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	BABERGH COUNCIL
DATE:	**TUESDAY, 19 FEBRUARY 2019 5.30 PM**
VENUE:	**KING EDMUND CHAMBER - ENDEAVOUR HOUSE, 8 RUSSELL ROAD, IPSWICH**

For consideration at the meeting on Tuesday, 19 February 2019, the following additional or updated papers that were unavailable when the Agenda was printed.

REVISED AGENDA- SUPPLEMENTARY PAPERS

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BABERGH DISTRICT COUNCIL

OVERVIEW & SCRUTINY COMMITTEE REPORT TO BABERGH COUNCIL

FEBRUARY 19TH, 2019

ADDENDUM TO ITEM 8 - PAPER BC/18/37

The Joint Overview and Scrutiny Committee met on the 14th February 2019

JOS/18/28 REVIEW OF OUTSIDE BODIES

The Committee considered the above report which was presented by Jan Robinson, (Corporate Manager-Democratic Services). This had been prepared, on the Committee's request, to review Member representation and consider how this could be more effective.

The benefits to the Council of this representation are in receiving early warning of Community Issues, demonstrating our support, understanding their concerns and making ourselves more accessible just by being involved. A distinction was drawn between members appointed by the Council, and members involved in their private capacity.

Mid Suffolk appoints Members to 20 such organisations and Babergh to 30. Their range and purpose, and the Members status, varies considerably. Likewise, some of these appointments are statutory, some are to organisations that we provide funding for, and some are to organisations that that have clear links to objectives outlined within the Joint Strategic Plan.

No detailed review having been carried out for some years, both Members and organisations were contacted for information. This information was presented in a spreadsheet format for each Council. The return of information for this report, although not complete has proved to be a useful core of a database and provided the basis of discussion.

Members had clearly valued the work done by most outside bodies. The Committee, from their own experience on these, provided further examples of positive outcomes for both Council and community. Many Members provided regular feedback on the bodies, either by circulating reports or discussing areas of mutual interest with both officers and other Members. However, there were no formal arrangements for these, as much was left to Members discretion. The Committee had no desire to add significantly to the workload of Members but felt that some simple mechanisms would improve both contact and exchange of useful information. After discussion, a consensus developed that could be asked to provide a simple, short, annual report to Democratic Services, one for each body. This information, once collected (potentially at the end/beginning of the calendar year) then collated would provide the basis of an Annual Review. That report would be examined by Overview and Scrutiny Committees towards the end of the Council year. The practical details remain to be established, but this would be a less piecemeal approach.

The Committee also felt that those bodies where there was a statutory requirement for council representation had a special significance. Any attendance problems on these could reflect poorly on the Council. In accord with both Councils principles of transparency and accountability, the committee felt that it would be advisable to keep, and publish, attendance records for the main (qualifying) meetings of members appointed to these outside bodies.

Many Members appointed to outside bodies had received little information upon appointment and no direction or indication as to their, and the Councils, role upon them. It was felt that this should be addressed as a matter of urgency, particularly for newly elected councillors after

the forthcoming election. Jan Robinson assured Members that work was already in progress as part of the Member Learning programme currently being prepared for the post-election period.

By a unanimous vote

It was RESOLVED:

1.1 That training needs relating to outside bodies be investigated by the Member Learning and Development Working Group and any relevant training be programmed in for the next municipal year.

1.2 That a simple mechanism be agreed for councillors to report back on an annual basis to the Overview and Scrutiny Committee.

1.3 That a review of the list of Outside Bodies be carried out on an annual basis and the update of that review be included in the report above.

1.4 That records be kept of Members attendance at qualifying meetings of the Statutory Outside Bodies

1.5 That the attendance of Members on Statutory Outside Bodies/Panels be published on the website.

JOS/18/29 INFORMATION BULLETIN 1: DISABLED FACILITIES GRANTS

This bulletin was introduced by Jan Osborne, Cabinet member for Housing, and presented by Heather Worton, Corporate Manager-Property Services, and Amanda Todd, Senior Environmental Health Officer.

