	1640	Danske A/S	Denmark	Outlook on the Long Term Rating changed to Negative from Stable

Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action
21/09/2018	1639	Australia Sovereign Rating	Australia	Outlook on the Long Term Rating changed to Stable from Negative
26/09/2018	1642	Danske A/S	Denmark	Outlook on the Long Term Rating changed to Negative from Positive

Appendix B

Prudential Indicators – Quarter 2 2018/19

Prudential Indicator	2018/19 Indicator £m	Quarter 1 – Actual £m	Quarter 2 – Actual £m	Quarter 3 – Actual £m	Quarter 4 – Actual £m
Non HRA Capital Financing Requirement (CFR)	307*	305	305		
HRA CFR	85	85	85		
Gross borrowing	312	318	312		
Investments	100	107	118		
Net borrowing	212	211	194		
Authorised limit for external debt	457	318	312		
Operational boundary for external debt	407	318	312		
Limit of fixed interest rates (borrowing)	457	318	312		
HRA debt Limit	96**	85	85		
Limit of variable interest rates (borrowing)	229	0	0		
Internal Team Principal sums invested > 364 days	50	0	0		
Maturity structure of borrowing limits	%	%	%	%	%
Under 12 months	15	2	1		
12 months to 2 years	15	3	1		
2 years to 5 years	45	5	6		
5 years to 10 years	75	0	0		
10 years to 20 years	100	36	37		
20 years to 30 years	100	23	24		
30 years to 40 years	100	15	15		
40 years to 50 years	100	7	7		
50 years and above	100	9	9		

* Based on period 6 Capital Monitoring report including Shrewsbury Shopping Centres. **removed following Budget announcement Oct 2018

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Capital Financing 2018/19 - Period 6

Prudential Borrowing Approvals	Date Approved	Amount Approved £	Applied (Spent) 2006/07 £	Applied (Spent) 2007/08 £	Applied Outturn 08/09 2008/09 £	Applied Outturn 09/10 2009/10 £	Applied Outturn 10/11 2010/11 £	Applied Outturn 11/12 2011/12 £	Applied Outturn 12/13 2012/13 £	Applied Outturn 13/14 2013/14 £	Applied Outturn 14/15 2014/15 £	Applied Outturn 15/16 2015/16 £	Applied Outturn 16/17 2016/17 £	Applied Outturn 17/18 2017/18 £	Budgeted 2018/19 £	Budgeted 2019/20 £	First year MRP Charged	Asset Life	Final year MRP Charged
Monkmoor Campus	24/02/2006	3,580,000																	
Capital Receipts Shortfall -Cashflow	24/02/2006	5,000,000																	
Applied:																			
Monkmoor Campus			3,000,000		0												2007/08	25	2031/32
William Brooks					0		3,580,000										2011/12	25	2035/36
Tern Valley					2,000,000												2010/11	35	2044/45
		8,580,000	**3,000,000**	**0**	**2,000,000**	**0**	**3,580,000**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**				
Highways	24/02/2006	2,000,000	2,000,000														2007/08	20	2026/27
Accommodation Changes	24/02/2006	650,000	410,200	39,800													2007/08	6	2012/13
Accommodation Changes - Saving	31/03/2007	(200,000)																	
		450,000	**410,200**	**39,800**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**				
The Ptarmigan Building	05/11/2009	3,744,000				3,744,000											2010/11	25	2034/35
The Mount McKinley Building	05/11/2009	2,782,000				2,782,000											2011/12	25	2035/36
The Mount McKinley Building	05/11/2009	0					-										2011/12	5	2015/16
Capital Strategy Schemes - Potential Capital Receipts shortfall	25/02/2010	187,600					-	-	-	0	-	-	-	-	-	-		25	
- Desktop Virtualisation						187,600	-										2010/11	5	2014/15
Carbon Efficiency Schemes/Self Financing	25/02/2010	1,512,442					115,656	1,312,810	83,976	-	-	-	-	-	-	-	2011/12	5	2017/18
Transformation schemes		92,635						92,635	-	-							2012/13	3	2014/15
Renewables - Biomass - Self Financing	14/09/2011	92,996						82,408	98,258	(87,670)	-						2014/15	25	2038/39
Solar PV Council Buildings - Self Financing	11/05/2011	56,342						1,283,959	124,584	(1,352,202)	-						2013/14	25	2038/39
Depot Redevelopment - Self Financing	23/02/2012	0							-	-	-						2014/15	10	2023/24
Oswestry Leisure Centre Equipment - Self Financing	04/04/2012	124,521						124,521									2012/13	5	2016/17
Leisure Services - Self Financing	01/08/2012	711,197							711,197								2013/14	5	2016/17
Mardol House Acqusition	26/02/2015	4,160,000									4,160,000	-					2015/16	25	2039/40
Mardol House Adaptation and Refit	26/02/2015	3,340,000									167,640.84	3,172,358.86	-	-	-	-	2016/17	25	2041/41
Oswestry Leisure Centre Equipment - Self Financing	01/08/2012	300,000												274,239	25,761		2018/19	5	2022/23
The Tannery Development		8,020,000													6,020,000	2,000,000	2020/21	25	2044/45
Car Parking Strategy Implementation		917,000													665,000	252,000	2020/21	5	2024/25
JPUT - Investment in Units re Shrewsbury Shopping Centres		52,731,922												52,731,922			2018/19	25	2042/43
Previous NSDC Borrowing		955,595			821,138	134,457											2009/10	5/25	
		90,758,249	**5,410,200**	**39,800**	**2,821,138**	**6,848,057**	**3,695,656**	**2,896,333**	**1,018,015**	**(1,439,872)**	**4,327,641**	**3,172,359**	**0**	**53,006,161**	**6,710,761**	**2,252,000**			
				-	-			()	()	()	()	()	()	-	()	-			

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Committee and Date
Cabinet
12th December 2018

ADDRESSING UNMET HOUSING NEED – OUTLINE BUSINESS CASE TO ESTABLISH A WHOLLY OWNED LOCAL HOUSING COMPANY

Responsible Officer Mark Barrow
e-mail: mark.barrow@shropshire.gov.uk Tel: 01743 258919

1. Summary

1.1 On the 7th November 2018, the report 'Meeting Housing Need in Shropshire' was presented to Cabinet, with the three recommendations listed below approved.

1) Develop a viable outline business case to address Shropshire's unmet housing and development needs.

2) Develop detailed proposals and options for appropriate arrangements to deliver the outline business case: either delivery of housing by the Council itself or: to form a company to undertake this work.

3) Present a report to the 13th December 2018 meeting of Full Council for decisions to implement the outline business case.

1.2 In response, this report and outline business case (with supporting legal advice) has been produced. It seeks 'in principle decisions' to set up a Council wholly owned Local Housing Company and provides background information to support recommendations. This is intended to confirm the specialist legal and commercial advice received and ensure that Members are supportive of proposals at this stage before more detailed work is progressed.

1.3 The primary purpose of such a company would be use Council owned land, and acquire land and property, to develop housing and wider redevelopment in areas where we see unmet need or to address local pressures. For example, this may be in the form of developments for sale, affordable rent, shared ownership, starter homes, later living or key worker housing.

1.4 New development will need to include a portfolio of including both open market properties for sale and rent. Currently 13% of the county's housing stock is classed as affordable / social housing and 87% private sector housing with approximately 17% privately rented.

1.5 If approved, the intention is to return Cabinet and Council with more detailed fully costed proposals, a full business case and business plan. It is at that stage final approval to setup and register a company will be sought.

1.6 The report outlines the background aspects of unmet housing and development. Detailed analysis of the existing housing stock, recent new builds, housing demand and the unmet need will form part of the full business case. A further Council objective, in addition to addressing unmet housing need, is to provide an opportunity to generate a financial return.

1.7 The legal advice from Trowers and Hamlins (Appendix B p.2 para.2.4), confirms that, should we wish to operate for a commercial return for open market rents and sales, a company structure is required. It is important to allow this flexibility, so we can create a mixed portfolio of development also allowing profit to be made in some cases and investment to made where development would otherwise be unviable.

1.8 As the market is not delivering the homes we need, the remaining main option is for the Council is to set-up a company itself to address this need and work in partnership where possible, to encourage the market to do the same. Subsequently, this report recommends and focuses on setting up a Council wholly owned local housing company. It is important to recognise that Registered Housing Providers (Housing Associations) are also developing mixed tenure housing, however this is not countywide and not at a scale to meet future demand.

1.9 The Council owns allocated and unallocated land (within the Local Plan) primarily in the north and centrally. Development in the south of the County is likely to require acquisitions.

1.10 To demonstrate the viability of this proposal at a higher-level, the Outline Business Case is in accordance with the HM Treasury Green Book Five Case model and it reviews the Strategic, Economic, Commercial, Financial and Management case for the preferred model. At this stage it is based upon 3 potential sites to demonstrate the model in principle. The intention is for the Company to begin with, to develop some proof of concept sites. The Final Business Case will address more detailed issues including borrowing costs, start-up capital, organisational capacity etc.

1.11 An initial analysis has identified Council owned land suitable for the development of circa 700 dwellings across 9 sites within the first 5 years and 1,300 plus dwellings across 12 sites from year 5 onwards. Further work on other potential development sites and the Councils Asset Management Strategy is ongoing.

1.12 This would include open market housing owned and managed by the Company and affordable housing sold / transferred at a fair market rate to the Housing Revenue Account (HRA) managed by the Council's arm's length management organisation (ALMO) STaR Housing, and possibly to local Registered Providers (housing associations). As the intention is to over-deliver on affordable housing planning requirements whenever viably possible, the expectation is the Company will develop some sites jointly with other providers.

1.13 The full business case will also be based upon detailed assumptions on housing numbers, percentage of affordable housing, number of properties retained for open market rent, and numbers of sales. The financial modelling will also take into consideration land values, construction costs, potential rents and house sales. Strategic aims, revenue forecasts, savings, cashflow and portfolio growth estimations will all be used to assess how best to viably meet the County's needs. Savings opportunities to Council departments such as Adult Social Care and Children's Services budgets will be a major factor for consideration.

1.14 It is essential that strong cross-party political working shapes the establishment and operation of the Company. Feedback from member briefings has already informed proposals, and a Performance Management Scrutiny Committee Rapid Action Task and Finish Group for pre-decision scrutiny is being planned, which will inform the final report.

1.15 The remainder of the report contains recommendations and information to inform and support decisions.

2. Recommendations

It is agreed:

- In principle that a Council Wholly Owned Local Housing Company be formed.
- The outline governance and constitutional arrangements for the Company detailed below are agreed.
- A full business case, business plan, financing and governance arrangements be developed by the Executive Director of Place in consultation with the Portfolio Holder for Planning & Housing Development; and be brought back for final approval.

REPORT

3. Background

3.1 Legal advice from Trowers & Hamlins has confirmed Local Authority Powers automatically enable provision of housing where there is a statutory duty or for emergency housing. However, where trade is undertaken for a commercial purpose, then a company structure is required.

3.2 As potential affordable housing grant funding and HRA borrowing alone are not a viable option to meet Shropshire's unmet housing and development needs, a new company is legally required and proposed, which can operate commercially to support future development and assist the Authority to be more financially self-sufficient.

3.3 Subsequently, the following report, outline business case (appendix A) and legal advice (appendix B) detail proposals to establish in principle a Council wholly owned Local Housing Company.

3.4 The Company's role will be to acquire, develop and manage homes, utilising a proactive asset and land management approach to maximise opportunities. It will help address specific local housing supply and market deficiencies and generate income to assist the Council to be more financially self-sufficient and help fund wider goals and ambitions.

3.5 The Company will also seek to address and enable broader public-sector savings; encourage economic growth, employment and skills development; promote innovation and development in housing related technologies and practices; and become a leader in improving and redefining UK housing provision.

3.6 Property development will be both market and affordable housing, with accompanying place shaping, regeneration and community infrastructure projects. Working with private sector partners and Private Registered Providers (housing associations); the Company's proposal is to support objectives outlined in the Council's Corporate Strategy, Commercial Strategy and those to be approved in the upcoming Housing Strategy. It is expected that the Council's Arm's Length Management Organisation (ALMO) 'STaR Housing' (managing the Council's homes within the HRA) and other Registered Providers in the county could manage the affordable homes built and subsequently also qualify to apply for Homes England grant funding.

3.7 Whilst addressing where possible demographic pressures in both the open market and affordable housing sectors; the Company's full business plan will complement any outcomes from the 'Council Housing Stock Options Review' to assist in increasing the amount and quality of affordable housing in the County. There is a separate stream of work underway exploring the availability of mortgages for shared ownership housing. This may result in a further report to Cabinet / Council.

3.8 This will include delivering housing to support and empower independence. For example; younger and older people, disabled people, wheelchair users, people with a learning disability, people with a mental health condition, and people with an impairment.

3.9 All carried out and in conjunction with other existing housing programmes, such as the Council's award winning Buy2Live scheme.

3.10 A decision on a Company name and branding will be delegated to the Executive Director of Place in consultation with the Portfolio Holder for Planning & Housing Development.

3.11 Subject to viability tests, it is suggested the Company will, to begin with, be financed by the Council through a combination of 40% equity funding and 60% loan arrangements; in strict compliance with State Aid rules as detailed below. The full business case will confirm the amounts required and this in turn will inform Council procedures needed for evaluating this level of investment against the Council's Capital and Investment Strategy.

3.12 The fundamental principle of the financial modelling is to ensure that over the lifetime of the business plan, there is no cost to the Council, the Company provides a good income stream, and enables major savings to be made to Shropshire Council and other public-sector budgets.

3.13 Income is expected to be achieved in multiple ways, for example through possible future dividends from the Company, capital growth in the value of the property portfolio, a premium for on-lending from the General Fund, increased Council Tax base and New Homes Bonus (for as long as it is available). Assessing the implications for the removal of the so called ‘borrowing cap’ for social housing will form part of this work.

3.14 It is also anticipated that several Service Level Agreements / Contracts with Council Departments and the Council’s ALMO STaR Housing, will be required. Property development will also provide many other opportunities for additional income streams as described below.

3.15 Councils traditionally have developed housing (primarily) directly funded by Government borrowing, held by law within the Housing Revenue Account (HRA). Subsequently they are legally required to let homes on Secure tenancies at Social and Affordable Rent levels and bound by public procurement regulations.

3.16 Council house building had largely ceased from the 1980s until recently. During this period, Private Registered Providers (housing associations) became the main developers of social housing and evolved to increasingly operate commercially.

3.17 Although HRA Reform in 2011 introduced self-financing principles, enabling long-term asset management and capital strategy planning over 30 years, many of the constraints and concerns remain. Examples include Right to Buy and central government control over rent levels and tenancy types. The recent removal of the HRA borrowing cap, will however provide an opportunity to fund part of the planned additional affordable housing, through joint development. Early financially modelling suggests that with Homes England funding this could be as many as 1,000 new affordable homes.

3.18 Many councils wishing to have greater place shaping control and in response to financial pressures, have in recent years sought an alternative solution by creating Local Housing Companies. In effect to attempt to take the best operational elements from the private and public sectors and integrate them. It is currently estimated that over half of all local authorities have either set up or are in the process of creating their own Local Housing Company.

3.19 A full business case will develop the strategic case to establish the Company. In essence, our intent is to address market failure and increase the availability of affordable rented and for-sale housing and to develop housing types that the private sector developers are not building. Underpinning this is the need for a robust commercial and financial case to ensure that this helps improve the financial sustainability of the Council.

3.20 The Shropshire Strategic Housing Market Assessment (2014) set out a range of pressures and challenges. Within Shropshire the ratio of house price to average income is 8.39 and only 50% of the population can afford private rental values.

3.21 The Council's current social housing waiting list is 5,300 and the average waiting time for a 3-bed social rented house for those successful is 13 months.

3.22 The Local Plan Review of 2017 identified the need to build 28,750 new homes by 2036. Whilst in 2017/18 1,876 new homes were built, private sector developers are focussed on profit maximisation in the 3-5 bed 'for sale' market. The evidence is that the market is not, and will not, build the housing we need to meet the broad future needs of our communities.

3.23 By way of illustration, roughly one third of new household formation is due to the growth in our older population. By 2030, Shropshire will comprise of almost 33% people aged over 65.

3.24 There is a wealth of research that demonstrates how developing purpose designed housing promotes longer and more productive independent living which is better for residents and helps offset growing pressures in local health and care systems.

3.25 Whilst council companies have existed for many years, with trading powers set out in Section 93 of the Local Government Act 2003, the recent diversification of new companies was prompted by the General Power of Competence introduced in the Localism Act 2011.

3.26 Whereas councils could previously only trade their existing activities, this legislation enables a local council to undertake any commercial activity that an individual or private company can lawfully undertake, provided this activity is not explicitly ruled out or constrained for councils by another piece of legislation. This provides for purely commercial trading in services not provided by councils before, such as building homes for market sale and rent.

3.27 There are also wider strategic objectives to support the establishment of a Local Housing Company.

3.28 New homes, property developments, refurbishments, progression of stalled developments, office conversions, all support economic growth, with immediate employment and the longer term associated benefits for local businesses by providing a larger percentage of workers to live in the county.

3.29 Investment in new homes has a multiplier effect in the local economy, with residents working in local businesses and spending in local shops and on local services. It also provides an opportunity to adopt key worker policies to encourage key workers in health, education, social care and other public services to remain or move to the County.

3.30 A commercial company can respond quickly and directly to demographic trends from an increasing population and an ongoing long-term shift towards smaller households.

3.31 Development can target where the market is under-performing or failing to provide sufficient housing supply to meet demand. The local context is evidenced from the sub-regional Strategic Housing Market Assessment which summarises projected levels of housing need and demand, including the required mix between property sizes, bedroom numbers, tenure types and rent levels versus incomes.

