

Thurrock - An ambitious and collaborative community which is proud of its heritage and excited by its diverse opportunities and future

Extraordinary Corporate Overview and Scrutiny Committee

The meeting will be held at **7.00 pm** on **23 January 2020**

Committee Room 2, Civic Offices, New Road, Grays, Essex, RM17 6SL.

Membership:

Councillors Oliver Gerrish (Chair), Jack Duffin (Vice-Chair), Colin Churchman, Garry Hague, Andrew Jefferies and Gerard Rice

Substitutes:

Councillors Mike Fletcher, Sue MacPherson, Allen Mayes, Sara Muldowney and Elizabeth Rigby

Agenda

Open to Public and Press

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Queries regarding this Agenda or notification of apologies:

Please contact Lucy Tricker, Democratic Services Officer by sending an email to Direct.Democracy@thurrock.gov.uk

Agenda published on: **15 January 2020**

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DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF

Breaching those parts identified as a pecuniary interest is potentially a criminal offence

Helpful Reminders for Members

- *Is your register of interests up to date?*
- *In particular have you declared to the Monitoring Officer all disclosable pecuniary interests?*
- *Have you checked the register to ensure that they have been recorded correctly?*

When should you declare an interest *at a meeting*?

- **What matters are being discussed at the meeting?** (including Council, Cabinet, Committees, Subs, Joint Committees and Joint Subs); or
- If you are a Cabinet Member making decisions other than in Cabinet **what matter is before you for single member decision?**



Does the business to be transacted at the meeting

- relate to; or
- likely to affect

any of your registered interests and in particular any of your Disclosable Pecuniary Interests?

Disclosable Pecuniary Interests shall include your interests or those of:

- your spouse or civil partner's
- a person you are living with as husband/ wife
- a person you are living with as if you were civil partners

where you are aware that this other person has the interest.

A detailed description of a disclosable pecuniary interest is included in the Members Code of Conduct at Chapter 7 of the Constitution. **Please seek advice from the Monitoring Officer about disclosable pecuniary interests.**

What is a Non-Pecuniary interest? – this is an interest which is not pecuniary (as defined) but is nonetheless so significant that a member of the public with knowledge of the relevant facts, would reasonably regard to be so significant that it would materially impact upon your judgement of the public interest.

Pecuniary

If the interest is not already in the register you must (unless the interest has been agreed by the Monitoring Officer to be sensitive) disclose the existence and nature of the interest to the meeting

If the Interest is not entered in the register and is not the subject of a pending notification you must within 28 days notify the Monitoring Officer of the interest for inclusion in the register

Unless you have received dispensation upon previous application from the Monitoring Officer, you must:

- Not participate or participate further in any discussion of the matter at a meeting;
- Not participate in any vote or further vote taken at the meeting; and
- leave the room while the item is being considered/voted upon

If you are a Cabinet Member you may make arrangements for the matter to be dealt with by a third person but take no further steps

Non- pecuniary

Declare the nature and extent of your interest including enough detail to allow a member of the public to understand its nature



You may participate and vote in the usual way but you should seek advice on Predetermination and Bias from the Monitoring Officer.

Our Vision and Priorities for Thurrock

An ambitious and collaborative community which is proud of its heritage and excited by its diverse opportunities and future.

1. **People** – a borough where people of all ages are proud to work and play, live and stay
 - High quality, consistent and accessible public services which are right first time
 - Build on our partnerships with statutory, community, voluntary and faith groups to work together to improve health and wellbeing
 - Communities are empowered to make choices and be safer and stronger together

2. **Place** – a heritage-rich borough which is ambitious for its future
 - Roads, houses and public spaces that connect people and places
 - Clean environments that everyone has reason to take pride in
 - Fewer public buildings with better services

3. **Prosperity** – a borough which enables everyone to achieve their aspirations
 - Attractive opportunities for businesses and investors to enhance the local economy
 - Vocational and academic education, skills and job opportunities for all
 - Commercial, entrepreneurial and connected public services

23 January 2020		ITEM: 4
Corporate Overview and Scrutiny Committee		
Draft General Fund Budget and Medium Term Financial Strategy Update		
Wards and communities affected: All	Key Decision: Key	
Report of: Sean Clark, Corporate Director of Finance, Governance and Property		
Accountable Assistant Director: Jonathan Wilson, Assistant Director - Finance		
Accountable Director: Sean Clark, Corporate Director of Finance, Governance and Property		
This report is public		

Executive Summary

This report presents the latest version of the Medium Term Financial Strategy (MTFS) and draft budget proposals for 2020/21 as proposed by Cabinet. The key item to consider is the recommendation to by Cabinet to increase council tax by 3.49% which includes a 2% increase specifically to fund ongoing demographic growth in social care. This is below the level of 3.99% suggested by Central Government and the report considers the subsequent impact this has on the Council's financial position into the medium and longer term.

Service Review proposals, covering the next three years, are summarised in the body of the report. No further savings are proposed at this time owing to the success of the investment approach endorsed by both Cabinet and Council in October 2017.

Cabinet should note that the Investment Strategy is just one element of the move toward financial self-sustainability and that the council is committed to following all other streams to meet this aim.

In addition to the investment strategy and the proposed expenditure savings the Council has continued to focus on income generation and their proposals for 2020/21 have been allocated to services as set out in appendices 2 and 3 so as to inform Cabinet of overall changes to the Directorate budgets. These are draft and will be updated in future reports as allocations are refined.

The council has a statutory requirement to set a balanced budget annually and to review its adequacy of reserves. This report sets out a balanced budget and maintains the General Fund balance at £11m.

1 Recommendations:

1.1 That the committee comments on the proposed council tax level with mind to the comments set out in this report; and

1.2 That the committee comments on the draft budget as set out within this report to inform final budget proposals at Cabinet on 12 February 2020.

2 Introduction and Background

2.1 Members are aware of financial pressures that councils have felt in previous years as well as the challenges faced in future years to balance the MTFS while becoming financially self-sustainable.

2.2 The MTFS presented to Cabinet on 15 January 2020 shows a balanced budget for the next three years. This is based on a number of assumptions that, when delivered, puts the council in a stronger financial position than most to transition into the proposed new system of Local Government funding. This includes the replacement of a stable system of grant funding from Central Government with the uncertainty arising from a greater share of funding being raised locally through the updated Business Rates Retention system. This is further discussed in section 4 of this report.

2.3 The assumptions contained within the MTFS are based on driving reductions through reducing staff expenditure (outside of inflationary pressures), improved procurement, efficiencies through changing the ways the council works such as utilising digital channels and income generation through council tax, business rates, investments and fees and charges.

2.4 A key change from the MTFS considered during 2019 is the decision to recommend a 3.49% council tax increase for 2020/21. This is 0.51% below the level suggested by Central Government. This will reduce income by £0.331m in that year and circa £1.722m over the life of the MTFS.

2.5 The Council Spending Review "Service Review Board" has undertaken a number of cross cutting reviews which challenge current delivery models, structures and assumptions with a view to improving outcomes and identifying efficiencies. The board has a savings target of £0.900m in 2020/21 which is to be delivered following the implementation of the review outcomes stated below:

- Insourcing services to be taken into back into Council - £0.300m;
- Increased income from fees and charges - £0.250m; a
- Social care services savings arising from data analytics predictive analysis - £0.350m

2.6 Together these form an overall package that contribute towards a balanced budget and also allows the council to invest in enhancing existing services as well as providing additional services where they are deemed to be a priority.

2.7 Before considering future years, it is important to recognise any ongoing impacts from the current year. In recent months, Cabinet has received two update reports, the most recent report details a net budget pressure of £3.5m. The main areas of risk are within Children’s Services, Adult Social Care and Homelessness.

2.8 In recognition of the pressures listed above, growth has been included within the MTFs where it is considered there is a need to meet ongoing demand.

3 Draft 2020/21 Budget and Future Forecasts

3.1 The MTFs attached at Appendix 1 sets out a balanced budget for three of the next five years which is predicated on the assumptions set out in the body of the report and its appendices.

3.2 The summarised budget position for the medium term now stands at:

Narrative	2020/21	2021/22	2022/23	2023/24	2024/25
	£000	£000	£000	£000	£000
Net (Additional) Reduction in resources	(6,283)	(1,789)	(2,337)	(2,605)	(2,918)
Inflation and other increases	3,702	3,472	3,615	3,766	3,862
Treasury and Capital Financing	(2,178)	(336)	(1,224)	365	0
Allocation of Social Care Funding	4,042	0	0	0	0
Corporate Growth	3,346	2,314	2,314	2,314	2,314
Services Design Principals and Strategic Boards	(900)	(1,000)	(1,000)	0	0
Position before carry forward	1,729	2,661	1,368	3,840	3,258
C/f Position	(5,803)	(4,074)	(1,413)	(45)	0
Working Total	(4,074)	(1,413)	(45)	3,795	3,258

3.3 The budget surplus in each year should only be used for one off expenditure and/or as a contribution to reserves. By not committing this to ongoing expenditure the surplus carries forward to the subsequent year.

3.4 The scale of these surpluses provide the Council with further resilience against budget fluctuations whilst also offering the opportunity for major investment in the borough.

3.5 The final Local Government Finance Settlement is still to be announced. The announcement will confirm grant levels proposed by central government as set out in this and previous versions of the MTFs. In summary the draft proposals are:

- Revenue Support Grant has increased by £0.134m between 2019/20 and 2020/21;
- Other Grants have reduced by £0.469m between 2019/20 and 2020/21; and

- Assumed growth in business rates is £0.728m between 2019/20 and 2020/21.

