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Date: 19 August 2020

Dear Councillor,

Finance and Management Committee

A Meeting of the **Finance and Management Committee** will be a **TBC**, held via Microsoft Teams on **Thursday, 27 August 2020 at 18:00**. You are requested to attend.

Yours faithfully,



Chief Executive

To:- **Conservative Group**

Councillor Watson (Chairman), Councillor Angliss (Vice-Chairman) and Councillors Mrs. Brown, Fitzpatrick, Ford, MacPherson, Pegg and Roberts

Labour Group

Councillors Dr. Pearson, Rhind, Richards, Southerd and Taylor

AGENDA

Open to Public and Press

- 1** Apologies and to note any Substitutes appointed for the Meeting.
- 2** To note any declarations of interest arising from any items on the Agenda
- 3** To receive any questions by members of the public pursuant to Council Procedure Rule No.10.
- 4** To receive any questions by Members of the Council pursuant to Council procedure Rule No. 11.
- 5** Reports of Overview and Scrutiny Committee
- 6** REVENUE FINANCIAL MONITORING 2020/21 **4 - 20**
- 7** CAPITAL FINANCIAL MONITORING 2020-21 **21 - 26**
- 8** TREASURY MANAGEMENT UPDATE 2020-21 **27 - 40**
- 9** PROCUREMENT STRATEGY 2020 TO 2024 **41 - 57**
- 10** COMMITTEE WORK PROGRAMME **58 - 63**

Exclusion of the Public and Press:

- 11** The Chairman may therefore move:-
That in accordance with Section 100 (A)(4) of the Local Government Act 1972 (as amended) the press and public be excluded from the remainder of the Meeting as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that there would be disclosed exempt information as defined in the paragraph of Part I of the Schedule 12A of the Act indicated in the header to each report on the Agenda.

- 12** To receive any Exempt questions by Members of the Council pursuant to Council procedure Rule No. 11.
- 13** FINANCIAL MANAGEMENT SYSTEM (FMS) UPGRADE
- 14** LAND IN SWADLINCOTE
- 15** COLLECTION RATES, DEBT RECOVERY AND WRITE OFFS
- 16** REGRADE OF POST – BUSINESS SUPPORT OFFICER (HOUSING OPTIONS (HE14)
- 17** SERVICE LEVEL AGREEMENT RELATING TO CONSERVATION ADVICE
- 18** ACQUISITION OF NEW COUNCIL HOUSING AT ACRESFORD ROAD,OVERSEAL

REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 6
DATE OF MEETING:	27th AUGUST 2020	CATEGORY: DELEGATED
REPORT FROM:	STRATEGIC DIRECTOR (CORPORATE RESOURCES)	OPEN
MEMBERS' CONTACT POINT:	VICKI SUMMERFIELD, 01283 595939 Victoria.summerfield@southderbyshire.gov.uk	DOC: s/finance/committee/2020-21/Aug
SUBJECT:	REVENUE FINANCIAL MONITORING 2020/21	
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: FM08

1.0 Recommendations

- 1.1 That the latest revenue financial position for 2020/21 as detailed in the report is considered and approved.

2.0 Purpose of the Report

- 2.1 To provide an update on performance against budget for 2020/21.
- 2.2 The report details performance up to 30th June 2020 unless otherwise stated and is an update of income and expenditure for 2020/21.
- 2.3 The report covers both General Fund and HRA income and expenditure, an update to the Medium-Term Financial Plan (MTFP) plus a quarterly update to the Collection Fund.

3.0 Detail

GENERAL FUND

- 3.1 Apart from Council housing, day-to-day revenue income and expenditure for Council services is accounted for through the General Fund. The net expenditure is financed through the Council's Core Spending Power which includes:
- General Government Grant
 - Council Tax
 - Retained Business Rates
 - New Homes Bonus
- 3.2 The Base Budget for 2020/21 approved in February 2020 estimated a budget surplus of £922,391. The estimated surplus has now been updated to £577,342 to include

approved reports at this Committee and Full Council from March to July 2020 and a summary of the approved budget is shown in the following table.

	£
Base Budget	13,118,014
Reverse out Depreciation	-988,536
Parish Council Tax Support	43,627
Minimum / Voluntary Revenue Provisions	320,738
Contingent Sums	930,228
Approved Restructures and Staffing Changes Feb to Jul 2020	146,582
HRA Recharge Reduction	76,800
Review of Members Allowances Approved at Full Council	12,302
Feasibility Study Unspent in 2019/20	5,000
Total Estimated Spend	13,664,755
Financing	-14,242,097
Estimated Surplus	-577,342

- 3.3 The restructures and staffing changes approved between February and July include Cultural and Community Services, Environmental Services, Economic Development and Customer Services.
- 3.4 An update to the Council's financial position as a result of approved changes and the General Fund outturn for 2019/20 is listed within the MTFP in **Appendix 1**.
- 3.5 Contingent sums held within the MTFP are detailed in the following table.

	£
Provision for "off-payroll" payments	10,000
Waste Collection and Recycling	100,000
Growth	450,000
Pay Award	247,125
Childcare Voucher Administration	1,750
Concurrent Functions and Grants	61,292
Pension Revaluation	98,855
Pension Earmarked Reserve Drawdown	-38,794
Total	930,228

Position as at June 2020

- 3.6 A summary of the financial position for the year compared to the Base Budget for each Policy Committee is shown in the following table.

COMMITTEE SUMMARY - BUDGET MONITORING JUNE 2020

Summary by Policy Committee

REVENUE	ANNUAL			RESERVES	
	Full Year	Projected	Projected	Earmarked	Net effect on GF
	Budget £	Actual £	Variance £		£
Environmental and Development Services	5,396,295	5,429,517	-33,222	26,866	-60,088
Housing and Community Services	2,425,223	2,325,583	99,640	215,209	-115,569
Finance and Management	5,296,496	5,417,720	-121,223	-225,409	104,186
TOTAL	13,118,014	13,172,819	-54,805	16,666	-71,471

- 3.7 The above table shows that net expenditure is expected to be £54,805 higher than budget but transfers to Earmarked Reserves of £16,666 due to grant income and external contributions received under Section 106 agreements for projects and capital schemes which stretch beyond the current financial year. This funding is transferred to specific reserves and drawn down to finance expenditure when it is incurred.
- 3.8 Excluding transfers to specific reserves, the above table shows that based on current spending, there is a projected increase in overall expenditure across General Fund services of approximately £71,471 but the overspend is mainly due to issues related to the COVID-19 pandemic for which separate funding of £1,269,381 has been received from the Government, as previously reported.
- 3.9 Analysis is underway regarding the amount of additional expenditure incurred and income lost in direct relation to the COVID-19 pandemic and adjustments to the financial position of the General Fund will be made in time for the second quarters update.
- 3.10 An analysis by the main service areas is shown in the following table.

COMMITTEE SUMMARY - BUDGET MONITORING JUNE 2020

Summary by Service Area

REVENUE	ANNUAL			RESERVES	
	Full Year	Projected	Projected	Earmarked	Net effect on GF
	Budget £	Actual £	Variance £		£
Economic Development	327,621	328,097	-476	0	-476
Environmental Services	697,219	718,411	-21,192	14,219	-35,411
Highways & Parking	149,477	123,377	26,100	0	26,100
Licensing & Land Charges	16,878	41,768	-24,890	0	-24,890
Planning	585,920	526,145	59,775	19,358	40,417
Street Scene	1,013,758	965,687	48,070	0	48,070
Waste & Transport	2,605,422	2,726,032	-120,611	-6,711	-113,900
Community Development & Support	670,850	670,073	777	7,212	-6,435
Recreational Activities	179,951	185,021	-5,070	0	-5,070
Leisure Centres & Community Facilities	649,899	497,191	152,708	194,043	-41,335
Parks & Open Spaces	491,968	555,168	-63,200	0	-63,200
Private Sector Housing	432,555	418,130	14,426	13,954	472
Central Support Services	3,699,361	3,692,278	7,083	-14,441	21,524
Corporate & Democratic Costs	485,291	479,205	6,087	3,081	3,006
Elections & Registration	219,703	212,374	7,329	0	7,329
Parishes, Interest, S106 Receipts & Provisions	563,734	788,275	-224,541	-304,888	80,347
Estate Management	-281,180	-296,416	15,236	0	15,236
Revenues & Benefits	609,586	542,004	67,582	90,839	-23,257
	13,118,014	13,172,820	-54,805	16,666	-71,471

3.11 The main reasons for the projected variance are summarised in the following table and detailed in the commentary.

GENERAL FUND VARIANCE TO BUDGET JUNE 2020

	£'000
Salary savings (vacancies, maternity etc.) - E&D	231
Salary savings (vacancies, maternity etc.) - F&M	123
Salary savings (vacancies, maternity etc.) - H&C	25
Total Employee	379
Increased Planning Fee Income	100
Investment Income	80
Waste Disposal	51
Gully Cleaning	23
Increased Environmental Services Income	18
Lettings from Industrial and Commercial Units	10
Other Variances (net)	2

Total Favourable Variances

663

Computer Server	-8
Trade Waste Income	-10
Street Naming and Numbering Income	-10
Community Centre Income	-13
Waste Services Review	-19
Animal Welfare Act Costs	-21
Court Fees	-25
Licensing and Land Charges Income	-35
Leisure Centre Income	-40
Overtime Costs	-44
Rosliston Income	-50
Agency and Consultancy Costs	-459
Total Adverse Variances	-734
TOTAL - OVERALL PROJECTED VARIANCE	-71

3.12 Salary savings in year relate to vacancies and maternity but these savings are more than offset by agency and consultancy. The main service area expenditure is in relation to Operational Services where service delivery has continued throughout the pandemic and therefore to ensure waste collection services were maintained, it has been necessary to take on additional resource. Overtime costs have also been incurred in this area in relation to cleaning of vehicles again due to the pandemic. The following table shows the expected costs and savings on staffing in year.

	Employee Saving £'000	Agency Cost £'000	Variance £'000	
Refuse	51	-174	-123	Includes overtime expenditure
Planning	17	-67	-50	Long-term sickness
Environmental	42	-85	-43	Long-term sickness plus vacancy
Parks & Open Spaces	21	-47	-26	Approved restructure delay
Land Charges	65	-62	3	Vacancies - Lichfield DC supporting
Rosliston	4	0	4	Less wages due to closed premises
Property	5	0	5	Vacancy
Senior Management	5	0	5	Budget at top scale point
Digital	7	0	7	Budget at top scale point
Elections	7	0	7	Vacancy
Legal	75	-68	7	Out to recruit
Licensing	8	0	8	Pension
Cleaning	9	0	9	Vacancies
Organisational Development	15	0	15	Vacancies now recruited
Grounds Maintenance	48	0	48	Vacant posts
	379	-503	-124	

3.13 Investment income is greater than budget due to the large value of cash deposits held by the Council. £4m is currently invested in a longer-term high interest account with an average return of 4%. The budget for investment income is prudently based

on a low interest receivable percentage and is therefore likely to exceed the £180k budget.

