Scrutiny Panel Meeting

Grand Jury Room, Town Hall, High Street, Colchester, CO1 1PJ
Tuesday, 31 January 2017 at 18:00

The Scrutiny Panel examines the policies and strategies from a borough-wide perspective and ensure the actions of the Cabinet accord with the Council's policies and budget. The Panel reviews corporate strategies that form the Council's Strategic Plan, Council partnerships and the Council's budgetary guidelines, and scrutinises Cabinet or Portfolio Holder decisions which have been called in.

Information for Members of the Public

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The Council values contributions from members of the public. Under the Council's Have Your Say! policy you can ask questions or express a view to most public meetings. If you wish to speak at a meeting or wish to find out more, please refer to Your Council> Councillors and Meetings>Have Your Say at www.colchester.gov.uk

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Scrutiny Panel – Terms of Reference

1. To fulfil all the functions of an overview and scrutiny committee under section 9F of the Local Government Act 2000 (as amended by the Localism Act 2011) and in particular (but not limited to):

(a) To review corporate strategies;

(b) To ensure that actions of the Cabinet accord with the policies and budget of the Council;

(c) To monitor and scrutinise the financial performance of the Council, performance reporting and to make recommendations to the Cabinet particularly in relation to annual revenue and capital guidelines, bids and submissions;

(d) To review the Council's spending proposals to the policy priorities and review progress towards achieving those priorities against the Strategic and Implementation Plans;

(e) To review the financial performance of the Council and to make recommendations to the Cabinet in relation to financial outturns, revenue and capital expenditure monitors;

(f) To review or scrutinise executive decisions made by Cabinet, the North Essex Parking Partnership Joint Committee (in relation to decisions relating to offstreet matters only) and the Colchester and Ipswich Joint Museums Committee which have been made but not implemented referred to the Panel pursuant to the Call-In Procedure;

(g) To review or scrutinise executive decisions made by Portfolio Holders and officers taking key decisions which have been made but not implemented referred to the Panel pursuant to the Call-In Procedure;

(h) To monitor the effectiveness and application of the Call-In Procedure, to report on the number and reasons for Call-In and to make recommendations to the Council on any changes required to ensure the efficient and effective operation of the process;

(i) To review or scrutinise decisions made, or other action taken, in connection with the discharge of functions which are not the responsibility of the Cabinet;

(j) At the request of the Cabinet, to make decisions about the priority of referrals made in the event of the volume of reports to the Cabinet or creating difficulty for the management of Cabinet business or jeopardising the efficient running of Council business;

2. To fulfil all the functions of the Council’s designated Crime and Disorder Committee (“the Committee”) under the Police and Justice Act 2006 and in particular (but not limited to):

(a) To review and scrutinise decisions made, or other action taken, in connection with the discharge by the responsible authorities of their crime and disorder functions;

(b) To make reports and recommendations to the Council or the Cabinet with respect to the discharge of those functions.

COLCHESTER BOROUGH COUNCIL
Scrutiny Panel
Tuesday, 31 January 2017 at 18:00

Member:

Councillor Beverly Davies	Chairman
Councillor Christopher Arnold	Deputy Chairman
Councillor Phil Coleman	
Councillor Adam Fox	
Councillor Mike Hogg	
Councillor Lee Scordis	
Councillor Barbara Wood	

Substitutes:
All members of the Council who are not Cabinet members or members of this Panel.

AGENDA - Part A

(open to the public including the press)

Members of the public may wish to note that Agenda items 1 to 5 are normally brief.

1 **Welcome and Announcements**

a) The Chairman to welcome members of the public and Councillors and to remind all speakers of the requirement for microphones to be used at all times.

(b) At the Chairman's discretion, to announce information on:

- action in the event of an emergency;
- mobile phones switched to silent;
- the audio-recording of meetings;
- location of toilets;
- introduction of members of the meeting.

2 **Substitutions**

Members may arrange for a substitute councillor to attend a meeting on their behalf, subject to prior notice being given. The attendance of substitute councillors must be recorded.

3 **Urgent Items**

To announce any items not on the agenda which the Chairman has agreed to consider because they are urgent, to give reasons for the urgency and to indicate where in the order of business the item will be considered.

4 **Declarations of Interest**

The Chairman to invite Councillors to declare individually any interests they may have in the items on the agenda. Councillors should consult Meetings General Procedure Rule 7 for full guidance on the registration and declaration of interests. However Councillors may wish to note the following:-

- Where a Councillor has a disclosable pecuniary interest, other pecuniary interest or a non-pecuniary interest in any business of the authority and he/she is present at a meeting of the authority at which the business is considered, the Councillor must disclose to that meeting the existence and nature of that interest, whether or not such interest is registered on his/her register of Interests or if he/she has made a pending notification.

- If a Councillor has a disclosable pecuniary interest in a matter being considered at a meeting, he/she must not participate in any discussion or vote on the matter at the meeting. The Councillor must withdraw from the room where the meeting is being held unless he/she has received a dispensation from the Monitoring Officer.

- Where a Councillor has another pecuniary interest in a matter being considered at a meeting and where the interest is one which a member of the public with knowledge of the relevant facts would reasonably regard as so significant that it is likely to prejudice the Councillor's judgement of the public interest, the Councillor must disclose the existence and nature of the interest and withdraw from the room where the meeting is being held unless he/she has received a dispensation from the Monitoring Officer.

- Failure to comply with the arrangements regarding disclosable pecuniary interests without reasonable excuse is a criminal offence, with a penalty of up to £5,000 and disqualification from office for up to 5 years.

5 **Minutes** 9 - 18

To confirm as a correct record the minutes of the meeting held on 12 December 2016 and 13 December (to follow).

6 **Have Your Say!**

a) The Chairman to invite members of the public to indicate if they wish to speak or present a petition at this meeting – either on an item on the agenda or on a general matter relating to the terms of reference of the Committee/Panel not on this agenda. You should indicate your wish to speak at this point if your name has not been noted by Council staff.

(b) The Chairman to invite contributions from members of the public who wish to Have Your Say! on a general matter relating to the terms of reference of the Committee/Panel not on this agenda.

7 **Decisions Taken Under Special Urgency Provisions**

To consider any Cabinet decisions taken under the special urgency provisions.

8 **Decisions taken under special urgency provisions**

To consider any Portfolio Holder decisions taken under the special urgency provisions.

9 **Referred items under the Call in Procedure**

To consider any decisions taken under the Call in Procedure.

10 **Items requested by members of the Panel and other Members**

(a) To evaluate requests by members of the Panel for an item relevant to the Panel's functions to be considered.

(b) To evaluate requests by other members of the Council for an item relevant to the Panel's functions to be considered.

Members of the panel may use agenda item 'a' (all other members will use agenda item 'b') as the appropriate route for referring a 'local government matter' in the context of the Councillor Call for Action to the panel. Please refer to the panel's terms of reference for further procedural arrangements.

11 **Work Programme 16-17** 19 - 28

See report of Assistant Chief Executive

12 **Digital Challenge** 29 - 34

See report of Executive Director - Customer and Partnerships

13 **Treasury Management Strategy Statement 2017/18** 35 - 56

See report of Assistant Chief Executive

14 **2017/18 General Fund Revenue Budget, Capital Programme, Medium Term Financial Forecast, Housing Revenue Accounts Estimates and Housing Investment Programme // Covering Report** 57 - 156

See report of Assistant Chief Executive

15 **Exclusion of the Public (Scrutiny)**

In accordance with Section 100A(4) of the Local Government Act 1972 and in accordance with The Local Authorities (Executive Arrangements) (Access to Information) (England) Regulations 2000 (as amended) to exclude the public, including the press, from the meeting so that any items containing exempt information (for example confidential personal, financial or legal advice), in Part B of this agenda (printed on yellow paper) can be decided. (Exempt information is defined in Section 100I and Schedule 12A of the Local Government Act 1972).

Part B

(not open to the public including the press)

SCRUTINY PANEL

12 DECEMBER 2016

Present:-	Councillor Davies (Chairman), Councillor Arnold, Councillor Coleman, Councillor Fox, Councillor Hogg, Councillor Scordis, Councillor Wood
Also in Attendance:-	Councillor Graham

96. Colchester Waste Collection Strategy

Councillor Graham, Portfolio Holder for Waste and Sustainability, Ann Hedges, Chief Operating Officer and Chris Dowsing, Group Manager, Recycling, Waste and Fleet presented the report. The report requests that the Scrutiny Panel provide comment to Cabinet on the proposed series of changes to the way in which the Borough collects waste and recycling.

Councillor Willetts

Councillor Willetts welcomed the opportunity for the Scrutiny Panel to review the report prior to the decision going to Cabinet. Councillor Willetts commented on the need for the Council to improve its performance and highlighted other local authorities' performance in Essex. Councillor Willetts stated that he believed that changes in the recycling arrangements for Colchester should be driven by the green agenda, rather than saving money, which he alleged was the main focus for this change.

Councillor Willetts requested that the Scrutiny Panel question how the performance of the waste and recycling service will be measured following the changes proposed. Councillor Willetts was concerned that the report did not outline in detail how or when this would be measured; which is extremely important for the long-term waste strategy. Councillor Willetts believed that the Scrutiny Panel should highlight when it wishes to receive performance updates and what type of measurements would be required.

Nick Chilvers

Nick Chilvers questioned why the report to the Panel did not include further information from Councillors justifying their response to the question about introducing wheelie bins in their wards.

Nick Chilvers felt that; whilst his ward was likely to receive wheelie bins, which would affect the street scene, others with similar profiles were not due to receive wheelie bins because of input from Councillors. This led to a feeling that the consultation was superficial and that responses received from Councillors were based on political reasoning rather than focusing on the requirements of waste collection. In a question directed to the Portfolio Holder Mr Chilvers asked how long it would be until a consistent policy of wheelie bins was introduced in areas of the Borough with similar profiles. Mr Chilvers also requested confirmation of the colours of the different receptacles proposed to ensure that the street scene would not be further damaged.

Paul Clark

Paul Clark stated that the public had not been properly notified or consulted about the proposed changes to the waste collection service in Colchester. Mr Clark felt that the process leading up to the Panel meeting was flawed, as the Colchester waste strategy document does not reflect the views collated in the survey and is incomplete missing key information required for decision-making. In addition, Mr Clark believed that the report fails in its attempts to achieve the stated aim of providing a waste collection service as requested by residents.

Mr Clark stated that he was unaware that the consultation was taking place, and was only informed a few months ago that changes were going to occur. He felt that additional information should have been circulated with Council tax bills at the beginning of the year. Mr Clark also believed that the number of respondents to the consultation in Tiptree, 67 people approximately 0.5% of the population of Tiptree, made the consultation statistically irrelevant.

Mr Clark also believed that the key driver behind the four proposals, which could have been taken in isolation, was cost savings rather than a goal to increase recycling. Mr Clark also felt that the questions in the survey were skewed towards an outcome that would benefit the introduction of wheelie bins, and that the 82% satisfaction rate of the current waste system and the ability to increase recycling through co-mingling had also been ignored. Mr Clark also questioned why no alternatives to the strategy document had been presented.

Peter Thompson

Former Councillor and Chairman of the Waste Management Committee, Peter Thompson, stated that he was disappointed with the lack of public involvement in the matter of waste management. Mr Thompson believed that members of the public are interested and need to engage with how the waste system is managed, in particular where recyclable material goes once it has been collected from a property.

Peter Thompson also stated that the aim of the waste collection strategy should be to increase the value of the recyclable material that can be collected, rather than the tonnage. Peter Thompson commented that the report did not contain any information about the value of recyclables.

Councillor L.Scott-Boutell

Councillor Scott-Boutell informed the Panel that she had been asking residents questions about their views on wheelie bins for a number of years, even prior to the introduction of the waste task and finish group. Councillor Scott-Boutell highlighted to the Panel that it used to be the case that many residents were against the introduction of wheelie bins, however that this had recently begun to change.

Councillor Scott-Boutell informed the Panel that she and Councillor Jessica Scott-Boutell had responded to the Councillor consultation stating that wheelie bins could be introduced in certain areas of the ward. However, Councillor Scott-Boutell requested clarification on how properties would be deemed unsuitable, and asked for confirmation that terraced houses with small front gardens would not get wheelie bins. Councillor Scott-Boutell also highlighted the need to inform members of the public about the exemptions and assisted collections policies.

In addition, Councillor Scott-Boutell informed the Panel that many residents already have high recycling rates and produce minimal residual waste. Given the animosity towards wheelie bins in some areas, would those who only produce limited waste be exempt from having to have a wheelie bin.

Councillor Scott-Boutell also requested that further information be provided to Councillors and members of the public about where the recyclate waste goes, what to do with waste that has more than one type of recyclate material in it and what can and cannot be recycled.

Cllr Jessica Scott-Boutell

Councillor Jessica Scott-Boutell informed the Panel that the survey conducted with Councillor Lesley Scott-Boutell provided similar results to that of the Council's own consultation, highlighting that not all locations would want wheelie bins. The consultation provided contrasting viewpoints, some residents believed that they would be an eyesore whereas others would have wanted the system in the first place.

Councillor Scott-Boutell commented that the communication plan was very reliant on the use of social media or individuals contacting the council themselves and questioned whether the Council had considered holding roadshows to provide more information. Roadshows would provide additional interaction with residents and provide an opportunity to advertise the assisted collection scheme. Councillor Scott-Boutell also suggested that work could also be done with Parish Councils to help provide information about assisted collections. Councillor Scott-Boutell suggested that a frequently asked questions section be added to the leaflet drop in February.

Councillor Lissimore

Councillor Lissimore questioned the decision to stop providing black sacks, as many residents feel that this is on the only provision they receive from the Council. Councillor Lissimore also asked for clarification on what would happen if numerous households collate their rubbish in a certain area, and one of those households puts out more than the allocated three bags of residual rubbish.

Councillor Lissimore was also concerned that adding another box for collecting recyclate material is yet another box that residents will have to find a place to store. Councillor Lissimore also requested the Council ensures that enough garden waste sacks are provided to cope with the expected surge in demand; how the distribution of the garden sacks would be monitored was also questioned.

Councillor Lissimore raised concerns that the report contained no details about which roads were expected to receive wheelie bins, and which roads were not. A further question was asked about what the Council plans to do about those wheelie bins that are left out after collections have taken place.

With regard to the recycling sacks, Councillor Lissimore stated that it was necessary to ensure that the sacks are thick enough for purpose. With regard to the exemption, Councillor Lissimore questioned how many would be expected in a normal collection round, and how residents would be able to get hold of the exemption stickers; Councillor Lissimore also recommended that the stickers should not just be available online.

Councillor Lissimore also suggested that the 6-month period should be extended given that following the introduction of the system in June, the grace period would cease at Christmas time 2017. Councillor Lissimore also questioned whether the introduction of wheelie bins would actually increase recycling.

Councillor Lissimore concluded by highlighted the requirement to educate residents and provide more information. Councillor Lissimore also stressed that refuse collections should not be rushed to ensure that crews could take the time to secure green waste bags and inform residents when recycling is not sorted correctly.

Councillor Buston

Councillor Buston responded to comments by Nick Chilvers by stating that the response provided by Councillors in Prettygate ward was the result of a survey conducted by Councillors with residents, which received more responses than the Council survey.

Councillor Buston, as a former Portfolio Holder for Waste and Street Services stated that he understood the difficulty of any major change to waste collection and acknowledged the amount of work required.

Councillor Buston questioned how the inconsistencies with operational round not being co-terminus with ward boundaries would be resolved, and whether there would be confusion regarding the requirement to collect waste bins or bags.

With regard to the provision of an addition box for glass, Councillor Buston suggested that this should be in a different colour to make it easier to identify.

Councillor Oxford

Councillor Oxford stated that a majority of residents in Highwoods Ward had been opposed to wheelie bins, and that approximately three quarters of the households in the ward would not have the space to store the bins.

Councillor Oxford highlighted a local resident who, due to a disability, has a significant number of items delivered to her property, creating a significant amount of recyclable packaging. These residents may require assisted collections due to the significant amount of recyclable waste created.

Councillor Oxford also raised concern about the exemptions provided to larger families, which may not encourage them to recycle.

Councillor Oxford also commended the local stockist of rubbish bags in Highwoods Ward.

Councillor Graham, Portfolio Holder for Waste

Councillor Graham, provided responses to a number of questions raised as part of the Have Your Say section. In response to Nick Chilvers, Councillor Graham stated that the Councillor responses included within the report relate to whether they have indicated their support for wheelie bins rather than the proposals as a whole.

Councillor Graham stated that the aim of the waste collection strategy is to provide a solution based on what residents want, following recommendations from local ward councillors, and within the operational requirements of the service. In response to a query about whether the rest of the Borough would receive wheelie bins in due course, Councillor Graham informed the Panel that there are currently no plans to introduce wheelie bins in other areas across the Borough. This situation would only change if the performance is significantly improved, and residents supported the introduction of wheelie bins.

With regard to providing receptacles of different colour, Councillor Graham informed the Panel that this had yet to be decided and that the selection would be open to further suggestion.

In response to Mr Clarke, Councillor Graham stated that Colchester Borough Council had provided information to members of the public about the consultation through the local press and media, and many political parties were informing residents in the run up to the local elections. In addition, the consultation received 2,600 responses, which is one of the biggest responses that Colchester Borough Council had received. The responses from Tiptree provide indicative information rather than definitive.

Councillor Graham also confirmed that cost saving was not the key driver in changing the waste collection system. The main driver is to decrease the level of residual waste and increase the amount of recyclate material collected.

In response to the queries raised by Mr Thompson, Councillor Graham confirmed that the Council does want members of the public engaged in the waste process, and this is part of the communications plan going forward.

With regard to the point raised about value of the recyclate material compared to the tonnage, Councillor Graham agreed and confirmed that this was the reason that the proposals are to keep the recyclate material separate. Introducing co-mingling would have a cost implication on the material received. Councillor Graham also stated that further information on the amount of each type of waste received can be provided if requested.

Panel Questions

- Councillor Davies – Raised concerns about value for money, and suggested that it would be better value in continuing to provide black sacks to all residents, rather than green sacks to just those residents without wheelie bins.
    - In response Ann Hedges stated that the proposals are aiming to be equitable across the Borough regardless of whether you have a wheeled bin collection or a black bag collection.

- Councillor Fox – Questioned whether local residents would be required to accept a second recycled waste receptacle even if they were only recycling a small amount of waste.
    - Councillor Graham stated that the second box would be the only additional receptacle required for members of the public. This particular solution is a recommendation from staff members who are required to separate the waste collected at the kerbside. The Council will encourage residents to use the additional box and zones teams will visit to provide assistance to those who are not using the receptacles at all. Ann Hedges confirmed that this step would also improve the health and safety for staff.

- Councillor Scordis – Questioned whether a weekly collection of recyclable waste had been considered and asked for information on the cost of employing the additional zone wardens.
    - In response Councillor Graham stated that introducing a weekly collection of recycling waste would be at a significant cost.
    - Ann Hedges added that three additional zone wardens would be brought in for 8 months, 2 months before the scheme was put in place and 6 months after. Existing zone teams will be able to provide assistance in identifying those properties that may require assisted collections. The costs of the additional zone wardens would be approximately £50,000.

- Councillor Davies - Requested a breakdown of revenue finances and one off costs associated with the waste collection strategy.
    - Officers confirmed that further information would be provided after the meeting.

- Councillor Wood – Questioned whether black sacks could be printed with instructions for food waste not to be placed within them.
  - Councillor Graham confirmed that this would not be necessary as black sacks are no longer being provided. Ann Hedges informed the Panel that in other local authority areas, if crews identify incorrect waste in a certain bin they would put a sticker on that bin to inform the resident.

- Councillor Arnold - Asked for clarification regarding the three-bag limit and whether residents would be visited by the zone teams if it is exceeded. Councillor Arnold also questioned how the message would be provided to the most hard to reach individuals, given the reliance on electronic marketing.
  - In response Councillor Graham stated that for the first six months of the project the focus will be with education and training. If there are households that are not recycling and are refusing offers of assistance there will be more stringent checks. This situation may eventually lead to waste from that household not being collected by waste crews.
  - With regard to the communications plan, Councillor Graham stated that this includes use of the press, printed advertisements and roadshows to provide residents with further information. Councillor Graham did stress the cost-effectiveness and ever increasingly uptake of digital media. Ann Hedges confirmed that work had been undertaken with the research department to identify those residents who may need additional support and information, particularly around assisted collections. Members of the Panel were informed that all residents in the Borough would receive two pieces of mail to their households to inform them of the changes. The Council are also intending to use display banners when visiting a number of locations across the Borough to highlight the changes to residents. In addition, Ann Hedges stated that she hoped that the 51 Councillors would support communication with local residents.

- Councillor Davies – Questioned the reason behind the introduction of wheelie bins when the limit on black bags and change to fortnightly collections may deliver the results required.
  - Chris Dowsing responded and stated that whilst the receptacle used may not make a significant difference, there were a number of requests to introduce wheelie bins. The focus on increasing recycling is the limitation on residual waste that can be collected. Councillor Graham added that providing wheelie bins will assist with the manual handling of waste.

- Councillor Davies - Questioned what would happen if residents do not engage with the process.
  - In response, Councillor Graham stated that enforcement for those households that do not recycle is being considered. However further decisions would need to be made in order for this to be in place.

- Councillor Coleman - Highlighted the need to create a culture of recycling, and suggested that there should be further work undertaken with schools to educate pupils on the new recycling arrangements.
    - Councillor Graham welcomed the suggestion from Councillor Coleman to target schools.

- Councillor Davies - Questioned how the performance, following the change in waste collection strategy, would be measured and asked for confirmation on whether those terraced houses with small gardens would be required to have wheelie bins.
    - In response, Councillor Graham acknowledged the requirement to measure performance, and Chris Dowsing confirmed that it will be possible to measure the performance of the areas that have wheeled bins and compare these with the rest of the Borough using sacks.
    - With regard to terraced housing, Councillor Graham confirmed that if the front of a household goes straight onto a path the likelihood is that the household would not have a wheelie bin, however if they have a small garden the introduction of wheelie bins would could be possible.

