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West Devon Council

West Devon Borough Council

Title:	**Summons**
Date:	**Tuesday, 25th July, 2017**
Time:	**4.30 pm**
Venue:	**Chamber - Kilworthy Park**
Full Members:	***Mayor*** Cllr Moody ***Deputy Mayor*** Cllr Davies *Members:* Cllr Baldwin, Cllr Ball, Cllr Cann OBE, Cllr Cheadle, Cllr Cloke, Cllr Edmonds, Cllr Evans, Cllr Hockridge, Cllr Jory, Cllr Kimber, Cllr Lamb, Cllr Leech, Cllr McInnes, Cllr Mott, Cllr Moyse, Cllr Musgrave, Cllr Oxborough, Cllr Parker, Cllr Pearce, Cllr Ridgers, Cllr Roberts, Cllr Sampson, Cllr Samuel, Cllr Sanders, Cllr Sellis, Cllr Sheldon, Cllr Stephens, Cllr Watts, Cllr Yelland
Interests – Declaration and Restriction on Participation:	Members are reminded of their responsibility to declare any disclosable pecuniary interest not entered in the Authority's register or local non pecuniary interest which they have in any item of business on the agenda (subject to the exception for sensitive information) and to leave the meeting prior to discussion and voting on an item in which they have a disclosable pecuniary interest.
Committee administrator:	Member.Services@swdevon.gov.uk

Unstarred Minute to agree
Members are recommended to agree:

HC 11 Business Rates – Locally Administered Business Rate Relief Policy
That Council be **RECOMMENDED** that, following consultation with Devon County Council, Devon & Cornwall Police and Devon & Somerset Fire Rescue, the Locally Administered Business Rate Relief Policy be adopted, subject to inclusion of the amendment as detailed in the minutes of the Hub Committee meeting.

HC 12 Review of WDBC Community Grant Schemes
That Council be **RECOMMENDED** to:

1. Incorporate the Sports Grant into a 'Community Grant' scheme, retaining £2,000 as a revenue line to cover 'training/coaching grants';
2. Exclude applications to the Community Grant from projects within Dartmoor National Park which have already received support from the DNPA Sustainable Communities Fund;
3. Support production of a one page summary of grant schemes which officers and Members can use to increase and sustain the level of promotion to local communities; and
4. Support ongoing officer engagement with DCC to refocus the TAP scheme criteria on its original purpose, and reinstate the process that is outlined at paragraph 7.3 of the presented report.

HC 14 Events Policy Adoption
That Council be **RECOMMMENDED**:

1. To approve the proposed policy as detailed in Appendix 1 of the report presented to the Hub Committee, subject to minor wording changes as delegated to the Group Manager Commercial Services in consultation with the Lead Hub Committee Member; and
2. That, once live, the policy be reviewed annually and the fees levied reviewed as part of the regular WDBC fee and charge setting process.
3.

Report of the SH/WD Joint Steering Group

At the Annual Meeting of the **WEST DEVON BOROUGH COUNCIL** held in the **COUNCIL CHAMBER, KILWORTHY PARK, TAVISTOCK** on **TUESDAY** the **23rd** day of **MAY 2017** at **11.00am** pursuant to Notice given and Summons duly served.

Present Cllr J Sheldon – The Mayor (In the Chair)

Cllr K Ball	Cllr W G Cann OBE
Cllr R Cheadle	Cllr M Davies
Cllr C Edmonds	Cllr J Evans
Cllr L J G Hockridge	Cllr N Jory
Cllr A F Leech	Cllr J R McInnes
Cllr J B Moody	Cllr C Mott
Cllr D E Moyse	Cllr C R Musgrave
Cllr R J Oxborough	Cllr G Parker
Cllr T G Pearce	Cllr P J Ridgers
Cllr A Roberts	Cllr R F D Sampson
Cllr L Samuel	Cllr P R Sanders
Cllr D K A Sellis	Cllr L Watts
Cllr J Yelland	

Head of Paid Service
Monitoring Officer
Senior Specialist – Democratic Services

CM 1 MINUTE'S SILENCE

Prior to consideration of the formal agenda items at this meeting, the Mayor called on everyone in attendance to observe a minute's silence in remembrance of those who had lost their lives in the terrorist attack at Manchester Arena on the evening of Monday, 22 May 2017.

CM 2 MAYOR'S ANNOUNCEMENT

Having received a request from other Members, the Mayor confirmed that he would exercise his discretion to invoke Council Procedure Rule 19 whereby a paper ballot would take place for each of the following appointments for 2017/18:

- The Mayor;
- The Vice-Chairman of the Development Management and Licensing Committee; and
- The Chairman of the Overview and Scrutiny Committee.

CM 3 APPOINTMENT OF MAYOR

Cllr J Sheldon moved the appointment of Cllr J B Moody as Mayor for the ensuing year and Cllr R F D Sampson subsequently seconded the motion.

No other nominations were received and upon the motion being submitted to the meeting, it was declared (by virtue of a paper ballot) to be **CARRIED** and **"RESOLVED** that Cllr J B Moody be appointed Mayor for the ensuing year".

The retiring Mayor and newly elected Mayor left the Council Chamber so that Cllr J B Moody could be invested with the civic regalia. The retiring Mayor also invested Mrs Moody with the Mayoress's Badge of Office.

Upon returning to the Council Chamber, the newly elected Mayor, Cllr J B Moody, made the Declaration of Acceptance of Office, signed the Register and addressed the Council.

Cllr J B Moody then chaired the rest of the meeting.

Cllr R Cheadle proposed a vote of thanks to the retiring Mayor. The proposition was seconded by Cllr P R Sanders.

Cllr J B Moody then invested Cllr J Sheldon and Mrs Sheldon with the Past Mayor's and his Consort's Medallions.

The retiring Mayor, Cllr J Sheldon proceeded to address the meeting.

CM 4 APPOINTMENT OF DEPUTY MAYOR

The Mayor called for nominations for the position of Deputy Mayor.

One nomination was received as follows:

Cllr M Davies	proposed:	Cllr C R Musgrave
	seconded:	Cllr K Ball

There being no other nominations, it was declared to be **CARRIED** and **"RESOLVED** that Cllr M Davies be appointed as Deputy Mayor for the ensuing year".

The Deputy Mayor then made the Declaration of Acceptance of Office and signed the register and the Mayor invested Cllr M Davies with the Deputy Mayor's Insignia.

Cllr M Davies then addressed the Council.

CM 5 APOLOGIES FOR ABSENCE

An apology for absence was received from Cllrs R E Baldwin, D W Cloke, P Kimber, B Lamb and B Stephens.

CM 6 DECLARATION OF INTEREST

The Mayor invited Members to declare any interests in the items of business to be considered during the course of the meeting, but there were none made.

CM 7 CONFIRMATION OF MINUTES

It was moved by Cllr P R Sanders, seconded by Cllr L Samuel and upon the motion being submitted to the Meeting was declared to be **CARRIED** and **"RESOLVED** that the Council agree the Minutes of the 11 April 2017 meeting as a true record."

CM 8 ADOPTION OF THE COUNCIL'S CONSTITUTION

It was moved by Cllr R F D Sampson, seconded by Cllr P R Sanders and upon the motion being submitted to the Meeting was declared to be **CARRIED** and **"RESOLVED** that the amendments to the Council Constitution (as summarised in Paragraph 2 of the report presented to the Audit Committee at its meeting on 21 March 2017 and fully outlined on the Council website) be approved and adopted, subject to:

1. the limit of asset disposals and acquisitions that are delegated to the Assets COP Lead, in consultation with the Leader of the Council, the lead Hub Committee Member for Assets and the Section 151 Officer being increased from £50,000 to £150,000, with any acquisitions and disposals above these limits being referred to the Hub Committee for approval; and

2. the suggested amendments to the Overview and Scrutiny Terms of Reference and Procedure Rules (pages 9 to 20 of the published Summons refer) being referred to the Overview and Scrutiny and Hub Committees for further consideration."

The Mayor then signed the bound copy of the Constitution for 2017/2018.

CM 9 NOTICE OF MOTION

It was moved by Cllr M Davies and seconded by Cllr K Ball that:

"The Borough Council instigates a Community Governance Review commencing June/July 2017. Whilst the main purpose of this Review will be to consult on a proposal to increase the size of the Okehampton Hamlets Parish Council by two additional parish councillors, the responsibility for determining and publishing the final terms of reference for this Review will be delegated to the Senior Specialist – Democratic Services, in consultation with the Leader of Council, the Leader of the Independent Group and the local Ward Members."

In presenting his motion, the proposer made specific reference to:-

- the Parish Council having consisted of 8 Members for over 100 years. During this time, it was noted that the population of the parish had more than doubled and further major development was also planned;
- there being plenty of interest amongst the local population to serve on the Parish Council; and

- the geographical size of the parish. The proposer also highlighted the sheer size of the parish and informed that it covered over 15 square miles.

When put to the vote, the motion was declared **CARRIED**.

CM 10 MINUTES OF COMMITTEES

a. Overview and Scrutiny (External) Committee – 21 March 2017
It was moved by Cllr D K A Sellis, seconded by Cllr A Roberts and upon being submitted to the Meeting was declared to be **CARRIED** and **"RESOLVED** that the Minutes of the 21 March 2017 meeting be received and noted".

b. Overview and Scrutiny (Internal) Committee – 18 April 2017
It was moved by Cllr C R Musgrave, seconded by Cllr J Yelland and upon being submitted to the Meeting was declared to be **CARRIED** and **"RESOLVED** that the Minutes of the 18 April 2017 meeting be received and noted".

c. Planning and Licensing Committee – 24 April 2017
It was moved by Cllr P R Sanders, seconded by Cllr G Parker and upon being submitted to the Meeting was declared to be **CARRIED** and **"RESOLVED** that the Minutes of the 24 April 2017 meeting be received and noted".

d. Hub Committee – 16 May 2017
It was moved by Cllr P R Sanders, seconded by Cllr L Samuel and upon being submitted to the Meeting was declared to be **CARRIED** and **"RESOLVED** that the Minutes of the 16 May 2017 meeting be received and noted, with the exception of Unstarred Minutes HC 77 and HC 78".

In respect of the Unstarred Minutes:

i. **HC 77 – Using the Cornwall and West Devon Mining Landscape World Heritage Site Supplementary Planning Document in Decision-Making**
It was moved by Cllr P R Sanders, seconded by Cllr L Samuel and upon being submitted to the Meeting was declared to be **CARRIED** and "**RESOLVED** that:-

(i) the Cornwall and West Devon Mining Landscape World Heritage Site Supplementary Planning document be adopted as a guidance document in planning decision making;

(ii) the approach of including clarification on and further detail to Policies SPT11; TTV20; DEV21 and DEV23 of the emerging Joint Local Plan in the Thriving Towns and Villages Supplementary Planning Document be agreed; and

(iii) a review of the Tavistock Conservation Area Management Plan be agreed with the specific purpose of incorporating a World Heritage Site element into that document."

ii. **HC 78 – 100% Business Rates Retention Consultation Response**
It was moved by Cllr P R Sanders, seconded by Cllr L Samuel and upon being submitted to the Meeting was declared to be **CARRIED** and "**RESOLVED** that the Council agree 'in principle' to apply to DCLG to become a business rates pilot for 2018/19, in alliance with the County Council, subject to the financial modelling being undertaken by Local Government Futures (on behalf of the Devon S151 Officers Group) demonstrating that there is no financial detriment to Authorities in doing so."

CM 11 APPOINTMENT OF LEADER AND DEPUTY LEADER OF THE COUNCIL

a. Leader
It was moved by Cllr G Parker, seconded by Cllr A Roberts and upon the motion being submitted to the Meeting was declared to be **CARRIED** and **"RESOLVED** that Cllr P R Sanders be appointed Leader of the Council for the ensuing year."

b. Deputy Leader
It was moved by Cllr K Ball, seconded by Cllr J R McInnes and upon the motion being submitted to the Meeting was declared to be **CARRIED** and **"RESOLVED** that Cllr L Samuel be appointed Deputy Leader of the Council for the ensuing year."

CM 12 REPORT OF THE FORMATION OF POLITICAL GROUPS

Members noted the schedule of officially appointed political groups as follows:

- 21 Conservative Group Members; and
- 10 Independent Group Members.

CM 13 COMMITTEE STRUCTURE

It was moved by Cllr P R Sanders, seconded by Cllr R F D Sampson and upon the motion being submitted to the Meeting was declared to be **CARRIED** and **"RESOLVED** that the Committee structure be as follows for the coming year:

Audit	7 Members;
Hub	9 Members;

Overview & Scrutiny (Internal)	15 Members;
Development Management & Licensing	10 Members; and
Standards	5 Members

with all of the appointments to the above Committees being politically balanced".

CM 14 MEMBERSHIP OF COMMITTEES

A list of appointments made to the Committees by the two political groups for the ensuing year had been circulated and were duly approved. The Leaders of the two political groups were named as:

Conservative	Cllr P R Sanders (Deputy: Cllr L Samuel)
Independent	Cllr R F D Sampson (Deputy: Cllr W G Cann OBE)

CM 15 APPOINTMENT OF CHAIRMEN AND VICE CHAIRMEN OF COMMITTEES

(i) Development Management and Licensing Committee: Vice-Chairman

Two nominations were put forward to the role of Vice-Chairman of the Development Management and Licensing Committee as follows:

- Cllr T G Pearce; and
- Cllr A Roberts.

In accordance with Council Procedure Rule 19, the result of the ballot was declared that Cllr A Roberts be appointed as the Vice-Chairman of the Development Management and Licensing Committee for the ensuing year.

(ii) Overview and Scrutiny Committee: Chairman

Two nominations were put forward to the role of Chairman of the Overview and Scrutiny Committee as follows:

- Cllr R Cheadle; and
- Cllr J Yelland.

In accordance with Council Procedure Rule 19, the result of the ballot was declared that Cllr J Yelland be appointed as the Chairman of the Overview and Scrutiny Committee for the ensuing year.

The remaining appointments were then proposed by Cllr P R Sanders and seconded by Cllr R F D Sampson and when put to the vote were declared to be **CARRIED**:

- Audit Committee: Cllr M Davies (Chairman);

		Cllr K Ball (Vice Chairman)
-	Hub Committee:	Cllr P R Sanders (Chairman); Cllr L Samuel (Vice Chairman);
-	Overview & Scrutiny Committee:	Cllr R Cheadle (Vice-Chairman);
-	Development Management & Licensing Committee:	Cllr P R Sanders (Chairman);
-	Standards Committee:	Cllr A F Leech (Chairman); and Cllr J Sheldon (Vice Chairman).

CM 16 APPOINTMENT OF REPRESENTATIVES TO THE LIST OF OUTSIDE BODIES FOR THE ENSUING YEAR

Members considered a report that presented the Group Leader's nominations to fill the vacancies on the list of Outside Bodies.

It was then proposed by Cllr P R Sanders, seconded by Cllr R F D Sampson and upon being submitted to the Meeting was declared to be **CARRIED** and "**RESOLVED** that:

1. The Council should be represented on the list of Outside Bodies as presented to the meeting;

2. Appropriate representatives be appointed as this Council's appointments to those Bodies for the 2017/18 Municipal Year and that for the purposes of Members' Allowances, attendance at meetings of these Bodies be regarded as an approved duty; and

3. Members appointed to Outside Bodies provide regular feedback and consultation on issues affecting the Bodies concerned".

CM 17 APPOINTMENT OF REPRESENTATIVES TO THE LIST OF OTHER GROUPS

It was proposed by Cllr P R Sanders, seconded by Cllr R F D Sampson and upon being submitted to the Meeting was declared to be **CARRIED** and "**RESOLVED** that the appointments as presented to the meeting be endorsed for the ensuing year".

CM 18 DARTMOOR NATIONAL PARK AUTHORITY

It was noted that the two Council representatives appointed to the Dartmoor National Park were:-

Cllr W G Cann OBE (Independent)
Cllr D E Moyse (Conservative)

(NOTE: These appointments formed part of the Political Balance Table.)

(The Meeting terminated at 12.20 pm)

Mayor

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At a Meeting of the **DEVELOPMENT MANAGEMENT & LICENSING COMMITTEE** held at the Council Chamber, Council Offices, Kilworthy Park, Drake Road, **TAVISTOCK** on **TUESDAY** the **30th** day of **MAY 2017** at **10.00am**

Present: Cllr P R Sanders – Chairman

Cllr L J G Hockridge	Cllr C Mott
Cllr G Parker	Cllr T G Pearce
Cllr A Roberts	Cllr J Yelland

COP Lead Development Management (PW)
Solicitor (SN)
Specialists Development Management (AHS, JG)
Specialist Democratic Services (KT)
Senior Specialist Affordable Housing (AR)
DCC Highways Officer (PT)
PCC Viability Officer (JM)

In attendance: Cllrs R F Cheadle, M B Davies and T F Leech

***DM&L 01 APOLOGIES FOR ABSENCE**
Apologies were received from Cllrs R E Baldwin, W G Cann OBE and Cllr D E Moyse.

***DM&L 02 DECLARATION OF INTEREST**
Members were invited to declare any interests in the items of business to be considered and the following were made:

Cllr T G Pearce declared a personal interest in all applications, by virtue of being a Member of the Devon Building Control Partnership. He remained in the meeting and took part in the debate and vote on each item.

***DM&L 03 CONFIRMATION OF MINUTES**
The Minutes of the Planning and Licensing Committee Meeting held on 24th April 2017 were confirmed and signed by the Chairman as a correct record.

***DM&L 04 PLANNING PERFORMANCE INDICATORS**
The COP Lead Development Management presented the latest set of Performance Indicators and outlined the key information for Members consideration. In response to comments regarding reduction in income, he asked Members to note that alongside this was an increase in the number of applications received. Members were updated with the latest information in respect of enforcement cases and confirmed that they wanted to continue to see a distinction between the ‘backlog’ cases and the cases registered since March 2016.

***DM&L 05 PLANNING, LISTED BUILDING, TREE PRESERVATION ORDER AND ENFORCEMENT REPORTS**

The Committee considered the applications prepared by the Development Management Specialists and considered also the comments of Town and Parish Councils together with other representations received, which were listed within the presented agenda reports and summarised below, and **RESOLVED**:

(a) Application No: 4005/16/FUL Ward: Buckland Monachorum

Site Address: Land adjacent to Yelverton Business Park, Crapstone

Three business units, 960sqm Use B1(c) light industrial/ Use B2 general industrial/ Use B8 Storage and Distribution, together with associated access, parking and landscaping

Speakers included: Objector - Mr Michael Wood: Supporter – Mr Phil Greeno: Ward Member – Cllr Cheadle

RECOMMENDATION: Conditional Approval

The Case Officer responded to a number of questions of clarity following his presentation. Members discussed the Joint Local Plan and the Neighbourhood Plan, and the weight that should be given to these emerging documents. During discussion, Members considered the balance between the provision of employment land and the landscape impact. The officer recommendation of Conditional Approval was **PROPOSED, SECONDED** and on being put to the vote, unanimously declared **LOST**. An alternative proposal of Refusal of the application was then **PROPOSED, SECONDED** and on being put to the vote, unanimously declared **CARRIED**.

COMMITTEE DECISION: Refusal

Reasons:
The proposal would result in the development of new buildings, associated parking and access on an unallocated greenfield site, outside the settlement boundary in a sensitive rural environment within the Tamar Valley AONB on the edge of Dartmoor National Park. The location and scale of the development would be detrimental to the natural beauty and quiet enjoyment of the AONB and the Dartmoor National Park contrary to Policies SP5 and SP17 of the adopted West Devon Core Strategy; Policy NE10 of the West Devon development Policies DPD; Policies DEV24 and DVE 27 of the emerging Joint Local Plan; the policies within the emerging Buckland Monachorum Neighbourhood Plan and paragraph 115 of the NPPF.

(b) Application No: 4006/16/FUL Ward: Buckland Monachorum

Site Address: Land adjacent to Yelverton Business Park, Crapstone

Meeting hall (for Plymouth Brethren Christian Church) and associated access parking and landscaping

Speakers included: Objector – Mr Michael Wood: Supporter – Mr John Shephard: Ward Member – Cllr Cheadle

RECOMMENDATION: Conditional Approval

In introducing the application, the case officer advised that following representations received, the wording of Condition 11 should be amended as follows:

The proposed building shall only be used as a place of worship and religious instruction (including limited equipment storage for the Rapid Relief Team and for no other purpose including any other purpose in Class D1 of the Schedule of the Town and Country Planning (Use Classes) Order 1987, or in any provision equivalent to that class in any statutory instrument revoking or re-enacting that Order with or without modification.

During discussion, Members raised similar concerns to those expressed during the discussion of the previous application, 4005/2016. Members queried whether the application should include a storage use classification. Members appreciated the work of the Rapid Relief Team but had to balance this against why the building had to be on a greenfield site within the AONB.

COMMITTEE DECISION: Refusal

Reasons:
The proposal represents unsustainable development by virtue of its location outside of the settlement boundary and scale which would be detrimental to the Natural Beauty and quiet enjoyment of the Tamar Valley AONB and Dartmoor National Park contrary to Policies SP5 and SP17 of the adopted West Devon Core Strategy; Policy NE10 of the West Devon development Policies DPD; Policies DEV24 and DVE 27 of the emerging Joint Local Plan; the policies within the emerging Buckland Monachorum Neighbourhood Plan and paragraph 115 of the NPPF.

(c) Application No: 4059/16/VAR Ward: Okehampton North

Site Address: Land North of Crediton Road, Okehampton

Variaion of conditions 3 (approved plans) and 21 (to allow phase 1 to start from joint school accesss and provision of roundabout as part of phase 2) following grant of planning consent 01089/2013

Speakers included: Supporter – Mr Robin Upton; Ward Member (on behalf of fellow Ward Members) – Cllr Leech

RECOMMENDATION: Delegate to COP Lead Development Management in consultation with the Chairman of Development Management and Licensing Committee to grant permission subject to completion of s106 agreement which ties this amended decision to the obligations of the original approval

COMMITTEE DECISION: Delegate to COP Lead Development Management in consultation with the Chairman of Development Management and Licensing Committee to grant permission subject to completion of s106 agreement which ties this amended decision to the obligations of the original approval

***DM&L 06 PLANNING APPEALS UPDATE**

The Committee received and noted the updated list of Planning Appeals including enforcement appeals.

(The Meeting terminated at 1.40 pm)

Dated this

Chairman

At a Meeting of the **DEVELOPMENT MANAGEMENT & LICENSING COMMITTEE** held at Meeting Room 3, Council Offices, Kilworthy Park, Drake Road, **TAVISTOCK** on **TUESDAY** the **27th** day of **JUNE 2017** at **11.00am**

Present: Cllr P R Sanders – Chairman

Cllrs R E Baldwin	Cllr W G Cann OBE
Cllr C Mott	Cllr D E Moyse
Cllr A Roberts	Cllr J Yelland

Substitutes: Cllr J Sheldon for Cllr G Parker

COP Lead Development Management (PW)
Solicitor (BF)
Specialist Democratic Services (KT)

In attendance: Cllrs B Lamb and T F Leech

***DM&L 07 APOLOGIES FOR ABSENCE**

Apologies were received from Cllr G Parker for whom Cllr J Sheldon acted as substitute, Cllrs L J G Hockridge and T G Pearce.

***DM&L 08 DECLARATION OF INTEREST**

Members were invited to declare any interests in the items of business to be considered but none were made.

***DM&L 09 CONFIRMATION OF MINUTES**

The Minutes of the Development Management and Licensing Committee Meeting held on 30th May 2017 were confirmed and signed by the Chairman as a correct record.

***DM&L 10 PLANNING PERFORMANCE INDICATORS**

The COP Lead Development Management presented the latest set of Performance Indicators and outlined the key information for Members consideration. A number of Members raised concerns over the recent increase in workload and sought assurance that sufficient resources were in place. Members also asked for an average number of cases per planning officer. The COP Lead explained that this query did not have a straightforward response as planning applications were of varying complexities.

***DM&L 11 PLANNING, LISTED BUILDING, TREE PRESERVATION ORDER AND ENFORCEMENT REPORTS**

The Committee considered the applications prepared by the Development Management Specialists and considered also the comments of Town and Parish Councils together with other representations received, which were listed within the presented agenda reports and summarised below, and **RESOLVED**:

(a) Application No: 0957/17/HHO Ward: Milton Ford

Site Address: Elderberry Cottage, The Parade, Milton Abbot

Householder application for an extension to side of dwelling

Speakers included: Ward Member – Cllr Baldwin

RECOMMENDATION: Conditional Approval

COMMITTEE DECISION: Conditional Approval

Conditions:
1. Time limit
2. Accordance with plans
3. Materials to match existing
4. Door and Window constructed of wood
5. Schedule of materials

***DM&L 12 PLANNING APPEALS UPDATE**

The Committee received and noted the updated list of Planning Appeals including enforcement appeals.

(The Meeting terminated at 11.50 am)

Dated this

Chairman

At a Meeting of the **OVERVIEW & SCRUTINY COMMITTEE** held at the Council Chamber, Council Offices, Kilworthy Park, Drake Road, **TAVISTOCK** on **TUESDAY** the **6th** day of **JUNE 2017** at **2.00 pm**.

Present:	Cllr J Yelland – Chairman	
	Cllr R Baldwin	Cllr J Evans
	Cllr P Kimber	Cllr A F Leech
	Cllr A Roberts	Cllr J Sheldon

Head of Paid Service
Group Manager Support Services and Customer First
Customer Contact Centre Manager
Specialist – Performance and Intelligence
Specialist – Democratic Services

Also in Attendance: Cllrs W G Cann OBE; C Edmonds; B Lamb; J Moody; C Mott; G Parker and P R Sanders

***O&S 01 APOLOGIES FOR ABSENCE**

Apologies for absence were received from Cllrs R Cheadle, D Cloke, J McInnes, D Moyse; R Musgrave, T G Pearce, P Ridgers and D K A Sellis

***O&S 02 CONFIRMATION OF MINUTES**

The minutes of the Meeting of the Overview and Scrutiny (External) Committee held on 21 March 2017 and the Overview and Scrutiny (Internal) Committee held on 18 April 2017 were confirmed and signed by the Chairman as a true and correct record.

***O&S 03 DECLARATIONS OF INTEREST**

Members and officers were invited to declare any interests in the items of business to be considered during the course of this meeting, but there were none made.

***O&S 04 ITEMS REQUIRING URGENT BUSINESS**

The Chairman reminded Members that, at the recent Hub Committee meeting held on 16 May 2017, the findings of the Transformation Programme Review Task and Finish Group had been presented (Minute *HC75 refers). One of the recommendations arising from the Hub Committee was that:

> "a Working Group of Members to comprise of the Task and Finish Review Group and Cllrs Edmonds and Moody from the Hub Committee consider the conclusions presented and report back in due course".

As such, a meeting of the new Working Group would be convened in due course.

***O&S 05 COMMITTEE TERMS OF REFERENCE AND PROCEDURE RULES**

At the Annual Council meeting held on 23 May 2017, Members were presented with a report on the Council Constitution (Minute CM 8 refers). As a result of the discussion at that meeting, the following recommendation was made:

> "the suggested amendments to the Overview and Scrutiny Terms of Reference and Procedure Rules (pages 9 to 20 of the published Summons refer) being referred to the Overview and Scrutiny and Hub Committees for further consideration."

The Chairman introduced this item and the Head of Paid Service made suggestions to Members on the role of the Overview and Scrutiny Committee within the organisation. The Chairman asked that if any Members had views on the Terms of Reference, then they should be forwarded to her as Chairman, or to either the Head of Paid Service or the Senior Specialist Democratic Services. A revised Terms of Reference document would then be produced for presentation to a later meeting of the Overview and Scrutiny Committee and then the Hub Committee.

***O&S 06 PUBLIC FORUM**

There were no issues raised during the Public Forum session at this meeting.

***O&S 07 HUB COMMITTEE FORWARD PLAN**

The most recent (published May 2017) Hub Committee Forward Plan was presented for consideration. Members were advised that this was a working document and the Overview and Scrutiny Committee work programme could be equally as flexible to ensure there was time to deal with specific issues. The contents of the Plan were then noted.

***O&S 08 QUARTER 4 PERFORMANCE INDICATORS**

The Lead Member for Performance and Resources presented a report that set out performance levels against targets as at 31 March 2017. He advised there were two areas that were below target during Quarter 4, being '% of calls answered within 20 seconds' and 'average end to end time for Benefits new claims'. 'Residual waste per household' was showing as red on the balanced scorecard but was above target.

The Lead Member went on to say that this was a good time for Members to consider what information should be provided in the scorecard and he suggested that a Task and Finish Group may be beneficial. Members further discussed the target for processing new benefit claims and noted that the target itself was unacceptable. The Group Manager Support Services and Customer First agreed and outlined to Members how the process worked.

However, he also stated that this was an example of how the information being measured in the scorecard was outdated and a Task and Finish Group to look at this would be of benefit, particularly if it were a joint Task and Finish Group with Members from the Overview and Scrutiny Panel at South Hams District Council, to enable reporting to be harmonised. Members of the Committee then agreed and it was **PROPOSED, SECONDED** and on being put to the vote declared **CARRIED** that a further recommendation be added convening a joint Task and Finish Group for the proposed performance measure review.

Members went on to discuss other information presented within the report and officers were congratulated on their performance in respect of Disabled Facilities Grants. Members again raised concerns about 'length of time taken to answer calls'. The Customer Contact Centre Manager responded by advising that call volumes had been particularly high during this Quarter, and accepted that some calls had taken longer than five minutes to answer.

It was then:

RESOLVED that:

1. The Performance levels against target communicated in the Balanced Scorecard and the performance figures supplied in the background and the exception report be noted; and
2. The online dashboards had been reviewed, including the ones for Overview and Scrutiny, Planning and Customer Services Team and feedback on any changes given; and
3. That officers be tasked with developing terms of reference for a Joint Task and Finish group to be convened for the proposed performance measure review.

O&S 09 OVERVIEW AND SCRUTINY: ANNUAL REPORT

Members were presented with a report that asked them to recommend to Council the publication of the Overview and Scrutiny Annual Report. The Chairman asked that thanks be recorded to Councillors Musgrave and Sellis for their hard work over the previous 12 months.

It was then:

RESOLVED that Council be **RECOMMENDED** that the Overview and Scrutiny Annual Report for 2016/17 be approved for publication.

*** O&S 10 JOINT LOCAL PLAN UPDATE: STANDING AGENDA ITEM**

The Lead Member for Strategic Planning and Housing gave a comprehensive update on progress with the Joint Local Plan. He concentrated on two specific aspects being, firstly, initial feedback on the consultation process and secondly, the weight that could be applied to the Plan.

In terms of the process, he reiterated the timetable and set out the number of responses received. He was able to advise Members of the broad subject of a number of the responses as follows:

1. Some concerns regarding a number of identified sites;
2. Highway Authority concerns regarding issues in Okehampton and Ivybridge;
3. Objections to development proposed in Woolwell;
4. Settlement boundaries; and
5. Challenge from Sutton Harbour Trust on the absence of airport allocation.

He outlined each matter in more detail and stated that the advice of a QC had been sought on these matters.

He then moved on to discuss the weight to be applied to the JLP at the various stages of the process, and consequently the weight to be applied to the existing policies within the Core Strategy and the Local Plan. This was a balance that planning officers undertook on every application. He concluded that West Devon Borough Council was not at much risk and the JLP was gathering weight as the consultation process progressed.

The Chairman thanked the Lead Member for his comprehensive update.

*** O&S 11 RURAL BROADBAND: VERBAL UPDATE**

Cllr Sheldon updated Members on the position in respect of the rollout of superfast Broadband and the work of Connecting Devon and Somerset (CDS). He made the following points:

- Phase 1 of the rollout had been completed by CDS in March 2017 at a cost of £94m;
- Phase 2 should cover the final 5% of the area, which was supposed to be carried out this year, as a cost of £39.5m;
- Phase 2 was split into 6 plots and for the areas including rural West Devon it was not yet decided who the supplier should be;
- Rural areas attracted lower wages. Costs were outlined and concern raised that residents in rural areas would not be able to afford the service;
- Devon County Council Overview and Scrutiny Committee Members were monitoring progress but WDBC Members were on the ground and needed to keep a watching brief on how the rollout was progressing.

Members commented that the fact that local businesses were closing because Broadband speeds were not good enough was a disgrace. In response to a Member asking how they could help, Cllr Sheldon asked that any issues discussed or raised at Parish Council meetings be forwarded to him to enable as full a picture of the Borough wide situation as possible.

The Chairman thanked Cllr Sheldon for his work on this matter.

***O&S 12 TASK AND FINISH GROUP UPDATE:**

a) FUTURE APPROACH TO ARTS

Cllr Roberts reminded Members that a Task and Finish Group had been convened to look at Future Approach to Arts following the decision by Council to cut funding to Villages in Action. The Task and Finish Group had met, supported by the Commissioning Manager, who was able to provide background information. The Group had concluded that the Communities Project Fund which was currently underspent, could have a revised Terms of Reference to allow for more Arts related projects to access that funding stream. A report would be presented to a future meeting.

In response to a Member's question, the Executive Director (Strategy & Commissioning) confirmed that discussions around budget setting for the next year would start in September.

***O&S 13 DRAFT ANNUAL WORK PROGRAMME 2017/18 – INITIAL THOUGHTS**

The Chairman introduced the Work Programme for the next 12 months and advised that as the Committee would be meeting more frequently, the JLP would no longer be a standing agenda item but would be presented to the meetings in July and November 2017 and February 2018. Members discussed forthcoming matters that would be presented and the Chairman asked that if any Members wished to add items to the Work Programme then their request should be evidence based. Finally it was confirmed that a report on Planning Enforcement Service Review would be presented to the meeting scheduled for 8 August 2017 and if Members had any specific questions to be addressed in that report to make the authors aware in advance.

(The meeting terminated at 3.55 pm)

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Chairman

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At a Meeting of the re-scheduled **AUDIT COMMITTEE** held in the Council Chamber, Council Offices, Kilworthy Park, Drake Road, **TAVISTOCK** on **TUESDAY** the **20th** day of **June 2017** at **10.00am**

Present: Cllr M Davies (Chairman)

Cllr K Ball Cllr W Cann OBE
Cllr B Lamb

Officers in attendance: Specialist Accountant Business Partner
Devon Internal Audit Partnership Manager
Brenda Davis, Devon Internal Audit Partnership
Dominic Measures, Devon Internal Audit
Darren Gilbert, KPMG
Case Manager, Strategy & Commissioning

Also in attendance: Cllr C Edmonds (lead Hub Committee Member)

*** AC 1 APOLOGIES FOR ABSENCE**

Apologies for absence were received from the Finance Community of Practice Lead.