- 3.14 Planning applications are significantly higher than forecast and although there was a slow start in April, planning applications have picked up considerably in the past few months. There is no slowdown in applications expected at this stage. Street Naming income has been lower during the first quarter although it is hoped with the increased building activity that this will be at least on budget by the year-end.
- 3.15 Contributions from Derbyshire County Council are higher than budget on waste disposal due to higher levels of green waste and recycling due to the pandemic. This is in line with the outturn position in 2019/20 where higher levels of income were seen due to stock piling of food at the beginning of the pandemic. Trade Waste income however has seen a decrease due to businesses being closed during the first quarter. It is hoped that this will improve during the second quarter and is being monitored closely.
- 3.16 Food Safety income is expected to higher (£20k) due to licences and is consistently above budget every year. Food Safety audits and Pollution Reduction income however is lower which is due mainly to the pandemic, but this is being kept under review during the second quarter now businesses have reopened.
- 3.17 The pandemic has prevented gully cleansing woks, and this is currently under review with the expectation that it will be managed in-house rather than contracted out. Savings are expected to be seen going forward.
- 3.18 Commercial lets have achieved greater levels of income than budgeted due to the void units being lower than anticipated. This however is being kept under review as there may be an increase in void units once the Business Grant income received by tenants is utilised. It is unknown at this stage whether the pandemic will cause longer-term issues for commercial lets.
- 3.19 Costs have been incurred for kennelling (£21k) due to seizing 26 animals under the Animal Welfare Act in 2019. It is hoped that these costs can be recovered after prosecution, but the prosecution has been delayed due to the closure of the Courts. In addition, fees for Business Rates and Council Tax (£25k) are expected to be lower in year due to the Court closures.
- 3.20 Rosliston income (£50k), Community Centre income (£13k) and Leisure Centre income (£40k) is all lower due to closures of the facilities during the first quarter. It is not expected that this income can be recovered during the remainder of the year but can be offset against the £1.2m received from the Government for the pandemic.
- 3.21 Licensing (£10k) and Land Charges income (£25k) are lower than budget during the first quarter. Licensing income is due to events not taking place during the summer months and therefore is unlikely to be recoverable in year. It is hoped however that now building works have restarted that Land Charges income will pick up again although this is being monitored.
- 3.22 There have been added costs due to the pandemic for equipment for home working. A new computer server was purchased to automate corporate data management tasks which were previously completed on site at the Civic Offices by employees. Tasks can now be managed remotely with the new server and it is likely that this cost can be covered by the Government grant funding.

Core Grants and Funding

3.23 The Council's central funding, besides Business Rates, is fixed for the year and is shown in the following table

Core Grants and Funding 2020/21	£
Council Tax	5,704,748
Retained Business Rates	4,188,978
Discretionary Business Rates Relief Scheme	3,000
New Homes Bonus	4,262,171
Collection Fund Surplus	83,200
Total Funding	<u>14,242,097</u>

3.24 The final amount retained for Business Rates will depend upon income and expenditure during the year, which includes provisions and any return from the Derbyshire Business Rates Pool.

3.25 There will be an additional cost seen in year in relation to the underestimate for the return from authorities for the Business Rates pool in 2019/20. The impact of this is still unknown due to final returns from all Derbyshire authorities having a deadline of 31st August. It is likely that the cost to the Council will be at least £250k due to a positive outturn position in last financial year for this Council, but the impact will be reported once more is known.

3.26 Performance of the Pool is reported quarterly to all Derbyshire S151 Officers, but nothing has yet been reported on the first quarter performance. There is a risk due to the pandemic that the Business Rates position for authorities across Derbyshire that losses in income will be seen which will impact on better performing authorities. It is still unknown at this stage how the Council will be impacted.

HOUSING REVENUE ACCOUNT (HRA)

3.27 The Council is required to account separately for income and expenditure in providing Council housing.

3.28 The Base Budget approved in February 2020 for the HRA was set with an estimated surplus of £222k. The MTFP has been updated to remove the incremental salary increases as this is incorporated in the Base Budget which has now increased the surplus to £231k. The position of the HRA as at June 2020 is summarised in the following table.

Summary HRA 2020/21	BUDGET	PROJECTED ACTUAL	PROJECTED VARIANCE
	£000	£000	£000
Total Income	-12,618	-12,550	-68
Contribution to Capital & New Build	2,935	2,935	0
Responsive & Planned Maintenance	3,245	3,234	11
Interest Payable and Receivable	1,713	1,698	15
Supervision & Management	1,780	1,741	39
Supported Housing & Careline Services	839	819	20
Provision for Bad Debts	100	100	0
Provision for Debt Repayment	1,542	1,542	0
Asset Replacement Contribution	45	45	0
Contingent Sums	188	188	0
Surplus	-231	-248	17

3.29 The above table shows that overall the HRA is expected to have a surplus of £248k which is £17k more than budgeted. The main reasons for the variances are detailed below.

HRA VARIANCE TO BUDGET JUNE 2020

	£'000
Salary savings (vacancies, maternity etc.)	270
Repairs & Maintenance	110
Investment Income	15
Professional Fees	14
Additional Careline Income	10
Disrepair Claims	-13
Reduced Rent due to Voids and Right to Buy	-75
Agency and Consultancy Staff	-315
Other Variances (net)	1
TOTAL - OVERALL PROJECTED VARIANCE	17

3.30 Expected salary savings in year relate to vacancies and are more than offset by agency and consultancy to support services.

3.31 There has been a slower start to the year on repairs and maintenance due to the pandemic and the HRA is expected to underspend in year.

3.32 Investment income is expected to be above budget by approximately £15k on the HRA. Further detail on the reasons for the increase are noted at 3.13.

3.33 A lower cost for professional fees is due to a contingency budget for revenue costs associated with new build and acquisition which is unlikely to be fully utilised plus a lower rate of Right to Buy due to the pandemic.

3.34 The revenue income lost due to void dwellings will be unrecoverable in year as the grant issued to the Council for costs and income losses due to the pandemic cannot

be used to fund the HRA. Right to Buys have only totalled one up to 6th August and therefore at this stage the losses of income are covered within the budget. The slower number of losses is due to the pandemic but may pick up now the housing market begins to recover.

3.35 Successful disrepair claims have been made against the Council which were not covered by the Council's insurance policy.

3.36 The HRA's 10-year MTFP is shown in **Appendix 2**.

COLLECTION FUND

3.37 The Collection Fund is the statutory account that records the collection of Council Tax and Business Rates and shows how that income has been distributed to the Government and Preceptors.

3.38 Any surplus or deficit on the Fund is transferred to the General Funds of the Preceptors, in proportion to precepts levied each year. The projected position on the Fund for 2020/21, based on transactions up to 30th June 2020, is detailed in **Appendix 3**.

3.39 This shows that the projected surplus balance on Council Tax is approximately £691k with a deficit balance on Business Rates of approximately £1.3 million.

3.40 Growth in the tax base is expected to continue which will impact positively on both Business Rates and Council Tax although both elements are likely to be negatively impacted due to the pandemic.

3.41 Council Tax has seen smaller growth in the first quarter which is mainly due to less occupation of new properties after a freeze on house moving was enforced during April and May. This is expected to improve as the year progresses.

3.42 Business Rates at the end of the first quarter is looking to generate a large deficit as growth has been stifled and Reliefs funded by the Government have been at a much higher level. It is difficult at this stage to forecast how the Business Rates position will fair over the year, but it is hoped that with all of the additional support given to businesses during the pandemic, that growth will once again benefit the Council.

3.43 The Council is required to complete a Statutory return with expected Tax Base numbers for the following financial year in September. The Council Tax budget was based on this return with a Tax Base of 34,474 Band D equivalent properties with a total number of dwellings on the valuation list of 45,150. At the end of June 2020, the actual Tax Base was 35,293 (+819) with a total number of dwellings of 46,064 (+914).

4.0 Financial Implications

4.1 Detailed in the report.

5.0 Corporate Implications

5.1 None.

Legal Implications

5.2 None.

Corporate Plan Implications

5.3 There are no specific targets within the Corporate Plan but ensuring sustainability of the Council's financial position enables services to deliver targets included with the Plan.

Risk Impact

5.4 None.

6.0 Community Impact

Consultation

6.1 None.

Equality and Diversity Impact

6.2 None.

Social Value Impact

6.3 None.

Environmental Sustainability

6.4 None.

7.0 Background Papers

7.1 None.

GENERAL FUND MEDIUM TERM FINANCIAL PLAN

BUDGET & PROJECTION as at AUGUST 2020

	Budget £ 2020.21	Projection £ 2021.22	Projection £ 2022.23	Projection £ 2023.24	Projection £ 2024.25	Projection £ 2025.26
BASE BUDGET						
Environmental & Development	5,396,296	5,571,729	5,722,518	5,877,270	6,036,067	6,197,993
Housing & Community	2,425,223	2,471,431	2,519,989	2,567,608	2,616,824	2,666,501
Finance & Management	5,340,126	5,511,581	5,669,116	5,827,967	5,988,392	6,150,631
Net Service Expenditure	13,161,645	13,554,742	13,911,623	14,272,845	14,641,282	15,015,125
Accounting Adjustments						
Reverse out Depreciation	-988,536	-988,536	-988,536	-988,536	-988,536	-988,536
Minimum Revenue Provision (MRP)	189,512	181,932	174,654	167,668	160,962	154,523
Voluntary Revenue Provision (VRP - Recycling Bins & Grove Active Zone)	131,226	75,891	20,556	20,556	1,639	0
	12,493,847	12,824,028	13,118,297	13,472,532	13,815,347	14,181,112
Add: Known Variations						
Approved Restructures February 2020	106,096	39,768	20,437	23,231	27,183	27,862
Vehicle Maintenance Plan (Tyres and Spare Parts)	0	20,000	43,000	40,000	75,000	75,000
Environmental Services Restructure	36,323	69,516	76,777	81,818	85,907	88,055
HRA Recharge Reduction	76,800	76,800	76,800	76,800	76,800	76,800
Review of Members Allowances Approved at Full Council	12,302	25,032	37,763	37,763	37,763	37,763
Voluntary Grants and Concurrent Functions Uplift 2%	11,233	11,458	11,687	11,921	12,159	12,402
Feasibility Study for Reopening of the Ivanhoe Line	5,000	0	0	0	0	0
Local Plan Review	0	15,000	15,000	0	0	0
Incremental Salary Increases	0	42,669	21,842	22,388	22,948	23,522
Pay Award 2020/21	247,125	253,303	259,636	266,127	272,780	279,600
Pension Revaluation	98,850	101,321	103,854	106,451	109,112	111,840
Concurrent Functions Protection Approved Nov 19	50,059	50,059	50,059	50,059	50,059	50,059
Economic Development Post Update Approved July 2020	4,163	5,500	5,579	5,718	5,861	6,008
Investment Income	0	30,000	51,000	81,000	98,040	100,000
Administration of Childcare Vouchers	1,750	1,750	1,750	1,750	1,750	1,750
Temporary Posts, Rosliston and Grants	0	-269,852	-248,599	-225,531	-207,759	-194,983
Potential Cost of New Waste Disposal Site	0	47,400	49,770	52,259	54,871	57,615
Potential Loss of Industrial Unit Income	0	0	190,000	190,000	190,000	190,000
Pension Earmarked Reserve Drawdown	-38,794	-41,122	-43,589	-6,783	0	0
District Election May 2023	0	0	0	125,000	0	0
TOTAL ESTIMATED SPENDING	13,104,755	13,302,631	13,841,063	14,412,503	14,727,822	15,124,404

GENERAL FUND MEDIUM TERM FINANCIAL PLAN

BUDGET & PROJECTION as at AUGUST 2020

	Proposed Budget £ 2020.21	Projection £ 2021.22	Projection £ 2022.23	Projection £ 2023.24	Projection £ 2024.25	Projection £ 2025.26
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Provisions

Provision for Employer's NIC on "off-payroll" payments	10,000	10,000	10,000	10,000	10,000	10,000
Contingent Sum - Growth	450,000	450,000	450,000	450,000	450,000	450,000
Waste and Recycling	100,000	100,000	100,000	100,000	100,000	100,000
TOTAL PROJECTED SPENDING	13,664,755	13,862,631	14,401,063	14,972,503	15,287,822	15,684,404

FINANCING

Business Rates Retention	-4,188,978	-3,699,726	-3,670,153	-3,676,916	-3,681,390	-3,264,152
Discretionary Business Rate Relief Scheme	-3,000	0	0	0	0	0
New Homes Bonus	-4,262,171	-3,816,195	-3,815,552	-3,590,570	-2,692,927	-2,692,927
Council Tax Income	-5,704,748	-5,962,934	-6,229,020	-6,503,216	-6,785,737	-7,076,804
Core Spending Power	-14,158,897	-13,478,855	-13,714,725	-13,770,702	-13,160,055	-13,033,883
Add Estimated Collection Fund Surplus - Council Tax	-83,200	-55,000	-55,000	-55,000	-55,000	-55,000
TOTAL FINANCING	-14,242,097	-13,533,855	-13,769,725	-13,825,702	-13,215,055	-13,088,883