4 Council Tax and Future Funding

- 4.1 Members will be aware that Thurrock Council has the lowest council tax in Essex and one of the lowest of all Unitary authorities throughout the country. Whilst there is no desire or need to change this position, officers' advice is clear that council tax increases are required to continue to deliver quality services to residents and this is echoed in the Director of Finance and IT's s25 Statements in recent years and is a key consideration for Members at the Council meeting on 26 February 2020.
- 4.2 The assumption at the start of the municipal year within the MTFs was a 1.99% council tax increase in 2020/21 (0% in 2019/20) and 1.99% thereafter. The 3.99% increase would include 2% specifically to deal with the demographic pressures in Adult Social Care.
- 4.3 Whilst surplus balances might suggest to most that increases are not required, Members should consider the following:
- 4.3.1 Advice from CIPFA is clear that investments should not be used to replace existing funding streams, instead any additional revenues should be used to fund additional service provision. This is also a concern raised by the MHCLG. There is also a greater inherent risk associated by funding core services though an investment income underpinned by borrowing, as opposed to the greatly reduce risk associated with equivalent funding from council tax;
- 4.3.2 The Government's Comprehensive Spending Review will be carried out next year, and this will assume the council has increased general council tax by 1.99% (the maximum allowable level that does not require a local referendum). The government will not replace any income foregone and thus a council tax proposal that is lower than allowed will continue to impact the council's resources going forward. This will also form part of the calculation when determining the amount the council can retain from its locally collected business rates. Therefore the level of retained business rates funding available to the Council will also be reduced.
- 4.3.3 The Business Rate Retention system is likely to be reset during 2020/21 and will be in place for the subsequent year. Theoretically this increases the level of locally collected business rates which the council initially retains from 49% to 74%. Members will be aware that the actual amount currently retained is actually circa 30%. The benefit of the new system is that additional growth over government set baselines will be retained at the higher level. However one area that is currently under discussion is how often the baseline is reset, and the current expectation is that gains above this level will be lost on transition and there will be a significant funding gap when the new system commences.
- 4.3.4 Consultation has been undertaken between MHCLG and local authorities as to whether investment income should be considered as part of the council's

core spending power. While this is not currently proposed to be included it remains possible. If introduced, the amount of business rates that the council would be able to retain would be reduced;

- 4.3.5 Whilst the Adult Social Care precept is welcome to provide much needed funding, the amount raised for Thurrock Council will be comparatively lower than the majority of other top tier authorities due to the low council tax base. This may also indicate that additional precepts could become part of local government funding going forward;
- 4.3.6 There remains a lack of clarity in the future funding of Local Government at present. The Comprehensive Spending review remains to be announced and the basis of funding is being clarified through the ongoing fair funding review and the implementation of the revised business rate retention system. There is, however, a continued trend towards greater council funding being raised locally; and
- 4.3.7 Separately identified ring fenced grants, such as public health, are envisaged to become part of mainstream funding in the future. This is further confirmation of the trend to statutory services being funded from local sources.
- 4.4 The following table highlights the specific financial impact of a 1% increase on Council tax per annum/per household.

Band	Band Charge	Properties		Average Net Charge	Average 1% Increase p.a.
		No.	%		
A	£1,035.48	7,462	10.9%	£631.56	£6.32
B	£1,208.06	13,623	19.9%	£920.34	£9.20
C	£1,380.64	27,076	39.6%	£1,165.99	£11.66
D	£1,553.22	12,445	18.2%	£1,386.65	£13.87
E	£1,898.38	4,726	6.9%	£1,752.65	£17.53
F	£2,243.54	2,228	3.3%	£2,121.55	£21.22
G	£2,588.70	824	1.2%	£2,469.61	£24.70
H	£3,106.44	49	0.1%	£2,141.62	£21.42
TOTALS		68,433	100.0%	£1,186.96	£11.87

For over 70% of residents, each additional 1% increase in council tax equates to an average of 19 pence per week or £10.14 per annum whilst raising funding to be applied to a wide range of services, including Children's and Adult Social Care that work with the most vulnerable members of the community.

- 4.5 Having considered all of the above, the committee is asked to comment on the recommended 1.49% general council tax increase and the 2% Adult Social Care increase.

5 Issues, Options and Analysis of Options

- 5.1 This report sets out the changes to the current year budget that are proposed for 2020/21. The impact on services is limited compared to previous years and allows for significant growth within the council's frontline services.
- 5.2 Maximum council tax increases will always be recommended by officers, due to their ability to support the Council on the journey towards financial self-sustainability.
- 5.3 The report also sets out surpluses for three of the five year period of the MTFs. It is recommended that they only be used for one off expenditure as any commitment to ongoing expenditure will impact on future years as the budgets become a core requirement.

6 Reasons for Recommendation

- 6.1 The Council has a statutory requirement to set a balanced budget annually and to review its adequacy of reserves. This report sets out a balanced budget for 2020/21 and maintains the £11m level for the General Fund Balance.

7 Consultation (including Overview and Scrutiny, if applicable)

- 7.1 The budget planning governance structure includes involvement and consultation with officers, Portfolio Holders and Members. The process includes the Council Spending Review Panel, made up of cross-party Group Leaders and Deputies who meet regularly during the budget planning period and ahead of key decision points.

8 Impact on corporate policies, priorities, performance and community impact

- 8.1 There are increases to frontline services where pressures have been identified in the current year that will help the council to deliver both its statutory services and priority areas.
- 8.2 The surpluses will also allow for additionality in services through enhancement, provision of new services or, indeed, a major capital investment in the borough.

9 Implications

9.1 Financial

Implications verified by: **Sean Clark**

Director of Finance, Governance and Property

Council officers have a legal responsibility to ensure that the Council can contain spend within its available resources. Regular budget monitoring reports will continue to come to Cabinet and be considered by the Directors' Board and management teams in order to maintain effective controls on expenditure. Austerity measures in place are continually reinforced across the Council in order to reduce ancillary spend and to ensure that everyone is aware of the importance and value of every pound of the taxpayers money that is spent by the Council.

Whilst this draft budget report sets a balanced budget, it does not include the maximum council tax increase and so reduces the council's ability to maximise council tax streams going forward in its aim to become financially self-sufficient. Each 1% is circa £0.662m that is then lost to the income stream for perpetuity at a time where the government has made clear that councils will need to finance services through local revenues from both council tax and business rates.

The government in setting its grant support for the coming year has made the assumption that this funding would be realised and this assumption will also influence the Comprehensive Spending Review in 2020 that will determine the amounts of business rates that the Council will be able to retain for the delivery of local services over the period 2021-2024.

Recent announcements from CIPFA has raised concerns over the amount of property and other investments that local authorities are carrying out and the advice is clear that there needs to be more tangible benefits to the local authority area and its residents as opposed to purely financial gain. The government, in its announcement of the draft finance settlement, acknowledged this position and left the possibility of a future discussion with the Treasury open. Thurrock Council's investments do fall within the accepted parameters when considering the allocation of surpluses to enhance and/or provide new services.

The committee should note that even without investment targets included, the budget remains in balance thus demonstrating that the targets are not simply replacing a council tax increase.

9.2 Legal

Implications verified by: **Tim Hallam**

**Acting Assistant Director Law & Governance,
Head of Legal, and Monitoring Officer**

There are no direct legal implications arising from this report.

There are statutory requirements of the Council's Section 151 Officer in relation to setting a balanced budget. The Local Government Finance Act 1988 (Section 114) prescribes that the responsible financial officer "must make a report if he considers that a decision has been made or is about to be made involving expenditure which is unlawful or which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency to the authority". This includes an unbalanced budget.

9.3 **Diversity and Equality**

Implications verified by: **Natalie Smith**
**Community Development and Equalities
Manager**

There are no specific diversity and equalities implications as part of this report. A comprehensive Community and Equality Impact Assessment (CEIA) has been completed for council tax increases.

9.4 **Other implications (where significant – i.e. Staff, Health, Sustainability, Crime and Disorder, and Impact on Looked After Children)**

Budget surpluses to date have been used to support action against Anti-Social Behaviour and to secure more police officers within the borough. The surpluses have also allowed increased activity within Environmental Services whilst also investing in social care to support the borough's vulnerable.

10 **Background papers used in preparing the report** (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- Budget working papers held in Corporate Finance
- Budget Review Panel papers held in Strategy and Communications

11 **Appendices to the report**

- Appendix 1 – Medium Term Financial Strategy
- Appendix 2 – Indicative Service Budget Impact 2019/20
- Appendix 3 – Community and Equality Impact Assessment

Report Authors:

Sean Clark

Director Finance, Governance and Property

Appendix 1

Narrative	2020/21	2021/22	2022/23	2023/24	2024/25
	£000	£000	£000	£000	£000
1. Local Funding					
Council Tax Base / Charge 1.5%	(1,770)	(2,099)	(2,162)	(2,228)	(2,253)
Council Tax Social Care Precept 2%	(1,337)	0	0	0	
	(3,107)	(2,099)	(2,162)	(2,228)	(2,253)
Business Rates Precept	(728)	(500)	(665)	(665)	(665)
	(728)	(500)	(665)	(665)	(665)
2. Total Government Resources					
Revenue Support Grant	(109)	6,831	0	0	0
Transfer to funding formula under 75% retention	0	(6,831)	0	0	0
Additional Social Care Grant	(2,705)	0	0	0	0
New Homes Bonus	114	527	491	289	0
Other Grants	252	283	0	0	0
	(2,449)	810	491	289	0
Net (Additional) Reduction in resources	(6,283)	(1,789)	(2,337)	(2,605)	(2,918)
3. Inflation and other increases					
Pay award at 2.8%, Increments and legislative changes	2,913	2,624	2,703	2,785	2,869
Contractual and Non Contractual Inflation	789	848	912	980	993
	3,702	3,472	3,615	3,765	3,862
4. Treasury					
Investment income	(3,818)	(3,214)	(3,756)	(1,700)	
Interest Costs	538	2,570	2,500	2,065	
MRP	1,102	308	32	0	
Treasury and Capital Financing	(2,178)	(336)	(1,224)	365	0
5. Allocation of Social Care Funding					
Adults Social Care - Precept	1,336				
Adults Social Care - Social Care Grant	738				
Children Social Care - Social Care Grant	1,968				
	4,042	0	0	0	0
6. Corporate & Demographic Growth	3,346	2,314	2,314	2,314	2,314
7. Services Design Principals and Strategic Boards	(900)	(1,000)	(1,000)	0	0
Position before carry forward	1,730	2,662	1,368	3,839	3,258
C/f Position	(5,803)	(4,074)	(1,412)	(45)	
Working Total	(4,074)	(1,412)	(45)	3,795	3,258

Indicative Service Budget Impact 2019/20

Directorate	Revised 19/20 Budget	Council Tax charge 2%	Council Tax Social Care precept 2%	Business Rates Precept	RSG	Social Care grant	Other Grants	Inflation	Treasury & Central Financing	Social Care Expenditure	Corporate Growth	Surplus	Service Design Principles & Strategic boards	Base Budget 2020/21
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000		£'000	£'000
Adults, Housing and Health	39,298	0	0	0	0	(737)	0	617	0	2,074	0		0	39,874
Central Financing & Treasury	38,848	(1,770)	(1,336)	(728)	(109)	0	366	0	(2,178)	0	1,287	(1,730)	0	(142,726)
Children's Services	757	0	0	0	0	(1,968)	0	882	0	1,968	0		(350)	40,101
Commercial Services	4,272	0	0	0	0	0	0	31	0	0	188		0	985
Corporate Costs	28,253	0	0	0	0	0	0	0	0	0	402		(550)	1,560
Environment and Highways	16,436	0	0	0	0	0	0	1,109	0	0	90		0	29,155
Finance, Governance and Property	1,114	0	0	0	0	0	0	409	0	0	730		0	17,003
Housing General Fund	4,772	0	0	0	0	0	0	55	0	0	300		0	1,314
HR/D and Transformation	4,818	0	0	0	0	0	0	156	0	0	0		0	4,772
Place	2,793	0	0	0	0	0	0	310	0	0	223		0	5,042
Strategy, Communications & Customer Services	(141,361)	0	0	0	0	0	0	133	0	0	126		0	2,919
Grand Total	0	(1,770)	(1,336)	(728)	(109)	(2,705)	366	3,702	(2,178)	4,042	3,346	(1,730)	(900)	0

COMMUNITY AND EQUALITY IMPACT ASSESSMENT

As an authority we have made a commitment to apply a systematic screening process to both new policy development or changes to services.