3.32 Overall, the establishment of a Local Housing Company presents an opportunity to support wider Council goals and aims, whilst in the process, to become more financially self-sufficient.

3.33 This assessment is informed by the original scoping work carried out, research from other Local Housing Companies, and specialist advice from Savills and Trowers & Hamlins.

4. Financial Implications

4.1 Finance

4.1.1 The outline business case (appendix A) is (as will be the full business case) predicated on the Company to begin with, being fully financed through the Council's General Fund (subject to the Council's Treasury Strategy and Prudential Indicators).

4.1.2 The Council can access funding from various sources including the Public Works Loan Board (PWLB) through the UK Debt Management Office. The Council is then able to on-lend capital funding to the Company.

The full financial implications for the Council’s General Fund and required investment will be considered more fully once the full business case has been developed.

4.1.3 Early indicative financial modelling for the Company has been carried out by specialist consultants Savills. For illustration and simplicity this has been based upon delivery across three developments, totalling 160 properties. It should be noted that the outline business case currently considers the direct return from developing properties and does not highlight potential overheads arising from running a Company. These will be examined in more detail in the full business case, where informed projections of gross and net returns will be considered.

4.1.4 A full business case to inform the business plan will be completed and carried out in conjunction with a review of the Council’s land and property assets with the assistance of Savills.

4.1.5 Projections of potential savings to other Council budgets will be intrinsic in business planning.

4.1.6 Company funding is in two parts. The first part is in the form of equity for shares in the Company. The second and larger portion, as an interest payable loan from the Council.

4.1.7 It is not possible to finance the Company completely through a loan as HMRC may challenge it to be a non-commercial arrangement and a way to charge unnecessary excessive interest payments to avoid a tax liability.

4.2 Taxation

The tax and VAT implications will be assessed by qualified specialist consultants.

4.3 Corporation tax

Corporation taxation will be calculated in line with current Government Taxation Policy on revenue surpluses and sales.

4.4 VAT

The new Company will register for VAT.

4.5 Stamp Duty Land Tax (SDLT)

As the Council is a local authority, group relief should be available on the purchase of land from the Council. This means that no SDLT should be chargeable from Council owned land. Due diligence will be undertaken to ensure that the conditions for SDLT group relief applies.

4.6 Equity & Loan Arrangements

The business plan will confirm agreed borrowing arrangements and amounts. It is expected this will be a split between 40% equity and 60% loan.

4.7 Financial Impact on the General Fund

4.7.1 The General Fund will primarily potentially receive six different types of income from the Company.

I). Loan Interest

The Council will finance the Company with an appropriate rate determined. The rate will need to be commercial to ensure State Aid provisions are not triggered, but also not excessive.

II). Capital Growth

From the Property Portfolio.

III). Dividends

The Company's profits may be made available for distribution to the Council as the sole shareholder.

IV). Increased Council Tax base.

V). New Homes Bonus.

VI). Other.

Potential income generating opportunities from provision of products and services. Examples include, lettings and estate agency; home improvement and property maintenance; energy and microgrids; construction; technology; insurance; and financial services, such as equity loans / mortgages.

4.7.2 The Council is currently researching and assessing these business opportunities and on how best to maximise receipt from s106 and Community Infrastructure Levy (CIL) funds, for the benefit of local communities.

5. Risk Assessment and Opportunities Appraisal

5.1 The key risk associated with the establishment of a Local Housing Company is the significant on-loan funding from the General Fund. However, this is expected to be fully mitigated with detailed financial modelling and business planning.

5.2 The Company is being set up to ensure there is no overall cost to the Council, and will generate profits and savings as outlined above.

5.3 A full risk assessment appraisal is being carried out as part of the business case and business planning.

5.4 Our proposal is to develop the outline business case into a full business case. This will again be to HM Treasury Green Book Standards and will outline our strategic, commercial, financial, economic and management cases for the establishment of a company.

6. Additional Information

6.1.1 Advice & Consultation

The Council has sought advice from property specialists Savills and law firm Trowers & Hamlins. Both organisations have detailed knowledge and experience of Shropshire. They are currently assisting with the 'Council Housing Stock Options Review' and have advised many other councils on the formation and management of Local Housing Companies. Officers have also researched, met and spoken to other councils who have already established or are setting up their own companies.

6.1.2 Within their recommendations, Trowers & Hamlins have advised, Members will need to evidence that they have taken reasonable steps to discharge their fiduciary duty when considering:

I). Whether the business case for the Local Housing Company is viable.

II). The risks and rewards of investing / lending.

III). The wider (possibly alternative) interests of local tax payers (e.g. what else could the money have been spent on / the risk it will have to increase council tax).

6.1.3 To support and evidence this, an outline business case (appendix A) has been developed and a full business case and business plan (again assisted by Savills and Trowers & Hamlins) will be written and brought back to inform the final decision on whether to establish a company.

6.2 Company structure and Governance Arrangements

6.2.1 Trowers & Hamlins have advised that a company limited by shares (CLS) is the most appropriate vehicle for the Housing Company for the following reasons.

I). A CLS is the most common corporate vehicle used in England for profit distributing bodies and is a very tried and tested model.

II). The CLS model is a typical form of commercial vehicle established with a view to making a profit.

III). The ability for the Council to invest in the company by way of share equity as well as loan debt.

6.2.2 The Company will be set up in accordance with the Companies Act 2006, including the appointment to the Board of the Company. The Memorandum and Articles of Association and any other documentation required will be written under professional advisement from Savills and Trowers & Hamlins. The Council will hold 100% of the shares in the Company and have full ownership. This provides the Council with full control.

6.2.3 The Council and Company will ensure that appropriate governance arrangements (with further detailed advice from Trowers and Hamlins) are put in place to enable the Council, as the sole shareholder to set and oversee the strategic direction of the Company whilst allowing the Directors of the Company discretion to carry out the operational management effectively, efficiently and with clear targets and milestones.

6.2.4 This will require a clear decision-making framework to ensure the Council as sole shareholder makes the appropriate decisions reserved for them; and give sufficient authority to the Directors to make decisions in relation to the day to day activities of the Company.

6.2.5 Governance arrangements must ensure accountability whilst not hindering operational activity.

6.3 Proposed Governance Structure

6.3.1 To provide the strategic direction and oversight of the Company, a 9 person politically balanced Shareholder Committee of Members will be established including Chair and Vice Chair roles.

6.3.2 The second tier of governance will cover the day to day operational matters of the Company and be the responsibility of the Company's Directors. It is proposed that the Executive Director of Place, Executive Director of Adult Services & Housing, Head of Business Enterprise & Commercial Services, and Housing Development Manager are appointed as Directors, with one chosen as the Managing Director of the Company. In addition, to ensure good governance, 2 independent Non-Executive Directors be recruited to bring wider experience to the board. A total of 6 Directors.

6.3.3 Directors of the Company will be subject to the provisions of the Companies Act 2006 regarding duties and obligations of Directors. Any actions against the Company will stay with the Company and there would be no recourse to the Council or individual directors, save in certain defined cases for example, fraudulent or wrongful trading. Additionally, the Directors will be indemnified by the Company for personal liability except in the cases of unlawful actions or fraudulent or wrongful trading.

6.3.4 The establishment of a Shareholders Agreement between the shareholders and the Housing Company, will set out the parameters the Company must operate within and ultimately provide the Council with control over the Company.

6.3.5 This structure avoids any potential conflict of interest for Members between their role as an elected Member of the Council and the day to day operational management of the Company. However, Members still control the Company at a strategic level with Officers tasked with managing the Company within an agreed framework and through delegated authority. Wider governance structures required within the Council will be considered with proposals, diagrams and responsibilities detailed within the final report to Full Council.

6.3.6 In addition to the Directors, the Company will need to be appropriately staffed as it grows. It is anticipated that where advantageous, some support services will be contracted out. Where provided by Council staff (and re-charged to the Company), it will need to be evidenced that all costs of utilising Council staff are recovered and that there is no actual or hidden subsidy to avoid challenge that the Council is providing State Aid.

6.4 Documentation Required

The following documentation will be required to complete the establishment of the Company and governance arrangements. All will be produced with the advice of Savills and Trowers & Hamlins.

I). Memorandum of Association and Articles, the governing document for the Company.

II). Shareholder Agreement, to regulate how the Company is to be governed.

III). Shareholder Committee Terms of Reference.

IV). Updated Constitution.

V). A dynamic business plan.

VI). Loan Agreements, setting out the details of the funding arrangements between the Council and the Housing Company and how they are drawn down.

VII). Individual site development business cases.

VIII). Operational policies.

6.5 Development Identification & Assessment

6.5.1 The Council is carrying out a series of extensive reviews of Council owned land and assets, along with potential opportunities from within The One Public Estate Programme.

6.5.2 The identification and selection of early developments is being carried out with the advice of Savills and Trowers & Hamlins. The intention is to prioritise and begin with a small number of developments.

6.6 Site Acquisitions & Disposals

Careful consideration will need to be given to the transfer of any land held by the Council to the Company. In particular, the requirements of s123 of the Local Government Act 1972 (in relation to land held in the Council's General Fund) and s32/43 of the Housing Act 1985 (in relation to land held in the Council's HRA) will need to be met. As above site-specific advice will be taken for each development assessment.

6.7 Property Management

The Company will need to provide housing management and property maintenance services to its portfolio. To begin, it is expected that the Company will utilise the services of the Council's Housing Department, Property Services Group (PSG) and ALMO STaR Housing, with all costs re-charged and transparent. Specialist external support will be used as necessary.

6.8 Procurement

The Company will not be subject to the Public Contracts Regulations 2015, as it will be set up as a commercial company with operational independence as described above.

6.9 State Aid Compliance

6.9.1 If the Council is acting in a way that a private lender and / or investor would not act in similar circumstances in a market economy, for example by providing a loan on uncommercial terms and at an uncommercial interest rate, and / or was making an equity investment on the terms and for the return which a private investor would not do, then such activity could constitute unlawful State Aid within the meaning of Article 107 of the Treaty on Function of European Union (TFEU.)

6.9.2 As such, when the Council establishes the detailed loan arrangements with the Company it will need to ensure that an analysis of the relevant risk in relation to the loan is undertaken and confirm that the interest rate applied is consistent with that which a private lender would require in the same circumstances and that the non-financial element of the loan complies with the terms and conditions which a private lender is likely to require, so not to constitute unlawful State Aid.

6.9.3 State Aid will need to be continually kept under review to ensure that the support from the Council is able to continue to be provided throughout the loan period.

6.9.4 It is also important that any services provided by the Council to the Company are provided at commercial terms, as uncommercial terms could also constitute unlawful State Aid.

7. Workshops & Consultation

7.1 No formal consultation is required. However, workshops, meetings and briefings are ongoing with Cabinet and Members.

7.2 Strong cross-party political working is considered essential to development of proposals and future operation of the Company. A Performance Management Scrutiny Committee Rapid Action Task and Finish Group has been established to inform the final report and recommendations.

7.3 A full communications strategy will be implemented for engagement with wider stakeholders, businesses and communities.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
Cabinet Member (Portfolio Holder) Cllr. Robert Macey
Local Member All
Appendix (A) Local Housing Company Outline Business Case (B) Legal Advice

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Shropshire Council

Local Housing Company

Outline Business Case

Report Date:
December 2018

Authors:
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Executive Director of Place, Shropshire Council

savills

Contents

Introduction

This Outline Business Case (OBC) has been prepared in relation to proposals to create a Local Housing Company (LHC) to help address Shropshire's unmet housing and development needs.

The OBC has been prepared using the principles of HM Treasury Green Book Five Cases Model. These are that the business case in support of a new policy, new strategy, new programme or new project must evidence:

- That the intervention is supported by a compelling **case for change** that provides holistic fit with other parts of the organisation and public sector – the "strategic case";
- That the intervention represents best **public value** – the "economic case";
- That the proposed Deal is attractive to the market place, can be procured and is **commercially viable** – the "commercial case";
- That the proposed spend is **affordable** – the "financial case";
- That what is required from all parties is **achievable** – "the management case".

As a part of the OBC, the options for alternative ways of addressing the needs have been examined, including the delivery of housing by the Council itself.

1. Strategic case

Shropshire housing market
The Local Plan Review of 2017 identified the need to build 28,750 new homes by 2036. Whilst in 2017/18 1,876 new homes were built, private sector developers are focussed on profit maximisation in the 3-5 bed 'for sale' market. The evidence is that the market is not, and will not, build the housing needed to meet the broad future needs of communities.

By way of illustration, roughly one third of new household formation is due to the growth in older population. By 2030, Shropshire will comprise of almost 33% people aged over 65. There is a wealth of research that demonstrates how developing purpose designed housing promotes longer and more productive independent living which is better for residents and helps offset growing pressures in local health and care systems.

Local Authority led property development can target where the market is under-performing or failing to provide sufficient housing supply to meet demand. The local context can be evidenced from the sub-regional Strategic Housing Market Assessment which summarises projected levels of housing need and demand, including the required mix between property sizes, bedroom numbers, tenure types and rent levels versus incomes.

Research conducted by the Smith Institute carried out in 2017 discovered that in excess of 150 council owned local housing companies were in existence and that they expected there to be over 200 by 2020.

As well as helping to meet housing need in Shropshire, Council intervention in the market is likely to increase overall economic activity, supporting the delivery of investment in new homes. This has a multiplier effect in the local economy, with residents working in local businesses and spending in local shops and on local services. It also provides an opportunity to adopt key worker policies to encourage key workers in health, education, social care and other public services to remain or move to the county.

The Council's primary aim is to address market failure, increase the availability of affordable rented and for-sale housing and to develop housing types that the private sector developers are not building.

Fit with other Council objectives and priorities

The quality of housing greatly affects the health and wellbeing of residents. Inadequate housing can cause many preventable diseases and injuries, including respiratory diseases such as asthma and bronchitis, nervous system and cardiovascular diseases and cancer.

Over 25,000 people die each year in the UK because of living in cold temperatures and much of this is due to living in poorly heated homes. Living in cold homes can worsen arthritis and increase risk of falls and other accidents through stiffening and tightening of the joints. It can also have a detrimental impact on mental health. Overcrowded homes can contribute to mental stress and reduce general wellbeing. Poor housing is estimated to cost the NHS at least £2.5 billion a year in treating people with illnesses directly linked to living in cold, damp and dangerous homes.

As an example, research by colleagues in the Council's Adult Services reveals that a Shropshire resident who is over 80 years of age, who lives alone and in a thermally inefficient house has an 80% chance of being admitted to hospital within the next 12 months.

The link between housing and healthcare costs is now well established, with sizeable savings achievable in the costs of hospital beds and residential care through the provision of suitable housing. This would be likely to include delivering housing to support and empower independence. For example; younger and older people, disabled people, wheelchair users, people with a learning disability, people with a mental health condition, and people with an impairment.

Examples of types of housing which may help to address the needs of Shropshire include:

- Housing for Health / Social Care Clients - Step-Down Beds
- More Affordable Housing (to buy, rent or shared ownership)
- Later Living
- Key Worker Housing in Proximity to Workplace
- Housing to support potential growth in Student Numbers
- Starter homes

In addition to new housing being brought forward on green, vacant or re-designated land we recognise the opportunity to redevelop and repurpose abandoned, derelict or long term vacant properties. For example, this could be a long-term empty former public house on the high street of a small market town which has the potential for housing development on the upper floors and commercial or community use on the ground floor.

2. Economic case

The likely benefits of the delivery of more housing of the right type to address Shropshire's housing and development needs are outlined above.

Having established that the market is not delivering, and that intervention in the market by the Council in the delivery of new housing is likely to provide benefits, the next question is – what options exist to generate these benefits?

Council delivery without a separate vehicle
The Council commissioned a report from Savills and Trowers & Hamlins, which set out the key financial and legal issues to consider, to inform the development of a business case for a new housing company / vehicle. This report examined the financial and legal issues around the option of delivery by the Council without a separate vehicle.

From a purely financial point of view a new vehicle would present several other financial, accounting and commercial benefits, and greater ability to generate a revenue return for the Council, but also does attract corporation tax on any declared operational profits. In the case of retaining ownership of properties for rental, then the use of a separate vehicle would be recommended as it eliminates a number of financial risks. Such capacities do exist within the Council's ALMO (STAR Housing) and could be secured through a simple management arrangement.

The legal advice from Trowers & Hamlins, considers whether it would be possible to undertake the activities of development or property investment itself, without the use of a separate vehicle. This concludes that if the Council relies on Section 1 of the Localism Act 2011 ("the general power of competence") to undertake an activity for "a commercial purpose", it must do this through a company. Whilst the Council could seek to undertake development itself using different powers, this approach would carry a number of legal risks, and be far more burdensome in terms of administration such that it would hinder its ability to act efficiently in addressing housing market needs.

As a result, based on their understanding of the circumstances of the Council, Savills have recommended that a separate vehicle is created.

New vehicle options
Options for the ownership, structure and control of a new vehicle range from a simple wholly owned Council Company through to complex structures involving multiple vehicles with interlinked ownership and funding arrangements.

In simple terms, the options for ownership (and control) of a vehicle are:

- Wholly owned by the Council
- Partly owned by the Council
- No Council ownership

For property investment activity, a wholly owned Company is by far the most common model being pursued by local authorities, as it allows both control and retention of the long-term value of the housing. For property development, there can be a stronger case for third party involvement, either through contractual arrangements or as part owner in a vehicle. The 2017 research conducted by the Smith Institute revealed that the vast majority of the circa 150 existing LHC's are set up as 'for profit' organisations.