*** AC 2 CONFIRMATION OF MINUTES**

The Minutes of the Meeting held on 21 March 2017 were confirmed and signed by the Chairman as a correct record.

*** AC 3 KPMG EXTERNAL AUDIT FEE LETTER**

Darren Gilbert, KPMG, took Members through the Annual Audit letter.

In answer to a Member question. It was confirmed that the procurement process that had been undertaken by Public Sector Audit Appointments (PSAA) had been completed and KPMG had not been shortlisted to be the Council's External Auditor from 2018-19 onwards.

It was then:

RESOLVED

That the letter be noted.

*** AC 4 KPMG INTERIM AUDIT LETTER 2016/17**

Mr Gilbert introduced the Interim Audit Letter and advised the Committee that it was a positive statement for the Council.

It was then:

RESOLVED

That the KPMG Interim Audit letter be noted**.**

*** AC 5 AUDIT COMMITTEE WORK PROGRAMME 2017/18**

The lead Hub Committee Member introduced the report. The Accountant Business Partner explained that there was nothing new scheduled apart from the cost methodology agenda item that would be presented to the next meeting on 18 July 2017.

Without further questions, it was then:

RESOLVED

That the Committee Work Programme for the Financial Year 2017/18 be approved.

*** AC 6 ANNUAL GOVERNANCE STATEMENT**

The Lead Hub Committee Member introduced the Annual Governance Statement. In so doing, he informed the Committee that Devon authorities were keen to be part of the Business Rate Pilot Scheme, which was an incentive for rural councils to attract businesses into the area.

It was then:

RESOLVED

1. That the processes adopted for the production of the 2016/17 Annual Governance Statement be noted.

2. That the adequacy and effectiveness of the system of internal audit be endorsed.

3. That the draft Annual Governance Statement for 2016/17 and the supporting evidence (as outlined in the presented agenda report) be approved and signed off by the Leader of Council and the Executive Director (Strategy and Commissioning).

*** AC 7 INTERNAL AUDIT ANNUAL REPORT 2016/17**

Dominic Measures, Internal Audit, was introduced to Committee Members, who noted that he was taking over the role from Brenda Davis.

A discussion took place around the collection of business rates and ways to improve current working methods. A Member voiced concerns to address this issue before it became a greater risk and felt it should therefore be included on the risk register.

Discussion also took place around Single Person occupancy and a possible review on updating data currently held by means of contacting those claiming to remind them to update their circumstances where necessary.

When questioned, Mr Measures also explained the terminology of 'Mission Statement' as being part of the culture and ethics of the authority and being of good practice.

It was then:

RESOLVED

1. That it be endorsed that overall and based upon work performed during 2016/17, and that of our experience from previous year's audits, the Head of Internal Audit's Opinion is of 'Significant Assurance' on the adequacy and effectiveness of the Authority's internal control framework; and

2. That the satisfactory performance and achievements of the Internal Audit Team during 2016/17 be noted.

(The Meeting terminated at 10.50am)

Dated this

Chairman

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At a Meeting of the **HUB COMMITTEE** held at the Council Chamber, Council Offices, Kilworthy Park, Drake Road, **TAVISTOCK** on **TUESDAY** the **20th** day of **JUNE, 2017** at **2.00pm**

Present: Cllr P R Sanders – Chairman
Cllr L Samuel – Vice-Chairman

Cllr C Edmonds	Cllr N Jory
Cllr J B Moody	Cllr C Mott
Cllr R J Oxborough	Cllr G Parker
Cllr R F D Sampson	

In attendance: Executive Director (Service Delivery and Commercial Development)
Executive Director (Strategy and Commissioning)
S151 Officer
Group Manager Business Development
Specialist Democratic Services

Other Members in attendance:

Cllrs Cloke, Lamb, Leech and Yelland

***HC 01 DECLARATIONS OF INTEREST**

Members were invited to declare any interests in the items of business to be discussed but none were made.

***HC 02 MINUTES**

The Minutes of the Hub Committee meeting held on 16th May 2017 were confirmed and signed by the Chairman as a correct record, subject to the following amendments:

- *HC 75 should be amended from "a Working Group of Members to comprise of the Task and Finish Review Group and Cllrs Edmonds and **Sampson** from the Hub Committee" to "a Working Group of Members to comprise of the Task and Finish Review Group and Cllrs Edmonds and **Moody** from the Hub Committee";
- *HC 76 title should be amended from "Future Garden Waste Design" to "Future Garden Waste Service Design"; and
- *HC 77 should be amended to read that the "Lead Member for Strategic Planning and Housing" (rather than "Lead Member for Strategic Housing").

***HC 03 LEAD MEMBER UPDATE – CLLR SANDERS – JSG UPDATE**

Cllr Sanders updated Members following the discussions held at the SH/WD JSG meeting that had taken place on the morning of 20 June 2017. His update included the following points:

Single Council Proposal

- A joint meeting had been scheduled for all Members of West Devon Borough Council and Members of South Hams District Council on 21st July. This would be a chance to meet with Department of Communities and Local Government and Local Government

Association representatives and ask any questions on the One Council proposal;
- A number of options were being considered to deal with council tax equalisation;
- A draft set of consultation questions had been prepared for Members to consider;
- Any consultation should run for at least 6 weeks over August and September 2017, as there would be events during August where there would be opportunity for face to face contact with residents;
- Currently there was a recommendation for an Executive Leader and Cabinet model for a single new Council. Further work would be undertaken to explore the role of the opposition in this model. He did acknowledge that there may be an issue at West Devon over the role of the Ceremonial Mayor;
- Financial modelling assumed that there would be no reduction in Members until 2023 – although this would be down for the Boundary Commission to decide and the Minister may put interim measures in place;
- The recommendation to Hub Committee would be along the lines of "That Council be recommended to agree in principle to proceed with a single council and commence public consultation which will then be considered by Members in October 2017."

Outsource or wholly owned company
- An outline report was being developed with a number of proposals to be considered further at the SH/WD JSG meeting in July and a final set of proposals on the way forward would be presented at the JSG August meeting.

HC 04 INVESTMENT IN COMMERCIAL PROPERTY

Members were presented with a report that set out the business case, based on advice received, for the Investment in Commercial Property Strategy. The objective of the proposed strategy was to generate revenue streams to contribute to the financial sustainability of the Council enabling it to deliver, and where possible improve, frontline services in line with the Council's adopted strategy and objectives.

The Leader introduced the report and invited questions. The s151 Officer and Group Manager Business Development responded to questions on risk mitigation and timing of key stages of the proposal. During discussion, Members expressed their support for the proposal. The future budget gap required innovative proposals to come forward and this was considered to be an example of a proposal that could help to close that gap. Members were mindful of the risks but accepted that the Strategy included methods to mitigate the majority of their concerns. Members also noted that a key issue would be to seek the appropriate specialist support.

It was then **RESOLVED** that Council be **RECOMMMENDED** to:

1. Approve and implement the proposed commercial property investment strategy as detailed in Appendix A;
2. Agree that officers conclude an appropriate procurement process to commission specialists to work on behalf of the Council in relation to the proposed commercial property investment strategy;
3. Delegate individual commercial property portfolio purchase and disposal decisions to the Head of Paid Service, in consultation with the s151

Officer, the Leader and the appointed Chair of the 'Invest to Earn' Group; and

4. Borrow funds on fixed rate terms from the appropriate source in order to pursue this strategy. To complete tranche 1 this would require borrowing of up to £26.75 million (£25 million plus acquisition costs of 7%).

***HC 05 WRITE OFF REPORT**

The Portfolio Holder for Resources and Performance introduced a report that informed Members of the debt written off for revenue streams within the Revenue and Benefits service. Debts up to the value of £5,000 were written off by the s151 Officer under delegated authority. Permission was sought to write off individual debts with a value of more than £5,000. In respect of the debts with a value of more than £5,000, Members were advised of how they had arisen.

It was then **RESOLVED**:

1. That, in accordance with Financial Regulations, that the s151 Officer had authorised the write-off of individual West Devon Borough Council debts totalling £96,248.56 as detailed in Tables 1 and 2 be noted; and

2. The write off of individual debts in excess of £5,000 totalling £5,898.04 as detailed in Table 3 be authorised.

(The meeting terminated at 3.30pm)

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Chairman

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At a Meeting of the **HUB COMMITTEE** held at the Council Chamber, Council Offices, Kilworthy Park**,** Drake Road, **TAVISTOCK** on **TUESDAY** the **18th** day of **JULY, 2017** at **2.00pm**

Present:	Cllr P R Sanders – Chairman Cllr L Samuel – Vice-Chairman	
	Cllr C Edmonds	Cllr N Jory
	Cllr J B Moody	Cllr C Mott
	Cllr R J Oxborough	Cllr G Parker
	Cllr R F D Sampson	

In attendance:

Executive Director (Strategy and Commissioning)
S151 Officer
Group Manager Commercial Services
Group Manager Customer First and Support Services
Group Manager Business Development
COP Lead Housing, Revenues and Benefits
Specialist Assets
Specialist Democratic Services

Other Members in attendance:

Cllrs Baldwin, Ball, Cann OBE, Cheadle, Cloke, Evans, Leech, Moyse, Musgrave, Pearce and Yelland

***HC 06 DECLARATIONS OF INTEREST**

Members were invited to declare any interests in the items of business to be discussed but none were made.

***HC 07 MINUTES**

The Minutes of the Hub Committee meeting held on 20th June 2017 were confirmed and signed by the Chairman as a correct record.

***HC 08 MEDIUM TERM FINANCIAL POSITION 2018/19 TO 2022/23**

Members were presented with a report that set out the Council's Medium Term Financial Position based on a financial forecast over a rolling five year time frame to 2022/23 which would help ensure resources were aligned to the outcomes in Our Plan. The forecast was intended to provide a framework within which decisions could be made regarding the future service provision and council tax levels whilst building an approach that guaranteed West Devon Borough Council's longer term viability.

The Leader and s151 Officer responded to a number of questions in detail.

In respect of recommendation v, some Members felt able at this stage to give a view whilst others preferred to wait until after the forthcoming Budget Workshop. It was agreed that an in principle recommendation would assist officers for working purposes in preparing the budget.

It was then **RESOLVED** that:

i. the forecast budget gap by 2020/21 of £1.1 million be noted;
ii. the financial strategy of the Joint Steering Group (JSG) set out in paras 1.7 to 1.13 of the presented report be agreed;
iii. the budget principles set out in para 1.14 be agreed
iv. the current Council policy on the minimum level of unearmarked reserves being £750,000 be agreed;
v. the five year Medium Term Financial Position (MTFP) be considered and the following be adopted in principle (for working purposes):
   a) The level of council tax for 2018/19 be modelled at a £5 increase
   b) That New Homes Bonus be used to support the revenue budget for 2018-19 onwards.

HC 09 PROPOSAL FOR A SINGLE COUNCIL FOR WEST DEVON AND SOUTH HAMS

Members were presented with a comprehensive report that set out recommendations from the SH/WD Joint Steering Group (JSG) to agree in principle to establish a single second tier Council for West Devon and South Hams from 1 April 2019.

The Leader introduced the report and invited questions. The Leader, s151 Officer and Head of Paid Service responded to a number of questions, and a full debate then followed. Members agreed that they were taking a difficult decision and some Members felt this process was being rushed. Non Hub Committee Members stated that they had little involvement so far in discussions and did not have enough information to make a final decision. In response to this point, it was agreed that, assuming that both councils took the decision to consult on the establishment of a single council, then Member Workshops would be arranged parallel to the public consultation to ensure that Members had sufficient information to make a decision at a later full Council meeting.

Members accepted the financial driver for the decision, but some felt that the Council had other options available and did not need to proceed with this proposal at this time. Other Members were certain that this proposal had to be progressed.

One Member stated that the decision had to be for the benefit of the residents being represented across both West Devon and South Hams, and taking measures to ensure that local representation continued would be in residents' best interests. Another Member supported the proposal with the caveats that residents would be able to access Council premises within a reasonable distance of where they lived and that there was strong West Devon representation in the new Council to drive forward the wishes of West Devon residents.

One Member stated that the proposal was the logical next step although there would be issues to address such as property and governance. Finally, another Member felt that West Devon Borough Council was too small to survive in the current climate and, in order to support residents, this proposal would be a first step.

It was then **RESOLVED** that Council be **RECOMMMENDED** to:

1. Agree in principle to establish a single second-tier Council for West Devon and South Hams from 1 April 2019;
2. Proceeds to consultation with the public and stakeholders from early August through to the end of September 2017;
3. Agree to bring to Council for approval, the outcome of the consultation together with the final proposal for submission to the Secretary of State.

HC 10 DELIVERY OF BEST VALUE FOR MONEY FRONT LINE SERVICES

(Paragraph 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information))

Members were presented with an exempt report that sought approval of recommendations to Council based on the advice of the SH/WD Joint Steering Group, in relation to the way in which front line services were provided and designed.

It was then **RESOLVED** that Council be **RECOMMENDED**, based upon the advice of the Joint Steering Group, to:

1. Test the front line services in scope through competitive dialogue processes with combined procurements where the services allow;
2. Prepare a bid by a wholly owned company if a competitive and sustainable price for service can be proved against benchmarked current costs with the external market place; and
3. Continue to test market costs and income opportunities during the summer period to further inform the market position.

HC 11 BUSINESS RATES – LOCALLY ADMINISTERED BUSINESS RATE RELIEF POLICY

The Lead Member for Economy presented a report that asked Members to consider and recommend the appended policy to administer the four year funding agreement, awarded by central Government, to support those who have seen an increase in their rates bill due to the 2017 revaluation exercise.

Members sought clarity on the specific wording of the Policy and it was agreed that it should relate to West Devon (not Devon) in paragraphs 2.2 and 3.2.

It was then **RESOLVED** that Council be **RECOMMMENDED** that following consultation with Devon County Council, Devon & Cornwall Police and Devon & Somerset Fire Rescue the Locally Administered Business Rate Relief Policy be adopted, subject to inclusion of the amendment as detailed in the minutes above.

HC 12 REVIEW OF WDBC COMMUNITY GRANT SCHEMES

Members were presented with a report that set out the results of a review of existing Council community grant schemes, including options for streamlining or improving the schemes. The review had been requested by Overview and Scrutiny Committee. The report made recommendations to streamline the schemes and to ensure an increased level of applications to the schemes, ultimately maximising the ability of these schemes to deliver beneficial projects to West Devon communities.

The Lead Member for Customer First introduced the report and advised Members that a similar report had recently been presented to the Overview and Scrutiny Committee. At that Committee, an additional recommendation was added as follows:

"*where there is a lack of consensus amongst local Ward Member(s) about whether to support an application, local Ward Members be in receipt of the final decision (and a brief statement outlining the rationale behind this decision) on whether or not an application to the 'Community Grant' scheme has been successful*."

The Hub Committee Members discussed the proposed additional recommendation but did not feel it was necessary and instead could be dealt with by officers communicating all grant decisions to Ward Members. In addition, there was a great deal of debate on presented Recommendation 5. In view of the differing views, it was agreed that this Recommendation should be deferred and the Arts Task and Finish Group would be asked to provide more information to support the recommendation, prior to Hub Committee coming to a view.

It was then **RESOLVED** that Council be **RECOMMENDED** to:

1. Incorporate the Sports Grant into a 'Community Grant' scheme, retaining £2,000 as a revenue line to cover 'training/coaching grants';
2. Exclude applications to the Community Grant from projects within Dartmoor National Park which have already received support from the DNPA Sustainable Communities Fund;
3. Support production of a one page summary of grant schemes which officers and Members can use to increase and sustain the level of promotion to local communities;
4. Support ongoing officer engagement with DCC to refocus the TAP scheme criteria on its original purpose, and reinstate the process that is outlined at paragraph 7.3 of the presented report.

***HC 13 TAMAR TRAILS OPTIONS APPRAISAL**

Members were presented with a report that set out an appraisal of options available to the Council to seek to close the annual deficit on the Tamar Trails.

The Lead Member for Customer First introduced the report. The Specialist (Assets) in responding to questions confirmed that he had looked at all possible options in drafting this report.

It was then **RESOLVED** that:

1. The increase of the Tamar Trails marketing budget line by £4,000 for two years be supported;
2. Further consideration by officers (with partners) of the feasibility of Options 4, 5, 6, 7, 8 and 12 as presented in Appendix A to the report through the Tamar Trails Partnership, with a view to informing an 'Active Tamar' bid, be supported;

3. The encouragement of races and events on the Trails with the establishment of a suitable charging mechanism (Option 13 of presented Appendix A) be supported; and
4. The annual reporting of income and expenditure and progress against the Options to Overview and Scrutiny Committee be supported.

HC 14 EVENTS POLICY ADOPTION

Members were presented with a report that made recommendations following a review regarding the running of events held on Council owned land within West Devon and South Hams.

The Lead Member introduced the report.

It was then **RESOLVED** that Council be **RECOMMMENDED**:

1. To approve the proposed policy as detailed in Appendix 1, subject to minor wording changes as delegated to the Group Manager Commercial Services in consultation with the Lead Hub Committee Member; and
2. That, once live, the policy be reviewed annually and the fees levied reviewed as part of the regular WDBC fee and charge setting process.

***HC 15 RECOMMENDATIONS TO HUB COMMITTEE FOLLOWING THE T18 REPORT**

Following presentation of the T18 Review report to the Hub Committee on 16 May 2017, Members had asked that the conclusions be considered by a Working Group and presented back to the Hub Committee. Those conclusions were set out within the presented report.

The Lead Member, who was also the Chair of the Task and Finish Group, introduced the report. A minor amendment to the presented recommendation was made.

It was then **RESOLVED** that for any significant project including any for which a Joint Steering Group is required, a written management plan (including timescales, finances, objectives and outcomes) is required. This would be accompanied with:

- Supporting policies in place
- Regular member reporting via briefing papers and workshops
- Defined contracts with outside bodies
- An analysis of the timing of program against risk factors

(The meeting terminated at 6.35pm)

Chairman

Report to:	**Council**
Date:	**25 July 2017**
Title:	**Proposal for a single Council for West Devon and South Hams**
Portfolio Area:	**Leader of the Council**
Wards Affected:	**All**

Relevant Scrutiny Committee: Overview & Scrutiny Committee

Urgent Decision:	**N**	Approval and clearance obtained:	**N/A**

Date next steps can be taken:

Author:	**Catherine Bowen**	Role:	**Monitoring Officer**
Contact:	Catherine.Bowen@swdevon.gov.uk		

Recommendations:

That Council be RECOMMENDED to:

1. **agree in principle to the establishment of a single second-tier Council for West Devon and South Hams from 1 April 2019**
2. **proceed to consultation with the public and stakeholders from early August through to the end of September 2017, with delegated authority being given to the Head of Paid Service, in consultation with the Leader of the Council to agree the final contents of the consultation document (Appendix B refers) prior to its publication;**
3. **agree to bring back to Council (as soon after the expiry of the consultation period as is practically possible) the outcome of the consultation together with the final Proposal for submission to the Secretary of State for approval.**

1. Executive summary

1.1 The Joint Steering Group (JSG) was tasked by West Devon Borough Council and South Hams District Council to consider options to achieve financial sustainability and address the forecast budget deficit for both Councils; one of those options is the formation of a single Council, and the intention of the Proposal is to respond to severe financial public sector constraints, maximise efficiencies and simplify the way that the Councils work, whilst protecting and investing in the services that the Councils provide.

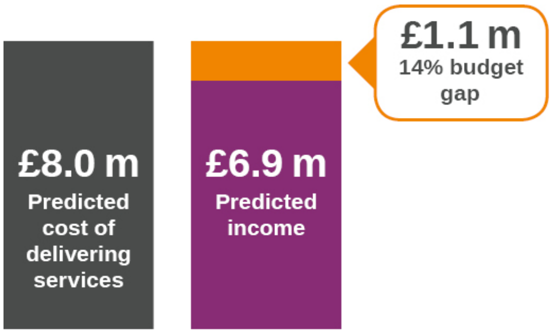
1.2 This report sets out the recommendations of the JSG to:

- proceed in principle with the formation of a single, second tier Council for West Devon and South Hams from 1 April 2019;
- consult with the public and stakeholders for a period from early August through to the end of September 2017; and
- bring a report to the Council in October 2017 with a final proposal for submission to the Secretary of State, having considered the outcomes from the consultation.

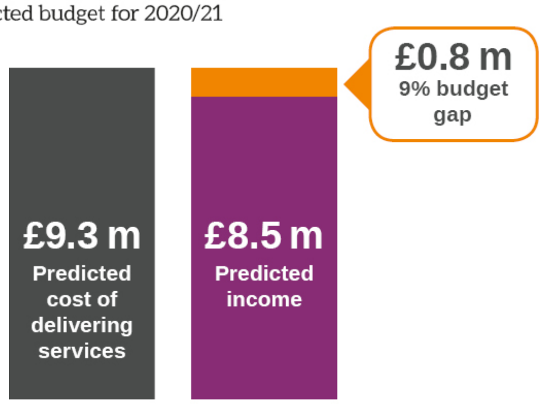
The Proposal for the creation of a Single Council is attached at Appendix A and the Consultation document is attached at Appendix B.

1.3 A new Single Council will inevitably be different from the two existing Councils and will build its own vision through engagement with its Councillors, and through them, its communities and local businesses. Central to the proposal to create a Single Council is the need to ensure that we can continue to meet the challenges that we are facing and to take full advantage of opportunities. During 2015/16 the Council reviewed its priorities and Members agreed that their top priority was to achieve financial sustainability. Members also stated that they did not want to see a reduction in the level and quality of the services delivered to their communities.

1.4 The predicted budget gaps for the Councils by 2020/21 are £0.8m for South Hams District Council and £1.1m for West Devon Borough Council. Therefore the scale of the financial challenge is £1.9 million by 2020/21 as shown below.



West Devon Borough Council
Predicted budget for 2020/21



South Hams District Council
Predicted budget for 2020/21

1.5 It is important that Members note that other options are also currently being considered as part of a package of measures, (such as outsourcing of some services and the commercial property acquisition proposals) and are the subject of separate reports presented to this Council. The strategy being advocated by the JSG is to implement a number of different schemes, not only to meet the immediate funding gap but to ensure financial sustainability for the medium to long term. If the option to create a single Council is progressed, it will not be progressed at the expense of the other options. However no single option is guaranteed to meet the financial challenge on its own. Each option will derive benefits on differing timescales, some have the ability to deliver benefits straightaway, others will realise benefits over a longer term. These (together with the risk of 'doing nothing') are discussed in section 4 below.

1.6 The Proposal does not impact adversely on service delivery as the Councils already have a shared workforce and customers are unlikely to notice an immediate difference in services. On day one of a new Single Council, there will still be a physical Council presence across both West Devon and South Hams with places for communities and businesses to access our services in different areas. It is only the governance arrangements that would be affected. In time, the new Council may alter its property strategy.

1.7 Residents and businesses would benefit from simplified arrangements to access a Single Council. It is envisaged there would be no change to locally delivered services, good customer access and strong connections between local councillors and their communities.

1.8 Due to the fact that both Councils have worked together in a shared services partnership since 2007 and have shared a non-manual workforce since 2015, West Devon annually saves £2.2 million whilst South Hams annually saves £3.9 million. As the financial section of the business case makes clear, the main financial driver of the proposal to become a Single Council is to protect this £6.1 million per year savings achieved through the T18 programme and to maximise each organisation's efficiency to address future financial challenges. The Proposal would also aid financial sustainability, ensuring resilience of much-valued local Council services enabling us to best support businesses and residents.

1.9 There would be significant financial advantage arising from the proposal in relation to additional efficiencies of (approximately) up to £0.5 million per year from staff efficiency reductions, plus increased council tax income (which varies depending on the option for equalisation) which could achieve a sustainable financial future for both Councils.

1.10 A new Single Council would have a single level of council tax after a period of harmonisation. The financial section of this report sets out the JSG's recommendation on how this might be achieved and the positive impact this would have on the financial sustainability of the Councils and the continued delivery of services.

1.11 The Proposal shows that if the Council adheres to the proposed timetable attached at Appendix C, the creation of a Single Council from April 2019 is achievable, particularly given that the majority of the Councils' services are already shared. This demonstrates that there is a low risk to the Council service delivery by pursuing this option.

1.12 If a decision on proceeding with this Proposal is not made at this meeting then the opportunity to submit the Proposal to the Secretary of State in time for a decision to implement for April 2019 is lost, the financial benefits as detailed would not be achieved and there is a significant risk that both Councils would not be able to meet their legal requirement to achieve balanced budgets in the medium to long term.

1.13 Adherence to the timetable is important and requires that a decision to proceed in principle (together with agreement to engage in consultation from early August 2017) needs to be made in July 2017 and a decision to submit the Proposal to the Secretary of State needs to be made in October 2017. The earliest date for implementation of the proposal is April 2019 which will enable the required parliamentary stages of the process to be completed, and this would tie in with the next Borough and District Council elections in May 2019. However, the Department of Communities and Local Government (DCLG) has advised that any delay in the submission of the Proposal to the Secretary of State will mean that it is very unlikely that the creation of a Single Council could be achieved before April 2023.

1.14 If both Councils agree to the principle of a Single Council, there will be a period of public engagement from early August until the end of September 2017, and a final Proposal will be brought to the Councils in October for approval and submission to the Secretary of State.

2. Background

2.1 The scale of the financial challenge is £1.9 million and is shown in 1.4 above. The predicted budget gaps for the Councils by 2020/21 are £0.8m for South Hams District Council and £1.1m for West Devon Borough Council. During 2016/17 the Government offered Local Authorities the opportunity to apply for a four year agreed funding settlement, subject to the production of an efficiency plan. Both Councils applied and were accepted for the four year agreement. By 2018/19 both Councils will receive no Government funding (Revenue Support Grant) and the Councils will need to be financially self-sufficient. Both Councils' Settlement Funding Assessment (Revenue Support Grant and funding from Business Rates) is reducing by over 37% between now and 2019/20.

2.2 **Why form a Single Council?**
The shared services efficiency savings that have been made in the past mean that the finances of the Councils are inextricably linked and operationally the two Councils are interdependent. This is due to the degree that services and staff have been shared since 2007 with over £6 million shared services savings being achieved annually. Therefore the financial challenges that the Councils face are a shared challenge.

2.3 West Devon Borough Council currently has a Partnership Agreement with South Hams District Council and a completely shared workforce for all West Devon in-house services. There is a strong history of the Councils working together to achieve savings and efficiencies since 2007 to mutual advantage. In 2013 the Councils took the sharing of services a stage further with the T18 Transformation Programme which has resulted in a shared workforce and has successfully delivered efficiencies in monetary terms (joint savings of £6 million) together with efficiencies in the delivery of its services. The clear priority of both Councils is to achieve financial sustainability in order to continue providing services to their local communities, and the creation of a single Council is the next logical step.

2.4 **Timing Imperative**
It is important that the Councils take steps now to ensure that their financial challenges are met and the delivery of their current services are maintained. Discussions with DCLG have made clear that there is a short window of opportunity to submit a Single Council Proposal. There are specific legislative steps that need to be undertaken in order to create a single Council (which are set out in the governance implications in section 6 and Appendix C of this report). The earliest date for the start of a Single Council (allowing for ministerial timetables and an implementation phase for the Council) is April 2019.

2.5 If the Councils do not submit their Proposal to the Secretary of State in October 2017 (to allow time for ministerial consideration and for making the relevant regulations by July 2018), then the DCLG has advised it is very unlikely that there will be sufficient parliamentary time for consideration of any single-council proposals during this parliament because of the Government's Brexit commitments.

2.6 **National Picture**
Nationally, since 2010 Local Authorities have been subject to increasing budgetary pressures, decreasing grant income from Central Government and the complete withdrawal of the Revenue Support Grant by 2018-19, in addition to uncertainty around the future of the business rate retention (which was omitted from the 2017 Queen's speech) means Councils need to alter the way in which they operate. Current Government policy is to encourage increased partnership-working, and to support Councils who wish to create combined authorities, and other local solutions. Other second tier councils are also pursuing the single/combined authority option including Suffolk Coastal, West Suffolk, East Kent, Dorset and Taunton Deane and West Somerset Councils. In June this year, Forest Heath District Council and St Edmundsbury Borough Council agreed in principle to the proposal for a single West Suffolk Council and are currently consulting on their proposals.

2.7 **Why not unitary or wider shared service?**
There is no current interest from other Devon authorities in terms of further sharing or provision of services, or for creating a larger single Council. Officers will continue to explore any possibilities that arise, but pursuing the creation of a Single Council between South Hams and West Devon would not preclude these dialogues. It is clear that there is no current appetite locally for a Unitary Council in Devon (and the unitary agenda is not currently being pushed by Central Government). The Proposal therefore concentrates on a solution that is within the gift of our two Councils to achieve.

2.8 The Single Council proposal will affect the following:
Residents: local people will benefit from the simplification of dealing with one organisation which has one contact point and one website. There will be no detriment to the delivery of services during the implementation period as the Councils already operate a customer focussed, shared workforce. Potentially, a larger single Council will have the capacity to take on and

deliver more services for residents, if this proposal is pursued in conjunction with other income generation or cost saving initiatives, as a financially sustainable Council will be created.

Council Tax: The Council Tax policy for West Devon residents will be dependent on the option taken forward for the harmonisation of council tax. There is currently a £63 difference in Council Tax between the Councils and council tax equalisation options are set out in Appendix E. The preferred options of the Joint Steering Group for equalisation of council tax are Options 5 and 5a. These are set out in further detail in Appendix F.

Under Option 5, West Devon residents would see an increase in their Band D Council Tax of £5 per year for 3 years and then a council tax freeze for 2 years. The current West Devon Band D is £218.39 for 2017/18. Under Option 5a, West Devon residents would see an increase in their Band D of £5 per year for five years from 2019-20 to 2023-24. Please refer to the table in 3.10 as to how this will affect other bands.

Businesses: as with residents, business will benefit from simplification of dealing with one Council, particularly any businesses that operate across the whole area, and there will be no impact on business rates.

Public Sector partners: Devon County Council, Plymouth City Council, Torbay, other District Councils, the National Park, Police, and Health Trusts will benefit from dealing with only one Council rather than two and a simplification of decision-making. There are opportunities for Parish and Town Councils to increase the services that they deliver locally and for closer working with both councillors and the community.

Staff: All staff employed by West Devon and South Hams would transfer to the new Council from day one. There will be a reduction of less than 10 posts across the whole organisation (out of current establishment of 430.5 fte) and these few posts are likely to be lost through natural turnover rather than redundancy. Additionally, there is a positive impact on work-loads as a result of dealing with one set of policies, ledgers, committees and working groups, and this capacity will enable a greater focus on the delivery of key projects and strategic priorities.

Councillors: a change of governance from two Councils to one is likely to see a reduction in Councillors by 2023. Initially, the proposal is for no change to the number of Members (62) in 2019, but to request a Boundary Commission review during the next administration for implementation in 2023. A single Council will also be an opportunity for Members to build on their current joint meetings and collaboration, and critical to the success of the new Council would be the local leadership role of ward members. A single Council will have a stronger voice as the largest district in Devon, and the single Council would also benefit from the support of the 11 County Councillors.

3. Outcomes/outputs

3.1 The objective is to achieve a single second tier Council for West Devon and South Hams in order to protect services and achieve a sustainable financial future.

3.2 **Timetable and legislative requirements:** the powers that enable the creation of a new Council are set out in the governance implications in section 6 below and this approach has been agreed with the DCLG. The timetable for the Proposal is attached at Appendix C and includes the formal statutory process for creating a single Council. The earliest date to enable implementation of a new Council is 1 April 2019. Conversations with DCLG to date have made it clear that in order to achieve this, the Councils will need to submit the Proposal to the Secretary of state in Autumn 2017. This is because the Secretary of State needs to consider the proposal before making his recommendations in the Spring of 2018, with a view to making regulations for parliamentary debate and approval by July 2018. This will enable a period of approximately 8 months within which to implement the necessary changes. Based on discussion with the DCLG, Officers are confident that implementation can be achieved within that timescale. A public referendum is not required to form a new Council or to increase Council Tax by more than the current £5 / 1.99% limit per annum, to achieve council tax equalisation.

3.3 **DCLG principles**: the Proposal covers the five key principles adopted by DCLG for considering proposals for combining authorities. Namely:

- Improved local public services
- Greater value for money
- Stronger local leadership at a strategic and local level
- Significant cost savings
- A sustainable future in the medium to longer term

These are not statutory nor more widely defined, and no weightings are given to the five principles. The Proposal in Appendix A addresses these issues under several headings:

- The rationale for the new Council
- Governance and members
- Our workforce
- Accommodation and assets
- Timing and process
- Consultation
- Financial justification
- Risk and opportunities

3.4 **Consultation:** The Proposal must also demonstrate that the Councils have consulted on the Proposal; it is a matter for individual councils to decide how to engage with local people, businesses and organisations. There is no statutory requirement for a referendum or to consult in a particular way for a particular period, however, the Proposal must include evidence of support for a new Council from the County Council and local Members of Parliament. If approved, a consultation will take place from early August to the end of September 2017, during which period the Council will:

- Publish a summary of the Proposal which will also include specific questions which our residents, local businesses, public sector partners and other partner organisations can answer. Please see Appendix B
- Set up a dedicated website called 'One Council' featuring the proposal documents, frequently asked questions, and on-line survey
- Commission a statistically sound telephone survey of residents across West Devon and South Hams

- Engage with the public through attending a number of events and briefing sessions throughout both Council areas over the summer to capture additional responses to the public consultation
- Issue 'One Council' newsletters to residents, local businesses and public sector partners & other partner organisations
- Issue press releases and engage the public through social media
- Engage with neighbouring councils and other key stakeholders, public sector partners and other partner organisations (such as Dartmoor National Park, Devon and Cornwall Police etc.) on the proposal.

3.5 **Summary of details in the Proposals:**

3.5.1 **Governance**:

There is no proposal to reduce the number of members from the current 62 for the implementation date of 1 April 2019. The current number of elected Members can embed the strengthened local leadership role. The Secretary of State does have the power to amend the number of members on the Council when he considers and decides on the Proposal, but otherwise the new Council will request the Boundary Commission to undertake a review in order that revised arrangements are in place for the 2023 elections. The Boundary Commission review will also present the opportunity to consider 'single member' wards and the effective number of members for the urban centres. It is likely the number of elected members representing the new Council will be reduced by 2023.