This is to determine whether the proposals are likely to have a significant impact on different groups within our community.

This process has been developed, together with [full guidance \(PDF\)](#), to support officers in meeting our duties under the:

- Equality Act 2010.
- The Best Value Guidance
- The Public Services (Social Value) 2012 Act

In addition the guidance supports officers to consider our commitments set out in the [Thurrock Joint Compact](#) with the voluntary sector.

As well as supporting you to look at whether there is, or will be, a significant impact, the guidance will also consider ways in which you might mitigate this in the future.

COMMUNITY AND EQUALITY IMPACT ASSESSMENT

About the service or policy development

Name of service or policy	Corporate Finance – Budget Setting Process (Council Tax Increase)
Lead Officer	Sean Clark
Contact Details	(e) sclark@thurrock.gov.uk (t) 01375 652010

Why is this service or policy development/review needed?
The Council must, by law, set its annual revenue budget and associated council tax level by 11 March of the preceding financial year. If, for whatever reason, the Council cannot agree a budget and council tax level, the Council will not have a legal budget and this will impact on service delivery and cashflow with immediate effect whilst damaging the council's reputation and can, as a last resort, lead to intervention from the Secretary of State under powers given by section 15 of Local Government Act 1999.

1. Community impact (this can be used to assess impact on staff although a cumulative impact should be considered).

<p>What impacts will this service or policy development have on communities? Look at what you know? What does your research tell you?</p> <p><i>Consider:</i></p> <ul style="list-style-type: none"> National and local data sets – for example, key statistics and ward profiles Complaints Consultation and service monitoring information Voluntary and Community Organisations The Equality Act places a specific duty on people with 'protected characteristics'. The table below details these groups and helps you to consider the impact on these groups. 					
	Positive	Neutral	Negative	What are the positive and negative impacts?	How will benefits be enhanced and negative impacts minimised or eliminated?
Local communities in general	-	Y	-	The impact of the budget setting process, and proposed Council tax increase, is considered neutral since it affects all members of the	The Council operates an exemptions and reductions scheme for residents that meet eligibility criteria. For further information, please

COMMUNITY AND EQUALITY IMPACT ASSESSMENT

				community equally. Funds raised will be invested to maintain and transform Council services	see: https://www.thurrock.gov.uk/council-tax
Age	-	Y	-	Please see above	Please see above
Disability	-	Y	-	Please see above	Please see above
Gender reassignment	-	Y	-	Please see above	Please see above
Marriage and civil partnership	-	Y	-	Please see above	Please see above
Pregnancy and maternity	-	Y	-	Please see above	Please see above
Race (including Gypsies, Roma and Travellers)	-	Y	-	Please see above	Please see above
Religion or belief	-	Y	-	Please see above	Please see above
Gender	-	Y	-	Please see above	Please see above
Sexual orientation	-	Y	-	Please see above	Please see above
Any community issues identified for this location? <i>See above link to ward profiles.</i> If the project is based in a specific location please state where, or whether Borough wide. Please note any detail of relevance e.g. is it an area with high unemployment, or public transport limited?	-	Y	-	When planning all Council services, including their role in the budget setting process, deprivation levels across Thurrock are taken into account as these are not uniform across the borough. The impact according to area remains neutral since it is to be applied universally across all Council Tax Bands subject to the exemptions and reductions	In terms of impact, since Council Tax is applicable to all properties in Thurrock the increase will not target specific protected groups, rather it is an increase that, if accepted by Council, will be applied across the board.

COMMUNITY AND EQUALITY IMPACT ASSESSMENT

				scheme.	
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2. Consultation.

Provide details of what steps you have taken or plan to take to consult the whole community or specific groups affected by the service or policy development e.g. on-line consultation, focus groups, consultation with representative groups?

This is a vital step – see [full guidance \(PDF\)](#).

The Localism Act 2011 introduced the concept of a referendum where a proposed council tax increase exceeds its excessiveness principles either by the billing authority (Thurrock Council) or one of its major preceptors. Simply, a referendum would be required if the Council resolved to increase council tax by a higher percentage than the government guidelines (3%). The proposed increase in 2019/20 would not call for a referendum.

This report has been developed in consultation with the Leader, Portfolio Holders and Directors Board. In addition, Corporate Overview and Scrutiny Committee considered the budget proposals on 31 January 2019 with their comments set out in the body of the report. Group Leaders and Deputy Leaders have been involved throughout the budget planning process.

3. Monitoring and Review

How will you review community and equality impact once the service or policy has been implemented?

*These actions should be developed using the information gathered in **Section 1 and 2** and should be picked up in your departmental/service business plans.*

Action	By when?	By who?
Council officers have a legal responsibility to ensure the Council can contain spend within its available resources. Regular budget monitoring reports will continue to come to Cabinet and be considered by Directors Board and management teams in order to maintain effective controls on expenditure during this period of enhanced risk. Measures are in place and continually reinforced across the Council in order to reduce ancillary spend and to ensure that everyone is aware of the importance and value of every pound of the taxpayers money that is spent by the Council.	Ongoing throughout 2019/20	All staff

4. Next steps

COMMUNITY AND EQUALITY IMPACT ASSESSMENT

It is important the information gathered is used to inform any Council reports that are presented to Cabinet or Overview and Scrutiny committees. This will allow Members to be furnished with all the facts in relation to the impact their decisions will have on different equality groups and the community as a whole.

Implications/ Customer Impact

Corporate Finance to confirm: Thurrock Council has one of the lowest council level and income of the 55 Unitary Councils in the country and the lowest council tax in Essex. This low base means that, financially, Thurrock Council has less income than comparable councils to deliver the same suite of services, irrespective of demographic need, and limits any additional precepts, as seen with the Adult Social Care precept, as any percentage increase is on a lower amount than other authorities. The most significant and stable income stream that the council has is through council tax and building this base is critical to sustaining the services offered by the council, when accounting for inflation, wage increases in the social care sector etc. This proposal is linked to one aspect of local government funding where the Council has some discretion to raise additional funds by increases to Council Tax up to a maximum of 3.99%.

A 1% increase to Council Tax would be applied to all properties through Bands A-H. Community and equality impact is neutral as it applies to all groups with the lower paid offered support through the Local Council Tax Scheme.

The following table highlights the specific financial impact of a 1% increase on Council tax per annum/per household.

Band	Band Charge	Properties		Average Net Charge	Average 1% Increase p.a.
		No.	%		
A	£1,035.48	7,462	10.9%	£631.56	£6.32
B	£1,208.06	13,623	19.9%	£920.34	£9.20
C	£1,380.64	27,076	39.6%	£1,165.99	£11.66
D	£1,553.22	12,445	18.2%	£1,386.65	£13.87
E	£1,898.38	4,726	6.9%	£1,752.65	£17.53
F	£2,243.54	2,228	3.3%	£2,121.55	£21.22
G	£2,588.70	824	1.2%	£2,469.61	£24.70
H	£3,106.44	49	0.1%	£2,141.62	£21.42
TOTALS		68,433	100.0%	£1,186.96	£11.87

COMMUNITY AND EQUALITY IMPACT ASSESSMENT

Implications/ Customer Impact

For over 70% of residents, each additional 1% increase in council tax equates to an average of 19 pence per week or £10.14 per annum whilst raising £0.5m to be applied to a wide range of services, including Children's and Adult Social Care that work with the most vulnerable members of the community.

In terms of the wider budget setting process, whilst there are no specific diversity and equalities implications noted as part of the overarching budget setting report, comprehensive Community and Equality Impact Assessments (CEIA) will be completed for any specific savings proposals developed to address future savings requirements. These will be informed by consultation outcomes to feed into final decision making with the cumulative impact closely monitored and reported to Members.

5. Sign off

The information contained in this template should be authorised by the relevant project sponsor or Head of Service who will be responsible for the accuracy of the information now provided and delivery of actions detailed.

Name	Role (e.g. project sponsor, head of service)	Date
Lyn Carpenter	Chief Executive	

23 January 2020	ITEM: 5
Corporate Overview and Scrutiny Committee	
Capital Strategy 2020/21	
Wards and communities affected: All	Key Decision: Key
Report of: Sean Clark, Corporate Director of Finance, Governance and Property	
Accountable Assistant Director: Jonathan Wilson, Assistant Director - Finance	
Accountable Director: Sean Clark, Corporate Director of Finance, Governance and Property	
This report is public	

Executive Summary

The Capital Strategy has been developed to apply from 2019/20 in accordance with revised guidance contained in The Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services and the Prudential Code (The Code). This sets out the strategic framework underpinning capital expenditure and the associated financing at the Council. This also includes the Treasury Management Strategy which was previously considered in isolation up to 2018/19. It is also intrinsically linked to the council's ambitions of becoming a more commercially focused borough; one where sensible transactions are completed which create revenue returns which can then be allocated to spending on the services for Thurrock residents.

The Code requires local authorities to determine the Capital Strategy and the associated Prudential Indicators on an annual basis. The annual strategy also includes the Treasury Management Strategy that is a requirement of the Ministry for Housing, Communities and Local Government Investment Guidance.

In accordance with the above Codes, this report:

- a) sets out the Capital strategy for 2020/21;
- b) confirms the proposed Prudential Indicators; and
- c) sets out the Capital and Treasury Management projections for 2020/21.

1 Recommendation(s)

- 1.1 That the Corporate Overview and Scrutiny Committee comment on the 2020/21 Capital Strategy for consideration by Cabinet at their meeting on 12 February 2020.**

2 Introduction and Background

- 2.1 The Capital Strategy and the Annual MRP Statement are prepared under the terms of the CIPFA Prudential Code for Capital Finance in Local Authorities (the Code) and approval is sought for the adoption of the Prudential Indicators that have been developed in accordance with the Code.
- 2.2 The report also includes a forecast for Interest Receivable from Investments and the indicative Interest Payable on Borrowing.
- 2.3 The report covers a range of areas as set out below with the detailed document attached at Appendix 1.

Borrowing Activity

3 Issues, Options and Analysis of Options

- 3.1 The Capital strategy of the Council is attached as an appendix to this report and has been set with consideration of relevant legislation and appropriate guidance. This includes Annex 1 which incorporates the Treasury Management Strategy. The Prudential Indicators are governed by decisions made on the revenue and capital budgets.
- 3.2 The Capital Strategy sets out a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It includes the following:
- Details of capital expenditure and financing;
 - The governance arrangements around the identification and approval of capital bids;
 - Details on the sources of funding and projections on capital receipts;
 - The strategic approach of the Council to borrowing and the governance arrangements in place;
 - The proposed prudential indicators for 2020/21;
 - Details of the Council's strategic approach to investments and commercial activities;
 - Details of other liabilities and revenue implications arising from this strategy; and

- A further annex containing the detailed treasury management strategy that supports the capital strategy. This includes the annual statement on the Minimum Revenue Provision.

3.3 There are two key areas in this report for Members to be particularly mindful of:

- a) The Council has held significant levels of temporary borrowing since 2010 and hence there is potential exposure to interest rate changes. Officers continue to monitor this to ensure the Council can react to any changes in the economy; and
- b) The approach taken to the Minimum Revenue Provision (as set out in Annex 1).