In the case of a partly owned Company (in practice a joint venture), an element of control would be ceded to a third party, who would also look to secure a return on its investment, in line with its risk exposure. Whilst the introduction of third party capital would involve some spreading of risk, this would lower the return achievable by the Council. A joint venture option would almost certainly be more complex and costly to deliver.

Form of vehicle

If the new vehicle is established as a wholly owned vehicle, subject to the legal power used by the Council, the vehicle could be established as either:

- Company limited by shares (CLS)
- Company limited by guarantee (CLG)
- Limited liability partnership (LLP)
- Community Benefit Society (CBS)

A decision on the form of the vehicle would need to take account of a number of issues, such as the costs and complexity of each option, and the future flexibilities they will provide.

The legal advice to this OBC and concludes that based on the circumstances of the Council, their recommendation is that the LHC be established as a Company limited by shares (CLS), as a direct subsidiary of the Council.

A CLS is by far the most common commercial form of Company. It is well known and recognised in the market, and is the option typically pursued by local authorities. There is also the advantage that a CLS wholly owned by the Council would be exempt from Stamp Duty Land Tax (SDLT) on any property transfers between it and the Council.

A CLG is nearly always set up as a not for profit vehicle, and unlike a CLS does not have the same commercial flexibility, i.e. it is not a Company that can be sold through its shares and without property transfer complications.

Unlike a Company which is a separate tax paying entity, an LLP is “tax transparent”, meaning that the tax treatment of the LLP follows the tax treatment of its members. This would have the advantage of preserving the Council’s favourable tax position for any commercial activity undertaken by the LLP, with a result that (unlike a Company) there would be no corporation tax liability on any of the LLP’s profits.

However, an LLP must also be established with at least two members - meaning an LLP cannot be a wholly owned vehicle. There a number of potential legal obstacles to the Council setting up an LLP, not limited to the fact that the Council would be unable to use an LLP if it were acting in accordance with its General Power of Competence for a commercial purpose.

A CBS could be used and is a corporate vehicle for the purposes of satisfying the restrictions attached to using the General Power of Competence. However, a CBS is a vehicle that must be established for the community benefit and is restricted in respect of profit distribution and therefore is unlikely to be suitable for the Council's objectives at this stage.

3. Commercial case

There are a number of legal considerations in the business case for a new vehicle. A high-level summary is set out below and should be read in conjunction with Trowers & Hamlins' detailed legal report.

Establishing a local housing company

The Council has the ability to establish a Local Housing Company to both develop new housing on land acquired or owned by the Council, for sale or rent. The Council may utilise Section 1 of the Localism Act 2011 to do so - using the "General Power of Competence". If the Council is using this power for a commercial purpose, then it can only exercise this power using a company - but it is not precluded from using one otherwise.

Development

Once the vehicle had been established, the Council would need to consider its powers in relation to disposing of land to the vehicle, whether this is General Fund or Housing Revenue Account. The Council would also need to consider how it can fund the vehicle to undertake development, which is likely to be by way of on-lending funds.

It should be noted that the Council has powers to undertake development itself, for example it may rely on Section 2 of the Local Authorities (Land) Act 1963 (the 1963 Act) to erect any building and construct or carry out works on land. However, this power may only be used where the development of buildings/works is objectively for the benefit or improvement of the Council's area (and not - for example - simply to provide a financial return to the Council).

Whilst the Council is potentially able to develop itself, the Council needs to be mindful of the fact that it would need to ensure that it was acting in accordance with its powers for each development.

Rental properties for investment purposes

The LHC, if established, could also provide properties for rental purpose with any surplus being returned to the Council by way of dividend. The LHC would not be restricted in the types of tenancies that it provided.

If the Council were to hold properties itself for rent the tenancies would have limited flexibility as they would automatically be secure tenancies in accordance with Section 80 of the Housing Act 1985.

Set up and governance arrangements

The company will be set up in accordance with the Companies Act 2006, including the appointment to the Board of the company. The Memorandum and Articles of Association and any other documentation required will be written under professional advisement from Savills and Trowers & Hamlins. The Council will hold 100% of the shares in the Company and have full ownership. This provides the Council with full control.

The Council and Company will ensure that appropriate governance arrangements are put in place to enable the Council, as the sole shareholder to set and oversee the strategic direction of the company whilst allowing the Directors of the company discretion to carry out the operational management effectively, efficiently and with clear targets and milestones. This will require a clear decision-making framework to ensure the Council as sole shareholder makes the appropriate decisions reserved for them; and give sufficient authority to the Directors to make decisions in relation to the day to day activities of the company.

Costs to establish the company are minimal. Ongoing operating costs will be determined by its ambition and scope of development.

It should be noted that establishment of the company in itself, does not create risks or commit the Council / LHC to undertake any development projects.

4. Financial case

The Council owns allocated and unallocated land (within the Local Plan) primarily in the north and centrally. Development in the south is likely to require acquisitions.

Analysis suggests, that depending upon future scope and ambition for the Company, development of 700 dwellings across 9 sites is possible in the first 5 years and 1,300 plus dwellings across 12 sites from year 5 onwards, just on Council owned land. Further work on other potential development sites is ongoing.

This OBC has been prepared to consider the establishment of a LHC to help address Shropshire's unmet housing and development needs. Once established, the intention would be for the LHC to undertake a number of housing development projects. It is important to note that the balance of affordable housing to market housing built will affect potential income generation, as will the scale of any building programme on revenue costs for staffing and support services. However, these should be considered alongside the wider benefits.

The full business case will be based upon detailed assumptions on housing numbers, percentage of affordable housing, number of properties retained for open market rent, and numbers of sales. The financial modelling will also take into consideration land values, construction costs, potential rents and house sales.

Strategic aims, revenue forecasts, savings, cashflow and portfolio growth estimations will all be used to assess how best to viably meet the County's needs. Savings opportunities to Council departments such as Adult Social Care and Children's Services budgets will be a major factor for consideration.

Whilst these potential development projects are not the subject of this OBC, financial illustrations of 3 such projects have been prepared to examine whether and how they could be undertaken within the LHC, and what the financial implications for both the LHC and Council would be.

Development illustrations

To illustrate the financial implications of a housing development project on both the LHC and the Council, 3 examples of development projects have been prepared, in Ellesmere, Oswestry and Shrewsbury areas, based on the following property values:

Ellesmere	Sale £000
4 bed	320
3 bed	260
2 bed	200
1 bed	160

Oswestry	Sale £000
4 bed	280
3 bed	220
2 bed	175

Shrewsbury	Sale £000
4 bed	465
3 bed	370
2 bed	260

In each case, the working assumption is:

- Land is bought by the LHC from the Council
- LHC procures contractors / developers to develop out the sites, and suitable professional services to support the process
- Development and the sale of properties is over a 2 ½ year period
- LHC is funded entirely by the Council, repaying all funding from sales
- LHC pays a commercial rate of interest on funding provided to it

The table below summarises the forecast financial impact of the developments on the LHC.

	Ellesmere	Oswestry	Shrewsbury
Properties developed			
Private	54	45	40
Affordable	6	5	10
	60	50	50
Property types	1 and 2 bed apartments	2, 3 and 4 bed houses	2, 3 and 4 bed houses
Financial summary	**£000**	**£000**	**£000**
Sales receipts	10,260	10,240	15,301
Development costs	-7,200	-7,000	-8,000
Land cost	-1,200	-1,250	-4,000
Profit before interest and tax	1,860	1,990	3,301
Interest	-404	-397	-691
	1,456	1,593	2,610
Tax	-291	-319	-522
Profit after tax	**1,165**	**1,275**	**2,088**
Peak funding requirement	**5,397**	**5,309**	**8,437**

It should be noted that these forecasts are based on a number of high level assumptions regarding the likely development costs and values of properties on typical sites in these areas. The financial forecasts have been prepared to illustrate the likely financial implications of undertaking such projects through the LHC. It is anticipated that any decision to proceed with a particular project will be subject to a separate development appraisal, financial assessment and decision-making process.

In each case, the profit before tax represents some 15% of sales, which is at the low end of market norms, and reflects the fact that the mix of properties developed is not aimed solely at maximising profit.

For each project, it is assumed that the LHC pays for the land up front, immediately starts to develop and that sales proceeds start to be received a year later. This leads to a peak funding requirement for the LHC for each project, which is slightly below the total delivery costs, and which is then repaid fully out of sales.

From the perspective of the Council, it is assumed that funding required by the LHC (in excess of the land receipt) is borrowed on a short-term basis (repaid from sales), leading to an interest cost. However, this is more than covered by the interest receipt from the LHC, and in addition the Council receives the profit after tax by way of a dividend receipt.

	Ellesmere	Oswestry	Shrewsbury
Council financial impact			
Land receipt	1,200	1,250	4,000
Short term borrowing	4,197	4,059	4,437
Peak LHC fundign requirement	**5,397**	**5,309**	**8,437**
Interest receipt	404	397	691
Interest cost	-130	-123	-106
	274	273	586
Dividend receipt	1,165	1,275	2,088
Total revenue	**1,713**	**1,821**	**3,259**

In summary, each project is forecast to deliver a revenue return for the Council which is over and above the land value receipt.

Retention of properties to rent

The financial illustrations above are based on development of properties for sale – either private sales, or affordable sales to an RP. As an alternative, some of the properties which would have been sold privately could be retained for rent by the LHC.

Such a decision would provide the Council with an option to make an additional financial return in a number of different ways, such as:

- A regular direct revenue return from the rental income generated by the properties.
- Based on the future capital growth of the properties, either a revenue or capital return, or re-investment into future property development/investment.
- An indirect revenue return through development and letting of properties which would produce revenue savings to existing Council budgets such as Adult Services.

Options for securing a return in these ways are illustrated below. These are based on the assumption that 20 properties which would otherwise have been sold privately for £250,000 each (i.e. a total receipt of £5m) are instead “sold” by the LHC development business to the LHC property investment business for £5m, with the LHC borrowing £5m from the Council.

Direct revenue return

Based on a typical gross rental yield of 4%, each of the £250,000 properties could be let at a rent of £10,000 pa, or £833 per month. Setting aside 20% of this (£2,000 pa) for the cost of managing and maintaining the properties, each property would generate £8,000 pa in net rental income – a total of £160,000 in the first year.

This would firstly be used to pay interest on the £5m borrowed by the LHC to buy the properties (3% finance cost assumed), with the surplus available to be paid to the Council as a dividend. Over time, as rental income increased by inflation the net profit each year would increase. The overall financial impact on the LHC is:

Financial return £000	**Year 1**	**10 Year total**
Gross rent	200	2,190
Costs	-40	-438
Net rental income	160	1,752
Finance cost	150	1,500
Profit	**10**	**252**

This profit shown above, is over and above the finance cost which the LHC pays to the Council of £150,000 pa.

Capital growth

As well as generating a direct revenue return from the rental income, as with any other property investment business, the LHC would also benefit from the capital growth of its properties. Based on average growth in value of 2.0% pa, the £5m property portfolio would be worth £6.095m after 10 years. The Council / LHC would have the option to realise this growth in value at any time, to repay loans to the Council and / or invest in additional properties.

The table below summarises the additional returns which would be generated by a property investment business over 10 years, based on the above assumptions (note that corporation tax has been ignored for these illustrations, but in practice it would probably lead to a reduction in the additional returns.)

£000 return	**Develop for sale**	**Retain for rent**
Sales receipt	5,000	5,000
10 year revenue receipt		252
10 year capital growth		1,095

This shows that with the rental yield assumptions outlined above, retaining properties for rental would create a viable property rental and investment business plan, allowing the Council (through the LHC) to cover its additional loan finance costs, to benefit from additional dividends and from longer term capital growth.

Indirect revenue returns

The illustrations above, take no account of any additional financial returns which may arise to the Council, from savings in its existing budgets such as Adult Services. However, by controlling the nature of any properties developed, the Council / LHC has the opportunity to direct investment into properties which could meet needs unmet by the market, and provide additional savings – for example, housing which keeps individuals out of residential care for a period of time.

LHC funding arrangements

Whilst it may be possible to source funding for the LHC from third party providers, the working assumption is that the Council provides funding for the LHC. This is the option which is being pursued by almost all local authorities setting up new housing companies, largely based on simplicity and value for money, and the flexibility it provides to return surpluses to the Council as revenue.

Funding structure and costs

The overriding principle which lies behind decisions on development and investment projects carried out by the LHC is that they need to be viable and generate a return in the context of the Council's cost of funding. Within this, it needs to be recognised that:

- The LHC is a separate legal entity which needs to operate with a financially viable business plan
- The Council will need to have a sound business case for investing in and lending to the LHC and, at worst, cover its revenue costs of funding
- The funding arrangements between the Council and LHC will need to be set up so that they satisfy HMRC and state aid concerns (see below and legal appendix)

The funding arrangements will need to take account of each of these issues.

State aid and HMRC

As a lender, the Council can properly charge interest on its loan funding to the LHC, in accordance with the terms of its funding agreement. This provides a convenient and tax efficient way of generating a revenue return for the Council. However, there are two main constraints on the nature and terms of the funding arrangement, and underlying interest payments:

- **State aid –** If it is considered that the Council is providing funding on terms which are considered to give it an unfair advantage over competition (for example if interest charges are unduly low), then a state aid challenge is possible.

- **HMRC –** Interest payments made by the LHC are likely to be tax deductible in the LHC, and not taxable in the Council. However, as the LHC is controlled by the Council, then the terms of its funding will need to satisfy HMRC that the interest charges are not unduly high.

To address both state aid and HMRC issues, the way in which the LHC is funded by the Council will need to reflect a normal commercial arrangement, with the Council acting in a way in which a private lender and / or investor would in similar circumstances in a market economy.

Under the market economy investor (or lender) principle, if the Council is acting in a way that a private lender and / or investor would in similar circumstances in a market economy then the Council's investment is considered a market activity and not state aid. For example, if the Council provided a loan on commercial terms and at a commercial interest rate, properly taking into account risks and / or made an equity investment on terms and for the return which a private investor would do, then such activity would not constitute unlawful state aid. Similarly, funding arrangements which reflect those of a normal commercial arrangement are likely to provide protection from any HMRC challenge.

Whilst there are a number of variations, in most cases the simplest way to address this issue is for funding to be provided from the Council to the LHC as a combination of equity and debt:

Equity – investment (by shareholders) in the share capital of the LHC. There is no automatic right to any interest or financial return. In the event that the LHC has sufficient profits, the payment of a dividend to the shareholders could be made.

Debt – loans to the LHC, on which interest would be paid under the terms of the loan agreement.

Whilst the reality is that the Council is borrowing to lend to the LHC (and receiving a margin on its lending), for state aid and HMRC reasons the funding would be classed as a mix of equity and debt. There are now a number of reasonably well-established principles, and examples at other local authorities of such state aid compliant funding arrangements.

5. Management case

Many councils wishing to have greater place shaping control, and in response to financial pressures, have in recent years sought an alternative solution by creating Local Housing Companies. In effect to attempt to take the best operational elements from the private and public sectors and integrate them. It is currently estimated that over half of all local authorities have either set up or are in the process of creating their own Local Housing Company.

Whilst council companies have existed for many years, with trading powers set out in Section 93 of the Local Government Act 2003, the recent diversification of new companies was prompted by the General Power of Competence introduced in the Localism Act 2011.

Whereas councils could previously only trade their existing activities, this legislation enables a local council to undertake any commercial activity that an individual or private company can lawfully undertake, provided this activity is not explicitly ruled out or constrained for councils by another piece of legislation. This provides for purely commercial trading in services not previously provided by councils, such as building homes for market sale and rent.

Savills and Trowers & Hamlins have, in the past few years, been involved in the establishment of more than 50 local authority housing companies. Whilst many of the issues which arise were new several years ago, they have now been successfully addressed by these and many other local authorities, so that the risks of not being able to set up a LHC to provide benefits to the Council are now very low.

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Shropshire Council

Legal Considerations - Local Housing Company

1 **Introduction**

1.1 This note is prepared in connection with the legal issues surrounding the establishment of a local housing company (**LHC**). The Council objectives include supporting new development activity and providing an opportunity to generate a financial return, over an initial 5 year development programme.

1.2 There are two key activities that the Council wishes for the LHC to undertake:

1.2.1 development of new housing on land acquired or owned by the Council, for sale or rent; and

1.2.2 property investment and rental.

1.3 Whilst the Council is primarily considering its options in relation to establishing a LHC and how it can utilise the benefits of using a Council owned vehicle to undertake these activities, it is important that the Council considers its ability to undertake the activities itself and the advantages and disadvantages doing so.

1.4 It should be noted from the outset that we have based our advice on the assumption that the Council will, at this stage, be establishing the LHC as a wholly owned vehicle.

2 **Power to establish a LHC**

2.1 Section 1 of the Localism Act 2011 (the **2011 Act**) provides local authorities with the power to do anything that an individual may do, subject to a number of limitations. This is referred to as the "general power of competence". The general power of competence is often characterised as a free-standing power and a local authority may exercise the general power of competence for its own purpose, for a commercial purpose and/or for the benefit of others.

2.2 In exercising this power, a local authority is still subject to its general duties (such as the fiduciary duties it owes to its rate and local tax payers – please see **paragraph 5** below) and to the public law requirements to exercise the general power of competence for a proper purpose.

2.3 Section 2 of the 2011 Act limits the exercise of the new general power where it 'overlaps' with a power which predates it. This includes the Council's power to trade under Section 95 of the Local Government Act 2003 (the **2003 Act**). Even if the Council were to rely on the general power of competence it would be prudent for it to comply with the requirements and limitations to which Section 95 is subject. These are set out in Regulation 2 of the Local Government (Best Value Authorities) (Power to Trade) (England) Order 2009 (the **2009 Order**) which requires a business case to be prepared and approved by the Council before a company starts trading. The 2009 Order also provides that the Council must recover the costs of accommodation, goods, services, staff or any other thing that it supplies to a company to facilitate its power to trade.