Concerns about this issue had been highlighted by Mid Suffolk Overview and Scrutiny. Both Councils had a significant underspend of available funds to make adaptations to the homes of disabled private sector residents to enable independent home living. The multiple factors causing these were:

Under performance at Orbit Home Improvement Agency, the principal supplier; a complex and lengthy process within an application; the use of an overly severe means test: and a shortage of the required Occupational Therapists to make referrals. Further, Orbit were operating at a financial loss, with little prospect of improvement. Without action, this underspend would continue, and residents would not receive required assistance. It was also clear that the original 5-year contract, involving all Suffolk authorities, had not been well designed. This contract now has some 16 months left to run.

Some Members (understandably) were so frustrated by this situation they would prefer that the Councils seek to abandon the contract completely. Officers and the Cabinet Member were highly concerned that the penalty clauses within the contract would result in a greater financial loss and a significant pause in any delivery.

Much of this situation was already being examined, and preparatory discussion towards this scrutiny examination had raised the profile of the issue. Both Cabinets would be considering proposed changes to Disabled Facilities Grants in March. These proposals are included here, as they are crucial to an understanding of the issues.

Proposed Changes to DFG's

3.0 Applicants needing adaptations costing £4,999 or less will not be means tested. This will enable more applicants to be eligible to receive assistance and speed up the process. The figure of £4,999 is to avoid the requirement of registering the grant as a local land charge and repayment of the grant if the property is sold within 10 years. Setting an upper limit also restricts the risk that public funds are misappropriated but still remains proportionate to the benefits.

3.1 Providing adequate heating where the medical need of the applicant is likely to be exacerbated by living in a cold home.

3.2 Removing the need for an Occupational Therapist (OT) Referral for the straightforward cases. The long wait for an OT visit has long been a bottle neck within the DFG process.

3.4 Purchasing of equipment which can be installed quickly where and when it is needed and re-used when no longer needed. Examples include modular ramps, adjustable chair risers, posture aids, wash/dry toilets, key safes, sensor lights, coloured light sockets and lever taps.

3.5 Using DFG funding to rent a Council owned property within each district to provide temporary accommodation to enable someone to be discharged from hospital when adaptations are required to their home. Two Sheltered properties have already been identified in each district for this purpose.

3.6 Extending the scope of eligible work to include adaptations to assist those with dementia or mental health issues.

3.7 A Suffolk wide workshop is taking place at the end of February to discuss a future model for DFG delivery. The workshop will involve a variety of stakeholders from Suffolk County Council, Health Professionals and LA's.

The committee did not feel that this matter could be allowed to rest however. Some money that might have been used within the Babergh & Mid Suffolk districts might have to be used elsewhere in Suffolk, although for the intended purpose.

By a unanimous vote

It was RESOLVED: -

1.1 That the Joint Overview and Scrutiny Committee strongly endorsed the propose 'Changes to Disabled Facilities Grant 3.0 to 3.7' in the Information Bulletin to Cabinet.

1.2 That the Joint Overview and Scrutiny Committee receive a report back after the Cabinet Meeting in March 2019 on the agreed future arrangements for the Disabled Facilities Grant and that the report included the conclusions and the legal implications of the contract with Orbit, to be considered at the Overview and Scrutiny Committee in June 2019.

JOS/18/29 INFORMATION BULLETIN 2: REVIEW OF THE IMPACT AND IMPLEMENTATION OF UNIVERSAL CREDIT AND ITS EFFECT ON INCOME MANAGEMENT WITHIN THE BABERGH AND MID-SUFFOLK HOUSING SERVICE

This bulletin was introduced by Jan Osborne, Cabinet Member for Housing and introduced by Lee Crowdell, Corporate Manager - Tenancy Services. It focussed on the impact of Universal Credit, its roll out, problems and a constantly changing situation. Primarily though, the bulletin dealt with UC's impact upon the Councils position as a landlord of properties and the impact of tenants receiving UC. I would recommend the Information bulletin to members with an interest in the subject. Members felt that they had a much clearer understanding of the issues and officers were commended for the information presentation.