4 Reasons for Recommendation

4.1 There is a statutory requirement for the Capital Strategy and the Annual Minimum Revenue Provision Statement to be ratified by Full Council. This report and appendices have been written in line with best practice and the Council's spending plans.

5 Consultation (including Overview and Scrutiny, if applicable)

5.1 As set out in section 4, the report is largely based on best practice and the Council's spending plans that have been scrutinised throughout recent months.

5.2 Any comments from the Corporate Overview and Scrutiny Committee will be reported to Cabinet for their consideration.

6 Impact on corporate policies, priorities, performance and community impact

6.1 Treasury Management plays a significant role in funding the delivery of services to the community. The debt restructuring carried out in August 2010 will have contributed savings in the region of £32.2m by the end of 2019/20.

7 Implications

7.1 Financial

Implications verified by: **Chris Buckley**
Treasury Management Officer

The financial implications are included in the main body of the report and appendix. Investment income generated from the Investment Strategy contributes significantly to the council's financial position.

7.2 Legal

Implications verified by: **Tim Hallam**
Acting Assistant Director for Law & Governance, Head of Legal and Monitoring Officer

The report is in accordance with the Local Government Act 2003, related secondary legislation and other requirements including the Prudential Code. Publication of the strategies is a statutory requirement and conforms to best practice as required by the CIPFA Code of Practice.

7.3 Diversity and Equality

Implications verified by: **Rebecca Price**
Community Development Team Manager

There are no direct diversity implications noted in this report

7.4 Other implications (where significant) – i.e. Section 17, Risk Assessment, Health Impact Assessment, Sustainability, IT, Environmental, Impact on Looked After Children

- Not applicable

8 Background papers used in preparing the report (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- Revised CIPFA Prudential Code
- Revised draft ODPM's Guidance on Local Government Investments
- Revised CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes
- Treasury Management Policy Statement
- 2017/18 Annual Investment Strategy
- Arlingclose Sector Briefings

9. Appendices to the report

- Appendix 1 – Capital Strategy Report 2020/21
- Annex 1 – Treasury Management Strategy 2020/21

Report Author:

Chris Buckley

Senior Financial Accountant

Corporate Finance

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Appendix 1 - Thurrock Council

Capital Strategy Report 2020/21

Introduction

This capital strategy is a new report for 2020/21, giving a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance Members' understanding of these sometimes technical areas.

Capital Expenditure and Financing

Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy or build assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10k are not capitalised and are charged to revenue in year.

- Details of the Council's policy on capitalisation are included within the annual Statement of Accounts, which can be accessed through the Council's website.

In 2020/21, the Council is planning capital expenditure of £341.471m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £m

	2018/19 actual	2019/20 forecast	2020/21 forecast	2021/22 forecast	2022/23 forecast
General Fund services	44.643	171.592	63.723	61.180	98.998
Council housing (HRA)	21.303	30.219	27.748	29.717	19.155
Capital investments	401.176	54.170	250.000	250.000	250.000
TOTAL	467.122	255.981	341.471	340.897	368.153

The main General Fund capital projects include the widening of the A13, eastbound slip roads on the A13 at Lakeside, Purfleet redevelopment, refurbishment works at Thameside and Civic Offices and school expansions. The Council also plans to incur £250.0m of capital expenditure on investments, which are detailed later in this report.

The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately, and includes the building of 117 new homes over the forecast period (£24m).

Governance: Service managers bid annually in September to include projects in the Council's capital programme. Bids are collated by corporate finance who calculate the financing cost (which can be nil if the project is fully externally financed). The bids are then collated and prioritised by either Property Board, Digital Board or Service Review. The proposed programme is then considered by Director's Board. This includes a final appraisal of all bids including final consideration of service priorities and financing costs. The final proposed capital programmes is then collated and reported with recommendations to the Corporate Overview and Scrutiny committee. The final capital programme is then presented to Cabinet and to Council in February each year as part of the overall budget setting process.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £m

	2018/19 actual	2019/20 forecast	2020/21 forecast	2021/22 forecast	2022/23 forecast
External sources	30.557	82.234	22.174	18.891	46.750
Own resources	19.872	21.034	14.515	10.757	11.415
Debt	416.693	152.713	304.782	311.249	309.988
TOTAL	467.122	255.981	341.471	340.897	368.153

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as the minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance and repayments of investments on maturity will repay the associated debt. Planned MRP and use of capital receipts are as follows:

Table 3: Minimum Revenue Provision in £m

	2018/19 actual	2019/20 forecast	2020/21 forecast	2021/22 forecast	2022/23 forecast
Own resources	2.808	5.343	7.893	9.184	9.950

- The Council's full minimum revenue provision statement is included in the treasury management statement appended as an annex to this document.

The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £294.713m during 2020/21. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £m

	31.3.2019 actual	31.3.2020 forecast	31.3.2021 forecast	31.3.2022 forecast	31.3.2023 forecast
General Fund services	179.441	262.392	296.498	329.603	371.901
Council housing (HRA)	187.260	197.509	210.292	229.252	236.992
Capital investments	739.847	794.017	1,044.017	1,294.017	1,544.017
TOTAL CFR	1,106.548	1,253.917	1,550.807	1,852.872	2,152.909

Asset management: To ensure that capital assets continue to be of long-term use, the Council is further developing an asset management strategy which will be completed in 2020/21.

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2021/22. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £8m of capital receipts (total includes both GF and HRA receipts) in the coming financial year as follows:

Table 5: Capital receipts in £m

	2018/19 actual	2019/20 forecast	2020/21 forecast	2021/22 forecast	2022/23 forecast
Asset sales	12.038	2.000	8.000	8.000	8.000
Loans repaid	5.525	0.039	0.041	0.043	0.045
TOTAL	17.563	2.039	8.041	80.43	8.045

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account.

Due to decisions taken in the past, the Council currently has £1.327bn borrowing at an average interest rate of 2.45% and £238.2m treasury investments at an average rate of 3.01%.

Borrowing strategy: The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 1%) and long-term fixed rate loans where the future cost is known but higher, currently 2.5 to 3.1%).

Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities, leases are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £m

	31.3.2020 forecast	31.3.2021 forecast	31.3.2022 forecast	31.3.2023 forecast
Debt (incl. PFI & leases)	1,327,000	1,550,808	1,852,872	2,152,909
Capital Financing Requirement	1,253,917	1,550,807	1,852,872	2,152,909

Statutory guidance is that debt should remain below the capital financing requirement over the medium to long term but can be over for the short term recognising borrowing requirements ahead of need for future capital expenditure. As can be seen from table 6, the Council complies with this requirement.

Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2019/20 Forecast	2020/21 limit	2021/22 limit	2022/23 limit
Authorised limit – borrowing	1,452.949	1,683.963	1,936.565	2,196.509
Authorised limit – PFI and leases	0.400	0.200	0.000	0.000
Authorised limit – total external debt	1,453.349	1,684.163	1,936.565	2,196.509
Operational boundary – borrowing	1,352.949	1,583.963	1,836.565	2,096.509
Operational boundary – PFI and leases	0.400	0.200	0.000	0.000
Operational boundary – total external debt	1,353.349	1,584.163	1,836.565	2,096.509

- Further details on borrowing are contained in the treasury management strategy as annex 1 on this report.

Investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Council's policy on treasury investments is to prioritise security and liquidity over yield - that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

- Further details on treasury investments are contained in the treasury management strategy as annex 1 to this report.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Finance and staff, who must act in line with the treasury management strategy approved by Full Council.

Maturity structure of borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	100%	0%
12 months and within 24 months	60%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	60%	0%
10 years and within 40 years	60%	0%
Over 40 years	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Investments for Service Purposes

The Council can make investments to assist local public services, including making loans to and buying shares in local service providers, local small businesses to promote economic growth, the Council's subsidiaries that provide services. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to break even after all costs.

Governance: Decisions on service investments are made by the relevant service manager in consultation with the Director of Finance and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

- Further details on service investments are contained in the treasury management strategy in annex 1 2 to this report.

Commercial Activities

With central government financial support to local public services declining, the Council decided to investigate various options to increase income and has subsequently made investments in line with the principles set out in the Council's Investment Strategy.

To this end on 20 November 2018 a Long Term Investment Strategy was taken to the Corporate Overview and Scrutiny Committee outlining the Council's approach to Service/Non-Treasury/Commercial Investments rather than the standard treasury investments. The report outlined the key principles involved, governance arrangements and the considerations required to ensure all investments are thoroughly scrutinised before completion.

Liabilities

In addition to debt detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £162.6m at 31 March 2019). It has also set aside £4.9m to cover risks of business rates appeals and insurance claims.

Governance: Decisions on incurring new discretionary liabilities are taken by service managers in consultation with corporate finance and, where appropriate, the Director of Finance. The risk of liabilities crystallising and requiring payment is monitored by corporate finance.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 9: Prudential Indicator: Proportion of net financing income to net revenue stream

	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
Net Financing costs (£m)	(25,298)	(25,946)	(22,316)	(19,550)
Proportion of net revenue stream	-25.30%	-25.95%	-22.32%	-19.55%

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend into the future. The Director of Finance & IT is satisfied that the proposed capital programme is prudent, affordable and sustainable as set out annually in the s25 statement accompanying the setting of the annual budget.

Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Director of Finance & IT is a qualified accountant with 32 years' experience. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA, ACT (treasury), AAT & ACCA.

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

Treasury Management Strategy 2020/21

The Treasury Management Strategy is a critical component of the way Thurrock Council manages cash-flow. It is also intrinsically linked to the council’s ambitions of becoming a more commercially focused borough; one where sensible transactions are completed which create revenue returns which can then be allocated to spending on the services for Thurrock residents.

Treasury risk management at the Council is conducted within the framework of CIPFA’s Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a Treasury Management Strategy before the start of each financial year. This report fulfils the Council’s legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

In accordance with the above Codes, this report:

- a) sets out the Treasury Management strategy for 2020/21; and
- b) sets out the Treasury Management projections for 2020/21

2 Introduction and Background

- 2.1 The Treasury Management Strategy and Annual MRP Statement are prepared under the terms of the CIPFA Prudential Code for Capital Finance in Local Authorities (the Code).
- 2.2 The report also includes a forecast for Interest Receivable from Investments and the indicative Interest Payable on Borrowing.

Borrowing Activity 2019/20 and 2020/21

- 2.3 The underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR), together with the level of balances and reserves, are the core drivers of Treasury Management activity. The estimates, based on the current revenue budget and capital programmes are:

	31/3/2021 Estimate £m	31/3/2022 Estimate £m	31/3/2023 Estimate £m
General Fund Borrowing CFR	296,468	329,603	371,900
Housing Revenue Account Borrowing CFR (includes effects of Housing Finance Reform based on current available figures)	210,292	229,252	236,992
Capital Investments	1,044,017	1,294,017	1,544,017

Annex 1 – Treasury Management Strategy.