2.4 Section 4 of the 2011 Act requires that, where a local authority exercises the general power of competence for a commercial purpose, it must do this through a company. The Council's stated purpose is to deliver market rent homes and deliver a commercial return to the Council.

2.5 Whilst there is no definition of a "commercial purpose" in the 2011 Act, taking the ordinary meaning of the phrase the Council's intention – to provide for an opportunity to generate a financial return – is likely to be a commercial purpose. Therefore, the Council's establishment of the LHC to take this commercial purpose forward would comply with Section 4 of the 2011 Act. Please do note that, whilst the Council would be required to use a company if it was using the general power of competence for a commercial purpose, it is not precluded from using a company otherwise.

2.6 Reviewing both the power in the 2009 Order and the 2011 Act, we would recommend that the Council uses the general power of competence under Section 1 of 2011 Act if it decides to establish an LHC. The Council's proposal for the development of properties through a company will amount to the use of the general power of competence for a commercial purpose and therefore the establishment of the LHC will meet the requirements of Section 4 of the 2011 Act.

2.7 As a commercial vehicle, the LHC could possibly also, be regarded as a trading vehicle and therefore it would be prudent in our view for the Council to comply with the provisions of the 2009 Order by preparing for approval by the Council a business case in advance of setting up the LHC.

2.8 As stated above, the Council will be required to justify that the LHC is being established for a proper purpose and the proposed commercial nature of the operation of the LHC will assist the Council with its justification for developing the LHC. It would, in our view, be an improper purpose if the Council was establishing the LHC as a means to provide 'social rented' housing of the type being developed and provided within the Council's HRA, and is doing so to avoid the RTB applying to any tenancies granted by the LHC (please see **paragraph 9** below). Developing affordable housing only where required by planning conditions, to be transferred to the Council's HRA or an RP, would, however, further evidence its commercial purpose.

2.9 Ensuring that the Council has a clear rationale is also important in the light of the concerns that were expressed in the Ministerial Statement issued in March 2015 by the then Housing Minister about the establishment of local housing companies in particular circumstances. The Ministerial Statement provided, amongst other things, that the Government would not support the establishment of local housing companies where such companies are established for the purposes of avoiding the RTB or avoiding the HRA borrowing restrictions imposed by Government.

2.10 The Ministerial Statement reinforces the need for the Council to be clear as to its rationale for establishing the LHC at all times, ensuring that there is clear evidence of this throughout the decision making process.

2.11 The Housing White Paper, published on 7 February 2017, to some extent echoes the statements of the then Housing Minister stating:

"we want to see tenants that local authorities place in new affordable properties offered equivalent terms to those in council housing, including a right to buy."

2.12 This is arguably not a policy shift from the March 2015 Ministerial statement but the wording contained within the White Paper specifically references "a" right to buy as opposed to "the" Right to Buy and is stated to be a Government expectation only. The Government has confirmed that it will not be consulting on this point, nor is there any suggestion that it will be seeking to impose any legislative changes in this regard. Therefore, without a statutory requirement, and provided the establishment of the LHC cannot be struck down as an ultra vires act of the Council (of which we know no relevant precedent), the properties developed by the LHC would not be subject to the statutory RTB.

2.13 We would also note that the White Paper "welcomes" innovative models to provide more housing by local authorities and specifically references local housing companies and joint venture models. This is positive as it is a clear statement of support by the Government.

2.14 The Council will need to be mindful of the above considerations when justifying its use of powers as we have described above.

2.15 Please do note that if in the future the Council were to consider delivering affordable housing then it would need to review and manage any vires/powers risks.

3 **Section 12 of the 2003 Act - Investment Power**

3.1 To the extent that other powers are needed to establish the LHC (which we do not believe they are), the Council also has a power to invest under Section 12 of the 2003 Act. We refer to this power for completeness, as it may be available to the Council if it is able to satisfy itself that the development or acquisition of properties and/or the provision of debt and/or equity into the LHC for those purposes amounts to an investment rather than a commercial purpose.

3.2 Under Section 12 of the 2003 Act a local authority may invest:

"(a) for any purpose relevant to its functions under any enactment; or

(b) for the purposes of the prudent management of its financial affairs."

3.3 Section 15 of the 2003 Act goes on to provide that, before exercising the power to invest, the Council must have regard to Guidance issued by the Secretary of State. This is set out in the Department for Communities and Local Government's "Guidance on Local Government Investments" published on 11 March 2010 (the **CLG Guidance**). The Council should also consider related Guidance published by CIPFA under "Treasury Management in the Public Services: Code of Practice and Cross Sectorial Guidance Notes" (the **CIPFA Guidance**) and "The Prudential Code for Capital Finance in Local Authorities" (the **Prudential Code**). The CLG Guidance requires the Council to consider security, liquidity and yield (in that order).

3.4 If the Council were to rely on Section 12 of the 2003 Act as a source of statutory power, the Council's Chief Finance Officer will need to be satisfied that the investment is in accordance with the Council's current investment strategy. Given the breadth of the general power of competence we do not believe it is necessary for the Council to rely on the investment power for the establishment of the LHC.

4 **Structure of the LHC**

4.1 As stated within the introduction, for the purposes of this report we have assumed that the LHC will be wholly owned by the Council, and therefore it could take the form of a company limited by shares (**CLS**) or a company limited by guarantee (**CLG**). For the purposes of Section 4 of the 2011 Act, a Community Benefit Society (**CBS**) is also a corporate vehicle which is included within definition of "company". However, given that a CBS must be established for a community benefit and is restricted in respect of profit distribution we have discounted its applicability for the Council's proposals.

4.2 If the Council uses the general power of competence for a commercial purpose, requiring the use of a company in accordance with Section 4 of the 2011 Act the use of a limited liability partnership (**LLP**) is not permissible. An LLP also requires at least two members and could not be used as a wholly owned vehicle.

4.3 In the light of this and as the Council wishes to establish a company in the most efficient way we have discounted the use of an LLP for these purposes. We focus on the key elements of a CLG and CLS below:

<u>CLG</u>

4.4 A CLG is a company where the general members do not hold shares, but instead each member undertakes to pay a nominal figure (typically £1) in the event of the company becoming insolvent. If the LHC is to be a wholly-owned subsidiary (as envisaged) the Council would initially be the sole member; but a CLG can have many members, and different categories of members with different voting rights. Changing from a single member company to one with many members is also simple.

4.5 However, unless it is charitable (which would not be appropriate for the Council's purposes as it would limit the Company's activities so that it could not, develop housing for market rent and/or sale), a CLG does not offer Stamp Duty Land Tax (**SDLT**) advantages which may be available for a CLS (see **paragraph 4.7** below). It is also impossible to capitalise a CLG with equity.

<u>CLS</u>

4.6 A CLS is the type of company with which most people are familiar. The corporate structure is tried and tested and is underpinned by an established body of law and practice. A CLS is appropriate for companies being used for commercial purposes such as trade and investment and is a typical form of commercial vehicle established with a view to making a profit (unlike a CLG model which will generally be a non-profit distributing model). This means to the extent that an LHC generated a surplus that surplus could be repatriated to the Council by way of a dividend payment.

4.7 The CLS model has the advantage that it can potentially claim group relief for SDLT purposes if the land is transferred from the Council to the LHC. Group relief is available if 75% of the paid up share capital in the company is held by the Council - as would will be the case if the Council is the sole shareholder owning all of the paid up shares.

4.8 In terms of overall control and also financial and tax planning, the structure of a CLS provides considerable flexibility through the creation of different types of share and loan capital. It is also simple to admit equity shareholders if the Council wishes to make the

LHC a joint venture vehicle in the future, possibly to introduce a developer partner or perhaps with the aim of taking the LHC off the Council's balance sheet at a later date.

4.9 The CLS model also lends itself more easily to meeting the test that it is a body with an industrial and commercial character and thus not being 'caught' by European procurement rules (please see **paragraph 11** below).

4.10 In the light of the above and subject to the financial and tax advice from Savills, from a legal perspective we advise that a CLS is the most appropriate form of vehicle for the LHC.

5 Fiduciary Duties

5.1 When considering the establishment of a company, the Council must be mindful of its fiduciary duties. The Council's fiduciary duties can be briefly summarised as acting as a trustee of Council tax and public sector income on behalf of its rate and tax payers. The Council in effect holds money but does not own it; it spends money on behalf of its business rate and council tax payers. The Council's fiduciary duty also includes it acting in a "business-like manner".

5.2 In practice the Council, in making its decisions concerning the formation of the LHC and the provisions of services, investments and loans it provides to it (and any similar activities) needs on each occasion to act efficiently and only undertake funding (and related decisions) after proper consideration of the risks and rewards of it doing so. The Court of Appeal in one of the leading cases in this area of law stipulated that local authorities' fiduciary duties extended not only to a consideration of risk and cost but also whether a local authority's involvement in a transaction is proportionate and properly balanced against the anticipated benefit as well as the wider interests of its local tax payers.

5.3 Taking its fiduciary duties into consideration, the Council will want to ensure that it is maximising the chance of success of the LHC and achieving an appropriate return for any risk it takes, whilst minimising the risk and potential cost to it if the LHC became insolvent and/or defaulted on any loan(s).

5.4 In the light of the above, Members will need to evidence that they have taken reasonable steps to discharge this fiduciary duty when considering:

5.4.1 whether the business case for the LHC is viable,

5.4.2 the risks and rewards of investing/lending; and

5.4.3 the wider (possibly alternative) interests of local tax payers (e.g. what else could the money have been spent on / the risk it will have to increase council tax?).

and we would recommend that any reports to Cabinet approving the establishment of the LHC (and or for any loans made to it) reference the Members' consideration of the above.

5.5 The Council's fiduciary duties should be considered throughout the "life" of the LHC and post-incorporation decision making will need to be clearly evidenced.

6 Disposals of Land

Housing Revenue Account (HRA) Land

6.1 The Council has the power to transfer land held in the HRA, on either a freehold or leasehold basis, in accordance with section 32 of the Housing Act 1985 (the **1985 Act**). The use of the section 32 power is conditional upon obtaining the prior consent of the Secretary of State. There are some general consents which are currently contained in the "General Housing Consents 2013" (the **General Consent**). General Consent A3.2 provides that a "local authority may dispose of vacant land". "Vacant" is defined in the General Consent as being land on which:

6.1.1 No dwelling-houses have been built; or

6.1.2 Where dwelling-houses have been built, such dwelling-houses have been demolished or are no longer capable of human habitation and are due to be demolished.

6.2 The Council is therefore able to transfer vacant HRA land to the LHC for any price. However, if the price is less than market value then that would amount to the provision of financial assistance and/or gratuitous benefit for the purposes of Section 25 of the Local Government Act 1988 (please see **paragraph 7** below).

6.3 In relation to the disposal of land with dwellings on it, General Consent A3.1.1 provides that a local authority may, subject to paragraph A3.1.2, dispose of land for consideration equal to its market value. Paragraph A3.1.2 provides that the General Consent to dispose of land for a consideration equal to its market value does not apply to:

6.3.1 A disposal of land which is subject to a secure, introductory or demoted tenancy to occupy from the local authority to a landlord who is not another local authority;

6.3.2 A disposal of land that falls within Consent D (The General Consent for the Disposal of Reversionary Interests of Houses and Flats 2013); or

6.3.3 A disposal of land to a body in which the local authority owns an interest except:

(a) Where the local authority has no HRA; or

(b) In the case of a local authority with a HRA (like the Council), the first five disposals in a financial year.

6.4 "Disposal" is defined to include "a conveyance of a freehold interest" or "the grant of a lease of any duration". Therefore, where the land is not vacant (as defined) the Council is limited to five disposals per financial year at market value to the LHC.

General Fund Land

6.5 The Council may also consider transferring land from its General Fund to the LHC. Section 123 of the Local Government Act 1972 provides the Council with the power to dispose of land held by it in the General Fund in any manner that it wishes; the restriction on this being that, except with consent from the Secretary of State, the Council shall not dispose of land (otherwise than by way of a short tenancy), for consideration less than the best that can reasonably be obtained.

6.6 If a Council disposes of a property at an "under-value" it requires the consent of the Secretary of State (except for limited circumstances such as short term leases). In any event, there would be State Aid concerns if the Council were to sell land to the LHC at an "under-value" (see **paragraph 10** for full consideration of State Aid). In particular, these State Aid concerns would arise in connection with the LHC operating the business of providing homes at market rent or for market sale as is proposed.

6.7 The Council may rely on circular 06/03 Local Government Act 1972 the General Disposal Consent (England) 2003 – disposal of land for less than best consideration that can be reasonably achieved (the **General Disposal Consent**) which sets out the circumstances in which the Secretary of State pre-approves/pre-consents to the disposal of General Fund land at an under-value. To utilise this General Disposal Consent, the "under-value" (in relation to a disposal) must not exceed £2 million and the Council's purpose in making such a disposal must be to contribute to the economic social and environmental well-being of the authority's area and/or its residents. The Council would need to verify the market value of the land in question through a qualified independent surveyor. Please do note that State Aid requirements also require that the Council would need to obtain such a valuation prior to entering into any negotiation with the LHC on a sale price.

6.8 Please do note that the LHC would not be subject to any statutory restrictions on the disposal of property or land.

7 Council's power to provide funding to the LHC for privately let housing

7.1 The Council also has the power (in accordance with Section 24 of the Local Government Act 1988 (**the 1988 Act**)) to provide any person with financial assistance for the purposes of, or in connection with, the acquisition, construction, conversion, rehabilitation, improvement, maintenance or management (whether by that person or by another) of any property which is or is intended to be privately let housing accommodation (as defined in the 1988 Act which would include property to be let by the Company). To 'make a grant or loan' or 'acquire share capital' are both included within the definition of financial assistance within Section 24 of the 1988 Act. Also, any under value land transfers (please see **paragraph 6** above) and the provision of funding more generally (such as initial set up costs and/or overdraft facilities) are likely to fall within this provision. To the extent therefore that the Council's financial support to the LHC is connected with privately let housing then the power under Section 24 of the 1988 Act is available.

7.2 Section 25 of the 1988 Act provides that the power in Section 24 of the 1988 Act may only be exercised in accordance with consent of the Secretary of State. The Secretary of State has issued general consent under Section 25 of the 1988 Act – The General Consents under section 25 of the Local Government Act 1988 (Local Authority assistance for privately let housing) 2010 (the **General Consents**). General Consent C of the General Consents provides that a local authority may provide any person with any financial assistance (other than the disposal of an interest in land or property) for the purposes of or in connection with the matters in Section 24 of the 1988 Act. Accordingly this provides the Council with the power to invest monies in the LHC whether by way of loan or share equity if such investment is in connection with privately let housing. However, the Council could not rely on General Consent C for the transfer of land at an under-value.

7.3 The Council could rely on General Consent AA of the General Consents which allows HRA land to be transferred at an undervalue for development as housing accommodation - but the disposal must be on terms that require the land to be used as privately let housing. In anticipation of the possible future use of HRA land we rehearse the relevant conditions attached to the General Consent below:

7.3.1 any housing accommodation on the land when the disposal is completed is vacant or due for demolition;

7.3.2 the disposal is by way of a transfer of freehold or a lease of no less than 99 years;

7.3.3 the terms of the disposal require the development of any housing accommodation to be completed within three years of the disposal;

7.3.4 the local authority is not under any agreement or other arrangement made on or before the disposal entitled to manage or maintain any other housing accommodation to be developed on the land.

7.4 There are other General Consents issued under Section 25 of 1988 Act which support the provision of disposal of land to RPs, but given that the LHC is not proposed to be established as a RP we have not considered those consents further.

7.5 Please do note that the provisions of sections 24 and 25 of the 1988 Act only apply in relation to the provision of financial support for rented accommodation. In relation to funding made available for other purposes, such as market sale, the Council is not restricted by the constraints in Section 24 of the 1988 Act. Of course this also means that it cannot rely on the express power in that section. The Council could instead exercise its general power of competence on the basis that it is lawful for an individual to lend and/or invest subject to the reasonable exercise of the general power of competence, we are not aware of any pre-existing limitations which would prevent it from doing so in connection with sale activities.

7.6 In order to avoid the requirement to obtain specific consent under Section 25 of the 1988 Act (and to ensure that State Aid requirements are met), the Council would likely need to obtain valuation advice to enable it to satisfy itself that the disposals of any land to the LHC would be at a consideration that is the best that can reasonably be obtained. If a Section 25 General Consent is used it will override the need for the Council to obtain consent under Section 32 of the 1985 Act or Section 123 of the 1972 Act.

8 Borrowing and on-lending

8.1 The Council will need to consider how it will be funding the LHC. The Council should ensure that any proposed funding for the LHC is within its strategic budgets and there will need to be co-ordination between the Company's business plan and budget process.

8.2 Section 1 of the 2003 Act gives the Council power to borrow for any of its functions and for the prudent management of its financial affairs. A "function" can include the general power of competence. As it is unlawful for the Council to borrow to on-lend to the LHC to fund revenue expenditure, the Council must be mindful of this when establishing the LHC. Therefore the Council has power to borrow money for the purpose of making such funding available to the LHC, so long as this is only to fund capital expenditure.

8.3 Regulation 25 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 2003/3146) stipulates the circumstances in which a loan made by a local authority to a third party (such as the Company) is treated as capital expenditure.

8.4 In effect, Regulation 25 imposes a comparative test. If, instead of making a loan to the LHC, the Council:

8.4.1 would use that money for the same purpose as the LHC would (under the loan); and

8.4.2 a council would treat this as capital expenditure in accordance with proper accountancy practice;

then the loan qualifies as capital expenditure.