3.5.2 Governance arrangements are prescribed by law, and the new Council will have the option of operating executive arrangements either through an elected mayor with a cabinet executive, or a leader and a cabinet executive. The proposal is that the new Council operates a Leader with a 'Cabinet' and the change in terminology from Committee and Executive system, will signify a positive change from both current structures. A Cabinet can comprise up to 10 members, and whilst this is a matter for the new Council, the JSG has recommended that the Cabinet comprises between 6 and 8 members in accordance with best practice in order to operate with maximum effectiveness. Individual portfolio holders will have defined decision-making powers (which will be decided by the new Council) such as debt write-off and award of community grants.

3.5.3 The new Council will retain a democratically sound model, but with an end to duplicated and separate decisions by the existing Councils on shared issues. There will be a reduction in the overall number of council bodies for a single organisation (Council, Cabinet, Audit Committee) but the Proposal sets out that there will be at least two Development Management Area Committees, and two or three Overview & Scrutiny Committees comprising of Members not on the Cabinet, with the opportunity of the O&S Committees being chaired by a member of the minority parties.

3.5.4 The new Council with a combined population of 138,500 would be the largest district in Devon (54,000 for West Devon and 84,500 for South Hams) and allow the larger organisation to have more influence regionally and nationally. A new Single Council will be better able to play its part in delivering its strategic goals shared by all of the public services in Devon. A larger, Single Council will have more resilience than two smaller organisations and therefore better able to face the significant changes and challenges that local government will experience in the future, for example, the changes relating to local government funding, changes to New Homes Bonus and 100% business rate retention.

3.6. **Statutory frontline services and benefits to our communities:** the efficiencies that can be delivered through staff capacity, by supporting one rather than two Councils, will protect our statutory frontline services, as this capacity can be dedicated to provide further support to these services. This will ensure the Council can continue to meet its statutory obligations. There may also be some options to improve services as a larger Council would have the scale to take on and deliver more services, and as a larger Council, with a stronger negotiating position, the new Council will have a stronger voice both nationally and locally.

3.7 **Efficiencies in back office services**: this will be particularly relevant to accounting as we would move to one ledger removing the necessity for apportionment and recharging. We will be able to have a single set of the Council's policy framework documents (budget, Constitution) and other policy documents. A Single Council would enable further efficiencies such as a single membership fee or licence where this is currently payable by both Councils (such as ICT licensing fees). Further efficiencies can be achieved through the reduction in member support for those member meetings currently duplicated. Efficiency savings across both Councils are predicted to be up to £0.5 million per annum in total.

3.8 **Accommodation and Assets:** the Councils already have a flexible workforce who can work from any location. In the longer term, the new Council would need to consider whether there is a continued need for two large head offices and how best to support customers across both areas who need access to Council staff. A single Council would enable:

- The assets of both Councils to be combined (£20 million West Devon and £75 million South Hams)
- A comprehensive review of the Councils' operational locations
- Increased partnership working closer to communities, with officers or committees co-locating with other public bodies or in community buildings to reduce or avoid the need for customers / staff / Members to travel large distances
- The potential disposal and/or redevelopment of the two head office locations

Further details of the JSG Asset Strategy can be found at Appendix D. No figures for savings have yet been modelled into the proposal.

3.9 **Financial section**

3.9.1 <u>Cost of Implementation and Efficiencies and Savings</u>

Modelling of one-off costs of planning and implementation are predicted to be £325,000 as shown below. This is for costs such as IT costs, public consultation, remodelling of Council finances, legal costs and a prudent estimate for any redundancy and pension strain costs.

3.9.2 Savings of up to £0.5 million a year are predicted. These savings are not frontline service cuts and would be from efficiencies from back-office activities. The number of staff posts affected would be in the single figures (i.e. less than 10) and it is hoped that this could be largely addressed through natural turnover. However, redundancy and pension-strain costs have been included within the financial modelling as a worst-case scenario.

3.9.3 Becoming a Single Council would mean releasing some capacity absorbed by serving two bodies. This would reduce the amount of time spent on complex or duplicated processes. Financial systems would be simpler, with single reporting requirements, with a removal of the complexities of recharging money between both Councils and the need for two sets of reconciliations (such as bank reconciliation, control account reconciliations, shared services reconciliations etc.). This would release some staff capacity as a result of more simple and effective ways of working, allowing staff to focus on the delivery of key projects and strategic priorities.

3.9.4 The table below shows the one-off implementation costs of £325,000 and the annual savings predicted of up to £0.5 million per annum. The one-off investment costs of £325,000 are paid back within the first year (2019/2020).
The table also shows the additional income generated from council tax under equalisation of council tax (Option 5), which is shown for illustration purposes only.

	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024
Planning and Implementation costs							
Advice and modelling for Council Tax	3,000	3,000	4,000				
Project Management and Support	15,000	15,000	15,000				
Public Consultation	12,500	2,500					
IT costs		25,000	25,000				
Comms Support / Branding/ website etc		5,000	10,000				
Remodelling council finances etc		25,000	10,000				
Legal, including novation of contracts		10,000	5,000				
Redundancy and pension strain costs			85,000	20,000	20,000	15,000	
Implementation Costs per annum	30,500	85,500	154,000	20,000	20,000	15,000	0
						Total Implementation costs	**325,000**
Savings			**2019/2020**	**2020/2021**	**2021/2022**	**2022/2023**	**2023/2024**
Staff efficiency reductions				-370,000	-370,000	-370,000	-370,000
One Financial Ledger (50% reduction) including reductions in processing recharges between councils etc				-25,000	-25,000	-25,000	-25,000
Accommodation rationalisation (TBA)							
Member reductions (20% of £425,000)							-85,000
Reduction in subscriptions and memberships			-20,000	-20,000	-20,000	-20,000	-20,000
Reduction in Audit Fees			-40,000	-40,000	-40,000	-40,000	-40,000
Annual Savings			-60,000	-455,000	-455,000	-455,000	-540,000
						Total Savings	**-1,965,000**
Increased Income			**2019/2020**	**2020/2021**	**2021/2022**	**2022/2023**	**2023/2024**
Council Tax equalisation (option 5 is shown for illustration purposes only)			-800,000	-1,600,000	-2,500,000	-2,200,000	-1,900,000
Net cost/(additional income)	**30,500**	**85,500**	**-706,000**	**-2,035,000**	**-2,935,000**	**-2,640,000**	**-2,440,000**

If the proposal is approved, the costs of £30,500 in 2017/18 and £85,500 in 2018/19 would need to be paid for from each Councils' Unearmarked Reserves. These costs would be split 50%/50%. From 2019/20 onwards, the implementation costs could be paid for from the savings generated.

The table above shows that by 2019/2020, the net income position is £706,000 for the Single Council and this rises to £2.035 million by 2020/2021 (using Option 5 for equalisation of council tax for illustrative purposes). By Year three (2021/22) the net income raised is £2.935 million and then this would fall to £2.44 million by Year 5 if council tax was frozen by the Single Council in Years 4 and 5. The Single Council Proposal being considered by the Joint Steering Group is one of two options which are the most likely to achieve financial stability for both Councils. The other option is the commercial property acquisition strategy which is mentioned in section 4.5 below. Neither of these two options will meet the immediate budget deficit for 2018/19 so in any case the Council will also need to consider some other short term solutions through the budget setting process this year for 2018/19.

3.10 Council Tax Equalisation

Appendix E sets out possible options for the equalisation of Council Tax. There are many different ways in which this could be achieved. There is currently a £62.97 difference in Band Council D Tax levels between West Devon (£218.39) and South Hams (£155.42) for 2017/18. The number of years over which Council Tax can be equalised can be anywhere from 1 to 5 years.

The options in Appendix E have been considered by the Joint Steering Group and their preferred Options are Options 5 and Options 5a. Appendix F evaluates these two options in more detail and shows in a graphical format the council tax income yield from each of these options, in comparison to the council tax income yield already modelled into each Councils' Medium Term Financial Strategy (MTFS).

The maximum increase allowed whilst remaining within the council tax threshold would be a £5 increase in the combined Band D and combined Taxbase (which is Option 3 in Appendix E). DCLG have confirmed that the Council can submit options that also include those that exceed the council tax threshold and this will be considered by Ministers.

Options 5 and 5a are summarised below:

	Option 5	**Option 5a**
WDBC Annual increase in Band D - This sets out the impact on West Devon residents	£5 increase in West Devon Band D each year for first three years; then frozen for Year 4 and Year 5	£5 increase in West Devon per year for each of the 5 years
SHDC Annual increase in Band D – This sets out the impact on South Hams residents	£25.99 increase in South Hams Band D each year for first three years (16.2% increase), then frozen for Year 4 and Year 5	£17.59 increase in South Hams per year for each of the 5 years
Value of Band D that is equalised to by Year 5 (2023-24)	£238.39 by 2021-22	£248.39 by 2023-24
Equalisation period	3 years	5 years
Council tax threshold	Exceeds council tax threshold	Exceeds council tax threshold

The table below further shows the impact on South Hams residents of the council tax equalisation by bands.

Effect of South Hams Council Tax Increase	**Band A**	**Band B**	**Band C**	**Band D**	**Band E**	**Band F**	**Band G**	**Band H**
Ratio to Band D (9ths)	6/9	7/9	8/9	**9/9**	11/9	13/9	15/9	18/9

Option 5 - Council Tax Increase £25.99 (Band D) per annum for 3 years and then a council tax freeze for 2 years	£ 17.33	£ 20.21	£ 23.10	**£ 25.99**	£ 31.77	£ 37.54	£ 43.32	£ 51.98
Option 5a - Council Tax Increase £17.59 per annum for 5 years	£ 11.73	£ 13.68	£ 15.64	**£ 17.59**	£ 21.50	£ 25.41	£ 29.32	£ 35.18

3.11 **Financial Strategy of the Joint Steering Group**

The strategy being advocated by the Joint Steering Group is to implement a number of different schemes, not only to meet the immediate funding gap but to ensure financial sustainability for the medium to long term.

Each scheme will vary in risk profile, achievability and the impact on our finances. By implementing a number of solutions rather than over-reliance on one option, the Councils will spread the risk and maximise the benefits.

3.12 The successful outcome of the proposal will be the establishment of the single Council in April 2019, once the regulations have been approved by the Minister, and the implementation changes have been completed. Following this point, efficiencies and improvements in service delivery can be achieved.

3.13 The success of the proposal will be initially demonstrated by endorsement from the MPs and Devon County and through the support of our communities and stakeholders and the subsequent approval of the Proposal by the Secretary of State. If the Proposal is approved, a legislative Order will be made, and a single Council created on1 April 2019. Success can be measured with balanced budgets and a sustainable medium to long term financial plan with no detriment to services and a stronger local voice.

4. Options available and consideration of risk

4.1 **Option 1: Do nothing:** This is not a viable option as we have a statutory duty to balance our budgets, and the other options that the Councils are exploring alongside this Single Council Proposal do not provide one single solution to the budget deficit on their own. The budget would need to be balanced in a different way (such as service cuts) but ultimately if the Council fails to set a balanced budget the Government would intervene, with the likely option of a forced merger with another authority. Considering this proposal now before the Council reaches that position, in a planned way, will cost less and enable the Council to retain control over its future.

4.2 **Option 2: Extend shared services to other Councils.** This is not solely in the gift of the two Councils and relies on participation from other organisations; there is limited appetite from other Councils to extend our model of shared services, though there may be opportunities to work with Torbay in future. The financial benefits for West Devon and South Hams of extending shared services are extremely limited and would not help meet our forecast deficit as these savings have already been taken from moving to the current model; however there should be benefits in terms of resilience from extending the workforce. Extending our model to other Councils would create disruption to service delivery and the workforce, and require significant management capacity. However, the proposal to form a single Council does not preclude the extension of shared services in the future or other restructures (e.g. Unitary) if the Council is so minded; in fact having a single Council would make any such proposals less complicated to achieve in future.

4.3 **Option 3: Cut/reduce services**. One of the Council's key objectives is to protect services, not cut them. The JSG did consider this option early on and agreed that the appropriate mechanism for changes to services is through the budget setting process. Officers will bring proposals forward during the autumn for consideration by Council during the budget process, however the intention is not to cut services if at all possible. Members should note that, without other measures, cutting services in West Devon is unlikely to close the entire budget gap.

4.4 **Option 4**: **Out-sourcing / Wholly owned company**. In February/ March 2017 the Councils decided not to set up a Local Authority Controlled Company for all services. However this is still an option for some services, as is continued or further outsourcing of some services where there is a clearly defined market or efficiency opportunity. It is possible to pursue this option alongside the Proposal for a Single Council, and the JSG supports a dual strand approach to achieving the objectives of financial sustainability and protecting services. This is therefore the subject of another report from the JSG to Council on today's agenda.

4.5 **Option 5: Property Acquisition strategy**. This involves borrowing to acquire commercial property with the aim of achieving significant revenue to help meet the budget deficit. A proposal has been worked up by the Invest to Earn Working Group. There is no guarantee that the Property Acquisition strategy alone would meet the financial challenge we face, but it is recommended that it is pursued as part of a multi-strand approach to achieve our financial sustainability objectives. The recommendation from the Hub Committee is for a £25 million initial property portfolio. The net income that could be achieved from the commercial property investment strategy on a £25 million property portfolio is between £190,000 and £450,000. Therefore this option on its own does not meet the known budget deficit. It also does not address future cost pressures such as public sector pay increases, further reductions in New Homes Bonus etc. Again, this option can be pursued alongside the proposal for a Single Council.

The two schemes most likely to achieve financial sustainability are the property acquisition strategy and the single Council proposal - neither of which will meet the immediate budget deficit for 2018/19 so the Councils will also need to consider some other short term solutions through the budget setting process this year.

4.6 **Option 6**: **Proposal for a Single Council**. This proposal has the ability to meet the financial challenge and protect services in the long term. All elements within the control of the Councils are easily achievable and relatively low cost to implement. There is a dependency on DCLG to approve the Proposal and adhere to the timetable set out in order to achieve implementation for April 2019.

4.7 The options have been evaluated by the JSG, which has met 4 times since the Council tasked it with considering a range of options to achieve financial sustainability to address the forecast budget deficit. The options it considered at its first meeting were:

Single Council
Service reductions
Asset growth and income
Merger with Plymouth or other Councils
More shared services with other Councils
Outsource services
Full SHWD Combined Council
Wholly owned council company for specific services
Unitary proposal
Further channel shift
Increase Fees and Charges
Structural review
Council tax increase

4.8 Those highlighted in bold were considered viable options for the JSG to consider further. Other options such as Channel Shift were already being progressed as business as usual and Fees & Charges are reviewed annually already. Service reductions had previously not been an option for Members and it was agreed that it was more appropriate to consider this option through the budget process. A council tax increase above £5 would involve a referendum costing approximately £230,000 (£100,000 for West Devon and £130,000 for South Hams) and it was considered that it would not be viable as a stand-alone option as it could be explored through the Single Council option which does not require a referendum.

4.9 Extending shared services with other Councils was not progressed due to the reasons set out above. Having defined the priority areas for consideration and refining has resulted in options 4 and 6 being considered in detail and reports being put before Council for approval today. Alongside this are the proposals for the Property Acquisition Strategy. As set out previously, none of these options are stand-alone options and may be pursued at the same time.

Each of the options considered vary in risk profile, achievability, and impact on the Council's finances. By implementing a range of measures and solutions the Council is spreading and mitigating its risk and maximising the benefits. The two schemes most likely to achieve financial sustainability are the commercial acquisition strategy and the Single Council proposal - neither of which will meet the immediate budget deficit for 2018/19 therefore the Council will also need to consider some other short term solutions through the budget setting process this year. All of the options contribute to closing the budget deficit, but don't give the wider non-financial benefits given by the Single Council option that are identified above.

4.10 Consultation is a key part of the Single Council proposal and Members are being asked to approve the consultation process as set out in paragraph 3.4 above. The outcomes of the consultation process will be brought back to the Council in October for consideration alongside the final proposal.

5. Proposed Way Forward

5.1 The JSG recommends that the Council agrees in principle to the creation of a single second tier Council for the area of West Devon and South Hams as set out in the accompanying proposals. The JSG's preferred options for the equalisation of council tax are Options 5 and 5a which are evaluated in Appendix F.

5.3 The following impacts have been identified in relation to the Proposal:
Positive impacts: there are clear financial benefits through efficiencies and increased income (which will result closing the gap and providing future sustainability). There will be removal of duplication in officer time and meetings, and a simplification of governance structures for residents, businesses, partners and staff. Significantly, there will be no cuts to services.
Negative impacts: there will be an increase in Council Tax above the £5 council tax increase threshold for South Hams residents in order to achieve harmonisation. There will be implementation costs of £325,000 but these are one off costs only.
Other impacts: Potential reduction in the number of Councillors from 2023 and a likely rationalisation of offices and assets. There will be no direct impact on residents and businesses as a result of the implementation of the proposal, and once the new Council has been created, there will be improvements to residents as identified above.
Risks. These are set out in the table in section 6 below.

6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	Powers for the Councils to create a Single Council are set out in two key pieces of legislation. Sections 8 -10 of the Local Government & Public Involvement in Health Act 2007: the Local Government Boundary Commission for England may undertake a review at the request of the Secretary of State or the Local Authority. The review may request boundary changes, including the abolition of a local government area (i.e. a Council area) and the setup of a new council area. This procedure can be used to merge two district councils (this is a different process from the Boundary Commissions regular electoral review of ward boundaries). Section 15 of the Cities & Local Government Devolution Act 2016 sets out a more expedited process for review of local authority areas and councillor numbers. Under this process, the request for a merger can be put directly to the Secretary of State (as opposed to the Boundary Commission). Proposals for the size of the new Council (i.e. number of Councillors) can also be put to the Secretary of State directly, with the Boundary Commission having a more restricted role developing new boundaries

		for the new Council. Discussions with DCLG have confirmed that the Councils would need to submit, directly to the Secretary of State, a formal proposal for merger and the formation of a new Council under the 2016 Act, but the procedure would also require a modification of the 2007 Act. This means in practice, that the Government needs, therefore, to make two sets of regulations (which need to be debated in Parliament) before it can make an Order setting up the new single Council. DCLG has also set out 5 key principles that it expects the Council to address in its proposals: Improved local public services • Greater value for money • Stronger local leadership at a strategic and local level • Significant cost savings • A sustainable future in the medium to longer term These principles have been addressed in the Proposal document. Only full Council can agree submit a proposal for a single council and a further report will be brought back to the Council in the Autumn seeking this agreement. A public referendum is not required to form a new Council or to increase Council Tax by more than the current £5 / 1.99% through the equalisation of council tax process.
Financial	Y	Modelling of one-off costs of planning and implementation are predicted to be £325,000 as set out in 3.9. If the proposal is approved, the costs of £30,500 in 2017/18 and £85,500 in 2018/19 would need to be paid for from each Councils' Unearmarked Reserves. These costs would be split 50%/50%. From 2019/20 onwards, the implementation costs could be paid for from the savings generated. The table in 3.9.4 shows that by 2019/2020, the net income position is £706,000 for the Single Council and this rises to £2.035 million by 2020/2021 (using Option 5 for equalisation of council tax for illustrative purposes). By Year three (2021/22) the net income raised is £2.935 million and then this would fall to £2.44 million by Year 5 if council tax was frozen by the Single Council in Years 4 and 5. The Single Council option is an option being considered by the Joint Steering Group which is one of two options which is the most likely to achieve financial stability for both Councils. The other option is the commercial investment strategy (property acquisition strategy) which is mentioned in Option 5 below. Neither of these options will meet the

		immediate budget deficit for 2018/19 so the Council will also need to consider some other short term solutions through the budget setting process this year. The financial implications for the options for the equalisation of council tax are shown in Appendices E and F. There is currently a £63 difference in Council Tax between the Councils. The preferred options of the Joint Steering Group for equalisation of council tax are Options 5 and 5a. These are set out in further detail in Appendix F. Under Option 5, West Devon residents would see an increase in their Band D Council Tax of £5 per year for 3 years and then a council tax freeze for 2 years. The current West Devon Band D is £218.39 for 2017/18. Under Option 5a, West Devon residents would see an increase in their Band D of £5 per year for five years from 2019-20 to 2023-24. Please see the table in section 3.10 for further details. The financial implications of the Asset Strategy are shown in Appendix D. A single Council would enable the assets of both Councils to be combined (£25 million West Devon and £75 million South Hams). No figures for savings have yet been modelled into the proposal.
Risk	Y	*One partner does not agree to Single Council Proposal and a reputation risk if Government intervention is necessary:* if one Partner Council does not agree then there is a significant risk that the Council will not attain financial sustainability as a combination of measures are required. If there is Government intervention then this will have a reputational risk for the Council, and have adverse financial impact and limit the control of the Council in relation to its own future. *Not meeting the timetable for submission:* if the Council has not agreed to submit proposals to the DCLG by the Autumn it is likely that there will be no parliamentary time to consider such proposals during the current parliament which will mean that the Council may not achieve the financial sustainability it needs. A timetable has been drafted to ensure that the Council submits the proposal in time for DCLG consideration. *Not accepting the proposal and delays at DCLG*: whilst we have received strong indications that the DCLG supports proposals for single councils between two or more authorities, there is no guarantee that the DCLG will accept the proposal and issue the appropriate regulations to enable us to proceed. If there are delays in the timetable by the DCLG then it is likely that the regulations would not be made in the summer of 2018. Delays after this are likely to mean that there is insufficient parliamentary time to consider proposals for a single council until during this parliament. This is outside the control of the Council.

		Customer remoteness from Council Offices: there would be no immediate changes to the office locations however a priority for the new Council would be to develop its asset strategy and consider locations for service delivery. Although the Council will continue to enhance its digital and online access routes, local presence will be important. The Locality Team will play a critical part in ensuring a presence across the area. *Expected financial benefits are not realised:* The savings identified in this report are considered to be robust. Where savings or increased income are likely but not quantifiable, these figures have not been included in the calculations. Delivering services through one Council may also provide future opportunity to consider how services are delivered across the new area – for example, aligning our Waste service across the area (South Hams currently in house West Devon Outsourced) *Confusion for residents, businesses and partners during the implementation of the new council / Adverse response to consultation:* A detailed and extensive communications and engagement plan has been developed to ensure that all stakeholders are clear on the changes. In reality, there should be very little difference – other than the change of name of the new council and new bank account etc. From the point of decision by DCLG, we would have 8 months to implement the new Council to be ready by 1st April 2019, during which we would communicate through a number of channels. *Uncertainty around future external environment:* Having recently concluded a general election and now entering into Brexit negotiations, Local Government is still in a period of uncertainty however our Medium Term Financial Strategy sets out clearly the financial positions for both Councils and action needs to be taken to ensure future sustainability of services. A single new council will have greater resources available to it and will therefore be more resilient and more able to adapt to future challenges. *Political change and conflict between the Councils:* Councils are political organisations and the current Partnership between the two councils carries significant risk to its sustainability in the event of conflict arising in the event of political change, or through conflict arising between the Councils. This risk could result in the breakup of the partnership arrangement and the loss of the shared services savings to date, causing intolerable financial pressure for both Councils and this risk would be mitigated by the creation of a single Council.

Comprehensive Impact Assessment Implications		
Equality and Diversity		There will be extensive publicity and engagement with our customers and stakeholders during the consultation and any future phases. There will be no impact on the day to day delivery of council services. The Council Tax equalisation will have a greater impact on South Hams residents. Staff will be kept updated throughout and would TUPE into new Council, carrying out the same roles as they do now. Initially the number of Members in the new Council will remain at 62, but are likely to be reduced following a Boundary Review. There will be one new governance structure and one Leader in the new Council.
Safeguarding		None. No change to staff roles and their responsibilities.
Community Safety, Crime and Disorder		None. No change to staff roles and their responsibilities.
Health, Safety and Wellbeing		Staff – will be transferred into the new Council carrying out same role at same location. Consultation will continue with staff and unions through the TUPE process. HR will provide support and drop in sessions for anybody concerned by change. Jobs should remain safe, services protected through a sustainable future.
Other implications		Finance/Budgets – JSG funding has been provided to develop the option of setting up of a new Council. Procurement/Contracts – existing contracts would look to be novated across to the new Council with existing terms and as they expire, new contracts will be drawn up.

<u>Supporting Information</u>

Appendices:

- **Appendix A:** Proposal for the creation of a Single Council for South Hams and West Devon
- **Appendix B:** Consultation Document for the Proposal of a Single Council
- **Appendix C:** Timetable for submission of Single Council proposal
- **Appendix D:** JSG Asset Strategy
- **Appendix E:** Equalisation of Council Tax options
- **Appendix F:** Evaluation of Council Tax Equalisation Options 5 and 5a

Background Papers:
Medium Term Financial Position for 2018/19

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One Council
for South Hams and West Devon

Proposal for the creation of a Single Council for South Hams and West Devon

South Hams District Council

West Devon Borough Council

Foreword from Joint Steering Group

This Proposal, to create one single new Council to serve the areas currently managed by South Hams District Council and West Devon Borough Council, is one of several measures that we are considering to help us close a £1.9 m gap in our finances.

This is a top priority for both Councils. If either of us cannot set a balanced budget, there would be severe financial consequences for both of us because we already share one workforce.

If this were to happen we may lose the ability to set our own future path.

In this Proposal we predict that by creating a single new Council we could save up to £0.5 million a year, and that is excluding any potential income resulting from an increase in Council Tax. These savings would not be made through cuts to services, but because a Single Council will cost less to operate.

The Councils have shared a Chief Executive (and latterly shared Executive Directors) since 2007 and now we also share a joint workforce and many of our policies and procedures are aligned. However, during this time the political structures and decision-making processes of the two Councils have remained completely separate. This means that we still have two Leaders, two sets of Councillors, two sets of accounts and two sets of political meetings.

This is a Proposal to bring the two political structures together, a natural continuation of the shared service journey that both Councils have been on. It also looks at further savings that could be made by reducing the number of Councillors and combining our assets.

This Proposal lays out how we think the creation of a Single Council would work and how the efficiencies would be achieved. It also includes a timeframe for getting approval from the Secretary of State.

1. Executive Summary

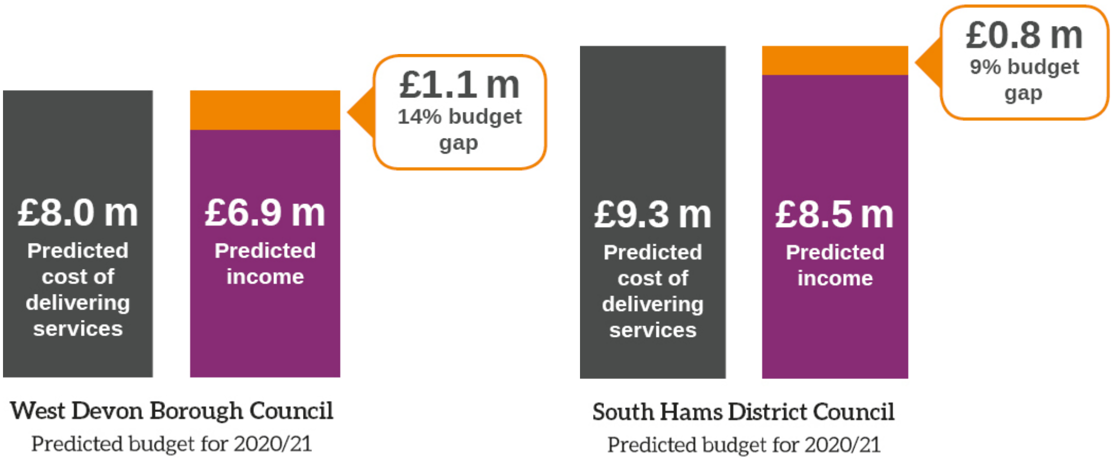
1.1. This is a Proposal is to set up a single, new Council from 1 April 2019 for the area that is currently served by South Hams District Council and West Devon Borough Council. The Councils are asking residents, businesses and other organisations for their views on this Proposal and will be consulting widely from early August until the end of September 2017, with the intention of sending the final Proposal for a Single Council to the Government in autumn 2017.

1.2. The purpose of the Proposal is to respond to severe financial public sector constraints, maximise savings that would arise from creating a Single Council instead of operating two separate Councils, and therefore, importantly, protect and invest in the services that South Hams and West Devon currently provide. Whilst the key reason for creating a Single Council is financial, an important consideration is to ensure future resilience and sustainability of valued Council services. The Councils believe that creating a Single Council will help us to continue to meet the challenges that we are facing and take advantage of any opportunities that arise in the future.

1.3. South Hams and West Devon have a strong history of working together to achieve savings and deliver services in a more efficient way. This history of working together (from 2007) has culminated in the Councils' recent T18 transformation programme and has successfully resulted in a smaller workforce delivering these services whilst saving £5 million per year. The Councils want to both protect these savings and to also make further savings and efficiencies in the way we deliver our services, and creating a Single Council is the next logical step in this journey; the Councils are already interdependent on each other financially given the extent of the shared workforce and delivery of shared services.

1.4. The Single Council Proposal is one of several measures that the Councils are considering to help to close the £1.9m funding gap across both Councils. Other measures that the Councils are currently considering are outsourcing some of their front-line services such as waste and recycling services and also considering a programme of buying and renting out commercial properties. These measures are being considered alongside each other as there is no single solution to the financial pressures faced by the Councils to meet the funding gap, and to ensure financial stability for the medium to long term.

1.5. The predicted budget gaps for the Councils by 2020/21 are £0.8m for South Hams District Council and £1.1m for West Devon Borough Council.



1.6. The Councils predict that, by creating a Single Council, they can save up to £0.5 million a year. This will not be through cuts to services, but because a Single Council will cost less to operate; the new Council will need fewer Council and Committee meetings and there will be no need for each Council to make separate decisions; there will be one budget and one set of financial systems. The staff capacity that these efficiencies will release will be focused on the delivery of services.

1.7. Currently, the Councils have different levels of council tax, but (after a period of harmonisation) a new Single Council will have a single level of council tax across the whole area; how this can be achieved is set out in paragraph 9.28 below. This will increase the amount of income that the Council receives, helping to close the funding gap, and retain valued Council services.

1.8. The Councils need to follow a prescribed process and timetable in order to create a Single Council and this is set out in Section 7 below.

1.9. As part of this Proposal, the Councils have addressed the five key principles set out by the Government for considering changes in Council structures. The principles are:

- Improvement of local public services
- Providing greater value for money
- Delivering a stronger local leadership - across both Council areas and locally at ward level
- Generate significant cost savings
- Supporting a sustainable future (structurally and financially) in the medium to longer term

1.10. If the Proposal to create a Single Councils is progressed, it will not be at the expense of the other options mentioned in paragraph 1.4; however, no single option is guaranteed to meet the financial challenges on its own. There is a risk that if the combination of proposed measures are not implemented, at least one of the Councils will not achieve a balanced budget in the near future which will have severe financial consequences for both Councils.

2. Background

2.1. South Hams and West Devon are two geographically different areas in the south west of Devon, but both Councils are committed to shaping the arrangements for local government in the south west of Devon, in order to deliver services and support residents, businesses and other organisations in facing future challenges. The Councils believe that the best option to achieve this is through the creation of a new, single district or borough council for the south west of Devon from April 2019.

National Context

2.2. Since 2010 Local Authorities have been subject to increasing budgetary pressures and decreasing grant income from Central Government. This position is looking significantly worse for the future given the recent budget settlement.

2.3. To ensure that valued, local public services can continue to be delivered in the future, many Councils are looking at a range of solutions for addressing their budget gaps from outsourcing of services, establishing companies to deliver services to councils and sharing services between councils (as South Hams and West Devon are currently doing).

Local context

2.4. South Hams District Council and West Devon Borough Council have a strong history of working together to achieve savings and deliver services in a more efficient way. This history of working together since 2007 has resulted in a fully shared workforce and shared delivery of the majority of the Councils' services and the Councils have produced important joint plans and policies such as the Joint Local Plan, and have aligned, as far as possible, other supporting documents such as the enforcement policy. Councillors have also engaged with the close working relationship through joint member meetings and working groups which explore common themes across the two areas.

2.5. West Devon and South Hams are marked by their similarities rather than differences; as the map in 1b shows, the Councils share a common boundary and are both predominantly rural areas neighbouring larger urban areas such as Torbay and Plymouth. Both areas face similar challenges and opportunities for the future.

2.6. Currently West Devon serves the smallest population base of all Devon districts, whilst South Hams sits at mid-point. The following table sets out the populations served by the Devon district and unitary councils ranked in order of size, and a single Council for South Hams and West Devon will give a combined population of 138,900 creating the largest district council in Devon, (excluding Plymouth Unitary Council) with 117 Parish and Town Councils.

Table 1a – Devon districts by population (as at 2015 data)

	Population (as at 2015)
West Devon	54,400
Torridge	66,300
Mid Devon	79,500
South Hams	84,500
North Devon	94,200
Exeter	127,300
Teignbridge	128,800
Torbay	133,400
East Devon	138,100
Single South Hams and West Devon Council	*138,900*
Plymouth	262,700

2.7. The following map illustrates the current two Council areas in the South West of Devon with the proposed new Single Council area highlighted in yellow, and would cover geographical area of some 2066 sq. km – just over a third of the total Devon county area (6711 sq. km).

Diagram 1b – Devon districts map (yellow highlighting indicating new council area)

Table 1c – Summary of Key Statistics

West Devon Borough Council	South Hams District Council
• Population: 54,400 • Households: 23,000 • Councillors: 31 • Area: 1160 sq. km	1. Population: 84,500 2. Households: 38,000 3. Councillors: 31 4. Area: 906 sq. km

A history of working together

2.8. The shared services programme has enabled the Councils to meet their financial obligations until 2018, and the creation of a Single Council is the next logical step enabling the delivery of a full range of services without cuts or long term reduction in quality. The Councils have saved in excess of £6 million per annum though sharing of staff and other costs (which includes £5 million from the T18 Transformation Programme). All of these savings and efficiencies have been achieved without external funding or changes in the Councils' governance structures.

2.9. West Devon Borough Council is currently forecasting a £1.1m budget gap by 2020/21, with South Hams forecasting a £0.8m budget gap for the same period. Both Councils acknowledge that there is no single solution to addressing the reduction in funding while maintaining services across the two areas, and a number of initiatives are being considered in parallel. To put this into context, West Devon has a net revenue budget of £7.4m in 2017/18 and South Hams has a net revenue budget of £8.3m for the same period.

2.10. The Councils are already exploring options around the future of their waste and street cleansing services in order to ensure best value for money. This may take the form of outsourcing some of those services or delivering them through a wholly owned company. The Councils are also due to consider a strategy to acquire commercial properties located across the UK in order to increase revenue income.