Total Borrowing CFR	1,550,777	1,852,872	2,152,909
Less: External Borrowing	1,327,000	1,537,541	1,839,676
Internal/(Over) Borrowing	223,777	315,331	313,233
Less: Useable Reserves	(11,000)	(11,000)	(11,000)
Borrowing Requirement	212,777	304,331	302,233

- 2.4 The increases above demonstrate the size of the council’s capital programme needs in both recent and future years. Repayments of prudential debt are made through the annual MRP provision and where surplus cash balances are accumulated. However, the amounts needed to finance the capital programme, even just essential operational requirements, are in excess of these repayments and so lead to an annual increase in net debt.
- 2.5 The Council’s levels of borrowing and investments are calculated by reference to the balance sheet. The Council’s key objectives when borrowing money are to secure low interest costs and achieve cost certainty over the period for which funds are required, all underpinned with sound Return on Investment principles. A further objective is to provide the flexibility to renegotiate loans should the Council’s long term plans change.
- 2.6 In light of the ongoing reductions to Local Government funding, the Council’s focus of the treasury management strategy remains on the balance between affordability and the longer term stability of the debt portfolio. Given the availability of low short term interest rates it remains cost effective to borrow over short term periods or utilise internal balances. The table above shows that it should not be necessary for the Council to borrow further funds above the current levels and this will be monitored on a regular basis by officers to assess the most appropriate form of borrowing. In the short term, these balances are generating investment returns to support service delivery.
- 2.7 This further enables the Council to reduce borrowing costs and hence the overall treasury management risk. While such a strategy may be beneficial over the next 2 to 3 years as official interest rates remain low, it is unlikely to be sustainable in the medium to long-term. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long term borrowing rates are forecast to rise. This will help inform whether the Council borrows additional sums at long term fixed rates in 2020/21.
- 2.8 In addition, the Council may use short term loans (normally up to one month) to enable management of the Council’s cash flow and, where possible, generate a return on investment
- 2.9 The Council will keep under review the following sources for long term and short term borrowing:
- Public Works Loan Board (PWLB) loans and its successor body;
 - UK Local Authorities;
 - Any institution approved for investments;

Annex 1 – Treasury Management Strategy.

- Any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK;
 - Public and private sector pension funds;
 - Capital market bond investors;
 - UK Municipal Bonds Agency;
 - Special purpose companies created to enable joint local authority bond issues;
 - Local Authority bills; and
 - Structured finance, such as operating/finance leases, hire purchase, Private Finance Initiative or sale and leaseback.
- 2.10 With regards to debt rescheduling, the PWLB allows Councils to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Some lenders may also be prepared to negotiate premature repayment terms. The Council has in 2019/20 reviewed the debt portfolio to identify opportunities expected to lead to an overall saving or reduction in risk. At this time, it is not financially prudent to take any options of early repayment, owing to early redemption fees.
- 2.11 Borrowing and rescheduling activity will be reported to the Cabinet on a regular basis during 2020/21
- 2.12 In August 2010 the Council repaid its entire PWLB portfolio of loans (£84 million) to obtain significant interest savings. The re-financing was undertaken by utilising short term funds from the money markets, mainly other Local Authorities, at substantially lower rates than taking longer term fixed debt. To the end of 2018/19 the rescheduling had saved £29.2m of interest costs and is estimated to have saved £32.2m by the end of 2019/20. Currently financing from short term money market debt is expected to continue into 2020/21 and beyond. The inherent risk of this strategy is noted with potentially higher rates and increased debt costs in the future.
- 2.13 The Council retains the ability to fix interest rates. This can be achieved within a matter of days of the decision being made or profiled against the maturity schedule of the short term debt. Current Interest rate forecasts show the interest rate being maintained at 0.75% during 2020 with the official rate remaining at that level for the foreseeable future. There is both a downside and upside risk to the forecast with the downside risk being larger in the main due to potential Brexit issues causing rates to be cut to stimulate the economy, but, the overall forecast is for rates follow the course outlined. However, even if the base rate increases to 1.50%, a 0.75% rise, due to any unforeseen circumstances this will still be below the level of current long term rates that the Council could borrow at from the Public Works Loans Board (PWLB). The recent increase from the PWLB of an additional 1% on top of current loan rates has led to 5 year rates of 2.52% and 50 year rates of 3.13%. In addition, as the Council borrows from other public bodies, rates are not fixed to the bank base rate and are generally lower. The normalised level of the bank base rate post this period is expected to be between 2.50% to 3.50%.
- 2.14 Based on this outlook, the council may borrow on a short term basis when deemed beneficial to the taxpayer while monitoring interest rates to ensure

borrowing is fixed if required. Prudently, the Medium Term Financial Strategy (MTFS) does assume rate increases over the 5 year period.

- 2.15 The Council has £29 million of loans which are LOBO loans (Lenders Option Borrowers Option) where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. All of these loans, excluding one with Barclays, could now be amended at the request of the lender only and, although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. In the event the lender exercises the option to change the rate or terms of the loan, the Council will consider the terms being provided and also repayment of the loan without penalty. The Council may utilise cash resources for repayment or may consider replacing the loan by borrowing from the PWLB or capital markets. Barclays have taken out the option to increase the rate of their loan thereby effectively turning the loan into a fixed rate deal. LOBO loans have become less attractive to Banks and there may be opportunities in the future to redeem these loans. Officers will continue to monitor any developments in this area.
- 2.16 On 1 April 2012, the Council notionally split each of its existing long-term loans into General Fund and Housing Revenue Account (HRA) pools. New long-term loans will be assigned in their entirety to one pool or the other. Interest payable and other costs and income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged or credited to the respective revenue account. The Council will credit interest to the HRA based on the average balances of its reserves and revenue account balance at the average 7 day LIBID rate for the year.
- 2.17 The Council continues to undertake a series of new housing related building schemes utilising borrowing. With the abolition of the Housing Debt Cap the Council will investigate whether further schemes can be undertaken.
- 2.18 Finally, there may be significant regeneration programmes to consider investment vehicles for. The need to borrow for investment will be on a case by case basis after considering investment returns, risk and the result of due diligence.

Investments

- 2.19 The Council holds significant invested funds, representing loans received in advance of expenditure plus balances and reserves held. It is envisaged that investment balances held internally will be approximately £20 million at the financial year end. The Council may invest its surplus funds with any of the counterparties detailed in Appendix 2.
- 2.20 The Council holds a £103m investment in the CCLA Property Fund that is estimated to provide a gross return in 2019/20 of 4.25% with income in the region of £4.3m. The Council has also invested in a number of bonds of various durations since 2016/17 that provides finance to the private sector for, as an example, the purchase of solar farms, whilst providing significant net returns to the council to support front line services in a move towards financial sustainability.

Annex 1 – Treasury Management Strategy.

- 2.21 Local Authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk and to reduce costs or increase income at the expense of greater risk. The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over Authorities use of standalone financial derivatives. The CIPFA code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.
- 2.22 The Council will only use standalone derivatives (such as swaps, forward, futures and options) where they can be clearly demonstrated to reduce the Council's overall exposure to financial risks. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds, will not be subject to this policy, although the risks they present will be managed in line with the overall Treasury Management strategy.
- 2.23 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit. The Local Authority will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use.
- 2.24 The Authority has opted up to professional client status with its providers of financial services, including, banks, brokers and fund managers, allowing it access to a greater range of services, but, without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities the Director of Finance, Governance & Property believes this to be the most appropriate status.
- 2.25 The Council complies with the provisions of s32 of the Local Government Finance Act 1992 to set a balanced budget.
- 2.26 The needs of the Council's Treasury Management staff for relevant training are assessed as part of the annual staff appraisal process and additionally where the responsibilities of individual members of staff change. Staff attend courses, seminars and conferences provided by Financial Authorities and CIPFA. Corporate Finance staff are encouraged to study for professional accountancy qualifications from appropriate bodies.
- 2.27 Under the new IFRS standard the accounting for certain investments depends on the business model for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Annual Minimum Revenue Provision Statement

- 2.28 Local Authorities are required to prepare an Annual Statement of their policy on making MRP for each financial year. Appendix 3 outlines the assessment of the Council's Annual MRP Statement for 2020/21, which is included in the Annual Strategy in paragraph 2.30.

Annex 1 – Treasury Management Strategy.

- 2.29 Officers have reviewed the current strategy and recommend no changes to the 2020/21 strategy.
- 2.30 Consequently the following paragraphs on Borrowing Activity and Investments form part of the Council's Treasury Management Strategy with effect from 1 April 2020:
- 2.30.1 To obtain any long term borrowing requirement from the sources of finance set out in paragraph 2.9;
 - 2.30.2 To continue to fund the ex-PWLB debt via short term funds from the money markets unless circumstances dictate moving back into long term fixed rate debt. The borrowing sources mentioned in paragraph 2.9 will then be assessed as to their suitability for use;
 - 2.30.3 To repay market loans requiring renewal by realising equivalent amounts of investments. If it is not possible to realise investments then the borrowing sources in paragraph 2.9 will be assessed as to their suitability for use as replacements;
 - 2.30.4 To undertake short term temporary borrowing when necessary in order to manage cash flow to the Council's advantage;
 - 2.30.5 To reschedule market and PWLB loans, where practicable, to achieve interest rate reductions, balance the volatility profile or amend the debt profile, dependent on the level of premiums payable or discounts receivable;
 - 2.30.6 To ensure security and liquidity of the Council's investments and to then optimise investment returns commensurate to those ideals;
 - 2.30.7 To contain the type, size and duration of investments with individual institutions within the limits specified in Appendix 2;
 - 2.30.8 To move further funds into the CCLA Property Fund or other externally managed funds if it is felt prudent to do so following appropriate due diligence; and in consultation with the Cabinet Member for Finance and Legal;
 - 2.30.9 To meet the requirements of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 the Council's policy for the calculation of MRP in 2020/21 shall be that the Council will set aside an amount each year which it deems to be prudent and appropriate, having regard to statutory requirements and relevant guidance issued by DCLG. The Council will also consider the use of capital receipts to pay down any MRP incurred; and
 - 2.30.10 To ensure all borrowing and investment activities are made with due reference to any relevant Prudential Indicators.

Interest Projections 2019/20 Revised and 2020/21 Original

- 2.31 The CIPFA document Treasury Management in the Public Services: Code of Practice places a requirement on the Council to publish estimates relating to the operation of the borrowing and investment function.

Annex 1 – Treasury Management Strategy.

2.32 The 2019/20 budget and the projected position for 2019/20 as at November 2019 and also an initial projection for 2020/21 are shown in summary format in the table below:

	Budget 2019/20	Projected 2019/20	Projection 2020/21
	£'000's	£'000's	£'000's
Interest payable on External Debt			
Debt Interest		14,651	15,705
Total internal interest		96	96
Interest payable	<u>0</u>	<u>14,747</u>	<u>15,801</u>
Investment Income			
Interest on Investments	<u>0</u>	<u>(46,073)</u>	<u>(49,639)</u>
Net interest credited to the General Fund	<u>0</u>	<u>(31,325)</u>	<u>(33,838)</u>
MRP- Supported/Unsupported Borrowing	<u>0</u>	<u>6,018</u>	<u>7,893</u>

2.33 It is noted that the figures shown above for 2020/21 include assumptions made about the level of balances available for investment, any anticipated new long term borrowing and the level of interest rates achievable. They may be liable to a significant degree of change during the year arising from variations in interest rates, other market and economic developments, and Council's response to those events.