- Councillor Davies - Queried whether if a resident has a low amount of residual waste whether they would be required to have a wheelie bin and whether a high number of exemptions are expected.
    - Councillor Graham stated that providing bespoke waste collection for each resident would cause issues for waste collection crews.
    - In response to the query about exemptions, Chris Dowsing stated that it is expected that the number of exemptions will remain at similar level regardless of the change of collection. Chris Dowsing confirmed that the bin remains with the property rather than the resident. There could be additional arrangements between neighbours such as bin sharing for garden waste if required.

- Councillor Arnold - Questioned whether if you lived in area where wheelie bins are allocated, whether there would be a complete restriction on collecting any black bags.
    - Chris Dowsing confirmed that for the first six months there would be a flexible approach, however if the area was a wheeled bin area then residents would be expected to place their waste out for collection in the wheeled bin. If we had a scenario of some houses on bins and sacks this would cause difficulties for crew members to remember the individual details of each household. Exemptions will be in place for households that cannot have a bin.

- Councillor Davies - Questioned how exemption stickers would be used, whether the 6-month trial period could be extended as suggested by Councillor Lissimore and queried the disabled exemptions criteria as questioned by Councillor Oxford.
    - Councillor Graham stated that the exemption stickers would be small and placed on the black bag to inform members of the crew that there is an exemption.

- With regard to the 6-month trial period, Ann Hedges confirmed that the trial period would be reviewed as it proceeds and that following discussions with the Portfolio Holder and potentially the Scrutiny Panel it may be that it is extended.
- With regard to the exemptions policy, it was confirmed that there is a current assisted collection policy in place and this will remain for the new system.

- Councillor Arnold - Highlighted concern that following the introduction of wheelie bins, refuse collector crews would not be able to identify those residents who are not recycling. In addition, Councillor Arnold asked for clarification on the Council's position on recycling Tetra Paks.
  - Ann Hedges stated that crews currently help to identify those households who do not recycle, and it is not expected that changing to wheelie bins would affect this. Crews will still be able to identify those households who do not recycle and reach or exceed the three-bag limit. Once households are identified, members of the zone team will speak to the local resident to attempt to increase the amount they recycle. Ann Hedges stated that the intention is to hire those members of the zones teams who are passionate about recycling and encourage residents to do so. Councillor Graham confirmed that the aim within the first six months is to focus on the households that are creating the most waste.
  - With regard to Tetra Paks, Chris Dowsing stated that there is significant difficulty in recycling Tetra Paks as the issue is around these being collected with paper as the makeup of the materials in the tetra Pak cause difficulties with paper making machinery. The end destination for the bulk of the material is Sweden and has had funding issues in the past and led to the decision that Colchester will not be recycling Tetra Paks from kerbside collection. Moving forward the focus will be on changing the packaging for these products.

- Councillor Scordis - Commented on the importance of communication through leaflets and casework responses. In addition, Councillor Scordis questioned whether the speed of the collection would be impacted when using wheelie bins and queried what happens with new developments, and garden communities.
  - In response, Councillor Graham agreed with the requirements for communication, and stated that there are differences of opinion between waste officers across the country on how to collect waste most efficiently, but the collection of wheelie bins would not significantly affect collection times. With regard to new developments, in order to have a new route this requires 1,800 households; it is too early in the process for garden communities to be considered.

- Councillor Coleman - Questioned whether there had been comparisons with other similar Towns and Borough to Colchester and whether they had had issues or successes in changing the waste service.
  - Councillor Graham confirmed that there had been a significant number of comparisons as part of the Task and Finish Group. A number of experiences from other local authorities have been used to influences the policies proposed, such as Swansea Council's three-bag limit. Councillor Graham also highlighted that a number of Essex District Council's have implemented wheelie bins, with Maldon being the

most recent, which has subsequently seen double digit improvements in recycling. With regard to offensive waste, Harlow District Council introduced a weekly collections policy.

- Councillor Davies questioned why recycling for flats had not been introduced as part of this policy.
  - In response Councillor Graham stated that improving recycling for flats was next on the list of aims as part of the waste strategy. It was not included within this report due to the complex nature. Following further questions, Councillor Graham confirmed that it would require a separate decision, and the intention would be for a decision to be made in early 2018.

RESOLVED that;

a) The Scrutiny Panel considered and reviewed the Colchester Waste Collection Strategy proposals.
b) Thanked the officers for attending the meeting.

COLCHESTER

Item 11

Scrutiny Panel

31 January 2017

Report of	**Assistant Chief Executive**	**Author**	**Jonathan Baker** **Tel. 282207**
Title	**Work Programme 2016-17**		
Wards affected	Not applicable		

1. Action Required

1.1 The Panel is asked to consider and comment on the 2016-17 Work Programme.

2. Alternative options

2.1 This function forms part of the Panel's Terms of Reference and, as such, no alternative options are presented.

3. Supporting Information

3.1 The Panel's work programme will evolve as the Municipal Year progresses and items of business are commenced and concluded. At each meeting the opportunity is taken for the work programme to be reviewed and, if necessary, amended according to current circumstances.

3.2 The Chairman of the Scrutiny Panel requested the inclusion of the Forward Plan of Key Decisions as part of the work programme for the Scrutiny Panel, and this is included an **Appendix A.**

3.3 Members of the Panel may wish to request items that could be included on the Work Programme for future meetings. As part of the scoping for suggested items members of the Panel may wish to identify particular objectives or request certain information to be included. To ensure that this can be incorporated in to the agenda item it is recommended that this is provided at the earliest opportunity.

4. Strategic Plan References

4.1 The Council recognises that effective local government relies on establishing and maintaining the public's confidence, and that setting high standards of self governance provides a clear and demonstrable lead. Effective governance underpins the implementation and application of all aspects of the Council's work.

5. Standard References

5.1 There are no particular references to publicity or consultation considerations; or financial; equality, diversity and human rights; community safety; health and safety or risk management implications.

Meeting date / agenda items and relevant portfolio
21 June 2016 1. Call-in of Executive Decision – Gosbecks Archaeological Park Work Plan 2016-19 2. Financial Monitoring Report – End of Year 2015/16 3. Capital Expenditure Monitor – End of Year 2015/16
19 July 2016 1. Year End 2015/16 Performance Report including progress on Strategic Plan Action Plan 2. Annual Scrutiny Report 3. 2017/18 Budget Strategy, Medium Term Financial Forecast and Budget Timetable 4. Treasury Management – Annual Report 2015/16
23 August 2016 1. Staff Survey 2. Questions to Bus Companies in Colchester
20 September 2016 (Crime and Disorder Committee) 1. Safer Colchester Partnership (Crime and Disorder Committee) (Planning and Community Safety)
21 September 2016 1. Colchester Waste Collection Strategy
8 November 2016 1. Local Council Tax Support – Year 16/17 2. 2016-17 Revenue Monitor, period April – September 3. 2016-17 Capital Monitor, period April – September 4. Review of Colchester Borough Homes Performance 2015/16 5. Homelessness Strategy Progress Report and Delivery Plan 2015-2019
12 December 2016 1. Colchester Waste Collection Strategy
13 December 2016 1. 2016-17 6-monthly Performance report and SPAP (Leader / Business and Resources) 2. The Mercury Theatre and Colchester Arts Centre
31 January 2017 1. 2017-18 Revenue Budget, Capital Programme, Medium Term Financial Forecast, Housing Revenue Accounts Estimate and Housing Investment Programme (Pre-scrutiny of Cabinet Decision) 2. Treasury Management Investment Strategy 3. Digital Challenge – One Year On
28 February 2017 1. Firstsite
28 March 2017 1. Advertising ‘A’ Boards Review 2. Changes to ICT Support Contract

COLCHESTER BOROUGH COUNCIL

FORWARD PLAN OF KEY DECISIONS 1 February 2017 – 31 May 2017

During the period from 1 February 2017 – 31 May 2017 Colchester Borough Council intends to take 'Key Decisions' on the issues set out in the following pages. Key Decisions relate to those executive decisions which are likely to:

- result in the Council spending or saving money in excess of £500,000;
- have a significant impact on communities living or working in an area comprising two or more wards within the Borough of Colchester.

This Forward Plan should be seen as an outline of the proposed decisions and it will be updated on a monthly basis. Any questions on specific issues included on the Plan should be addressed to the contact name specified in the Plan. General queries about the Plan itself should be made to Democratic Services (01206) 507832 or email democratic.services@colchester.gov.uk

The Council invites members of the public to attend any of the meetings at which these decisions will be discussed and the documents listed on the Plan and any other documents relevant to each decision which may be submitted to the decision taker can be viewed free of charge although there will be a postage and photocopying charge for any copies made. *All decisions will be available for inspection at the Library and Community Hub, Colchester Central Library, 21 Trinity Square, Colchester and they are also published on the Council's website, www.colchester.gov.uk*

If you wish to request details of documents regarding the 'Key Decisions' outlined in this Plan please contact the individual officer identified.

If you wish to make comments or representations regarding the 'Key Decisions' outlined in this Plan please submit them, in writing, to the Contact Officer highlighted two working days before the date of the decision (as indicated in the brackets in the date of decision column). This will enable your views to be considered by the decision taker.

Contact details for the Council's various service departments are incorporated at the end of this plan.

If you need help with reading or understanding this document please take it to the Library and Community Hub, Colchester Central Library, 21 Trinity Square, Colchester or telephone (01206) 282222 or textphone users dial 18001 followed by the full number that you wish to call and we will try to provide a reading service, translation or other formats you may need.

KEY DECISION REQUIRED	DOES DECISION INCLUDE EXEMPT INFORMATION (or information defined by the Government as Confidential)	DATE OF DECISION or PERIOD DECISION TO BE TAKEN	DECISION MAKER (title and name, including Cabinet, portfolio holders and officers)	DOCUMENTS SUBMITTED OR TO BE SUBMITTED TO DECISION TAKER TO CONSIDER (and from where they are available)	CONTACT DETAILS FROM WHICH DOCUMENTS CAN BE OBTAINED (name of the authors of the reports)
Approval to release up to £543,559k S106 funding from Lakelands Stanway for refurbishment of Stanway Village Hall	No	February 2017	Councillor Mark Cory, Portfolio Holder for Resources, and Councillor Annie Feltham, Portfolio Holder for Business, Leisure and Opportunities Please contact via Democratic Services (01206) 507832 email: democratic.services @colchester.gov.uk	Portfolio Holder report Project proposal for Stanway Village Hall works, costs	Bob Penny Community Development Manager Bob.penny@colchester.gov.uk 01206 282903
Housing Investment Programme (HIP) 2017/18 To approve the Housing Investment Programme for 2017/18.	No	1 February 2017	Cabinet (Cllrs Bourne, Cory, Feltham, Graham, Lilley, B Oxford, Smith, T Young) Please contact via Democratic Services (01206) 507832 email: democratic.services @colchester.gov.uk	Cabinet report	matt.sterling@colchester.gov.uk Matt Sterling, Assistant Chief Executive 01206 282577

KEY DECISION REQUIRED	DOES DECISION INCLUDE EXEMPT INFORMATION (or information defined by the Government as Confidential)	DATE OF DECISION or PERIOD DECISION TO BE TAKEN	DECISION MAKER (title and name, including Cabinet, portfolio holders and officers)	DOCUMENTS SUBMITTED OR TO BE SUBMITTED TO DECISION TAKER TO CONSIDER (and from where they are available)	CONTACT DETAILS FROM WHICH DOCUMENTS CAN BE OBTAINED (name of the authors of the reports)
Housing Revenue Account Estimates 2017/18 **To approve the HRA Estimates 2017/18.**	No	1 February 2017	Cabinet (Cllrs Bourne, Cory, Feltham, Graham, Lilley, B Oxford, Smith, T Young) Please contact via Democratic Services (01206) 507832 email: democratic.services @colchester.gov.uk	Cabinet report	Matt Sterling, Assistant Chief Executive 01206 282577 matt.sterling@colchester.gov.uk
Response to Highways England consultation on the A12 Widening, Chelmsford (Junction 19) to Marks Tey (Junction 25)	No	24 February 2017	Councillor Mike Lilley, Portfolio Holder for safer Communities and Licensing Please contact via Democratic Services (01206) 507832 email: democratic.services @colchester.gov.uk	Portfolio Holder report A12 Consultation Material http://roads.highways.gov.uk/projects/a12-chelmsford-to-a120-widening-scheme/	Paul Wilkinson Transportation Policy Manager 01206 282787 paul.wilkinson@colchester.gov.uk
Response to Essex County Council consultation on the A120 Improvement, Braintree to A12	No	3 March 2017	Councillor Mike Lilley, Portfolio Holder for safer Communities and Licensing Please contact via	Portfolio Holder report A120 consultation material http://a120essex.co.uk/	Paul Wilkinson Transportation Policy Manager 01206 282787 paul.wilkinson@colchester.gov.uk

KEY DECISION REQUIRED	DOES DECISION INCLUDE EXEMPT INFORMATION (or information defined by the Government as Confidential)	DATE OF DECISION or PERIOD DECISION TO BE TAKEN	DECISION MAKER (title and name, including Cabinet, portfolio holders and officers)	DOCUMENTS SUBMITTED OR TO BE SUBMITTED TO DECISION TAKER TO CONSIDER (and from where they are available)	CONTACT DETAILS FROM WHICH DOCUMENTS CAN BE OBTAINED (name of the authors of the reports)
			Democratic Services (01206) 507832 email: democratic.services @colchester.gov.uk		
Decision to appoint the contractor for the External painting and Repair external overview JCT contract award – contract to be for 4 years plus a possible 2 x 1 year extension	Yes	15 March 2017	Cabinet (Cllrs Bourne, Cory, Feltham, Graham, Lilley, B Oxford, Smith, T Young) Please contact via Democratic Services (01206) 507832 email: democratic.services @colchester.gov.uk	Cabinet report	Lynn Thomas Housing Asset Manager Lynn.thomas@colchester.gov.uk 01206 505863

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Scrutiny Panel			**Item 12**
31 January 2017			
Report of	**Executive Director – Customer and Partnerships**	**Author**	**Pamela Donnelly** ☏ **282293**
Title	**Digital Challenge**		
Wards affected	All Wards		

The Panel is invited to review this report and the progress made to date to deliver the Digital Challenge transformation programme

1. Action required

1.1 The Panel is invited to review this report and associated documents and comment on the progress made to date and the planned activity.

2. Reason for scrutiny

2.1 The Council is continuing to invest in technology and with that comes new ways of working for Customers, Members and Staff. The views of the Scrutiny Panel are sought upon the progress and planned activity.

3. Background information

3.1 The Business Case as previously presented is attached as this sets out the vision and the detail behind this programme of work.

4. Supporting Detail

4.1 **Purpose and Scope**

The over-arching vision for the Digital Challenge is to change the way we work by making our next technological leap.

The pace of technological innovation is relentless. New technologies already exist to allow us to be more effective, to improve customer service and to make efficiencies. At the same time customer expectations in general, and particularly for 24/7 access to services, are increasing. And our need to become more efficient continues with further pressures on local government funding.

4.2 Executive Summary – Digital Challenge Implementation

In recent years, the Council has made major investments in ICT which have improved the way we work and delivered significant savings. This has impacted three key areas:

Customers - who have seen the development and subsequent refurbishment of the community hub facility. The development of the hub and spokes network. Increased opportunity to interact with the authority using the medium that suits them best and increased collaboration with partners allowing delivery of a more joined up approach

Staff – have benefited from the investment in technology, both hardware and software, allowing more flexibility in how and where they work whilst also improving their ability to deliver in improved working environments. Upskilling and cross training has occurred.

Members – Delivery of an improved and more integrated customer experience - right information at the right time. Provision of the new members CMIS portal

We cannot be complacent as the pace of technological change is relentless and this programme of work has identified further opportunities for improvements to the way we work, and the ways we serve our customers and communities. By optimising existing and harnessing new technologies we will further increase the availability of our systems, files and data online and on mobile technology. These changes will further improve our productivity and effectiveness through new ways of working for all our people and further culture change. These changes will also help us achieve our ambition to earn more income from commercial trading.

4.3 Digital Challenge Business Case Summary

The Digital Challenge Business Case was presented to Members in early 2016. The summary of change included in that report is outlined below:

“This business case proposes introducing new technology and making better use of existing systems so that:

- Customers benefit from convenient 24/7 access to all our appropriate services by electronic self-serve
- Correspondence with customers and partners is shifted from mail to e-mail by default; any residual mail is handled by a bulk mail supplier
- Customers can supply evidence for claims and applications more easily
- Customers no longer need to provide the same evidence more than once for different transactions
- Customers are offered more convenient electronic payment methods and encouraged to adopt paperless electronic billing.
- Councillors and staff can work on any type of device and from any location
- The public can use our website to search a wide range of our datasets
- The need for ‘Freedom of Information’ requests reduces
- All councillors and staff have the confidence and ability to adopt paperless and self-serve techniques
- Councillors and staff attending meetings view ‘papers’ electronically
- Councillors and staff can serve themselves for notifications and claims
- All our people can access appropriate data and files much more readily
- Staff can collaborate and share information more simply
- Managers can oversee recruitment processes using a paperless system
- Field workers have ICT kit that enables tasks to be ‘served’ to them most efficiently; and allows them to complete more tasks without the need to return to an office desk
- The full range of functionality from our applications is enabled
- By optimising our use of core systems, we can decommission others (for example, by using Outlook for room bookings, we would no longer need a separate system for this function). “

4.4 The current and continuing financial climate means that there is a continuing requirement to deliver financial savings and income streams over the coming years

This financial pressure requires staff, members and the public to work in new ways to maintain the delivery of services. Whilst there are challenges in delivering the savings / income targets identified as part of this programme, work is underway in all areas to meet the agreed targets and progress is being regularly monitored.

4.5 Resilience and sustainability is required with services consistently delivered at the appropriate time and of the right quality

Building upon the work started as part of the Council's whole organisation 'Universal Customer Contact Fundamental Service Review' (UCCFSR), this programme of work will deliver greater self-service opportunities and sets the foundation for further transformation.

4.6 Capacity

By encouraging new ways of working, including greater self-service both internally and externally, resource will be available to focus upon areas of greatest need where value can be added.

4.7 Digital Investment

The ICT "Technology 2018" strategy builds upon the significant investment and change made in recent years. The UCCFSR ICT investment was over £2.0 million. The current Technology 2018 programme is £1.3 million over 3 years.
Areas of focus include:

- Document and File Management
- Application Refresh – Delivering core applications using modern and forward thinking technology and approach making use of cloud services
- Wireless Network Refresh – ensuring connectivity within corporate buildings is sufficiently robust
- Mobile Working – New contract with enhanced and essentially unlimited connectivity whilst out and about
- Bringing the Capita ICT support contract in-house.

This investment has already seen the implementation of MS O365 technology, as part of Cloud Working, allowing staff and members' access to their email and documents from any device anywhere. The rollout and adoption of Sharepoint has commenced and this will deliver significant flexibility in respect of how and where documents are stored and shared.2016 also saw the delivery and implementation of our new intranet site "Colin".

4.8 Delivery Status Summary (as at January 2017)

STRANDS	STATUS	ANTICIPATED OUTCOMES	ACTUAL OUTCOMES
Smarter Working	Open	Change the way all our people (Councillors and staff) work and further change how we serve our customers. • Processes to be digital by default • Outbound contact digital by default • Increase in customer in numbers adopting electronic billing and payments • All non-sensitive data searchable by the public • Fully electronic working for councillors and staff • Open access for all councillors and staff to all files by default • Organisation wide document management / storage system • Duplication in processing and storage removed • Reduced number of software applications • Principle of “capture once and re-use” is instilled • Free from confines of locality allowing us to work more easily with partners and open up wider commercial opportunities	The following are examples of outcomes that have been achieved to date as part of this far-reaching programme: • Implementation of the new HR & Payroll solution • Implementation of MS O365 • Delivery of later versions of office suite • Start of development of MS Dynamics solution for customer • Procurement of and start of development of Arcus solution primarily for Professional Services • Review of many internal processes to enable digital delivery following solution implementation • Similar review of external processes to enable digital delivery following solution implementation • Development of the library / community hub • Development of hub and spokes network in the community • Community enabling (Go-online) initiative • Redesign and build of intranet (Colin) • Redesign and build of some external websites / pages • Behaviour change such as utilising text messages to encourage debt recovery • A “touch once and deal” approach to customer contact

Paperchase	Open	To significantly reduce our use of and reliance on paper, print and postage: • Greater use of mobile technology reducing print • Reduction in MFDs (printers / copiers / scanners) • Greater use of bulk / hybrid mail solution • Reduced reliance on Royal Mail	Considerable research and background work has been completed with the following outcomes delivered: • Increase in staff using mobile technology resulting in reduction of printing particularly for meetings / workshops • Analysis of printer usage with a proposal developed to reduce the number available • Detailed investigation into options to utilise bulk mail / hybrid mail solutions. This is ongoing with a view to reducing reliance on Royal Mail and reducing the unit cost.

4.9 Financial Summary – Savings and Income Projections (£'000)

	Year 1 2016/17	Year 2 2017/18	Year 3 2018/19	Year 4 2019/20
Smarter Working	(0)	(520)	(775)	(850)
Paperchase	(100)	(150)	(200)	(200)
Totals	(100)	(670)	(975)	(1,050)

4.10 Next Steps

There are many individual projects making up this programme of work. They are all at different stages of development and will begin to deliver benefit at different stages of the programme's lifecycle. In recent months, we have seen the deployment of the new HR & Payroll system, O365 and Dynamics365. Some of the key functionality has been implemented but there is further development work to do to reap the rewards of the investment. What is clear is that they all impact on our customers, staff and members. Real and ongoing cultural change and changes to the way we work will be required to maximize the effectiveness of these changes and deliver the anticipated savings and / or additional income – some examples of the anticipated impact is outlined below:

Customers – will see continued improvements to their customer experience through more streamlined and effective processes delivered through a variety of media including more intuitive and easy to use online and mobile options

Staff – through newer, more modern and task specific applications we will see improvements in the way they work. Improved processes and data capture will mean more relevant information is available at the point of contact. Greater self-service and workflow mechanisms will see work more quickly directed to the right people in the right team.