2.11. The initiatives set out above are not mutually exclusive to the formation of a single Council. Some of the above options could be enhanced by the creation of a Single Council – for example, if outsourcing frontline services was progressed for one larger Council, there would be increased savings due to economies of scale.

3. **Benefits in creating a Single Council**

3.1. A Single Council for South Hams and West Devon will provide the following benefits:

Value for money and financial savings

3.2. As set out in more detail in the financial section below, becoming a Single Council is estimated to generate up to a further £0.5m of annual savings, as well as protecting the annual shared services savings of £6m per annum across the two Councils. This is excluding any potential income resulting from an increased Council tax (which varies depending on the option for equalisation).

3.3. Becoming a Single Council will also mean releasing some capacity that is currently absorbed by serving two Councils (for example staff resources currently required in supporting two separate sets of council and committee meetings). This would enable a Single Council to focus on a single Accommodation Strategy (to generate new income to support services and to meet the funding gap) and for investing in communities. A single main office base will also deliver long term savings. It would also mean doing the best for residents in terms of using this capacity to maintain and improve service delivery, rather than spending time on complex or duplicated processes.

3.4. New income opportunities and savings will continue to be realised when contracts and system requirements come up for review, and dual arrangements can be replaced with a simpler, cheaper, single contractual relationship.

Simplification

3.5. Becoming a Single Council could be seen as a natural continuation of the shared service journey. The Councils are currently interdependent on each other due to the fully shared workforce and delivery of services. By removing the remaining complexities inherent in serving two bodies, a Single Council will be simpler to run and manage. Financial systems will be simpler, with single reporting requirements, and a removal of the need for reconciliation between different council budgets as is the case when running a shared operational service. Simplifying systems within the Council (accounting systems, committee support etc.) and reducing duplication of licences, subscriptions and memberships will free up taxpayers money that can be invested in services to our communities.

3.6. Whilst we would still want a physical presence across the whole of South Hams and West Devon with places for communities and businesses to access our services in different localities, the new Council would consider relocating to a single, centrally located head office.

3.7. There will also be staff capacity released resulting from supporting only one set of Council and Committee meetings and Councillors, and the removal of the duplication of reports and officer attendance, which will allow focus on the delivery of key projects and strategic priorities.

3.8. By applying consistent policies for business and communities across the wider geographical area, we would remove the requirement for staff to apply different policies in each Council area. This would be particularly beneficial for businesses that currently operate across both Council areas.

Democratic accountability

3.9. A Single Council would mean the retention of a democratically sound model, but with an end to the need for separate decisions on similar and shared issues by each Council, and this will result in more efficient decision-making on matters affecting the whole area. Residents, businesses and other organisations will benefit from simplified and single processes that a Single Council would enable.

Influence

3.10. A larger Single Council, with a bigger population and local economy and would allow us more influence on the regional or national stage. A Single Council in south west Devon would have a population of over 138,900, making it the largest district council in Devon, which will mean a stronger voice among our peers and central Government.

3.11. In particular, a larger Single Council would be a more significant organisation in the context of a devolved model of working, alongside fellow district, County and unitary authorities in the region and other partners with whom we want to pursue integrated working. This would be especially important when it comes to collaborating with services such as health and social care where, as a Council small enough to have strong local working relationships and knowledge, but large enough to deliver complex services competently, we could have a real impact on the lives of our residents and families.

3.12. A single larger Council will have the support of four Members of Parliament and 11 County Councillors whose support is currently split across the two areas, and this will make for a much stronger voice for the whole area locally, regionally and nationally.

Resilience

3.13. A Single Council will be a more resilient organisation than two smaller Councils in the future and therefore better able to face the significant changes and challenges that Local Government expects to face in the future.

3.14. A Single Council will be more resilient in the changing landscape of local government and pressures arising from changes to local government funding, such as the cuts in government grants, reductions in New Homes Bonus funding and the uncertainty of 100% Business Rates Retention (the timetable for the introduction 100% BRR is now unclear). This is explored further in the financial section later in this document.

3.15. A Single Council will have a solid governance structure going forward which will enable, rather than preclude, further sharing of services with other Councils in the future.

3.16. Equalisation of Council tax will, in the longer term, produce income that can be used to protect and invest in the Councils' communities and give the new Council a strong, resilient financial base for the medium to long term.

4. Council Governance and Councillors

4.1. Whilst the Councils are currently separate entities who are required to make separate decisions with a separate budget, the Councillors already work together in several contexts, for example, the Joint Steering Group which considers the future of the Councils and the options available, joint member working groups and shared interests and priorities (such as for leisure services and the Joint Local Plan) shared induction and Councillor development programmes together with informal joint committee meetings on common issues.

4.2. There is no proposal to reduce the number of Councillors from the current 62 (31 in each Council) before the implementation date of 1 April 2019. The current number of elected Councillors can embed the strengthened local leadership role. The Government does have the power to amend the number of Councillors on the Council when deciding the Proposal, but our Proposal is that the current 62 are retained for the first few years, and the new Council will request the Boundary Commission to undertake a review in order that revised arrangements are in place for the 2023 elections. The Boundary Commission review will also present the opportunity to consider ‘single Member’ wards and the effective number of Councillors for the urban centres. It is likely the number of elected Councillors representing the new Council will be reduced by 2023.

4.3. Currently, South Hams operates a Leader with an Executive style of governance whilst West Devon operates a committee system. Governance arrangements are prescribed by law, and the new Council (because of its larger size) will have to operate executive arrangements. The proposal is that the new Council operates a Leader with a Cabinet, with the change in terminology signifying a positive change from both current structures. A Cabinet can comprise up to 10 Councillors, and whilst this is a matter for the new Council, the Proposal is that the Cabinet comprises between 6 and 8 Councillors in order to operate with maximum effectiveness. Individual portfolio holders will have defined decision-making powers (which will be decided by the new Council) such as debt write-off and award of community grants.

4.4. The new Council will retain a democratically sound model, but without the need for duplicated and separate decisions by the existing Councils on shared issues. The proposal is for a reduction in the overall number of council bodies for a Single Council (one Council, Cabinet, and Audit Committee) but there will be two Development Management Area Committees, and two or three Overview & Scrutiny Committees comprising of Councillors not on the Cabinet, with the opportunity for the O&S Committees being chaired by a member of the minority parties.

4.5. In forming the new Council, there is the opportunity to establish a new role for Councillors, in line with a modern approach to Local Government and with the opportunity to engage more positively with Parish and Town Councils. During the implementation of the new Council, we will seek the views of Town and Parish Councils in how they would envisage the Single Council working with them.

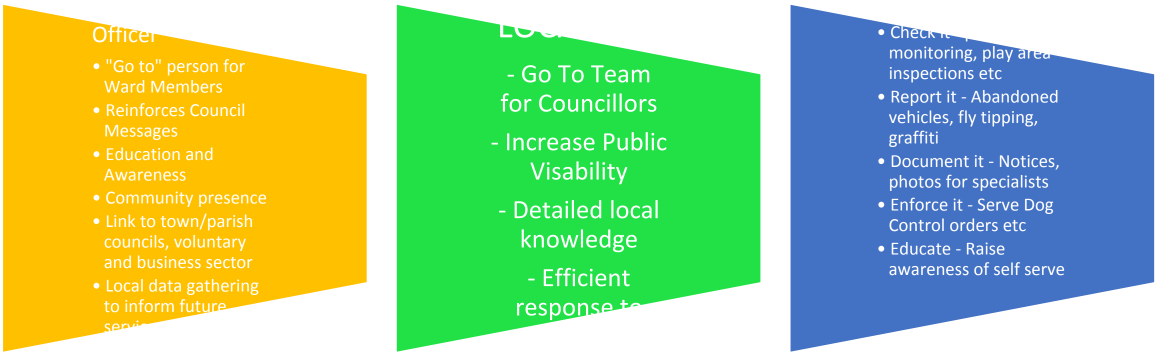
4.6. Residents’ expectations are changing as a result of changes in technology and service delivery brought about by austerity measures. Many residents now look to engage with their local Council through social media platforms and expect a prompt response. The new Council will ensure that it maximises the opportunities offered through these platforms and ensure that Councillors have the training and tools to meet customer expectations.

4.7. The skill set for Councillors is shifting with a greater emphasis on connective, digital and reflective skills. A full induction programme for new Councillors will be developed through the implementation phase to support this.

Support to Councillors

4.8. A strong local presence and a shift to resolving customer issues at the front end of the business is a fundamental principle has been at the forefront of the T18 transformation programme and will continue to be a key principle of the new Council. The Councils currently operate a Locality Team comprising 'on the ground' officers, and it is proposed that the Single Council area will be divided into geographic zones with all Councillors having an identified Locality Officer as their "Go To" person for local problem-solving and community liaison. The Locality Officers patrol their geographic areas in Council-branded vans, and carry out a wide range of tasks for many Council services (such as issuing enforcement notices, reporting fly tipping etc.).

Diagram 4a – How the Locality Team works



4.9. Locality Officers are an important link with both Councillors and the Community with the aim of early identification and resolution of issues, and the role of the Locality Team is pivotal in demonstrating strengthening local leadership and will become increasingly important in ensuring local presence and engagement in the communities served by a Single Council with a large geographical area.

Engagement with Town and Parish Councils

4.10. During the implementation phase, the Councils will work closely and positively with Town and Parish Councils, to ensure that their voice is heard in the larger geographical area and that local connections are enhanced and not lost.

4.11. The Councils will explore opportunities for Town and Parish Council sustainability, building capacity and capability, including the development of clustering arrangements to ensure better representation and influence and, potentially, an increase in services delivered locally.

5. Our Workforce

5.1. All staff (currently 430.5 full time equivalents) employed by South Hams and West Devon would transfer to the new Council on its first day, 1 April 2019, delivering the same services for the Single Council.

5.2. As part of the T18 transformation, the Councils already have a fully shared, customer-focused workforce which understands, and has extensive experience of, the South Hams and West Devon areas, and its residents, communities, businesses, and other organisation including Town and Parish Councils.

5.3. The Councils' current shared workforce has already realised significant savings efficiencies, and while there are no plans to undertake further large-scale transformation of the services delivered by a Single Council, there is scope for reducing the duplication currently necessary in supporting the governance structures of the two Councils. It is estimated that this could realise up to £0.5m of savings a year from 2020.

6. Accommodation and Assets

6.1 A Single Council would have an Asset Base valued at over £95m. These assets are in full ownership of each respective Council, such as car parks, green spaces, head office and other operational buildings – such as the Dartmouth Ferry / Salcombe Harbour, depot locations, public conveniences, potential development sites and non-operational property - such as industrial units and investment land. Non-operational land typically generates income for the two respective Councils, as do some parts of head office locations which are let to third parties.

6.2 At present, the two Councils have customer facing locations at Tavistock and Totnes, along with a customer service centre at Okehampton. Limited customer interactions take place at the Council owned and operated depot sites in the South Hams.

6.3 **Options regarding the operational bases**

If Members opted to form one Single Council, the new Council could consider:

- A comprehensive review of the Councils' operational locations
- Combining operational assets of both Councils
- Increased partnership working closer to communities, with officers or committees co-locating with other public bodies (e.g. the police, the NHS, DCC, Town Councils) or in community buildings to reduce or avoid the need

for customers / staff / Members to travel large distances to conduct Council business

- Devolving certain decisions to other bodies reducing the need for physical premises in certain areas
- The potential disposal and/or redevelopment of the two head office locations

6.4 Both Councils already have a flexible workforce who can work from any location. Assuming that the needs of the single Council differ to that of the existing organisation, it is likely that the Council will require a smaller 'footprint' of dedicated floor space. Options available include:

- Full letting of existing buildings to third party organisations
- Redevelopment of the head office site(s)
- Disposal of certain buildings
- Remain as is

6.5 Any change to the property strategy would need to be carefully considered, costed and consulted upon and therefore major changes are unlikely to be appropriate in the short term.

7. Timescales and Process

7.1. The Proposal is to form a new Council on 1 April 2019 with elections to the new Council in May 2019 based on the existing number of Councillors (31 from each Council).

7.2. The Proposal does not impact adversely on service delivery as South Hams and West Devon already have a shared workforce and customers are unlikely to notice a difference in the delivery of services. There will still be a physical Council presence across both South Hams and West Devon with places for communities and businesses to access our services in different areas. It is only the governance arrangements that would be affected.

7.3. The following table sets out the indicative timetable for consultation on the Proposal, the submission of the final Proposal and for decision by the Government as to whether a Single Council will be created:

Table 7a – Outline Timetable for forming a single council

Action	Date
Consultation period (public and key stakeholders)	August - September 2017
Final proposal prepared for approval by Councils and submitted to Secretary of State for consideration	Autumn 2017

Period for further representation	Autumn 17/ Spring 2018
Recommendation by Secretary of State	Spring 2018
Preparation of Order	
Regulations laid before Parliament	Early May 2018
Debated in Parliament	May – July 2018
Final Order made	July 2018
Transition phase	July 2018 – March 2019
Single Council formally comes into being	1 April 2019

8. Public Engagement

8.1. The Proposal must also demonstrate that the Councils have consulted on the Proposal; it is a matter for individual councils to decide how to engage with local people, businesses and organisations. There is no statutory requirement for a referendum or to consult in a particular way for a particular period, however, the Proposal must include evidence of support for a new Council from the County Council and local Members of Parliament. If approved, a consultation will take place from early August to the end of September 2017, during which period the Council will:

- Publish a summary of the proposal which will also include specific questions which our residents, local businesses, public sector partners and other partner organisations can answer. Please see Appendix B
- Set up a dedicated website called 'One Council' featuring the proposal documents, frequently asked questions, and on-line survey
- Commission a statistically sound telephone survey of residents and businesses across South Hams and West Devon
- Engage with the public through attending a number of events and briefing sessions throughout both Council areas over the summer to capture additional responses to the public consultation
- Issue 'One Council' newsletters to residents, local businesses and public sector partners & other partner organisations
- Issue press releases and engage the public through social media
- Engage with neighbouring Councils and other key stakeholders, public sector partners and other partner organisations (such as Dartmoor National Park, Devon and Cornwall Police etc.) on the proposal.

9. Financials

9.1 Implementation Costs

9.2 There would be up-front costs in forming the new Council but these are likely to be significantly less than many similar council reorganisations as the services transferring into the Council have already been through significant transformation, staffing levels have been reduced and new case management systems implemented.

9.3 Based on forming the Council from 1 April 2019, the majority of costs would be incurred in 2019/2020 financial year. There would however potentially be some ongoing costs in respect of redundancy and pension strain costs for a further 3 years.

9.4 We estimate that the costs of forming the Single Council would be £325,000 which would include:

Specialist Advice and financial modelling for this Proposal and a Single Council

Project Management Support to ensure the smooth transition to the new Council

A temporary website for the consultation phase, random telephone survey and a programme of face to face questionnaires undertaken by Locality Engagement Officers as part of their current roles. In addition there would be a series of local meetings with Town and Parish Councils to discuss the proposal.

Cost of data transfer from individual Council systems into single versions of the systems

Communications and branding including design of new council logo, creation of new website, rebranding of signs at Head Quarters

Legal support for novation of existing supplier contracts to the new Council.

Staff redundancy cost. These would be in line with the currently aligned redundancy policies for South Hams and West Devon Councils. This is likely to be less than 10 employees. The Senior Leadership Team would seek to significantly reduce the overall requirement for redundancy through active vacancy management in the years prior to going live with the new Council.

	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024
Planning and Implementation costs							
Advice and modelling for Council Tax	3,000	3,000	4,000				
Project Management and Support	15,000	15,000	15,000				
Public Consultation	12,500	2,500					
IT costs		25,000	25,000				
Comms Support / Branding/ website etc		5,000	10,000				
Remodelling council finances etc		25,000	10,000				
Legal, including novation of contracts		10,000	5,000				
Redundancy and pension strain costs			85,000	20,000	20,000	15,000	
Implementation Costs (one-off)	30,500	85,500	154,000	20,000	20,000	15,000	0
					Total Implementation costs		**325,000**

One Council
for South Hams and West Devon

9.5 The costs are relatively low for the formation of a Single Council compared to other Councils. This is largely down to South Hams and West Devon already sharing their services, systems and processes. Information on the payback period for this costs is provided in Section 9 of this report.

Position for the current South Hams District Council and West Devon Borough Council

9.6 The scale of the financial challenge is shown in 1.5 above. The predicted budget gaps for the Councils by 2020/21 are £0.8m for South Hams and £1.1m for West Devon. This includes savings realised as part of the T18 transformation programme which has now largely concluded. This is shown in detail in 1.5.

9.7 During 2016/17 the Government offered Local Authorities the opportunity to apply for a four year agreed funding settlement, subject to the production of an efficiency plan. Both Councils applied and were accepted for the four year agreement. By 2018/19 both Councils receive no Government funding (Revenue Support Grant) and the Councils will need to be financially self-sufficient. Both Councils' Settlement Funding Assessment (Revenue Support Grant and funding from Business Rates) is reducing by over 37% between now and 2019/20.

9.8 From working in a shared services partnership and from the joint transformation programme, South Hams is annually saving £3.9 million a year and West Devon £2.2 million a year. The proposal for a Single Council would build upon an existing shared workforce and joint working. With unprecedented pressures on Local Government budgets and Councils needing to become 'self-financing', a proposal for a single Council would assist the Councils to retain their financial viability in the future, to safeguard the services delivered.

9.9 The proposal for forming a single council aims to reduce fragmentation of the current operating system and enhancing future financial sustainability of the Councils. South Hams and West Devon predict that the creation of a single council could save up to £0.5m every year. This is excluding any potential income resulting from an increase in Council Tax. It could go a long way to bridging the funding gap to provide a sustainable future for both Councils. These savings would not be made through cuts to services, but because a single council will cost less to operate.

Business Rates and Fairer funding review

9.10 It is normal for new Councils formed to operate with aggregated baselines and funding from pre-existing Councils. If new Business Rates and funding baselines are set in 2019-20, it is likely that the new Council will receive its own baseline – not necessarily aggregated. The Fair Funding Review will also create new baselines which could be higher or lower. This needs to be noted as a risk in the proposal as at this stage we don't know enough about how the Government will reset baselines to quantify the risk.

Asset Strategy

9.11 Section 6 of this Proposal sets out that the new Council will need to develop its Asset Strategy. Additional income could be achieved in the medium term by letting out the current space utilised by the Councils' staff, however this would only be achieved if the Council found other premises and these would require funding. No figures for savings or income relating to assets have been modelled into the proposal, as such changes will only be considered by the new Council.

9.12 Appendix D presents a summary of a new, Single Council Balance Sheet based on the 2016/17 Unaudited Statement of Accounts.

Release of Reserves

9.13 South Hams currently has £1.8 million of Unearmarked Reserves (£8.3 million net budget) and West Devon currently has £1.1 million of Unearmarked Reserves (£7.4 million net budget) – i.e. £2.9 million across both Councils.

9.14 A combined Council (with a net budget of less than £16 million) could hold less reserves as the larger size of the new Council allows some of the reserves to be released because risk is pooled over a larger authority. If reserves were held of say 15%, this would equate to £2.4 million. This could allow the combined Council to set aside a sum of money (e.g. £350,000 say) to be ring-fenced for the sole benefit of residents in South Hams. This could be for a number of things – e.g. a grants scheme for residents to apply to and options could be considered by Members.

9.15 The table below shows the level of Unearmarked Reserves and Earmarked Reserves for both Councils.

Level of Revenue Reserves	South Hams District Council (£)	West Devon Borough Council (£)	Combined Single Council (£)
General Fund (Unearmarked) Reserves	£1.765m	£1.125m	£2.89m
Earmarked Reserves	£13.074m	£3.732m	£16.806m
TOTAL	£14.839m	£4.857m	£19.696m

9.16 The creation of a new single Council would enable a fundamental review of earmarked reserves and balances held by the two separate Authorities. Where the Councils hold Earmarked Reserves for the same stated purpose, a single Council approach could entail consideration of revised and potentially lower levels for these.

Capital finance considerations

9.17 A new single Council would need to fundamentally review its capital programme priorities and funding. Capital financing considerations would form an element of this. There could be some potential to review the treasury management strategy of the single Council, as the new Council would have access to greater volumes of cash and varying profiles.

Pensions

9.18 An actuarial report was commissioned by the Councils' actuaries confirms that a combined employer pension contribution rate that would apply to a new combined Council.

9.19 The combined rate for a single Council is 14.2%. Modelling the new combined rate gives a small saving of £7,000 per year on the pay bill for the single Council for employer pension contribution rates. This is based on the single Council taking on responsibility for all historic liabilities. This has not been shown in the modelling as it is virtually a stand still position to what both Councils pay now.

Payback period and Financial summary

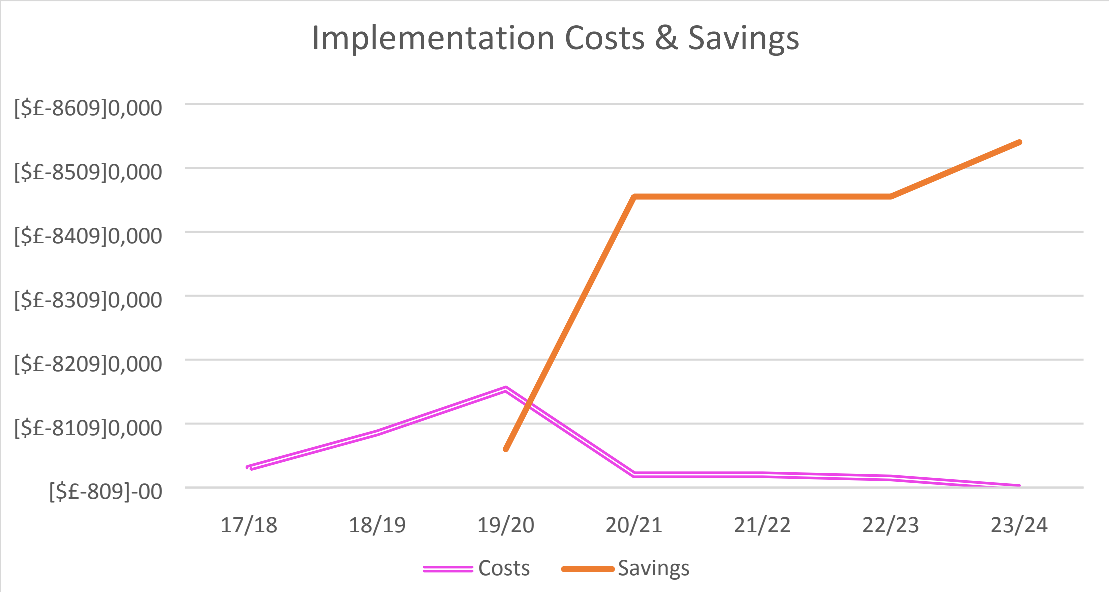
9.20 The following table summarises the costs and savings as a result of implementing a single Council across South Hams and West Devon. The one-off investment costs of £325,000 are paid back within the first year (2019/2020).

Financial Summary	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024
Planning and Implementation Costs (one-off)	30,500	85,500	154,000	20,000	20,000	15,000	0
Annual Efficiency Savings	0	0	-60,000	-455,000	-455,000	-455,000	-540,000
Increased Income from Council Tax equalisation (Option 5 shown for illustration purposes only)			-800,000	-1,600,000	-2,500,000	-2,200,000	-1,900,000
Net cost/(income)	30,500	85,500	-706,000	-2,035,000	-2,935,000	-2,640,000	-2,440,000

Option 5 for council tax equalisation is modelled as an example for illustrative purposes.

The table above shows that by 2019/2020, the net income position is £706,000 for the Single Council and this rises to £2.035 million by 2020/2021 (using Option 5 for equalisation of council tax for illustrative purposes). By Year three (2021/22) the net income raised is £2.935 million and then this would fall to £2.44 million by Year 5 if council tax was frozen by the Single Council in Years 4 and 5.

9.21 Modelling of one-off costs of planning and implementation are predicted to be £325,000 as below. Savings of up to £0.5 million a year are predicted. These savings are not service cuts and would be from efficiencies from back-office costs. The number of staff posts affected would be in the single figures (i.e. less than 10) and would be minimised as much as possible from natural turnover.



9.22 There would be benefits from the scale of a single council seen through increased leverage when looking to purchase goods and services and delivering services across a single geographical area.

9.23 Savings would be realised from the first year of the Council's operation. While the financial modelling assumes no reduction in Councillors until 2023/2024, there is the potential for interim measures from the 2019 elections which would generate some savings earlier.

9.28 Council Tax Equalisation

9.29 Appendix E sets out possible options for the equalisation of Council Tax. There are many different ways in which this could be achieved. There is currently a £62.97 difference in Band Council D Tax levels between West Devon (£218.39) and South Hams (£155.42) for 2017/18. The number of years over which Council Tax can be equalised can be anywhere from 1 to 5 years.

9.30 The options in Appendix E have been considered by the Joint Steering Group and their preferred Options are Options 5 and Options 5a. Appendix F evaluates these two options in more detail and shows in a graphical format the council tax income yield from each of these options, in comparison to the council tax income yield already modelled into each Councils' Medium Term Financial Position (MTFP).

9.31 The preferred options of the Joint Steering Group for equalising council tax are Options 5 and 5a.

	Option 5	Option 5a
WDBC Annual increase in Band D - This sets out the impact on West Devon residents	£5 increase in West Devon Band D each year for first three years; then frozen for Year 4 and Year 5	£5 increase in West Devon per year for each of the 5 years
SHDC Annual increase in Band D – This sets out the impact on South Hams residents	£25.99 increase in South Hams Band D each year for first three years (16.2% increase), then frozen for Year 4 and Year 5	£17.59 increase in South Hams per year for each of the 5 years
Value of Band D that is equalised to by Year 5 (2023-24)	£238.39 by 2021-22	£248.39 by 2023-24
Equalisation period	3 years	5 years
Council tax threshold	Exceeds council tax threshold	Exceeds council tax threshold

9.32 The table below further shows the impact on South Hams residents of the council tax equalisation by bands.

Effect of South Hams Council Tax Increase	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
Ratio to Band D (9ths)	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9
Option 5 - Council Tax Increase £25.99 (Band D) per annum for 3 years and then a council tax freeze for 2 years	£ 17.33	£ 20.21	£ 23.10	£ 25.99	£ 31.77	£ 37.54	£ 43.32	£ 51.98
Option 5a - Council Tax Increase £17.59 per annum for 5 years	£ 11.73	£ 13.68	£ 15.64	£ 17.59	£ 21.50	£ 25.41	£ 29.32	£ 35.18

10. Risks and Opportunities

10.1. There are a number of risks and opportunities associated with implementing a single new council across South Hams and West Devon which will be critical considerations in implementing a Single Council.

Risks

10.2. *One partner does not agree to Single Council Proposal and a reputation risk if Government intervention is necessary:* if one Partner Council does not agree then there is a significant risk that the Council will not attain financial sustainability as a combination of measures are required. If there is

Government intervention then this will have a reputational risk for the Council, and have adverse financial impact and limit the control of the Council in relation to its own future.

10.3. *Not meeting the timetable for submission:* if the Council has not agreed to submit proposals to the DCLG by the Autumn it is likely that there will be no parliamentary time to consider such proposals during the current parliament which will mean that the Council may not achieve the financial sustainability it needs. A timetable has been drafted to ensure that the Council submits the proposal in time for DCLG consideration.

10.4. *Not accepting the proposal and delays at DCLG*: whilst we have received strong indications that the DCLG supports proposals for single councils between two or more authorities, there is no guarantee that the DCLG will accept the proposal and issue the appropriate regulations to enable us to proceed. If there are delays in the timetable by the DCLG then it is likely that the regulations would not be made in the summer of 2018. Delays after this are likely to mean that there is insufficient parliamentary time to consider proposals for a single council until during this parliament. This is outside the control of the Council.

10.5. *Customer remoteness from Council Offices:* there would be no immediate changes to the office locations however a priority for the new council would be to develop its asset strategy and consider locations for service delivery. Although the council will continue to enhance its digital and online access routes, local presence will be important. The Locality Team will play a critical part in ensuring a presence across the area.

10.6. *Expected financial benefits are not realised:* The savings identified in this report are considered to be robust. Where savings or increased income are likely but not quantifiable, these figures have not been included in the calculations. Delivering services through one Council may also provide future opportunity to consider how services are delivered across the new area – for example, aligning our Waste service across the area (South Hams currently in house West Devon Outsourced).

10.7. *Confusion for residents, businesses and partners during the implementation of the new council / adverse response to consultation:* A detailed and extensive communications and engagement plan has been developed to ensure that all stakeholders are clear on the changes. In reality, there should be very little difference – other than the change of name of the new council and new bank account etc. From the point of decision by DCLG, we would have 8 months to implement the new Council to be ready by 1st April 2019, during which we would communicate through a number of channels.

10.8. *Uncertainty around future external environment:* Having recently concluded a general election and now entering into Brexit negotiations, Local Government is still in a period of uncertainty however our Medium Term Financial Strategy sets out clearly the financial positions for both Councils and action needs to be taken to ensure future sustainability of services. A single new council will have greater resources available to it and will therefore be more resilient and more able to adapt to future challenges.

10.9. *Political change and conflict between the Councils:* Councils are political organisations and the current Partnership between the two councils carries significant risk to its sustainability in the event of conflict arising in the event of political change, or through conflict arising between the councils. This risk could result in the breakup of the partnership arrangement and the loss of the shared services savings to date, causing intolerable financial pressure for both Councils and this risk would be mitigated by the creation of a single Council.

Opportunities

10.10. A Single Council will support the Government's principles for a Single Council by providing the opportunity for:

- **Improved local public services**
  - Releasing capacity through serving a Single Council which can be refocussed on maintaining and improving services to our residents and businesses
  - Longer term financial stability will enable the delivery of further services
  - Greater and consistent democratic accountability through a single and simplified decision-making model for the whole area
  - A simplification in the relationships with other organisations as a single voice
  - By applying unified and consistent policies for business and communities across the wider geographical area.

Greater value for money

- Protecting the annual shared operating savings of £6 million per annum
- Removing the complexities inherent in serving two councils; a single Council has less complex and administration
- A greater income potential from a single asset strategy across the area
- Contributing to financial sustainability and enabling self- sufficiency

Stronger local leadership

- Influence, locally, regionally and nationally as the largest district Council in Devon
- Having a stronger voice in the context of the Devolution programme
- The combined support of four Members of Parliament and 11 County Councillors whose support is currently fragmented across the two areas with potentially diverse views and interests
- Local, and faster, decision-making by Councillors of the Cabinet with defined portfolio powers
- Increased community focussed roles for non-cabinet Councillors

Cost savings

- Generating annual savings of up to £0.5 million that are currently spent on supporting two separate Councils
- New income when contracts and systems requirements come up for review, and dual arrangements can be replaced with a cheaper single contractual relationship
- Focus on a single asset strategy to generate new income, and one main office base will deliver long term savings
- Income generation from increased Council Tax after a period of harmonisation which will contribute towards the funding gap and improving valued services.
- By only operating a single financial system with one set of accounts and one Audit of accounts

A sustainable future

- Increased income, in the longer term, from the equalisation of Council Tax to give the Single Council a strong, resilient financial base
- The sustainability of existing valued services and the opportunity to deliver further services
- A stronger base for future collaborative working with other organisations.

Appendices

Appendix 1 - Map showing proposed Council Area

Appendix 2 – Analysis of current Councillors and population served

Appendix 3 – Details about the Council areas

Appendix 1

Map of proposed Council Area

One Council
for South Hams and West Devon

Appendix 2

Existing Councillors by population

South Hams District Council 2017				West Devon Borough Council 2017			
Ward	Cllr Numbers	Electorate	Per Cllr	Ward	Cllr Numbers	Electorate	Per Cllr
1 Allington & Strete	1	2416	2416	1 Bere Ferrers	2	2972	1486
2 Bickleigh & Cornwood	1	2287	2287	2 Bridestowe	2	2611	1305
3 Blackawton & Stoke Fleming	1	1840	1840	3 Buckland Monachorum	2	3057	1528
4 Charterlands	1	2257	2257	4 Burrator	2	2964	1482
5 Dartington & Staverton	1	2090	2090	5 Chagford	1	1232	1232
6 Dartmouth & East Dart	3	6361	2120	6 Dartmoor	1	1414	1414
7 Ermington & Ugborough	1	2216	2216	7 Drewsteignton	1	1429	1429
8 Ivybridge East	2	4322	2161	8 Exbourne	2	3109	1554
9 Ivybridge West	2	4748	2374	9 Hatherleigh	2	2404	1202
10 Kingsbridge	2	4579	2289	10 Mary Tavy	1	1377	1377
11 Loddiswell & Aveton Gifford	1	2161	2161	11 Milton Ford	1	1515	1515
12 Marldon & Littlehempston	1	2305	2305	12 Okehampton North	3	4003	1334
13 Newton & Yealmpton	2	4984	2492	13 Okehampton South	2	2940	1470
14 Salcombe & Thurlestone	2	4085	2042	14 South Tawton	1	1609	1609
15 South Brent	2	4205	2102	15 Tamarside	1	1432	1432
16 Stokenham	1	2223	2223	16 Tavistock North	3	3778	1259
17 Totnes	3	6747	2249	17 Tavistock South East	2	3038	1519
18 Wembury & Brixton	2	3774	1887	18 Tavistock South West	2	2982	1491
19 West Dart	1	2068	2068				
20 Woolwell	1	2310	2310				
Wards x 20	31	67978	2193	Wards x 18	31	43866	1415

One Council
for South Hams and West Devon

	Cllrs	Total Electorate	Av per Cllr		Cllrs	Total Electorate	Av per Cllr

Appendix 3

Details about South Hams District Council and West Devon Borough Council

South Hams

1.1. South Hams is the fifth largest geographical district in Devon in both size and employment terms and has the highest business density. Due to the location of Dartmoor National Park within the district's borders, the coastline having Area of Outstanding Natural Beauty status, as well as a number of popular tourist attractions, tourism plays an important role in the South Hams economy. The area's roles are reflected in its sectoral structure as is South Hams' employment specialism in manufacturing.

1.2. South Hams has a low population density of 1.04 persons per hectare (the England average is 4.1), and only 4 of South Hams' 61 parishes, have a population density above this average.

1.3. South Hams District Council has its administrative centre in Totnes and has 31 Councillors across 20 wards serving 84,500 people - an average of 2,193 electorate per Member.

West Devon

1.4. West Devon is the largest geographical district in Devon and is predominantly rural, with almost half of its area falling inside Dartmoor National Park boundary. The Borough is sparsely populated and has a high employment rate, boosted by high self-employment and out-commuting. The accommodation and food sector is highly represented, reflecting the large visitor economy generated by the National Park. Workplace wages in the district are exceptionally low (just 75% of the national average) and therefore many travel outside the district to access higher paid employment.