2.34 In accordance with the requirements of the revised CIPFA Treasury Management Code, the Council will report on treasury management activity and the outturn against the treasury related Prudential Indicators at least bi-annually.

Approved Investment Counterparties:

Credit Rating	Banks/Building Societies Unsecured		Bank/Building Societies Secured		Government		Corporates		Registered Providers	
	Amount	Period	Amount	Period	Amount	Period	Amount	Period	Amount	Period
UK Govt	N/A	N/A	N/A	N/A	£unlimited	50 years	N/A	N/A	N/A	N/A
AAA	£10m	5 years	£20m	20 years	£20m	50 years	£10m	20 years	£10m	20 years
AA+	£10m	5 years	£20m	10 years	£20m	25 years	£10m	10 years	£10m	10 years
AA	£10m	4 years	£20m	5 years	£20m	15 years	£10m	5 years	£10m	10 years
AA-	£10m	3 years	£20m	4 years	£20m	10 years	£10m	4 years	£10m	10 years
A+	£10m	2 years	£20m	3 years	£10m	5 years	£10m	3 years	£10m	5 years
A	£10m	1 year	£20m	2 years	£10m	5 years	£10m	2 years	£10m	5 years
A-	£7.5m	13 months	£15m	13 months	£10m	5 years	£10m	13 months	£10m	5 years
BBB+	£5m	6 months	£10m	6 months	£5m	2 years	£5m	6 months	£5m	2 years
BBB	£5m	100 days	£10m	100 days	N/A	N/A	N/A	N/A	N/A	N/A
BBB-	£5m	100 days	£10m	100 days	N/A	N/A	N/A	N/A	N/A	N/A
None	£5m	6 months	N/A	N/A	£5m	25 years	N/A	N/A	N/A	N/A

Pooled Funds ,External Fund Managers and any other investment vehicle approved by the Section 151 Officer – Decisions are based on each individual case following appropriate due diligence work being undertaken.

The above limits are the maximum that the Council would expect to have in place at any time. However, in practice the actual duration limits in place are continually assessed and are often much shorter than the limits in the above table.

Credit ratings: Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

Banks and Building Societies Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

Banks and Building Societies Secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements. These investments are secured on the bank's assets, which limits the potential loss in the unlikely event of insolvency and means that they are exempt from bail-in. Where there is no investment specific credit rating, but, the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multi development banks. These investments are not subject to bail-in and there is an insignificant risk of insolvency. Investments with the UK Central government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but, are exposed to the risk of the company going insolvent.

Other Organisations – The Council may also invest cash with other organisations, for example making loans to small businesses as part of a diversified pool in order to spread the risk widely. Because of the higher perceived risk of unrated businesses such investments may provide considerably higher rates of return. The Council will also undertake appropriate due diligence to assist in all investment decisions.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Community Agency and as providers of public services they retain a high likelihood of receiving Government support if needed.

Pooled Funds: Shares in diversified investment vehicles consisting of any of the above investment types plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks coupled with the services of a professional fund manager in return for a fee. Money market funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts while pooled funds whose value changes

with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but, are more volatile in the short term. These allow authorities to diversify into asset classes other than cash without the need to own and manage the underlying investments. These funds have no defined maturity date but are available for withdrawal after a notice period. As a result their performance and continued suitability in meeting the authority's investment objectives will be monitored regularly and decisions made on entering such funds will be made on an individual basis.

Risk assessment and credit ratings: Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- No new investments will be made
- Any existing investment that can be recalled or sold at no cost will be, and
- Full consideration will be given to the recall or sale of all other investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade so that it may fall below the approved rating criteria then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Council understands that credit ratings are good but not perfect predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but, can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the authorities cash balances then the surplus will be deposited with the UK Government via the Debt Management Office or invested in treasury bills for example or with other local authorities. This will cause a reduction in the level of investment income earned, but, will protect the principal sum.

Specified Investments

Specified investments will be those that meet the criteria in the CLG Guidance, i.e. the investment:

- is sterling denominated;
- has a maximum maturity of one year;
- meets the “high credit quality” as determined by the Council or is made with the UK government or is made with a local authority in England, Wales, Scotland or Northern Ireland or a parish or community council; and
- The making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

The Council defines ‘high credit quality’ organisations and securities as those having a credit rating of BBB- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds ‘high credit quality’ is defined as those having a credit rating of A- or higher

Non-specified Investments

Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares

Non-Specified Investment Limits

	Cash Limit
Total Long Term Treasury Investments	£450m
Total Investments without credit ratings or rated below A- with appropriate due diligence having been performed	£70m
Total Investments in foreign countries rated below AA+	£30m
Maximum total non-specified investments	£550m

Investment Limits

The maximum that will be lent to any one organisation in the Approved Investment Counter Party list (except the UK Government) is £20m. For other investments approved by the Section 151 Officer the amount to be invested will be determined by the Section 151 Officer, taking into account the relevant merits of the transaction such as, for example, duration and risk following due diligence work undertaken. A group of banks under the same ownership, a group of funds under the same management, brokers nominee accounts, foreign countries and industry sectors will all have limits placed on them as in the table below:

Appendix 2

	Cash Limit
Any single organisation, except the UK Central Government	£20m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£40m
Any group of pooled funds under the same management	£50m
Any external Fund Manager	£750m
Negotiable instruments held in a brokers nominee account	£20m
Foreign countries (total per country)	£30m
Registered Providers in total	£30m
Building Societies in total (excluding overnight investments)	£40m
Loans to small businesses	£20m
Money Market Funds	£40m
Investments approved by the Section 151 Officer	Reviewed for each case

Liquidity Management

The Council maintains a cash flow spreadsheet that forecasts the Council's cash flows into the future. This is used to determine the maximum period for which funds may be prudently committed. The forecast is compiled on a pessimistic basis, with receipts under estimated and payments over estimated to minimise the risk of the Council having to borrow on unfavourable terms to meet its financial commitments.

THE MINIMUM REVENUE PROVISION STATEMENT

Introduction:

The rules for Minimum Revenue Provision (MRP) were set out in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. These rules have now been revised by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008.

Authorities are required to submit to a meeting of their Council an annual statement of their policy on making MRP.

Background:

Each year the Council borrows money in order to finance some of its capital expenditure. The loans taken out for this purpose, unlike a mortgage which is repaid in part each month, are fully repayable at a future point in time. The repayment date is chosen to secure the best financial result for the Council.

The concept of Minimum Revenue Provision was introduced in 1989 to prescribe a minimum amount which must be charged to the revenue account each year in order to make provision to meet the cost of repaying that borrowing.

The detailed rules and formulae to be used in the more recent method of calculation were laid down in the Regulations mentioned in the introduction section.

This system has now been radically revised and requires an annual statement to full Council setting out the method the Council intends to adopt for the calculation of MRP.

Considerations:

Under the old regulations Local Authorities were required to set aside each year, from their revenue account an amount that, in simple terms equalled approximately 4% of the amount of capital expenditure financed by borrowing. Local Authorities had no freedom to exercise any discretion over this requirement.

The amendment regulations introduce a simple duty for an authority each year to set aside an amount of MRP which it considers to be 'prudent'. The regulation does not define a 'prudent provision' but the MRP guidance makes recommendations to authorities on the interpretation of that term.

The MRP guidance document is a statutory document and authorities are obliged by section 21 of the Local Government Act 2003 to have regard to such guidance. The guidance aims to provide more flexibility and in particular for development schemes it is possible to have an MRP "holiday" for assets or infrastructure under construction.

In addition, it is accepted that where there is capital expenditure that will give rise to a capital receipts, either through the disposal of the asset or loan repayments, then

there is no need to set aside MRP on an annual basis but the capital receipt or loan repayments should be set aside on receipt for that purpose.

The operative date of the change was 31 March 2008, which means the new rules have applied since the financial year 2007/08.

The Annual MRP Statement

As stated above, Local Authorities are required to prepare an annual statement of their policy on making MRP for submission to their full Council. This mirrors the existing requirements to report to the Council on the Prudential borrowing limits and Treasury Management strategy. The aim is to give elected Members the opportunity to scrutinise the proposed use of the additional freedoms conferred under the new arrangements. The statement must be made before the start of each financial year.

The statement should indicate how it is proposed to discharge the duty to make prudent MRP in the financial year in question for the borrowing that is to take place in that financial year. If it is ever proposed to vary the terms of the original statement during any year, a revised statement should be put to Council at that time.

The guidance includes specific examples of options for making a prudent provision. The aim of this is to ensure that the provision to repay the borrowing is made over a period that bears some relation to the useful life of the assets in question or where a capital receipt will be received to repay the debt in part or in full.

Proposals

The Minimum Revenue Provision Policy Statement for 2020/21:

- In accordance with the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 the Council's policy for the calculation of MRP in 2020/21 shall be that the Council will set aside an amount each year which it deems to be prudent and appropriate, having regard to statutory requirements and relevant guidance issued by DCLG; and
- The Council will also consider the use of capital receipts to pay down any MRP incurred.

The policy will be reviewed on an annual basis.

23 January 2020	ITEM: 6
Corporate Overview and Scrutiny Committee	
Draft Capital Programme	
Wards and communities affected: All	Key Decision: Key
Report of: Sean Clark, Corporate Director of Finance, Governance and Property	
Accountable Assistant Director: Jonathan Wilson, Assistant Director - Finance	
Accountable Director: Sean Clark, Corporate Director of Finance, Governance and Property	
This report is public	

Executive Summary

This report presents the committee with the recommended additions and approach to the new capital programme for 2020/21 and subsequent years.

The council is delivering services to residents against the background of ongoing changes in population, local business growth and national infrastructure developments in the borough. Consequently there is an ongoing need to support the residents and the wider stakeholders of the Council through a planned programme of capital works. This report sets out the proposed requirements for projects proposed to commence in 2020/21.

1 Recommendations that the Corporate Overview and Scrutiny Committee:

1.1 Comment on the specific proposals set out within this report.

2 Introduction and Background

2.1 As part of the budget, the Council needs to set its capital programme for the following financial years. The future development of the Medium Term Financial Strategy (MTFS) will also need to take account of future capital spending plans over the period of the strategy.

2.2 The following sources of funding are available to the General Fund:

- a) Capital Receipts – these are the receipts realised from the disposal of capital assets such as land and buildings;

- b) Grants and Contributions - these could be ad hoc grants awarded from government or other funding agencies or contributions from developers and others;
- c) Prudential Borrowing – the Council is able to increase its borrowing to finance schemes as long as they are considered affordable; and
- d) Revenue – the Council can charge capital costs directly to the General Fund but the pressure on resources means that this is not recommended.