Revenue Surplus (-) / Deficit

-577,342	328,775	631,338	1,146,801	2,072,767	2,595,520
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Capital Contributions

Melbourne Sports Park Drainage	419,801	0	0	0	0	0
IT and Digital Strategy	210,000	210,000	210,000	210,000	210,000	210,000
Purchase of Town Centre Land	44,335	0	0	0	0	0
Community Partnership Scheme (2017 contribution)	125,695	0	0	0	0	0
Community Partnership Scheme (2019 contribution)	275,000	0	0	0	0	0
Rosliston Forestry Centre - Play Project	0	50,000	0	0	0	0
Asset Replacement and Renewal Fund	360,000	358,000	357,000	356,000	355,000	355,000
TOTAL CAPITAL CONTRIBUTION	1,434,831	618,000	567,000	566,000	565,000	565,000

TOTAL GENERAL FUND DEFICIT

857,489	946,775	1,198,338	1,712,801	2,637,767	3,160,520
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GENERAL FUND MEDIUM TERM FINANCIAL PLAN
BUDGET & PROJECTION as at AUGUST 2020

	Proposed Budget	Projection	Projection	Projection	Projection	Projection
	£	£	£	£	£	£
	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26
GENERAL FUND RESERVE BALANCE						
Balance b/fwd	-12,605,436	-11,747,947	-10,801,171	-9,602,834	-7,890,033	-5,252,266
Revenue Surplus (-) / Deficit	-577,342	328,775	631,338	1,146,801	2,072,767	2,595,520
Capital Contributions	1,434,831	618,000	567,000	566,000	565,000	565,000
Balance c/fwd	-11,747,947	-10,801,171	-9,602,834	-7,890,033	-5,252,266	-2,091,746

HOUSING REVENUE ACCOUNT FINANCIAL PROJECTION - AUGUST 2020

	2020.21 Approved Budget £'000	2021.22 Forecast £'000	2022.23 Forecast £'000	2023.24 Forecast £'000	2024.25 Forecast £'000	2025.26 Forecast £'000	2026.27 Forecast £'000	2027.28 Forecast £'000	2028.29 Forecast £'000	2029.3 Forecast £'000	2030.31 Forecast £'000
INCOME											
Rental Income	-12,168	-12,502	-12,796	-13,103	-13,424	-13,752	-14,095	-14,455	-14,823	-15,206	-15,604
Non-Dwelling Income	-143	-147	-150	-154	-158	-162	-167	-171	-176	-180	-185
Supporting People Grant	-130	-130	-130	-130	-130	-130	-130	-130	-130	-130	-130
Other Income	-177	-177	-177	-177	-177	-177	-177	-177	-177	-177	-177
Total Income	-12,618	-12,956	-13,253	-13,564	-13,889	-14,221	-14,569	-14,933	-15,306	-15,693	-16,096
EXPENDITURE											
General Management	1,780	1,820	1,861	1,902	1,945	1,989	2,034	2,080	2,127	2,175	2,224
Supporting People	839	861	883	906	929	954	980	1,006	1,034	1,063	1,094
Responsive	1,344	1,377	1,410	1,443	1,478	1,513	1,549	1,586	1,623	1,662	1,702
Planned Maintenance	1,901	1,948	1,996	2,043	2,093	2,144	2,196	2,249	2,304	2,359	2,418
Bad Debt Provision	100	125	127	131	134	137	140	144	148	152	156
Interest Payable & Receivable	1,713	1,713	1,713	1,713	1,713	1,713	1,713	1,713	1,713	1,714	2,647
Depreciation	3,700	4,005	3,983	3,966	3,950	3,933	3,920	3,907	3,894	3,884	3,874
Net Operating Income	-1,241	-1,107	-1,280	-1,460	-1,647	-1,838	-2,037	-2,247	-2,462	-2,684	-1,981
Known variations:											
Reversal of Depreciation	-3,700	-4,005	-3,983	-3,966	-3,950	-3,933	-3,920	-3,907	-3,894	-3,884	-3,874
Capital Expenditure	1,935	1,683	1,470	1,433	1,477	1,516	1,547	1,182	1,261	1,489	2,103
Disabled Adaptations	300	300	300	300	300	300	300	300	300	300	300
Asbestos and Health & Safety Surveys	100	100	100	100	100	100	100	100	100	100	100
Debt Repayment - Balance of Depreciation	765	1,322	1,513	1,884	1,473	1,417	1,456	1,759	1,670	1,395	771
Major Repairs Reserve	600	600	600	300	600	600	600	600	600	600	600
Asset Replacement Earmarked Reserve	45	45	45	45	45	45	45	45	45	45	45

HOUSING REVENUE ACCOUNT FINANCIAL PROJECTION - AUGUST 2020

	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.30	2030.31
	Approved Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Additional Debt Repayment Transfer	777	2,150	2,651	2,468	1,815	2,000	1,839	750	750	750	1,000
General Fund Recharges	-77	-77	-77	-77	-77	-77	-77	-77	-77	-77	-77
Investment Income	0	25	43	68	0	0	0	0	0	0	0
Capital works non-traditional properties	100	100	100	0	0	0	0	0	0	0	0
Pension Revaluation	15	15	16	16	16	17	17	18	18	19	19
ICT Upgrades	105	0	0	0	0	0	0	200	0	0	0
Potential Pay Award	45	46	48	49	50	51	53	54	55	57	58
Incremental Salary Increases	0	6	6	6	6	6	6	6	7	7	7
HRA Surplus (-) / Deficit	-231	1,203	1,551	1,166	209	205	-70	-1,217	-1,627	-1,884	-929
HRA General Reserve											
HRA Reserve B/fwd	-8,260	-8,491	-7,287	-5,736	-4,570	-4,362	-4,157	-4,227	-5,444	-7,072	-8,955
(Surplus) / Deficit for year	-231	1,203	1,551	1,166	209	205	-70	-1,217	-1,627	-1,884	-929
HRA Reserve C/fwd	-8,491	-7,287	-5,736	-4,570	-4,362	-4,157	-4,227	-5,444	-7,072	-8,955	-9,884
RESERVES											
Debt Repayment Reserve											
Balance B/fwd	-8,260	-9,802	-3,274	-7,438	-1,790	-5,078	-8,495	-1,790	-4,299	-6,719	-8,864
Depreciation balance	-765	-1,322	-1,513	-1,884	-1,473	-1,417	-1,456	-1,759	-1,670	-1,395	-771
Transfers to reserve	-777	-2,150	-2,651	-2,468	-1,815	-2,000	-1,839	-750	-750	-750	-1,000
Repayment of loan	0	10,000	0	10,000	0	0	10,000	0	0	0	0
Reserve C/fwd	-9,802	-3,274	-7,438	-1,790	-5,078	-8,495	-1,790	-4,299	-6,719	-8,864	-10,635

COLLECTION FUND MONITORING 2020/21 (as at 30th June 2020)

	Actual 2019/20	Estimated 2020/21	1st Qtr Projection 2020/21	Notes
COUNCIL TAX - INCOME & EXPENDITURE				
INCOME				
Council Tax Collectable	£'000	£'000	£'000	
	62,162	65,270	64,852	Est. Increase in Tax Base and Precepts at 5%
EXPENDITURE				
County Council Precept	44,054	46,517	46,517	As approved by Full Council 26th Feb 2020
Police and Crime Commissioner Precept	7,213	7,812	7,812	As above
Fire and Rescue Authority Precept	2,538	2,680	2,680	As above
SDDC Precept	5,405	5,705	5,705	As above
SDDC Parish Precepts	798	848	848	As above
Increase in Bad Debts Provision	-336	653	649	Estimated at 1% of income
Total Expenditure	59,672	64,215	64,211	
Surplus for the Year	2,490	1,055	641	
COUNCIL TAX BALANCE				
Opening Balance 1st April	1820	3,310	3,310	Per Final Accounts 2019/20
Share of Previous Surplus to County Council	-733	-587	-587	As approved by Full Council 26th Feb 2020
Share of Previous Surplus to Police	-112	-96	-96	As above
Share of Previous Surplus to Fire Authority	-45	-34	-34	As above
Share of Previous Surplus to SDDC	-110	-83	-83	As above
Surplus for Year (as above)	2,490	1,055	641	
Closing Balance as at 31st March	3,310	3,565	3,151	
BUSINESS RATES - INCOME & EXPENDITURE				
INCOME				
Business Rates Collectable	£'000	£'000	£'000	
	27,253	27,756	21,466	Estimate as per NNDR1
Transitional Protection Payments	635	456	456	
Updated NNDR1 - Business Rates Reliefs	0	0	5,215	
Total Income	27,888	28,212	27,137	
EXPENDITURE				
Central Government Precept	13,398	13,862	13,862	
SDDC Precept	10,718	11,089	11,089	Per NNDR1 Submission
Derbyshire County Council Precept	2,412	2,495	2,495	As above
Fire and Rescue Service Precept	268	277	277	As above
Cost of Collection	91	92	92	As above
Increase in Bad Debts Provision	183	311	215	Estimated at 1% of income
Provision for Appeals	-241	85	429	Estimated at 2% of income
Total Expenditure	26,829	28,211	28,459	
Surplus / Deficit (-)	1,059	1	-1,322	
BUSINESS RATES BALANCE				
Opening Balance 1st April	-192	1,630	1,630	Per Final Accounts 2019/20
Transfer of Previous Year's Surplus (-) / Deficit	382	36	36	Per NNDR1 Submission
Transfer of Previous Year's Surplus (-) / Deficit	305	-19	-19	As above
Transfer of Previous Year's Surplus (-) / Deficit	69	-40	-40	As above
Transfer of Previous Year's Surplus (-) / Deficit	7	0	0	As above
Surplus / Deficit (-) for the Year as above	1,059	1	-1,322	
Closing Balance as at 31st March	1,630	1,608	285	

REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 7
DATE OF MEETING:	27th AUGUST 2020	CATEGORY: DELEGATED
REPORT FROM:	STRATEGIC DIRECTOR (CORPORATE RESOURCES)	OPEN
MEMBERS' CONTACT POINT:	VICKI SUMMERFIELD 01283 595939 Victoria.summerfield@southderbyshire.gov.uk	DOC: s/finance/committee/2020-21/August
SUBJECT:	CAPITAL FINANCIAL MONITORING 2020/21	
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: FM08

1.0 Recommendations

- 1.1 That the latest capital financial position for 2020/21 as detailed in the report is considered and approved.

2.0 Purpose of the Report

- 2.1 To provide an update on performance against the budget for 2020/21.
- 2.2 The report details performance of both the HRA and General Fund up to 30th June 2020 unless otherwise stated and is an update of capital project progress for 2020/21.

3.0 Detail

- 3.1 The Council's capital programme consists of many different projects covering both the General Fund and HRA.
- 3.2 General Fund projects are developed in line with strategies reported to policy committees and are funded through Section 106 developer contributions, General Fund contributions, grant income and capital receipts generated from asset sales.
- 3.3 HRA projects are mainly for refurbishment of council houses, disabled adaptations to council housing and new build and are funded by HRA reserves plus grant income.
- 3.4 The capital budget for 2020/21 was approved in February 2020 and was updated following the outturn for 2019/20 to reflect the carry forward of income and expenditure for incomplete projects. Additional budgets have also been included on the HRA for property acquisitions reported separately.

- 3.5 Progress during the year on capital projects and the total financing of all of the projects is summarised in the following tables.