Members – will see changes and improvements to the way meetings are structured, run and recorded allowing for, where possible, greater public involvement and contribution. The planned move to paper free meetings will see significant savings to the print budget. Continued improvements and greater integration of services will see further ongoing improvements to the customer experience.

Delivery of this programme will see improved ways of working, savings and income opportunities for Colchester Borough Council.

Scrutiny Panel			**Item 13**
31 January 2017			

Report of	**Assistant Chief Executive**	**Author**	**Steve Heath** ☏ **282389**
Title	**Treasury Management Strategy Statement 2017/18**		
Wards affected	Not applicable		

This report presents the 2017/18 Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for pre-scrutiny prior to its submission to Cabinet and Council as part of the final budget process

1. Action Required

1.1 The panel is asked to review the 2017/18 Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy prior to it being considered by Cabinet and Full Council as part of the 2017/18 budget report.

2. Reasons for Scrutiny

2.1 The Council agreed to adopt the revised CIPFA Treasury Management in the Public Services Code of Practice on 17 February 2010. The Code requires the Council to approve an annual Treasury Management Strategy Statement, which should be submitted for scrutiny prior to the start of the year to which it relates, and to keep treasury management activities under review.

2.2 The Local Government Act 2003 introduced new freedoms for local authorities though the prudential borrowing framework. It also requires the Council to set Prudential and Treasury Indicators to ensure that capital investment plans are affordable, prudent and sustainable.

3. Treasury Management Strategy

3.1 The proposed Treasury Management Strategy Statement (TMSS) for 2017/18, including the Minimum Revenue Provision Policy Statement and Annual Investment Strategy, is included as a background paper to this report. The follow paragraphs contain a summary of the strategy for 2017/18, which covers the following issues:

- the capital plans and the prudential and treasury indicators;
- the Minimum Revenue Provision (MRP) Policy;
- the current treasury position;
- the economic background and prospects for interest rates;
- the borrowing strategy;
- the investment policy and strategy, and credit worthiness policy; and
- the policy on use of external service providers.

3.2 The Council's Prudential and Treasury Indicators for 2017/18 through to 2019/20 have been produced to support capital expenditure and treasury management decision making, and are designed to inform whether planned borrowing and the resultant revenue costs are affordable and within sustainable limits. The indicators take into account all the economic forecasts and proposed borrowing and investment activity detailed in the report, as well as the latest medium term revenue and capital forecasts.

3.3 The Minimum Revenue Provision (MRP) Policy Statement for 2017/18 states that the historic debt liability will continue to be repaid on an equal instalment basis over a period of 50 years, with the charge for more recent capital expenditure being based on the useful life of the asset and charged using the equal annual instalment method.

3.4 The UK bank rate was cut from 0.50% to 0.25% in August 2016, having been at the previous historical low since March 2009. The current view from the Council's treasury advisers is that the Bank Rate is now expected to remain unchanged until quarter 2 of 2019. **Appendix A** to the TMSS draws together a number of current forecasts for short term and longer term interest rates.

3.5 The Council is currently maintaining an under-borrowed position. The borrowing strategy is to reduce the difference between gross and net debt by continuing to 'borrow internally', which is primarily due to investment rates on offer being lower than long term borrowing rates. This has the advantages of maximising short-term savings and reducing the Council's exposure to interest rate and credit risk. However, against this, the long term saving resulting from borrowing at very low rates should be considered. Consequently this approach will be kept under review during the year.

3.6 Investment instruments identified for use in 2017/18 are detailed in **Appendix B** of the TMSS. It should be noted that whilst this table includes a wide range of investment instruments, it is likely that a number of these will not be used. However, their inclusion enables the required credit controls to be stated if their use is to be considered.

3.7 The investment policy reflects the Council's low appetite for risk, emphasising the priorities of security and liquidity over that of yield. The main features of the policy are as follows:

- The Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties, which also enables diversification and avoidance of concentration risk.
- The Council applies the creditworthiness service provided by Capita Asset Services, which combines ratings and other data from credit rating agencies with credit default swaps and sovereign ratings.
- The Council will only use approved counterparties from countries with a minimum credit rating of 'AA-', based on the lowest available rating (**Appendix C**). However, this policy excludes UK counterparties.
- The suggested budgeted return on investments placed for periods up to 100 days during the year is 0.25%.

4. Strategic Plan References

4.1 Prudent treasury management underpins the budget strategy required to deliver all Strategic Plan priorities.

5. Financial Implications

5.1 Interest paid and earned on borrowing and investments is shown within the Central Loans and Investment Account (CLIA). The strategy documents have been produced with reference to the agreed CLIA budget for 2017/18.

6. Risk Management Implications

6.1 Risk Management is essential to effective treasury management. The Council's Treasury Management Policy Statement contains a section on treasury Risk Management (TMP1).

6.2 TMP1 covers the following areas of risk all of which are considered as part of our treasury management activities:
- Credit and counterparty risk
- Liquidity risk
- Interest rate risk
- Exchange rate risk
- Refinancing risk
- Legal and regulatory risk
- Fraud, error and corruption, and contingency management
- Market risk

7. Standard References

7.1 Having considered consultation, and publicity, equality, diversity and human rights, health and safety and community safety implications, there are none which are significant to the matters in this report.

Background Papers
Treasury Management Strategy Statement 2017/18

Treasury Management Strategy Statement
Minimum Revenue Provision Policy Statement and
Annual Investment Strategy
2017/18

1 *Introduction*

Background

1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 CIPFA defines treasury management as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

Reporting requirements

1.4 The Council is required to produce three main reports each year, which incorporate a variety of polices, estimates and actuals. These reports are all required to be scrutinised and reviewed. This role is undertaken by the Council's Scrutiny Panel and Governance and Audit Committee.

1.5 **Prudential and Treasury Indicators and Treasury Strategy** (This report) – The first, and most important report is recommended to Full Council following consideration by the Scrutiny Panel. It covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision (MRP) Policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

1.6 **Mid-Year Treasury Management Report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

1.7 **Annual Treasury Report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.8 Members will also be kept informed of any other significant matters that may occur as part of the quarterly Capital Monitoring reports to Scrutiny Panel and Audit and Governance Committee.

Training

1.9 The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management or scrutiny receive adequate training in treasury management. Training has previously been undertaken by members and further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

Treasury Management Strategy for 2017/18

1.10 The strategy for 2017/18 covers the following Capital and Treasury Management issues:

- the capital plans and the prudential and treasury indicators;
- the Minimum Revenue Provision (MRP) Policy;
- the current treasury position;
- the economic background and prospects for interest rates;
- the borrowing strategy;
- the investment policy and strategy, and credit worthiness policy;
- the policy on use of external service providers.

1.11 These elements cover the requirements of the Local Government Act 2003, the CIFPA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

Treasury management consultants

1.12 The Council uses Capita Asset Services Treasury Solutions as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

1.13 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 The Capital Prudential Indicators 2017/18 – 2019/20

2.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

Capital Expenditure

2.2 This prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital Expenditure £'000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
General Fund	6,401	14,417	10,974	18,520	1,632
HRA	13,663	11,199	11,288	11,860	10,898
Total	**20,064**	**25,616**	**22,262**	**30,380**	**12,530**

2.3 The table below summarises how the above capital expenditure plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing).

Capital Expenditure £'000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Total Expenditure	**20,064**	**25,616**	**22,262**	**30,380**	**12,530**
Financed by:					
Capital receipts	1,318	9,782	7,786	17,787	2,132
Capital grants	3,238	3,068	1,399	1,137	0
Reserves	11,172	7,750	7,239	5,381	5,305
Revenue	646	3,902	3,814	3,433	2,527
Finance leases	877	78	0	0	0
Net financing need	**2,813**	**1,036**	**2,024**	**2,642**	**2,566**

The Capital Financing Requirement

2.4 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

2.5 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

2.6 The CFR includes any other long term liabilities (e.g. finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council had £3.3m of such schemes within the CFR as at 31 March 2016. The Council is asked to approve the CFR projections below:

£'000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
CFR – general fund	25,630	24,520	23,342	23,415	22,251
CFR - housing	127,933	128,969	130,993	132,320	134,886
Total CFR	**153,563**	**153,489**	**154,335**	**155,735**	**157,137**
Movement in CFR	2,395	(74)	846	1,400	1,402
Movement in CFR represented by:					
Net financing need	2,813	1,036	2,024	2,642	2,566
Assets acquired under finance leases	877	78	0	0	0
Less MRP	1,295	1,188	1,178	1,242	1,164
Movement in CFR	**2,395**	**(74)**	**846**	**1,400**	**1,402**

Minimum revenue provision (MRP) Policy Statement

2.7 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments (VRP) if required.

2.8 CLG Regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

2.9 For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will allow for the borrowing need (CFR) to be repaid on an equal instalment basis over a period of 50 years with effect from the 2016/17 financial year. This has the benefits of reducing the amount payable for the first 17 years, introducing a consistent level of charge, and ensuring that this element of MRP is eventually completely repaid.

2.10 From 1 April 2008 for all unsupported borrowing (including finance leases) the MRP policy will be the Asset Life Method (option 3) – MRP will be based on the estimated life of the assets, in accordance with the regulations. This provides for a reduction in the borrowing need over approximately the asset's life. Repayments included in finance leases are applied as MRP.

2.11 There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

2.12 The Accountancy team will keep the Council's MRP Policy under review to ensure that it remains fit for purpose in relation to its borrowing requirements.

Affordability Prudential Indicators

2.13 The previous paragraphs cover the overall capital, and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

2.14 **Ratio of financing costs to net revenue stream.** This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
General Fund	8.06%	7.46%	7.85%	8.74%	8.84%
HRA	18.06%	18.58%	18.88%	19.24%	19.21%

2.15 The estimates of financing costs include current commitments and the proposals in this report.

2.16 **Incremental impact of capital investment decisions on council tax**. This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

£	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Council Tax - Band D	0	0	0

2.17 **Incremental impact of capital investment decisions on housing rent levels**. Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels. This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

£	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Weekly housing rents	0	0	0

3 Treasury Management Strategy

3.1 The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.2 The Council's treasury portfolio position at 31 March 2016, with forward projections are summarised below. The table shows the actual external debt against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£'000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
External debt at 1 Apr	136,094	136,094	137,130	139,154	141,796
New borrowing	0	1,036	2,024	2,642	2,566
Other long-term liabilities	2,700	2,074	1,383	770	447
Gross debt at 31 Mar	**138,794**	**139,204**	**140,537**	**142,566**	**144,809**
CFR	153,563	153,489	154,335	155,735	157,137
Under / (over) borrowing	**14,769**	**14,285**	**13,798**	**13,169**	**12,328**
Investments at 31 Mar	37,406	36,370	34,346	31,704	29,138
Net Debt	**101,388**	**102,834**	**106,191**	**110,862**	**115,671**

3.3 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

3.4 The Chief Finance Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this report.

Treasury Indicators: Limits to Borrowing Activity

3.5 The **Operational Boundary** is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary £'000	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Debt	137,130	139,154	141,796	144,362
Other long term liabilities	2,074	1,383	770	447
Total	**139,204**	**140,537**	**142,566**	**144,809**

3.6 The **Authorised Limit** for external debt represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

3.7 This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised. The Council is asked to approve the following Authorised Limit:

Authorised limit £'000	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**
Debt	166,515	168,252	170,465	172,390
Other long term liabilities	2,074	1,383	770	447
Total	**168,589**	**169,635**	**171,235**	**172,837**

3.8 Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

HRA Debt Limit £'000	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**
HRA debt cap	140,275	140,275	140,275	140,275
HRA CFR	128,969	130,993	132,320	134,886
HRA headroom	11,306	9,282	7,955	5,389

HRA Debt Ratios £'000	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**
HRA debt	128,969	130,993	132,320	134,886
HRA revenues	30,181	29,807	29,355	29,534
Ratio of debt to revenues	4	4	5	5
Number of HRA dwellings	6,002	5,952	5,912	5,872
Debt per dwelling (£'000)	21	22	22	23

4 Economic Outlook

4.1 The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. **Appendix A** draws together current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Capita Asset Services central view:

	Bank Rate	PWLB Borrowing Rates			
		5 year	10 year	25 year	50 year
Mar-17	0.25%	1.60%	2.30%	2.90%	2.70%
Jun-17	0.25%	1.60%	2.30%	2.90%	2.70%
Sep-17	0.25%	1.60%	2.30%	2.90%	2.70%
Dec-17	0.25%	1.60%	2.30%	3.00%	2.80%
Mar-18	0.25%	1.70%	2.30%	3.00%	2.80%
Jun-18	0.25%	1.70%	2.40%	3.00%	2.80%
Sep-18	0.25%	1.70%	2.40%	3.10%	2.90%
Dec-18	0.25%	1.80%	2.40%	3.10%	2.90%
Mar-19	0.25%	1.80%	2.50%	3.20%	3.00%
Jun-19	0.50%	1.90%	2.50%	3.20%	3.00%
Sep-19	0.50%	1.90%	2.60%	3.30%	3.10%
Dec-19	0.75%	2.00%	2.60%	3.30%	3.10%
Mar-20	0.75%	2.00%	2.70%	3.40%	3.20%

4.2 The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip in economic growth. During the two-year period when the UK is negotiating the terms for withdrawal from the EU, it is unlikely that the MPC will do anything to dampen growth prospects, which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in until quarter 2 2019, after those negotiations are expected to have been concluded. However, if strong domestically generated inflation were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

4.3 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments. The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

4.4 PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future. The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently.

4.5 Borrowing interest rates were on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically low levels after the referendum and then even further after the MPC meeting of 4th August, when a new package of quantitative easing purchasing of gilts was announced. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times when the Council may not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt.

5 Borrowing Strategy

5.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

5.2 At 31 March 2016 the Council's Capital Financing Requirement was £153.5m and, net of finance lease liabilities, the underlying borrowing requirement was £150.3m. The Council's external borrowing totalled £136.1m, which meant under-borrowing totalled £14.2m.

5.3 There would be a cost of carry to any new long-term borrowing that causes an increase in cash balances, as this position will incur a revenue loss between borrowing costs and investment returns. However, against this, the long term saving resulting from borrowing at very low rates should be considered. Assuming current rates increase in accordance with the above forecast, if borrowing were delayed for two years it would lead to the cost of borrowing being significantly higher over the life of a 50 year loan.

5.4 Against this background and the risks within the economic forecast, caution will be adopted with the 2017/18 treasury operations. The Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowing will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

5.5 Any decisions will be reported to the Scrutiny Panel or Governance and Audit Committee at the next available opportunity.

Treasury Management Limits on Activity

5.6 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

5.7 The Council is asked to approve the following treasury indicators and limits:

Interest rate Exposures £'000	**2017/18**	**2018/19**	**2019/20**
Upper limit on fixed interest rates based on net debt	106,200	110,900	115,700
Upper limit on variable interest rates based on net debt	53,100	55,400	57,800

Maturity Structure of fixed interest rate borrowing	**Lower**	**Upper**
Under 12 months	0%	15%
12 months to 2 years	0%	15%
2 years to 5 years	0%	15%
5 years to 10 years	0%	15%
10 years to 20 years	0%	30%
20 years to 30 years	0%	30%
30 years to 40 years	0%	40%
40 years to 50 years	0%	40%
Over 50 years	0%	10%

Policy on Borrowing in Advance of Need

5.8 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt Rescheduling

5.9 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred). The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

5.10 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

5.11 Any rescheduling will be reported to the Scrutiny Panel or the Governance and Audit Committee at the earliest meeting following its action.

Municipal Bond Agency

5.12 It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). The Council will consider making use of this new source of borrowing as and when appropriate.

HRA borrowing

5.13 As part of the HRA reform arrangements in April 2012, the Council decided to follow the 'two pool' approach to allocating existing debt, taking into account those loans that were originally raised for a specific purpose. This assumed that the HRA would be 'fully borrowed', however the HRA is now in a position where it may need to borrow to fund the Housing Investment Programme.

5.14 As the Council is maintaining an under-borrowed position, the HRA will be recharged for the cost of any new borrowing requirement based on the average balance of unfinanced HRA borrowing during the year, using the PWLB variable rate as at 31 March of the previous year. In an environment of low investment returns and relatively stable borrowing rates, this provides a recharge that is beneficial to both the HRA and General Fund, and can be reasonably forecast from early on in the financial year. This approach will be reviewed annually in conjunction with the TMSS and projected investment returns.

6 *Annual Investment Strategy*

Investment Policy

6.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second and then return.

6.2 In accordance with the above guidance, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

6.3 Ratings will not be the sole determinant of the quality of an institution, and it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as 'credit default swaps' and overlay that information on top of the credit ratings.

6.4 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

6.5 Investment instruments identified for use in the financial year are listed in **Appendix B**, which includes Counterparty, time and monetary limits. These will cover both 'Specified' and 'Non-Specified' Investments.

6.6 Specified Investments are sterling denominated investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. Non-Specified Investments are those that do not meet the specified investment criteria. A limit of £20m will be applied to the use of Non-Specified investments (this will partially be driven by the long term investment limits).

Creditworthiness policy

6.7 The Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

6.8 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system, which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands that indicate the relative creditworthiness of counterparties. These colour codes are used by the

Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years (UK Government debt or equivalent)
- Dark Pink 5 years Enhanced money market funds (1.25 credit score)
- Light Pink 5 years Enhanced money market funds (1.5 credit score)
- Purple 2 years
- Blue 1 year (nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No Colour not to be used

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

6.9 The creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

6.10 Typically the minimum credit ratings criteria the Council uses will be a Short Term rating (Fitch or equivalents) of F1, and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

6.11 All credit ratings will be monitored on a monthly basis. The Council is alerted to changes to ratings of all three agencies through its use of the creditworthiness service. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- a negative rating watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Capita Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

6.12 Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, and information on any external support for banks to help support its decision making process.

Country limits

6.13 The Council will only use approved counterparties from countries with a minimum sovereign credit rating of AA-, based on the lowest available rating. However this policy excludes UK counterparties. The list of countries that qualify using this credit criteria as at the date of this report are shown in **Appendix C**. This list will be amended by officers should ratings change in accordance with this policy.

6.14 In addition no more than £10m will be placed with any non-UK country at any time.

Investment strategy

6.15 The Council will manage all of its investments in-house. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

6.16 The Bank Rate is forecast to remain at 0.25% before starting to rise from quarter 2 of 2019, and not to rise above 0.75% by quarter 1 2020. Investment rates are likely to remain low during this period. The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows:

- 2016/17 0.25%
- 2017/18 0.25%
- 2018/19 0.25%
- 2019/20 0.50%
- 2020/21 0.75%
- 2021/22 1.00%
- 2022/23 1.50%
- 2023/24 1.75%
- Later years 2.75%

6.17 The overall balance of risks to these forecasts is currently slightly to the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. On the other hand, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace.

6.18 For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

Investment treasury indicator and limit

6.19 The limit for the total principal funds invested for greater than 364 days is set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end. The Council is asked to approve the treasury indicator and limit.

£'000	2017/18	2018/19	2019/20
Max. principal sums invested > 364 days	5,000	5,000	5,000

End of year investment report

6.20 At the end of the financial year, the Council will report on its investment activity to the Governance & Audit Committee as part of its Annual Treasury Report.

Interest rate forecasts 2017 - 2020 **APPENDIX A**

PWLB rates and forecast shown below take into account the 20 basis point certainty rate reduction effective as of 1 November 2012.

Capita Asset Services Interest Rate View	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank Rate View	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
3 Month LIBID	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%
6 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%	1.00%
12 Month LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%
5yr PWLB Rate	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB Rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB Rate	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB Rate	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Bank Rate													
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%
5yr PWLB Rate													
Capita Asset Services	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
Capital Economics	1.60%	1.70%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.70%	2.80%	2.90%	3.00%
10yr PWLB Rate													
Capita Asset Services	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
Capital Economics	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	3.10%	3.20%	3.30%	3.40%
25yr PWLB Rate													
Capita Asset Services	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
Capital Economics	2.95%	3.05%	3.05%	3.15%	3.25%	3.25%	3.35%	3.45%	3.55%	3.65%	3.75%	3.95%	4.05%
50yr PWLB Rate													
Capita Asset Services	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Capital Economics	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.60%	3.70%	3.80%	3.90%

Specified Investments – All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

Non-Specified Investments – These are investments that do not meet the specified investment criteria. A limit of the lesser of £20m or 50% of the portfolio will be held in aggregate in non-specified investments.

A variety of investment instruments may be used that will fall into one of the above categories, subject to the credit quality of the institution. The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

Organisation	Min. Credit Criteria	Money Limit	Maturity Limit
Banks and Building Societies (including term deposits, CDs or corporate bonds)	Yellow	£7.5m	5 years
	Purple	£7.5m	2 years
	Orange	£7.5m	1 year
	Blue	£7.5m	1 year
	Red	£5.0m	6 months
	Green	£2.5m	100 days
	No colour	Not to be used	
UK Government Gilts	UK sovereign rating	£10m	1 year
UK Government Treasury Bills	UK sovereign rating	£10m	1 year
UK Local & Police Authorities	N/A	Unlimited	1 year
Debt Management Agency Deposit Facility	AAA	Unlimited	6 months
Money Market Funds	AAA	£10m	Liquid
Enhanced Money Market Funds	Dark Pink / Light Pink / AAA	£10m	Liquid
Bonds issued by Multilateral Development Banks	AAA	£3m	6 months
Property Funds	AAA	£5m	

Notes:

- Non U.K. country limit of £10m
- Limit in all Building Societies of £10m

The use of property funds can be deemed capital expenditure, and as such will be an application of capital resources. The Council will seek guidance on the status of any fund it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken.

The criteria in this appendix are intended to be the operational criteria in normal times. At times of heightened volatility, risk and concern in financial markets, this strategy may be amended by temporary operational criteria further limiting investments to counterparties of a higher creditworthiness and / or restricted time limits.

This list is based on those countries that have sovereign ratings of AA- or higher and also have banks operating in sterling markets, which have credit ratings of green or above in the Capita Asset Services credit worthiness service.