1.5. The Borough has a low population density of 0.5 people per hectare, considerably below the English average of 4.1, with only three of the Borough's 55 parishes with a population density above this average.

1.6. West Devon Borough Council's offices are in Tavistock; however as the majority of employees are shared between both Councils, office based services are largely delivered from the South Hams office in Totnes. The Council also has a small office and customer service centre in Okehampton. West Devon comprises 31 Councillors across 18 wards serving 54,400 individuals with an average of 1,415 electorate per Member.

One Council

A proposal from South Hams and West Devon

WHAT IS THE PROPOSAL?

This proposal, to create one single new council to serve the areas currently managed by South Hams District Council and West Devon Borough Council, is one of several measures that we are considering to help us close a £1.9 m gap in our finances.

This is a top priority for both councils. If either of us cannot set a balanced budget, there would be severe financial consequences for both of us because we already share one workforce.

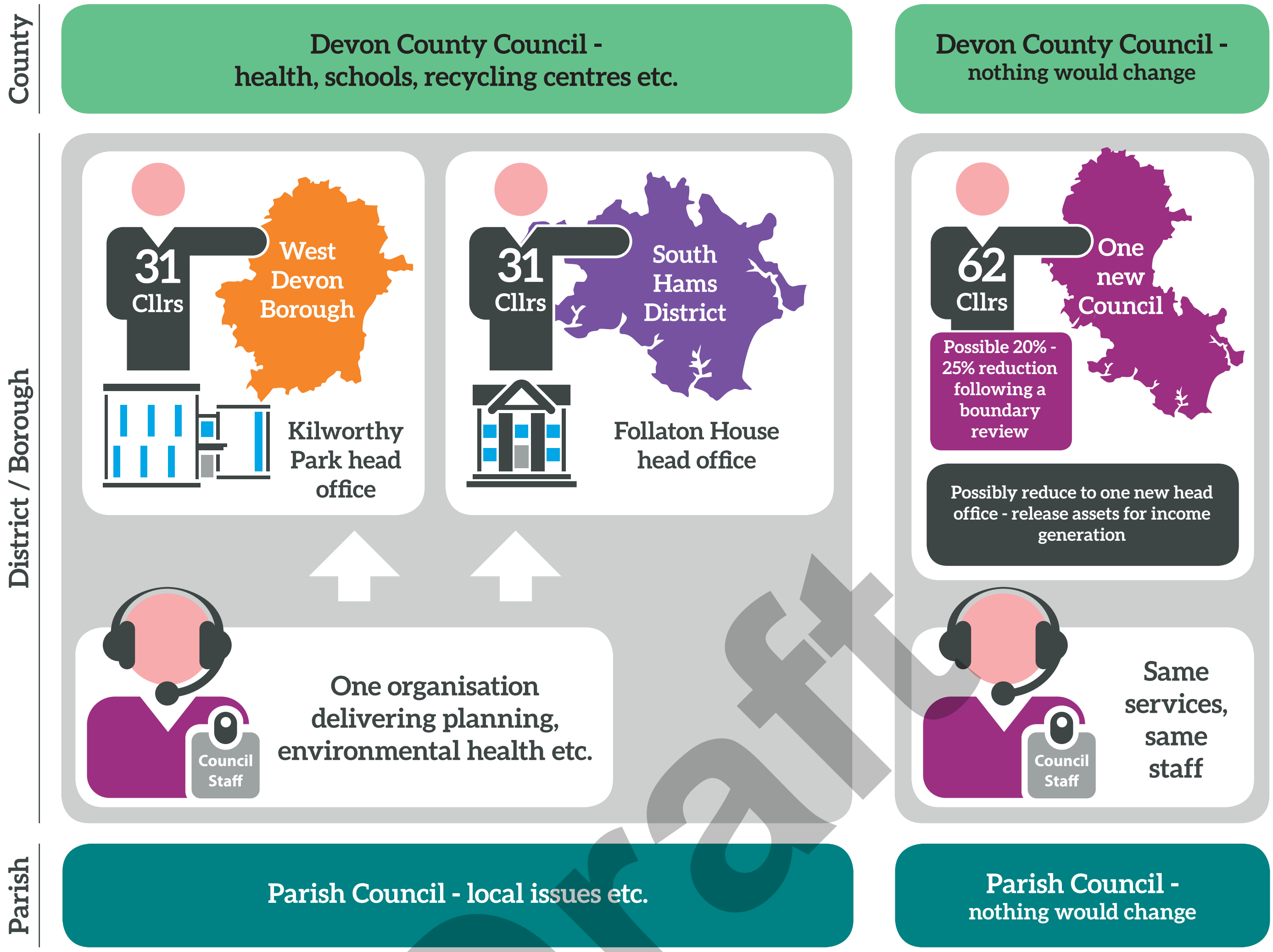
If this were to happen we may lose the ability to set our own future path.

In the proposal, which is one of a number of measures the councils are considering to close the funding gap, South Hams and West Devon predict that the creation of a single council could save up to £0.5 m every year. This is excluding any potential income resulting from an increase in Council Tax. These savings would not be made through cuts to services, but because a single council will cost less to operate.

Both councils have shared a Chief Executive since 2007 and now we also share a joint workforce with many of our policies and procedures aligned. However, during this time the political structures and decision making processes of the two councils has remained completely separate. This means that we still have two Leaders, two sets of councillors, two sets of accounts and two sets of political meetings.

This is a proposal to bring the two political structures together, a natural continuation of the shared service journey that both authorities have been on. It also looks at further savings that could be made by reducing the number of councillors and combining our assets.

HOW IT WORKS NOW — THE PROPOSAL



This proposal lays out how we think the creation of one council would work and how the efficiencies would be achieved. It also includes a timeframe for getting approval from the Secretary of State.

However, before we finalise our proposals and submit them to the Secretary of State who will decide if we can set up a new council, we want to know what you think.

Your opinion will help the secretary of state make a fully informed decision when we submit the proposal later in the year.

Cllr J Tucker
Leader,
South Hams
District Council

Cllr P Sanders
Leader,
West Devon
Borough Council

Cllr S Wright
Deputy Leader,
South Hams
District Council

Cllr L Samuel
Deputy Leader,
West Devon
Borough Council

We want to hear your views

One Council

for South Hams and West Devon

HOW TO HAVE YOUR SAY

From x August until x we will be asking for your opinion. During which time we will be asking you to respond to **6 questions about the proposal.**

(See the questions and more information about the proposal below)

You can access the proposal and the consultation survey via a dedicated website **www.onecouncil.org.uk**

So that you can ask us and our officers' questions, we will be holding briefing sessions at the following times and venues:

TOWN / VILLAGE	DATE OF EVENT	EVENT
Details of events to go here		

You may also get a call from x who are conducting a phone poll on our behalf. They have randomly selected a representative group of people from South Hams and West Devon and will be asking them the same 6 questions.

To stay informed of the process, please do sign up for our dedicated **One Council** newsletter:

(SIGN UP)

www.onecouncil.org.uk

Follow us on twitter and facebook and join in the dicussion

#SHDC #WDBC #ONECOUNCIL

Southhamsdistrictcouncil Westdevonboroughcouncil

WHY DO WE NEED TO CREATE ONE COUNCIL?

Since 2010 there have been huge pressures on all local government budgets, not just locally but across the country. All councils are being asked to find ways of funding themselves and not to be reliant on funding from central government.

South Hams and West Devon are facing a combined funding gap of £1.9 million by 2020. If we don't make changes, the essential services that you rely on will be at risk. To date, neither authority has cut statutory services, those services that the councils are required to provide by law.

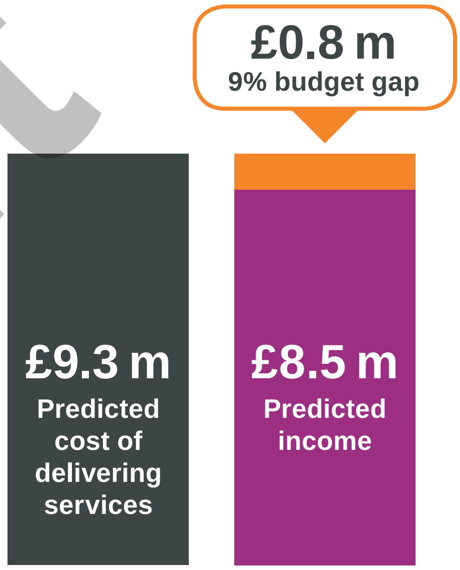
However, it is essential that we make changes now and find better ways of using our resources, or risk having to reduce the levels of statutory services that we currently provide. If either council are unable to close the funding gap, central government could take control of our future and make decisions for us.

At South Hams and West Devon we have always been at the forefront of change in local government, embracing new working practices in order to maintain financial stability without cutting front line services.

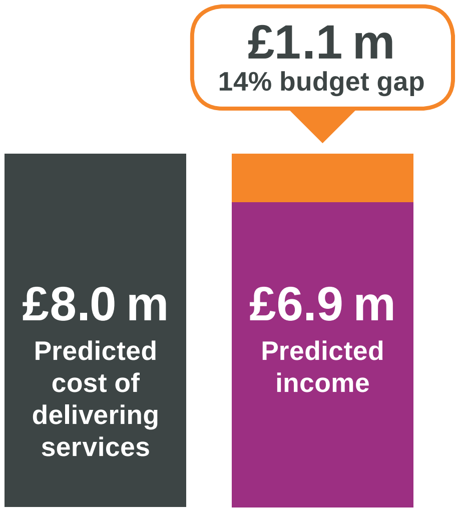
In 2007 we were the first local authorities to share a Chief Executive and we now share one single workforce. Over the years this arrangement has delivered a number of efficiencies, but these savings alone have not been enough to secure our future.

In 2013 we embarked on an award winning transformation programme (T18) which radically altered the way the organisation is structured. The purpose of T18 was to enable both councils to meet their financial obligations up until 2018. With the introduction of new technology and more online services, we got rid of the old council silos, created a more flexible workforce and delivered a combined saving of £5 million.

However, with further cuts to our central government grant and the reduction of new homes bonus funding, we are once again facing a combined £1.9 m funding gap by 2020.



South Hams District Council
Predicted budget for 2020/21



West Devon Borough Council
Predicted budget for 2020/21

THE PROPOSAL TO CREATE ONE COUNCIL

At South Hams and West Devon we are marked by our similarities, we share a common boundary and our areas are both predominantly rural which neighbour more urban areas such as Torbay and Plymouth. Both of us face similar challenges and opportunities for the future.

We currently have 62 elected councillors serving 138,000 people across the two areas. South Hams is the fifth largest geographical district in Devon both in size and employment opportunities and West Devon is the largest and is predominantly rural.

This proposal would see the creation of a new single South and West Devon District or Borough Council to serve both areas from April 2019, with all of the staff and assets from South Hams and West Devon transferred into one new council.

We are in the unique positon of already sharing one workforce. However, by managing two separate political and decision making structures our officers still have to produce two sets of work. If we were to become one council there are a lot of efficiencies that can be made quickly by reducing this duplication of work and enabling officers to focus more on delivering services. As well as significant cost savings we would instantly be delivering better value for money to our customers.

This proposal does include a small reduction in the number of staff, primarily in areas where the duplication of work is the greatest, however, staff reduction is not the focus of this proposal. The formation of one single organisation to service the two councils has already been achieved and we anticipate that any reduction in staff would be less than 10 full time posts.

Further efficiencies could also be made through a reduction in running costs, currently for every piece of software and application that the councils licence, there are two costs. In many instances these could be renegotiated to reflect the cost for one single organisation rather than two, so one website platform, one back office system etc.

If this proposal is approved by the secretary of state we anticipate these initial efficiency savings could generate up to £0.5 m a year.

But this is only part of the story up until 2019. This proposal also looks at the possible reduction in councillors, the rationalization of assets and the equalization of council tax.

REDUCING THE NUMBER OF COUNCILLORS

There is no proposal to reduce the number of councillors before the 1st April 2019. The ultimate intension of the proposal is to reduce the number of councillors by approximately 20-25% in time, but in order to do this the Boundary Commission would be need to conduct a review of all council wards and their representation. Any changes they propose would not come into place until the elections in 2023.

This review would also give us the opportunity to refresh how we work and deliver a new modern local government for a new era. Technology and social media is changing how residents wish to interact with their council, this review would give us the opportunity to ensure that we have the training and tools to meet customers expectations.

As elected councillors we could also redefine our roles, working closely Towns and Parish councils to establish how we can work more effectively with them in the future.

A strong local presence and a desire to resolve customer issues at the first point of contact will remain a fundamental principle of the new council. We currently have a team of locality officers, a team on the ground who work across specific geographic areas and complete a wide range of tasks for many council services.

As an important link between the councillors and the community we see this team as vitally important to help us engage with the communities served by a single council with a large geographic area.

MAKING THE BEST USE OF OUR ASSETS

A new council would need to consider what it does with its property, how to make best use of office space, working arrangements for staff and how this might contribute towards closing the funding gap. All of these assets which currently belong to the two councils would be transferred to the one new council. There would then be a comprehensive review of all of the property and the new council would need to agree a strategy.

The review would need to consider whether the council should retain the two head offices at Killworthy Park and Follaton House or whether they should be sold, redeveloped, used to produce an ongoing income or remain as it is.

It will look at the potential of creating one single head office for the new council, which would reduce operating costs, and whether there could be an increase in partnership working within the community, working closer with other public bodies such as the NHS or the police.

The single council would have to carefully consider its property strategy, it would need to be fully costed and consulted upon. Therefore, any major changes to which buildings the new council operates from are unlikely to take place in the short term.

Any savings or income that could be made from the property strategy would be additional to the savings that we have already identified.

Population figures:
There are over 83,000 people living in the South Hams and 53,000 in West Devon

ONE COUNCIL, ONE VOICE

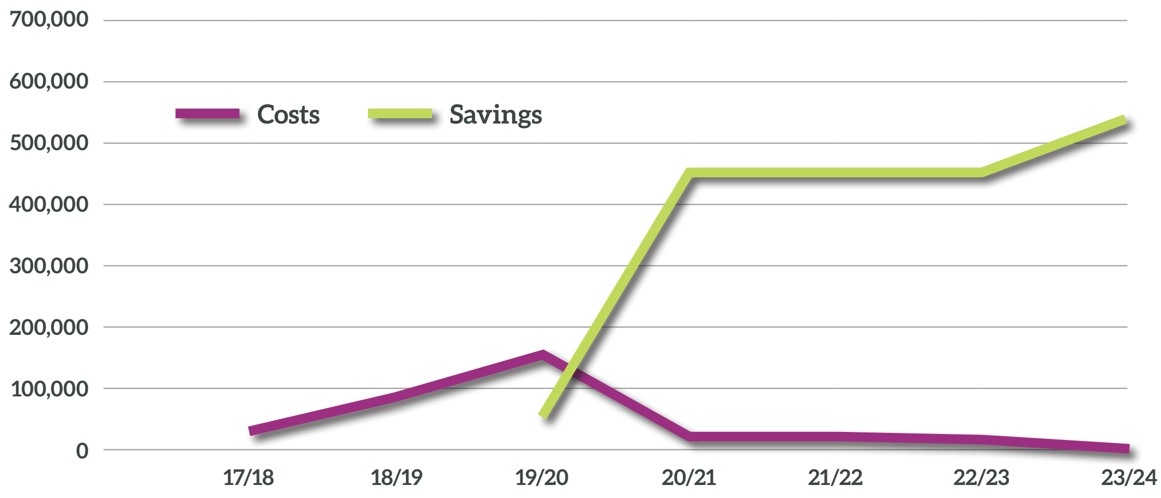
We believe that South Hams and West Devon will be much stronger together as one entity rather than two. Currently West Devon Borough Council has the smallest population of all of the Devon Districts at 54,4000 people and South Hams is somewhere in the middle 84,500 people (2015). The formation of one single council has the potential to create much stronger local leadership which will be representing 138,000 people the second largest in Devon behind Plymouth, with 117 parishes.

The new physical boundary of the two authorities would also create the largest district in Devon, just over 1/3 of the total area covered by Devon County.

This would give our leaders more people power when it comes to debating and negotiating regional issues, giving us a much lounder voice.

THE COSTS

The one-off implementation costs will total £325,000 (the cost will be spread over a number of years) and the annual savings are £0.5 m. The chart on the following page shows costs and savings.



NOW TELL US WHAT YOU THINK

IN THIS FIRST SECTION WE ASK YOU FOR YOUR THOUGHTS ON THE PROPOSAL:

What won't change

- You will still be able to vote for a councillor to represent your Town, Parish and Ward
- Your functions of your Town and Parish Council will remain unchanged
- Services delivered by Devon County Council will be unaffected by this change
- You will still get the same services from your local council only delivered by one council across the whole of South Hams and West Devon instead of two.
- Key strategies such as the Joint Local Plan will not be affected.
- The staffing structure of the councils will largely remain unchanged
- The new council will continue to look for opportunities to work in partnership with Town and Parish Councils

What will change

- There will be one council covering the areas currently administered by South Hams and West Devon
- Ultimately there would be fewer district councillors, a new structure would be in place for the elections in 2023
- There would be a single revenue and capital budget for delivering services in your area with a single set of strategies and policies.
- The name and branding of your local council would change
- The council tax between the two areas is different and will need to be equalized, there is currently a £62.97 difference between the two councils
- The location of your council head office is likely to change over time
- How and where your local council meetings are held could also change

IN THIS SECOND SECTION WE WELCOME YOUR THOUGHTS ON OUR APPROACH TO CLOSING THE FUNDING GAP

What are the other options for closing the funding gap?

In the spring of 2017, we asked our officers to explore how we could close a forecast budget gap of £1.9 m by 2020, and how we could protect the services that we deliver to you.

They came back to use with a number of proposals, which collectively could deliver the savings that we need. They include

- Creating one single council to deliver further efficiencies
- Outsourcing frontline services in South Hams and West Devon
- Setting up a company to run all of South Hams and West Devon's front line services
- Borrowing money and investing it to earn an income

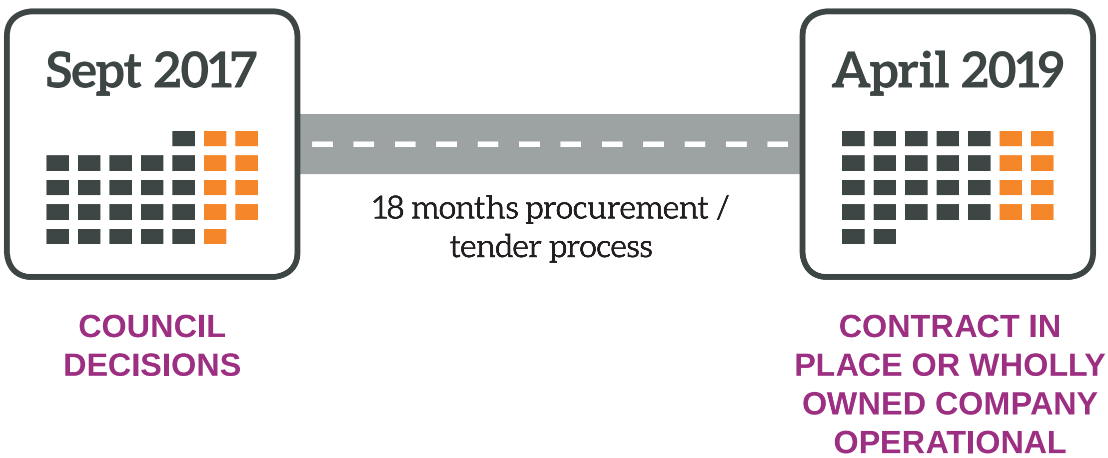
Wholly owned company or outsourcing of frontline services

While holding discussions about whether we could create one single council, we have also been exploring the best options for delivering our front line services such as waste, street cleaning and maintenance. We are currently in the process of testing the market to see what options would be available us.

Once this piece of work is complete, we will know what the best costed options are for us and we will again be asked to decide how we would like to proceed.

We will be choosing between whether we bring all of these services in-house in West Devon, where they are currently outsourced to FCC, to go out to tender and include those services for South Hams as well, bring all of those services for South Hams and West Devon in house or set up a separate company to run those services.

Time frame for decisions



Investing to Earn

We have an ongoing project with a working group of councillors, where we are exploring all of the options available to us to generate an income.

This includes borrowing money and investing it in commercial property so that we can create an investment portfolio that can provide an ongoing income. We are also working on developing a community housing initiative, which is designed to help local residents to determine and deliver appropriate and affordable housing for their communities.

We are also exploring how we could sell our expertise in areas such as environmental health, offering additional food safety advice and generating an income from selling advertising space on our properties and assets.

Time frame for decisions

COUNCIL DECISION ON COMMERCIAL PROPERTY INVESTMENT STRATEGY

COMMUNITY HOUSING INITIATIVE – INITIAL DISCUSSIONS UNDERWAY, WITH FIRST PROPERTIES LIKELY TO BECOME AVAILABLE IN 2 – 3 YEARS

Other initiatives yet to be scheduled

Not one of these options will generate enough income on their own to fill the forecast funding gap. If we do not act now and consider all of these options we will be left with no choice but to reduce the levels of service that we provide.

Consultation Questions

1. Do you support the proposal of creating one new council as one of the options for closing the funding gap and protecting services?

2. Do you have a suggestion for the name of the council?

IN THIS THIRD SECTION WE WANT TO KNOW HOW YOU THINK THIS MIGHT AFFECT YOUR COMMUNITY

Tiered government will remain

Creating one council would leave many things unchanged. You would still be represented at district /borough level by a councillor who you elect, only now they will all belong to one new council covering the whole of South Hams and West Devon.

The new council would have a new name, but it would keep the areas covered by South Hams and West Devon the same, preserving their identities and those of the local communities.

There would still be a two-tier arrangement in place. So Devon County Council would continue to be responsible for services like highways, street lighting and social care, there would be no change to services delivered by DCC as part of forming this new council. As before the new district or borough council would be responsible for services like planning, housing benefits, waste collection and environmental health. There would still be elections for County and District councillors in order to preserve local representation.

Parish and Town councils would still exist and operate in the way they do now, but if we proceed to form a new council, we will be having early conversations with them to see if there are any ways that a new council could improve how we work together.

Will there still be a mayor of West Devon?

Currently West Devon Borough Council has a mayor, but South Hams District Council do not. We would welcome your thoughts on whether the new council should seek to have borough status and a civic mayor.

At West Devon Borough Council, the Mayor is expected to uphold and promote the constitution of the council. They chair the meetings of the full council to make sure that its business is carried out efficiently and to ensure that council meetings are a forum for the debate of matters of concern to the local community and to promote public involvement in the council's activities. In South Hams this function is filled by the Chairman of the council.

Will my council tax be affected?

There is currently a £63 difference (on an average Band D property) between the two authorities. Therefore there would be a need to bring the element that both authorities charge in council tax to the same proportions.

Detail TBC following member meetings.

Consultation Questions

3. Is it important for you that there is a mayor for the combined area covered by the proposal?

4. What benefits do you feel a new single council would bring to your community?

5. Do you think that the proposal might lead to any significant impacts on you, if so what might they be and how could those be reduced?

6. Do you have any other comments to make on the proposal for a new single council?

WHAT HAPPENS NEXT?

After we have gathered your thoughts and comments, we will submit our proposal to the Secretary of State in September, who would then present it to Parliament.

If approved we would be aiming for the new council to be in place by **April 2019**.

Aug - Sept 2017
CONSULTATION

We want to know what you think of this proposal

Autumn 2017
SUBMIT THE PROPOSAL

We would submit the formal proposal to the Secretary of state

July 2018
SECRETARY OF STATE DECISION

The secretary of state would make an initial decision and allow a period for further representations to be made before making their final decision

1 April 2019
NEW COUNCIL

One Council
for South Hams and West Devon

SUMMARY – TELL US WHAT YOU THINK

The consultation to gather your thoughts and comments will run from x to x.

You can tell us what you think, read the proposal or see a list of frequently asked questions visit at:

www.onecouncil.org.uk

Consultation Questions

1. Do you support the proposal of creating one new council as one of the options for closing the funding gap and protecting services?
2. Do you have a suggestion for the name of the council?
3. Is it important for you that there is a mayor for the combined area covered by the proposal?
4. What benefits do you feel a new single council would bring to your community?
5. Do you think that the proposal might lead to any significant impacts on you, if so what might they be and how could those be reduced?
6. Do you have any other comments to make on the proposal for a new single council?

To stay informed of the process, please do sign up for our dedicated **One Council** newsletter:

(SIGN UP)

www.onecouncil.org.uk

Follow us on twitter and facebook and join in the dicussion

#SHDC #WDBC
#ONECOUNCIL

Southhamsdistrictcouncil
Westdevonboroughcouncil

South Hams District Council

South Hams District Council
Follaton House, Plymouth Road,
Totnes, Devon, TQ9 5NE
www.southhams.gov.uk

West Devon Borough Council

West Devon Borough Council
Kilworthy Park, Drake Road,
Tavistock, Devon, PL19 0BZ
www.westdevon.gov.uk

Appendix C

Timetable for creation of a single Council

Action	Date
Proposal for single council and consultation to be debated by the Hub and Executive and approved for consultation with public and key stakeholders	18 and 20 July 2017
Proposal for single council and consultation to be debated by the Councils and approved for consultation with public and key stakeholders	25 and 27 July 2017
Consultation period (public and key stakeholders)	August - September 2017
Final Proposal for a single Council approved by Councils and submitted to Secretary of State for consideration	Autumn 2017
Secretary of State considers the proposal, makes a decision and prepares the Draft Order	Autumn 2017 – Spring 2018
Debated at Parliament	May – July 2018
Final Order made	July 2018
Transition arrangements	July 2018 – March 2019
New single Council formally comes into being	1 April 2019
Elections to new council	May 2019

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Asset Strategy

This document focuses on the land and property assets of the two Councils and sets out initial thoughts on the possible options that a new single Council could consider regarding their treatment. These assets are items which are under the full ownership of each respective Council, such as car parks, green spaces, head office and other operational buildings – such as the Dartmouth Ferry / Salcombe Harbour, depot locations, public conveniences, potential development sites and non-operational property - such as industrial units and investment land. Non-operational land typically generates income for the two respective Councils, as do some parts of head office locations which are let to third parties.

At present, the two Councils have customer facing locations at Tavistock and Totnes, along with a customer service centre at Okehampton. Limited customer interactions take place at the Council owned and operated depot sites in the South Hams.

A new Council would need to consider its future asset strategy, i.e. is there a continued need for two large head offices and how best can the new single Council support its customers across both areas who need access to Council staff.

Any change to the property strategy would need to be carefully considered, costed and consulted upon and therefore major changes are unlikely to be appropriate in the short term.

Options regarding the combining of Council assets
There are number of options as to how the assets & liabilities of both Councils will be treated. For example, the treatment of:

- Liabilities / Revenues accruing from non-operational land or premises
- Liabilities / Revenues accruing from operational land or premises
- Liabilities / Revenues from existing or proposed asset developments / sales / acquisitions;
- Reserves held to cover specific capital items
- Other allocated or unallocated reserves
- Benefits accruing under s106 agreements.

Where legally permissible, Members could opt to combine everything and consider these assets as a whole OR segregate assets by their former owner and distribute any benefit or liability only within the former owner's district / borough.

The former option would generate the maximum benefit across the combined area and be simpler and more efficient to administer. If the decision to form a single Council is made, within the next election cycle it is envisaged that a boundary review would be completed and council tax revenues would be harmonised across both Council areas. Therefore, both South Hams and West Devon would be served by a single elected Member base and a single workforce, working together to maximise the use and potential of the single Council's combined assets for the benefit of all residents.

The latter option would impinge on the single Council's ability to deliver the maximum benefit for all residents.

How the combining of assets should be dealt with needs further discussion and Member consideration if and when the decision to form a single Council is made.

Options regarding the operational bases
If Members opted to form one single Council, the new Council could consider:

- A comprehensive review of the Councils' operational locations
- Combining operational assets of both Councils
- Increased partnership working closer to communities, with officers or committees co-locating with other public bodies (e.g. the police, the NHS, DCC, Town Councils) or in community buildings to reduce or avoid the need for customers / staff / Members to travel large distances to conduct Council business
- Devolving certain decisions to other bodies reducing the need for physical premises in certain areas
- The potential disposal and/or redevelopment of the two head office locations

Both Councils already have a flexible workforce who can work from any location. Assuming that the needs of the single Council differ to that of the existing organisation, it is likely that the Council will require a smaller 'footprint' of dedicated floor space. Options available include:

- Full letting of existing buildings to third party organisations
- Redevelopment of the head office site(s)
- Disposal of certain buildings
- Remain as is

Kilworthy Park, Tavistock

- Current estimated value* @ 1/4/17: £2.4m
- This site currently has 7 tenants, occupying approx. 31% of the lettable area.
- The site currently generates £75k per annum in rent from the let areas.
- All existing tenants (bar one) are on non-secure tenancies, meaning that they can be evicted at no cost at the end of their tenancy. However one tenant is on a secure tenancy, meaning that they would need to be paid compensation to vacate the building if a valid reason for their eviction can be given (such as redevelopment of the building). An estimate of this compensation has not been calculated.
- Existing third party leases expire at different times. None extend beyond 6 years.
- If the areas currently occupied by SHWD were to be let to a third party as a whole, this could generate an additional £136k pa in income
- In total, the whole building could potentially yield £211k pa – However, in reality it may be difficult to let the entire space as office accommodation, as there is little demand for office accommodation of this size and type in this location.

**In-house RICS valuation based on a capitalised rental valuation.*

Note: Prudential borrowing was taken to facilitate the refurbishment and extension of Kilworthy Park. This borrowing is not secured against the property and therefore does not restrict the options open to the Council.

The borrowing was taken on a maturity basis and a reserve has been created to fund the capital repayment of the loan. The loan maturity is not due for another 36 years (expiring 2053).

Follaton House, Totnes

- Current estimated value* @ 1/4/17: £5.4m
- This site currently has 5 tenants occupying approx. 22% of the lettable area.
- All existing tenants are on non-secure tenancies, meaning that they can be evicted at no cost at the end of their tenancy.
- The third party leases expire at different times. None extend beyond 6 years.
- The site currently generates £150k per annum in rent from the let areas.
- If the areas currently occupied by SHWD were let to a third party as a whole, this could potentially generate an additional £324k pa in income.
- In total, the whole building could potentially yield £474k pa in rental income. In reality it may be difficult to let the entire space as office accommodation, as demand for such accommodation has not been market tested.

The Follaton House valuation is based on the existing building in its existing use along with an assumed valuation of the grounds. However, incremental value could be created by developing residential accommodation within the grounds (in addition to the existing office accommodation) or the site could be redeveloped into other uses. This is likely to be acceptable in planning terms, but would require a full options appraisal and business case.

**In-house RICS valuation based on a capitalised rental valuation.*

Centralised Head Office Location
There is an opportunity for a new Council to develop a purpose built head office located in a more convenient location than the current bases at Tavistock and Totnes. Any new building would have inherently lower operating costs than the existing head office locations.

A new building could accommodate the single Council and some of the existing tenants (if they wanted to move with the Council) or have the potential to include lettable areas for other tenants, thereby offering economic inward investment and additional employment benefits to the local community and opportunities for the further income generation for the Council.

Employment land values have been estimated at c. £200,000 an acre and construction costs are estimated at £2,500 per m^2 for an office development. This could mean a £5m investment for a new, fully owned building. A £1m s106 employment contribution from the Langage Power Station could be used to support such an initiative, if there is demonstrable economic benefit and creation of new industrial / employment accommodation.

Combined Asset Base and Balance Sheet for a new Single Council
A single Council would have an Asset Base valued at over £95m. Below is a summary of how the single Councils balance sheet could look, based on the 2016/17 Unaudited Statement of Accounts of both Councils:

	South Hams District Council £'000s	**West Devon Borough Council £'000s**	**Combined Single Council £'000s**
Long-Term Assets	76,089	19,526	95,615
Current Assets	36,568	12,182	48,750
Current Liabilities	(12,975)	(5,597)	(18,572)
Long-Term Liabilities	(57,843)	(29,020)	(86,863)
NET ASSETS	**41,839**	**(2,909)**	**38,930**
Usable Reserves	18,866	5,482	24,348
Unusable Reserves	22,973	(8,391)	14,582
TOTAL RESERVES	**41,839**	**(2,909)**	**38,930**

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Appendix E - Council Tax Equalisation

The following table shows a set of possible options for the equalisation of Council Tax. There are many different ways in which this could be achieved. The number of years over which Council Tax can be equalised can be anywhere between 1 and 5 years. The options in the table below have been equalised over 3 years and 5 years for modelling purposes. The impact of council tax equalisation on the level of council tax income achieved also varies depending on the option chosen.

In the table below, income from each option is compared to the level of council tax income already assumed within each Council's Medium Term Financial Strategy (The MTFS already assumed a £5 increase in council tax per annum).

All of the Options assume that the SHDC Band D Council Tax of £155.42 (17/18) increases by £5 to £160.42 in 18/19 and that the WDBC Band D Council Tax of £218.39 (17/18) increases by £5 to £223.39 in 18/19.

The maximum increase allowed whilst remaining within the council tax threshold would be a £5 increase in the combined Band D and combined Taxbase which is Option 3. DCLG have confirmed that the Council can submit options that also include those that exceed the council tax threshold and this will be considered by Ministers.