Inevitably, there were discussions around all aspects of UC. These were seriously discussed, but the focus was on the issue in hand, impact on our housing services. The councils were able to deal with individual circumstances by a variety of means. Alternative Payment Arrangements (APA's direct to Landlord), Personal Budgeting Support (PBS), regular contacts with the DWP and the Landlord Portal were all being used effectively.

A 53-week year (Mondays) will occur in 2019/20. The system has not been prepared for this, only allowing for 52 payments. The roll-out of UC will continue, albeit at a slower pace than feared. Babergh is more affected at a 20% roll-out, Mid-Suffolk would be nearer 10%. Early indications, figures not being complete, show a small increase in rent arrears. It is not currently proposed to alter targets until the situation is clearer.

Working practices will continue to evolve, seeking to identify the problem areas and apply appropriate support. In an environment where the responsible Secretary of State has been critical of UC, there is little clarity. The committee were reassured that our Housing Team were well prepared, and flexible enough to deal with these impacts.

It was RESOLVED:

That the Information Bulletin 2 be noted

This additional report is intended to avoid any repetition with the O&S Annual Report to be presented to Council in March.

Once again, I'm happy to take questions, either in or out of the meeting.

Alastair McCraw
Chair of Overview & Scrutiny Committee, BDC.
17th February 2019.

Appendix F

Further CIFCO Investment - Stress Test

1. Budget Assumptions

1.1. The projected total net returns to each Council over the next four years, from a further investment of £25m, are £1.9m. Further details of the assumptions used and the interest receivable and payable are set out below:

	2019/20 (Year 1)	**2020/21** (Year 2)	**2021/22** (Year 3)	**2022/23** (Year 4)
Investment Balance at period end	£12.5m	£25m	£25m	£25m
Council loans to fund investments				
Short term loans @ 1.25%	£12.5m	£25m	£2.5m	£2.5m
PWLB 10 Year loan @ 1.96%			£10m	£10m
PWLB 50 Year loan @ 2.88%			£12.5m	£12.5m
Interest Receivable 5% (From CIFCO)	(£0.307m)	(£0.865m)	(£1.116m)	(£1.110m)
Interest Payable	£0.089m	£0.261m	£0.590m	£0.569m
Net Return	**(£0.218m)**	**(£0.604m)**	**(£0.526m)**	**(£0.541m)**
Rate of Return %	**1.74%**	**2.42%**	**2.10%**	**2.17%**

Note: *All long-term loans are Annuity loans (each loan payment is made up of an element of principal repayment and interest) The investments have been profiled in 12ths until fully invested at the end of 2020/21, when the PWLB loans will be taken out.*

2. Interest Payable – Council Borrowing Rate

2.1. Whilst the rates forecast above allow for an increase in the base rate this could increase or decrease before the borrowing is required, depending on the future economic conditions. PWLB rates change daily and once loans are arranged the rates will be fixed for the term of the loan.

1% movement (increase or decrease) in interest rate per Council:

Short term borrowing

Year 1 – £67k increase or decrease to the £89k above
Year 2 – £192k increase or decrease to the £261k above
Year 3 – £25k increase or decrease to the £590k above

PWLB borrowing

From Year 3 – £225k per annum increase or decrease to the £590k above

3. Interest Receivable – Repayment from CIFCO

3.1. The loans between the Councils and CIFCO assume that the interest payable is calculated at 5% on an annuity basis and is underpinned by a signed loan agreement. However, if this were to decrease or increase through a revised loan agreement, it would have the following impact:

Loan rate decrease from 5% to 4%:

When fully invested this would result in a **loss of income per Council of £225k per annum.**

Loan rate increase from 5% to 5.5%:

5.5% is currently seen as the maximum that the loan could be increased to if the yield on the further £50m investment matches that of the current portfolio of properties. When fully invested this would result in **additional income per Council of £112k per annum.**

4. Risks

4.1. The information below relates to the initial investment in CIFCO of £50m, as this is the Councils experience to date. The investment principles that were established for the original £50m are regularly reviewed and updated to reflect the current market conditions e.g. deciding to move away from retail investments. It is anticipated, that should the additional £50m be agreed, that it would be invested in a similar way and hence the risks and numbers outlined below would apply equally.