Capital Spending 2020/21	Approved Budget £	B/fwd. 2019/20 £	Updated Budget 2020/21 £	Spend to-date £
Council House Capital Works	2,935,000	0	2,935,000	280,238
Council House Disabled Adaptations	300,000	0	300,000	44,788
New Build and Acquisition Schemes	2,107,905	0	2,107,905	46,000
Total HRA	5,342,905	0	5,342,905	371,027
Private Sector Housing Works	792,375	1,637,074	2,429,449	27,028
Environmental and Heritage Schemes	0	0	0	0
Community Partnership Scheme	275,000	125,695	400,695	6,420
Melbourne Sports Park	400,000	19,801	419,801	4,770
Vehicle Replacements	450,161	157,500	607,661	39,848
Town Centre Regeneration	0	100,000	100,000	0
Sale of Land and Property	0	0	0	3,042
Community Centres / Pavilion	0	0	0	0
IT Strategy	210,000	449,406	659,406	17,216
Property Maintenance and Refurbishment	90,000	445,779	535,779	0
Total General Fund	2,217,536	2,935,255	5,152,791	98,324
Total Council Expenditure	7,560,441	2,935,255	10,495,696	469,351

Capital Financing 2020/21	Approved Budget £	B/fwd. 2019/20 £	Updated Budget 2020/21 £
HRA Revenue Contribution	3,235,000	0	3,235,000
General Fund Revenue Contribution	975,000	145,496	1,120,496
Earmarked/Specific Reserves	450,161	1,052,685	1,502,846
Capital Receipts Reserve	2,107,905	38,000	2,145,905
Grant Funding	792,375	1,699,074	2,491,449
Total Funding	7,560,441	2,935,255	10,495,696

HRA Capital

- 3.6 Major refurbishment works to Council housing has been delayed initially due to the pandemic. External works have slowly progressed during the lockdown and contractors are now back on site. An underspend may be expected in year due to the slow start but it is too early at this stage to estimate the level of potential underspend.
- 3.7 Disabled adaptations of Council housing have also been delayed due to the pandemic. Works are now scheduled, and any underspend will be carried forward to enable additional works in 2021/22.
- 3.8 The budget for new build and acquisition schemes consists of the acquisition of properties in Repton, Newhall, Overseal and Aston.

- 3.9 All the acquisitions are due to be transferred to the Council at different stages during 2020/21 but delays are likely due to the pandemic and slow house build during the first quarter.

General Fund Capital

Private Sector Housing Works

- 3.10 There are several projects included within this area, one of which is Disabled Facility Grants (DFG). Expenditure on DFG has been consistently lower than the allocated budget of £400k for several years. Due to the pandemic there has been a delay to the start in 2020/21, but it is expected that the approved projects will be progressing well during the second quarter. Budget carry forwards are for approved projects, some of which started during 2019/20.
- 3.11 A list of new projects was reported to this Committee in November 2019 and this report gave a three-year projection on expected spend.

Leisure and Community Schemes

- 3.12 The Community Partnership Scheme has all the funding committed to specific projects, but the funding is still to be drawn down from the Council.
- 3.13 Melbourne Sports Park drainage works are still in the early stages. A tender for works has been completed and an award to the appointed contractor is under review.

Vehicle Replacements

- 3.14 The scheduled replacements in 2020/21 are for a new road sweeper, a tractor, additional vehicles for Grounds Maintenance and Cultural Services, a refuse freighter and a bulky waste vehicle. The tractor has been purchased and the remaining vehicles are to be ordered during 2020/21.

Asset Disposals and Refurbishment

- 3.15 Costs associated with the sale of land at the former Depot of £3k have been incurred during the first quarter and this can be funded from the capital receipt, which is expected in August 2020.
- 3.16 A General Fund contribution of £90k is set-aside each year to fund refurbishment and maintenance of Public Buildings. Due to a tender exercise the programme of works didn't begin until the later part of 2019/20. The programme will run alongside scheduled capital works on HRA Council dwellings.

IT Strategy

- 3.17 Following approval of an IT Strategy, sums are being set-aside annually to fund new equipment and software.
- 3.18 A number of separate tender exercises have been undertaken during 2018/2019 and the early part of 2019/20 and an equipment replacement programme is currently being rolled out across the Council.

- 3.19 The allocated budget is not expected to be spent in year and will be phased across a longer period. Any underspend will be carried forward into future years.

Capital Reserves

- 3.20 The capital reserve balances for the General Fund and HRA as at the 1st April 2020 are listed below.

	£
New Build and Acquisition Reserve	2,212,826
Major Repairs Reserve	4,190,187
Debt Repayment Reserve	6,470,000
HRA Capital Reserves	12,873,013
Capital Receipts Reserve	1,436,172
General Fund Capital Reserves	1,436,172
Total Capital Reserves	14,309,185

HRA Capital Reserves

- 3.21 The New Build and Acquisition Reserve is topped up by all retained receipts of sales of Council houses under Right to Buy.
- 3.22 Right to Buy sales have totalled 1 as at 30th June 2020 retaining £14,520 for transfer into the New Build and Acquisition reserve. As at 31st July, no further sales have taken place in year.

	Sales	Gross Receipts	Less Pooled	Retained	
	£	£	£	£	%
Quarter 1	1	80,925	-66,405	14,520	18%
Total	1	80,925	-66,405	14,520	18%

- 3.23 Any underspends on the HRA capital programme are transferred to the Major Repairs Reserve at year-end and the balance will be utilised in future years as the new schedule for capital works is implemented.
- 3.24 Currently the HRA has debt of £57.4m to be repaid to the Public Works Loan Board at specific dates over a 20-year period due to self-financing.
- 3.25 The profile of debt repayment is listed in the following table.

Date due	£
28-Mar-22	10,000,000
28-Mar-24	10,000,000
28-Mar-27	10,000,000
28-Mar-32	10,000,000
28-Mar-37	10,000,000
28-Mar-42	7,423,000
	57,423,000

3.26 Sums are being set-aside each year for the scheduled repayments and are included in the HRA MTFP.

General Fund Capital Reserves

3.27 The Capital Receipts Reserve is made up of asset sales in recent years and there are a few remaining projects to be funded from the balance as listed in the table. Included within the total reserve is the overage payment received from Chestnut Avenue, Midway.

3.28 A sum of £820,162 was received during 2019/20 to build a community facility at Oversetts Road. £570,000 of this receipt was negotiated under a S106 agreement and therefore is not included within the Capital Receipts reserve. The remaining balance has been separated below as it is to be utilised for this specific project.

	£ 2020/21	£ 2021/22	£ 2022/23	£ 2023/24	£ 2024/25	£ 2025/26
General Capital Receipts B/fwd	473,497	1,867,723	2,664,373	2,664,373	2,664,373	2,614,373
Receipts in Year:						
Sale of former Depot Site	855,000	0	0	0	0	0
Land Sale Oversetts Road	705,000	796,650	0	0	0	0
Specific Projects:						
Strategic Housing Market Assessment	0	0	0	0	-50,000	0
Private Sector Stock Condition Survey	-60,000	0	0	0	0	0
Empty Property Grants	-38,000	0	0	0	0	0
Repairs to Village Halls	-6,700	0	0	0	0	0
Public Buildings Planned Maintenance	-58,032	0	0	0	0	0
Costs of Land Sales	-3,042	0	0	0	0	0
Remaining Balance	1,867,723	2,664,373	2,664,373	2,664,373	2,614,373	2,614,373
Specific Receipts for Specific Projects						
B/fwd Balance	0	962,675	962,675	962,675	962,675	962,675
Remaining Balance on Overage	734,012	0	0	0	0	0
Remaining Balance on Oversetts Project	228,663	0	0	0	0	0
C/fwd. Balance	962,675	962,675	962,675	962,675	962,675	962,675
Total Capital Receipts Reserve Balance	2,830,398	3,627,048	3,627,048	3,627,048	3,577,048	3,577,048

3.29 The Strategic Market Housing Assessment and Private Sector Stock Condition Survey are both scheduled to recur every five years.

4.0 Financial Implications

4.1 Detailed in the report.

5.0 Corporate Implications

5.1 None directly.

6.0 Community Impact

6.1 None directly.

REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 8
DATE OF MEETING:	27 th August 2020	CATEGORY: DELEGATED
REPORT FROM:	STRATEGIC DIRECTOR (CORPORATE RESOURCES)	OPEN
MEMBERS' CONTACT POINT:	Vicki Summerfield (01283 595939) victoria.summerfield@southderbyshire.gov.uk	DOC: s/finance/committee/2019-20/Jul
SUBJECT:	TREASURY MANAGEMENT UPDATE 20/21	REF
WARD (S) AFFECTED:	ALL	TERMS OF REFERENCE: FM08

1.0 Recommendation

- 1.1 That the latest Treasury Management Update for quarter 1 2020/21 as detailed in **Appendix 1** is considered and approved.
- 1.2 That the updated Counterparty List for investments and bank deposits as detailed in **Appendix 2** is approved.

2.0 Purpose of the Report

- 2.1 To provide an update on the Council's treasury management activities for the first quarter of 2020/21.
- 2.2 To provide an update on external economic factors and how these may affect treasury management in the future.

3.0 Financial Implications

- 3.1 As detailed in the report

4.0 Corporate Implications

- 4.1 None directly

5.0 Community Implications

- 5.1 None directly

6.0 Background Papers

- 6.1 Treasury Management in the Public Services Code of Practice
(CIPFA Publication - December 2017)



South Derbyshire District Council

Treasury Management Report Q1 2020/21

Introduction

The Authority has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.

The Authority's treasury management strategy for 2020/21 was approved at a meeting of the Authority on 26th February 2020. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 17th January 2019.

The detail that follows is in accordance with the CIPFA Code and is written with support from the Council's Treasury Advisor, Arlingclose.

External Context

Economic background: The UK's exit from the European Union took a back seat during the first quarter of 2020/21 as the global economic impact from coronavirus took centre stage. Part of the measures taken to stop the spread of the pandemic included the government implementing a nationwide lockdown in late March which effectively shut down almost the entire UK economy. These measures continued throughout most of the quarter with only some easing of restrictions at the end of May and into June.

Bank Rate was maintained at 0.1% despite some speculation that the Bank of England's Monetary Policy Committee (MPC) might cut further and some MPC members also suggesting that negative rates are part of the Bank's policy tools. In June the Bank increased the asset purchase scheme by £100 billion, taking the recent round of QE to £300bn and total QE to £745 billion.

At the same time, the government also implemented a range of fiscal stimulus measures totalling over £300 billion which had been announced in March and designed to dampen the effect of the pandemic on the labour market.

GDP growth contracted by 2.2% in Q1 (Jan-Mar) 2020 pushing the annual growth rate down to -1.6%. The lockdown only came into force on 23rd March, and the markets are braced for a dire set of growth data for Q2. In April UK GDP fell 20.4% month-on-month. On the back of the 5.8% month-on-month fall in March, this means economic output fell by 25% compared to its pre-coronavirus peak in February 2020.

The headline rate of UK Consumer Price Inflation UK Consumer Price Inflation fell to 1.2% y/y in May, further below the Bank of England's 2% target.

In the three months to June, labour market data remained largely unchanged on the previous quarter. This is likely due to the government's furlough scheme as more than a quarter of the UK workforce was estimated to be supported by it. The ILO unemployment rate remained unchanged at 3.9% while the employment rate fell to 76.4%. However, employers will have to contribute towards furlough payments from August and the scheme is due to stop at the end of October; unemployment is expected to rise as a result.

The US economy contracted at an annualised rate of 5.0% in Q1 2020. The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% while the US government announced a \$2 trillion fiscal stimulus package. Relations between the US and China, which had briefly improved when Phase 1 of the trade agreement was signed in January, deteriorated over the quarter.

With little room to move on interest rates, the European Central Bank maintained interest rates at 0% and the rate on the deposit facility (which banks may use to make overnight deposits with the Euro system) at -0.5% and announced a further huge, open-ended commitment to buy €600bn of bonds under its Pandemic Emergency Purchase Programme (PEPP) which can be reinvested out to 2022. This lifted the ECB's total bond buying support package to €1.35trillion.

Financial markets:

After selling off sharply in March, equity markets started recovering in April and while still down on their pre-crisis levels, the Dow Jones and FTSE 100 and 250 have made up around half of the losses. Measures implemented by central banks and governments continue to maintain some degree of general investor confidence, however volatility remains.