AAA	Australia Canada Denmark Germany Luxembourg Netherlands Norway Singapore Sweden Switzerland
AA+	Finland Hong Kong U.S.A.
AA	Abu Dhabi (UAE) France Qatar U.K.
AA-	Belgium

Colchester	**Scrutiny Panel**		**Item 14**
	31 January 2017		
Report of	**Assistant Chief Executive**	**Author**	**Jonathan Baker** ☏ **282207**
Title	**2017/18 General Fund Revenue Budget, Capital Programme, Medium Term Financial Forecast, Housing Revenue Accounts Estimates and Housing Investment Programme** // Covering Report		
Wards affected	Not applicable		

This report invites the Panel to review and comment on the 2017/18 General Fund Revenue Budget, Capital Programme, Medium Term Financial Forecast, Housing Revenue Accounts Estimates and the Housing Investment Programme reports which are being submitted to Cabinet.

1. Decision Required

1.1 The Panel is asked to review and comment on the 2017/18 General Fund Revenue Budget, Capital Programme and Medium Term Financial Forecast report which are being submitted to Cabinet on 1 February 2017.

1.2 Any comments made by the Panel will be submitted to the Cabinet meeting for further consideration.

2. Reason for Action

2.1. The attached reports should be read and considered alongside each other to provide a full assessment of the Council's financial position and plans.

2.2 The Panel may, at the Cabinet's request, scrutinise decisions to be taken by the Cabinet and report any comments or concerns for further consideration by Cabinet prior to the decision being taken.

Cabinet			**Item**
1 February 2017			
Report of	**Assistant Chief Executive**	**Author**	**Sean Plummer** ☏ **282347**
Title	**2017/18 General Fund Revenue Budget, Capital Programme and Medium Term Financial Forecast**		
Wards affected	n/a		

This report requests Cabinet to recommend to Council:

- **The 2017/18 General Fund Revenue Budget**
- **Colchester's element of the Council Tax for 2017/18**
- **The Medium Term Financial Forecast**
- **The Capital Programme**
- **The Prudential Indicators and Treasury Management Strategy and Annual Investment Strategy**

1. Decisions Required

1.1 To note that for the purpose of assessing the impact on balances the outturn for the current financial year is forecast to be an overspend of £240k. (paragraph 3.4.).

1.2 To note the provisional Finance Settlement figures set out in Section 4 showing a cut to the Settlement Funding Assessment of £980k.

1.3 To note the figures for the business rates retention scheme and the arrangements for completion of the required return of estimated business rates income as set out at paragraph 4.8.

1.4 To note the changes made to the New Homes Bonus scheme and that there is a grant reduction in 2017/18 of £931k as set out in section 4 with further reductions in the grant in later years.

1.5 To approve the cost pressures, growth items, proposed use of New Homes Bonus, savings and increased income options identified during the budget forecast process as set out at in section 5 and detailed in Appendices C, D and E.

1.6 To consider and recommend to Council the 2017/18 Revenue Budget requirement of £25,911k (paragraph 5.16) and the underlying detailed budgets set out in summary at Appendix F and Background Papers subject to the final proposal to be made in respect of Council Tax.

1.7 To recommend to Council, Colchester's element of the Council Tax for 2017/18 at £180.18 per Band D property, which represents an increase of £4.95 (2.8%) from the current rate noting that the formal resolution to Council will include Parish, Police, Fire and County Council precepts and any changes arising from the formal Finance Settlement announcement and final completion of the business rates NNDR 1. This will be prepared in consultation with the Leader of the Council.

1.8 To agree the Revenue Balances for the financial year 2017/18 as set out at Appendix J and agree that the:-

- the minimum level be set at a minimum of £1,900k
- £499k of balances, including sums carried forward from 2016/17, be applied to finance items in the 2017/18 revenue budget

1.9. To note the updated position on earmarked reserves set out in section 8 and agree the release of:-
£20k from the S106 monitoring reserve
£489k from the business rates reserve.
£325k use of capital expenditure reserve for ICT strategy
£150k use of parking reserve

1.10. To agree to use £3.173m from a combination of General Fund balances and reserves to fund the one off pension fund payment and that provision be made within the budget in 2018/19 and 2019/20 to reinstate these balances as set out in section 8.

1.11. To agree and recommend to Council that £100k of Revenue Balances be earmarked for potential unplanned expenditure within the guidelines set out at paragraph 9.3.

1.12. To note the Medium Term Financial Forecast for the financial years 2017/18 to 2020/21 set out in section 11.

1.13. To note the position on the Capital Programme shown at section 12 and agree to recommend to Council the inclusion in the Capital Programme of:-

- £857k for changes to the waste service as agreed by Cabinet.
- £500k to deliver new social housing funded from the HRA Right to Buy Reserve

1.14 To note the comments made on the robustness of budget estimates at section 13.

1.15. To approve and recommend to Council the 2017/18 Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy as set out in the background paper at Appendix N.

2. Background Information and Summary

2.1 The 2017/18 Revenue Budget and the Capital Programme have been prepared in accordance with a process and timetable agreed at Cabinet and endorsed by the Scrutiny Panel (Appendix A).

2.2. The Revenue Budget for 2017/18 has been prepared against a background of meeting the Council's Strategic Plan objectives whilst continuing to face significant financial pressures from the reductions in core Government funding. Every effort has been made to produce a balanced budget that includes a deliverable level of savings and income and provides for investment in key services. This has been achieved through a budget strategy that has resulted in:-

- the delivery of savings through the service review process including delivering channel shift
- making efficiencies through specific budget reviews and business plans
- maximising new and existing income streams
- recognising cost pressures and making decisions on budget changes where necessary

2.3. The budget includes savings or additional income of almost £3m. This compares to £1.5m included within the 16/17 budget. A large proportion of savings are based on proposals to work more efficiently and to maximise opportunities to increase income. As part of this year's budget an "outturn review" was again carried out which reviewed spending and income compared to the 2016/17 budget. This helped to identify areas where spending regularly falls below current budget levels, including some 'contingency' areas.

2.4. Core Government funding for 2017/18 is being reduced by £1m which follows a reduction in 2016/17 of £1.2m. Further reductions have also been confirmed as part of the 4 year settlement. However, these cuts alone are not the only pressures the Council has needed to address in the budget. Costs from general inflation and pay assumptions, additional business rates costs as a result of the revaluation exercise and additional employer pension costs have also added to the budget pressures.

2.5. The methodology for the New Homes Bonus is changing in 2017/18 which has resulted in a cut in the grant of £0.9m (16%). The Council has been taking steps to reduce the level of New Homes Bonus which is used to support the base budget. This means that there is still £3.1m available to support new investment. Some proposals are included in this report and further allocations will be made later in the year.

2.6. The financial outlook set out within the Medium Term Financial Forecast (MTFF) shows that further reductions in core Government funding and cost pressures faced by the Council show a cumulative budget gap of £6.5m over the next three years. Planned savings, including a significant reduction in funding for new projects from the New Homes Bonus mean that this gap has reduced to £2.5m.

2.7. The 4 year Settlement figures show that Revenue Support Grant will end by 2019/20. The Government's spending power figures also illustrate that the importance of the Council's own income through Council Tax and business rates are expected to increase to help to mitigate this cut.

2.8. The Settlement confirms that legislation to allow 100% of business rates to be retained by local government will be delivered by the end of this parliament. This will not mean that Colchester will keep 100% of the business rates collected, however, it may provide the potential to keep a greater share of business rates, alongside possible changes in responsibilities and risks.

2.9. These changes mean that it is important for the Council to fully consider the budget and medium term plans in light of the new funding arrangements.

2.10. Further information on the budget is provided in the following paragraphs.

2.11. This report should be read and considered alongside the report in respect of the Housing Revenue Account and Housing Investment Programme to provide a full assessment of the Council’s financial position and plans.

3. Current Year’s Financial Position

3.1 In order to inform the 2017/18 budget process and forecast level of reserves it is useful to first review the current year’s financial position. Revenue budgets are monitored on a monthly basis with regular reports to Senior Management Team and the Scrutiny Panel.

3.2. It was reported to Scrutiny Panel on 8 November that the current year’s budget position showed a forecast net overspend £240k. This reflected some one off cost pressures and a number of positive and negative budget variances. There remain some outstanding risks and changes that are likely to be made to the forecast. For the purpose of considering the impact on balances it is considered prudent and appropriate to assume that the end of year position is in line with the last reported figure.

3.3 The position continues to be monitored, and Governance and Audit Committee will receive a report setting out a detailed position in March. As is common there are a number of budgeted costs that may not be fully spent in the financial year. The report to Scrutiny Panel will include details of any such changes, and this will be used when considering the end of year position.

3.4 **Cabinet is asked to note that the forecast outturn position for the current year is expected to be a net overspend of £240k and that this be used as part of the assessment of balances. The position will continue to be monitored.**

4 Finance Settlement (Government Funding)

4.1. The provisional Local Government Finance Settlement was announced in Parliament on 15 December 2016. The Settlement includes a number of funding arrangements, concepts and terminology introduced in 2013/14. This section of the budget report provides a summary of the key issues including:-

- Settlement Funding Assessment (SFA) including Revenue Support Grant (RSG)
- Business Rates Baseline and tariffs and top-ups, levies and safety net
- New Homes Bonus
- Core Spending Power

4.2. The SFA which comprises our RSG and business rate baseline figure has been cut by **£0.98million (17%).** This reduction is in line with the 4 year funding settlement which the Council applied for and which has been agreed by Government.

	16/17	17/18	Change	
	£'000	£'000	£'000	%
RSG	1,978	920	(1,058)	-53%
Business Rates Baseline	3,960	4,038	78	2%
Settlement Funding Assessment (SFA)	5,938	4,958	(980)	-17%

4.3. The split of the settlement funding is important. The Revenue Support Grant element is a non ring-fenced fixed grant. The baseline funding level is used as part of the retention of business rates scheme as explained below.

Business Rates Baseline and tariffs and top-ups

4.4. The SFA includes the Council's baseline funding level for the Business Rates Retention scheme. This is based on our historic business rates collection, adjusted by a 'tariff' payment. A local authority must pay a tariff if its individual authority business rates baseline is greater than its baseline funding level. Conversely, a local authority will receive a top-up if its baseline funding level is greater than its individual authority business rates baseline.

4.5. The following table sets out a summary of the baseline position for Colchester for 2017/18 showing the *indicative* required tariff payment of £20.5m.

	£'000
Billing Authority Baseline	30,691
CBC Individual Baseline (80%)	24,553
Less Tariff	(20,515)
Baseline funding	**4,038**
Safety Net threshold (92.5%)	3,735

4.6. It should be noted that the above figures **do not** take into account any impact of the 2017 revaluation exercise on the Business Rates Retention scheme. The 2017 revaluation will impact average bills, the baseline figure, top up/tariff adjustments and the level of losses through appeals. However, it is currently projected that the impact on the 2017/18 budget will be broadly cost neutral. This final position will be updated in the final budget report to Full Council.

4.7. The business rate retention scheme includes a degree of protection against reduction in business rates collected (the Safety Net), which means that 92.5% of the baseline funding in year is guaranteed. It also includes a method for ensuring that any growth above the baseline is shared with Central Government, the County Council and Fire Authority (the Levy). The Council keeps 40% of any additional income.

4.8. The arrangements for business rate retention require the Council to agree an estimate of business rates income for the coming year (the NNDR 1) by 31 January. This return includes a number of key assumptions in respect of collection rates, growth and an allowance for the impact of revaluation appeals. Based on initial projections it is anticipated that the NNDR 1 will show additional income above the baseline funding level, of which the Council's share is forecast to be in the region of £900k. This takes into account the estimated Section 31 grant due to the Council in relation to business rates relief provided to small businesses and retailers, which forms part of the Levy and Safety Net calculation. This will remain a risk and one which will be considered in the final paper for Full Council and within updates to the MTFF, alongside any impact of the 2017 revaluation.

Business Rates Pooling

4.9. Under the business rates retention scheme local authorities are able to come together, on a voluntary basis to pool their business rates receipts and then agree collectively how these will be distributed between pool members.

4.10. Pooling provides the opportunity to keep a greater share of business rates within Essex that would otherwise be paid to Government as a 'Levy', providing that districts experience growth above their baselines. However the protection each authority receives under the safety net arrangements in the event of a shortfall is removed, with the 7.5% safety net only applying to the overall pool.

4.11. In 2016/17 Colchester is one of nine District Councils together with the County Council and Fire Authority in a pooling agreement. All authorities in the pool have agreed it will continue into 2017/18 in its current form.

4.12. It should be noted that the information set out in this report in respect of business rates reflects the arrangements for business rate retention as an individual authority and not in a pool. However, based on indicative forecasts it is projected that pooling in 2017/18 would be beneficial to the Council, and the final decision will be considered in future year's budget reports and updates to the MTFF.

4.13. The Settlement is provisional and subject to consultation which ended on 13 January 2017. Traditionally, there has been very little change between the provisional and actual Settlement. Any marginal change to the Council's entitlement will be reflected in the final budget recommendation to Council.

4.14. In addition to the Settlement funding figures other grants have been announced. The key grant for Colchester is the New Homes Bonus.

New Homes Bonus (NHB)

4.15. The 2017/18 grant has been announced and reflects changes to the methodology of the scheme. The Government published a consultation paper on changes to the New Homes Bonus: "New Homes Bonus: Sharpening the Incentive".

4.16. The final figure is a total grant for 2017/18 of £4.783m, a reduction of £931k. The detailed breakdown of the grant is set out at Appendix B and is summarised below:-

	2016/17	**2017/18**	**Change**
	£'000	**£'000**	**£'000**
Basic NHB	*5,426*	4,506	(920)
Affordable homes bonus	*288*	277	(11)
Total New Homes Bonus	**5,714**	**4,783**	**(931)**

4.17. There are two main changes made to the scheme in 2017/18:-

- From 17/18 payments are made over 5 years rather than 6. From 18/19 this will reduce further to payments being for 4 years.
- In addition from 17/18 the scheme has introduced a national baseline of 0.4%. NHB is only paid above this level.

4.18. In total these changes to the NHB scheme have reduced the grant that this Council would otherwise have received in 17/18 by £1.16m. The following table sets out the forecasts for basic element of the New Homes Bonus for the next four years following the changes showing that this part of the grant is forecast to reduce from £5.4m this year to c£2m by 2020/21 :-

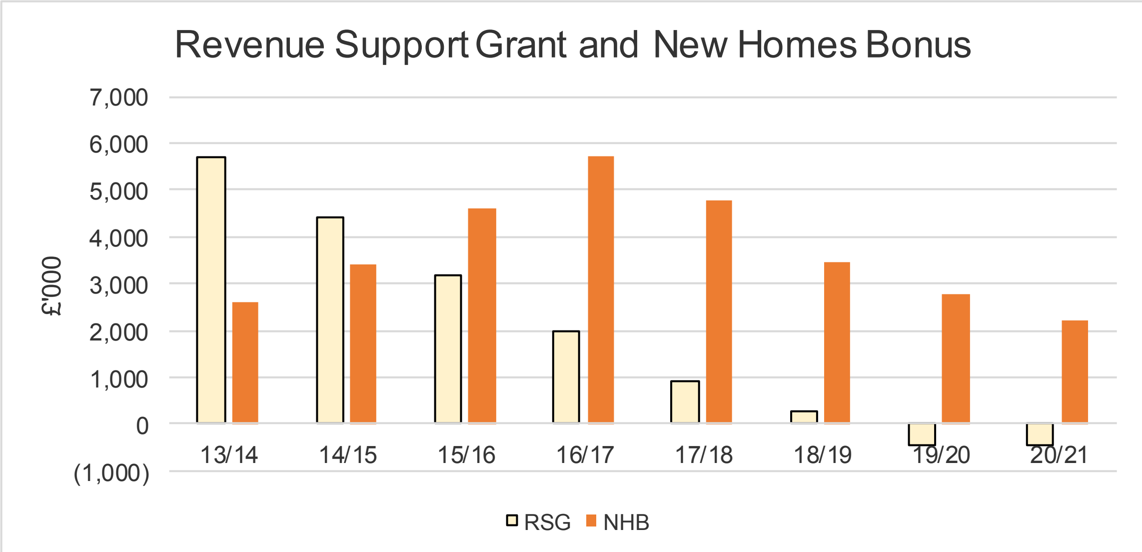
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000	£'000
Growth re 09/10	724	*nil*	*nil*	*nil*	*nil*	*nil*
Growth re 10/11	749	*nil*	*nil*	*nil*	*nil*	*nil*
Growth re 11/12	986	986	*nil*	*nil*	*nil*	*nil*
Growth re 12/13	757	757	*nil*	*nil*	*nil*	*nil*
Growth re 13/14	1,185	1,185	1,185	*nil*	*nil*	*nil*
Growth re 14/15	1,025	1,025	1,025	1,025	*nil*	*nil*
Growth re 15/16		553	553	553	553	*nil*
Growth re 16/17 (est)			500	500	500	500
Growth re 17/18 (est)				500	500	500
Growth re 18/19 (est)					500	500
Growth re 19/20 (est)						500
Total basic NHB	5,426	4,506	3,263	2,578	2,053	2,000

4.19. As stated earlier, the Settlement, including the New Homes Bonus proposals, is subject to consultation. The Council has responded to comment on the changes, principally in respect of the deadweight' baseline level of 0.4%. This level was not included in the original consultation and does not appear to form part of the responses made to the original consultation and could not have been predicted by authorities. The Government is asking if consideration should be given to implementing transitional measures to limit the impact of reforms to the New Homes Bonus and we have replied to say this should be looked at.

4.20. The Council has recognised the risk that the New Homes Bonus was likely to reduce in 2017/18 and also in future years. As such the budget strategy has assumed that the level of New Homes Bonus supporting the base budget will reduce and the budget proposes a reduction of £150k. The following table sets out a summary of how the total 2017/18 New Homes Bonus is being used showing that now just over one third is supporting the base budget.

	£'000	%
Contribution to RIF	250	5%
Affordable housing allocation	277	6%
Support for one-off schemes	2,623	55%
Base Budget	1,633	34%
Total Grant	**4,783**	**100%**

4.21. The announced changes to the New Homes Bonus and the 4 year funding settlement have provided a degree of certainty over the extent of cuts to our future Government grant funding. The following graph sets out the changes to Revenue Support Grant and New Homes Bonus since 2013/14 including projections up to 2020/21.



Core Spending Power

4.22 This term relates to the Government's assessment of the "expected" available revenue for local government spending through to 2019/20. It includes the announced SFA and New Homes Bonus and an assumed level of income from Council Tax. This takes account of an *assumed* increase in the taxbase and a Council Tax rate increase of £5 on the Band D tax rate.

4.23 For 2017/18 the change in the spending power as per Government figures is shown as a reduction of £1.3m or 6% as shown below.

4.24. It is important to stress that spending power figures include the Government's assumption in respect of an increase in Council Tax income and the taxbase. The following sets out the Government's spending power assessment along with the Council's actual Council Tax income, showing a reduction in spending power of 7%.

	16/17	17/18	Change	
	£'000	£'000	£'000	%
SFA	5,938	4,958	(980)	-17%
NHB	5,714	*4,783*	(931)	-16%
Transition grant	88	*88*	0	0%
Government grants	*11,740*	*9,829*	*(1,911)*	*-16%*
Council Tax (**Gov't assumed** £5 tax rate increase and 3.1% taxbase increase)	10,601	11,237	636	6%
Core Spending Power	**22,341**	**21,066**	**(1,275)**	**-6%**

Government grants (as above)	*11,740*	*9,829*	*(1,911)*	*-16%*
*Council Tax (**actual** £4.95 tax rate increase and 1.1% taxbase increase)*	*10,601*	*11,015*	*414*	*4%*
Core Spending Power	***22,341***	***20,844***	***(1,497)***	***-7%***

5. 2017/18 Budget Changes

Revenue Cost Pressures

5.1. Appendix C sets out revenue cost pressures of £1.7m, over the 2016/17 base, which have been identified during the budget process. This includes an inflation allowance and some specific service cost pressures.

5.2. Many of the cost pressures have been considered by Cabinet. However there are a number of changes to assumptions and details are set out.

5.3. Whilst not shown within the list of specific cost pressures the budget includes proposals totalling £402k in respect of carry forward items. The main items relates to costs of the ICT strategy and some other smaller cost of resources in Professional Services and project funding carried forward between years. This is reflected in the use of balances and reserves set out later in this report.

Pension Fund deficit

5.4. The budget strategy had included an allowance for an increase in pensions contributions including and the pension fund deficit following the actuarial review. The cost pressures include the additional cost of £206k in respect of employer contributions rising from 13.7% to 15.1%. The separate budget issue is the pension fund deficit. The revised figures provided for this based on the actuarial review show a reduced annual cost of £144k.

5.5. Currently, the Council make one annual payment to the Essex Pension Fund to provide for the agreed deficit repayment plan. An option exists to make one payment to cover 3 years (2017/18 to 2019/20) which covers the period until the next actuarial review. The table below shows the figures provided by the Essex Pension Fund for this option compared to the current arrangement showing a cash saving of £283k over three years:-

	17/18 Cost	Cost over 3 years
	£'000	£'000
Option - Annual payment	1,937	5,811
Option - One payment for 3 years	5,528	5,528
Cost / (saving)	**3,591**	**(283)**

5.6. Making a one off payment in 2017/18 will have a cashflow impact, however, given current and forecast low interest rates the cost in terms of reduced interest earned will still mean there is a saving from agree the one off payment option and therefore this approach has been assumed in this report. A proportion of the deficit payment is charged to the Housing Revenue Account (HRA) and therefore the increased cost in year to the General Fund is estimated at £2.9m

5.7 **Cabinet is asked to approve inclusion within the 2017/18 Revenue Budget of the cost pressures set out at Appendix C.**

Growth Items

5.8. Appendix D sets out revenue growth items totalling £362k which are recommended for inclusion in the budget. This includes an allocation of £110k in the base budget to provide investment to support delivery of strategic plan priorities.