8.5 When providing market loans a local authority is required to act as a notional market lender (often referred to as MEIP or the Market Economy Investor/Lender Principle) (please see **paragraph 10**) and not as a public authority. Her Majesty's Revenue & Customs (**HMRC**) also require that commercial loans between two connected parties – such as the Council and the LHC - are given on the same financial arms-length terms as might apply to a loan made between two unconnected parties (e.g. a bank and the Company).

8.6 In order to rely on the MEIP the Council should seek independent commercial/financial advice confirming that the proposed loan agreement is being made on commercial terms and a notional market economy operator would consider acting in the same way. This is important as it will provide evidence that the Council's arrangements do qualify as MEIP

8.7 Most local authorities proceeding down the route of establishing property/housing companies opt to borrow from the Public Works Loan Board (**PWLB**) (now, in effect, the Debt Management Office (**DMO**)) and then on-lend to their subsidiary companies. It is likely that the requirements of Section 1 of the 2003 Act will be met but the Section 151 Officer/Finance Director will need to be satisfied about compliance with the Prudential Code and State Aid.

9 Governance

9.1 Determining and implementing governance arrangements for the LHC at both shareholder and director level is a crucial matter for the Council. Practice varies between other local authorities who have implemented similar initiatives and governance arrangements can be varied, incorporating a mix of officers, Councillors and external advisors/directors (e.g. independent non-executives who may have particular business skills and expertise).

9.2 A company's main decision making body is its Board of Directors (the **Board**). As sole shareholder the Council should ensure it has the right to appoint and dismiss directors and restrict the right of the Board to appoint additional directors. This can be achieved through the Company's Articles of Association and a Shareholder's Agreement (please see **paragraphs 9.11 - 9.14** below).

Who should be Directors?

9.3 When appointing any director the Council should consider the general statutory duties of directors as set out in chapter 2 of part 10 of the Companies Act 2006 (the **2006 Act**). These duties must be complied with in respect of all matters, but they are not exhaustive nor can they be contracted out of. The duties are as follows:

9.3.1 The duty to act within powers;

9.3.2 The duty to promote the success of the company;

9.3.3 The duty to exercise independent judgment;

9.3.4 The duty to exercise reasonable care, skill and diligence;

9.3.5 The duty to avoid conflicts of interest;

9.3.6 The duty not to accept benefits from third parties; and

9.3.7 The duty to declare an interest in proposed transaction or arrangement.

9.4 The Council should be particularly mindful of the duty to avoid conflicts of interest. This duty applies to all conflicts, actual and potential, between the interests of the directors and the Council as sole shareholder. There will inevitably be scenarios where conflicts of interest arise because of particular roles of a director of the LHC. These scenarios may not always be clear cut, but examples may include the Council making a decision:

9.4.1 to lend money to and / or transfer land to the LHC;

9.4.2 in favour of a third party and to the detriment of the LHC; or

9.4.3 on planning policy and land development.

9.5 An officer of the Council, in their capacity as a director of the LHC, may find it difficult to undertake a decision making role in these circumstances. Directors should ensure that they are alive to the fact that conflicts are likely to arise, declare them as required, and ensure that, when they are acting as a director, they act in the best interests of the LHC.

9.6 It should be noted that in most circumstances the interests of the Council and the LHC will be aligned as the Council will be the Company's sole shareholder, and both organisations will want to achieve similar objectives. The risk of a conflict of interest on a day to day basis will therefore be limited.

9.7 The Council should note that, whilst directors of a company are generally not personally liable for the debts of the LHC, a director may be personally liable if the LHC got into financial difficulty and the director was involved in wrongful or fraudulent trading. To avoid both fraudulent trading and wrongful trading directors must remain sufficiently informed as to the financial situation of the LHC at all times so that they are able to form a view as to whether there is or is not a reasonable prospect of avoiding insolvent winding up. In addition to this, whilst it is <u>extremely unlikely</u> to be a cause of concern for the LHC due the nature of its business, directors can be personally liable under the common law offence of manslaughter by gross negligence if they are the "directing mind" of the company and can also be criminally liable under health and safety legislation. A <u>company</u> can be liable under the Corporate Manslaughter and Corporate Homicide Act 2007 but individuals cannot be guilty of the main offence, nor aiding, abetting, counselling or procuring the commission of corporate manslaughter.

9.8 The LHC may not exempt a director from any liability for negligence, default, breach of duty or breach of trust in relation to the LHC. However, the Council may indemnify the director against defence costs, or costs incurred in an application that the director makes to the court for relief, provided that the director repays the costs if he is unsuccessful and, in practice a shareholder might be the most likely party to bring an action i.e. the Council.

Unconnected Directors

9.9 A number of Councils have chosen to appoint persons who are unconnected to it (not being members or officers), to fulfil non-executive roles. Part of their rationale has been to harness the skills and experience of persons who have operated similar businesses. Non-Executive directors generally are appointed for a number of set days which reduces the costs of remunerating them.

9.10 If the Council opted for this route it would retain the right (under the Company's Articles of Association and any Shareholder Agreement) to dismiss and appoint the company's directors as it sees fit.

Shareholder role

9.11 We would also recommend that the Council and the LHC enter into Shareholder Agreement. The primary purpose of a Shareholder Agreement is to regulate the relationship between the Council and the LHC. Ordinarily other than where legislation and/or articles of association reserve decisions for shareholders the Board of a company is its main decision making body, and is free to act as it thinks is in the best interests of the LHC. Ordinarily this would, for instance, include issuing shares to third parties (which no doubt the Council would want to control) or borrowing (which would impact on the Council's own prudential borrowing limit).

9.12 In the private sector a company would, in practice, have "informal arrangements" to ensure that its directors complied with the requirements and strategy of that business' owners. As a public body the Council is hampered in adopting an informal approach. Instead it should seek a codified governance model for the LHC which will both support a business minded approach and protect its own interests.

9.13 A Shareholder Agreement should seek to support this approach by stipulating that the Company's Board is responsible for running the LHC. However such an agreement would likely provide the Council, as the sole shareholder, with a number of reserved rights:

9.13.1 <u>Issuing new share capital</u> the Council could lose control of the LHC if shares were issued to other parties;

9.13.2 <u>Borrowing</u> – the Company's borrowing forms part of the Council's group debts and it is therefore likely to want to know and approve its debt levels;

9.13.3 <u>Information provision</u> – shareholders are not legally entitled to detailed financial and operational information (though Council owned companies are required to disclose more information than those with private owners) and as sole shareholder the Council is likely to want access to this;

9.13.4 Business Plan approval – if the Council is to borrow to fund the development/expansion of the LHC then it needs to know the likely future demand to ensure this is included within the budget approved by full Council;

9.13.5 Good governance – the Council is likely to want the directors to comply with private sector good governance standards (including procurement/value for money) and it will want to approve any commercial arrangements between the LHC and its directors;

9.13.6 Controlled Company requirements – as a local authority controlled company the businesses will be restricted in respect of political and certain other activity. The Council is likely to want to enshrine this.

9.14 Below is an indicative decision making matrix, which provides an example of the decisions that can be made at board level or at shareholder level within a housing company. The precise details of the shareholders agreement will be developed in due course.

Issue	**Officers of the LHC**	**Board of the LHC**	**Council (acting as shareholder of the LHC)**
Customer issues			
make any amendments to any Lettings Policy and Sales Policy;			✓
implement the Rent Policy;	✓		
implement the Debt Recovery Policy;	✓		
Business issues			
Approve any business other than as contemplated by the Business Plan;			✓
Engage in business contemplated by the Business Plan (including acquisition of property that fits with an agreed Financial Model);	✓	✓	
Approve any contract with a value in excess of £[tba];			✓
Approve any arrangement, contract or transaction outside the normal course of its business or otherwise than on arm's length terms.			✓

Issue	Officers of the LHC	Board of the LHC	Council (acting as shareholder of the LHC)
Close down any business operation, or dispose of any material asset unless in each case such closure or disposal is expressly contemplated by the Business Plan;			✓
Acquire any land with a value in excess of £[tba];			✓
Approve acquisition of any land or property outside of the Council's administrative area			✓
Make any amendments to the Financial Model;			✓
Adopt or amend housing company's Remuneration Policy;			✓
Adopt or amend housing company's annual Business Plan.			✓

9.15 The Council may also consider appointing a Shareholder Committee to exercise its role as sole shareholder. This type of arrangement is entirely within the Council's gift and provides a great degree of flexibility in relation to the role of elected members - members could sit on the shareholder committee, as opposed to the board, providing them with oversight of the Company's actions whilst being removed from the "day to day" decision making and limiting the risk of a conflict of interest.

10 **State Aid**

10.1 If the Council provides financial assistance to the LHC by way of providing below market rate funding or transferring land at an under-value, then this may constitute State Aid.

10.2 The legal requirements of State Aid and what will constitute as State Aid is set out in the Treaty of the Functioning of the European Union (TFEU). Article 107 (1) TFEU confirms that the following aspects must be present for State Aid to exist:

10.2.1 amount to a grant of public money or a transfer of public resources;

10.2.2 favour certain undertakings (selective element);

10.2.3 which distort of threaten to distort competition in the European Union; and

10.2.4 affect trade between the Member States of the European Union.

10.3 Both financial payments to the LHC and the transfer of property to the LHC can be caught by the State Aid provisions and therefore funding arrangements between the Council and the LHC must be correctly structured so that State Aid, as defined above, does not arise. The structure of any financial arrangement between the Council and the LHC will be required to be in a manner which is permitted under the TFEU and European Directives, European Commission communications and decisions from the European Court of Justice.

10.4 There are provisions for which the funding could fall outside of the State Aid definition where the Council is acting in a way that a private lender and/or investor would in similar circumstances in a market economy – this is known as the Market Economy Investor Principle (**MEIP**).

10.5 The terms of a MEIP compliant loan must be commercial in nature and contain provisions which a private lender would require (clauses on regular payment, default, security over assets and similar terms); have a commercial interest rate which properly reflects the risk and security, and other factors which a private/commercial lender would take into account in calculating an appropriate interest rate.

10.6 We would recommend that once the exact type of funding is decided by the Council, an independent report which analyses the relevant risk in relation to the loan is obtained and it is confirmed that that the interest rate applied is consistent with that which a private lender would require in the same circumstances and that the non-financial element of the loan complies with the terms and conditions which a private lender is likely to require.

10.7 The Council also has the option to invest money into the LHC as equity (i.e. subscription to share capital) either instead of providing it with a loan and/or as mixed equity/debt funding and the evidence which the Council would require in connection with any equity investment mirrors that which is required for a loan.

10.8 There is an exemption to State Aid for service of a general economic interest and therefore if the properties are developed or acquired for letting as social/affordable or intermediate housing. We understand however that at present this is not the Council's intention for the proposed LHC. The Council must therefore ensure that any funding or assets transferred are MEIP compliant, being that it is commercial in nature and containing provisions that a private lender would require.

11 **Procurement**

11.1 The LHC will not be subject to the Public Contracts Regulations 2015 (the **2015 Regulations**) if it does not fall within the definition of a 'body governed by public law.'

11.2 A body governed by public law means bodies that have all of the following characteristics:

11.2.1 They are established for the specific purpose of meeting needs in the general interest, not having an industrial or commercial character;

11.2.2 They have a legal personality; and

11.2.3 They have any of the following characteristics:

(a) they are financed, for the most part, by the State, regional or local authorities, or by other bodies governed by public law;

(b) they are subject to management supervision by those authorities or bodies; or

(c) they have an administrative, managerial or supervisory board, more than half of whose members are appointed by the State, regional or local authorities, or by other bodies governed by public law;

11.3 As such the point here is to determine whether the LHC is a "body governed by public law" for the purposes of the 2015 Regulations and for this analysis the LHC must have a "commercial character" if it is to not be governed by the 2015 Regulations.

11.4 The LHC cannot be said to have a "commercial character" unless it is free to operate as a commercial company would do so and without significant intrusive Council controls.

11.5 If the Council concludes that it requires "real" control over the LHC, it is likely to be classified a "body governed by public law" and if this is the case then the LHC would be subject to the EU procurement requirements.

11.6 If the LHC were not subject to the EU procurement requirements then it can procure services as it sees fit.

12 **Contracts with the Council**

12.1 A service level agreement (**SLA**) or other contract may be needed to govern the arrangements between the Council as parent and the LHC as its subsidiary. In particular, this will provide for those services which may need to be provided by the Council to the LHC. In the absence of employees (which the Council is not envisaging having at present) the LHC will be dependent on the Council not only for officers or employees but also for back office and specialist support, usually including financial and IT arrangements.

12.2 These contractual provisions need to be sufficiently detailed to allow the LHC to operate commercially and, within limits, independently of the Council; but they must also enable the Council to recover its costs. Of course, any SLA would need to be compliant with State Aid requirements (see above).

13 **Tenancies**

13.1 The LHC would not grant secure tenancies since it would not "satisfy" the so-called landlord condition for the purpose of section 80 of the Housing Act 1985 (the **1985 Act**). Any tenants would not therefore have the statutory RTB. Tenants of the LHC would hold assured tenancies under the Housing Act 1988 and we anticipate that it will let units on assured short-hold tenancies (**ASTs**).

13.2 A key feature of an AST is that the landlord has the right to regain possession of the property at the end of the fixed term as long as the landlord gives two months' notice. The tenancy must be for a minimum of six months but the LHC may set the term such length as it (and the Council as shareholder) considers appropriate. Please note that any deposit taken in connection with an AST must be protected in a Government-approved tenancy deposit scheme.

13.3 It is common for ASTs to be let on a fixed term of up to two years. This will allow the landlord to remain competitive in the market and provide tenants with flexibility. An additional positive feature is that the LHC will, as landlord, have the right to regain possession of the property at the end of the fixed term provided that they provide the tenant with two months' notice.

13.4 Any deposit that the LHC takes from a tenant for an AST must be protected in a tenancy protection scheme that is Government approved.

14 Interaction with propriety controls on local authority companies

14.1 Part V of the Local Government Act 1989 together with the Local Authorities (Companies) Order 1990 (the **Companies Order**) imposes a number of statutory requirements on companies which are controlled or influenced by local authorities. On the basis that the LHC will be wholly owned by the Council and its directors will also be appointed by the authority then the LHC will under this legislation be classified as a non-arm's length controlled company.

14.2 The Companies Order includes the provisions that the Council should be mindful of:

14.2.1 The LHC will need to ensure that its business documentation states that it is controlled by the Council and states the full name of the LHC, including the word "limited". This includes all business letters, notices, advertisements and other official publications including email and websites, bills, invoices and receipts

14.2.2 If Councillors are appointed as directors they cannot be paid remuneration in excess of the greatest amount which would be payable by the Council in respect of a comparable duty performed on behalf of the Council.

14.2.3 The LHC will be required to provide any member of the Council any information about its affairs as that member requests which is reasonably required for them to properly discharge their duties (other than where this would be in breach of legislation or another legal obligation).

14.2.4 Minutes of general meetings (not board meetings) of the LHC must also be made available for inspection by the public.

14.2.5 The same restrictions on publishing political materials as apply to the Council will apply to the LHC.

14.3 The Freedom of Information Act 2000 (**FOIA**) will also apply to the LHC which means that it will be obliged to adopt a "publication scheme" which commits the LHC to making available information which falls into categories identified by the Information Commissioner, such as key organisational, financial and policy information. In addition, members of the public may request access to recorded information held by the LHC (provided it is not exempt) under FOIA in the same way as they may from the Council.

15 Could the Council undertake the activities itself?

15.1 As these are two distinct types of activities we have separated out the Council's powers into 2 parts - the Council as developer and the Council as portfolio holder. Whilst it is our view that the Council would most likely seek to undertake the activities via the LHC, for completeness the Council should consider its ability to undertake these itself and what the implications of doing so would be.

The Council as a developer

15.2 The first consideration for the Council would be whether it has the capacity to undertake development itself and what the implications of doing so would be. For example the Council is a "body governed by public law" and therefore would be required to comply with the 2015 Regulations when appointing third party developers (and others). Hand in hand with this, the Council would be taking on all of the risk of development, as opposed to having a degree of ring-fencing by using an LHC.

15.3 If the Council were minded to undertake development itself it is able to do so using a number of different powers.

15.4 The first power that the Council could consider is Section 2 of the Local Authorities (Land) Act 1963 (the **1963 Act**). This power gives the council the power to erect any building and construct or carry out works on land and may only be used where the development of buildings/works is for the benefit or improvement of [that local authority's] area. From a practical point of view, if the council can evidence that the construction of housing will benefit its area by increasing housing supply (and/or other reasons) then it is arguable that the council could rely upon the 1963 Act.

15.5 In considering the use of this power the council should reflect upon the judgement of the LAML case[1] which addressed the use of *well-being power*[2]. To an extent the well-being powers criteria of promoting or improving the well-being of their areas is analogous to the requirement under the 1963 Act for a council to undertake development to *benefit or improve its area.* In LAML LJ Pill stated, *"I do not consider that Parliament was giving a carte blanche to make arrangements…or the identification of some advantage, or potential advantage, to the local authority's financial position"*[3].

15.6 As officers may be aware the well-being power enabled local authorities (subject to a number of restrictions) to undertake activities if this promoted or improved the economic, social or environmental well-being of their areas. Brent Council (together with other authorities) formed an SPV with the intention that those authorities would share insurance risks and make financial savings. In the LAML case the Court of Appeal decided that saving money for the local authorities, though indirectly advantageous to residents, did not in itself improve or promote the economic, social or environmental well-being of those local authorities' areas. Brent Council was found to have misapplied the law and consequently acted ultra vires.