Ultra-low interest rates and the flight to quality continued to keep gilts yields low over the period with the yield on some short-dated government bonds turning negative. The 5-year UK benchmark gilt yield dropped from 0.18% at the beginning of April 2020 to -0.06% on 30th June. The 10-year benchmark gilt yield fell from 0.31% to 0.14% over the same period, and the 20-year from 0.69% to 0.52%. 1-month, 3-month and 12-month bid rates averaged 0.04%, 0.28% and 0.44% respectively over the quarter.

Over the quarter (April–June), the yield on 2-year US treasuries fell from 0.24% to 0.20% while that on yield on 10-year treasuries fell from 0.63% to 0.61%. German bund yields remain negative.

Credit review:

After rising sharply in late March, credit default swap spreads slowly eased over the quarter but remained above their pre-crisis levels.

Fitch downgraded the UK sovereign rating to AA- in March which was followed by a number of actions on UK and also non-UK banks from early April onwards. This included revising the outlook on all banks on the counterparty list to negative, with the exception of Barclays Bank, Rabobank, Handelsbanken and Nordea Bank which were placed on Rating Watch Negative, as well as downgrading Close Brothers' long-term rating to A-. Network Rail Infrastructure and LCR Finance's long-term ratings were downgraded from AA to AA-.

HSBC Bank and HSBC UK Bank were the exceptions however, with Fitch upgrading their long-term ratings to AA-.

Fitch affirmed the ratings of Canadian banks but revised their outlook to negative. The agency also downgraded the long- and short-term ratings of Australia's four largest banking groups. It upgraded the long-term deposit rating of both Bayerische Landesbank and Landesbank Baden-Wuerttemberg (LBBW) but downgraded the viability ratings, and revised outlooks to negative. Fitch later placed three Singapore banks on Rating Watch Negative.

S&P also took action on a range of UK and European banks, affirming their ratings but revising their outlook downwards due to the economic consequences of COVID-19. Moody's downgraded the long-term rating of Nationwide BS from Aa3 to A1 and S&P downgraded the long- and short-term ratings of HSBC Bank PLC and HSBC UK Bank PLC to A+ and A-1 respectively

In May, Fitch and S&P downgraded TfL's long-term rating to A+ from AA- after the 95% reduction in tube and train fares which make up 47% of TfL's revenue. However, the UK government agreed to a £1.6 billion support package which will help ease some of the stress TfL faces.

As the extent of the losses that banks and building societies will suffer due to the impact from the coronavirus epidemic remains uncertain but is expected to be substantial, in early June following Arlingclose's stress testing of the institutions on the counterparty list using bail-in analysis, a number of UK banks and building societies were suspended from the counterparty list for unsecured deposits. Although much better capitalised than before the 2007-09 financial crisis, under the current economic circumstances these entities were suspended for reasons of prudence. For those remaining on the list, the duration advice remains up to 35 days.

Local Context

On 31st March 2020, the Authority had net borrowing of £7.69m arising from its revenue and capital income and expenditure. This fell to £2.59m by the end of the quarter. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in below.

Capital Financing Requirement (CFR)

	31.03.20 Actual £,000
<u>Housing Revenue Account</u>	
Debt Outstanding	57,423
Capital Financing Requirement (CFR)	61,584
Statutory Debt Cap	66,853
Borrowing Capacity (Cap less Debt Outstanding)	9,430

<u>General Fund</u>	
Debt Outstanding	0
Capital Financing Requirement (CFR)	5,653
Borrowing Capacity (Cap less Debt Outstanding)	5,653
Total Capital Financing Requirement (CFR)	67,237

The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

The overall treasury management position at 30th June 2020 and the change during the quarter is shown below.

Treasury Management Summary

	31.3.20 Balance £m	Movement £m	30.06.20 Balance £m	Average Rate %
Long-term borrowing:				
Fixed	47,423	0	47,423	3.19%
Variable	10,000	0	10,000	0.88%
Short-term borrowing	28	0	28	0.00%
Total borrowing	57,451	0	57,451	
Long-term investments	4,000	0	4,000	4.01%
Short-term investments	43,371	4,000	47,371	0.84%
Cash and cash equivalents	2,388	1,107	3,495	0.00%
Total investments	49,759	5,107	54,866	
Net borrowing	7,692	5,107	2,585	

Borrowing update

On 9th October 2019 the PWLB raised the cost of certainty rate borrowing by 1% to 1.8% above UK gilt yields as HM Treasury was concerned about the overall level of local authority debt. PWLB borrowing remains available but the margin of 180bp above gilt yields appears very expensive. Market alternatives are currently available and new products will be developed; however, the financial strength of individual authorities will be scrutinised by investors and commercial lenders.

The Chancellor's March 2020 Budget statement included significant changes to Public Works Loan Board (PWLB) policy and launched a wide-ranging consultation on the PWLB's future direction. Announcements included a reduction in the margin on new HRA loans to 0.80% above equivalent gilt yields. The value of this discount is 1% below the rate at which the authority usually borrows from the PWLB), available from 12th March 2020 and £1.15bn

of additional “infrastructure rate” funding at gilt yields plus 0.60% to support specific local authority infrastructure projects for England, Scotland and Wales for which there is a bidding process.

The consultation titled “Future Lending Terms” represents a frank, open and inclusive invitation, allowing key stakeholders to contribute to developing a system whereby PWLB loans can be made available at improved margins to support qualifying projects. It contains proposals on allowing authorities that are not involved in “debt for yield” activity to borrow at lower rates as well as stopping local authorities using PWLB loans to buy commercial assets primarily for yield without impeding their ability to pursue their core policy objectives of service delivery, housing, and regeneration. The consultation also broaches the possibility of slowing, or stopping, individual authorities from borrowing large sums in specific circumstances.

The consultation closes on 31st July 2020 with implementation of the new lending terms expected in the latter part of this calendar year.

Municipal Bonds Agency (MBA): The MBA has revised its standard loan terms and framework agreement. Guarantees for the debt of other borrowers are now proportional and limited and a requirement to make contribution loans in the event of a default by a borrower has been introduced. The agency issued its first bond in March 2020 on behalf of Lancashire County Council.

If the Authority intends future borrowing through the MBA, it will first ensure that it has thoroughly scrutinised the legal terms and conditions of the arrangement and is satisfied with them.

Borrowing Activity

At 30th June 2020 the Authority held £57.4m of loans. These loans were taken out by the Authority in 2011/12 for the purpose of HRA self-financing. The principal element of these loans is repayable in full on maturity, with interest being paid each March and September.

The short-term borrowing of £28k relates to deposits received from two Parish Councils within the District. These loans can be recalled on immediate notice. Interest is calculated at the Bank of England Base Rate, less 1%. No interest is currently being paid due to the Base Rate being less than 1%.

The following table shows the maturity dates of the loans and rate of interest payable.

Borrowing Position

Loan Profile	Type	Value £'000	Rate %	Maturity
Public Works Loan Board	Variable	10,000	0.92	2021/22
Public Works Loan Board	Fixed	10,000	2.70	2023/24
Public Works Loan Board	Fixed	10,000	3.01	2026/27
Public Works Loan Board	Fixed	10,000	3.30	2031/32
Public Works Loan Board	Fixed	10,000	3.44	2036/37
Public Works Loan Board	Fixed	7,423	3.50	2041/42

Total Long-term borrowing		57,423		
Short-term Parish Council Loans		28	0.00	
Total borrowing		57,451		

The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

Treasury Investment Activity

On 6th April 2020 the Authority received central government funding to support small and medium businesses during the coronavirus pandemic through grant schemes. £15.2m was received, temporarily invested in short-dated, liquid instruments such as call accounts and Money Market Funds. £14.25m was disbursed by the end of June.

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the quarter, the Authority's investment balance ranged between £50m and £55m due to timing differences between income and expenditure. The investment position during the quarter is shown in the table below.

Treasury Investment Position

	30.03.20 Balance £'000	Q1 2020 Movement £'000	30.06.20 Balance £'000	30.06.20 Rate of Return %
Banks (unsecured)	2,388	1,107	3,495	0.00
Local Authorities	40,350	(1,000)	39,350	0.69
Money Market Funds	3,000	5,000	8,000	0.15
CCLA Property Fund	4,000	0	4,000	4.01
Total investments	49,738	5,107	54,845	

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

In furtherance of these objectives, and given the increasing risk and falling returns from short-term unsecured bank investments, the Authority has undertaken greater detailed cash

flow forecasting which has enabled it to enter into longer-term deposits with other Local Authorities, therefore securing a higher rate of return.

The Authority participates in the Arlingclose quarterly investment benchmarking exercises. This enables us to measure our investment portfolio against other similar Local Authorities. The progression of risk and return are shown in the extracts from Arlingclose's quarterly benchmarking in the table below at the end of quarter 1.

Investment Benchmarking – Treasury investments managed in-house (excludes CCLA)

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
30.06.2020	3.89	AA-	23%	104	0.22
Similar LAs	4.10	AA-	59%	51	-0.58
All LAs	4.10	AA-	59%	18	-0.30

Credit Score: This is a value weighted average score calculated by weighting the credit score of each investment by its value. A higher number indicates a higher risk.

Credit Rating: This is based on the long term rating assigned to each institution in the portfolio, by ratings agencies Fitch, Moody's and Standard & Poor's. Ratings rang from AAA to D, and can be modified by +/-

Bail in Exposure: The adoption of a bail in regime for failed banks results in a potential increased risk of loss of funds for local authority should this need to be implemented. Therefore a lower exposure to bail in investments reduces this risk.

Weighted Average Maturity: This is an indicator of the average duration of the internally managed investments. Similar authorities have a similar profile to South Derbyshire; other larger authorities tend to hold a greater proportion of fund in money markets than fixed term deposits with other LAs, due to their cash flow requirements.

In a relatively short period since the onset of the COVID-19 pandemic in March and the ensuing enforced lockdown in many jurisdictions, the global economic fallout has been sharp and large. Market reaction was extreme with large falls in equities, corporate bond markets and, to some extent, real estate echoing lockdown-induced paralysis and the uncharted challenges for governments, business and individuals.

Similar to many other property funds, dealing (i.e. buying or selling units) in the CCLA Local Authorities Property Fund was suspended by the fund in March 2020. The relative infrequency of property transactions in March as the pandemic intensified meant that it was not possible for valuers to be confident that their valuations correctly reflected prevailing conditions. To avoid material risk of disadvantage to buyers, sellers and holders of units in the property fund, the management company was obliged to suspend transactions until the required level of certainty is re-established. The temporary suspension remained in force on 30th June.

The Authority deposited £1m in the CCLA Property Fund on 28th September 2017; the Authority subsequently deposited a further £1m in the fund on 28th August 2018. Following a review on the performance of the CCLA Property Fund an additional £2m investment was approved by Members to purchase 618,334 units at an offer price of 323.45p per unit on the 31st October 2019.

Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates.

The mid-market value of the fund as at the 30th June 2020 is £3,534,233 and the bid market value is £3,479,472. This reinforces the notion that the Fund should only be considered for long-term investments.

The performance of the investment over the last quarter is shown in the table below. Although past performance is no guarantee of future returns, the movement in the bid (selling) price so far shows how the value of the investment is moving closer to the original purchase price. This reinforces the notion that the Fund should only be considered for long-term investments.

CCLA Property Fund Performance

		2019/20	2020/21
		Q4	Q1
Dividend Received	£	40,484	34,886
Annual Equivalent Interest Rate	%	4.57%	4.01%
Bid (Selling) Price	pence/unit	291.15	279.57

In 2020/21 the Authority expects to receive lower income from its cash and short-dated money market investments and from its externally managed funds than it did in 2019/20 and earlier years. Dividends and income paid will ultimately depend on many factors including but not limited to the duration of COVID-19 and the extent of its economic impact, the fund's sectoral asset allocation, securities held/bought/sold and, in the case of equities, the enforced or voluntary dividend cuts or deferral

Performance Indicators

The main indicator the Council uses to measure its return on short-term investments to average over the year, is the Average 7-Day Money Market Rate. This is a standard measure of performance. Performance for the first quarter is shown below.