5.9. As shown earlier the New Homes Bonus grant has been cut in 2017/18. The Council uses a large part of the grant to provide one-off investment into both capital and revenue projects. In 2017/18 £2.6m is being invested and as shown in the table below decisions have already been made amounting to £587k meaning that £2.036m remains uncommitted:-

	£'000
Total funds available	2,623
Allocated to:-	
Mercury Theatre	500
Waste Review	87
Balance available	2,036

5.10. The consultation process on the New Homes Bonus closed in March 2016. There were a number of potential changes suggested and therefore until details of the new scheme was announced it was not clear how much the Council would have to invest in new projects until the announcement in December. Therefore, there has been little time to formulate detailed plans to use this grant.

5.11. There is now a clear expectation that income from the New Homes Bonus will reduce in future years with an estimate that the grant will drop by a further £2.6m by 2020/21. It is therefore essential that the Council carefully considers how this grant might be used in the coming year as well as future years including whether the opportunity exists to consider using some of the New Homes Bonus to support future borrowing costs. It is therefore proposed to allocate £2.036m in the 2017/18 budget to help deliver projects which support strategic plan priorities and also those which can deliver income to assist with managing future budget pressures. This will include:-

- reviewing resources required to deliver a number of strategic projects such as the creation of a housing company and other key schemes currently within the RIF including infrastructure.
- consideration of how funding might be used to invest in assets
- an assessment of opportunities to provide one-off investment in services to help deliver cost reductions or new income
- continuing to consider projects that support communities. For example, the Council has already allocated £200k in year to support to support a campaign to reduce the inequalities which exist in some of our communities.

5.12 **Cabinet is asked to approve inclusion within the 2017/18 Revenue Budget of the growth items shown at Appendix D and the use of the New Homes Bonus for new projects as set out at paragraph 5.9 and 5.11.**

Revenue Saving / Increased Income / Technical Items

5.13. Appendix E sets out budget reductions, savings and increased income totalling £2.968m.

5.14. All proposals are set out within the appendix, the majority of which were reported and in some specific cases agreed at the last Cabinet meeting. The savings include the reduced one-off investment arising from the cut in the New Homes Bonus.

5.15 **Cabinet is asked to approve inclusion of the savings / increased income items set out at Appendix E within the 2017/18 Revenue Budget.**

Summary Total Expenditure Requirement

5.16. Should Cabinet approve the items detailed above, the total expenditure requirement for 2017/18 is as follows:

	2017/18	Note / para
	£'000	
Base Budget	24,047	
15/16 One-off items	(563)	
Cost Pressures	1,696	Appendix C
Pensions one off increase	2,935	
Growth Items	362	Appendix D
Savings	(2,968)	Appendix E
Budget c/f items	402	Para 5.3.
Forecast Base Budget	**25,911**	

Notes:-

A summary of the 2017/18 budget is set out at Appendix F.
A more detailed summary of service group expenditure is attached at Appendix G with a graph showing net expenditure by service at Appendix H.
Further detailed service group expenditure is available.

5.17 **Cabinet is asked to agree and recommend to Council the net revenue expenditure requirement for 2017/18 and the underlying detailed budgets set out in Appendix F.**

6. Council Tax, Collection Fund and Business Rates

Council Tax Rate.

6.1. The Localism Act introduced a power for the Secretary of State for Communities and Local Government to issue principles that define what should be considered as excessive Council Tax, including proposed limits. From 2013 onwards, any council that wishes to raise its Council Tax above the limits that apply to them will have to hold a referendum. The result of the referendum will be binding.

6.2. In 2016/17 and for the coming year the Secretary of State has proposed that district councils such as Colchester can increase their Council Tax by the higher of £5 or 2%. For Colchester the limit is therefore £5.

6.3. The 2017/18 budget forecast and MTFF has reflected the planning assumption of an increase in Band D Council Tax and the proposal within this report is for a Band D Council Tax Rate of £180.18, an increase of £4.95 (2.8%).

6.4. The Local Government Act 2003 gave local billing authorities the ability to vary the discounts on second and empty homes. More recently local authorities were also given the opportunity to use new powers within the Finance Bill to reduce the level of discounts currently granted in respect of second homes and some classes for empty properties. No changes are proposed to the existing arrangements and it is recommended to Council that the Council Tax setting report includes these discounts.

Collection Fund

6.5. As part of the formal budget setting process, the Council is required to estimate each year the estimated surplus or deficit arising from Council Tax and Business Rates collection. These Collection Fund calculations include an assessment of the forecast surplus / deficit position for the current year, together with the variance between the 2015/16 forecast and actual outturn position.

6.6. The budgeted Council Tax surplus of £48k has arisen as a result of the combined impact of higher growth in the number of properties in the borough than had been forecast in 2015/16, together with further expected growth during the current year.

6.7. The Business Rates retention arrangements have brought a number of new risks, with perhaps the most significant of these arising from changes to the rateable value of properties following appeals. In addition to this, there are complex accounting arrangements, which mean that many of the outturn figures reflect the NNDR1 estimates that are made prior to the financial year commencing.

6.8. The budgeted deficit of £537k has occurred largely as a result of the requirement to make a significant increase to the Business Rates appeals provision at the end of 2015/16, and reflects the difference between the NNDR1 estimate and actual outturn. This is mitigated by surpluses in 2014/15 and 2015/16 resulting from differences between the outturn and the baseline position, which have been added to the Council's Business Rates earmarked reserve.

6.9. The movement on the Business Rates reserve as a result of the net 2017/18 budget pressure is summarised in the following table and reflected in budget proposals within this report:

Collection Fund (C'Tax & NNDR)	**£'000**
Council Tax – surplus	(48)
NNDR deficit	537
Net budget pressure in 17/18	**489**
NNDR reserve – @ 1st April 16	3,290
Forecast 16/17 movement (estimate)	(1,537)
Forecast balance on reserve @ 31 March 17	1,753
Use of reserve in 17/18 (see above)	(489)
Forecast balance on reserve	**1,264**

7 Revenue Balances

7.1 The Local Government Act 2003 places a specific duty on the Chief Financial Officer to report on the adequacy of the proposed financial reserves of an Authority when the budget is being considered. This section and section 13 address this requirement.

Minimum level of balances

7.2. Each year the assessment of the recommended level of balances is reviewed. The assessment for 2017/18 is summarised at Appendix I and shows that the recommended level continues to be set at £1.9m.

7.3. In considering the level at which Revenue Balances should be set for 2017/18, Cabinet should note the financial position the Council is likely to face in the medium term.

7.4. The analysis of the business rates retention scheme and specifically the operation of a safety net shows that there is a risk to the Council's budget. The Council is including forecast additional income from the retention of business rates which means that the budget risk is not only limited to the level of the safety net arrangement in place. This remains an area of budget risk considered in the assessment of balances.

7.5. Based on the assumptions built into the budget, it is proposed to hold balances at a minimum of £1.9m. The ongoing impact of the various local government reforms will be assessed as part of the budget strategy for 2017/18 and the level of balances can be reviewed at that time.

Level and use of balances

7.7. The use of balances to support the budget can be considered where there is scope and it is prudent to do so. Our normal approach is to consider the use of balances to fund one-off items, however, funding one-off costs through the normal budget resources does ease budget pressures in future years.

7.8. There are a number of proposals to use balances to support the 2017/18 budget as follows:-

	£'000
Use of balances for c/f items	77
General use of balances	98
Use for waste review (one off)	72
Use agreed in previous years (one off)	252
	499

7.9. The forecast position in respect of Revenue Balances is set out at Appendix J and shows balances at c£2.2m, £0.3m above the recommended minimum balance as set out in the risk analysis. The level at which balances are held above the recommended minimum level is a matter for Cabinet and Council to consider. It should be noted that the Council will continue to face significant budget pressures over the coming years and that it may be necessary to use balances to support future budgets especially to fund any one-off costs. With future budget gaps, increasing risk and uncertainty and a requirement to deliver already stretching savings targets maintaining uncommitted or allocated balances at c£2.3m is considered appropriate.

7.10. Consideration has been given to a number of existing allocations held within balances and future calls on funds. These are reflected in the figures shown at Appendix J and include changes to certain allocations including the removal of sums against risks in respect of land charges and taxi licensing which are no longer required and an increase in the allocation in respect of housing benefit risks.

7.11. Following the 2016/17 accounts closure it will be necessary to review all balances and the risk assessment to ensure allocations remain appropriate. This will be done as part of the 18/19 budget strategy and updated MTFF.

7.12 **Cabinet is recommended to approve Revenue Balances for the financial year 2017/18 be set at a *minimum* of £1.9m and to approve the use of £499k to support the revenue budget.**

8. Reserves and Provisions

8.1. In addition to General Fund balances, the Council holds a number of earmarked reserves. These are held for specific purposes or against specific risks and may be held to:-

- manage costs that do not fall evenly across financial years (such as renewal and repair costs)
- where the timing of any payments is not certain. (such as insurance reserve)
- as a result of statutory accounting arrangements / changes (such as the revenue grants and right to buy reserves.)

8.2. Cabinet at its meeting on 30 November 2016 considered the Council's earmarked reserves. As part of the budget process a review was undertaken into the level and appropriateness of earmarked reserves and provisions for 2017/18. The review concluded that the reserves and provisions detailed were broadly appropriate and at an adequate level, however, it was stated that a further review would be done as part of this final report.

8.3. Appendix K sets out an updated position on these earmarked reserves and provisions. The table below summarises the total position showing the forecast level of the reserves at the end of March 2017, the split between General Fund and HRA and how much is 'committed'.

	Committed / allocated		Uncommitted / unallocated		
	£'000	(%)	£'000	(%)	£'000
Reserves:-					
General Fund	10,226	85%	1,781	15%	12,007
HRA	7,692	100%	-	0%	7,692
Total Reserves	**17,918**	**91%**	**1,781**	**9%**	**19,699**
Provision	4,349		-		4,349

8.4. The earmarked reserves figures uncommitted / unallocated simply means that whilst the reserve is required there are no specific spending plans for the coming year. The main item uncommitted relates to the business rates reserve of £1.3m. As shown at paragraph 8.8 this is required to be held and may be required to be used to fund similar pressures relating to business rates retention scheme.

8.5. The proposed budget includes some changes to releases from reserves from those reported previously.

Renewals and Repairs (R&R) Fund / Building Mtce. Programme

8.6. The building maintenance programme has been based on in-depth condition surveys of all Council building assets. The 2017/18 budget includes the proposal to continue to add £150k to support the cost of future repairs. New releases are possible for next year and will be reported to Cabinet as required.

S106 Monitoring Reserve – release of £20k

8.7. This reserve was set up to provide funds to support the future monitoring of Section 106 agreements. It is proposed to continue to use £20k from this reserve.

NNDR Reserve – release of £489k

8.8. As set out in section 6 there is an estimated deficit on the combined collection fund for Council Tax and NNDR. As explained earlier this is mainly as a result of the need to provide for business rates appeals as part of the 2015/16 closure of accounts. It is proposed to fund this from the business rates reserve. As reported earlier, this will leave an estimated balance on the reserve of over £1.3m.

Capital Expenditure Reserve – release of £325k for ICT Strategy

8.9. The ICT strategy was agreed by Cabinet last year and was funded through the capital programme and New Homes Bonus. As the detailed project costs become clearer it is considered that the majority of costs should be charged to the revenue budget. The proposal to use the revenue backed capital expenditure reserve provides a mechanism to ensure that the ICT costs can be funded from revenue reserves whilst not impacting on the capital programme.

Parking Reserve – release of £150k

8.10. As set out in the budget there is a budget pressure within the parking account as ECC no longer provide a contribution towards TRO work. In 2017/18 it is proposed that this is mitigated by using reserves.

8.11. **Cabinet is recommended to agree the:**

- **release of £20k from S106 monitoring reserve towards the costs of carrying out this function**
- **release from the NNDR reserve of £489k towards the deficit on the collection fund.**
- **Release of £325k from the Capital Expenditure Reserve in respect ICT strategy**
- **Release of £150k from the parking reserve.**

Funding one-off pensions payment

8.12 As outlined earlier it is proposed to make the required pensions deficit contribution in respect of the period 2017/18 to 2019/20 in a one-off payment in 2017/18. We are required to show this full payment in our 2017/18 budget and has therefore been shown in the cost pressures.

8.13 To facilitate this arrangement and to reflect the equivalent annual costs in the budget requires a use of balances / reserves in 2017/18 of £3.2m. This will then be paid back over each of the next two years. As such the use of balances / reserves is only temporary and required to manage the accounting requirements for this transaction.

8.14. There remain a number of sufficient allocations within general fund balances and earmarked reserves which will enable this to be achieved. For example, sums in the Capital Expenditure Reserve are committed to projects which will span the next years. Also, in any year there are always a significant level of budget carry forwards which means that balances contain sums which are not spent until the next financial year. It should be noted that in April 2018 we will therefore pay back half the use of balances (£1.6m).

8.15. Several Essex councils already pay the pension payment in one amount and adopt a similar approach to using balances / reserves to 'smooth' the annual impact.

8.16. **Cabinet is recommended to agree to use balances and earmarked reserves of £3.173m in 2017/18 and to include in the budget strategy for each of the next two years a contribution to reinstate balances.**

9. Contingency Provision

9.1 The Council's Constitution requires that any spending from Revenue Balances not specifically approved at the time the annual budget is set, must be considered and approved by full Council. This procedure could prove restrictive particularly if additional spending is urgent.

9.2 It is recommended that £100k of Revenue Balances be specifically earmarked for potential items of unplanned expenditure. It should be noted that based on current estimates if this sum was used during the year it would not take revenue balances below the recommended level of £1,900k, although if this were to be the case the Council would need to consider steps to reinstate balances at a later date.

9.3 **Cabinet is asked to agree and recommend to Council that £100k of Revenue Balances be specifically earmarked for potential items of unplanned expenditure which are:**

- **The result of new statutory requirements or**
- **An opportunity purchase which meets an objective of the Strategic Plan or**
- **Is considered urgent, cannot await the next budget cycle and cannot be funded from existing budgets**

Authorisation being delegated to the Leader of the Council.

10. Summary of Position

10.1 Summary of the Revenue Budget position is as follows:

	£'000	Note / para
Revenue expenditure requirement for 2017/18	25,911	Para. 5.16
Collection fund deficit	489	Para 6.9.
New Homes Bonus	(4,783)	Para 4.16.
Transition grant	(88)	Second year of grant
Use of balances	(499)	Para. 7.8.
Use of balances / reserves for pensions payment	(3,173)	Para. 8.13
Release of earmarked reserves	(984)	Para . 8.11
Budget Requirement	**16,873**	
Funded by:		
Revenue Support Grant	(920)	Para. 4.2
NNDR Baseline Funding	(4,038)	Para. 4.2.
NNDR Improvement	(900)	Para. 4.8
Council Tax Payers requirement (before Parish element) see below*	(11,015)	Para. 6.3.
Total Funding	**(16,873)**	

Council Tax*	
Council Tax Payers requirement (before Parish element)	11,015,000
Council Tax Base – Band D Properties	61,132.2
Council Tax at Band D	**£180.18**

10.2 **Cabinet is asked to agree and recommend to Council Colchester's element of the Council Tax for 2017/18 at £180.18 per Band D property, which represents an increase of £4.95 (2.8%) from the current rate noting that the formal resolution to Council will include Parish, Police, Fire and County Council precepts and any changes arising from the formal Finance Settlement announcement and final completion of the business rates NNDR 1.**

11. Medium Term Financial Forecast – 2017/18 to 2020/21

11.1. This Council, in common with most other local authorities, faces an ongoing difficult position in the medium term due to a range of pressures including providing statutory services, ongoing pressures caused by maintaining several sources of fees and charges and potential revenue implications of strategic priorities. However, the most significant factor that will impact on the budget will be the level of Government funding support including the ongoing uncertainty in respect of changes to financing arrangements

11.2. The Medium Term Financial Forecast (MTFF) is attached at Appendix L showing that the Council faces a continuing budget gap over the next three years from April

2018. The following table summarises the position showing a cumulative gap over the period from 2018/19 to 2020/21 of c£2.5m

	2017/18	2018/19	2019/20	2020/21	See para
	£'000	£'000	£'000	£'000	
Net Budget	25,911	21,621	21,620	21,885	
SFA	(4,958)	(4,432)	(3,844)	(3,844)	11.4
NNDR Growth	(900)	(1,000)	(1,000)	(1,000)	11.14
New Homes Bonus	(4,783)	(3,438)	(2,753)	(2,228)	11.7
Transition Grant	(88)				
Council Tax	(11,015)	(11,434)	(11,860)	(12,293)	11.22
Reserves / Collection Fund	(4,167)	(120)	(20)	(20)	
Cumulative Gap	0	1,197	2,143	2,500	
Annual increase	0	1,197	946	357	

11.3. To formulate the MTFF it is necessary to make a number of assumptions. Generally, these do not represent decisions but are designed to show the impact of a set of options for planning purposes. The key assumptions and savings required are set out in the Appendix and summarised below:-

Government Funding and Business Rates

11.4. The SFA which comprises our RSG and baseline NNDR figure has been cut by **£0.98million in 17/18.** The reduction in RSG is in line with the 4 year funding settlement which the Council applied for and which has been agreed by Government. The following table sets out the remaining figures in the 4 year settlement which ends in 2019/20 and a planning assumption of a standstill position in 20/21. These show reduction in grant of showing a total reduction of £2.1million (35%) and specifically for the MTFF a further reduction in funding from April 2018 of £1.1m.

	Actual	**4 year settlement**				
	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Revenue Support Grant	(1,978)	(920)	(275)	446	446	
Business Rates Baseline	(3,960)	(4,038)	(4,157)	(4,290)	(4,290)	
Settlement Funding Assessment (SFA)	*(5,938)*	*(4,958)*	*(4,432)*	*(3,844)*	*(3,844)*	
Reduction (£'000)		980	526	588	0	2,094
Reduction (%)		-17%	-11%	-13%	0%	-35%

11.5. As has been previously reported the Government proposes to allocate funding on the basis of the core resources available to local authorities, taking into account councils' business rates and council tax, as well as their Revenue Support Grant. It follows that some councils with less Revenue Support Grant in later years will need to **contribute** funding from the other elements of their settlement core funding in order to meet the overall reductions to local government funding set in the Spending Review. Where this is the case, the Government proposes to adjust the relevant councils' tariff or top up under the business rates retention scheme. The table shows that by 2019/20 there will be no more RSG and that a contribution of almost £446k will be required to be made.

11.6. As set out within this report the New Homes Bonus is a key element of the financial support for local authorities and the Government has announced changes to the scheme that will reduce the grant in 2017/18 with further reductions in later years

11.7. The MTFF includes projections based on the changes proposed for the New Homes Bonus and is based on an 'average' level of growth for future years. The MTFF assumes that the New Homes Bonus will continue to be used to support the base budget, however, this will be reduced year on year to limit the risk of future changes to this grant. It is also assumed that the annual contribution of £250k to the RIF will continue and that the bonus paid for affordable housing will continue to be earmarked for housing. These assumptions are set out in the following table.

	2017/18	**2018/19**	**2019/20**	**2020/21**
	£'000	**£'000**	**£'000**	**£'000**
New Homes Bonus	**4,783**	**3,438**	**2,753**	**2,228**
Allocated to:-				
Contribution to RIF	250	250	250	250
Affordable housing allocation	277	175	175	175
Base Budget	1,633	1,483	1,333	1,183
Support for one-off schemes	2,623	1,530	995	620
Total allocation	**4,783**	**3,438**	**2,753**	**2,228**

11.8. The table shows that the level of NHB grant the Council receives is expected to be cut by £2.5m by 2020/21 on top of the cut of £0.9 million in 17/18. The Government has said it will consult on further possible changes to the NHB which could result in further reductions in grants.

11.9. Further changes in Government funding over the course of the MTFF are likely with potential reductions in grants for benefit administration for example. These are not yet factored in to the MTFF and will be considered alongside other grant changes.

Business Rates – 100% retention

11.10. The Department for Communities and Local Government's consultation on 'Self-sufficient local government: 100% Business Rates Retention', was published in July. Alongside this consultation a discussion paper on 'Fair Funding Review: Call for evidence on Needs and Redistribution' was published. Both documents are available here: https://www.gov.uk/government/consultations/self-sufficient-local-government-100-business-rates-retention.

11.11. The proposals in the consultation set out that by the end of this Parliament, local government will retain 100 per cent of taxes raised locally. In order to ensure that the reforms are fiscally neutral, councils will gain new responsibilities, and some Whitehall grants will be phased out.

11.12. To achieve such radical reform, the Government wants councils, business and people to take the initiative and shape the design of the new system. The consultation was reported to Cabinet in September and a response was provided.

The Government has not yet set out detailed plans for how the changes will be implemented.

11.13. The MTFF makes no allowance for any changes arising from the reforms and as more detailed announcements are made we will update forecasts.

11.14. The 2017/18 budget includes the assumption that we will achieve an increase above the business rates baseline of £900k. In the MTFF it has been assumed that this will continue and an increase of a further £100k for the following year is shown. This assumption will need to be reviewed in future updates of the MTFF and will be revised to reflect the emerging detail of the changes to the retention of business rates.

Pay, Inflation and costs

11.15. The 2017/18 budget includes an allowance for a pay award. For 2017/18 and beyond a sum is included for planning purposes to cover this and other inflationary pressures.

11.16. The next actuarial review of the pension fund will take place in 2019. No allowance has been included for any impact from this review, however, this will be considered in future updates. An allowance for the full year impact of pensions ‘auto enrolment’ which is due in 2017 is included. This assumption will be reviewed later in the year when the impact can be assessed.

Forecast savings

11.17. The MTFF includes forecast savings for 2018/19 and beyond. These include:-

- The anticipated savings and income from the ongoing sport and leisure review
- The revised projections for commercial services, including the events business case
- The forecast income arising from assets included within the RIF
- The ongoing digital challenge programme.

11.18. It will be necessary to closely track the delivery of these projects during the life of the MTFF and to account for any changes.

Fees and charges income

11.19. It is evident that there has been a fluctuation in some income budgets over recent years and a number of budgets have been changed to reflect these revised assumptions. On this basis the MTFF assumes a broadly neutral position over the next three years, other than additional income assumed within business cases, and this will need to be reviewed annually to ensure income targets are reasonable.