15.7 Applying the court's judgement in practical terms means that if Council is to rely upon the 1963 Act to develop homes and other buildings within the county, its primary purpose must be to benefit or improve its area rather than generating an income. This does not mean that the Council has to be oblivious to the economics of the proposal as it has general

[1] Brent LBC v Risk Management And London Authorities v Harrow LBC - [2009] EWCA Civ 490
[2] Section 2 Local Government Act 2000
[3] Ibid – paragraph 177 of the Court of Appeal Judgement

fiduciary duties[4] to its tax payers which includes that it should act in a *business-like manner*[5]. However, there is subtle if legally substantive difference between the Council:

15.7.1 undertaking an activity to improve/benefit its area and to comply with its fiduciary duties also ensure that activity is properly recompensed ; and

15.7.2 undertaking that that activity for the primary purpose of a financial return even if incidentally it may also benefit its area.

15.8 It would also be necessary for the Council to consider each proposed development to confirm that each development did *benefit or improve* the County.

15.9 The 1963 Act offers the Council a legitimate power to undertake developments which are envisaged. However, the Council will have to be clear that each development will benefit its area and that is purpose to deliver that benefit. Further, the Council should be minded that there is a risk that a hostile party could judicially challenge the arrangements on the grounds that what the Council is actually undertaking is development for a *its own financial reasons rather than the benefit of its area.* In that eventuality, the Court would carefully examine the Council's activities and the evidence of its reasoning to determine whether the Council's purposes and objectives had been constructed as a sham to disguise/sidestep the commercial purpose restrictions under the general power and/or compliance with the 1963 Act.

15.10 An alternative power is Section 9 of the 1985 Act. Section 9(1) Housing Act 1985 creates a very clear power for a local authority to build housing ("*A local housing authority may provide housing accommodation— (a) by erecting houses, or converting buildings into houses, on land acquired by them for the purposes of this Part, or (b) by acquiring houses*"). It must be doing so in order to 'provide housing accommodation'. Case law has indicated that "housing" does not necessarily mean "social housing". As previously advised, Section 32 of Housing Act 1985 provides the power to dispose of HRA land and land here includes the dwellings built on it. The argument can therefore be made that you have the power to build houses on HRA land in Section 9(1) and you have in Section 32 the power to sell them – and the Council could utilise these powers to build for sale.

15.11 As set out in paragraph 6.1 above, a disposal under Section 32 requires consent, and there are extensive general consents including one for sales at market value. You should note that in the past DCLG has sometimes withdrawn or changed consents at little or no notice and this is a risk factor.

15.12 If the Council wished to use its Section 9 power we would expect a legal analysis to be undertaken when the Council was clear as to its intentions. It is also important to note that building for sale on HRA land is not common (although anecdotally we believe it has taken place) and most local authorities that we know of who want to build for sale have taken the decision to do it through a company using the General Power of Competence. If you therefore decide to use the Section 9(1) power you need to know that you would be unusual in doing so.

15.13 An alternative approach would be to appropriate HRA land to the general fund by appropriating for planning purposes. You might decide to appropriate to escape the

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[4]See paragraph 3.27 (below)

[5] Prescott v Birmingham Corporations [1955] (Ch 210)

complexities of the HRA powers – or because you want to deal with third party rights such as rights of light and rights of way where appropriation enables development to take place without fear of injunctions although those whose rights are affected by the appropriation do of course receive financial compensation. See further our answer below.

15.14 Of course, if development is undertaken in the HRA then any Capital Receipt received must be dealt with in the usual way in accordance with the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.

15.15 Finally, the Council could seek to rely upon Section 1 of the 2011 Act, as set out above. However, this option also contains a degree of risk and the Council could only use this power if its purpose was not commercial – otherwise it would have to use a company to do so in any event (see above).

15.16 In relation to all of the powers identified above, for each development, the Council would be required to consider its purpose and to document properly its objectives for that development. The Council should also consider the risk of a hostile party, whether a local resident or a business, at some point challenging the Council. In that eventuality, the Court would carefully examine the Council's activities, evidence of its reasoning to determine whether the Council's purpose and objective had been constructed as a sham to disguise/sidestep the commercial purpose restrictions under the general power.

The Council as portfolio holder

15.17 Whether developed by the Council directly or by a LHC, the properties being utilised for investment (e.g. the rental properties) can also be held by the Council for housing purposes. There are, however, a number of implications if the Council were to hold housing stock themselves and we have set out the key considerations below.

15.18 Any tenancies that the Council grants will (assuming no grounds exist to exclude security of tenure) automatically become a secure tenancy. This is because the Council would satisfy the landlord condition contained within Section 80 of 1985 Act and the tenants would ostensibly satisfy the tenant condition in Section 81 of the 1985 Act (unless any of the exceptions to security set out in Schedule 1 of the 1985 Act apply). Additionally, irrespective of whether the housing stock is transferred subject to tenancy, any future general needs tenancies would automatically be secure tenancies.

15.19 Section 118 of the 1985 Act provides that a secure tenant will also have the statutory Right to Buy (**RTB**). Therefore tenants that become secure tenants, or new tenants following the transfer of the housing stock, will have the statutory RTB unless any of the exceptions to the RTB apply (set out in Schedule 5 to the Housing Act 1985).

15.20 Section 74 of the Local Government and Housing Act 1989 provides a duty on local authorities to keep a Housing Revenue Account (**HRA**) of the sums credited or debited in relation to Part 2 of the Housing Act 1985 (the provision of housing accommodation as per section 9 above). This essentially means that if section 9 is relied upon to develop accommodation then it must be accounted for in the Council's HRA (and the HRA debt cap and associated constraints would apply).

15.21 Whilst the establishment of an LHC, and any rental portfolio being held within the LHC, is likely to be desirable due to the above, the Council needs to be mindful that this cannot be the primary rationale for doing so – please see paragraphs 2.8 - 2.15 above- the Council's rationale for establishing a company for the purposes identified needs to be thoroughly thought through and objectively justified as an appropriate use of power.

15.22 Of course, if the Council were to be the portfolio holder of properties it would receive all of the rental income directly as opposed to receiving this "via" the LHC. The Council would also retain complete control over the properties, which may be attractive to the Council from a presentational perspective.

16 Summary of Advantages and Disadvantages

16.1 We have set out below the key advantages and disadvantages to the Council undertaking the development and becoming portfolio holder for any properties, and the same for the Council establishing an LHC to undertake these activities.

16.2 Undertaking the activities within the Council

Advantages

16.2.1 The Council retains full control of all developments and its portfolio;

Disadvantages

16.2.2 The Council would need to consider whether it has the requisite capacity to undertake the developments and / or manage an additional property portfolio.

16.2.3 There is no flexibility to the type of tenancies that can be provided as any tenancy provided by the Council would automatically be a Secure Tenancy;

16.2.4 The Council's ability to dispose of any properties is limited and subject to statutory restrictions

16.2.5 The Council would be "taking" all of the risk of the developments;

16.2.6 The Council would need be restricted by the 2015 Regulations and would need to undertake (depending on value) a procurement exercise to appoint developers.

16.3 Undertaking the activities via an LHC

Advantages

16.3.1 Surplus could be repatriated to the Council by way of a dividend payment.

16.3.2 If there was a clear strategy on the part of the Council at the outset that the assets would only be held for a particular time and would be disposed of in the foreseeable future then the process for disposal is likely to be less onerous than if these were held by the Council.

16.3.3 The LHC will be unrestricted as to the types of tenancies that it offers - whether these are at a market or sub-market rate – providing a wide range of flexibility.

16.3.4 The LHC will be, if were not established as a body governed by public law, able to contract with third parties as a commercial body would.

16.3.5 There is a limited element of development risk being ring-fenced.

Disadvantages

16.3.6 The Council may feel that it loses a certain level of control over the developments and the portfolio if land or property is transferred to the ownership of the LHC.

Trowers & Hamlins LLP

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Committee and Date:
Cabinet
12th December 2018

Application by Adderley Parish Council for Adderley, Moreton Say and Norton in Hales Parishes to be considered as a Neighbourhood Area

Responsible Officer Gemma Davies, Head of Economic Growth
Email: gemma.davies@shropshire.gov.uk Tel: 01743 258985

1. Summary

1.1 This report seeks approval for the application by Adderley Parish Council for the three Parish Council areas of Adderley, Moreton Say and Norton in Hales to be considered as single Neighbourhood Area for the purposes of preparing a Neighbourhood Plan. (application attached as Appendix A, proposed area map as Appendix B). Whilst the application has been made by Adderley Parish Council acting as the 'relevant body' for regulatory purposes, it is understood all three Parish Councils will be contributing to the Neighbourhood Plan's preparation.

1.2 Adderley Parish Council made the application to Shropshire Council in June 2018 under the provisions of the Town and Country Planning Act 1990. In line with regulations Shropshire Council consulted on the proposed area for four weeks between August and September 2018. Three responses were received to this consultation, none of which objected to the principle of identifying the proposed Neighbourhood Area.

1.3 It is Shropshire Council's role to decide if the proposed Neighbourhood Area is an appropriate area for the purposes of preparing a Neighbourhood Plan. This consideration should take account of any views expressed through the consultation process as well as information from the three Parish Council concerned. The recommendation focusses solely on the extent of the area to be used in the preparation of the proposed Neighbourhood Plan. This recommendation does <u>not</u> deal with the proposed content of the Neighbourhood Plan, which are issues to be considered by the three Parish Councils in cooperation with Shropshire Council in due course.

2. Recommendations

1. Cabinet agrees the proposed Neighbourhood Area identified on the map in Appendix 2, covering the three Parish Council areas of Adderley, Moreton Say and Norton in Hales (minus the area already covered by the Market Drayton Neighbourhood Area), as an appropriate basis for the development of a Neighbourhood Plan and notifies Adderley Parish Council accordingly.

2. Cabinet agrees that if the proposed Neighbourhood Area is approved, the three Parish Councils will be able to prepare a Neighbourhood Plan for that area, which will be subject to public consultation, examination and local referendum as set out in Neighbourhood Planning Regulations 2012 as amended. Assuming any subsequent

local referendum if successful, Shropshire Council's full Council will then be asked to adopt the final version of the Neighbourhood Plan.

REPORT

3 Risk Assessment and Opportunities Appraisal

3.1 The power to designate a Neighbourhood Area is exercisable under Section 61G of the Town and Country Planning Act 1990. Under Regulation 5(1) of The Neighbourhood Planning (General) Regulations 2012 an Area Application has to include a map that identifies the area to which the application relates and a statement to explain why the area is considered appropriate to be designated as a neighbourhood area and that the body is in fact a "relevant body" for the purposes of Section 61 G(2) of the Act. Adderley Parish Council is a relevant body for the purposes of the Act.

3.2 The relevant material (Area Application and Area Map included as Appendix 1 and 2 to this report) was received by Shropshire Council in June 2018 and as required by regulation, and advertised on 24th September 2018 for a period of four weeks in line with regulations set out in the Localism Act. In advertising this information comments were invited through the 'Get Involved' section of the Shropshire Council website and e-mails circulated to all statutory consultees, as well as to adjoining Parish and Town Council areas. Shropshire Council received three responses to this consultation, none of which objected to the principle of the proposed Neighbourhood Area.

3.3 In determining the application Shropshire Council must have regard to the desirability of designating the whole of the proposed area as a Neighbourhood Area and the desirability of maintaining the existing boundaries of areas already designated as neighbourhood areas. In the event the designation is approved, it will be published on the Council's website. In the event a designation is refused under Section 61G (9) of the Act reasons must be given and the decision publicised in accordance with Regulation 7 of the Regulations.

3.4 With regard to this consideration it should be noted the proposed Neighbourhood Area does not extend into the Market Drayton Neighbourhood Area, which was agreed by Shropshire Council in 2015 to allow Market Drayton to prepare their Neighbourhood Plan. This agreed area includes a limited amount of land outside the Market Drayton's town boundary extending into each of the three adjoining parish council areas. The current proposal by the three parishes includes the land abutting, but not including, the Market Drayton Neighbourhood Area. This is an important point as it is not legally possible for an area to be included in more than one Neighbourhood Plan. The Council has recently received the Examiner's Report into the Market Drayton Neighbourhood Plan and he has concluded the Plan should not proceed to referendum in its current format. Nevertheless, this outcome does not alter the extent of the already agreed Market Drayton Neighbourhood Area. It is therefore still considered necessary for the proposed 'three parishes' Neighbourhood Area to exclude any areas of land included in the Market Drayton Neighbourhood Area.

3.5 The designation of an appropriate area for a Neighbourhood Plan is to confirm the geographic area the Plan will cover. This does not set policies to be contained in the Neighbourhood Plan, or the thematic scope of that Plan. Indeed, the designation of a Neighbourhood Plan area does not commit the Parish or Town Council to producing or completing a Neighbourhood Plan. It is, however, a first important step in the process of preparing a Neighbourhood Plan.

3.6 When approved, Neighbourhood Plans form part of the statutory development plan for the area. The statutory framework covering the production of neighbourhood plans is therefore quite prescriptive and there is little risk for either Shropshire Council or the three Parish Councils in following this carefully. However, it is important that a high degree of trust and cooperation between the Councils is maintained in order to reduce any risk of the inconsistency and conflict between the Neighbourhood Plan and those other parts of the Development Plan prepared by Shropshire Council.

3.7 The implications of Shropshire Council's ongoing Local Plan Review is an important and ongoing consideration. The recently updated National Planning Policy Framework (NPPF) clarifies that Neighbourhood Plans must support the delivery of the strategic policies of the Local Plan. Work on the Local Plan Review has reached an important stage with the preparation of the Preferred Site Allocations document which is currently subject to public consultation. With regards to the three parishes the current consultation document identifies the villages of Norton in Hales, Adderley, Morton Say, Bletchley, Longford and Longslow to act as a Community Cluster. The Community Cluster status would allow the potential for small scale residential infill development to come forward in these villages, as well as the development of local needs affordable housing and small scale employment development. This proposal is at the consultation stage and therefore it is particularly important that constructive discussions between Shropshire Council and representatives from the three parish councils continue to ensure the aspirations of the Neighbourhood Plan are in conformity with the emerging Local Plan Review. It is anticipated that the Local Plan will be subject to independent examination in 2020, and will adopted by the end of 2020.

3.8 A Neighbourhood Plan will, after passing through the relevant stages of consultation, submission, examination and the referendum, go on to become part of the statutory Development Plan for the area. By definition, the Neighbourhood Plan should be a product of the community and as such will contain policies that, whilst in general conformity with other elements of the Development Plan, should have its own distinct character. The degree of scrutiny to be applied to a Neighbourhood Plan through its examination process is dependent upon the scope of the plan, and it will continue to be particularly important for appropriate evidence to be produced to inform the Neighbourhood Plan. Statute provides that planning applications should be determined in accordance with the provisions of relevant Development Plan policies unless material considerations indicate otherwise. The weight given to the Plan thus remains to be balanced with other considerations when taken into the round by decision makers.

4. Financial Implications

4.1 The Localism Act and Regulations provide that the following costs would fall to Shropshire Council: delivering a supporting role particularly in the latter stages of the Plan's development; appointing an Examiner for the Plan; and conducting an Examination and holding a Referendum. Current provisions allow an application for these additional costs to be met, and a reimbursement of costs will therefore be sought from Central Government. As previously acknowledged in reports on the Much Wenlock and Shifnal Neighbourhood Plans, it is considered likely the robustness of the Neighbourhood Plan Policies will be tested over time by independent Planning Inspectors on Planning appeals made under Section 78 of the Planning Act. Members are advised that the liability for future appeal costs rests with Shropshire Council as Local Planning Authority and as such the usability of such plans and their impact on local decision making will need to be carefully monitored.

5. Background

5.1 Shropshire Council's localised planning approach supports Neighbourhood Plans being brought forward under the Localism Act and the 2012 Neighbourhood Planning

Regulations, indeed the Council is legally obliged to do so. However, Shropshire Council is also committed to promoting and supporting other forms of locality planning for neighbourhoods as potentially more cost effective and sustainable alternatives to a full Neighbourhood Plan through Community-led planning, parish planning, design guides etc. It is acknowledged these other forms of locality planning do not form part of the statutory development plan, but instead can be considered as material considerations in planning decisions.

5.2 The Government's recently published update to the National Planning Policy Framework (NPPF) continues to support the principle of Neighbourhood Plans and their status as part of the Development Plan. The NPPF states "Neighbourhood plans should support the delivery of strategic policies contained in local plans or spatial development strategies; and should shape and direct development that is outside of these strategic policies". It is also made clear that Neighbourhood Plans should <u>not</u> promote less development than set out in the strategic policies for the area, or undermine those strategic policies.

5.3 The development of a Neighbourhood Plan must be facilitated by the Town or Parish Council and will, in most cases, proceed with support and assistance from volunteers across the community. It is noted the three parish councils have already begun early consultation with their communities and have agreed in principle grant funding from Locality - the national organisation overseeing funding and technical support to Neighbourhood Plans on behalf of the Ministry for Housing, Communities and Local Government.

5.4 In due course and as part of the Neighbourhood Plan preparation process, Shropshire Council will consider whether the Three Parishes Neighbourhood Plan conforms to the adopted strategic policies of the Development Plan and, in agreement with the Parish Councils, put it forward for independent assessment. It will be the responsibility of Shropshire Council to arrange a local referendum to assess local support for the plan proposals and subject to a successful referendum outcome, a "yes" vote, Shropshire Council will have a legal duty to 'make' the Three Parishes Neighbourhood Plan and bring it into force. This final decision to 'make' the plan will be a matter for Full Council.