	As at 31.03.20	As at 30.06.20
Average 7-Day Money Market Rate (Target)	0.42%	0.24%
Average Interest Rate Achieved on Short Term Deposits	0.54%	0.68%

Compliance

The Chief Finance Officer is pleased to report that all treasury management activities undertaken during quarter 1 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.

Compliance with specific investment limits is demonstrated in the table below:

Investment Limits

	Maximum Investment during Q1 £m	Maximum Invested per Counterparty £m	Limit	Maximum Term	Complied
Debt Management Office	£15m	£6m	£20m in total	364 days	✓
Other Local Authorities	£45.35m	£5m	£5m per Authority	364 days	✓
Money Market funds	£8m	£2m	£8m total, £2m per fund	60 days	✓
CCLA Property Fund	£4m	£4m	£4m	Indefinite period	✓
Named Counterparties (HSBC/Lloyds/BOS/Santander)	£1.99m	£1.98m	£2m per Bank	35 days	✓
Named Counterparties (Barclays/NatWest/RBS)	£1.49m	£1.49m	£2m per Bank	35 days	✓
Named Counterparties (Nationwide)	0	0	5% of total deposits	35 days	✓
Foreign Counterparties	0	0	AAA rated - £1m per Bank		✓
Independent Building Societies	0	0	£1m per Society	35 days	✓

Other

IFRS 16: The implementation of the new IFRS 16 Leases accounting standard has been delayed until 2021/22.

Outlook for the remainder of 2020/21

The medium-term global economic outlook is very weak. While containment measures taken by national governments in response to coronavirus are being eased, it is likely to be

some time before demand recovers to pre-crisis levels due to rises in unemployment, the on-going need for virus control measures and the impact on consumer/business confidence.

The responses from the Bank of England, HM Treasury as well as other central banks and governments have been significant and will act to support the recovery when it occurs, by keeping financial conditions stable and many businesses solvent/employees employed than would otherwise have been the case. There will be an economic bounce in the second half of the year, as businesses currently dormant begin production/supply services once more.

However, the scale of the economic shock to demand and the probable on-going social distancing measures necessary before a vaccine is produced will mean that the subsequent pace of recovery is limited.

Arlingclose expects Bank Rate to remain at the current 0.10% level and additional monetary loosening in the near future through further financial asset purchases (QE). While the Arlingclose central case for Bank Rate is no change, further cuts to Bank Rate to zero or even into negative territory cannot be ruled out.

Downside risks remain in the near term, as households and businesses react to an unprecedented set of economic circumstances.

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Official Bank Rate												
Upside risk	0.00	0.00	0.00	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35

Gilt yields are expected to remain very low in the medium term. Some shorter-term gilt yields will remain around zero until either the Bank expressly rules out negative Bank Rate or growth prospects improve.

COUNTERPARTY LIST 2020/21
(As at 30th June 2020)

Institution	Limit	Maximum Term
<u>Specified Investments</u>		
<ul style="list-style-type: none"> UK Debt Management Office (DMO) 	£20m	364 Days
<ul style="list-style-type: none"> Local, Police, Fire and Parish Authorities 	£5m with any one Authority	364 Days
<u>Non Specified Investments</u>		
<i>Named Counterparties</i>		
<ul style="list-style-type: none"> CCLA LAMIT Property Fund 	£4m	Indefinite period, subject to quarterly review
<ul style="list-style-type: none"> Money Market Funds 	£8m in total and £2m with any one Fund	60 days
<ul style="list-style-type: none"> HSBC Lloyds Bank Plc Bank of Scotland Standard Chartered Bank Santander UK 	£2m with any one Bank	35 days
<ul style="list-style-type: none"> Barclays Bank NatWest Bank Royal Bank of Scotland Ulster Bank Ltd 	£2m with any one Bank	35 days
<ul style="list-style-type: none"> Nationwide Building Society 	5% of total deposits	35 days
<i>Foreign Counterparties</i>		
<ul style="list-style-type: none"> AAA rated institutions (<i>subject to separate approval by the Section 151 Officer</i>) 	5% of total deposits	35 days
<i>Independent Building Societies</i>		
<ul style="list-style-type: none"> <i>subject to separate approval by the Section 151 Officer</i> 	£1m with any one Bank	1 month
	£1m with any one society	35 days

REPORT TO:	FINANCE and MANAGEMENT COMMITTEE	AGENDA ITEM: 9
DATE OF MEETING:	27th AUGUST 2020	CATEGORY:
		DELEGATED
REPORT FROM:	STRATEGIC DIRECTOR (CORPORATE RESOURCES)	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) Kevin.stackhouse@southderbyshire.gov.uk	DOC: H/KS/live files/procurement/strategy/2020 to 2024/report to Committee
SUBJECT:	PROCUREMENT STRATEGY 2020 TO 2024	
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 13

1.0 Recommendations

- 1.1 That the proposed Procurement Strategy for 2020 to 2024 attached to this report, is approved.

2.0 Purpose of the Report

- 2.1 To update the Council's Procurement Strategy in order that it aligns to the Council's new Corporate Plan, reflects the latest regulations and provides greater clarity regarding the role of the procurement process.

3.0 Executive Summary

- 3.1 Procurement is the process of acquiring goods, services and works to obtain the best mix of quality and effectiveness for the least outlay. This should be achieved through competition unless there are compelling reasons to the contrary.
- 3.2 Procurement has a key role in ensuring that the Council achieves value for money in the delivery of services, which is the over-riding requirement of all public procurement. In doing so, the Council, as a public body, must also demonstrate that its procurement process is fair and transparent.
- 3.3 In addition, procurement also has a wider role to play in contributing to the social, environmental and economic well-being of an area. Therefore, the Council's Strategy is based around three themes, as follows:
 - **Being economical:** spending less on a service, supply or contract.
 - **Adhering to Statute:** having due regard to the Public Contract Regulations 2015 (*as amended by the Public Procurement (Amendment, etc.) [EU Exit] Regulations 2019*) together with the Council's own Contract Procedure Rules.

- **Supporting the Council's Objectives:** delivering environmental, economic and social gains.

3.4 Fundamentally, procurement is about being economic by getting the best price for a service, supply or contract that meets service requirements, a certain quality or specification, etc. However, these quality requirements will also need to be balanced against “affordability”, i.e. the amount of available resources or budget provision.

4.0 Detail

4.1 The Strategy is attached to this report. The document is split into two parts. Firstly, the Strategy itself which sets out the aims of procurement, together with ensuring that the process complies with legislative requirements and delivers value for money. This is followed by how the Strategy will be delivered.

5.0 Financial Implications

5.1 None associated with the Strategy.

6.0 Corporate Implications

Employment Implications

6.1 None

Legal Implications

6.2 As detailed in the Strategy, public sector procurement is subject to a legal framework which encourages free and open competition. It is subject to the EU Treaty. Failure to comply with the legal framework could lead to a challenge and probable litigation against the Council.

Corporate Plan Implications

6.3 As detailed in the Strategy. One of the themes in the Strategy is around procurement supporting the Council's objectives.

Risk Impact

6.4 None directly.

7.0 Community Impact

Consultation

7.1 None required.

Equality and Diversity Impact

7.2 None directly.

Social Value Impact

- 7.3 As detailed in the Strategy. Procurement can potentially deliver added benefits regarding local employment and engaging the voluntary sector, etc.

Environmental Sustainability

- 7.4 As detailed in the Strategy. Opportunities exist for the Council to buy goods and services which are sustainable and can help the Council reduce its carbon footprint.

8.0 Background Papers

- 8.1 None.

Procurement Strategy & Guidance Manual 2020 to 2024

PROCUREMENT

Being Economical

Buying Legally

Contributing to the Corporate Plan

Published: AUGUST 2020

1. Introduction

Procurement has a key role in ensuring that the Council achieves value for money in the delivery of services, which is the over-riding requirement of all public procurement. In doing so, the Council, as a public body, must also demonstrate that its procurement process is fair and transparent.

This Document is split into two parts. Firstly, a Procurement Strategy, which sets out the aims of procurement, together with ensuring that the process complies with legislative requirements and delivers value for money (*Parts 2 and 3*).

The second part of the Document is a guidance manual which details the process for ensuring that the aims of the Strategy are met (*Part 4*).

Definition of Procurement

Procurement is the process of acquiring goods, services and works to obtain the best mix of quality and effectiveness for the least outlay. This should be achieved through competition unless there are compelling reasons to the contrary.

The process spans the whole cycle from the identification of needs, through to the end of a service contract or the end of the useful life of an asset. The extent of the process will depend on the value and length of the supply or works being procured.

The process also includes an options appraisal and the critical “make or buy” decision which may result in the provision of supplies and services in-house in appropriate circumstances.

Achieving Value for Money

Under its Financial Management Code, the Council is required to demonstrate that it delivers value for money in the provision of its services. Procurement is a key process that helps the Council to achieve this objective.

National Expectations

The wider role of procurement should not be underestimated, as highlighted in the Government’s National Procurement Strategy:

“During these challenging times we must embrace the opportunities procurement can bring, to drive social value, economic growth and sustainability.”



2. The Procurement Strategy

The Council's Strategy is based around three themes as follows:

- **Being economical:** getting the best price for a service, supply or contract.
- **Adhering to Statute:** having due regard to the Public Contract Regulations 2015 (as amended by the Public Procurement {Amendment, etc.} [EU Exit) Regulations 2019) together with the Council's own Contract Procedure Rules.
- **Supporting the Council's Objectives:** delivering environmental, economic and social gains.

Fundamentally, procurement is about being economic by getting the best price for a service, supply or contract that meets service requirements, a certain quality or specification, etc. However, these quality requirements will also need to be balanced against "affordability", i.e. the amount of available resources or budget provision.

As a public body, the Council is required to undertake procurement within statute and its own [Contract Procedure Rules](#) as laid down in Section 28 of the Constitution. Together, this ensures that procurement is fair, transparent and helps to deliver value for money through a competitive process.

Procurement can also provide wider benefits. For example, supplies and services can be sourced that help the Council:

- ✓ reduce its carbon emissions or support sustainable supply chains.
- ✓ that awards work and contracts to local and small businesses.
- ✓ that provide opportunities for apprenticeships and vulnerable groups and engages with the voluntary sector.

Whilst attaining the best price and the application of rules and regulations are mandatory in any procurement activity, achieving wider benefits in all procurement will be a balanced decision on a case by case basis.

Assessment criteria should clearly take account of cost, but also include quality and reflect opportunities where environmental, social and economic gains are achievable.

Large contracts, together with the regular supply of goods and services to the Council, should aim to secure these wider benefits as a matter of course.



3. Delivering the Strategy

The Council's Procurement Service

The Council has for several years, outsourced its Procurement Service. This is to ensure capacity and resilience, together with enabling access to a wider pool of support, skills and advice.

Since 2018, the Council has been part of a shared service arrangement with Derbyshire Shared Facilities Service (**DSFS**) which is an arrangement involving an NHS Trust, a College and local authorities in Derbyshire.

The main role of the DSFS is to:

- Provide advice and guidance to Council Officers regarding compliance and access to markets.
- Co-ordinate tendering and major contract procurements.
- Provide regular training for Council Officers.

Training

All officers undertaking procurement on behalf of the Council should undergo training and be aware of the Public Contract Regulations 2015, the Council's Contract Procedure Rules and the Guidance detailed in Part 4 of this Document.

Specifying what is being Procured

Before any procurement exercise, it is important that a clear specification is set out. Although this will be proportionate to the size of the procurement, it is essential that Officers approach the market with a clear definition of their needs and quality of service or supply being sourced.

Where a specification is not immediately clear or where various options may be available in the market, then prior research and testing should be undertaken to help define specific requirements.