Specific Cost Pressures

11.20. The MTFF reflects that the government grant being used to support the costs of food waste collection will run out in the next two years. In addition an allowance is included for the potential change in the stadium rent and the inclusion of the revenue implication of the ICT strategy.

11.21. There remain a number of potential risks and pressures for which no allowance is currently made. These include:-

- an increase in interest costs which are currently being minimised through internal borrowing

- demands on services including those arising from growth in the Borough.
- an assessment of the potential revenue and capital impact of major projects such as Garden Communities and Northern Gateway.

Council Tax

11.22. The Government's Spending Power forecasts assume an annual increase in Council Tax of £5 for Band D properties. The MTFF has been updated to reflect this assumption, however, this does not represent a proposal. An allowance for an increase in Council Tax income through growth in the tax base of 1% pa is also included.

Summary

11.23. A realistic approach has been taken to the MTFF and it is evident that it will be necessary to revise a number of the assumptions set out. The funding changes to local government will continue with further grant reductions the move to 100% business rates retention and the Council needs to be able to respond to the impact of these changes.

11.24. In the 2017/18 budget savings and reductions of £3m have been identified which, when looked at alongside almost £12m plus identified in the budgets since 2011/12, represents a significant level of budget savings found. The MTFF shows that whilst anticipated savings from the current plans will make a significant contribution to reducing future budget gaps, further budget changes will be necessary. Whilst we will continue to look for other areas of savings and efficiencies it will be increasingly hard to balance budgets without considering variations to current services.

11.25 **Cabinet is asked to note the medium term financial forecast for the Council.**

12. Capital Programme

12.1. The current capital programme is detailed in Appendix M. It should be noted that this shows only those schemes that are currently in the approved capital programme, and as such excludes the proposals within this report and potential future schemes that have been included in the medium term capital forecast.

12.2 The latest monitoring report highlights that there is a small net underspend on the Capital Programme of £0.6k against completed schemes and it is proposed that these funds are reallocated.

12.3. A review of resources available to support the Capital Programme in the medium term has been carried out, and the following table provides a summary of the projected position for 2016/17. This shows a surplus that is available to support potential schemes in subsequent years.

Detail	**£'000**
Surplus brought forward	(576)
Capital receipts projection for 2016/17	(450)
New schemes	242
Balance available	**(784)**

12.4. There are two new items recommended for inclusion in the capital programme:

Waste Collection Strategy - £857k

12.5 Cabinet of 20 December 2016 agreed as part of the final budget report the recommendation to Council of the inclusion of this scheme in the Capital Programme. The capital expenditure requirements of the Strategy will include the costs of vehicle adaptation, the purchase of bins and green boxes and routing software. It is estimated that this will require capital expenditure of £857k based on eight rounds.

12.6 The medium term forecast of projected capital receipts and spending plans is shown in the table below reflecting the proposals within this report. This separately identifies the forecast position for the General Fund Capital Programme as well as the Revolving Investment Fund (RIF) Committee. It can be seen that the overall programme is in balance.

	2016/17 £'000	**2017/18 £'000**	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**
GENERAL FUND						
Shortfall / (Surplus) B/Fwd	(576)	(784)	(984)	(1,184)	(1,384)	(1,584)
New schemes	242	0	0	0	0	0
Capital receipts	(450)	(200)	(200)	(200)	(200)	(200)
Shortfall / (Surplus) C/Fwd	(784)	(984)	(1,184)	(1,384)	(1,584)	(1,784)
REVOLVING INVESTMENT FUND						
Shortfall / (Surplus) B/Fwd	(2,401)	2,491	2,548	10,487	5,850	3,081
New schemes	8,523	6,333	17,032	1,632	0	0
Capital receipts	(3,631)	(6,276)	(9,093)	(6,269)	(2,769)	(2,519)
Shortfall / (Surplus) C/Fwd	2,491	2,548	10,487	5,850	3,081	562
Overall Shortfall / (Surplus) C/Fwd	**1,707**	**1,564**	**9,303**	**4,466**	**1,497**	**(1,222)**

Use of 1-4-1 Right To Buy Receipts - £500k

12.7 In June 2012, the Council entered into a retention agreement with DCLG for the use of “1-4-1” Right To Buy receipts to part fund new housing for affordable or social rent. Under the terms of the agreement, any receipts not used within three years from the quarter of their generation will need to be repaid with interest. As a reminder, a proportion of these receipts were used to part-fund the building of 34 new Council House dwellings on former garage sites, funded through the Housing Revenue Account.

12.8 Opportunities are now arising where Registered Providers (RP) are approaching the Council to access this funding to help them deliver new social housing, which we would provide to them in the form of a grant. In return, the Council would receive nomination rights to the new accommodation.

12.9 Therefore, to enable these opportunities to progress, a budget needs to be included in the Capital Programme from which the grant payments can be made. A provisional sum of £500k has been included within this report, with a corresponding amount of resource to fund it, which is from the earmarked 1-4-1 receipts reserve. There is therefore no net cost to the Council.

13. Robustness of Estimates

13.1 The Local Government Act 2003 placed a specific duty on the Chief Financial Officer to report on the robustness of estimates in the budget proposals of an

Authority when the budget is being considered. This section addresses this requirement.

13.2 As set out in this paper a rigorous process and timetable has been followed throughout the budget setting activity this year involving the Cabinet, Leadership Team, Scrutiny Panel, Senior Management Team, the Budget Group and budget holders. All key assumptions used have been reviewed and scrutinised as part of this process. The result of this process has been a budget which is, in my view, challenging but deliverable.

13.3. This latest review of the budget for this financial year, 2016/17, has shown that broadly speaking most budgets have been achieved, although some one off pressures in year and also some budget variances have contributed to a forecast overspend for the year. Steps have been taken over recent years and also in 2017/18 to revise some expenditure and income budgets and in general budget targets are felt to be realistic. We have continued to see variations in some key income budgets, both positive and negative, and the monitoring of these is important to ensuring that budget variations are identified and any necessary action taken.

13.4. The savings and new income proposed in the budget have all been risk assessed. It should be noted that some of the savings shown for 2017/18 are additional savings or income following budget decisions taken already. These savings include areas identified through the outturn review and include increasing some income targets and making the assumptions that further general savings will be identified by services in year. It is reasonable to say that these and other changes have continued to reduce ‘contingencies’ within budgets and to take a slightly more optimistic view in certain areas. As such I believe service budgets are achievable but include less scope to deal with unexpected items and as such the level of balances and any corporate risk allocations remains important.

13.5. All Heads of Service have completed an exercise to identify the key assumptions and risks to their budgets and these have been reviewed as part of the balances assessment.

13.6. Whilst I consider that reasonable assumptions have been made to account for the pressures being faced there remains a degree of risk with the key areas being:-

- Meeting ongoing, and in some cases increasing, income levels in particular in respect of sport and leisure, planning, car parks and commercial services.
- Delivery in the year of certain corporate savings such as those that form part of the digital challenge and also some areas through the outturn review.
- Collection rates of Council Tax and changes in demand levels following the implementation of the LCTS scheme and other Council Tax changes
- Collection rates and level of business rates (including the impact of appeals)
- Impact on budgets relating to homelessness and other demand pressures.

13.7. The budget risks will be managed during 2017/18 by regular targeted monitoring and review at Senior Management Team and Scrutiny Panel. The Revenue Balance Risk Analysis considered these areas in establishing a minimum level of required balance of £1.9m.

13.8. The External Auditor has commented that the Council has a good track record of delivering budget targets and responding to budget pressures.

13.9 Delivery of the budget will continue to require financial discipline led by SMT in terms of a number of budget reviews and by budget holders, ensuring expenditure is not incurred without adequate available budget and that income targets are achieved. Budget managers will continue to be supported through training and advice to enable them to do this.

13.10. Regular updates on forecast expenditure will also be important to ensure the budget is managed within the expenditure constraints set out and the Council continues to develop systems to provide better financial information through greater use of our commitments system and focused monitoring of key risk areas.

13.11 **Cabinet is asked to note the comments on the robustness of budget estimates.**

14. Treasury Management and Prudential Code Indicators

14.1. The proposed Treasury Management Strategy Statement (TMSS) including the Minimum Revenue Provision Policy Statement and Annual Investment Strategy is included at **Appendix N**. The follow paragraphs contain a summary of the strategy for 2017/18, which covers the following issues:

- the capital plans and the prudential and treasury indicators;
- the Minimum Revenue Provision (MRP) Policy;
- the current treasury position;
- the economic background and prospects for interest rates;
- the borrowing strategy;
- the investment policy and strategy, and credit worthiness policy; and
- the policy on use of external service providers.

14.2. The Council's Prudential and Treasury Indicators for 2017/18 through to 2019/20 have been produced to support capital expenditure and treasury management decision making, and are designed to inform whether planned borrowing and the resultant revenue costs are affordable and within sustainable limits. The indicators take into account all the economic forecasts and proposed borrowing and investment activity detailed in the report, as well as the latest medium term revenue and capital forecasts.

14.3. The Minimum Revenue Provision (MRP) Policy Statement for 2017/18 states that the historic debt liability will continue to be repaid on an equal instalment basis over a period of 50 years, with the charge for more recent capital expenditure being based on the useful life of the asset and charged using the equal annual instalment method.

14.4. The UK bank rate was cut from 0.50% to 0.25% in August 2016, having been at the previous historical low since March 2009. The current view from the Council's treasury advisers is that the Bank Rate is now expected to remain unchanged until quarter 2 of 2019. **Appendix A to the TMSS** draws together a number of current forecasts for short term and longer term interest rates.

14.5. The Council is currently maintaining an under-borrowed position. The borrowing strategy is to reduce the difference between gross and net debt by continuing to ‘borrow internally’, which is primarily due to investment rates on offer being lower than long term borrowing rates. This has the advantages of maximising short-term savings and reducing the Council’s exposure to interest rate and credit risk. However, against this, the long term saving resulting from borrowing at very low rates should be considered. Consequently this approach will be kept under review during the year.

14.6. Investment instruments identified for use in 2017/18 are detailed in **Appendix B to the TMSS**. It should be noted that whilst this table includes a wide range of investment instruments, it is likely that a number of these will not be used. However, their inclusion enables the required credit controls to be stated if their use is to be considered.

14.7. The investment policy reflects the Council’s low appetite for risk, emphasising the priorities of security and liquidity over that of yield. The main features of the policy are as follows:

- The Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties, which also enables diversification and avoidance of concentration risk.
- The Council applies the creditworthiness service provided by Capita Asset Services, which combines ratings and other data from credit rating agencies with credit default swaps and sovereign ratings.
- The Council will only use approved counterparties from countries with a minimum credit rating of ‘AA-’, based on the lowest available rating (**Appendix C to the TMSS**). However, this policy excludes UK counterparties.
- The suggested budgeted return on investments placed for periods up to 100 days during the year is 0.25%.

14.8 **Cabinet is asked to agree and recommend to Council the 2017/18 Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy as set out in the paper at Appendix N**

15. Strategic Plan References

15.1. The 2017/18 budget and the Medium Term Financial Forecast is underpinned by the Strategic Plan priorities and will seek to preserve and shift resources where needed to these priorities.

15.2. Appendix O provides an assessment of the links between the Strategic Plan and budget strategy.

16. Financial Implications

16.1 As set out in the report.

17. Publicity Considerations

17.1 Arrangements will be made to publish the approved tax levels in the local press in accordance with the legal requirements.

18 Human Rights Implications

18.1. None

19. Equality and Diversity

19.1. Consideration has been given to equality and diversity issues in respect of budget changes proposed as part of the budget process. This has been done in line with agreed polices and procedures including production of Equality Impact Assessments where appropriate.

20. Community Safety Implications

20.1 None

21. Health and Safety Implications

21.1 There are possible implications with removal of resources and some of the proposed savings, but each case has been reviewed and dealt with individually to mitigate or ensure risk is minimised.

22. Risk Management Implications

22.1 Risk management has been used throughout the budget process and specific consideration has been given to the Council's current risk profile when allocating resources. This is reflected in the corporate risk register.

23. Consultation

23.1. The budget will be scrutinised by Scrutiny Panel on 31st January 2017. The statutory consultation with NNDR ratepayers takes place in early February 2017 and notes of the meeting will be provided in due course.

Background Papers
Budget reports to Cabinet – 30 November 2016

2017/18 Budget Timetable	
Budget Strategy	
March – June (SMT and Budget Group)	Budget Group Meetings Agreed Update MTFF /Budget Strategy Review potential cost pressures, growth and risks Consider approach to budget Initial budget reviews started
Cabinet – 13 July 16	• Review 15/16 outturn • Report on updated budget strategy / MTFF • Timetable approved
Scrutiny Panel – 19 July 16	Review Cabinet report
Detailed Budget preparation and Budget Setting Consultation	
Budget Group / Leadership Team regular sessions on progress / budget options now - December	Review budget tasks Consider delivery of existing budget savings Complete outturn review
Cabinet – 7 September 16 and /or 12 October 16	• Budget Update • Consider "4 year settlement" • Review of capital resources / programme
Cabinet – 30 November 16	• Budget update • Reserves and balances • Agree fees and charges / budget changes • Government Finance settlement (if available) • Review in year budget position
Scrutiny Panel – 31 January 17	Budget position (Detailed proposals)
Cabinet – 1 February 17	Revenue and Capital budgets recommended to Council
Council – 22 February 17	Budget agreed / capital programme agreed / Council Tax set

Appendix B

2017/18 New Homes Bonus

	Actual						Provisional
	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Basic NHB							
Growth re 09/10	724	724	724	724	724	724	nil
Growth re 10/11		749	749	749	749	749	nil
Growth re 11/12			986	986	986	986	986
Growth re 12/13				757	757	757	757
Growth re 13/14					1,185	1,185	1,185
Growth re 14/15						1,025	1,025
Growth re 15/16							553
Total basic NHB	***724***	***1,473***	***2,459***	***3,216***	***4,401***	***5,426***	***4,506***
Affordable Housing element							
re 10/11 delivery		52	52	52	52	52	nil
re 11/12 delivery			105	105	105	105	105
re 12/13 delivery				37	37	37	37
re 13/14 delivery					20	20	20
re 14/15 delivery						74	74
re 15/16 delivery							41
Total affordable homes bonus	*0*	*52*	*157*	*194*	*214*	*288*	*277*
Total New Homes Bonus	**724**	**1,525**	**2,616**	**3,410**	**4,615**	**5,714**	**4,783**

APPENDIX C

2017/18 Revenue Cost pressures

Heads of Service / Portfolio Holders have been asked to contain cost pressures within existing budget allocations wherever possible. The following are specific areas where budget allocations have been increased. Changes since the report to Cabinet on 30th November 2016 are highlighted in the updated allowance column.

	Current allowance	**Updated Allowance**	
	£'000	**£'000**	**Comment**
General Inflation	640	389	The revised inflation allowance reflects the latest assumption in respect of pay and prices. The allowance is less in part due to some specific cost pressures being identified separately.
Pensions – actuarial review impact	250	206	The cost pressure shown relates an increase in the employer contribution rate set as part of the actuarial review. The issue of the deficit position is considered separately within the report.
Pensions auto-enrolment	200	50	The allowance for the impact of pensions 'auto enrolment' which is due in 2017 has been reduced. At this stage there is no certainty as to the extent to which more employees will decide to stay in the scheme after auto enrolment. Therefore, it is proposed to reduce the provision for this in the budget and to consider the implication of the actual cost when it is known in the Autumn.
Welfare reform	26	26	Incremental cost for additional resources agreed by Cabinet in November 2015. Funding in part from allocation from balances.
Benefit payments		85	There is a forecast net pressure of £85k of benefit costs in respect of assumptions in respect of additional benefit costs relating to homelessness offset by other benefit subsidy changes.

	Current allowance	Updated Allowance	
	£'000	£'000	Comment
Net interest		120	It has been highlighted during the year that interest earned would be lower following reductions in interest rates. This also includes an allowance for the cashflow impact of the one off pensions payment.
Business rates revaluation		100	The revaluation has resulted in a net increase in business rates paid by the Council. The main increases relate to Council car parks, with some reductions including Colchester Leisure world.
Apprenticeship levy		120	The Apprenticeship Levy starts from April 2017 and requires employers operating in the UK with a pay bill over £3 million each year to invest in apprenticeships via an apprenticeship levy charged at a rate of 0.5% of the annual pay bill. For CBC, this means we will be required to set aside £120k in the first year which CBC will be able to draw down to pay for apprenticeship training only. The levy cannot be used to pay for the salaries, however it can also be used to train and develop existing CBC staff who do not have a degree. CBC will lose the levy if it is not spent within a year.
Staff costs		188	As part of the detailed budget exercise there are a number of pressure from temporary roles that are continuing and require funding. These include positions linked to income, such as resources to maximise business rate income and to deliver the business broadband project. In addition, there is the continuation of resources to support the delivery of the northern gateway project. It is proposed to use some balances to support these roles.
Other service pressures		177	There are a number of cost pressures within Commercial Services. These include increased rent and service charge costs for Rowan House (£62k), Town Hall car park costs and loss of income (£51k) and other costs and income pressures within Estates and facilities management.

	Current allowance	Updated Allowance	
	£'000	**£'000**	**Comment**
Waste Review - one off costs		72	One off costs of waste review implementation (excl. costs met from grant).
NEPP - removal of funding from ECC		150	Essex County County are no longer providing an annual contribution of £150k towards TRO (Traffic Regulation Order) work. This will be absorbed within NEPP budgets from 18/19 but it is proposed that earmarked parking reserves in 17/18 are used to provide transitional funding.
Technical items		13	There are a number of miscellaneous net cost pressures arising from changes in charges between the General Fund, HRA and the NEPP.
Total	**1,116**	**1,696**	

APPENDIX D

2017/18 Growth Items

The following are growth items included in budget proposals. Changes since the report to Cabinet on 30th November 2016 are highlighted.

	Current allowance	Updated Allowance	
	£'000	£'000	Comment
Locality budgets	102	102	An allowance has been built into the budget forecast to continue the locality budgets of £2,000 for Ward Councillors in 2017/18.
Reduced use of NHB in base budget	150	150	It is proposed that the Council continue to reduce the level of New Homes Bonus supporting the base budget.
Allocation for recurring investment in Strategic Plan priorities		110	As part of the budget, proposals have been made to deliver savings in order to reallocate resources to invest in strategic plan priorities. Specific decisions will be made in future reports.
	252	**362**	

Appendix E

Savings and Income – 2017/18

Service	**Opportunity**	**2017/18**	**Comments**
		£'000	
Efficiencies, Income and Service Reviews			
All Services	Outturn Review / income	580	A review of last year's outturn position and earlier years alongside progress to date this year has identified the potential to revise certain budgets assumptions. These relate to savings in employee budgets through increasing the 'vacancy factor' and changes to the car park and planning income budgets.
Operational Services	Sport & Leisure Business Case	94	First year savings as shown in report to Cabinet. A further £50k saving is shown within the reduced allocation for inflation.
Commercial Services	Commercial income	113	Updated forecast to reflect assumed additional income and savings within commercial trading services.
Commercial Services	Assets	154	Additional income arising from activities agreed from the Revolving Investment Fund (RIF).
Operational Services	Waste review	38	Cabinet has agreed the waste review which identified net savings in 17/18 or £38k (excluding one off costs which are considered separately in this report.
Various Services	LACM	50	Cost reductions are expected through various carbon management savings identified in the Local Authority Carbon Management (LACM) Plan.
Operational Services	Butt Road car park	42	The current budget includes provision for the rent for the Butt Road car park, however, following negotiations a 'peppercorn rent' has now been agreed resulting in a budget saving.