Consideration of Proposed Designation

5.5 The Council received three responses to the recent consultation. These came from Historic England, the Coal Authority and the National Grid. None of these responses objected to the proposal. Nevertheless, information in these responses will be useful in the ongoing Neighbourhood Plan preparation. In particular, Historic England point out that the proposed area contains a varied range of designated and undesignated heritage assets including several grade II* listed buildings and the Norton in Hales Conservation Area. Historic England also comment on the potential for the Neighbourhood Plan to harness local community interest in these assets. The response from National Grid confirms they have no record of any electricity apparatus in the proposed area.

5.6 As well as reflecting on consultation responses, Shropshire Council should also consider any other relevant issues. In doing so Council officers have had early discussions with representatives from the three parishes specifically to discuss the extent of the proposal and to further understand the rationale for the area proposed. This was important to do as the extent of the area is significant and far larger than other proposed Neighbourhood Plan areas in Shropshire. The proposal also covers three parish council areas which is unusual if not unique, and will require the continued cooperation and agreement between all three councils to progress the Neighbourhood Plan.

5.7 Having had these early discussions, it is considered the proposed area is appropriate for the purposes of preparing a Neighbourhood Plan. All three parish areas are defined by sharing a common boundary with Market Drayton, which they look to for the delivery of a number of services and facilities. The three parishes also share similar characteristics in that they are sparsely populated and contain a number of heritage assets; a point also raised by Historic England. Perhaps of most significance is the proposal for six villages in the proposed area to act as a Community Cluster in the emerging Local Plan Review - Norton in Hales, Adderley, Morton Say, Bletchley, Longford and Longslow. It is considered the proposed Neighbourhood Plan can therefore offer the opportunity to deliver some additional value through the preparation of locally relevant planning policies to support the delivery of appropriate development, whilst continuing to be in conformity with the strategic policies of the Local Plan Review.

5.8 The three parishes must seek to ensure the future sustainable development of the settlement by providing detailed planning policies for their area. Whilst the exact scope and remit of the Neighbourhood Plan is to be discussed, at this stage it is clear there is an understanding from the three parish councils as to the general role of the Neighbourhood Plan and the type of policies it is likely to introduce. Further discussions will help to clarify this.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information):
None
Portfolio Holder: Councillor Robert Macey, Portfolio Holder for Planning and Housing Development
Local Member: Councillor Paul Wynn
Appendices: Appendix 1: Area Application Appendix 2: Proposed Neighbourhood Area

Application to designate a Neighbourhood Area

Town and Country Planning Act 1990 Neighbourhood Planning (General) Regulations 2012

Parish Clerk details:

Mrs Jane Evans
51 Longford Turning,
Market Drayton,
Shropshire
TF9 3PF

clerk@adderleyparish.co.uk

01630 654504

Relevant body:

We confirm that Adderley Parish Council is the relevant body to undertake neighbourhood planning in our area in accordance with section 61G of the 1990 Act and section 5C of the 2012 Regulations. This is a formal application by Adderley Parish Council in conjunction with Moreton Say Parish Council and Norton In Hales Parish Council for the designation of a Neighbourhood Plan area for the purposes pf developing a Neighbourhood Plan as a single area under the name "Three Parishes Neighbourhood Plan".

Name of Parish Council:

Adderley Parish Council Lead Council - agreed by the Parish Council 28th February 2018 minuted item 15 (attached).

Norton In Hales Parish Council - agreed Adderley Parish Council leading at Parish Council meeting 13th March 2018 minuted item 9 (attached).

Moreton Say Parish Council - agreed Adderley Parish Council to lead at Parish Council meeting 22nd March 2018 minuted item 14 (attached)

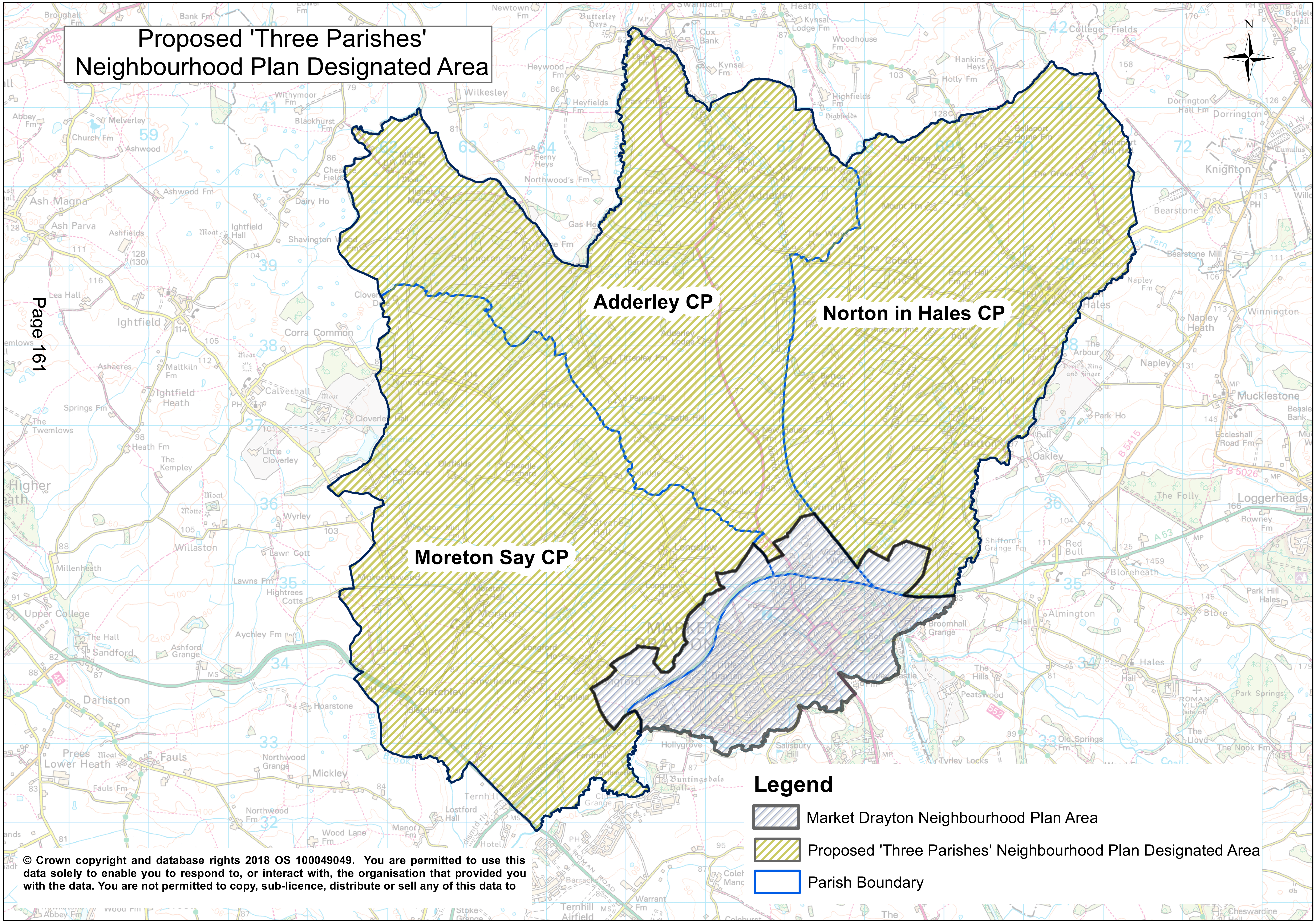
Extent of the area:

Whole Parish boundary areas as shown on accompanying map, except those areas of the three parishes already included within the formally designated Neighbourhood Plan Area for the purposes of the draft Market Drayton Neighbourhood Plan.

Justification statement:

The 3 Parishes of Adderley, Norton In Hales and Moreton Say are registered in the Local Plan as a 'community cluster' and share a common boundary with Market Drayton as well as the same rural geography. The Parishes hold a responsibility for their historic and environmental heritage, and wish to see a sympathetic future development plan which takes that into account. There is a shared commitment to 'future proof' the land for future diversification of industry (currently agricultural in the main), amenity areas and tourism; to maximise the potential of the land and capture the vitality and vibrance of the rural areas, recognising the economic growth potential of Shropshire and ensuring that the parishes have a role in that future.

Name: Mrs Jane Evans
Position: Parish Clerk, Adderley and Moreton Say Parish Councils
Date: 24/06/2018


Proposed 'Three Parishes' Neighbourhood Plan Designated Area
Adderley CP
Norton in Hales CP
Moreton Say CP
N
Legend
Market Drayton Neighbourhood Plan Area
Proposed 'Three Parishes' Neighbourhood Plan Designated Area
Parish Boundary

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Committee and Date
Cabinet
12 December 2018

European Social Fund
Community Grants

Responsible Officer Gemma Davies, Head of Economic Growth
e-mail: Gemma.davies@shropshire.gov.uk Tel: (01743) 258985

1. Summary

1.1 The Education and Skills Funding Agency (ESFA) are a co-financing organisation for the European Social Funds (ESF) for England. ESF invests in people, with a focus on improving employment and education opportunities across the European Union. It also aims to improve the situation of the most vulnerable people at risk of poverty.

1.2 The ESFA publish calls for organisations to come forward and deliver projects against particular priorities and outputs in order to meet National targets. On the 20th August 2018, the ESFA published a call under Priority 4 – Social Inclusion, for delivery organisations to come forward to manage a Community Grant Scheme.

1.3 The aim of the fund is to engage with local communities to deliver a range of skills and employment support activities to enable people from the hardest to reach communities, experiencing multiple disadvantages, to make progress towards accessing the labour market. The programme is designed to assist small charities, community groups and not-for-profit organisations.

1.4 The outcomes of the scheme will be to support 1240 disadvantaged people in Shropshire and Telford with a Leaner Assessment Plan. Following intervention, a minimum of 211 will enter into employment and 174 into Education. This will contribute to the key issues of worklessness, low qualification attainment and low-income levels that are identified in the ESIF Strategy.

1.5 The value of the call is for £1.7m to cover the *transition* area (*In England the allocations of European Union funding are split geographically into three categories of region less developed, transition and more developed. Transition means that Gross Domestic Product per capita of between 75% and 90% of the European Union average)* of Shropshire and Telford and Wrekin and is 100% funded through funds from the ESFA and ESF and therefore no further cash match funding from the Council would be required. Grants can be between £5k and £20k and 10% of the total cost (£1.7m) can be for the costs associated with the management of the scheme.

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1.6 Discussions with partners (Telford and Wrekin Council, Voluntary sector and skills teams) took place to identify an appropriate organisation to come forward to administer the scheme and the conclusion was that only Local Authorities would have the skills, knowledge and experience around EU funds to be able to undertake the role due to the complexities of EU Funds.

1.7 Shropshire Council submitted a tender response to administer the scheme for the areas of Shropshire and Telford and Wrekin by the closing date of the 19th September 2018. Due to the timescales involved, there was no opportunity to provide a Cabinet report prior to submission.

1.8 It was a condition that all appropriate approvals are in place prior to any contract being signed and therefore Shropshire Council is not committed in any way to administer the scheme and can withdraw at any time.

1.9 The Scheme includes a 0.6 FTE Community Grants Fund Manager, 2 part- time co-ordinator posts (0.5 Shropshire and 0.5 Telford and Wrekin) and Shropshire Council finance support. All posts will be fully funded within the scheme and therefore require no Council match (there is a risk linked to overheads – please refer to risk section).

1.10 This report summarises the content of the tender response, including the aims of the grants scheme, delivery model and financial and risk analysis.

2. Recommendations

2.1 Cabinet agrees that Shropshire Council becomes accountable body for the Community Grants Scheme, pending the ESFA decision, covering the ESF Transitional area of Shropshire and Telford and Wrekin.

2.2 Cabinet approve the development and signing of a partnership agreement between Shropshire Council and Telford and Wrekin Council to ensure successful delivery of the programme.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 There are currently 12,500 people aged between 16-64 who are unemployed in the transition area of Shropshire and Telford and Wrekin, this is approximately 3.2% of the total population, which is lower than both the West Midlands (5.2%) and the national (4.4%) averages. However, within Shropshire and Telford and Wrekin there are areas of deprivation with major challenges around worklessness, low qualification attainment, poor health, limited infrastructure and access to employment opportunities. Those who are furthest from the job market experience barriers into education, training, volunteering and employment.

3.2 The Marches European Structural and Investment Fund (ESIF) Strategy 2014-2020 sets out the key issues and need for employment and skills in the Marches with a particular focus on social excluded or marginalised groups (underrepresented/targeted groups). Activity within the Marches is aimed at supporting local businesses to grow by getting people into work and out of poverty, tackling skills shortages, low labour mobility and overcoming the barriers to getting and keeping a job. The relevant key priority is:

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- Supporting under-represented groups to progress from social inclusion activity to employment and skills support. Under-represented groups report a desire to work but there is lack of appropriate support, services, and training, volunteering placements or employment opportunities. Trends show barriers becoming more complex and more people are facing multiple barriers.

3.3 The evidence base Social Inclusion in the Marches LEP (2015), commissioned by the Social Inclusion Mini Group, provides additional evidence for the social inclusion priorities outlined in the ESIF Strategy 2014-2020. It details the common barriers to employment experienced by those who are socially excluded including:

- a lack of social employability skills
- lack of self-confidence
- low self-esteem
- lack of basic or relevant skills
- lack of recent relevant work place experience
- labour market conditions
- welfare system
- access of services
- lack of understanding of individual support needs offered by generalist support providers.

3.4 This scheme will meet the priorities above for Shropshire and Telford and Wrekin and provide eligible voluntary sector organisations with funds to get to these hard to reach groups. In order to issue funds an application and appraisal process will be developed that meets the needs of the scheme, along with a robust monitoring and reporting system.

3.5 Initial discussion with strategic voluntary sector partners indicated that there is a need for these types of grants to support these disadvantaged groups and that basic skills are a key priority for Shropshire and Telford areas.

3.6 Due to the complex nature of administering a grant scheme with European funds there are limited organisations with the knowledge and experience (project management, financial and monitoring experience) required to deliver a scheme of this nature. There is also a requirement for recipients to be paid on evidence of defrayal by the accountable body, which is then reclaimed, from the DWP. Again, most organisations would not have the capacity and funds to be able to undertake this role.

3.7 The risk to SC is limited, as payments will only be made to recipient organisations once evidence is provided for both the financial and output aspects. A robust financial and output monitoring system will be managed by the Fund Manager and support provided by the Project Co-ordinators to the recipients. The Project Manager will aim to over achieve outputs across the programme so that any issues with individual projects can be dealt with without effecting the programme as a whole. The grant funding agreement between SC and the recipient organisation will include conditions of payment, monitoring requirements and forecasting information.

3.8 There is a potential risk of financial clawback if the project fails to deliver the agreed terms of the contract such as delivery of outputs. These risks will be mitigated by careful monitoring of the programme and individual projects. The specific details of any clawback clauses will be reviewed and assessed when further details of the contract are provided by ESFA.

3.9 Shropshire Council can draw down funding from the DWP to reimburse the cost of overheads including staff costs, based on 10% of the value of grants paid to applicants. There is a risk therefore of staff costs not being recouped if the grants are not spent. Any under recovery of these costs will need to be covered by Shropshire Council. Close monitoring with finance and the ESFA will need to take place to minimise the risk to Shropshire Council.

3.10 It is envisaged that suitably experienced staff who are currently at risk of redundancy and on the redeployment register, would be able to apply for these roles in the first instance. This would also help to ensure that the project could start on 1 April 2019 enabling expenditure and output profiles to be met.

3.11 The scheme will cover two Local Authority areas and there will be a signed agreement with Telford and Wrekin Council regarding delivery of outputs in their area. Also included in the tender is Telford and Wrekin's commitment to support the programme with the involvement of their Community Participation Team, which include a team of five Community Development Workers and a Funding Officer who will promote and support delivery of the programme in the Telford area.

3.12 The Shropshire Council Legal team will be engaged in developing the contracts with the voluntary sector organisations and agreements with Telford and Wrekin Council to ensure that all legal aspects are covered and potential risks mitigated.

3.13 At the stage of applying for the funds there was no option but to apply for the full £1.7m, of which, £1.5M is for grants between £5k and £20k over the period April 2019 to July 2021 to cover both Shropshire and Telford. Before any contract is signed, further discussion will need to take place with strategic organisations to identify whether this amount of spend is achievable, or whether a reduced amount could be negotiated with DWP.

3.14 In terms of demand, in July 2015, the Marches Social Inclusion Mini Group undertook an extensive mapping exercises to build a picture of the organisations working with socially excluded groups. This showed a broad range of support from a vast number of VCSE organisations including community groups however; provision was quite patchy and vulnerable due to the consequence of funding cuts and the lack of available or eligible grant pots. This fund will therefore provide vital resources for these organisations and support a large number of different socially excluded groups across Telford and Shropshire.

3.15 The awarding of grants to organisations will follow a robust and transparent appraisal process, which will involve standard checks, on eligibility, management and delivery of the scheme, on all prospective grant applicants. Equally, the claiming and payment of grants will follow a set procedure for all claimants, irrespective of the size of grant awarded or the nature of the claimant.

3.16 The appraisal panel will score the applications and come to a consensus on whether the information provided confirms the engagement of the participants in the priority groups. The finance role will look at the costs and provide the financial expertise to ensure that the project can be delivered.

3.17 Recommendations from the appraisal panel will go to the Community Fund Steering Group for agreement, consisting of Local Authority Officers (Shropshire and Telford), Strategic Voluntary Sector Organisations (such as the VCS/Community Council), Marches LEP and Shropshire Council finance. Final decision-making will be signed off by the chairperson of the steering group who will be a Shropshire Council Officer (accountable body).

3.18 All members of staff and external appraisers involved in the grant award process will follow a declaration of interest protocol, to ensure that there can be no conflicts of interest in relation to grant awards.