Being Economical

Generally, Officers should "know the market" where they are procuring. This may arise through experience or networking, etc. Advice should also be sought from the DSFS. As highlighted above, market research should be undertaken and particularly where large values are involved and/or where long-term contractual commitments are being made.



In accordance with the Regulations:

- For **low value** procurement (*less than £25,000 cumulatively over a four-year period*) prices should be compared through quotations from different suppliers.
- For all other **high value** procurement, a menu of options is available including:
 - Open tenders
 - Frameworks
 - Collaboration and Shared Services
 - Competitive Negotiation

Officers should always seek advice from DSFS regarding the best procurement route for high value procurement.

Adhering to Statute

Public sector procurement is subject to a legal framework which encourages free and open competition. It is subject to the EU Treaty** and associated directives which ensure suppliers are treated fairly and equally.

(*Note: Although the UK has left the EU, the Treaty still applies in UK law until statute determines otherwise).

EU Thresholds: The following thresholds apply over which procurement is subject to the EU Treaty.

- Supplies and service contracts - £189,330
- Works Contracts - £4,733,252.
- Light Touch Regime (Social Care Services) - £663,540

These thresholds are currently fixed until 31 December 2021 and *apply to the total value of services over the Contract period, including any potential extensions.*

All other procurement activity below these thresholds is subject to the Contract Procedure Rules with reference to the Public Contract Regulations. Care should be taken that where expenditure on annual basis is below the tendering threshold of £25,000, if the cumulative cost over four years is greater than £25,000, then Tendering Procedures apply.

It should be noted that the use of Frameworks may satisfy the EU Treaty if the establishment of a Framework itself, has been subject to that process.

Exemptions

Provisions, in specific and rare circumstances, to exempt the need for a competitive process, are detailed in the Contract Procedure Rules.



Supporting the Council's Objectives

The Council's Corporate Plan (2020 to 2024) has three priorities of "Our Environment, Our People and Our Future".

Corporate Plan Priority	Outcomes	Procurement considerations
Our Environment <i>In consultation with the Head of Environmental Services</i>	Strive to make the Council carbon neutral by 2030	Asset replacement and maintenance programmes - retrofit or lower emission alternatives. Potential suppliers are 14001 or EMAS accredited. Do contractors or suppliers have environmental performance targets and are they aligned to the Council's? Sustainable supply chains: <ul style="list-style-type: none"> Materials used are environmentally sourced. Can an item or packaging be recycled to reduce or eliminate waste.
Our People <i>In consultation with the Head of Culture and Community Services</i>	Support Community Groups and the Voluntary Sector	Can supplies and services be commissioned through these organisations? Are partnership arrangements available? Are there opportunities for vulnerable groups to become involved? Do potential suppliers offer any community support or volunteering opportunities for their employees?
Our Future <i>In consultation with the Head of Economic Development and Growth</i>	Attract and retain jobs in the District Encourage and support business development and new investment in the District	Do potential suppliers offer apprenticeship programmes or employ local people? Will potential suppliers from outside the District relocate or set up hub facilities?

Wherever possible, assessment criteria should include marks for environmental, social and economic gains. Although this may not be appropriate or possible for smaller value procurement, large contracts, together with the regular supply of goods and services to the Council, should ask potential suppliers how they can contribute to the Council's Corporate Plan as detailed above.



4. Procurement Guidance: The Adopted Approach

Guiding Principles

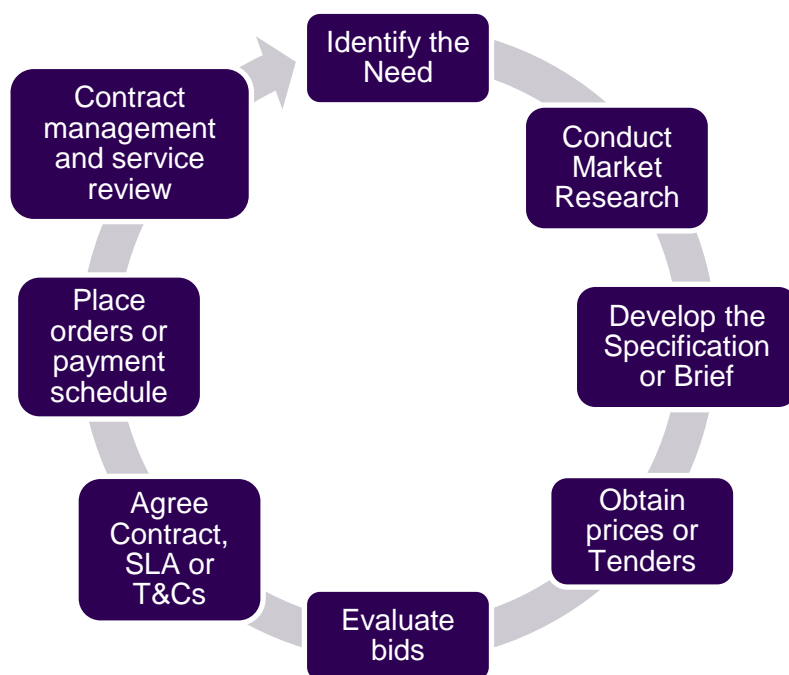
- 4.1 During the procurement process, sound governance is critical so that the Council can evidence that it carefully manages the spending of public money. Tender and quotation exercises are designed to ensure that the Council spends money wisely and obtains value for money, taking into cost and quality, when acquiring goods, services and supplies.
- 4.2 Therefore, all procurement should follow the [Contract Procedure Rules](#).
- 4.3 Where applicable, rules governing **European Tendering Thresholds** should be followed.
- 4.4 All tenderers must sign a document to confirm there is no **conflict of interest** for any Member or Officer of the Council, or otherwise declare where they believe a potential conflict may exist.
- 4.5 Officers should be mindful of the Employee Code of Conduct in this regard and not put themselves in a compromising position at any point during a procurement exercise.
- 4.6 Before a procurement exercise is undertaken, a **Pre-Procurement Authorisation** (PPA) should be completed and authorised by a Strategic Director. This confirms the parameters of the exercise and ensures proper authorisation in accordance with budgets and priorities, etc.

Guiding Principles: Summary

- ✓ Obtain authorisation through the PPA
- ✓ Follow the process and obtain advice
- ✓ Refer to the Contract Procedural Rules
- ✓ Be mindful of potential conflicts



The Procurement Cycle: Key Stages



Identifying the Need

4.7 This may arise due to:

- A new requirement
- The need to renew an existing arrangement
- The need to ensure compliance with regulations
- Aggregate spend for increased leverage in the marketplace

4.8 The process is then initiated through a PPA. This should also include a timetable of the key stages in the exercise.

Market Research

4.9 The Public Contract Regulations recommend that prior to major procurement exercises, market consultations should be conducted with key suppliers, including market leaders, SMEs and the Third Sector. This is to better understand what is available in the Market and to inform the Market of the Council's intentions. The DSFS can support this process.

4.10 This can provide the Council with useful information to help in determining its strategy and specification. Pre-engagement is an opportunity to stimulate new and innovative ways to improve efficiency, reduce costs and improve service provision.



- 4.11 However, care should be taken to ensure no discrimination or distortion of competition occurs and all engagement is open and transparent. The use of “open days” and “meet the buyer” events are useful ways to engage the Market.
- 4.12 For low value procurement, a less formal approach is allowable. Key suppliers can be contacted direct and asked to quote based on a brief or simple specification of requirements
- 4.13 At this stage, the “route to market” should also be considered and finalised, especially for high value procurement. This can include:
- ✓ Open Tenders
 - ✓ Frameworks
 - ✓ Consortiums
 - ✓ Shared Services and Partnerships
- 4.14 At this stage, DSFS should be consulted so that they are aware of forthcoming procurement exercises and they will advise on potential routes to market. In addition, they can support the preparation of the timetable, especially for high value procurement above the EU Treaty thresholds where pre-determined timescales need to be met.
- 4.15 In addition, **the Council’s Legal Team** should also be notified of high value, complex procurements, where they will be required to input and advise on contract terms, conditions and agreements, etc.

Specifications

- 4.16 A robust performance-based specification should be produced. Specifications should avoid trade names or brands (except for reasons of compatibility with legacy equipment or systems) but should describe the functions and outcomes required. Any potential compatibility issues must be highlighted so proposed solutions are feasible.
- 4.17 Specifications should be clear on expected outcomes and performance measures, not on current methods of working or how a solution is to be achieved. Suppliers should be considered experts in their field and should be allowed to develop creative proposals to meet the Council’s needs.

Assessment Criteria

- 4.18 Before the tendering or quotation stage, the assessment criteria must be determined and circulated with the final specification. Questions should be devised so all Bidders can respond in a way which allows them to demonstrate their strengths and which can be compared with other Bidders. It is also essential to consider how the responses will be evaluated when devising questions.
- 4.19 Details of the scoring process and the criteria to be used, including the relative weightings must be up front at the tendering stage to ensure transparency and fairness. All questions and their weightings must be relevant and proportionate to their importance in the procurement exercise and to the Council.



4.20 In most procurement exercises, cost will be the main element in the assessment criteria. Typically, most procurement will award between 60% and 90% of the total marks to cost.

4.21 However, it is important to look beyond the initial price and to undertake the assessment based on the “Whole Life Cost”. For example, consider where relevant:

Purchase Price	Set-up costs	Delivery Charges	Maintenance	Replacements	Spare Parts
Call out charges	Running costs	Training	Future upgrades	Development	Decommissioning

4.22 The above factors (or equivalent) should be considered when producing the “pricing matrix” for bidders to complete and submit.

4.23 Besides price, quality criteria should also be devised. This will vary depending on what is required. However, as highlighted in the Strategy, this should consider opportunities or ideas to deliver **environmental, economic and social benefits in accordance with the Council’s Corporate Plan**.

4.24 In addition, consider where relevant:

Health and Safety	Management systems	Qualifications	Service Standards	Back-up & Support	Compatibility
Response times	Experience	Monitoring and Reporting	Accreditations	Growth and Expansion	Innovation

4.25 In the quality assessment, only the most appropriate items should be included to ensure a manageable process and to ensure that the essential criteria is not diluted.

Note that this criteria should also be applied to any sub-contractors proposed.

4.26 Once a service brief or specification, together with the assessment criteria are complete, the formal process of obtaining prices or tendering should commence.

Quotations

4.27 These should be obtained in accordance with the Contract Procedure Rules.

Tendering

4.28 For all tendering exercises, early contact should be made with DSFS for appropriate arrangements and advice to be put in place. There will also be generic documentation issued, together with instructions, alongside the technical documents. Depending on the nature of the procurement, Bidders should be asked to provide policies relating to Health and Safety, Environmental Management, together with Equality and Diversity.



- 4.29 Unless a Framework or Consortium route to market is being used, an Open Tender should be used for procurement exercises below the EU Treaty thresholds.
- 4.30 Where EU Treaty thresholds apply, a Prior Indicative Notice (PIN) will be placed in the OJEU to alert the Market of the Council's broad proposals.
- 4.31 An EU Treaty procurement allows a two-stage process to be used through a Pre-Qualification Questionnaire (PQQ). The PQQ is a useful tool to ensure that only those suppliers who can meet the key technical requirements and that have the necessary capability and experience to deliver the Council's needs, submit tenders. This saves time and expense for all parties.
- 4.32 The use of PQQs should be considered where the market is potentially large, and transformation is an important factor for which the Council is willing to consider alternative bids. This ensures that the Council can ultimately focus on specific bidders, especially where additional dialogue needs to take place to refine bids later in the process.
- 4.33 All relevant documentation should be packaged and included in the Invitation to Tender (ITT). This should include the specification and assessment criteria, etc. and where applicable, the draft Heads of Terms for the Contract.
- 4.34 DSFS will arrange for the relevant advertising notices in accordance with the EU Treaty where applicable. Details of all tenders should also be advertised on Source Derbyshire, the Government's Contracts Finder Portal, together with trade journals if necessary. All tenders should be advertised as widely as possible.
- 4.35 Once the tendering exercise has commenced, all communication with potential bidders during the process must be carefully managed to ensure there can be no accusation of favouring or disadvantaging any bidders or distorting competition in anyway.
- 4.36 Any communication with Bidders regarding existing contracts or on-going work must be reduced to an absolute minimum during the tender process. Contract meetings should avoid any discussion regarding a tender exercise.
- 4.37 During the tender process, questions raised by Bidders will be co-ordinated through DSFS. The Council's responses will be made available for all Bidders.
- 4.38 Where a briefing or site visit is required, all potential Bidders should be invited. This should be undertaken after the opportunity to express an interest has passed. This ensures all Bidders are given the same information and that any questions raised and responses given, are heard by all.
- 4.39 The receipt and opening of tenders are managed electronically and co-ordinated by DSFS through an approved E-tendering portal.