Service	Opportunity	2017/18	Comments
		£'000	
All Services	Digital Challenge	570	Forecast savings and income arising from activities included in the digital challenge programme. This includes:- • £320k of savings within service budgets such as income through the agreed ultra high speed broadband project. • £250k of corporate savings through identification of savings through 'smarter working' and also through reduced costs of postage and printing.
Corporate & Financial Management	Reduced implementation resources	80	Following consideration of resources to deliver the changes set out in the digital challenge it is considered possible to reduce the allowance previously allocated from £150k to £70k.
Commercial Services	Reduced resources within Commercial Services	35	Resources were originally allocated as part of Universal Customer Contact FSR to support reviews of commercial / trading services. It is now considered to be the right time to review and reduce these resources to deliver a saving.
Professional Services	Reduced resources within Land Charges as part of restructure following retirement of staff.	10	Reduced resources are not expected to impact on service or income target.
Community Services	Restructure of some specific roles within Zone team.	15	Consideration has been given to absorbing certain duties within the zone teams.
Total income & efficiencies		**1,781**	**60%**
Budget Reductions			
Corporate & Financial Management	Parish Grants re: LCTS scheme	13	Reduction in grants as approved by Cabinet.
Total reductions		**13**	**0%**

Service	Opportunity	2017/18	Comments
		£'000	
Corporate / technical items			
Technical	Minimum Revenue Provision (MRP)	93	Reduced cost following change in policy agreed by Cabinet in September 2016 in respect of MRP on capital expenditure incurred before April 2008.
Technical	Council Tax Sharing Agreement	150	Income from the agreement with ECC, Essex Police and Crime Commissioner and Essex Fire Authority has exceeded the budget in the last two years and therefore it is proposed to increase the 2017/18 budget. There is a risk to this target, however, we have been carrying forward surplus income in the last two years which therefore provides a degree of comfort that this income will be achieved.
Various Services	Reduction in investment funded from New Homes Bonus	921	As set out in this report the New Homes Bonus methodology has been reviewed and has resulted in a cut to the grant which means that the funding allocated for one off projects has been reduced.
Commercial Services	Reduction in affordable homes investment funded from New Homes Bonus	10	As above, but specifically in respect of the bonus paid for delivering affordable homes.
Total corporate / technical items		**1,174**	**40%**
Total		**2,968**	

Appendix F

Summary Budget 20017/18

	Adjusted Base Budget	One-Off Items	Cost Pressures	Growth Items	Technical Items	Total Savings	Detailed 17/18 Budgets
		£'000	£'000	£'000	£'000	£'000	£'000
Corporate & Democratic Core	227						227
Corporate & Financial Management	6,202	(19)	445			(67)	6,561
Executive Management Team	605		17				622
Community Services	6,191	(147)	179	102		(150)	6,175
Commercial Services	1,665	(50)	420			(422)	1,613
Customer Services	2,375	(70)	263			(78)	2,490
Operational Services (excl. NEPP)	1,166		260			(352)	1,074
Professional Services	2,250	(142)	156			(244)	2,020
Total General Fund Services	**20,681**	**(428)**	**1,740**	**102**	**0**	**(1,313)**	**20,782**
Technical Items							
Corporate Items / sums to be allocated to services							
Procurement Savings	(15)						(15)
Investment Allowance funded by New Homes Bonus	3,573	70		150		(921)	2,872
Business Rates revaluation	0		100				100
Apprenticeship Levy	0		120				120
Waste Review	0		56			(38)	18
Strategic Plan (funded by 15/16 NHB)	205	(205)					0

	Adjusted Base Budget	One-Off Items	Cost Pressures	Growth Items	Technical Items	Total Savings	Detailed 17/18 Budgets
		£'000	£'000	£'000	£'000	£'000	£'000
Allocation to support Strategic Plan	0			110			110
Digital Challenge implementation	150					(80)	70
Smarter Working	0					(200)	(200)
Digital Challenge - Post & Print	(50)					(50)	(100)
Inflation Reduction	0		(100)				(100)
Additional Service Savings	0					(60)	(60)
LACM	0					(50)	(50)
Non-Service Budgets							
Parish Council Grants / LCTS	91					(13)	78
Net interest Budget	418		120				538
Repair & Renewals Contribution	150						150
Minimum Revenue Provision (MRP)	653					(93)	560
Pensions	2,136		2,985				5,121
Council Tax Sharing Agreement	(650)					(150)	(800)
Heritage Reserve & Gosbecks Reserve	3						3
GF/HRA/NEPP Adjustment	(3,298)		12				(3,286)
Total Below the Line	3,366	(135)	3,293	260	0	(1,655)	5,129
Total incl. Below the line	**24,047**	**(563)**	**5,033**	**362**	**0**	**(2,968)**	**25,911**
Funded by:-							
Use of balances: re carry forwards	(426)	426			(77)		(77)
General use of balances	(462)	462			(422)		(422)

	Adjusted Base Budget	One-Off Items	Cost Pressures	Growth Items	Technical Items	Total Savings	Detailed 17/18 Budgets
		£'000	£'000	£'000	£'000	£'000	£'000
Use of balances for one-off Pension costs funding	0				(3,173)		(3,173)
Use of other Earmarked Reserves	0				(475)		(475)
Use of Business Rates Reserve	(1,537)	1,537			(489)		(489)
Use of S.106 Reserve	(20)						(20)
Revenue Support Grant	(1,978)		1,058				(920)
Business Rates Baseline	(3,960)		(78)				(4,038)
Transition Grant	(88)						(88)
NNDR Growth above Baseline	(800)				(100)		(900)
Council Tax	(10,599)				(416)		(11,015)
Collection fund Transfer	(353)	353			(48)		(48)
New Homes Bonus	(5,714)				931		(4,783)
NNDR Deficit / (Surplus)	1,890	(1,890)			537		537
Total	**(24,047)**	**888**	**980**	**0**	**(3,732)**	**0**	**(25,911)**

Appendix G

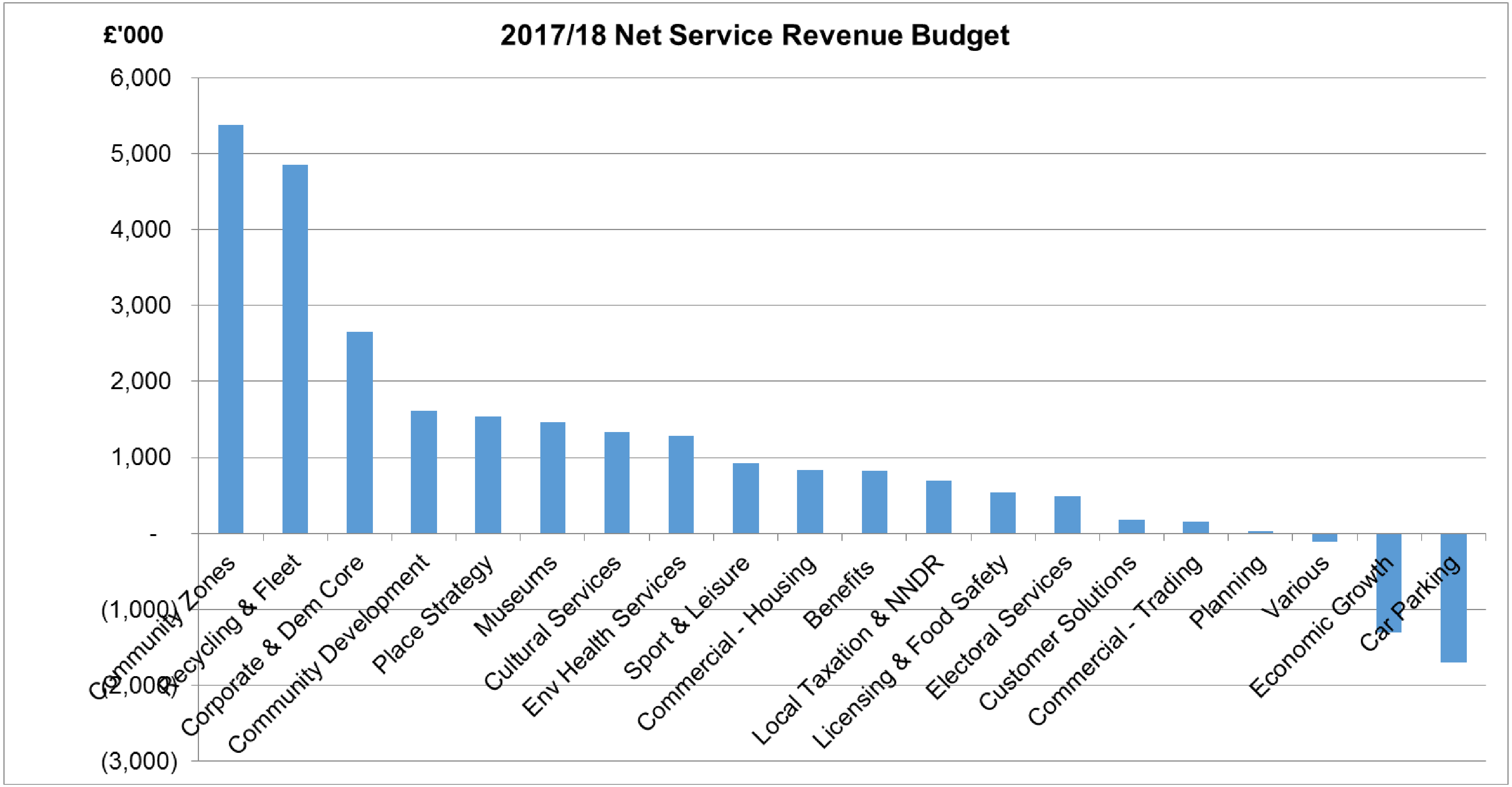
Detailed General Fund Service Budgets 2017/18

	Direct Budgets				Non-Direct Budgets	
Area	**Spend**	**Income**	**Net**		***Net***	**Total**
	£'000	**£'000**	**£'000**		***£'000***	**£'000**
Corporate & Democratic Core	227	-	227		*2,430*	2,657
Total	**227**	**-**	**227**		***2,430***	**2,657**
Corporate & Financial Management						
Assistant Chief Executive	156	-	156		*(156)*	-
Finance	805	(17)	788		*(788)*	-
ICT and Communications	2,606	(186)	2,420		*(2,420)*	-
People and Performance	536	(14)	522		*(522)*	-
Governance	2,937	(262)	2,675		*(2,624)*	51
Total	**7,040**	**(479)**	**6,561**		***(6,510)***	**51**
Executive Management Team						
EMT	622	-	622		*(622)*	-
Partner Projects	-	-	-		-	-
Total	**622**	**-**	**622**		***(622)***	**-**
Community Services						
Head of Community Services	136	-	136		*(136)*	-
Cultural Services	709	(122)	587		*753*	1,340
Community Zones	4,518	(804)	3,714		*1,663*	5,377
Community Development	1,214	(156)	1,058		*556*	1,614
Colchester Museums	51	(449)	(398)		*3*	(395)
Subtotal	**6,628**	**(1,531)**	**5,097**		***2,839***	**7,936**
Colchester & Ipswich Museums	2,098	(1,020)	1,078		*781*	1,859
Total	**8,726**	**(2,551)**	**6,175**		***3,620***	**9,795**
Commercial Services						
Head of Commercial Services	28	-	28		*(28)*	-
Place Strategy	1,599	(138)	1,461		*83*	1,544
Economic Growth	1,447	(3,563)	(2,116)		*811*	(1,305)
Corporate Asset Management	2,022	(99)	1,923		*(1,884)*	39
Commercial - Trading	2,682	(3,350)	(668)		*821*	153
Commercial - Housing	1,914	(929)	985		*(151)*	834
Total	**9,692**	**(8,079)**	**1,613**		***(348)***	**1,265**
Customer Services						
Head of Customer Services	43	-	43		*(43)*	-
Customer Operations	1,679	-	1,679		*(1,679)*	-

	Direct Budgets				Non-Direct Budgets	
Area	**Spend**	**Income**	**Net**		***Net***	**Total**
Customer Demands & Research	522	(25)	497		*(497)*	-
Customer Solutions	1,343	(452)	891		*(708)*	183
Local Taxation & NNDR	459	(635)	(176)		*874*	698
Subtotal	**4,046**	**(1,112)**	**2,934**		***(2,053)***	**881**
Benefits - Payments & Subsidy	56,602	(57,046)	(444)		*1,262*	818
Total	**60,648**	**(58,158)**	**2,490**		***(791)***	**1,699**
Operational Services						
Head of Operational Services	28	-	28		*(28)*	-
Sport & Leisure	4,457	(4,930)	(473)		*1,400*	927
Recycling & Fleet	6,988	(2,661)	4,327		*528*	4,855
Car Parking	880	(3,838)	(2,958)		*1,251*	(1,707)
Subtotal	**12,353**	**(11,429)**	**924**		***3,151***	**4,075**
Parking Partnership (NEPP)	3,071	(2,871)	200		*(31)*	169
Total	**15,424**	**(14,300)**	**1,124**		***3,120***	**4,244**
Professional Services						
Head of Professional Services	38	-	38		*(38)*	-
Licensing & Food Safety	560	(468)	92		*451*	543
Environmental Health Services	863	(105)	758		*526*	1,284
Electoral Services	279	(29)	250		*235*	485
Prof Support Units	1,842	(214)	1,628		*(1,678)*	(50)
Land Charges	149	(349)	(200)		*49*	(151)
Planning	609	(1,155)	(546)		*575*	29
Total	**4,340**	**(2,320)**	**2,020**		***120***	**2,140**
Adjustment for NEPP use of balances	-	**150**	150		-	150
Total (excl. NEPP)	**103,648**	**(82,866)**	**20,782**		***1,050***	**21,832**

*Non-direct budgets reflect recharges between service areas and technical accounting charges. These are shown to present the full cost of services.

Appendix H


£'000
2017/18 Net Service Revenue Budget
6,000
5,000
4,000
3,000
2,000
1,000
-
(1,000)
(2,000)
(3,000)
Community Zones
Recycling & Fleet
Corporate & Dem Core
Community Development
Place Strategy
Museums
Cultural Services
Env Health Services
Sport & Leisure
Commercial - Housing
Benefits
Local Taxation & NNDR
Licensing & Food Safety
Electoral Services
Customer Solutions
Commercial - Trading
Planning
Various
Economic Growth
Car Parking

Appendix I

General Fund Balances – Risk Assessment

A risk assessment has been undertaken to determine the prudent level of general fund balances as part of the 2017/18 budget process. This has been carried out with reference to specific risk allocation sums held within balances

Historically we have maintained a strong level of balances and these have been used to:-

- Support the annual budget - particularly to fund one off items.
- Fund new initiatives identified during the year.
- Provide cover for cashflow and emergency situations.
- Provide flexibility and a resource for change management.

Risk Assessment

The results of the current assessment are summarised below.

	Assessed Risk			Comment
Factor	**High**	**Med**	**Low**	
	£'000	**£'000**	**£'000**	
Cash Flow	1,000			
Inflation		100		
Investment Income	75			
Trading Activities and fees and charges		200		
Benefits		200		Separate allocation also held in balances
New legal commitments			100	
Litigation		150		
Partnerships			100	
VAT Exemption Limit			450	Increased to £450k in 16/17 representing current impact.
Budget Process		150		Increased in 16/17by £50k to reflect removal of contingency sums
Revenue impact of capital schemes			150	
Impact of Local Government Finance reforms	300			Maintained, given funds held in earmarked reserve and balances
	1,375	800	800	

	Risk	%	Minimum provision
High Risks	1,375	100	1,375
Medium Risks	800	50	400
Low risks	800	10	80
Sub total			**1,855**
Unforeseen factors			45
Recommended level			**1,900**

This shows the minimum level of balances be maintained at £1.9 million. It is then a matter of judgement whether it would be desirable to hold any further level of balances beyond this, or to seek to rebuild balances above this level to provide for future flexibility.

The main issues to mention concerning the assessment are: -

- The key reason for proposing to increase balances in 2013/14 was the new risks associated with major Local Government reforms such as the creation of a Local Council Tax Support Scheme and the local retention of business rates. This remains a key risk area.

- While the possible requirement to meet capital spending from revenue resources a potential risk it is no longer shown in the assessment as it is classed as "nil" because of the current level of funds held in the capital expenditure reserve and the introduction of the Prudential Code.

- Net investment income has been identified as a risk area. In last year's risk assessment this was classified as a "high risk" and due to the continuing uncertainty in the world economy this has been maintained.

- The assessment includes the risk that the VAT exemption limit will be exceeded with a consequent loss of recoverable VAT. Regular monitoring and active management of new schemes minimises this risk.

Implications

The risk assessment will be carried out at least annually as part of the budget process. While the current assessment indicates a minimum level it is important to recognise that there are implications of operating at this level. As noted above we have traditionally had a level of balances that have provided flexibility and enabled new initiatives to be considered outside the annual budget process. Operating at the minimum level requires an approach and a discipline to: -

- Ensure all spending aspirations for the coming year are assessed as part of the annual budget process. The continued development of the Medium Term Financial Forecast will assist in this.
- Recognise that it will not be possible to draw on balances to fund new discretionary initiatives identified in the year, however desirable they may be; an alternative source of funding would need to be identified.
- Realise future assessments could identify a need to rebuild balances
- Accept that the potential for interest earnings on balances will change depending on the level of balances held. (This will be reflected in the budget accordingly).
- Acknowledge that any balances desired for future flexibility/change management will need to be built up over and above the prudent level identified.

In addition it is acknowledged that it may be necessary for balances to fall below the recommended level. Balances are provided to mitigate unbudgeted cost pressures and as such at times they may be used to provide temporary support to the Council's budget.

General Fund Balances Position

Balances						
	Allocated	Risk allocations	Unallocated	Total		Note
	£'000	£'000	£'000	£'000		
Opening balance 1/4/16	**(6,985)**	**(863)**	**(2,514)**	**(10,362)**		per 15/16 accounts
Budget Carry Forwards:-						
Service Budget c/fs	1,475			1,475		
New Homes Bonus	1,008			1,008		
New allocations agreed Cabinet	128			128		Agreed by Cabinet – November 2015
Colchester & Ipswich Museum Service (CIMS)	188			188		Use of balances subject to decisions made by joint Committees.
North Essex Parking Partnership (NEPP)	179			179		
Council Tax Sharing agreement	271			271		Includes carry forward sum from previous years.
Funding allocation for Borough Investment For All	143			143		Agreed by Cabinet in 15/16, some funding c/f and some reallocated.
Funding allocations held in balances						
Allocations in previous years c/f	350			350		Allocations against specific projects. This has been reviewed as part of the final budget report and certain allocations are no longer required.
Redundancy costs	473			473		Includes pension strain costs. Cost more likely in later years.
Right to challenge - Gov't funding	46			46		

Balances						
	Allocated	Risk allocations	Unallocated	Total		Note
	£'000	£'000	£'000	£'000		
Agreed use of balances in 16/17:-						
Use of earmarked balances for welfare reform	76			76		Agreed by Cabinet November 15
Use of balances to support budget	386			386		Agreed by Cabinet November 15
Funding budget carry forwards	426			426		Agreed by Cabinet November 15
Funding previously held for Street Lights	185			185		Agreed by Cabinet March 16
Garden communities	250			250		Agreed by Cabinet in July 2016
Building Control	101			101		Agreed by Cabinet in July 2016, however, as project is now not going ahead this may not all be required, but held at this stage.
Use of allocation for planning appeals	170			170		Spend in year from risk allocation.
Underspends in year to be c/f	(32)			(32)		
Change in use of grants in previous years	(48)			(48)		
Potential use of balances in year			**240**	240		Based on last reported outturn forecast.
Total use in 16/17	**5,775**	**0**	**240**	**6,015**		
Proposed use in 17/18						
NNDR / Welfare reform	102			102		Use of balances agreed arising from reforms.
Support for digital challenge in 17/18	150			150		
Use for waste review	72			72		Balance of funding for one off costs.
General budget support	98			98		As set out in this report
Carry forwards	77			77		
Total proposed use in 17/18	**499**	**0**	**0**	**499**		

Balances					Note
	Allocated	Risk allocations	Unallocated	Total	
	£'000	£'000	£'000	£'000	
Use of balances in later years or risk allocations					
Community Stadium - rent adjustment	500			500	Provision for one-off reduction in rent
NNDR / Welfare reform	50	172		222	Provision for impact arising from reforms.
Support for 18/19 budget	50			50	
Planning appeals, legal, HR etc- risk allocation		241		241	£170k spent in 16/17. Balance held against other risks.
Housing benefit - risk allocation		300		300	Agreed in 15/16 budget and proposed to be increased by £170k to reflect increased risk relating to benefits.
Collection Fund - risk allocation		150		150	Agreed in 15/16 budget
Think Global, Act Local	180			180	Agreed by Cabinet 12 October 2016. Some costs may be incurred in 16/17. £20k of this assumed to be used to support staff resource in 17/18 budget
Total later years allocations	**780**	**863**	**0**	**1,643**	
Uncommitted / unallocated Balance	**69**	**0**	**(2,274)**	**(2,205)**	
Recommended level			(1,900)	(1,900)	Proposed level
Surplus above recommended level	**69**	**0**	**(374)**	**(305)**	

Appendix K

Earmarked Reserves and Provisions

Reserve	Amount at 31/03/16	Transfers - In	Transfers - Out	Estimate at 31/03/17	Allocated / Committed	Unallocated
	£'000	£'000	£'000	£'000	£'000	£'000
Renewals and Repairs (incl Building Maintenance Programme): Maintained for the replacement of plant and equipment and the maintenance of premises.	1,791	500	(400)	1,891	1,891	-
Insurance: To cover the self-insurance of selected properties.	384	25	(10)	399	-	399
Capital Expenditure: Revenue provision to fund the capital programme. The reserve is fully committed to funding the current capital programme.	1,851	3,200	(700)	4,351	4,351	-
Asset Replacement Reserve: A reserve for the future replacement of vehicles and plant. The vehicle replacement policy has been reviewed. Revenue contributions to this reserve have now ceased and the funding is now sourced from the Council's Capital Programme.	104	-	-	104	-	104
Gosbecks Reserve: Maintained to provide for the development of the Archaeological Park. The main source of funding was a 'dowry' agreed on the transfer of land.	225	2	(26)	201	201	-

Reserve	Amount at 31/03/16	Transfers - In	Transfers - Out	Estimate at 31/03/17	Allocated / Committed	Unallocated
	£'000	£'000	£'000	£'000	£'000	£'000
Heritage Reserve: This represents balance held of museums donations and as such represents a small element of the Council's support to heritage schemes.	11	5	(2)	14	-	14
Hollies Bequest: Provision for the upkeep of open space.	2	-	(2)	-	-	-
Section 106 Monitoring: Required for future monitoring of Section 106 agreements. From 2015/16 it was set at £20k per year.	35	20	(20)	35	35	-
Revenue Grants Unapplied: Under new accounting rules any grant received where there are no clear conditions that the grant is repayable if not spent now have to be transferred to this reserve. For all these grants proposals for use of the money exist and the funds are held in the reserve until the money is spent.	2,217	-	(600)	1,617	1,617	-

Reserve	Amount at 31/03/16	Transfers - In	Transfers - Out	Estimate at 31/03/17	Allocated / Committed	Unallocated
	£'000	£'000	£'000	£'000	£'000	£'000
Parking Reserve: As part of the existing 'on street' parking arrangements there is requirement to keep any surplus funds separate from the General Fund. With the North Essex Parking Partnership (NEPP) there is also a requirement to hold separately funds provided to support TRO (Traffic Regulation Order) work and also initial funding provided by Essex County Council	694	-	-	694	694	-
Building Control: The Building (Local Authority Charges) Regulations came into force on 1 April 2010. The new charges allow Building Control to more accurately reflect the cost of chargeable services. In any year there is therefore the likelihood of a balance on this account that must be assessed as part of ongoing charges.	-	-	-	-	-	-
Heritage Mersea Mount: Funding received from English Heritage towards costs relating to Mersea Mount.	11	-	-	11	11	-

Reserve	Amount at 31/03/16	Transfers - In	Transfers - Out	Estimate at 31/03/17	Allocated / Committed	Unallocated
	£'000	£'000	£'000	£'000	£'000	£'000
Mercury Theatre: Provision for the building's long term structural upkeep. Accumulated funds have been used to support roof repairs to the Mercury Theatre.	46	25	(10)	61	61	-
Business Rates Reserve: Maintained to cover the risk of any residual issues resulting from the introduction of the Local Business rates Retention scheme.	3,290		(1,537)	1,753	489	1,264
Revolving Investment Fund Reserve: Maintained as a way to deliver income-producing development schemes and regeneration/economic growth projects. The three main sources of funding into the RIF are existing capital programme allocations, capital receipts and revenue funding. Revenue funding will be held in this reserve until it is required for future capital schemes or revenue expenditure as necessary.	1,026	250	(400)	876	876	-
Total General Fund	**11,687**	**4,027**	**(3,707)**	**12,007**	**10,226**	**1,781**