4.2. The weighted unexpired (lease) term across the current CIFCO portfolio is currently 9 years and 2 months. There are currently 10 assets and 32 tenants. 87% of the portfolio is core long-let liquid assets with 13% of the portfolio being core plus assets.

4.3. The covenant strength of tenants is assessed prior to the acquisition of assets and on a quarterly basis thereafter. A RAG status is applied. 88% of the fund's income is currently attributed to "strong" covenants. In the event that a tenant's covenant weakens this will be monitored to determine whether this is a permanent trend, enabling appropriate action to be taken.

4.4. Should a loss of rental income occur through a void, this should not directly affect the Councils' returns as voids are dealt with by CIFCO using their own cashflows. CIFCO is building resilience within the company to address voids including any associated empty business rates and security costs. There are not currently any voids and in the short term only very small voids are expected for units such as Olympus Close. The impact of a void on CIFCO depends on the unit that becomes vacant. Across the 32 tenants, from investment of the first £50m, the rents vary from £7k to £413k p.a. with 8 being greater than £100k p.a. and 5 being greater than £300k p.a.

4.5. The Councils have security over the assets in the form of a mortgage on the properties, therefore should the company fail to make the agreed loan repayments, the Council would be able to take ownership of these assets and consequently benefit directly from any income derived from the properties or alternatively could sell the asset to cover their loan obligations. Of course, this is a last resort, and the Council would work with the company to explore alternatives.

4.6. If the company were to fail and the Councils took ownership of the assets to benefit from the rental income, each Council would receive approximately. £1.3m in rental income compared to the £1.110m that is currently received in loan interest. Based on the average across the whole portfolio, the voids would need to reduce total rental income by nearly 15% before it would fall below the current level of loan

interest and by more than 54% before the borrowing costs could not be covered. To illustrate an extreme scenario, the single largest property in terms of rental income represents just under 16% of the total rental income, so would have the largest impact on total rent received. If this property was vacant for a whole year the income received by the Council would drop slightly below the budgeted level of loan interest. As outlined in 4.4 above, only small voids are anticipated due to the strong covenants that are sought by the CIFCO Board before making investments.

4.7. The assets acquired will be held on CIFCO's balance sheet, therefore any increase or decrease in the valuation of these assets will have no direct financial impact on the Councils and will only affect CIFCO if the company is forced to sell the assets.

4.8. The larger fund of £100m, if the additional £50m is approved, offers more resilience against the identified risks e.g. one or more voids in a £100m fund has a smaller impact than the same voids in a £50m fund.

5. Reserves

5.1. Should any of the above scenarios occur which have a negative impact on the returns to the Councils, reserves could be used in the short-term whilst alternative actions are taken to address any shortfall.

5.2. Babergh has a general fund reserve of £1.2m as well as forecast earmarked reserves of £1.9m as at the end of 2019/20.

5.3. Mid Suffolk has a general fund reserve of £1.052m as well as forecast earmarked reserves of £10.2m as at the end of 2019/20.

5.4. Using the figures from the scenarios in sections 2, 3, and 4 above, the level of general fund reserve for each council could withstand the combined one year impact of a 1% increase in PWLB borrowing (£225k), a 1% decrease in the interest rate charged on the loans to CIFCO (£225k) and the largest property by rental income being void for a whole year (£413k). It is highly unlikely that this extreme set of circumstances would all materialise in the same year.

6. Section 151 Officer Conclusion

6.1. Based on the information set out above and using the experience to date from the initial £50m investment, the advice that CIFCO receives in terms of how it decides upon and monitors investments and the level of general fund reserves, I believe that a further investment of £25m for each Council represents a considered, proportionate and manageable risk for the Councils to take in order to generate additional income to support frontline services.

Katherine Steel
Section 151 Officer
February 2019

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