Option	Combined Band D Equalised To (£)	Impact on SHDC Band D (£)	Impact on WDBC Band D (£)	Difference in Council Tax Income in 2019-20 (£) Yr1	Difference in Council Tax Income in 2020-21 (£) Yr2	Difference in Council Tax Income in 2021-22 (£) Yr3	Difference in Council Tax Income in 2022-23 (£) Yr4	Difference in Council Tax Income in 2023-24 (£) Yr5
Option One Flat Band D combined	£177.33 by 2021-22	Increase of £5.64 for 3 years (3.5% increase in 19-20)	Decrease of £15.35 for 3 years (6.9% decrease in 19-20)	Decrease of £0.4m	Decrease of £0.8m	Decrease of £1.2m	Decrease of £1.2m	Decrease of £1.2m
Option 2 – 2% increase in combined Band D	£191.95 by 2021-22	Increase of £10.51 for 3 years (6.6% increase in 19-20)	Decrease of £10.48 for 3 years (4.7% decrease in 19-20)	Decrease of £0.1m	Decrease of £0.2m	Decrease of £0.3m	Decrease of £0.3m	Decrease of £0.3m
Option 3 - £5 increase in combined Band D	£197.32 by 2021-22	Increase of £12.30 for 3 years (7.7% increase in 19-20)	Decrease of £8.69 for 3 years (3.9% decrease in 19-20)	Nil	Nil (1K extra)	Nil (2K extra)	Nil (1K less)	Nil (5K less)
Option 4 –	£223.39 by	Increase of	Nil increase	Extra	Extra	Extra	Extra	Extra

Option	Combined Band D Equalised To (£)	Impact on SHDC Band D (£)	Impact on WDBC Band D (£)	Difference in Council Tax Income in 2019-20 (£) Yr1	Difference in Council Tax Income in 2020-21 (£) Yr2	Difference in Council Tax Income in 2021-22 (£) Yr3	Difference in Council Tax Income in 2022-23 (£) Yr4	Difference in Council Tax Income in 2023-24 (£) Yr5
bring South Hams up to WD in 3 years - then freeze for 2 years	2021-22 then freeze for 2 years	£20.99 for 3 years (13.1%) then freeze for 2 years	for 5 years WDBC Band D frozen	£0.5 million	£1.03 million	£1.6 million	£1.3 million (council tax frozen)	£1.0 million (council tax frozen)
Option 5- bring South Hams up to WD in 3 years – WD increases £5 per year – then freeze for 2 years	£238.39 by 2021-22	Increase of £25.99 for 3 years (16.2% increase in 19-20) then freeze for 2 years	Increase of £5 for 3 years then freeze for 2 years	Extra £0.8 million	Extra £1.6 million	Extra £2.5 million	Extra £2.2 Million (council tax frozen)	Extra £1.9 Million (council tax frozen)
Option 4a – bring South Hams up to West Devon over 5 years (WD freezes for 5 years)	£223.39 by 2023-24	Increase of £12.59 for 5 years (7.9%)	Nil increase for 5 years (WDBC level frozen)	Extra £0.2 million	Extra £0.4 million	Extra £0.6 million	Extra £0.8 million	Extra £1.0 million
Option 5a – bring South Hams up to West Devon over 5 years (WD increases by £5 for 5 years)	£248.39 by 2023-24	Increase of £17.59 for 5 years (11%)	Increase of £5 for 5 years	Extra £0.5 million	Extra £1 million	Extra £1.5 million	Extra £2.0 million	Extra £2.5 million

Explanation of the Options

The Options above explain how Council Tax Equalisation could be achieved.

For example in Option One, the South Hams Band D increases by £5.64 each year for 3 years until it equalises at £177.33 in 2021-22. The West Devon Band D reduces by £15.35 each year for 3 years until it also equalises at £177.33 in 2021-22. This option is within the council tax threshold but it means that overall the combined Council loses council tax income of £0.4 million in 19/20 and by 21/22 the loss of council tax income increases to £1.2 million (the loss of council tax income is in comparison to each Council's current MTFS). The greyed options show where there is a loss of council tax income overall.

Option 3 is within the council tax threshold and means that the South Hams Band D would increase by £12.30 for each year of 3 years, until it equalises at £197.32. The West Devon Band D would reduce by £8.69 each year for 3 years, until it also equalises at £197.32 in 2021-22. This option more or less produces the same amount of council tax income as that already modelled in the MTFSs for each Council (a slight additional council tax income of £2K is generated by 2021-22).

Options 4 and 5 start to produce a higher amount of council tax income than that already modelled in the MTFSs for each Council. Option 4 generates an additional £1.6 million by 2021-22 (yr. 3) and Option 5 generates an additional £2.5 million by 2021-22 (yr. 3). The reason these two options produce a higher level of council tax income is because in these options the West Devon Band D is not equalised downwards. Instead, the South Hams Band D is brought up to meet the West Devon Band D, with the Band D for West Devon being frozen at £223.39 in Option 4. In Option 5, more council tax income is achieved as the West Devon Band D is increased annually by £5 per annum and the South Hams Band D is brought up to this level over the 3 years of equalisation. Options 4 and 5 exceed the level of the council tax threshold.

Options 4 and 5 have been extended another two years into 2022-23 (Yr4) and 2023-24 (Yr. 5) to show the impact on the council tax income produced if in both these options council tax was frozen by the combined Council in Year 4 and Year 5. So for example Option 4 means there is additional council tax income generated of £1.6 million by Year 3 (2021-22) and this income reduces by £300,000 to £1.3 million in Year 4 if council tax is frozen. Council tax income further reduces to £1 million by Year 5.

Options 4a and 5a show the figures if Council Tax is equalised over 5 years (rather than 3 years). So for example in Option 5a, the South Hams element increases by £17.59 for 5 years (11% increase) and the West Devon element increases by £5 for 5 years. This generates additional council tax income of £2.5 million by Year 5 (2023-24).

DCLG have confirmed that a few options (say 3 to 4) can be presented to Ministers for consideration.

Prepared by Lisa Buckle 14 June 2017

Additional Evaluation of Option 5 and Option 5a for Council Tax Equalisation

The preferred options of the Joint Steering Group for equalising council tax are Options 5 and 5a.

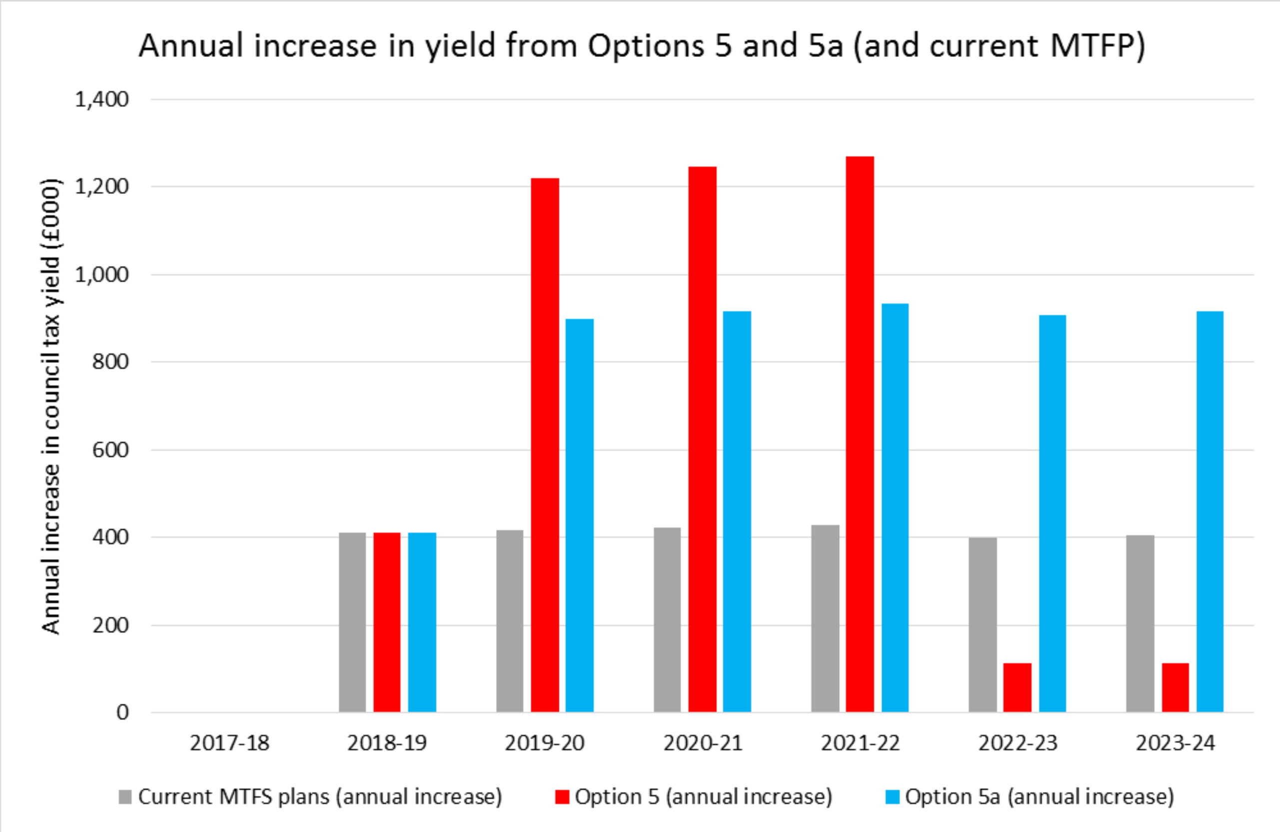
	Option 5	Option 5a
WDBC Annual increase in Band D - This sets out the impact on West Devon residents	£5 increase in West Devon Band D each year for first three years; then frozen for Year 4 and Year 5	£5 increase in West Devon per year for each of the 5 years
SHDC Annual increase in Band D – This sets out the impact on South Hams residents	£25.99 increase in South Hams Band D each year for first three years (16.2% increase), then frozen for Year 4 and Year 5	£17.59 increase in South Hams per year for each of the 5 years
Value of Band D that is equalised to by Year 5 (2023-24)	£238.39 by 2021-22	£248.39 by 2023-24
Equalisation period	3 years	5 years
Council tax threshold	Exceeds council tax threshold	Exceeds council tax threshold

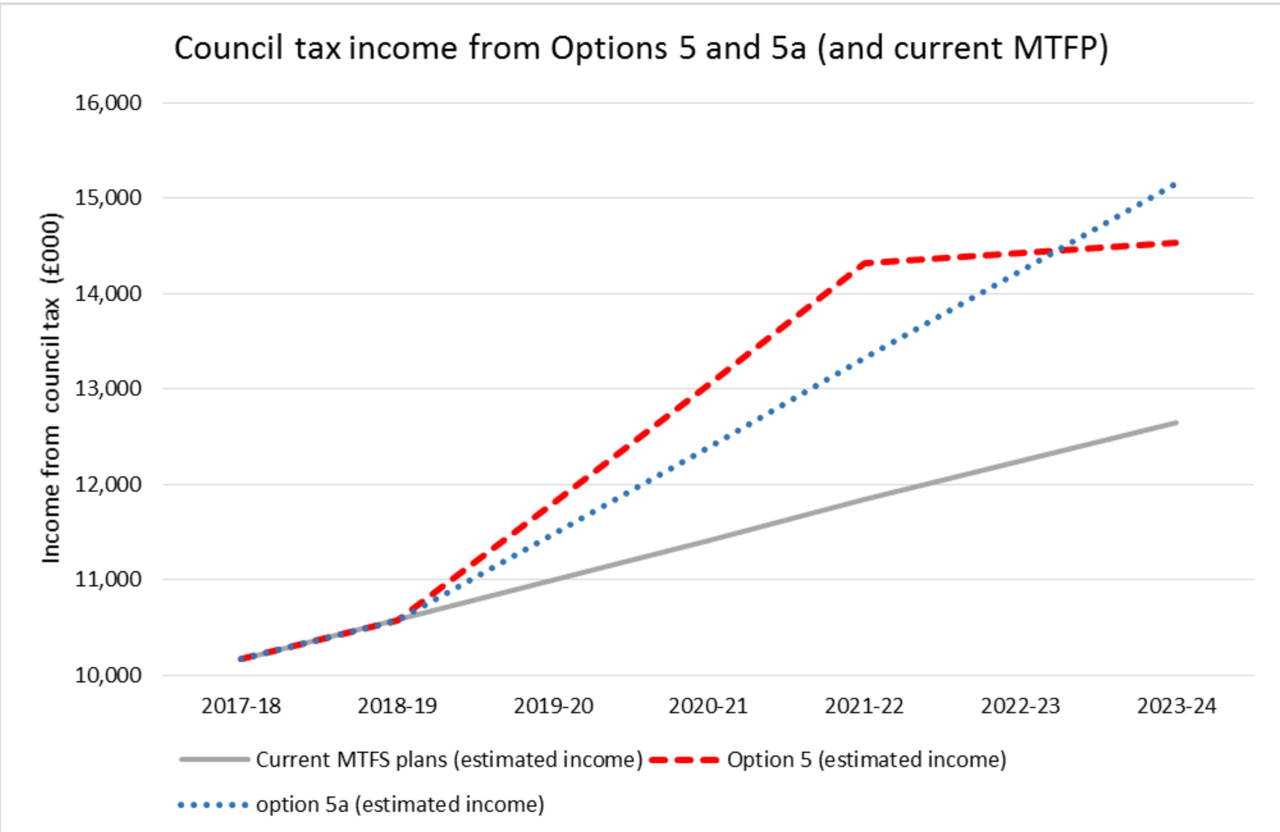
The table shows (a) the annual increase in yield for each option and (b) the estimated total income from each option. The estimated income from the current MTFS projections is also shown for comparison.

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Annual increase in yield							
Current MTFS plans		409	416	423	429	400	405
Option 5		409	1,219	1,245	1,271	219	221
Option 5a		409	898	916	934	906	917
Estimated income from council tax							
Current MTFS plans	10,166	10,575	10,991	11,414	11,843	12,243	12,648
Option 5	10,166	10,575	11,795	13,040	14,310	14,529	14,750
Option 5a	10,166	10,575	11,473	12,389	13,323	14,229	15,147

The first chart shows the increase in yield in each financial year for each option. Option 5 generates large increases in yield in the first 3 years of the new single council (years 2019-20, 2020-21, and 2021-22), followed by flatter yield thereafter (there are small increases due to the growth in taxbase). Option 5a has slower growth in yield – because the equalisation of South Hams takes place over 5 years rather than 3 – but the yield after 5 years is higher. This is because the average Band D council tax is increased by £5 per year for each year (5 years in total), whereas Band D council tax effectively only increases by £5 per year for the first 3 years.

Future growth in yield will depend on decisions the new council makes about increases in its Band D council tax (and the growth in taxbase). However, option 5a would give the new council a higher base from which to grow its council tax, and would give the new council the opportunity to continue with yield that is some £610,000 higher.


Annual increase in yield from Options 5 and 5a (and current MTFP)
Annual increase in council tax yield (£000)
1,400
1,200
1,000
800
600
400
200
0
2017-18
2018-19
2019-20
2020-21
2021-22
2022-23
2023-24
Current MTFS plans (annual increase)
Option 5 (annual increase)
Option 5a (annual increase)


Council tax income from Options 5 and 5a (and current MTFP)
Income from council tax (£000)
16,000
15,000
14,000
13,000
12,000
11,000
10,000
2017-18
2018-19
2019-20
2020-21
2021-22
2022-23
2023-24
Current MTFS plans (estimated income)
Option 5 (estimated income)
option 5a (estimated income)

Advantages of Option 5

Option 5 tackles equalisation more rapidly so that a freeze in Years 4 and 5 can be offered	Option 5 tackles equalisation more rapidly (over 3 years) and gives the new council the opportunity to use savings from the combined Council to offer a freeze in Year 4 and Year 5. This is an opportunity to demonstrate to residents that the new council has delivered real benefits.

Advantages of Option 5a:

More gradual increase in Band D council tax in Option 5a	Growth in council tax income is more gradual for Option 5a, with increases in council tax being more gradual. Band D for residents in South Hams is increasing by £17.59 per year (which includes both an element for equalisation and the underlying £5 increase in Band D). In option 5, Band D increases by £25.99 per year for 3 years for South Hams (and then is frozen).
Higher base for council tax income in Option 5a	The base for council tax income is higher for the single council at the end of the 5-year period in Option 5a. Band D has continued to increase by £5 per year across the whole 5-year period, and so the base is higher. The yield from council tax is £610,000 higher in Option 5a, which gives the new council greater scope to generate income from council tax in the future. Under this option, the single Council has £610,000 more council tax income from Year 6 onwards as the Band D equalised to is higher at £248.39.

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Report to:	**Council**
Date:	**25 July 2017**
Title:	**Commercial Property Acquisition Strategy**
Portfolio Area:	**Cllr Philip Sanders, Leader of the Council, Strategy & Commissioning**
Wards Affected:	**All**
Relevant Scrutiny Committee:	**Overview & Scrutiny Committee**
Approval and clearance obtained:	**Yes**
Urgent Decision:	**No**
Date next steps can be taken:	**After Meeting**
Authors:	Invest to Earn Working Group, Members: **Cllrs Baldwin, Edmonds & Jory** **Darren Arulvasagam,** **Group Manager, Business Development** Darren.Arulvasagam@swdevon.gov.uk

RECOMMENDATIONS

That Council:

1. **APPROVE & IMPLEMENT the proposed commercial property acquisition strategy as detailed in Appendix A**
2. **AGREE that officers conclude an appropriate procurement process to commission specialists to work on behalf of the Council in relation to the proposed commercial property acquisition strategy**
3. **DELEGATE individual commercial property portfolio purchase and disposal decisions to the Head of Paid Service, in consultation with the Council's S151 officer, the Leader and the appointed Chair of the 'Invest to Earn' working group**
4. **BORROW funds on fixed rate terms from the appropriate source in order to pursue this strategy. To complete tranche 1 this would require borrowing of up to £26.75m (£25m plus acquisition costs of 7%)**

1.0 **Executive Summary**

1.1 On 20th June 2017 the Hub committee considered a report entitled "Commercial Property Investment" and unanimously approved its recommendations. This report seeks to update Members on that decision and provide further rationale behind those proposals and further clarify the governance arrangements. It also renames the initiative, to more closely follow the legal opinion obtained.

1.2 The Council is facing a budget gap for 2018/19 of £0.701m as detailed in the Medium Term Financial Position, as reported to Hub Committee on 18th July. Action is required to close this gap.

1.3 The objective of this proposed strategy is to generate revenue streams to contribute to the financial sustainability of the Council, enabling it to continue to deliver, and where possible improve, frontline services in line with the Council's adopted strategy & objectives.

1.4 Additionally, regeneration efforts within the Borough can be funded from revenue generated by the implementation of the strategy. It will be necessary for officers to continuously review on a case by case basis which areas within the Borough can benefit from the revenue generated from the acquisition of properties.

1.5 Revenue generation would be achieved by the focussed acquisition of existing commercial property assets using predominantly prudential borrowing or any other unallocated or available Council reserve or capital receipt. Income is designed to contribute closing the Council's predicted budget shortfall from 2018/19.

1.6 If ultimately approved in this form, the strategy could see the Council building an additional commercial property portfolio with a maximum budget of £75m plus an additional 7% of that sum in acquisition costs. Any property acquired would conform to the proposed strategy detailed in Appendix A. This report seeks approval to the first tranche of £25m plus the additional 7% acquisition costs.

1.7 It is important to note that the elected 'Invest to Earn' working group will consider each and every acquisition on its own merits. Building a balanced property portfolio conforming to the proposed strategy could take up to two years from now. If approved, the Council will implement this strategy with the aid of commissioned property experts, whose costs are included within the financial projections.

1.8 Portfolio performance will be closely monitored by the 'Invest to Earn' working group and the Council's Senior Leadership Team. It is also proposed that portfolio performance will be reported to the Council's Audit Committee on a quarterly basis.

1.9 The proposed strategy and/or implementation could be amended or ceased at any point prior to the full acquisition budget being expended, if Members determine that market conditions deteriorate sufficiently to make the strategy financially unattractive. The 'Invest to Earn' working group retain the right to review the acquisition strategy at any time.

1.10 The Council will not be able to fund its forecast budget deficit through normal efficiency savings or transformation alone, nor is continuous service reduction a realistic option, therefore other methods of income generation must be considered as an alternative strategy.

1.11 This Property Acquisition Strategy identifies an alternative key source of income that could potentially deliver a major element of the required savings. The strategy is being recommended as a key deliverer of income: it must be understood that its principal purpose is not to drive regeneration in West Devon, rather as an income producing fund identifying properties from anywhere in the country that will deliver the required returns (which can be used to help take forward regeneration and other Council priorities).

1.12 It must be noted that alternative efficiencies and sources of income still need to be identified to close the Council's budget gap are two of these are on the Council agenda at this meeting. If pursued, this recommendation presents the Council with significant achievable revenue streams in-year, whereas other opportunities will take longer to realise and are not solely capable of achieving the required quantum.

1.13 Property acquisition is a dynamic area which generally does not sit well with traditional officer, committee, Council meeting schedules and structures. Decisions often need to be made quickly otherwise opportunities can be missed. Research shows that where Councils undertake this activity, there is an increasing level of delegation, enabling them to move quickly when properties come to the market. This report recommends that decisions are delegated to the head of paid service, in line with the strategy detailed in Appendix A.

1.14 Appendix D to this report is entitled "Governance & Risk Aspects of the Proposed Commercial Property Acquisition Strategy". This details the governance and risk aspects of this proposal and also highlights other local authorities which are also pursuing similar strategies.

2. **Background**

1.1. During 2015/16 the Council reviewed its priorities and Members agreed that their top priority was to achieve financial sustainability. The Members also stated that they did not want to see a reduction in the level and quality of the services delivered to their communities.

The Council's adopted Medium Term Financial Position (MTFP) is based on a financial forecast over a rolling five year timeframe to 2022/23 The following table illustrates the forecasted budget gap from 2018/19 onwards as reported to Hub Committee on 18th July 2017:

	2018/19 £	**2019/20 £**	**2020/21 £**	**2021/22 £**	**2022/23 £**
Cumulative budget gap	701,360	1,009,001	1,093,743	1,166,987	1,007,980
CUMULATIVE BUDGET GAP OVER THE FIVE YEARS TO 22/23					**£1,007,980**

*Cumulative position is for illustrative purposes only. In reality, Councils must submit a balanced budget each year.

2.4. The above table shows that the budget gap facing the Council for 2018/19 is £0.701m. This means that over the period to 2022/23 the above amounts need to be found by way of savings or additional income generation.

2.5. A variety of investment instruments are available to the Local Authority market. These were discussed in the March 28th report entitled "Investment in Commercial Property" and are not repeated here. Please refer to that report for more information or to understand why pursuing a Commercial Property Acquisition Strategy is being proposed above other options and how the strategy being proposed has been justified. This strategy and direction of travel was noted by Members at that time.

2.6. To achieve financial sustainability, based on the current MTFS, the Council needs to generate or save c.£1m pa. Assuming a target gross yield of 5.85% and taking borrowing over 50 years at current Public Works Loan Board (PWLB) rates, the Council would need to budget £80.25m to generate the £1m required. Further detail about this can be found in Appendix A and B.

3.0 Commercial Property Acquisition

3.1 Members recently approved the formation of a Member 'Invest to Earn' working group. This group have worked with officers to formulate the Commercial Property Acquisition Strategy and Business Plan shown at Appendix A and B.

3.2 The portfolio objective is to generate recurrent revenue streams to contribute to the financial sustainability of the Council, enabling it to continue to deliver frontline services in line with the Council's adopted strategy & objectives.

3.3 Additionally, regeneration efforts within the Borough can be funded from revenue generated by the implementation of the strategy. It will be necessary for officers to continuously review on a case by case basis which areas within the Borough can benefit from the revenue generated from the acquisition of properties.

3.4 If the proposed strategy as shown in Appendix A is adopted, it is proposed that the Council commits a maximum budget of £80.25m to acquire £75m in commercial property, plus a further 7% of that sum (£5.25m) to cover related acquisition costs towards this strategy, in order to build a commercial property portfolio within 24 months. It is proposed that this spend is split into tranches, with the first tranche of spend totalling £25m plus acquisition costs. The remaining £50m would be requested in future tranches, once Members are satisfied with the success of the strategy.

3.5 The elected 'Invest to Earn' working group would consider each and every acquisition on its own merits and to build a balanced property portfolio conforming to the proposed strategy could take up to two years from now.

3.6 This report recommends that decisions are delegated to the head of paid service, in line with the strategy detailed in Appendix A.

3.7 Portfolio performance will be closely monitored by the 'Invest to Earn' working group and the Council's Senior Leadership Team. It is also proposed that portfolio performance will be reported to the Council's Audit Committee on a quarterly basis.

3.8 The proposed strategy and/or implementation could be amended or ceased at any point prior to the full acquisition budget being expended, if Members determine that market conditions have deteriorated sufficiently to make the strategy financially unattractive. The 'Invest to Earn' working group retain the right to review the acquisition strategy at any time.

3.9 Acquisitions will be made using predominantly prudential borrowing or any other unallocated or available Council reserve or capital receipt. It is envisaged that borrowing will be undertaken, over a maximum 50 year term, but ultimately this is at the discretion of the s151 officer in line with the Council's adopted Treasury Management Strategy and Affordable Borrowing Limits.

3.10 The portfolio will target a gross yield of 5.85%. The strategy will be reviewed on an annual basis.

3.11 Following the Finance & Investment principles workshop, held on December 5th 2016, a Member survey was undertaken to understand Member appetite for acquiring a commercial property portfolio. 16 elected Members participated in the survey. Of those:

3.11.1 94% said the Council should acquire a commercial property portfolio to sustain the Council's revenue position

3.11.2 69% said investment should be made into a mixed estate (no sector preferred) but with the decision based on availability and acceptable risk

3.11.3 94% said it was acceptable or desirable to acquire properties outside of the district

3.11.4 94% said it was acceptable for the Council to take on borrowing to acquire such an estate

3.12 Initially, it is proposed that the Council appoint property experts to work on its behalf to source acquisition opportunities.

3.13 Legal counsel opinion along with specialist legal and treasury management advice has been obtained. This confirmed that the Council has the legal powers to pursue its intended strategy, purchasing properties in and outside of the district, utilising prudential borrowing and holding such acquisitions on its balance sheet.

4.0 **Options available and consideration of risk**

4.1. Members could opt to follow, amend or reject the recommendations.

4.2. The overall quantum of this strategy is designed to provide sufficient income to cover the current predicted budget gap in its entirety. This approach has been assessed as part of the treasury management advice procured (affordability requirements). If the total budgeted amount were to be reduced, the income generated would not be sufficient to create financial sustainability.

4.3. If Members chose to vary the target portfolio yield, overall budget, or funding source, different financial outcomes would be achieved.

4.4. There are risks that should not be discounted:

4.4.1. **Market Forces** - fluctuations in demand and supply of the individual market and the wider economy will see the value of acquisitions and the income rise and fall, the Council may not recoup the original amount spent in full. To mitigate this risk, criteria to diversify for purchase can be adopted and due diligence will be followed for all transactions

4.4.2. **Liquidity -** The process of buying and selling property, in relation to some other forms of investment, is complex and can result in transactional delay and uncertainty which carries risk from market shift, abortive transactional costs and inability to realise "sale" capital quickly. This risk can be managed and improved through good portfolio management. The Council will partner with external experts to manage the acquired portfolio, as in-house skills are limited and at capacity. It is proposed that the Council takes a significant sum in borrowing to finance the acquisition of a commercial property portfolio

4.4.3. **Opportunity -** The availability of asset stock is generally limited; there will be times where lack of or lost opportunities through negotiation and competition will frustrate the process. This is often exacerbated by a general lack of transparency and openness in the market creating barriers to entry. To counter this and to offset the lack of internal skills, suitably qualified property experts will be commissioned to seek out as many appropriate opportunities as possible, build relationships and communicate to the market the Council's requirement and ability to perform

4.5. The capital value of any property can go down as well as up, and therefore the capital redeemed at the end of the term could be less than the sum initially expended.

4.6. This acquisition strategy is based on revenue income. Capital value fluctuations, up or down, have not been factored into the financial calculations. A drop in capital value would not immediately affect the Council’s cash flow position. It would however affect the yield, but the impact of this would be only be felt if a rent review was due. The purpose of developing a balanced, diversified portfolio is to mitigate against market fluctuations affecting a single sector, geographic area or tenant. A reduced capital value may also hinder or delay the disposal of an asset, however it is not envisaged that properties will be traded within the first 5 – 7 years. Furthermore, PWLB lending is not secured against property, so the Council could opt to lose money on one property if the overall capital value of the portfolio is greater than the lost capital value.

4.7. If approved, a sinking fund will be created, funded by 5% of any rent received. This is shown in the financial considerations, appendix B. This sinking fund will be used to fund any capital required improvements or offset any rental voids.

4.8. The models presented in Appendix B show that the interest repayments are c44% of the rent payments received. The strategy is predicated on a diversified, balanced portfolio. This means acquiring properties across different asset types, geographies, lot sizes and tenants. Because of this approach, it is extremely unlikely that all tenants would default or that all properties will become void at the same time. This mitigates the risk to the Council's finances.

4.9. Commentators and property experts have estimated that in the UK, LA's account for less than 5% of the market. They do not suggest that this is of significant size to alter the market.

4.10. The commercial property market has survived the EU referendum result relatively well with only modest falls in capital values coming through and a small upturn in capital values in October suggesting an overall dissipation of the Brexit effect. Despite the effect on capital values, total returns (capital growth and rental income) rose by 2.9% in the twelve months to September 2016 suggesting sector stability and resilience in difficult times. The table below shows the current yields for specific commercial property sectors:

Sector	Yield
Prime shops	4.25%
Good Secondary shops	6.75%
Prime Shopping Centres	4.65%
Secondary Shopping Centres	7.75%
Retail parks: Prime - open user	5.50%
Prime offices: Major Provincial	5.25%
Offices: secondary	9.00%
Prime Industrial Estates	5.25%
Secondary Industrial Estates	8.25%

(source: CBRE Nov 2016)

4.11. Analysts estimate that commercial property will grow, on average, by 2% per annum over the short to medium term. Over the long term, 10 years plus, the property market is expected to offer good capital growth, in addition to yields in excess of other investment opportunities open to the Council.

4.12. The strategy looks to mitigate risks by setting specific criteria for purchases and necessary due diligence must be completed before officers and the 'Invest to Earn' group recommend any purchase.

4.13. The strategy and business plan allow for the costs needed to acquire and manage the portfolio, e.g. acquisition, disposal, maintenance and management.

4.14. A breakeven position, where the loan interest, maintenance and management are covered by the rental income earned by the portfolio is achieved with a portfolio gross yield of 3.88% in year one. This breakeven point will vary depending on the financial treatment chosen to provide for the borrowing obtained. Individual purchase decisions and portfolio management would be taken with this in mind. It is felt there is significant distance between the target yield and the breakeven point.

4.15. Appendix B explains the financial model. The headlines are clear – 5.75% portfolio target, 2.32% interest rate. Breakeven has been calculated at 3.88% - covering the annuity method MRP (see appendix C), loan interest, a sinking fund of 5% of rent received and management costs at 3% of rent received. The target yield, less costs (equating to 1.8%), will comfortably outperform the current investment returns achieved by the Council – 0.5% is forecast in the MTFP as an average for 2017/18 rising to 1.0% by 2021/22.

4.16. In the recent past, the Council has adopted a very cautious and prudent approach to treasury management. Lending has only been made to banks and building societies which have strong credit limits and meet the criteria set by the Council, using information published by the three major credit rating agencies.

4.17. This policy has been maintained in the knowledge that putting security before liquidity or yield impacts on the income being generated. A revised Treasury Management Strategy is on this agenda for approval if this report's recommendations are approved.

4.18. The Council will commission property experts to actively manage acquired properties. These experts will ensure that if a 5 year lease is acquired at the outset of the strategy, consideration of letting potential or exit options will be implicit in the acquisition decision. The Council cannot remove all risk from this strategy, but the strategy is built in such a way to mitigate the risk as much as possible.

4.19. The exit strategy will differ for each and every property acquired and will form part of the due diligence process for each acquisition. The 'Invest to Earn' group Members and the delegated authorities will need to satisfy themselves that this strategy is acceptable before acquiring a property.

5.0 Proposed Way Forward

5.1 It is proposed that if the Hub Committee approve this report's recommendations, a property specialist will be commissioned to work on behalf of the Council in relation to this proposed strategy. As and when suitable properties have been sourced, the 'Invest to Earn' group will convene to appraise the available options and recommend action to the delegated parties (as described in Appendix A) as appropriate.

6.0 Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/ Governance	Y	Advice on the relevant powers and appropriate vehicles for delivering these proposals has been sought from external specialist advisers and legal counsel. Legal counsel opinion has been obtained (31st May 2017) which sets out the various powers available to the Council, which supports the Council's proposed strategy as described in this report. This proposal is consistent with the Council's powers to borrow and invest under the Local Government Act 2003 and section 1 Localism Act 2011 (the general power of competence) and / or section 120 Local Government Act 1972 (power to acquire land). The Council is empowered to buy pursuant to section 120 of the Local Government Act 1972. Section 1 of the Local Government Act 2003 provides a power to the Council to borrow for the purposes of any enactment. Disposal of any of the acquired properties will have to be undertaken in accordance with the provisions of section 123 Local Government Act 1972. In order to lawfully implement the acquisition strategy, each proposal (including the funding strategy for purchases) should be reviewed as part of a decision to purchase or sell, and tested for value for money, and regulatory compliance. There is an overriding duty toward prudent management of risk, and officers, including the Council's section 151 officer owe a fiduciary duty in relation to given transactions. Given the limited nature of the proposals, the current levels do not suggest that the Council is engaged in commercial work, though this matter would need to be reviewed as this strategy develops: concluding that it is commercial work, would necessitate conducting business through a separate company.
Financial	Y	The Council will purchase assets directly on balance sheet and therefore the direct costs of purchase and acquisition can be capitalised. This will include costs such as stamp duty, legal fees, due diligence and agency fees. When individual purchase decisions are made, a bespoke business case will be produced alongside a package of due diligence information to support the decision making process. The delegated authorities approving a purchase will need to be satisfied that any proposed acquisition not only delivers best value but also meets the criteria contained within the Commercial Property Acquisition Strategy and has proper regard to the following: • The relevant capital and revenue costs and income resulting from the properties over the whole life of the asset(s). • The extent to which the property is expected to deliver a secure ongoing income stream. • The level of expected return on the amount spent. • The payback period of the capital expended.