2.3 In more recent years, only Prudential Borrowing has been available to finance the majority of schemes within the capital programme with grants only being made available for specific services such as highways.

2.4 Funding from capital receipts may become available as part of the ‘3Rs’ Programme – Retain, Reuse, Release. This challenges the rationale for holding the asset resulting in the classification of assets as either:

- Released (for example to dispose of immediately or develop for housing);
- Re-used (for example for different services or more intensive or changed use); and
- Retained (business as usual, little need or opportunity for change identified).

Sites that have been identified for release are reviewed by the Corporate Property Team to determine their redevelopment potential and enable a final decision on release of the asset or otherwise. This potentially enables further funding of capital projects from the capital receipts generated and reduce the level of prudential borrowing required.

2.5 Members should note that General Fund Capital Receipts can also be used to finance Housing Revenue Account capital expenditure and have been used to good effect in securing Right to Buy buy-backs match funded with HRA resources that has helped maximise the use of Right to Buy receipts.

2.6 Annually, all services consider their future capital needs and submit bids for schemes ranging from projects in their own right to smaller schemes that are required to maintain operational ability – such as capital repairs to operational buildings and system upgrades.

2.7 In addition, the Council Service Review (CSR) process is identifying a number of service enhancements that will ultimately reduce costs or increase income. These will need to be funded as and when identified.

2.8 Finally, there are those projects that require seed funding to prepare more detailed business cases. The council agreed in February 2017 to a £2m budget provision to ensure funding is available to prepare business cases for Future and Aspirational Capital Schemes. It is recommended that this budget be set at £3m for the coming year and the full amount is expected to be required. This reflects an increase in proposed development in 2020/21 and

subsequent years. Examples of the projects proposed are included at Appendix 2.

3 Current Programme

3.1 Before considering the new proposals, it is worth reflecting on the allocations that have been agreed over recent years. These are summarised in Appendix 1 but, covering the period 2018/19 through to 2021/22, total over £289m with £229m still to be spent as at 1 January 2020.

3.2 The major projects that are included within the current programme include:

- The widening of the A13;
- Purfleet Regeneration;
- Thameside Theatre;
- Grays Town Centre and Underpass;
- Improvements to parks and open spaces;
- New educational facilities;
- Headstart Housing; and
- Improvements to the Linford Civic Amenity Site.

3.3 In addition, feasibility has been carried out in developing the future and aspirational bids and examples of the proposed projects to be developed in 2020/21 are included at Appendix 2.

4 Draft Capital Proposals

4.1 As stated above, there have been a number of significant schemes that can be seen as projects in their own right. These have been included at Appendix 3 and are split into 3 categories:

- Essential Works – these are required to ensure assets are of sufficient quality to deliver the associated services;
- Projects with an Invest to Save contribution – these are projects which either generate an associated return to the Council or provide ongoing savings through the delivery of the associated capital scheme; and
- New Standalone Projects – new projects supporting the delivery of Council priorities.

The remaining capital requests fall within one of four categories and are summarised in the table below. The amounts have been calculated using the respective bid totals and the allocation and monitoring of this funding falls

under the responsibility of a relevant Transformation Board or Directors' Board.

Responsible Board	Examples	2020/21 £m	2021/22 £m	2022/23 £m
Service Review	These could include new systems that create efficiencies, upgrades to facilities to increase income potential and enhancements to open spaces to reduce ongoing maintenance.	3.9	1.3	1.3
Digital	The council has been progressing steadily towards digital delivery, both with residents and amongst officers. This budget will allow for further progression as well as ensuring all current systems are maintained to current versions and provide for end of life replacement.	3.3	0.7	0.2
Property	This budget will provide for all operational buildings including the Civic Offices, libraries, depot and Collins House. It will allow for essential capital maintenance and minor enhancements.	2.8	0.3	0
Transformation	This budget is to provide the ability to build business cases for major projects as per paragraph 2.6. The recommendation is for an annual "top up" to bring the budget back to £3m at the start of each financial year.	3.0	3.0	3.0

- 4.2 The capital programme also includes the HRA, Highways and Education. These are largely funded by government grants and will be considered by their respective Overview and Scrutiny Committees and the Cabinet under separate reports.
- 4.3 Highways are expected to receive in the region of £4m per annum whilst Education are expected to receive a further £4m in 2020/21 with further allocations for free schools.

5 Issues, Options and Analysis of Options

5.1 In previous years, the recommendations to Council have also included delegations to Cabinet to agree additions to the capital programme under the following criteria:

- If additional third party resources are been secured, such as government grants and s106 agreements, for specific schemes;
- Where a scheme is identified that can be classed as 'spend to save' – where it will lead to cost reductions or income generation that will, as a minimum, cover the cost of borrowing; and
- For Thurrock Regeneration Ltd schemes – these actually also fall under the 'spend to save' criteria set out above.

6 Reasons for Recommendation

6.1 The capital programme forms part of the formal budget setting in February and is an integral part of the Council's overall approach to financial planning.

7 Consultation (including Overview and Scrutiny, if applicable)

7.1 The various capital bids put forward have all been considered by the service management teams and by the Directors' Board. Some projects will have also been reported separately to the relevant Overview and Scrutiny Committee.

8 Impact on corporate policies, priorities, performance and community impact

8.1 Capital budgets provide the finance to meet the Corporate Priorities. If a capital project was not to proceed, this may impact, positively or negatively, on the delivery of these priorities and performance with a corresponding impact on the community.

9 Implications

9.1 Financial

Implications verified by: **Jonathan Wilson**
Assistant Director - Finance

The financial implications have been set out throughout the body of the report. The financial impact of the borrowing decisions has been accounted for within the MTFS.

9.2 Legal

Implications verified by: **Tim Hallam**
**Acting Assistant Director of Law and
Governance, Head of Legal & Monitoring
Officer**

Local authorities are under an explicit duty to ensure that their financial management is adequate and effective and that they have a sound system of internal control and management of financial risk. This budget report contributes to that requirement although specific legal advice may be required on each projects business case.

9.3 Diversity and Equality

Implications verified by: **Rebecca Price**
Community Development Team Manager

All local authorities are required to have due regard to their duties under the Equality Act 2010. The capital programme is assessed at keys stages to ensure the impact of each scheme is measured in a propionate and appropriate way to ensure this duty is met and the needs of different protected characteristics are considered.

10 Appendices to this Report:

- Appendix 1 – Current Programme Summary
- Appendix 2 – Examples of Future and Aspirational Projects
- Appendix 3 - New Capital Projects.

Report Author:

Sean Clark
Director of Finance, Governance and Property

Appendix 1 – Summary of Existing Capital Programme

Directorate ID	Total Budget 2019/20 £'000	Total Budget 2020/21 £'000	Total Budget 2021/22 £'000	Total Budget 2022/23 £'000
Children Services	25,141	6,458	-	-
Adults, Housing and Health	8,252	5,740	315	-
Environment and Highways	17,373	2,119	458	-
Place	93,640	16,467	13,603	38,000
Finance, Governance and Property	6,421	3,486	1,500	-
HR, OD and Transformation	11,924	-	-	-
Strategy, Communications and Customer Services	336	-	-	-
Housing HRA	30,219	6,268	217	875
Total	193,306	40,538	16,093	38,875

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APPENDIX 2

Examples of Future and Aspirational Projects

Directorate	Capital Bid	Project Ambition
Environment and Highways	Thurrock Leisure Village	A new sporting village would provide the residents of Thurrock access to much needed leisure facilities fit for the 21st century. Our current leisure centres are 50+ years old and costing the council significant maintenance costs. If we do not replace them now, we will need to spend money in 10 years' time and spend an additional £10m in the next few years keeping the buildings compliant with health and safety laws until they reach the end of life.

APPENDIX 2

Examples of Future and Aspirational Projects

Place	Grays South Regeneration Area - Development Plots	<p>Development for town centre commercial and residential around the the new pedestrian crossing and public squares to be created by the Grays South Regeneration Area phases 1 and 2 including possible reconfiguration and generation of alternative options for the underpass and access to the rail station to accommodate scheme changes in response to proposals by New River to redevelop Grays Shopping Centre.</p> <p>Recent proposals by New River for the redevelopment of the Grays Shopping Centre would require reconfiguration of the development site and redesign of access to the underpass and rail station. Consequently, in addition to the development feasibility costs there will be additional design costs to ensure the schemes work together and for the different access arrangements in to the underpass.</p>
Adults, Housing and Health	Integrated Medical Centre - Tilbury	<p>The Orsett Hospital is planned for closure once services can be relocated to the four proposed Integrated Medical Centres earmarked for the Thurrock community at Tilbury/Grays/Corringham and Purfleet. The proposal for the Tilbury site is for the Council to build, own and operate the centre with required space leased to NHS partners over the life of the asset.</p>

APPENDIX 2

Examples of Future and Aspirational Projects

<p>Finance, Governance and Property</p>	<p>Riverside Youth Centre - Refurbishment</p>	<p>The current Youth Centre requires urgent assessment and there are 3 options under consideration for refurbishment of the current site. These are listed below and the most appropriate option will be selected once the feasibility work has been completed, including a full structural survey of the building.</p> <p>Option 1 – Refurbishment. In this option all services have been left in their existing locations to avoid the additional cost of re-routing the existing services to new locations.</p> <p>Option 2 - Refurbishment / Remodelling using the buildings uniquely curved walls as inspiration the services have been spread around the central hall as the main hub of activity.</p> <p>Option 3 - Remodelling - This option is focused around the central hall and curving all facilities and services around this central core / hub.</p>
<p>Place</p>	<p>Aveley Freight Management (Ship Lane Scheme)</p>	<p>This project will deliver a scheme to physically prevent HGV access from M25 J31 north into Aveley Village, diverting HGVs along the prescribed route of A1306. The initial feasibility study has identified a range of options, but through Public engagement in January 2019, residents supported the inclusion of a roundabout structure to be installed on Ship Lane and to provide a facility with a turn-around point. The location of scheme is to be determined but due to the scale the land acquisition will need to be advanced. The detailed design is to be advanced to identify the most appropriate location.</p>

APPENDIX 2

Examples of Future and Aspirational Projects

Adults, Housing and Health	Corve Lane Complex	<p>This proposal is to convert the unit so it can be used as a hostel for all ages that is owned and managed by Thurrock Council to avoid the use of hotels and out of the borough accommodation. The building is a large complex spread over two floors, the proposal would be to utilise the existing layout as much as possible to create individual bedrooms with shared kitchen and bathroom facilities and the building would be run as a hostel by the Council's temporary accommodation team in housing for homeless families. The building will need complete refurbishment back to the core building fabric therefore costs have been allowed to undertake this. Authorisation is required for change of use from an education establishment and this time limit is not currently defined therefore, additional time allowance has been allowed for this proceed to take place.</p>
Environment and Highways	Thurrock Parkway depot design and development	<p>The Environment and Highways Directorate currently occupy land at Oliver Close and St Clements Way in adjacent depots. Oliver Close is currently leased and has 23 years of the lease remaining whilst St Clements Way is council owned. The Directorate have seen additional departments added over recent years and have tried to centralise all teams within one location. This growth has put further demands on the two depots with regards to space and location. It should also be noted that the Council has a statutory obligation to have an operating centre that has the ability to house the amount of vehicles nominated on its operator's licence. Thurrock Parkway has been highlighted as an alternative solution for a possible relocation due to an increase in space and the central location within the borough for transport access and ability to respond and carry out its daily duties.</p>