3.19 Shropshire Council will operate a management system that will monitor both spend and the progress of participants into further learning or employment from the projects supported. This system will be managed through spreadsheets and databases and will be managed by the Community Grants Fund Manager so that performance information and progress against the spend profile and participant profiles can be submitted to the ESFA as and when required.

3.20 Payments to recipient organisations will only be made on submission of a claim form, which will include defrayal evidence (bank statements), invoices and outputs evidence such as an individual learning record (ILR) for each participant claimed. This will be monitored and checked by Shropshire Council finance before any payments are made. Once payments have been made to the recipients, SC will submit a claim to DWP; therefore, there will be an element of bankrolling by SC until the funds are received from DWP.

3.21 Monitoring the projects will be the role of the Coordinator(s) who will undertake monitoring visits to check that the beneficiary organisations have the systems in place to record the information for the ILR's (e.g. participant details etc.) and supplementary data, like evidence of payment for activities and salaries, etc. A workshop will be held for recipients once an agreement has been signed to go through the evidence that will be required for audit purposes.

4. Financial Implications

4.1 Shropshire Council (SC) will deliver the scheme in the Marches Transitional Area (Telford and Shropshire). A Community Grants Fund Manager (FM) will manage the scheme process including calls, applications, appraisals, approvals, offer letters and monitoring. Project co-ordinator(s) will support potential applicants with the application process, monitoring and data collection. SC Finance will be responsible for checking claim information and eligibility and the payment of grants to the beneficiaries.

4.2 The posts are 100% funded through the scheme and the costs are claimed against the payment of grants each quarter from the DWP. There will be an element of bankrolling as the drawdown of the administrative element of the funding will be retrospective and dependant on grants claimed.

4.3 If the uptake of grants is low, there is a financial risk to Shropshire Council in covering the salary costs that are unable to be claimed. However, this will be mitigated by careful project monitoring and highlighted in project reports to the Project Board as soon as it is identified as a potential risk.

4.4 There is a potential risk of financial clawback if the project fails to deliver the agreed terms of the contract such as delivery of outputs. If individual projects fail to deliver their contracted outputs then the first option will be to recover the funding from them. If the full allocation of funding is not distributed over the course of the programme then there could be a risk of clawback, which would be recovered from Shropshire Council. These risks will be mitigated by careful monitoring of the programme and individual projects. The specific details of any clawback clauses will be reviewed and assessed when further details of the contract are provided by ESFA.

5. Background

5.1 The ESFA wishes to make ESF Community Grants available in the form of small grants (up to £20,000) to third sector and other small organisations for mobilising disadvantaged or excluded unemployed and inactive people to enable their progress towards employment. Organisations that access grants need to be well placed to reach excluded individuals facing barriers, which hinder their access to mainstream provision, such as employment programmes around education and training.

Grants will:

- engage with marginalised individuals and support them to re-engage with education, training, or employment;
- will support a range of activities aimed at assisting the disadvantaged or excluded to move closer to the labour market by improving their access to mainstream ESF and domestic employment and skills provision; and
- will provide support to the hardest to reach communities and individuals, especially those from deprived communities, to access employment or further learning and training.

5.2 Priority groups are those identified in the ESF Operational Programme, i.e. participants aged over 50, participants with disabilities, participants from ethnic minorities and participants who are women. More specifically, the Marches LEP has identified the following priority groups: Gypsy Roma and travelling communities;

lone parents; people who are 50 and over; families with multiple and complex needs; people who are homeless; people with disabilities (physical and those with mental health issues); people with caring responsibilities; people from black and minority ethnic communities.

5.3 The Marches European Structural and Investment Fund (ESIF) Strategy 2014-2020 sets out the key issues and need for employment and skills in the Marches with a particular focus on social excluded or marginalised groups (under-represented/targeted groups).

5.4 Activity within the Marches is aimed at supporting local businesses to grow by getting people into work and out of poverty, tackling skills shortages, low labour mobility and overcoming the barriers to getting and keeping a job.

Key areas include:

- Equipping unemployed/inactive people looking for work with the basic, functional, employability or high-level skills to access the labour market.
- Supporting under-represented groups to progress from social inclusion activity to employment and skills support. Under-represented groups report a desire to work but there is lack of appropriate support, services, and training, volunteering placements or employment opportunities. Trends show barriers becoming more complex and more people are facing multiple barriers.
- Significant problems around public transport which limits access to support provision and jobs.
- Supporting the over 50s to re-join or enter the workforce.
- Building strong relationships with the voluntary, community and social enterprise sector and utilise their knowledge and expertise in bringing economically inactive people closer to the employment market through volunteering.

5.5 The evidence base Social Inclusion in the Marches LEP (2015), commissioned by the Social Inclusion Mini Group, provides additional evidence for the social inclusion priorities outlined in the ESIF Strategy 2014-2020.

5.6 The research highlighted the most successful approach to helping those furthest from the employment market were one-to-one support, holistic, flexible packages tailored to the individual.

5.7 At the successful conclusion of this procurement, the ESFA will enter in to a single Contract with the Applicant who submits the most economically advantageous tender in each Lot (Marches Transition area).

5.8 The contract will commence on or around 1 April 2019 and will expire on 31 July 2021.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
Cabinet Member (Portfolio Holder) Cllrs Peter Nutting and Steve Charmley
Local Members All
Appendices Nil

Committee and Date
Cabinet
12 December 2018

SHREWSBURY SHOPPING CENTRES NEXT PHASE

Responsible Officer Mark Barrow - Executive Director of Place
e-mail: Mark.barrow@shropshire.gov.uk Tel:(01743) 258919

1. Summary

1.1 In January 2018 Shropshire Council (the 'Council') purchased the three shopping centres in Shrewsbury Town Centre – Darwin, Pride Hill and Riverside (the 'Shopping Centres').

1.2 The timeline to reach acquisition of the Shopping Centres and to get to the next phase of work has involved the following steps:

- September 2017 - initial engagement on Shrewsbury Big Town Plan ("SBTP")
- September 2017 - due diligence commenced to inform the decision to acquire Shopping Centres
- December 2017 - decision to acquire the Shopping Centres made by Full Council
- January 2018 - acquisition complete
- July 2018- SBTP to Cabinet for consultation
- November 2018 – SBTP finalised and agreed by Cabinet
- December 2018 – Next Phase -setting out requirements for delivery of the SBTP and redevelopment opportunity at Riverside

1.3 The key objective of the acquisition of the Shopping Centres was to:
…. facilitate the economic growth and regeneration of Shrewsbury Town Centre (Cabinet report December 2017).

1.4 The Council has a very clear set of further objectives which underpin this primary objective:

- Create a vibrant Town Centre to support the economic growth and prosperity of Shropshire.
- To secure and enhance the long-term revenue income from the shopping centres.

1.5 Further to the decision to acquire the Shopping Centres, Cabinet has agreed the SBTP in November 2018. The purpose of the SBTP is to be an investment prospectus where individuals and organisations looking to invest in Shrewsbury have a clear idea of the town's vision, aspirations and development opportunities – and how they can be part of that. It also provides a strong statement for residents, employers and visitors to Shrewsbury of how they can expect their town to develop over time, and how that growth and change is being planned, coordinated and communicated.

1.6 This report sets out the next phase of work which is required to enable the Council to drive forward the ambition set out through the SBTP and the purchase of the three Shopping Centres in the town centre through a coordinated and cohesive delivery approach.

1.7 The Council has a clear ambition as part of the SBTP delivery to take forward the next stage of the Shopping Centres redevelopment, to refocus, repurpose and create a distinctive, thriving and future- proofed town centre offer in Shrewsbury.

1.8 In order to effectively do this, the Council will be producing a Strategic Development Framework (SDF) suite of documents which will determine the appropriate mix of leisure, retail, tourist, commercial, residential and other destination attractions and will articulate these in a way which is easy for investors to respond to. This, in turn will bring investment forward, including further potential for investment from the Council and the private sector. The investment opportunities will be set out in an indicative masterplan, showing architectural drawing and conceptual ideas which might for example include a hotel, cinema, public open space, improved transport, offices, leisure, public realm, all of which will add more detail to and work with the adopted SBTP.

1.9 It was agreed at Cabinet in November 2018 that the Council would support the SBTP partnership to take forward implementation of the plan including the development of a delivery plan for each of the key themes within it.

1.10 Producing a SDF will ensure that the appropriate quality is demanded in development/ investment opportunities and, through an indicative Masterplan and architectural vision, ensure that there is a coherent and logical feel to the town centre in order to create an attractive and distinctive experience for users with footfall and flow throughout the town.

1.11 It has always been anticipated that the shopping centres would require investment in order to maximise the asset value and to secure the long-term growth and sustainability of the town centre and the SDF will set the principles for what the Council, as asset owner, wants to see come forward. This report seeks Cabinet approval to proceed with the next phase of the shopping centres programme focused on the redevelopment and refocusing of the centres, including the potential for Riverside in the context of a wider vision for the town centre.

1.12 The proposed budget for this work will be from New Homes Bonus (NHB). This will be comprised of NHB which was previously agreed by Cabinet for Rural Exception Grant scheme alongside NHB budget allocated to Economic Growth.

1.13 After seeking external guidance and taking opportunities to learn from other Local Authorities who have also purchased substantial assets such as shopping centres and learning from best practice, it is recommended that to achieve the objectives set out above, the Council should produce a SDF which will create structure to support the redevelopment of Riverside, including indicative Masterplanning, development appraisals, options appraisal of delivery models, scoping out any preliminary works required (i.e. ground investigations, traffic modelling, and impact assessments). This work will require some external expertise, and this will be taken forward in collaboration with the internal Council team.

2. Recommendations

That Cabinet agrees to:

1. Approve an initial budget of £500,000 to secure the appropriate resources and expertise to prepare a Strategic Development Framework and Masterplan to support the delivery of the Shrewsbury Big Town Plan (to include the redevelopment of Riverside) and the appointment of two dedicated posts to support this implementation.

2. Approve the reallocation of the New Homes Bonus (NHB) capital funding previously agreed to provide part funding for the project.

3. Delegate to the Executive Director of Place in consultation with the Portfolio Holders for Economic Growth, to procure, appoint and commence with the work required to create a Strategic Development Framework and Masterplan.

REPORT

3. Risk Assessment and Opportunities Appraisal

Opportunities

3.1 The next phase of work has a number of significant opportunities which the Council needs to ensure are achieved, including:

- Exploring the Council's role in developing and investing in the Town Centre.
- Extra staff resource to support the project management function required to deliver this significant project.
- Supporting a co-funded post by Shropshire Council, Shrewsbury Town Council and Shrewsbury BID to support the wider delivery of the SBTP
- Support a SDF for the redevelopment of Riverside and the surrounding area of focus, to produce an illustrative masterplan for the town centre, including conceptual architectural drawings.
- Improved Town Centre living with improved linkages within the town centre
- New commercial space
- Destination leisure facilities including suitable retailing
- Quality food and drink offer
- Enhanced visitor experience
- Sustainable transport including enhanced Park and Ride facility
- Improved access and carparking facilities

a. In strategic planning terms the redevelopment of the town centres remains a Key policy in the Local Plan and is seen as necessary to drive the future visitor economy

in Shrewsbury. This also has been supported by the SBTP work which has been undertaken to help the future 'place shaping' vision and aspirations for the town and has been subject to significant community engagement and involvement.
Shrewsbury is the gateway to the M54 corridor of economic growth opportunities and provides a significant opportunity to shape the future of the town centre in the context of the wider economic landscape.

RISKS

b. Do Nothing Option

The Council could choose to do nothing and not invest in the future of Shrewsbury Town Centre or the recently acquired shopping centres. That is likely to lead to a decline in the shopping centres, increased voids and probable reduction in revenue from the assets. In turn this could lead to fewer visitors to the town, loss of income and damage to our economy. The option to do nothing does not support the primary objective for the purchase of the shopping centres which was to support the economic growth and regeneration of the town centre.

3.4 Risk – the Council is not effectively managing and protecting its asset and return on the current investment made may decline. Competition from other neighbouring Town Centres, such as Telford, Chester and Wolverhampton is likely to impact on Shrewsbury and could lead to a decrease in footfall and sales within the town centre reducing visitor numbers and spend.

3.5 The retail sector is undergoing unprecedented change. The way people shop has changed, and this is along with an evolving economic climate, is leading to a significant decline on the number of retailers and the type and size of store which is required. Retail remains a very challenging environment including Corporate Voluntary Arrangements (CVAs) e.g. Poundworld, New Look Menswear and, closure of stores e.g. House of Fraser. It is therefore important to rethink the uses and purpose of Town Centres and ensuring that they can offer an experience which is more than just retail. By doing so we can ensure the future resilience and sustainability of Shrewsbury Town Centre.

Redevelop and Invest option (recommended)

3.6 The approach outlined is to invest in upfront work required to get the Council into the best position to ensure it can make robust decisions informed by the development and commercial expertise in the field. Also, to scope out the delivery options, to maximise the return on investment, bring in the right investors and developers to deliver in partnership with the Council. The cost of investing upfront will unlock the future development potential of the Shopping Centres. This will also provide the potential for additional revenue streams to be created in the future subject to further work and assessing the Council's role in the delivery of the redevelopment.

3.7 Risk – return on upfront investment will take time to recoup and this needs to be managed effectively through the project management of the next phase of work to ensure best value for the Council in all decisions.

4. Financial Implications

4.1 The next phase of the SBTP and Shopping Centres programme requires some upfront costs to support a SDF to be created. A budget of £500,000 has been identified to support and enable this, inducing funding 1 fixed term (3 year) post within Economic Growth and part funding 1 fixed term post (3 year) to take manage and co-ordinate the implementation of the SBTP (to be co-funded with Shrewsbury BID and Town Council. £225,000 will come from a NHB capital scheme which was set aside for Rural Exception Site Grant which is no longer required. The remaining £275,000 will come from the £1m allocation of NHB for Economic Growth that was agreed in 2016/17 (cabinet 9th November 2016).

Resources

4.2 1 x Shrewsbury focussed project manager to support the next stage of shopping centres, including producing a SDF to take the project to delivery stage.

1x SBTP programme officer – co-funded by Shropshire Council, Shrewsbury BID and Shrewsbury Town Council.

4.3 The budget will be delegated to the Executive Director of Place working with the Portfolio Holders for Economic Growth to procure the necessary resources, including Masterplanning expertise, development appraisals, options appraisal of delivery models, scoping out any preliminary works required (i.e. ground investigations, traffic modelling, and impact assessments), to produce a robust set of documents to create a SDF. This will set the vision, directions and parameters for engaging with investors and developers and ensure Shropshire Council is leading on the approach and outcomes expected from this largescale redevelopment opportunity.

5. Background

5.1 The Council acquired the Shopping Centres in Shrewsbury in January 2018.

5.2 In order to progress the primary objective of the purchase of the Shopping Centres, to support the economic growth, future viability and regeneration of the town centre it is necessary to produce a SDF suite of documents which will set the parameters and vision for future development.

5.3 From a commercial and economic perspective it will help guide the approach for investment decisions ensuring the commercial and social value of such a significant regeneration scheme is achieved.

Options for delivery

5.4 The SDF will enable the Council to drive the direction of delivery for the redevelopment, which will include:

- Delivery options – private or public sectors or a mix of both with the public sector's focus likely to be upon enabling infrastructure to create and de-risk the

development platform for the private sector e.g. demolition, highways re-configuration, utilities provision, a new multi-storey car park(s);
- Delivery vehicles - these could include the Council taking on different roles which will be fully explored.
- Financial requirements of the Council – whether capital receipts or a revenue stream is required from development on its sites, or a mix of both.
- Phased release of sites to investors and developers in accordance with the Framework to ensure maximum value to the public purse;
- Design and construction to the highest standards;
- Development which is fully compliant with the local plan and SBTP, including high standards of sustainability and environmental performance.

Timeline

5.5 This is an indicative 2 year timeline to get to a point of appointing a development partner with full understanding of delivery model and council involvement.

- 2018/19
  - Procure support to produce the Strategic Development Framework
  - Prepare demolition plan

- 2019/20
  - Produce Strategic Development Framework
  - Consultation and approval of Strategic Development Framework
  - Determine delivery models for development
  - Procure development partner

- 2020
  - Appoint development partner
  - Commence demolition (subject to approvals)

Procurement

In order to obtain the expertise required the Council will use the most appropriate and effective procurement routes. Subject to Cabinet approval, the Executive Director of Place, in conjunction with the Commissioning Development & Procurement Manager and in consultation with the Portfolio Holders for Economic Growth will procure and appoint any necessary external support to create the SDF.

6. Conclusions

6.1 The acquisition of the Shrewsbury Shopping Centres has demonstrated the Council's appetite and ambition for growth and development. The opportunity to redevelop Riverside is truly transformational and offers the Council the ability to influence the future development, quantum and mix of uses. An opportunity of this scale and impact comes along once in a generation and is provides the platform to create the long-term sustainability of Shrewsbury and wider benefits for Shropshire as a whole.

6.2 The management of the existing shopping centres i.e Pride Hill and Darwin is part of continuing work led by the Council and Montagu Evans. Included within this is a review of the mix and capacity of uses across the centres, particularly given the transformation of the retail environment.

6.3 The future development of the Shopping Centres, in particular Riverside in the context of the SBTP needs to be progressed in order to fulfil the primary objective of the acquisition. This report recommends the next steps to take forward these aspects, including all necessary external specialist appointments as well as additional internal resource to work with the internal Council team.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Shrewsbury Big Town Plan Draft Version – July 2018
Cabinet Member Cllr Peter Nutting and Cllr Steve Charmley
Local Member Cllr Nat Green
Appendices