		Part of the business case for each commercial property acquisition will be an assessment of the Internal Rate of Return (IRR) calculation. Any PWLB borrowing to fund the acquisition of commercial property is not secured on the property acquired. PWLB borrowing rates are fixed for the term of the loan. Individual borrowing decisions will be taken prudently in line with the Council's treasury management strategy and by officers within that function. The Council will not exceed its affordable borrowing limit to implement this strategy. The Council has adopted the CIPFA Code Of Practice for Treasury Management and produces an Annual Treasury Management Strategy and Investment Strategy in accordance with CIPFA guidelines. If this report's recommendations are approved, a revised Treasury Management Strategy will be presented to Council before this strategy is implemented. If successful, the proposed Commercial Property Acquisition Strategy has the potential to make a significant contribution to the current predicted cumulative budget gap for the Council. If a portfolio yield of 5.85% is achieved, the financial model suggests that a budget of £80.25m could generate a surplus of between £0.57m to £1.365m per annum depending on the treasury management strategy employed in order to provide for Minimum Revenue Provision (MRP). An explanation of MRP can be found in Appendix C of this report. This is net of forecast administration and maintenance (sinking fund) costs. Using the same basis, a £25m budget could generate a surplus of between £0.19m to £0.45m per annum. Further financial considerations are discussed in Appendix B. The chosen method of MRP treatment is discussed in the Treasury Management report, also being considered on this Council agenda. Investment interest income is reported quarterly to SLT and Hub.
Risk	Y	The security risk is that the capital value of an acquired property falls. Whilst this would have an effect on the Council's balance sheet, this loss will only be realised if the Council chooses to sell the property and incurs a capital loss. The liquidity risk is the risk of failure of a tenant within one of the acquired properties. The yield risk is that the income derived from the acquired assets will alter during the life of the asset. This will be actively managed; with specialist agents commissioned to manage the asset and its tenants. Properties will only be acquired if they have a minimum of 5 years unexpired lease term and are located in areas deemed to be attractive for future lettings / sales, limiting the risk to the Council's portfolio. The Council already owns and operates a property estate valued at c.£20m. It therefore has experience of managing such an estate and can act as an intelligent client to fulfil the proposed strategy, with the aid of commissioned property experts. The cost of these experts has been included in the financial consideration information shown in Appendix B.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	Not Applicable
Safeguarding	N	Not Applicable
Community Safety, Crime and Disorder	N	Not Applicable
Health, Safety and Wellbeing	N	Not Applicable

Other implications	N	Not Applicable

Supporting Information

Appendices:

Appendix A - Commercial Property Acquisition Strategy & Criteria
Appendix B - Further Financial Considerations
Appendix C - Explanation of Minimum Revenue Provision (MRP)
Appendix D - Governance & Risk Aspects of the Proposed Commercial Property Acquisition Strategy
Appendix E - WDBC 'Invest to Earn' group's terms of reference (as referred to in Appendix D)

Background Papers:

- Investment in Commercial Property, presented to Hub Committee June 20th 2017
- Investment in Commercial Property, presented to Hub Committee March 28th 2017
- MTFP, presented to Hub Committee July 18th 2017
- Revenue & Capital Budget Proposals Report – 2017/18, presented to Council, February 7th 2017
- Annual treasury strategy in advance of the year (Audit 15/03/16 – AC32)

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Appendix A – WDBC Commercial Property Investment Strategy & Criteria

Overall Objective:

Increase revenue streams to contribute to the financial sustainability of Council, enabling it to continue to deliver and/or improve frontline services in line with adopted strategy & objectives.

This will be achieved by the focussed acquisition of existing commercial property assets using predominantly prudential borrowing or any other unallocated or available Council reserve or capital receipt.

Strategy

- Invest in commercial properties to provide rental income with a minimum gross yield of 5.85% across the portfolio (once complete)
- Achieve a spread of risk across a greater number of assets and by acquiring properties across the range of different property asset classes, namely retail, leisure, office, industrial or alternative (e.g. health, PRS, energy)
- Properties will be acquired to hold for the short to medium term rather than to dispose
- The Council will operate independently - The Council is not reliant on another Council to progress with this strategy
- The Council will invest so that the portfolio's net revenue receipt delivers sufficient income to fund the initiative and make a significant contribution to the Council's forecast budget gap (with the potential to meet the budget gap)
- Acquisition costs are forecast not to exceed 7% (Stamp Duty Land Tax (SDLT) / Legal / Agents / Due Diligence). These services are to be commissioned via a procurement exercise.
- Management of the acquired assets will be outsourced to property professionals. The cost of this management will be included within the target return
- The legal work required to complete transactions is to be outsourced
- Specialists will be commissioned to act on behalf of the Council to source suitable properties and manage the acquisition due diligence process

Risk

- The risks of investing in property may be mitigated through the acquisition of assets with secure, long income streams
- This needs to be balanced against the requirement for a given level of income yield on capital invested in a careful and controlled manner, with specific analysis of risk criteria carried out in the 'due diligence' stage prior to the completion of each purchase
- Once fully invested, should the portfolio yield drop below 5.85%, a review of the strategy will be triggered
- The portfolio of investments being acquired should be diversified in order to spread risks via a balanced portfolio, such diversification principally being across geographical locations and the use type of properties
- The portfolio will be relatively risk-averse, when appropriate, limiting fresh investment to properties with minimum unexpired lease terms of five years at the date of acquisition, and tenants of strong financial standing

Initially, investment decisions will be taken as long as they fit within the below criteria:

Location:

- Neutral – wherever opportunities arise in order to quickly acquire good investment properties which deliver the minimum prescribed yield and are deemed an acceptable risk

- In order to not over expose the Council to one particular geographical area, properties outside of the Council's area will be favoured
- As the portfolio gets larger, a mix of locations will be sought to create a balanced portfolio
- A maximum exposure of 25% per location is sought once the investment budget is exhausted
- Good, commercially strong locations to protect capital value and ensure ongoing occupier demand. E.g. for retail good out-of-town retail clusters/parks; for offices close to transport infrastructure and catchment for employees; for industrial close to major road / rail hubs

Sector:
- Neutral – Wherever opportunities arise in order to quickly acquire good investment properties which deliver the minimum prescribed yield and are deemed an acceptable risk
- As the portfolio gets larger, a mix of sectors will be sought to create a balanced portfolio
- A maximum exposure of 25% to one sector will be sought once the full investment budget is exhausted

Tenant mix:
- As the portfolio gets larger, a mix of tenants will be sought to create a balanced portfolio
- A maximum exposure of 15% to one tenant will be sought once the full investment budget is exhausted
- The final decision over the appropriateness of any tenant would be reviewed at the time of acquisition

Lease length:
- Minimum 5 years unexpired (mean unexpired term for multi-let properties)
- Unless in exceptional circumstances (e.g. the property is being purchased with a view to re-development or the property is located in a prime location), single-let properties will not be favoured
- For multi-let properties, a mix of lease expiry dates are preferred, thereby limiting void risk (unless the property is purchased with a view to re-development)
- Properties are to be well-let to sound tenants on leases with a preference for 'Full Repairing and Insuring' leases for single occupiers and through internal repair obligations and a service charge for multi-let properties
- The final decision over the definition of "well-let" and "sound" will be agreed between the property acquisition advisers (including legal due diligence) and the individuals delegated with the responsibility to conclude the acquisition of the properties
- This decision will be based on both the risk to the capital investment and revenue returns

Investment Yield:
- Per investment lot, a minimum gross yield of 4.0% will be sought, before management, maintenance and funding costs
- A maximum gross yield in excess of 11% will not normally be sought
- As the portfolio gets larger, a mix of yields will be sought to create a balanced portfolio
- The overall portfolio will have a target balanced portfolio yield of 5.85%

Cost:
- Individual lot sizes of up to £15m
- Larger lot sizes are favoured - smaller size properties have disproportionately higher management costs and expose the Council to greater property void risks
- All investments will normally be subject to a minimum lot size of £3m

<u>For all of the above, flexibility of +/- 15% (relative to the measure) is allowable in order to conclude a deal without recourse to reviewing the terms of this strategy. The overall budget for acquisitions is not subject to this flexibility.</u>

Funding:

- This is to be secured on a case by case basis on the most favourable terms available predominantly through prudential borrowing or any other unallocated or available Council reserve or capital receipt
- The term will not exceed the expected remaining life of the property, but as a rule, the Council wishes to secure borrowing over a maximum 50 year term
- The Council will opt to borrow monies on the most commercially advantageous terms, seeking advice from its retained Treasury Management Advisors

Exit Strategy:

- The Council is investing to hold for the short to medium term. It is not looking to actively trade commercial property in this timeframe
- If capital values determine that the most prudent action is to sell an individual asset, this will be considered on a case by case basis and will be acted upon in consultation with the 'Invest to Earn' group Chair, Leader, S151 officer and Head of Paid Service
- It is proposed that all properties will be held as Council Assets. This may change if the Council were to set-up an arms-length management organisation (ALMO) or trading company and it was found to be commercially advantageous for such a vehicle to hold the asset
- It is important to note that there would be early repayment charges if the loan used to acquire the commercial property were to be repaid before the end of the loan term. However, Public Works Loan Board (PWLB) lending is not secured against property, so this would not inhibit the asset being traded during the loan period. An alternative asset would need to be purchased (& held) with any sale proceeds

Tax Implications:

- Due to the Council holding the asset, it is not anticipated that there will be any corporation tax or income tax implications from this strategy
- Some properties may be VAT elected, meaning VAT must be charged to tenants. This will be dealt with on a case by case basis and will be covered by the due diligence connected with that acquisition. The Council is able to charge and recover VAT
- Capital Gains Tax would not apply to assets sold from Council ownership. This position may change if a company were to be used to hold the acquired asset

Governance Arrangements:

Purchase

Purchases must conform to the adopted commercial property investment strategy. Any deviation from the agreed strategy (beyond the flexibility parameters) will require Council approval.

Delegated authority to be given to the Head of Paid Service, in consultation with the S151 officer and Leader and Chair of the 'Invest to Earn' group. Each receive one vote to proceed with purchase. In the event of a split decision, the S151 officer has the casting vote. Only purchases which are in line with the agreed strategy will be considered by this group. The 'Invest to Earn' group will determine its chair and will receive details of potential purchases from the Assets CoP. They will vote on whether to bring a potential purchase decision to the Head of Paid Service.

Running / Review
Assets to be managed by a contracted third party initially, with overview by Assets CoP, Group Manager, Business Development and the S151 officer. Invest to Earn group to receive regular reporting to confirm portfolio composition and performance. Regular reporting to Audit Committee.

Disposal
Once acquired, decisions relating to the ownership of any acquired properties will be dealt with in line with the Council's constituted scheme of delegation

Disposal will be considered if the portfolio breaches the approved strategy. Decisions to be made in consultation with the 'Invest to Earn' group Chair, Leader, S151 officer and Head of Paid Service.

Appendix B – Further Financial Considerations

Based on information available at the time of writing (July 2017), WDBC require c£1m of revenue income and/or savings per annum in order to be financially sustainable, in line with its published Medium Term Financial Position (MTFP). Below is a breakdown of how an acquisition fund of £75m plus acquisition costs can derive c£1m of revenue after costs to support the financial sustainability of the Council. The proceeds from the first tranche of £25m are also shown.

	First Tranche	Entire Investment
Capital Investment	**25,000,000**	**75,000,000**
Acquisition fees @ 7%	1,750,000	5,250,000
Total Borrowing / Expenditure	**26,750,000**	**80,250,000**

Borrowing		
Term (Years)	50	50
Maturity PWLB Loan Interest Rate %	*2.32*	*2.32*
Interest Payments pa	**620,600**	**1,861,800**

Profit & Loss Example *(Income less Costs)*		
Target Portfolio Yield %	*5.85*	*5.85*
Rent Receivable *(Yield x Investment)* pa	**1,462,500**	**4,387,500**
Interest Payments pa	(620,600)	(1,861,800)
Management costs @ 3% of Rent Receivable	(43,875)	(131,625)
Sinking fund @ 5% of Rent Receivable	(73,125)	(219,375)
Surplus Generated (before MRP*) pa	**724,900**	**2,174,700**

Option 1 - Straight Line MRP* Treatment		
Surplus Generated (before MRP*) pa	724,900	2,174,700
Minimum Revenue Provision (MRP*)	(535,000)	(1,605,000)
Surplus (after Straight Line MRP*) pa	**189,900**	**569,700**

Option 2 - Annuity MRP* Treatment		
Surplus Generated (before MRP*) pa	724,900	2,174,700
Annuity MRP* Treatment	(270,000)	(810,000)
Surplus (After Annuity MRP*) pa	**454,900**	**1,364,700**

**Minimum Revenue Provision (MRP), the provision for the repayment of borrowing, is explained in more detail in Appendix C of this report.*

Sensitivity analysis in change in gross rental income
The business plan identifies a target gross rental yield of 5.85%, which if achieved would generate £2.175m per annum in income after costs. The table below shows the impact a change in the gross income yield could have on the annual income estimates:

Sensitivity Analysis	£25m	£75m
Change in income yield 0.5%	£ 125,000	£ 375,000
Change in income yield 1.0%	£ 250,000	£ 750,000
Change in income yield 1.5%	£ 375,000	£ 1,125,000
Change in income yield 2.0%	£ 500,000	£ 1,500,000
Change in income yield 2.5%	£ 625,000	£ 1,875,000

For example, if the income yield were to increase from 5.85% to 6.85% (an increase of 1%), this would generate additional income of £250,000 per annum on a £25m portfolio. A reduction in yield would have the opposite effect.

Sensitivity Analysis on the Surplus Generated
A sensitivity scenario analysis is shown in the table below to illustrate the effect that the yield has on the return achievable from the portfolio – assuming an acquisition fund of the full £75m or the tranche 1 acquisition fund of £25m. This highlights that the portfolio needs active management and care in choosing the right acquisitions to ensure the minimum yield is achieved.

All of the figures below are based on the annuity MRP treatment shown above, providing either £810,000 (for the £75m acquisition fund) or £270,000 (for the £25m acquisition fund) of MRP in year one. The provision for the repayment of borrowing (level of MRP) would increase year on year, as described in Appendix C of this report.

Portolio Size	**25,000,000**	**75,000,000**
Projected Annual Surplus @ 5.85%	454,900	**1,364,700**
Projected Annual Surplus @ 4.00%	29,400	88,200
Projected Annual Surplus @ 4.50%	144,400	433,200
Projected Annual Surplus @ 5.00%	259,400	778,200
Projected Annual Surplus @ 5.50%	374,400	**1,123,200**
Projected Annual Surplus @ 6.00%	489,400	**1,468,200**
Projected Annual Surplus @ 5.32%	333,000	**999,000**
Breakeven: Projected Annual Surplus @ 3.88%	**1,800**	**5,400**

Breakeven
A minimum yield of 3.88% is required in order for the £75m acquisition fund to breakeven in year one, i.e. cover the cost of loan repayments, the alternate Minimum Revenue Provision, the sinking fund for maintenance and the expected management / administration costs.

Indicative Borrowing Financial Implications
The Council will consider a number of factors when assessing how much the Council will borrow to finance the commercial property strategy. It is likely that the majority of the commercial property acquisition strategy will be funded via Public Works Loan Board (PWLB) borrowing.

When assessing affordability, the Council will consider the annual cost of financing the acquisitions, the income generated, the costs of running and maintaining the property and the factors that could potentially affect the net income to the Council (which is needed to repay the financing costs of the proposed property acquisitions of £25m or £75m).

Council officers who have responsibility for treasury management will, in consultation with the S151 officer, determine the most appropriate product(s) for the Council's borrowing requirements. There are a number of options available to them and they will be advised by the Council's treasury management advisors and guided by the Council's adopted treasury management strategy and CIPFA regulations.

Percentage Increase in Council Tax
It is clear that a significant reduction in rental income (a yield below 3.88%) would result in a revenue budget deficit being created. If the Council did not have the available budget surplus to cover this additional cost, it may be forced to cut expenditure or increase Council tax to cover the deficit. The table below shows the impact on Council Tax and the additional income that a % increase in Council Tax generates (using the existing Council Tax base).

Impact on Council Tax	**£**
Increase of 1.0%	£ 45,000
Increase of 2.0%	£ 90,000
Increase of 3.0%	£ 135,000
Increase of 4.0%	£ 180,000
Increase of 5.0%	£ 225,000
Increase of 6.0%	£ 270,000
Increase of 7.0%	£ 315,000
Increase of 8.0%	£ 360,000
Increase of 9.0%	£ 405,000

The business case for property acquisitions allows for reserves to be built up in a sinking fund to cover any shortfall in rent or maintenance cost for which the council would be liable. The strategy that is to be adopted by the Council addresses the risk that changes in rental income could affect overall portfolio profitability by virtue of being spread across asset types, classes and geographies. Different tenant classes and lot sizes and indeed borrowing terms will mean that a loss on one asset could well be compensated by a profit on another asset. It also important to note that the strategy has excluded any profit or loss for a change in capital values.

Summary
If a portfolio yield of 5.85% is achieved, the above figures show that an acquisition fund of £80.25m could generate a surplus of between £0.57m to £1.365m per annum depending on the treasury management strategy employed in order to provide for Minimum Revenue Provision (MRP). This is net of forecast administration and maintenance (sinking fund) costs. Using the same basis, a £25m acquisition fund could generate a surplus of between £0.19m to £0.45m per annum.

As part of the Annual Treasury Management Strategy setting process, Members have the opportunity to set the Council's policy for providing for MRP (Minimum Revenue Provision). There are various methods which can be employed and members will be able to determine the most prudent method of provision. The accounting method chosen will have a fundamental impact on the surplus that can be generated from this strategy. *MRP is further explained in Appendix C.*

Appendix C - Explanation of Minimum Revenue Provision (MRP)

What is MRP?
Minimum Revenue Provision (MRP) is the minimum amount which a Council must charge to its revenue budget each year, to set aside a provision for repaying external borrowing (loans). This is an annual revenue expense in a Council's budget.

Who approves the Council's MRP policy?
The Guidance from the Department of Communities and Local Government (DCLG) recommends the preparation of an annual statement of policy on making MRP, which has to be submitted to Council for approval. This is part of a Council's Treasury Management Strategy. This is the subject of a separate item on this Council agenda.

What different methods are there for MRP?
i) Equal Instalment Asset Life Method (i.e. over 50 years)
One method of calculating MRP is on the Equal Instalments of Principal (the Asset Life method). In this instance, MRP is an equal annual charge every year which is calculated by dividing the original amount of borrowing by the useful life of the asset.

An example is therefore, if an amount of £26.75 million is borrowed for the first tranche, the calculation of MRP is £26,750,000 divided by 50 years (asset life) = annual MRP charge of £535,000. (This is shown in Option 1 in Appendix B).

So every year the Council makes a provision in its revenue budget to repay the borrowing of £535,000 annually (the same amount for each of the 50 years)

ii) Annuity Method (over the 50 years)
Another method the Council could use is the Annuity Method for calculating MRP. Under this calculation, the revenue budget bears an equal annual charge (for principal and interest) over the life of the asset by taking into account the time value of money. Since MRP only relates to the 'principal' element, the amount of provision made annually gradually increases during the life of the asset. The interest rate used in annuity calculations will be referenced to prevailing average PWLB rates.

Under this example, the MRP charge in Year 1 on a £26.75 million borrowing would be £270,000, this rises to £277,000 in Year 2, £284,000 in Year 3, £292,000 in Year 4 and £299,000 by Year 5. (This is shown in Option 2).

What's the difference between the two methods for MRP?
The first method (equal instalment) means £535,000 is the revenue charge every year for 50 years.

In the second method (annuity), the payments start off lower e.g. £270,000 and then gradually increase every year for each of the 50 years. So for the first 30 years there is a lower revenue charge using the annuity method, this then becomes higher in the latter years. The Annuity method may benefit the strategy as it develops and allows time for revenue income streams to materialise.

Are there other methods for calculating MRP?
Yes. Under the current guidance, Councils have some discretion over how they provide for MRP over the asset life. For example the Council could decide that it would be appropriate to make MRP based upon the rental income received each year, or a percentage thereof, until the debt liability is repaid.

Is a recommendation being made (as part of this report) on the method of MRP for the Council to adopt?

No – Please see the separate Council agenda item entitled “Annual Treasury Management Strategy”.

Appendix D - Governance & Risk Aspects of the Proposed Commercial Property Acquisition Strategy

1.0 Executive summary

1.1. This note has been prepared to set out the background and rationale behind the need for a commercial property acquisition strategy. It provides details around the National Audit Office's investigation into Local Authority Property Investment and explains some of the national context.

1.2. Additionally, this report sets out the process by which properties would be sourced and acquired and then actively managed, focussing on the risks identified and mitigated, the strategy that will be pursued, along with the governance and monitoring arrangements.

2.0 Rationale for Acquisition Strategy

2.1 The overall acquisition quantum and proposed strategy as detailed in the "Commercial Property Acquisition Strategy" report to Council, due to be presented on 25th July 2017, is designed to provide sufficient income to cover a meaningful proportion of the predicted budget gap.

2.2 Local authorities throughout the UK are concerned that changes to how they are funded will potentially leave a significant shortfall in their revenue budgets on top of the reduction in real terms that are already being experienced. This means that, for a large proportion of local authorities, additional, secure and sustainable sources of ongoing income will be required to maintain services at anything like current levels.

2.3 This has encouraged public bodies of all shapes and sizes not only to reassess how they use, and increase the benefit from, their current property portfolio but also to invest in property in non-traditional ways. To see property as a pure investment opportunity or, as they have in the past, to support regeneration and economic development whilst also producing a significant beneficial rate of return on the capital investment made.

2.4 A few local authorities are also starting to invest in property outside their administrative areas and, occasionally, looking for ways to operate outside the legislative constraints that were traditionally imposed on Local Government but have been relaxed as a consequence of the Power of General Competence granted through the Localism Act 2011.

2.5 The economic climate that has existed since 2008 has seen the rate of return from traditional investment routes such as equities and bonds or simply letting capital reserves 'sit in the bank', drastically reduce. Some Local Authorities are relatively capital rich but revenue poor, however capital cannot simply be used to support a revenue shortfall unless significant service improvements/efficiencies are made as a result, in any event such a policy is clearly unsustainable and authorities are now looking at ways of making capital work to fund their shortfall in revenue.

2.6 Local Authorities currently also have access to relatively low cost and long term borrowing via the Public Works Loans Board and other lenders. Borrowing to invest in property that will not only generate a 4%+ return, but also gaining an asset that will potentially increase in value would therefore appear to make good business sense.

2.7 There have recently been a number of negative articles in the National Press and some Members of Parliament have questioned and criticised this strategy and likened it to the Icelandic banking crash. However much of this criticism has been made on the back of large investments which have made the headlines by one or two councils, rather than on a balanced view of activities as the proposed by Commercial Property Acquisition Strategy for West Devon Borough Council.

3.0 National Audit Office Investigation

3.1 The National Audit Office highlighted the trend of local authorities acquiring commercial property in its June 2016 report on 'Financial sustainability of local authorities: capital expenditure and resourcing'. This highlighted that:

3.2 'Authorities have been prepared to make capital investments if they feel there is potential to secure future revenue income. This reflects recognition that the sector is moving towards a largely self-financing model'.

It also highlighted that 'While there was significant interest and activity in these types of schemes, most authorities were in the early stages of setting them up'.

Furthermore, some authorities felt that their potential to benefit from these initiatives was limited because of the nature of their local economy and property market.

Whilst local authorities are potentially well placed to take advantage of property investment opportunities, as with all forms of investment there are risks and one of the key issues will be skills and experience.

3.3 This was of concern to the House of Commons Public Accounts Select Committee which highlighted in its investigation on the Financial sustainability of local authorities that:

'The Department for Communities and Local Government expects authorities to become more 'entrepreneurial' as it encourages local government to become largely self-financing. But we are concerned that the Department appears complacent about the risks to local authority finances, council tax payers and local service users arising from the increasing scale and changing character of commercial activities across the sector.'

'The Department does not have good enough information to understand the scale and nature of authorities' commercial activities or which authorities are placing themselves at greatest risk and it does not use the information it does have to give it a cumulative picture of risks and pressures across the sector.'

'Local authorities are increasingly making commercial capital investments aimed at generating revenue income, for example by purchasing properties to lease to businesses, developing houses for market rent, and developing commercial units. Oversight of these new commercial activities will require skills of elected members that may be in short supply in some authorities.'

'Already some authorities are less confident than others about members' ability to provide strategic oversight of the sustainability of capital programmes. Members receive support from officers but these new ventures may require specialist skills and experience that have not been needed by officers in the past. The market value of the commercial skills and experience required is not a good fit with local authority pay scales'.

3.4 West Devon benefits from employing several officers who have significant experience of acquiring, managing and disposing of multi-million pound commercial properties, both in the private and public sector. It is therefore very well-placed to act as an intelligent client to implement the proposed strategy.

4.0 Local Authorities as Property Investors

4.1 The use of property to provide an income stream is becoming more popular with an increasing number of Councils purchasing pure investment assets. A desk-top activity review of a few authorities can provide a helpful steer in considering property acquisitions:

4.2 Cheltenham Borough Council holds investment properties within its boundaries that generate circa £2.247m investment income per annum and include a shopping complex, office accommodation and industrial units. A strategy for further commercial investment is currently being considered.

4.3 Cotswold District Council holds investment properties within the District that achieve £218k rental income per annum from offices, commercial units, cafes and workshop, whilst outside its boundaries it generates circa £316k investment income per annum from three retail outlets including a small element of residential.

4.4 West Oxfordshire District Council holds investment properties within the District that generate £682k per annum from industrial units, offices and retail, whilst outside its boundaries it generates circa £1.874m investment income per annum which include £1.650m for offices and industrial units within Oxfordshire and £224k for two restaurant/diners outside the County.

4.5 Portsmouth City Council has invested in excess of £100m through its property investment strategy across the country to generate new income to fund services across the council.

4.6 South Hams District Council's Executive were due to consider a report to recommend to their Full Council that a first tranche of £25m is set-aside to fund commercial property acquisitions to help close their predicted budget gap on 20th July 2017. The strategy they are due to follow is essentially the same as is proposed for WDBC.

5.0 Skills and capacity

5.1 The 'Invest to Earn' member group has discussed with officers the need for the appropriate skills to implement the proposed strategy. It is understood that whilst there is a highly skilled, capable workforce with significant relevant national property experience and industry-recognised qualifications, there is not sufficient spare capacity to implement such a vital income generative undertaking. Implicit within the proposals to Council is the need to commission property specialists to implement this strategy, reporting to Council officers (who have property-related qualifications and significant commercial property experience) and the 'Invest to Earn' member group.

5.2 These specialists will cover a range of areas, not only the identification and acquisition of investment property, but also those involved in the day to day management of assets, through to portfolio management and legal advice. The Council already commissions treasury management advice from Capita Asset Management Solutions. The choice of expert advisors will be made after an OJEU compliant procurement process, though initially, a procurement exemption will be sought to ensure that no time is lost between Council approving the strategy and property sourcing commencing. A soft market test has already be held for the main activities and proposals received.

5.3 External advice has the benefit of being available as and when required; there is unlikely to be sufficient activity in this area to justify new, adequately salaried, full time post/s in the short term.

6.0 Risk Analysis

6.1 There is a level of risk that will be inherent in investing in illiquid assets for the long term. These risks can be mitigated through the initial selection process and by constant review of the individual property, portfolio and the market in order to inform a hold and sell strategy for Council assets. Early engagement with current tenants or the market will allow for continued occupancy of the properties.

6.2 It is proposed that the Council takes in a significant sum in borrowing to finance the acquisition of a property portfolio. In other words, the initial loan to value ratio would be close to 100%, and this creates a risk that Members should be aware of. In actuality, due to the fact the acquisitions costs will be capitalised and funding will be via borrowing, the loan to value rate will initially be 107%.

6.3 The capital value of any property can go down as well as up, and therefore the capital redeemed at the end of the investment could be less than the sum initially invested. This investment strategy is based on revenue income and capital value increases have not been factored into the financial calculations.

6.4 A drop in capital value would only affect the Council's cash flow position if it chose to dispose of the investment whilst the value was less than at acquisition. However, using PWLB to fund a purchase means lending is not secured against the property and so the Council could opt to lose money on one property if the overall capital value of the portfolio is greater than the lost capital value.

6.5 The strategy and business plan allow for the costs needed to acquire and manage the portfolio, e.g. acquisition, disposal, maintenance and management. The strategy looks to mitigate risks by setting specific criteria for purchases and necessary due diligence must be completed before any purchase.

6.6 It requires 11-18 assets to reduce "diversifiable risk" by a factor of 90%. The optimal number of properties for any portfolio is 15-20 reducing risk by 95%. ("What's in a number?" CBRE global investor research 2015)

6.7 The target yield, less costs, will comfortably outperform the current investment returns achieved by the Council in other treasury management activity.

6.8 External legal advice has been taken. The Council's Monitoring Officer and Commercial Lawyer are content that the proposed strategy is in line with the powers that are available to the Council, having obtained and considered counsel opinion.

6.9 There is a risk of challenge - but in the event of said challenge being upheld, which is in itself a lengthy process, officers have been advised the Council would not be forced to unwind any acquisition. Instead, it would likely need to cease any further implementation of the strategy and may be required to transfer ownership of any acquisitions into a separate wholly owned company. This would increase the operating cost of maintaining those acquisitions but this is not expected to mean that the acquisition is no longer financially viable or attractive.

6.10 Further information about the risks associated with the strategy can be found in the "Commercial Property Acquisition Strategy" report to Council on this agenda.

6.0 Acquisition and management

6.1 Property acquisition is a dynamic area which generally does not sit well with traditional officer, committee, Council meeting schedules and structures. Decisions often need to be made quickly otherwise opportunities can be missed. Research shows that where Councils are active in this investment area there is an increasing level of delegation being authorised to enable them to move quickly when properties come to the market. Work doesn't stop once all the assets have been acquired. Arrangements need to be in place for maintenance, rent reviews and collection, valuations etc.

6.2 The WDBC proposal seeks to commission these services from third party property specialists and the cost for this is included within the business case. This will be a departure from the management of the Council's existing property estate and this is discussed in the Commercial Property Acquisition Strategy report to Council on this agenda.

6.3 Property assets are not commodities and each one is unique. A council may have a sound approach in place but it will need to be applied prudently, and each asset must be assessed carefully before acquisition preferably utilising an agreed scoring and assessment matrix. Any new acquisition should fit into the agreed strategy, and the associated risks must be acceptable.

6.4 Councils need to be aware of the potential risks and generally be cautious regarding this type of strategy, taking external expert advice and commissioning experienced property specialists to assist with the sourcing, acquiring, managing and ultimately disposing of such assets. This is of particular importance when making acquisitions outside the Council's jurisdiction to consciously avoid the 'all their eggs in one basket' scenario, thereby acquiring in a variety of property sectors, to multiple low-risk tenants, in dispersed areas of the country.

6.5 Once a council has secured the funds to create an investment property portfolio, it is essential to ensure it remains separate from its operational buildings. In line with recognised best practice, it's always best to have a balanced and diverse portfolio in order to spread the risk.

6.6 This means purchasing a range of asset types, a locational spread and a mix of tenants with sufficient covenant strength relative to the specific asset. Ideally, councils should also invest in a combination of lease types to provide security; some with a higher yield and shorter leases for properties with strong residual values, and some longer leased properties. This will help to cope with market cycles and ensure there is always a minimum income covering the cost of the outstanding debt.

7.0 Sourcing the best property & obtaining Value for Money

7.1 When investing in any property, prime considerations are the suitability of location, occupational demand, needs of the user and risk of building obsolescence. An asset plan for each property will be determined at the outset and this will then be reviewed on a regular basis when acquired. Active Portfolio Management will be employed, i.e. keeping abreast of trends, sectors and markets and how these could impact on the portfolio.

7.2 In order to source appropriate investment assets, conduct due diligence and successfully negotiate the acquisition of property, it will be necessary to commission property acquisition experts to act on behalf of the Council. An expert's knowledge of the market and properties that are about to come to market is invaluable in sourcing the best acquisition options. Properties that end up in the wider public domain are usually those that don't represent the best prospects. Good agents can bring information to the Council of the best assets available before the information is more widely known and therefore put the Council in an advantageous position.

7.3 Having brought a potential acquisition to the attention of the Council, the property expert will be in a position to conduct the necessary due diligence including a full market appraisal within the timescales required. Such an agent will also help ensure the Council obtains value for money through the bidding and negotiation stage. It is the relationships that exist between buying and selling agents that result in a better chance of a successful bid being submitted at a level that is matching or slightly better than competitors.

7.4 Further detail about the acquisition strategy can be found in Appendix A of the Commercial Property Acquisition Strategy report to Council on this agenda. The covering report also contains further detail about the procurement of a property expert.

8.0 Terms of Purchase

8.1 Officers recommend that acquisitions be conditional on the following points:

i. The agreement of contract terms

ii. Satisfactory report on title and completion of legal, tax, financial and technical due diligence.

iii. Satisfactory building and environmental surveys.

iv. Full verification of the information provided within the marketing particulars.

v. The benefit of any unclaimed capital allowances to be transferred to the purchaser.

vi. Each party to bear its own costs in the transaction (if appropriate, following expert advice)

An assumed level of the acquisition fees of 7% has been used in all projections.

9.0 Financing Costs

9.1 Whilst the Council will use, where possible, any capital receipts it may generate from land sales to help finance acquisition costs or unallocated reserves, the main source of financing of these transactions will come from borrowing. Market rates are, at this time, at an historic low and forecast to continue at these levels for at least another couple of years.

9.2 By way of an example the Public Works Loan Board (PWLB), which is the traditional source of borrowing for local government, has seen an average borrowing rate over the last 22 years of 4.46%. WDBC has been quoted a rate of 2.32% for a 50 year borrowing term.

9.3 The actual rate that will be obtained differs from day to day and the s151 officer will take treasury management advice before completing any borrowing to enable the implementation of the proposed strategy.

9.4 The Commercial Property Acquisition Strategy report to Council on this agenda contains further detail about financing property acquisitions.

10.0 Governance Process

10.1 The Council's 'Invest to Earn' group will oversee the investment of the £80m fund proposed. It is envisaged that this group will meet regularly during the acquisition phase of the implementation strategy and then at regular intervals once the portfolio is established.

10.2 It is important to note that the 'Invest to Earn' group and the s151 Officer will be bound by the overall parameters of the Commercial Property Acquisition Strategy when making purchase decisions. This should give Council confidence that the business case for each property acquisition has met a minimum level of security and return as defined within the strategy.

10.3 The strategy is not time limited (see Appendix A of the Commercial Property Acquisition Strategy report to Council, due to be presented 18th July 2017). It is anticipated it could take up to two years to complete the portfolio build. Once the portfolio has been completed up to this level, the ongoing management and monitoring of the portfolio will fall under normal arrangements, unless otherwise requested. Regular reporting to the 'Invest to Earn' group, the Council's Audit Committee and the Council's Senior Leadership Team will continue as long as it is required. It is envisaged that the membership of the 'Invest to Earn' group will be annually appointed by the leader of the Council.

10.4 Local Government Act 2003 Section 1 allows a local authority to borrow money for the purposes of the prudent management of its financial affairs. The s151 officer will be key in deciding whether the Council should acquire properties and the decision in any particular case should be made with a view to the financial return that may be generated as a result of the acquisition and whether the acquisition will fit within the agreed strategy of the Council.