Frameworks and Consortia

- 4.40 The use of Frameworks and Consortia have become a familiar way to procure in recent years. This is because they avoid the time and cost of a separate tendering



exercise (above) and with Consortiums, can be an effective way to achieve the best prices through bulk purchasing.

- 4.41 However, not all Frameworks will meet the needs of the Council if it has bespoke requirements or is seeking transformation. Therefore, the use of Frameworks should be considered carefully before potentially compromising longer-term benefits in favour of a quick process.
- 4.42 Therefore, before entering a Framework or Consortium arrangement, the Value for Money Test as detailed in the Council's Annual Value for Money Statement, must be satisfied.

Partnerships and Shared Services

- 4.43 The legal basis for a transfer of functions from one local authority to another or to operate a shared service is contained within provisions of the Local Government Act 1972 and Section 20 of the Local Government Act 2000. This legislation effectively allows another public body to discharge the functions of another local authority without the need for a tender process.

Evaluation

- 4.44 Tenders should be evaluated by a panel of assessors using the criteria published in the ITT. Some evaluators may just evaluate responses to questions within their specialist area of expertise. However, they must score those questions for all the viable tenders to be assessed to ensure a fair balance.
- 4.45 Individual scores should be entered into a worksheet and allow comments on why marks have been awarded. This is essential to allow feedback at a later stage and to avoid a potential challenge.
- 4.46 Individual scores should be consolidated into a master table which should also include the pricing elements to enable a total score, incorporating the weightings between price and quality, to be calculated. This should be administered by Procurement.
- 4.47 In more complex or higher value procurement, DSFS will support the evaluation process and scores should be checked and moderated by an independent Officer.

Negotiation

- 4.48 The route to market chosen could allow negotiation at certain stages of the process, including after selecting a preferred supplier to fine tune requirements.
- 4.49 Negotiation is a useful mechanism to better understand requirements and solutions being offered.
- 4.50 Negotiation should not favour or disadvantage any supplier or distort competition, etc. and needs to be open and transparent. However, care should be taken not to disclose the commercial position and bid of any-one supplier during the process.



Due Diligence

- 4.51 As part of the process, further independent checks should be undertaken regarding the capability, competency and financial sustainability of potential contractors. This can be achieved through references from former and existing clients, together with credit checks by Financial Services.
- 4.52 In addition, where relevant, performance relating to Health and Safety, Environmental Management, together with approach towards Equality Diversity and Inclusion, should also be scrutinised to ensure that they align with legislative requirements and the Council's expectations.

Recommendation Report

- 4.53 To complete the evaluation stage, a final report should be produced for the Strategic Director to review and authorise the appointment of a supplier/contractor. This report should detail key parts of the process, bids and scores, together with due diligence undertaken and reasons for recommending the preferred bidder.

Contract Award

- 4.54 Formal notification should be sent to the successful Bidder. In addition, unsuccessful bidders should be notified including basic feedback to indicate where the successful bidder was more competitive.
- 4.55 For tenders subject to the EU Treaty, a standstill period of 10 days from when notification is sent must be observed, before the Award becomes effective.
- 4.56 Depending on its size, conditions and complexity, etc. associated with a procurement exercise, final terms should not be agreed until the Legal Services Team have been consulted.
- 4.57 All major contracts and agreements should be officially sealed. No Contract or Supply should commence until it has been officially signed and/or sealed in accordance with the appropriate delegated authority.
- 4.58 These conditions also apply to contracts awarded under a Framework, a Shared Service arrangement or where national measured terms apply. This ensures that they are bespoke (if necessary) and reflect the Council's specific requirements.
- 4.59 Following this, the Contract can commence and payment terms set-up. For lower value procurement, an official order should be raised on the Council's Financial Management System in accordance with the Financial Regulations.

Contract Management

- 4.60 Good contract management is essential to ensure that performance is maintained and that the Council's requirements continue to be met.



4.61 Reviews should be undertaken throughout the life a contract on two distinct levels:

- **Operational**, covering day-to-day issues on at least a monthly basis to focus on:
 - Health and Safety
 - Reviewing performance
 - Progress against planned work
 - Work scheduling
 - Budgets
 - Feedback form customers
- **Strategic**, covering high level review of contract performance, to focus on:
 - Delivery against the Council's objectives
 - Performance against key indicators
 - Trends
 - Contract development and efficiencies
 - Issues escalated from operational management
 - Contract variations
 - Emerging issues which could impact on service provision

Summary: Key Points

- ✓ Plan ahead
- ✓ Research the Market
- ✓ Have a clear specification
- ✓ Consider alternatives
- ✓ Be open and transparent
- ✓ Undertake Due Diligence
- ✓ Authorise the Contract or Agreement
- ✓ Manage the Contract/Service



REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE (SPECIAL)	AGENDA ITEM: 10
DATE OF MEETING:	27th AUGUST 2020	CATEGORY: DELEGATED
REPORT FROM:	STRATEGIC DIRECTOR (CORPORATE RESOURCES)	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (EXT 5811) kevin.stackhouse@southderbyshire.gov.uk	DOC:
SUBJECT:	COMMITTEE WORK PROGRAMME	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: G

1.0 Recommendations

1.1 That the Committee considers and approves the updated work programme.

2.0 Purpose of Report

2.1 The Committee is asked to consider the updated work programme.

3.0 Detail

3.1 Attached at Annexe 'A' is an updated work programme document. The Committee is asked to consider and review the content of this document.

4.0 Financial Implications

4.1 None arising directly from this report.

5.0 Background Papers

5.1 Work Programme.

Finance and Management Committee – Next F&M Committee 27th August 2020
Work Programme for the Municipal Year 2020/2021

Work Programme Area	Date of Committee Meeting	Contact Officer (Contact details)
Final Budget Proposals 2020/21 and Financial Plan to 2025	13 February 2020	Victoria Summerfield (Head of Finance) Victoria.summerfield@southderbyshire.gov.uk (01283 595939)
Treasury Management Strategy 2020/21 and Prudential Indicators	13 February 2020	Victoria Summerfield (Head of Finance) Victoria.summerfield@southderbyshire.gov.uk (01283 595939)
Proposed Local Council Tax Reduction Scheme 2020/21	13 February 2020	Kevin Stackhouse Strategic Director (Corporate Resources) Kevin.stackhouse@southderbshire.gov.uk (01283 595811)
Capital Programme Budget to 2025	13 February 2020	Victoria Summerfield (Head of Finance) Victoria.summerfield@southderbyshire.gov.uk (01283 595939)
Annual Report of the Section 151 Officer	13 February 2020	Kevin Stackhouse Strategic Director (Corporate Resources) Kevin.stackhouse@southderbshire.gov.uk (01283 595811)
Corporate Performance Measures 2020 to 2024	13 February 2020	Fiona Pittam Head of Organisational Development Fiona.pittam@southderbyshire.gov.uk (01283 595735)

Transfer of Housing Repairs Calls into Customer Services	13 February 2020	Victoria Summerfield (Head of Finance) Victoria.summerfield@southderbyshire.gov.uk (01283 595939)
Domestic Abuse Procedure - Make A Stand Campaign	13 February 2020	David Clamp Head of Organisational Development David.clamp@southderbyshire.gov.uk (01283 595729)
Social Media Strategy	13 February 2020	Fiona Pittam Head of Organisational Development Fiona.pittam@southderbyshire.gov.uk (01283 595735)
Coronavirus (Covid-19) Financial Impact	2 July 2020	Kevin Stackhouse Strategic Director (Corporate Resources) Kevin.stackhouse@southderbshire.gov.uk (01283 595811)
Revenue Financial Monitoring 2019/20	2 July 2020	Victoria Summerfield (Head of Finance) Victoria.summerfield@southderbyshire.gov.uk (01283 595939)
Capital Financial Monitoring / Provisional Out-turn 2019/20	2 July 2020	Victoria Summerfield (Head of Finance) Victoria.summerfield@southderbyshire.gov.uk (01283 595939)
Treasury Management Update 2019/20	2 July 2020	Victoria Summerfield (Head of Finance) Victoria.summerfield@southderbyshire.gov.uk (01283 595939)
Homelessness / Rough Sleeping	2 July 2020	Paul Whittingham (Housing Services Manager) Paul.whittingham@southderbyshire.gov.uk (01283595984)

Corporate Plan 2020 to 2024: Quarterly Performance Reports	9 July 2020	Fiona Pittam fiona.pittam@southderbsyhire.gov.uk (01283 595735)
Evaluation of Capital Projects	9 July 2020	Kevin Stackhouse Strategic Director (Corporate Resources) Kevin.stackhouse@southderbshire.gov.uk (01283 595811)
Transformation and Business Change Programme 2020 to 2024	9 July 2020	Anthony Baxter (Head of Business Change and ICT) Anthony.baxter@southderbyshire.gov.uk (01283 595712)
Sponsorship Policy and Guidance	9 July 2020	Nicola Lees nicola.lees@southderbsyhire.gov.uk (01233 595755)
Comments, Compliments, Complaints and FOI Requests	9 July 2020	Kevin Stackhouse Strategic Director (Corporate Resources) Kevin.stackhouse@southderbshire.gov.uk (01283 595811)
Equalities Annual Report 2019/20	9 July 2020	Fiona Pittam fiona.pittam@southderbsyhire.gov.uk (01283 595735)
Revenue Budget Out-turn 2019/20	30 July 2020	Victoria Summerfield (Head of Finance) Victoria.summerfield@southderbyshire.gov.uk (01283 595939)

Capital Out-turn 2019/20	30 July 2020	Victoria Summerfield (Head of Finance) Victoria.summerfield@southderbyshire.gov.uk (01283 595939)
Treasury Management Annual Report 2019/20	30 July 2020	Victoria Summerfield (Head of Finance) Victoria.summerfield@southderbyshire.gov.uk (01283 595939)
Annual Value for Money Statement 2019/20	30 July 2020	Kevin Stackhouse Strategic Director (Corporate Resources) Kevin.stackhouse@southderbshire.gov.uk (01283 595811)
Asset Management Plan 2020 to 2024	30 July 2020	Steve Baker (Head of Corporate Property) Steve.baker@southderbyshire.gov.uk (01283 595965)
Annual Health and Safety Report 2019/20	30 July 2020	David Clamp David.clamp@southderbsyhire.gov.uk (01283 595729)
Revenue Financial Monitoring 2020/21	27 th August 2020	Victoria Summerfield (Head of Finance) Victoria.summerfield@southderbyshire.gov.uk (01283 595939)
Capital Revenue Monitoring 2020/21	27 th August 2020	Victoria Summerfield (Head of Finance) Victoria.summerfield@southderbyshire.gov.uk (01283 595939)
Treasury Management Update 2020-21	27 th August 2020	Victoria Summerfield (Head of Finance) Victoria.summerfield@southderbyshire.gov.uk (01283 595939)

Procurement Strategy 2020 To 2024	27 th August 2020	Kevin Stackhouse Strategic Director (Corporate Resources) Kevin.stackhouse@southderbshire.gov.uk (01283 595811)
Q1 Corporate Plan Performance 20-24	8 th November 2020	Clare Booth Corporate Performance & Policy Officer Clare.booth@southderbyshire.gov.uk