APPENDIX 2

Examples of Future and Aspirational Projects

Place	Grays South Regeneration Area extension	<p>To deliver the Grays underpass, associated public realm and development plots an indicative red line area has been established to define the extent of required land assembly. Currently, the land assembly boundary focusses on the minimum area required to deliver the underpass. This project undertakes to complete a feasibility study to explore the merits of extending the development area northwards to George Street and westwards to Morrisons to create a larger, more flexible development plot, improve town centre circulation, respond to design challenges created by the proposals for the shopping centre area being promoted by New River and take advantage of potential funding opportunities available under the Future High Street Fund or Town Fund.</p> <p>An initial feasibility study will establish the approach to delivery including capacity studies, design studies alongside New River developing proposals for Grays Shopping Centre, and development appraisals to define development costs and returns.</p>
Children's Services	Oaktree Centre Feasibility /Surveys	<p>The project is to survey and identify the work needed to consider the redevelopment or remodelling to make the centre fit for purpose for the provision of the service needs.</p>

APPENDIX 2

Examples of Future and Aspirational Projects

Place	Coalhouse Fort Radar Tower	Capital funding is required to carry out immediate repairs and to undertake a further programme of investigative works. The investigation must be done at the same time as the repairs due to the need to break open failing concrete/examining steel surrounded by concrete. The results of the investigations may produce a need for further capital.
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Appendix 3 – New Capital Projects

Essential Works

Project	Directorate	Project Ambition	Total Value	2020/21	2021/22	2022/23 onwards
Principal Bridge Inspections and remedial works	Environment & Highways	To instigate a rolling programme, over 5 years, of Principal Inspections (PIs), of approximately 110 structures, on average 22 per year. Carrying out any subsequent essential remedial works to rectify any identified defects, allowing for rail possession costs, specialist access equipment and traffic management and work costs. Structures are required to be inspected both every 2 years (general inspections) and every 6 years (detailed principal inspections). This includes a risk based approach based on the results of this data to reduce future costs by performing PIs on lower risk structures every 12 years as recommended by the document 'Well-Maintained Highway Infrastructure - A Code of Practice'.	3,250,000	750,000	850,000	650,000
Carriageway Summer Damage Treatments 2020/21	Environment & Highways	DfT essential funding has been received in previous years, this essential work was planned to utilise such funding. In the absence of funding for 19/20 funding is required to treat damage caused by extreme summer temperatures on selected high volume routes within the borough: (1) Horndon Bypass (B1007)/South Hill - Horndon - between Stanford-Le-Hope interchange to High Rd/Borough Boundary (2) Conway's Rd - Orsett - between Prince Charles Ave to Parkers Farm Rd	1,096,000	676,000	420,000	

Appendix 3 – New Capital Projects

Project	Directorate	Project Ambition	Total Value	2020/21	2021/22	2022/23 onwards
		(3) Coopers Shaw Rd/Church Rd - Tilbury/West Tilbury - between Brennan Rd and Station Rd				
Arterial Road - Safety & Maintenance Works	Environment & Highways	To resurface the entire extent between West Thurrock Way and the Lakeside Spiral before further deterioration occurs and deeper, more expensive treatments are needed. In addition whilst works are being undertaken the concrete lamp columns will also be replaced and ongoing costs will be reduced.	790,000	395,000	395,000	
Local Road Enhancement Scheme	Environment & Highways	This project is for the overlay of four concrete roads and intermittent repairs on those roads which are subject to significant feedback from residents and on heavily used roads in the borough. Eight sites have been selected based on either the number of unique comments received or the overall traffic levels.	750,000	375,000	375,000	

Appendix 3 – New Capital Projects

Projects with Invest to Save Elements

Project	Directorate	Project Ambition	Total Value	2020/21	2021/22	2022/23 onwards
Creative Enterprise Units at HHP	Place	<p>The Council is working in partnership with HHP to develop a c.30,000 ft² purpose-built facility of creative makers' workspace with a broad range of unit sizes to support creative micro and SMEs on the Production Park as part of the Council's Enterprise Unit programme to provide a platform for small and medium sized businesses to develop and flourish.</p> <p>Cabinet has granted in-principle approval on 11 Mar 2015 (Decision Notice: 01104382) to invest £2.5m in Creative Enterprise Units at High House Production Park. It is recommended that the budget allocation is increased to £5.25m. This will enable the proposals to continue to be developed and for funding applications to be made. Additional funding will be sought from external sources if the project scope exceeds the proposed capital budget.</p>	5,250,000 (over 5 years)	375,000		4,898,000
High House Complex Restoration	Place	<p>The Council is working in partnership with HHP to re-develop High House Complex to provide a community museum and further creative workspace on the Production Park. The proposals are at an early stage of development, but initial studies indicate that the building could provide between 5,000sqft to 6,000sqft of accommodation with development cost estimates ranging from £3.5m to £4.5m.</p>	1,000,000	250,000		750,000

Appendix 3 – New Capital Projects

Project	Directorate	Project Ambition	Total Value	2020/21	2021/22	2022/23 onwards
		The proposal is for the Council to invest around £1m in exchange for a long lease on circa 5,000 sq ft of creative workspace. HHPP would then bid for Heritage Lottery Fund's Heritage Enterprise Grant with the Council's investment in creative workspace as match to support the capital works. The viability of this development is subject to HLF grant funding.				
Flats Recycling	Environment & Highways	This is a project to encourage and enable residents who live in blocks of flats across the Borough to effectively participate in recycling their household waste. The intervention takes the form of targeted engagement and education for residents and a review of bin stores. Clearer signage and specialist recycling bins are installed as appropriate for each site. This follows an approach that has been tried and tested by other Local Authorities. With over 350 blocks of flats, equating to more than 10,000 households, current projections based on the pilot, are that the project has potential to improve the recycling rate by between 3 and 5%. The annual potential saving, based on current recycling gate fees will be approximately £80k. One area of uncertainty is the cumulative impact of increased engagement of households in recycling activities, but this project would ensure that all our residents are being treated equally and consistently with the same opportunity to recycle.	981,000	647,000	334,000	

Appendix 3 – New Capital Projects

New Standalone Bids

Project	Directorate	Project Ambition	Total Value	2020/21	2021/22	2022/23 onwards
Kerb-It	Place	Kerb-It will deliver a programme of hardstanding improvements for grassed verge protection/conversion on local roads where parking capacity is identified as an issue. The priority locations to be taken forward for consideration and implementation are South Ockendon, Stifford Clays (lodge lane), Tilbury and Aveley	3,000,000	1,000,000	1,000,000	1,000,000
A1013 School access improvements	Place	The project will deliver a scheme to provide dedicated access to 4 schools in Little Thurrock (2 existing and 2 new). A feasibility study is underway to determine the suitability of an access onto the A1013 Stanford Road.	2,000,000	200,000	1,800,000	
Purfleet Centre	Place	The Purfleet Centre is a £1bn scheme to deliver a new town centre, up to 2,850 new homes and all associated infrastructure. The Council has entered into a Development Agreement (DA) with PCRL to deliver the scheme and through this contract has a number of obligations. To date the professional fees associated with supporting the Council in its role as partner in the DA have been paid from a ring-fenced budget inherited from the former Thurrock Thames Gateway Development Corporation. This budget has been utilised and further provision is needed to ensure that the Council can fulfil its obligations and secure the best outcomes from the project.	1,500,000 (over 5 years)	300,000	300,000	900,000
London Road, SLH - Bridge 194		A range of options are being considered with the most expensive option being the potential	Up to 1,060,000	Up to 1,060,000		

Appendix 3 – New Capital Projects

Project	Directorate	Project Ambition	Total Value	2020/21	2021/22	2022/23 onwards
Renewal	Environment & Highways	renewal of an aged (almost 100 year old) bridge on London Road, Stanford le Hope due to failing critical (load-bearing) elements. Amendments to the structure are needed as part of the Stanford-Le-Hope station redevelopment however these are severely limited due to the current condition of the bridge. By undertaking repairs or renewal in the FY 2020/21 costs can be saved by combining works with the station redevelopment				
National Cycle Network 13 improvements	Place	The scheme is for the implementation of a strategic cycle network between Grays and East Tilbury, via Tilbury Town. There is no additional government funding associated with this work at this time. The Infrastructure Development Programme (CIDP) funds have now been used and the programme of improvements is complete.	1,000,000	520,000	480,000	
Oracle Enhancements	HR,OD and Transformation	Since Oracle Cloud's go live in April 2019 there have been a number of enhancements that have become available (such as the Contract Management module) and opportunities for further direct integration with other, currently separate, Corporate systems (such as the Matrix SCM system). It is expected that further enhancements and/or integrations will be required over the coming years. Because of the delayed progress of the current Oracle Cloud roll-out there is still unspent Capital budget reserved for 2019-20 and forecasted for 2020-21 in a previous year's submission. This bid allows for the carry	742,000	254,000	488,000	

Appendix 3 – New Capital Projects

Project	Directorate	Project Ambition	Total Value	2020/21	2021/22	2022/23 onwards
		forward of some of that budget plus increasing it over the following 2 years giving an overall Oracle development pot of circa £1m over the next 3 years.				
Core Licencing	HR, OD and Transformation	The majority of core licences e.g. Microsoft, MacAfee, Mimecast were originally sized for 2100 users. Recent usage reports identified that there are currently 2435 active users connected to the Thurrock Network. Under the licence terms these users must be licenced adequately. This will exclude licensing for line of business applications such as Objective, Oracle etc. and is only scoped for the core infrastructure that requires a licence for every connected users and device. ICT will work with its licensing partners to determine and review alternative license options e.g. cheaper Microsoft licences are available for users who do not require the full Microsoft office suite.	600,000	120,000	120,000	240,000
Coalhouse Fort Bid Match Funding Horizon Enterprise	Place	Coalhouse Fort is classified as a heritage at risk asset by Historic England and it has come into a bad state of repair due to years of neglect. * The recent feasibility report identified the barracks block and several of the casemates as key areas of the fort that can be renovated to provide a rentable space with options for either workspace or residential uses under consideration. External funding secured last year has allowed a business plan to support this model but that grant support will be required in the first instance to support viability due to the conservation deficit created by the scheduled nature of the site. Thurrock	515,200	20,000	165,000	330,200

Appendix 3 – New Capital Projects

Project	Directorate	Project Ambition	Total Value	2020/21	2021/22	2022/23 onwards
		has submitted a declaration of interest to the Heritage Horizon Award that takes applications for grants in excess of £5million. The award requires a 10% contribution to the development phase in addition to 10% on the delivery phase. Thurrock Council is seeking £5,125,000 for the works at the Fort and will require a contribution of £515,200.				