10.5 In addition, the Secretary of State's Guidance relating to the adoption of a treasury management strategy (annually) will be relevant - specifically the need for the Council to consider security, liquidity and yield (in that order) in relation to any proposed investments. Finally, regard should be had to the Council's fiduciary duties to tax payers. The decision to acquire any particular property should be made subject to the S151 undertaking due diligence and determining that the purchase and associated borrowing will constitute prudent management of the Council's financial affairs.

10.6 There is always a danger that decision makers will get caught up in the moment. Councils must be convinced that an asset is right for them, only committing to buy if they are certain. If not, walk away. The Governance process allows for this. Only properties that fit within the defined criteria will be considered.

10.7 Acquisitions must pass a number of steps before a bid is made:

1. The commissioned property expert must recommend an asset to officers and advise why they think it is a good fit with the Council's strategy

2. Officers (Group Manager Business Development & the Assets Community of Practice Lead) must then review and approve the asset. At this point a bespoke acquisition appraisal will be prepared.
3. If approved, the 'Invest to Earn' member group will be convened to review the asset and its' fit with the existing portfolio and corporate objectives. This group will vote on whether to recommend to the Council's delegated authority. Please refer to the "Commercial Property Acquisition Strategy" report on this agenda for further information on the delegated authority. 'Invest to Earn' group voting will follow the group's Terms of Reference, shown in Appendix D.
4. If the asset has been recommended to the delegated authority, that group will be convened to approve a bid being made. If approved, officers will engage with the property experts to place a bid and further negotiate the acquisition subject to the completion of necessary due diligence*. Tolerances are built into the acquisition strategy (see Appendix A of the Commercial Property Acquisition Strategy report to Council on this agenda), enabling officers to conclude an acquisition (after the due diligence has been completed and the bespoke acquisition appraisal has been updated) without recourse to the delegated authorities.

*In addition to valuations, appropriate title checks and searches will take place before the Council is committed to purchase any property, in order to ensure that the title the Council acquires is good and marketable, with (where relevant) enforceable leases in place and the rents payable verified. The legal considerations in respect of each acquisition will be considered as part of the initial assessment process and be reported to the delegated authorities.

11.8 Ultimately, decision making is to be delegated to the Executive Director, Strategy & Commission (Head of Paid Service), in consultation with the Leader of the Council, the chairman of the 'Invest to Earn' member group and the s151 officer.

11.9 Further information about the risks associated with the strategy can be found in the "Commercial Property Acquisition Strategy" report to Council on this agenda.

11.0 Monitor, review and adapt

11.1 Ongoing performance measurement is essential to ensure an effective property portfolio. Monitoring key financial benchmarks will enable a local authority to react if specific assets do not fulfil their anticipated potential, or if local markets change over time.

11.2 It is important that the new portfolio is seen as something that needs to be continually moulded to achieve the best financial return rather than just sitting back and expecting the money to accumulate.

11.3 The strategy recognises this and the OJEU procurement that will be undertaken to assist the implementation of the strategy will specifically cover this.

11.4 Regular reporting will be provided to the Council's Senior Leadership team, the 'Invest to Earn' Member group and to the Council's Audit committee.

Background Papers

Appendix D - Governance & Risk Aspects of the Proposed Commercial Property Acquisition Strategy

Appendix D – 'Invest to Earn' group's Terms of Reference

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Appendix E - WBDC Invest to Earn Working Group – Terms of Reference
July 2017

Purpose & Role of the group:

- The identified group will work in conjunction with officers on any project or initiative linked to income generation, investment strategy or efficiency improvement.
- Members will provide input and engage/act as advocates with the wider membership.
- Members will suggest, consider and evaluate proposals and help officers to shape these, agreeing parameters, criteria and ultimately assist with building credible business cases for presentation and approval at the appropriate Council committee.
- The group will report to the Council Hub Committee.
- The initial focus of the group will be to consider (in priority order):
    - A singular or series of significant capital acquisition(s) in commercial property using prudential borrowing;
    - Agreeing a balanced acquisition strategy
    - Using the Council's existing funds and/or assets and/or acquiring new assets to derive income and community benefits;
    - Other income generation and efficiency opportunities

Membership:

- The group will be made up of 3 elected Members, working with officers from the Finance & Assets Community of Practices and from Strategy & Commissioning. Other officers will interact with the group on an 'as needs' basis
- The group will be formed from Members who have been jointly nominated by the Leaders of the Council's two largest groups
- The elected Members will have as a minimum an interest in the financial sustainability of the Council. Knowledge of the Council's property assets and an understanding of investments is preferable
- Any Member missing three consecutive meetings may be dropped and a replacement sought
- Other Members & officers are welcome to observe group meetings and may be invited by the Chair to participate as required

Accountability:

- Group members are responsible for reporting back on the activities of the group to their political group and the wider elected membership
- Officers will make recommendations to the group from time to time. The chair will hold a vote to determine whether these should be progressed, with all elected Members having one vote. In the event of a tie, the Council's S151 officer will decide whether or not that recommendation should be made to the appropriate Council committee or delegated authority. All elected group Members must vote for the vote to be valid
- For the avoidance of doubt, the group themselves cannot determine whether an opportunity should proceed (or funds be expended) if such an opportunity needs delegated authority approval or Council committee approval in line with the Council's constituted scheme of delegation
- Once the 'Invest to Earn' group have agreed to support a recommendation, it will be presented to the delegated authority for approval of lodging a bid. If approved, officers will negotiate the

purchase with the retained agent and vendor in order to complete the due diligence, negotiation and acquisition process. Officers will revert to the delegated authority if through the due diligence or negotiation process, any of the purchase criteria parameters are altered by +/- 15% (relative to the measure). This may necessitate the rescinding the bid or a recommendation to Council to alter the acquisition strategy.

Review:
- The group will review the relevance and value of its work and the terms of reference every year, with the first review due in January 2018
- The group may elect to undertake a review ahead of this time if it so chooses.

Meetings:
- Meetings will be chaired by one of the group members. A vote for chair and deputy will take place at the first meeting with each elected Member having one vote. In the case of a tie, the Leader of the Council will have the casting vote. The role of chair will be reviewed annually.
- Meetings will be convened as and when required and held at least 4 times a year
- The Group Manager, Business Development will act as secretariat for the meetings and will be responsible for the circulation of an agenda and papers before each meeting

Report to:	**Council**
Date:	**25 July 2017**
Title:	**2017/18 Treasury Management Strategy**
Portfolio Area:	**Support Services – Cllr C Edmonds**
Wards Affected:	**All**

Relevant Scrutiny Committee:

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken: After Full Council

Authors: Lisa Buckle Role: **Finance Community of Practice Lead**

Contact: **Email Lisa.buckle@swdevon.gov.uk 01803 861413**

RECOMMENDATION

That the Council APPROVES:

1. **The prudential indicators and limits for 2017/18 to 2019/20 contained within Appendix A of the report.**
2. **The Minimum Revenue Provision (MRP) statement contained within Appendix A which sets out the Council's policy on MRP**
3. **The revised Treasury Management Strategy for 2017/18 and the treasury prudential indicators 2017/18 to 2019/20 contained within Appendix B.**
4. **The Investment Strategy 2017/18 Appendix C and the detailed criteria included in Appendix D.**

1. Executive summary

This report seeks approval of a revised Treasury Management and Investment Strategies together with their associated prudential indicators. Good financial management and administration underpins the entire strategy.

On 20th June 2017, the Hub Committee considered a Commercial Property Acquisition Strategy (Minute HC 04).

The recommendation to Council is that:-

It is resolved that Council be recommended to approve and implement the proposed commercial property acquisition strategy (as detailed in Appendix A of the report) and to borrow funds on fixed rate terms to pursue the strategy. To complete Tranche 1, this requires borrowing of up to £26.75 million (£25 million plus acquisition costs of up to 7%).

This recommendation will be considered by Council on 25th July. The Treasury Management Strategy for 2017/18 has been revised to include the proposals within the Commercial Property Acquisition Strategy and the Council's Borrowing Limits have been increased by £26.75 million.

If the Commercial Property Acquisition Strategy is approved by Council on 25th July, the Council will also need to approve this revised Treasury Management Strategy for 2017/18.

The budget for investment income for 2017/18 has been set at £70,321. This is £25,000 higher than for 2016/17, due to predicted income from the investment in CCLA in 2017/18 (see below).

At Council in February 2017, it was approved (Minute CM54 and HC50) that a sum of £500,000 be used to invest in CCLA's (CCLA Investment Management Limited) Local Authorities Property Fund, with the investment being placed in 2017/18.

2. Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's risk appetite on investments, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans.

These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.

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

2.1 Reporting requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report covers:

- The capital plans (including prudential indicators);
- A minimum revenue provision (MRP) policy
- The treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- An investment strategy (the parameters on how investments are to be managed).

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny - The above reports are required to be adequately scrutinised before being recommended to the Council. The three reports above are presented to the Audit Committee at the relevant times in the calendar year.

2.2 Treasury Management Strategy for 2017/18

The strategy for 2017/18 covers two main areas:

Capital issues

- The capital plans and the prudential indicators;
- The minimum revenue provision (MRP) policy.

Treasury management issues
- The current treasury position;
- Treasury indicators which limit the treasury risk and activities of the Council;
- Prospects for interest rates;
- The borrowing strategy;
- Policy on borrowing in advance of need;
- The investment strategy;
- Creditworthiness policy; and
- Policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

2.3 Training

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. Treasury management training will be organised for Members during the 2017-18 financial year.

2.4 Treasury management advisors

The Council uses Capita Asset Services, Treasury solutions as its external Treasury Management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

There was a report on the March Hub Committee agenda for the commercial property acquisition strategy. It was approved as part of that report to gain specialist treasury management advice in order to develop a full business case for the commercial property acquisition proposals set out in the report, which will be presented to Council on 25th July for a final decision. This revised Treasury Management Strategy is being presented to Council at the same time.

3. Outcomes/outputs

The budget for investment income for 2017/18 has been set at £70,321. This is £25,000 higher than for 2016/17, due to predicted income from the investment in CCLA in 2017/18 (see Section 1).

4. Options available and consideration of risk

In order to maximise investment returns the Council needs to be able to either increase our investment portfolio which could potentially mean increasing the risk factor or maintain the current list of Counterparties but further increase the limit we can invest in each to avoid using those with the lowest rate of return.

There was also a report on the March Hub Committee agenda for a commercial property investment strategy. It was approved as part of that report to gain specialist treasury management advice in order to develop a full business case for the commercial property investment proposals set out in the report, which will be brought back to Council for a final decision. A revised Treasury Management Strategy will be presented to Council at the same time.

5. Proposed Way Forward

If the Commercial Property Acquisition Strategy is approved by Council on 25th July, the Council will also need to approve this revised Treasury Management Strategy for 2017/18.

6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The elements set out in paragraph 2.2 cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code, the Department for Communities and Local Government (DCLG) Investment Guidance and the DCLG MRP Guidance.
Financial	Y	Good financial management and administration underpins the entire strategy. The budget for investment income for 2017/18 is £70,321. As at 31/3/17 (Balance Sheet position), the Council had £8,450,000 in investments.

		On 20th June 2017, the Hub Committee considered a Commercial Property Acquisition Strategy (Minute HC 04). The recommendation to Council is that:- It is resolved that Council be recommended to approve and implement the proposed commercial property acquisition strategy (as detailed in Appendix A of the report) and to borrow funds on fixed rate terms to pursue the strategy. To complete Tranche 1, this requires borrowing of up to £26.75 million (£25 million plus acquisition costs of up to 7%). This recommendation will be considered by Council on 25th July. The Treasury Management Strategy for 2017/18 has been revised to include the proposals within the Commercial Property Acquisition Strategy and the Council's Borrowing Limits have been increased by £26.75 million. If the Commercial Property Acquisition Strategy is approved by Council on 25th July, the Council will also need to approve this revised Treasury Management Strategy for 2017/18.
Risk	Y	The security risk is the risk of failure of a counterparty. The liquidity risk is that there are liquidity constraints that affect the interest rate performance. The yield risk is regarding the volatility of interest rates/inflation. The Council has adopted the CIPFA Code Of Practice for Treasury Management and produces an Annual Treasury Management Strategy and Investment Strategy in accordance with CIPFA guidelines. The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported quarterly to SLT and the Hub Committee as part of the budget reports.

Comprehensive Impact Assessment Implications		
Equality and Diversity	N	N/a
Safeguarding	N	N/a
Community Safety, Crime and Disorder	N	N/a
Health, Safety and Wellbeing	N	N/a
Other implications	N	none

Supporting Information
Appendices:

Appendix A - The Capital Prudential indicators 2017/18 to 2019/20.
Appendix B - The Treasury Management Strategy 2017/18
Appendix C – The Investment Strategy
Appendix D - Treasury Management Practice (TMP 1) – Credit and Counterparty Risk Management
Appendix E - Treasury Management Scheme of delegation
Appendix F - Glossary of Terms Appendix

Background Papers:
Audit Committee: 15/03/16 - TMS & Annual Investment Strategy 2016-17
Audit Committee: 27/09/16 - Annual TM Report 2015-16
Audit Committee: 10/01/17 - TMS (Mid Year Update)
Audit Committee: 21/03/17 -TMS and Annual Investment Strategy for 2017-18
Council: 11/04/2017 – TMS and Annual Investment Strategy

APPENDIX A

THE CAPITAL PRUDENTIAL INDICATORS 2017/18 – 2019/20

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure	2015/16 Actual £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Total	**300**	**651**	**31,270**	**901**	**601**

The capital expenditure estimates have been increased by £26.75 million in 2017/18 for the recommendations set out within the commercial property acquisition strategy. This is explained in the Executive Summary of this report. The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

The Capital Programme for 2017/18 will be financed as below:

Capital expenditure	2015/16 Actual £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Total	**300**	**651**	**31,270**	**901**	**601**
Financed by:					
Capital receipts	32	0	0	0	0
Capital grants	244	239	402	402	402
Earmarked Revenue Reserves	24	0	80	0	0
New Homes Bonus	0	412	88	199	199
Net financing need for the year (This is the prudential borrowing required for the capital investment in leisure, the waste fleet and commercial property)	**Nil**	**Nil**	**30,700**	**300**	**Nil**

The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). It is essentially a measure of the Council's underlying need to borrow.

In 2016/17 the Council has agreed to undertake prudential borrowing for the new leisure contract. The Council has also agreed borrowing for the waste fleet vehicles.

The Capital Financing Requirement has been increased by £26.75 million in 2017/18 to reflect the recommendations within the commercial property acquisition strategy. This is further explained within the Executive Summary of this report.

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual £000	**Actual £000**	**Estimate £000**	**Estimate £000**	**Estimate £000**
Capital Financing Requirement (CFR)					
Total CFR	1,757	1,715	32,373	32,007	31,322
Movement in CFR	-42	-42	30,658	-366	-685
Movement in CFR represented by:					
Net Financing need for the year	0	0	30,700	300	0
Less MRP and other financing movements	-42	-42	-42	-666	-685
Net borrowing requirement	-42	-42	30,658	-366	-685

Minimum revenue provision (MRP) policy statement

Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2003 states that 'A local authority shall determine for the current financial year an amount of minimum revenue provision which it considers to be prudent'. The provision is made from revenue in respect of capital expenditure financed by borrowing or credit arrangements.

With all options MRP should normally commence in the financial year following the one in which expenditure was incurred. Regulation 28 does not define 'prudent'. However MRP guidance has been issued, which makes recommendations to authorities on the interpretation of that term. Authorities are legally obliged to 'have regard' to the guidance.

The first recommendation given by the guidance is to prepare, before the start of each financial year, an annual statement of the policy on making MRP in respect of that financial year and submit this to Full Council for approval.

The guidance aims to ensure that the provision for the repayment of borrowing which financed the acquisition of an asset should be made over a period bearing some relation to that over which the asset continues to provide a service.

The MRP policy to be adopted is as below:-

Borrowing	**MRP Methodology**
Commercial Property acquisition (Borrowing of up to £26.75 million)	***Annuity Method (over the 50 years)*** Under this calculation, the revenue budget bears an equal annual charge (for principal and interest) over the life of the asset by taking into account the time value of money. Since MRP only relates to the 'principal' element, the amount of provision made annually gradually increases during the life of the asset. The interest rate used in annuity calculations will be referenced to prevailing average PWLB rates. Under this example, the MRP charge in Year 1 on a £26.75 million borrowing would be £270,000, this rises to £277,000 in Year 2, £284,000 in Year 3, £292,000 in Year 4 and £299,000 by Year 5.
Waste Fleet, Leisure Investment and Kilworthy Park	**Asset Life Method** MRP is charged using the Asset Life method – based on the estimated life of the asset. This option provides for a reduction in the borrowing need over approximately the asset's life.

Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the receipt of net investment income against the net revenue stream. It is calculated by dividing investment income and interest received by the Council's Net Budget Requirement.

The financing costs have been increased to reflect the proposals within the commercial property acquisition strategy. These proposals have increased this indicator in 2018/19 and 2019/20 by 12.5%.

	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
Ratio of net financing cost to net revenue stream. This is a net cost.	1.1%	1.1%	4.3%	20.0%	20.6%

Estimates of the incremental impact of capital investment decisions on council tax

This indicator calculates the notional cost of the impact of lost investment income on the Council Tax, from spending capital resources.

The estimates of the impact on council tax (this is a notional indicator) have been revised for the proposals set out in the commercial property acquisition strategy.

The commercial property acquisition strategy has the potential to contribute to the forecast budget gap by between £190,000 to £455,000 as set out in the report. If the borrowing for the Waste Fleet and for Leisure are excluded, the expected benefit from the commercial property acquisition strategy would equate to a benefit of (£9.05) in 2017/18, rising to (£22.50) in 2018/19 and (£21.91) in 2019/20.

These figures are the incremental impact of capital investments decisions on a Band D council tax (surplus). These figures are included within the 'future incremental impact of capital investment decisions on the Band D Council Tax' shown below.

The cost shown in 2018/19 of £0.70 and in 2019/20 of £1.62 are due to the fact that the financing costs and MRP costs of the waste fleet and leisure investment are also included.

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Estimate	Estimate	Estimate	Estimate
	£	£	£	£	£
Future incremental impact of capital investment decisions on the band D Council tax (Notional cost/(surplus))	0.01	0.06	(3.39)	0.70	1.62

APPENDIX B

TREASURY MANAGEMENT STRATEGY (BORROWING)

Introduction

The capital expenditure plans set out in Appendix A provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

Current Portfolio Position

The Council's treasury portfolio position at 31 March 2017, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	Actual	**Actual**	**Estimate**	**Estimate**	**Estimate**
	£000	**£000**	**£000**	**£000**	**£000**
External Debt					
Debt at 1 April	2,100	2,100	2,100	32,600	32,900
Expected change in debt					
Debt at 31 March	2,100	2,100	32,373	32,007	31,322
CFR	1,757	1,715	32,373	32,007	31,322
Under/(over) borrowing	-343	-385	-	-	-
Investments					
Total Investments at 31 March	7,875	8,450	8,000	8,000	8,000
Net (Investment)/Debt	-5,775	-6,350	24,373	24,007	23,322

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Capital Financing Requirement has been increased by £26.75 million in 2017/18 to reflect the recommendations within the commercial property acquisition strategy. This is further explained within the Executive Summary of this report.

The S151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Treasury Indicators: Limits to borrowing activity

The Operational Boundary – This is the limit beyond which external debt is not normally expected to exceed. This is the maximum level of external debt for cash flow purposes.

Operational Boundary	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
Borrowing	3,000,000	3,000,000	35,000,000	35,000,000
Other long term liabilities	-	-	-	-
Total	**3,000,000**	**3,000,000**	**35,000,000**	**35,000,000**

The Authorised Limit for External Debt – A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This provides headroom over and above the operational boundary for unusual cash movements. This is the maximum amount of money that the Council could afford to borrow.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

The figures in 2017/18 have increased to reflect the proposed borrowing for the new leisure contract and potential additional borrowing for the waste fleet.

The Operational Boundary has been increased by £26.75 million in 2017/18 to reflect the recommendations within the commercial property acquisition strategy. This is further explained within the Executive Summary of this report.

2. The Council is asked to approve the following Authorised Limit:

Authorised limit	**2015/16 Estimate £**	**2016/17 Estimate £**	**2017/18 Estimate £**	**2018/19 Estimate £**
Borrowing	6,000,000	6,000,000	38,000,000	38,000,000
Other long term liabilities	-	-	-	-
Total	**6,000,000**	**6,000,000**	**38,000,000**	**38,000,000**

The figures in 2017/18 have increased to reflect the proposed borrowing for the new leisure contract and potential additional borrowing for the waste fleet.

The Authorised Limit has been increased by £26.75 million in 2017/18 to reflect the recommendations within the commercial property acquisition strategy. This is further explained within the Executive Summary of this report.

Prospects for interest rates

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view.

	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.10%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%
50yr PWLB rate	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%

Investment and borrowing rates

- Investment returns are likely to remain low during 2017/18 and beyond;

- Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times when authorities will not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt;

- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

Borrowing Strategy

In July 2016 (Minute CM28) the Council agreed to undertake prudential borrowing for the new leisure contract. There is predicted to be £1.2 million of Leisure investment in 2017/18 (this is shown in the movement in CFR). The remaining leisure investment occurs in 18/19.

Also at Council on 26 July 2016 (Minute CM27), Council agreed that the Council enters into an external Waste Management arrangement; for a 2 year period and that the Council proceeds to acquire the fleet required to satisfy the West Devon Waste specification as set out in Appendix D of the July 2016 agenda report. If the cost of the fleet is to be financed through prudential borrowing.

There was also a report on the June Hub Committee agenda for a commercial property acquisition strategy. There was a recommendation as part of that report (which was approved to be recommended to Council) to borrow a first tranche of funding of £26.75 million. The Revised Treasury Management Strategy reflects the increase in borrowing of £26.75 million.

Treasury management limits on activity

There are two related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

- Upper limits on fixed interest rate exposure – This covers a maximum limit on fixed interest rates.
- Upper limits on variable interest rate exposure – This covers a maximum limit for variable interest rates.

The Council is asked to approve the following treasury indicators and limits:

Interest rate Exposures	**2017/18**	**2018/19**	**2019/20**
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	50%	50%	50%
Limits on fixed interest rates: Debt only	35,000,000	35,000,000	35,000,000
Limits on variable interest rates: Debt only	3,500,000	3,500,000	3,500,000
Maturity Structure of fixed interest rate borrowing 2017/18			
		Lower	**Upper**
Under 12 months		0%	10%
12 months to 2 years		0%	10%
2 years to 5 years		0%	30%
5 years to 10 years		0%	50%
10 years and above		0%	100%

These are limits that apply to the total portfolio for in house investments.

Policy On Borrowing In Advance Of Need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Borrowing in advance will be made within the constraints that:

- The Council would not look to borrow more than 18 months in advance of need.

Risks associated with any advance borrowing activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.
If the Council had to borrow temporarily for cash flow purposes only in an emergency, then the S151 Officer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks. A report will subsequently be reported to Council. In all other circumstances, approval to borrow money will always be a decision that can only be made by Full Council and a full report will be brought to Members.

Debt Rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed rates, opportunities to generate savings by switching from long term debt to short term debt are regularly evaluated. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- The generation of cash savings and/or discounted cash flow savings
- Helping to fulfil the treasury strategy
- Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt. In light of current interest rates and penalties incurred in repaying debt it is unlikely that debt rescheduling will be undertaken in the near future.

The Council has enquired as to whether there is any opportunity to reschedule the PWLB loan of £2.1 million but the associated early repayment charge and premium that would be charged makes this uneconomic at this stage.
All rescheduling will be reported to the Council, at the earliest meeting following its action.

APPENDIX C

The Investment Strategy

Investment policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectorial Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investment instruments identified for use in the financial year are listed in appendix D under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

Creditworthiness policy

This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years *
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

** Please note: the yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt –see appendix D.*

The Capita Asset Services' creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings. Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other information, to support their use.

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Capita Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support its decision making process.

Country and sector limits

The Council has determined that it will only use UK registered banks and Building Societies.

Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations. Bank Rate is forecast to stay flat at 0.25% until quarter 2 2019 and not to rise to 0.75% until December 2019. Bank Rate forecasts for financial year ends (March) are:

- 2016/17 0.25%
- 2017/18 0.25%
- 2018/19 0.25%
- 2019/20 0.50%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows:

	Now
• 2016/17	0.25%
• 2017/18	0.25%
• 2018/19	0.25%
• 2019/20	0.50%

The overall balance of risks to these forecasts is currently probably slightly skewed to the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. On the other hand, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace.

Investment treasury indicator and limit - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end. The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 days			
£m	**2017/18**	**2018/19**	**2019/20**
Principal sums invested > 364 days	£2 million	£2 million	£2 million

End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

APPENDIX D

Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.
5. A body that is considered of a high credit quality (such as a bank or building society)

Non-specified investments: These are any investments which do not meet the Specified Investment criteria.

CCLA Property Fund investment will be the Council's only Non-Specified Investment and there is a limit of £0.5 million for this asset class.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories. The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	**Max % of total investments / £ limit per institution**	**Max. maturity period**
DMADF – UK Government	N/A	100%	6 months
Money market funds	AAA	£3 million	Liquid
Enhanced Cash Funds	AAA	£6 million	T + 2
Local authorities	N/A	£3 million	5 years

	Minimum credit criteria / colour band	Max % of total investments / £ limit per institution	Max. maturity period
Property Investment Funds – CCLA	N/A	£500,000	No fixed maturity date but will generally be up to 7 years
Term deposits with banks and building societies	Yellow	£3 million (£4 million for Lloyds – the Council's Bank)	Up to 5 years
	Purple		Up to 2 years
	Blue		Up to 1 Year
	Orange		Up to 1 Year
	Red		Up to 6 months
	Green		Up to 100 days
	No Colour		Not for use
The Council is not recommending using the following investment vehicles and this is reflected by showing 0% against the limit per institution.			
UK Government gilts	AAA	0%	Yellow (5 years)
UK Government Treasury bills	AAA	0%	6 months
Bonds issued by multilateral development banks	AAA	0%	Yellow (5 years)
CDs or corporate bonds with banks and building societies	Yellow	0%	Up to 5 years
	Purple		Up to 2 years
	Blue		Up to 1 year

	Minimum credit criteria / colour band	Max % of total investments / £ limit per institution	Max. maturity period
	Orange		Up to 1 year
	Red		Up to 6 months
	Green		Up to 100 days
	No colour		Not for use

SPECIFIED INVESTMENTS:

All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' rating criteria where applicable.

	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	-	In-house
Term deposits – local authorities	-	In-house
Term deposits – banks and building societies	Green	In-house

Term deposits with nationalised banks and banks and building societies

	Minimum Credit Criteria	Use	Max total investment	Max. maturity period
UK part nationalised banks	Blue	In-house	£3 million	Up to 1 year

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Government Liquidity Funds	MMF Rating	In-house
2. Money Market Funds	MMF Rating	In-house
3. Enhanced Cash Funds	EMMF	In-house

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

A Guide to Money Market Funds	
Definition	A pool of cash managed by an independent fund management company. Frequently these are well known banks or investment houses.
Investment	Investors purchase units (shares) of the fund which are held on their behalf in a custody account.
Returns	Returns in line with either 7-day or 1-month LIBID are targeted by most funds.
Liquidity	The funds are very liquid. Shares can be purchased and sold on the same day if necessary and without penalty. Deals are subject to a cut-off time which varies from manager to manager but can be as late as 2pm.
Variety	Two types of classes exist – 1) Stable Net Asset Value (SNAV) – the most common variety. Prices are fixed and interest is credited to investors in the form of a dividend. 2) Accumulating Net Asset Value (ANAV) – interest is credited to the shares and the price rises to reflect the return achieved.
Accounting	Purchases of MMF shares do not score as capital expenditure. Sales do not score as capital receipts.
Legality	Local authorities are permitted to invest in sterling denominated funds with an AAA credit rating and domiciled in the EU.
Regulation	UK-based Funds are regulated by the Financial Services Authority. Those domiciled in other EU zones (the majority) are regulated via the Undertakings for Collective Investment in Transferable Securities (UCITS) Code. The Code lays down strict common standards of investment and management.

Portfolio holdings	Cash is invested in a selection of high quality, high liquidity securities including: time deposits, certificates of deposit, short-dated gilts, corporate bonds and notes, commercial paper etc.
Credit rating	Local authorities are empowered to place funds in investment schemes with a high credit rating. Money Market Funds fall into this category and are all rated by one or more of the three rating agencies. Credit Quality – measures the financial strength of the fund (not the manager) and the probability of it defaulting.
Risk management	The funds eligible for local authority investment score highly on credit quality and low volatility. All have an AAA rating which means that the chances of default are considered minimal. 1) Rating requirements – in order to maintain an AAA rating fund managers must adhere to requirements specified by the rating agencies. These include: • A maximum exposure to any one counterparty (concentration ratio) between 5% & 10% • A maximum weighted average maturity (WAM) for the entire fund – typically 60 days • A minimum level of overnight investments to ensure high liquidity • A lower limit on quality of investment counterparty 2) Ring fencing – monies received from share purchases are invested in financial instruments by the managing organisation. Deposits/security investments are held in custody by a non-related company that specialises in custody services. Counterparty exposure of the fund (and of the investor) is to the underlying securities and not to the management company.
Exposure limits	In view of the funds' low concentration ratios; quality of asset holdings; maximum WAM and ring-fencing arrangements, counterparty risk is spread widely. MMFs possess the same status as external fund managers operating cash/gilt funds for local authorities. They should have their own counterparty limit which can be considerably greater than that accorded to individual investment counterparties.

APPENDIX E

Treasury Management Scheme Of Delegation

Full Council:

- Receiving and reviewing reports on treasury management policies, practices and activities
- Approval of annual strategy
- Approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- Budget consideration and approval
- Approval of the division of responsibilities
- Receiving and reviewing regular monitoring reports and acting on the recommendations
- Approving the selection of external service providers and agreeing terms of appointment

The treasury management role of the Section 151 Officer:

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- Submitting regular treasury management policy reports
- Submitting budgets and budget variations
- Receiving and reviewing management information reports
- Reviewing the performance of the treasury management function
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- Ensuring the adequacy of internal audit, and liaising with external audit
- Recommending the appointment of external service providers
- To ensure that members with responsibility for treasury management receive adequate training in treasury management.
- Te review the training needs of treasury mangement officers periodically

GLOSSARY OF TERMS

Basis Point
1/100th of 1%, i.e., 0.01%

Base Rate
Minimum lending rate of a bank or financial institution in the UK

Benchmark
A measure against which the investment policy or performance of a fund manager can be compared

Bill of Exchange
A financial instrument financing trade

Callable Deposit
A deposit placed with a bank or building society at a set rate for a set amount of time. However, the borrower has the right to repay the funds on pre-agreed dates, before maturity. This decision is based on how market rates have moved since the deal was agreed. If rates have fallen, the likelihood of the deposit being repaid rises, as cheaper money can be found by the borrower

Cash Fund Management
Fund management is the management of an investment portfolio of cash on behalf of a private client or an institution, the receipts and distribution of dividends and interest, and all other administrative work in connection with the portfolio

Certificate of Deposit (CD)
Evidence of a deposit with a specified bank or building society repayable on a fixed date. They are negotiable instruments and have a secondary market; therefore the holder of a CD is able to sell it to a third party before the maturity of the CD

Commercial Paper
Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations and other borrowers. Such instruments are unsecured and usually discounted, although some may be interest bearing

Corporate Bond
Strictly speaking, corporate bonds are those issued by companies. However, the term is used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies

Counterparty
Another (or the other) party to an agreement or other market contract (e.g., lender/ borrower/writer of a swap, etc)

CPI
Consumer Price Index – calculated by collecting and comparing prices of a set basket of goods and services as bought by a typical consumer, at regular intervals over time.

CDS
Credit Default Swap – a swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap

Derivative
A contract whose value is based on the performance of an underlying financial asset, index or other investment, e.g., an option is a derivative because its value changes in relation to the performance of an underlying stock.

DMADF
Deposit Account offered by the Debt Management office, guaranteed by the UK government

ECB
European Central Bank – sets the central interest rates in the EMU area. The ECB determines the targets itself for its interest rate setting policy; this is to keep inflation within a band of 0 to 2%. It does not accept that monetary policy is to be used to manage fluctuations in unemployment and growth caused by the business cycle

EMU
European Monetary Union

Equity
A share in a company with a limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital gain

Fed.
Federal Reserve Bank of America – sets the central rates in the USA

Floating Rate Notes
Bonds on which the rate of interest is established periodically with reference to short-term interest rates

Forward Deal
The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed date

Forward Deposits
Same as forward dealing (above)

Fiscal Policy
The Government policy on taxation and welfare payments

Gilt
Registered British Government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent

Gilt Funds
Pooled fund investing in bonds guaranteed by the UK government

Money Market Fund (MMF)
A well rated, highly diversified pooled investment vehicle whose assets mainly comprise of short term instruments. It is very similar to a unit trust, however in a MMF

Monetary Policy Committee (MPC)
Government body that sets the bank rate (commonly referred to as being base rate). Their primary target is to keep inflation within plus or minus 1% of a central target of 2.5% in two year's time from the date of the monthly meeting of the Committee. Their secondary target is to support the Government in maintaining high and stable levels of growth and employment

Open Ended Investment Companies
A well diversified pooled investment vehicle, with a single purchase price, rather than a bid/offer spread

Other Bond Funds
Pooled funds investing in a wide range of bonds

Reverse Gilt Repo
This is a transaction as seen from the point of view of the party which is buying the gifts. In this case, one party buys gifts from the other and, at the same time and as part of the same transaction, commits to resell equivalent gifts on a specified future date, or at call, at a specified price

Retail Price Index (RPI)
Measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person

Sovereign Issues (Ex UK Gilts)
Bonds issued or guaranteed by nation states, but excluding UK government bonds

Supranational Bonds
Bonds issued by supranational bodies, e.g., European investment bank. These bonds – also known as Multilateral Development Bank bonds – are generally AAA rated and behave similarly to gilts, but pay a higher yield ("spread") given their relative illiquidity when compared with gilts

Term Deposit
A deposit held in a financial institution for a fixed term at a fixed rate

Treasury Bill
Treasury bills are short term debt instruments issued by the UK or other governments. They provide a return to the investor by virtue of being issued at a discount to their final redemption value

WARoR
Weighted Average Rate of Return is the average annualised rate of return weighted by the principal amount in each rate

WAM
Weighted Average Time to Maturity is the average time, in days, till the portfolio matures, weighted by principal amount

WATT
Weighted Average Total Time is the average time, in days, that deposits are lent out for, weighted by principal amount

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