Reserve	Amount at 31/03/16	Transfers - In	Transfers - Out	Estimate at 31/03/17	Allocated / Committed	Unallocated
	£'000	£'000	£'000	£'000	£'000	£'000
HRA Retained Right To Buy (RTB) Receipts - Debt: Reserve following Government changes to the RTB scheme. From 2012/13 the Council can retain a proportion of RTB receipts to offset debt taken on by the HRA Self-Financing settlement. The reserve must be used for HRA purposes.	2,492	1,400	-	3,892	3,892	-
HRA Retained Right To Buy (RTB) Receipts - Replacement: Reserve following Government changes to the RTB scheme. From 2012/13 the Council can retain a proportion of RTB receipts to fund affordable housing development. Receipts held within the reserve must be used within 3 years for this purpose; otherwise they must be repaid to the Government.	1,750	2,250	(200)	3,800	3,800	-
Total HRA	**4,242**	**3,650**	**(200)**	**7,692**	**7,692**	**-**
Total	**15,929**	**7,677**	**(3,907)**	**19,699**	**17,918**	**1,781**

Provision	Amount at 31/03/16	Transfers - In	Transfers - Out	Estimate at 31/03/17	Allocated / Committed	Unallocated
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Insurance: This element of the fund is specifically set aside as a provision to meet the cost of identified claims including subsidence. It also includes a contingency for liable costs if a previous insurer, which has gone into administration, is unable to remain solvent.	438	60	-	498	498	-
NNDR Appeals: The Council has created a provision to meet the financial impact of successful appeals made against rateable values as defined by the Valuation Office as part of the Business Rates Retention scheme introduced from 1 April 2013.	2,989	862		3,851	3,851	-
Total	**3,427**	**922**	**-**	**4,349**	**4,349**	**-**

APPENDIX L

Medium Term Financial Forecast 2017/18 to 2020/21				
	2017/18	**2018/19**	**2019/20**	**2020/21**
	£'000	**£'000**	**£'000**	**£'000**
Base Budget	24,047	25,911	21,621	21,620
15/16 One-off items	(452)			
Cost Pressures	5,033	(2,395)	812	640
Growth Items	362	454	354	150
Savings	(2,968)	(2,349)	(1,167)	(525)
Carry forward items	(111)			
Forecast Base Budget	**25,911**	**21,621**	**21,620**	**21,885**
Funded By:				
Revenue Support Grant	(920)	(275)	446	446
Business Rates Baseline	(4,038)	(4,157)	(4,290)	(4,290)
SFA	*(4,958)*	*(4,432)*	*(3,844)*	*(3,844)*
Increase in NNDR / taxbase above baseline	(900)	(1,000)	(1,000)	(1,000)
New Homes Bonus	(4,783)	(3,438)	(2,753)	(2,228)
Transition Grant	(88)			
Total Gov't grants	***(10,729)***	***(8,870)***	***(7,597)***	***(7,072)***
Council Tax	(11,015)	(11,434)	(11,860)	(12,293)
Collection Fund Deficit / (Surplus)	(48)	0	0	0
Business Rates Deficit / (surplus)	537	0	0	0
Use of Reserves	(4,656)	(120)	(20)	(20)
Total Funding	**(25,911)**	**(20,424)**	**(19,477)**	**(19,385)**
Budget (surplus) / gap before changes (cumulative)	**0**	**1,197**	**2,143**	**2,500**
Annual increase	**0**	**1,197**	**946**	**357**

	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000
Cost Pressures				
General Inflation	389	640	640	640
Pensions actuarial review	206			
Pensions actuarial review - impact of one off payment	2,935	(2,935)		
Elections		105		
Pensions - auto enrolment	50	150		
Budget Carry forwards	402	(402)		
NEPP - reduction in income from ECC for TROs	150			
ICT strategy - ongoing cost			200	
Stadium rent		128	22	
Benefit payments	85			
Interest	120			
Business rates revaluation	100			
Apprenticeship levy	120			
Staff resources	188			
Various Service pressures	177	43		
Waste Review -one-off (excl. transition grant)	72	(72)		
Various technical items	13			
Welfare reform	26	(52)	(50)	
Total	**5,033**	**(2,395)**	**812**	**640**
Growth Items				
Food Waste (net impact of loss of grant)		304	204	
Locality budgets	102			
Reduced use of NHB in base budget	150	150	150	150
Strategic Plan growth	110			
Total	**362**	**454**	**354**	**150**

Savings (incl. one off adjustments)				
Council Tax sharing agreement	(150)	250		
LCTS grant to parishes	(13)	(7)	(7)	
LACM	(50)			
Butt Road car park	(42)			
Minimum Revenue Provision (MRP)	(93)			
Waste Review	(38)	(59)		
Outturn review	(580)			
Sport & leisure	(94)	(198)	(50)	
Assets	(154)	(395)	(200)	

	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000
Commercial Income	(113)	(190)	(150)	
Digital Challenge				
Corporate Savings	(250)	(50)		
Service Savings	(320)	(255)	(75)	
New service savings	(60)	(30)		
Reduced investment from NHB - affordable homes	(10)	(102)		
Reduced investment from NHB	(921)	(1,243)	(685)	(525)
Digital Challenge / ICT strategy - implementation	(80)	(70)		
Total	**(2,968)**	**(2,349)**	**(1,167)**	**(525)**

Use of / contribution to Reserves				
Funding c/f				
S106 monitoring reserve	20	20	20	20
Use of balances for welfare reform and digital challenge	252	50		
Use of balances (incl. supporting staff resources)	98	50		
Waste review one off	72			
Use of balances - pensions	3,173			
Use of Capital Expenditure Reserve - ICT Strategy	325			
Use of NEPP reserve	150			
Funding budget carry forwards	77			
NNDR Reserve	489			
Total	**4,656**	**120**	**20**	**20**

New Homes Bonus Grant				
Basic NHB	(4,506)	(3,263)	(2,578)	(2,053)
Affordable Homes Bonus	(277)	(175)	(175)	(175)
Total Grant	**(4,783)**	**(3,438)**	**(2,753)**	**(2,228)**

Addressing the Budget Gap
The MTFF shows a budget gap of circa £2.5m over the three years from 2018/19. This should also be seen in the context of the risks and variables set out below and also in terms of reduced budgets and more efficient services resulting in savings that will be increasingly hard to deliver.

Risk Areas / Comments
The key risk areas to the forecast are:-

Risk / Area of uncertainty	
Impact of EU referendum 'leave' result.	At this early stage any impact from the "leave" decision is unclear. However, the uncertainty and risks include:- • Any changes to the announced public sector funding levels including NHB • Any impact on the Council's business rates 'taxbase' • Any impact on the Council's treasury management costs arising from interest rate changes. • Any impact of economic climate on Public Sector funding
Government Funding / Business Rate Retention Scheme	The MTFF includes the reduction in the 'SFA' for 2017/18 of 17% with further reductions thereafter in line with figures included in the 4 year settlement. From 2013/14 a proportion of the Council's core income that used to be provided by Government grant is now funded by the Council keeping a share of business rates income. This poses a new risk as well as a potential reward. The budget includes an assumption that in 2017/18 we will retain an extra £900k of NNDR income above our baseline figure, with some increases in later years. The business rates revaluation takes effect in 2017/18 and the risk and impact of business rate appeals remains an area of concern. With the planned move to 100% business rates retention this remains a risk area for the Council's budget.
Welfare Reform (including Local Council Tax Support - LCTS)	Budget papers have previously set out some of the key risks associated with the implications of the Council having approved the LCTS scheme. The combined impact of the Government's welfare reforms and demands on Council services will need to be considered during the period of the MTFF. Resources have been released to provide additional staffing to support residents with funding provided from balances.
Government grants and partnership funding	The Council's budget has changed over recent years with a greater emphasis on funding from both partner organisations and Government bodies. These funding streams can rarely be guaranteed and can therefore add to our cost pressures. Provision has been made in the 2017/18 budget for the New Homes Bonus based on the notified grant. Thereafter the MTFF assumes the grant will reduce based on proposals made by the Government. These grant reductions will reduce the funds available for one-off investment and this is assumed within the MTFF.

Risk / Area of uncertainty	
Pensions	In the 17/18 budget an allowance has been built in for an increase in pensions costs based on the results of the actuarial review. In addition the budget assumes we will pay the deficit payment for the next three years. An allowance has been made for the impact of 'auto enrolment' in 17/18 and 18/19. This may need to be revised depending on actual numbers joining the pension scheme.
Fees and charges and other income	As has been seen in the past few years we have experienced a number of pressures arising from changes in income levels. Looking ahead to 2017/18 and beyond it is difficult to estimate how income levels may continue to be affected. Some targets have been increased to reflect performance in recent years and there is also additional income forecast from agreed business plans.
Inflation	An allowance for general inflation including pay has been built into the 17/18 forecast and MTFF. Council's cost inflation is in general not directly linked to RPI and therefore we will continue to monitor the impact of inflation on all Council costs. Some of the main risk areas include energy, fuel costs and pay assumptions.
Use of reserves	The budget position for 2017/18 includes proposals to use certain reserves included some general use of balances to support the budget. The MTFF includes some proposals to use reserves in future years.
Legislation	There are likely to be several items of new legislation over the life of the MTFF for which any available funding may not cover costs or which may impact significantly on the Council e.g. Universal Credit.
Impact of regeneration programme e.g. staff resources	The 2017/18 budget included continuing additional resources to support work in the Northern Gateway. Furthermore, the recently established Revolving Investment Fund (RIF) provides a framework for managing potential pressures.
Property review	A review of our assets was carried out and a 5-year Building Repairs and Maintenance Plan produced. There will continue to be financial implications arising from this for both the revenue budget and capital programme and these will be considered in detail and included in the on-going updates of the MTFF. The 2017/18 budget forecast maintains the additional allocation of £150k in respect of planned repairs.
Impact of growth in the Borough and demand for services	A number of Local Authority services are directly impacted by the increase of population in the Borough, such as waste services, planning, benefits etc. As part of future budgets it will be necessary to consider whether there is a need for additional resources in these or other areas in order to maintain levels of service. A financial assumption has been made that the Council's programme of service reviews will assist in identifying efficiencies to cope with changes in demand.

Risk / Area of uncertainty	
Delivery of budget savings	The 2017/18 budget includes c£3m of savings or increased income. These items have been risk assessed and all are considered deliverable, however, the budget report considers the risk to delivering some of the income targets and if these cannot be achieved there is the risk in the MTFF of the ongoing impact. The MTFF includes further savings from the ongoing budget and service reviews and whilst these are currently considered to be on track to be delivered these will be reviewed as part of the 18/19 budget.
Net Interest earnings and investments	The budget is influenced by a number of factors including interest rates and cashflow movements. The treasury management strategy for 2017/18 highlights the outlook for interest rates in the medium-term which points to continuation of unprecedented low levels into 2017/18. The Council's strategy of internal borrowing has helped minimise our interest cost, however, it is recognised that this is not a long term approach and therefore there may be future cost pressures from any need to borrow externally. This is currently not reflected in the MTFF but will be considered as part of future budget updates.

All these issues will remain as risks to be managed over the course of the MTFF.

Appendix M

Capital Programme

Service / Scheme	Total Programme £'000	Projected Expenditure 2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	(Surplus) / Shortfall £'000
SUMMARY						
Operational Services	3,082.8	2,115.8	967.0	0.0	0.0	0.0
Professional Services	2,166.0	980.0	912.5	273.5	0.0	0.0
Commercial Services (excluding RIF)	502.0	305.1	196.9	0.0	0.0	0.0
Community Services	3,045.6	1,805.5	1,240.1	0.0	0.0	0.0
Revolving Investment Fund (RIF)	33,239.7	8,548.2	6,128.1	16,931.4	1,632.0	0.0
Completed Schemes	348.6	348.0	0.0	0.0	0.0	(0.6)
Capitalised Maintenance Schemes	236.4	236.4	0.0	0.0	0.0	0.0
Total (General Fund)	**42,621.1**	**14,339.0**	**9,444.6**	**17,204.9**	**1,632.0**	**(0.6)**
Housing Revenue Account	12,460.4	12,374.9	85.5	0.0	0.0	0.0
Total Capital Programme	**55,081.5**	**26,713.9**	**9,530.1**	**17,204.9**	**1,632.0**	**(0.6)**
OPERATIONAL SERVICES						
Shrub End Depot - new baler and shed	840.5	840.5	0.0	0.0	0.0	0.0
Priory Street Car Park	534.4	534.4	0.0	0.0	0.0	0.0
LWC - Health & Fitness Extension	994.0	27.0	967.0	0.0	0.0	0.0
LWC - Aqua Springs Refurbishment	250.0	250.0	0.0	0.0	0.0	0.0
LWC - Leisure Pool Refurbishment	270.0	270.0	0.0	0.0	0.0	0.0
LWC - Coffee Shop Extension	80.0	80.0	0.0	0.0	0.0	0.0
St Johns Car Park	90.0	90.0	0.0	0.0	0.0	0.0
Shrub End Pitch Replacement	23.9	23.9	0.0	0.0	0.0	0.0

Service / Scheme	Total Programme £'000	Projected Expenditure 2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	(Surplus) / Shortfall £'000
TOTAL - Operational Services	**3,082.8**	**2,115.8**	**967.0**	**0.0**	**0.0**	**0.0**
PROFESSIONAL SERVICES						
Mandatory Disabled Facilities Grants	1,973.5	900.0	800.0	273.5	0.0	0.0
Private Sector Renewals - Loans and Grants	192.5	80.0	112.5	0.0	0.0	0.0
TOTAL - Professional Services	**2,166.0**	**980.0**	**912.5**	**273.5**	**0.0**	**0.0**
COMMERCIAL SERVICES						
Assistance to Registered Housing Providers	91.9	0.0	91.9	0.0	0.0	0.0
CCTV Monitoring	115.0	100.0	15.0	0.0	0.0	0.0
Local Authority Carbon Management (LACM)	190.0	100.0	90.0	0.0	0.0	0.0
Cemetery Extension	43.7	43.7	0.0	0.0	0.0	0.0
Cemetery Exterior Lighting	50.0	50.0	0.0	0.0	0.0	0.0
Replacement of Cremators	11.4	11.4	0.0	0.0	0.0	0.0
TOTAL - Commercial Services	**502.0**	**305.1**	**196.9**	**0.0**	**0.0**	**0.0**
COMMUNITY SERVICES						
Improving Life Opportunities	38.3	0.0	38.3	0.0	0.0	0.0
Oak Tree Community Centre Roof	50.0	0.0	50.0	0.0	0.0	0.0
Lion Walk Activity Centre	40.0	0.0	40.0	0.0	0.0	0.0
Garrison Gym Rebuild	88.2	88.2	0.0	0.0	0.0	0.0
Mersea Pontoon	10.6	10.6	0.0	0.0	0.0	0.0
Castle Park Sensory Garden S106	60.6	60.6	0.0	0.0	0.0	0.0
Cook's Shipyard Playsite Wivenhoe S106	11.6	11.6	0.0	0.0	0.0	0.0

Service / Scheme	Total Programme £'000	Projected Expenditure 2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	(Surplus) / Shortfall £'000
Old Heath Recreation Ground Improvements	132.1	132.1	0.0	0.0	0.0	0.0
Wivenhoe Adult Gym	21.0	21.0	0.0	0.0	0.0	0.0
Market Development	2.7	2.7	0.0	0.0	0.0	0.0
Mile End Rec Playground	40.0	40.0	0.0	0.0	0.0	0.0
Tiptree P C - Store & WCs	83.0	83.0	0.0	0.0	0.0	0.0
Walls - new merged scheme	521.8	410.0	111.8	0.0	0.0	0.0
Mercury Theatre Redevelopment	1,430.7	430.7	1,000.0	0.0	0.0	0.0
Relocation of Museum Resource Centre	515.0	515.0	0.0	0.0	0.0	0.0
TOTAL - Community Services	**3,045.6**	**1,805.5**	**1,240.1**	**0.0**	**0.0**	**0.0**
REVOLVING INVESTMENT FUND						
Northern Gateway North	445.2	445.2	0.0	0.0	0.0	0.0
CNGN - Mile End Cricket	200.0	0.0	200.0	0.0	0.0	0.0
CNGN - Sports Hub	17,078.0	0.0	3,559.0	11,887.0	1,632.0	0.0
Northern Gateway South	493.2	118.2	375.0	0.0	0.0	0.0
Town Centre	6,547.6	1,466.6	240.0	4,841.0	0.0	0.0
Creative Business Centre	1,286.5	1,286.5	0.0	0.0	0.0	0.0
Jacks - St Nicholas St	1,015.6	100.0	915.6	0.0	0.0	0.0
Sheepen Road	3,492.3	3,292.3	200.0	0.0	0.0	0.0
District Heating Project North	26.8	26.8	0.0	0.0	0.0	0.0
District Heating Project East	10.0	10.0	0.0	0.0	0.0	0.0
East Colchester Enabling Fund	285.0	50.0	235.0	0.0	0.0	0.0
Breakers Park	75.0	25.0	50.0	0.0	0.0	0.0
Surface Water Flooding - Distillery Lane/Haven Road	77.4	10.0	67.4	0.0	0.0	0.0
Site Disposal Costs	4.8	4.8	0.0	0.0	0.0	0.0
Moler Works Site	40.7	0.0	40.7	0.0	0.0	0.0

Service / Scheme	Total Programme £'000	Projected Expenditure 2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	(Surplus) / Shortfall £'000
CMP Phase 3 - PV Systems	95.4	0.0	95.4	0.0	0.0	0.0
Business Broadband	362.8	362.8	0.0	0.0	0.0	0.0
Land Acquisition	1,703.4	1,350.0	150.0	203.4	0.0	0.0
TOTAL - RIF	**33,239.7**	**8,548.2**	**6,128.1**	**16,931.4**	**1,632.0**	**0.0**
HOUSING REVENUE ACCOUNT						
Housing Improvement Programme	8,752.9	8,752.9	0.0	0.0	0.0	0.0
Adaptations to Housing Stock	604.0	604.0	0.0	0.0	0.0	0.0
Sheltered Accommodation Review	2,818.0	2,818.0	0.0	0.0	0.0	0.0
Housing ICT Development	285.5	200.0	85.5	0.0	0.0	0.0
TOTAL - Housing Revenue Account	**12,460.4**	**12,374.9**	**85.5**	**0.0**	**0.0**	**0.0**
COMPLETED SCHEMES (OR WHERE RETENTION ONLY OUTSTANDING)						
Town Hall DDA Sensory Project	0.6	0.0	0.0	0.0	0.0	(0.6)
Leisure World Skatepark	112.8	112.8	0.0	0.0	0.0	0.0
Wivenhoe Pontoon	25.0	25.0	0.0	0.0	0.0	0.0
Jet Washer	102.0	102.0	0.0	0.0	0.0	0.0
Abberton Community Fund S106	10.0	10.0	0.0	0.0	0.0	0.0
Town Station Square	42.8	42.8	0.0	0.0	0.0	0.0
Castle Museum - Castle Bridge	1.0	1.0	0.0	0.0	0.0	0.0
Moot Hall Organ	39.0	39.0	0.0	0.0	0.0	0.0
ICT Strategy	15.4	15.4	0.0	0.0	0.0	(0.0)
TOTAL - Completed Schemes	**348.6**	**348.0**	**0.0**	**0.0**	**0.0**	**(0.6)**

Service / Scheme	Total Programme £'000	Projected Expenditure 2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	(Surplus) / Shortfall £'000
CAPITALISED MAINTENANCE						
Crematorium - Gutters & Fascias	13.4	13.4	0.0	0.0	0.0	0.0
Colchester Leisure World - Dryside Changing Rooms	48.0	48.0	0.0	0.0	0.0	0.0
Town Hall - Bell Tower Repairs	135.0	135.0	0.0	0.0	0.0	0.0
Colchester Business Centre	40.0	40.0	0.0	0.0	0.0	0.0
TOTAL - CAPITALISED MAINTENANCE	**236.4**	**236.4**	**0.0**	**0.0**	**0.0**	**0.0**

Appendix O

Impact of Budget Strategy 201718

The budget for 2017/18 has been prepared in continuing difficult financial conditions. This is alongside the bedding in of changing local government financial arrangements.

There continue to be reductions in the amount of money we receive with a cut in combined funding of £1m (17%). In addition the changes to the New Homes Bonus has been cut by £0.9m.

Our programme of service reviews and development of an increase in commercial efficiencies and income continues to identify resources to meet our cost pressures. In addition a review of previous years spending and income has helped to identify areas where both expenditure and income budget can be reviewed to deliver a saving.

These various approaches and reductions to the budgets available for investment from the New Homes Bonus have helped to identify almost £3m of savings, extra income and budget reductions. This strategic approach to delivering savings minimises the need to ask services to deliver percentage reductions which may impact on service delivery or any significant budget reductions

In broad terms the savings identified and prudent use of balances has enabled the Council to address the cost pressures faced without the need for cuts to services.

The “base budget” includes an allowance of £110k for investment to assist in the delivery of the Strategic Plan. Proposals for using this will be made in future reports.

The New Homes Bonus remains one of the main ways in which the Council is able to identify funds for investment to support the delivery of the Strategic Plan. In the 2017/18 budget the amount of New Homes Bonus being used to support the ‘base budget’ has been reduced to under £1.6m and is a third of the total grant being received next year. There is £3.1m being invested in projects or programmes. These include:-

- Providing funding to support ambitious plans for development of the Mercury Theatre
- Allocating funds to support affordable housing
- An allocation of £250k to support the RIF
- Just over £2m to invest in projects that support Strategic Plan objectives and / or help deliver income to close future budget gaps.

COLCHESTER

Cabinet

			Item
	1st February 2017		
Report of	Head of Commercial Services	Author	Darren Brown ☎ 282891
Title	Housing Revenue Account Estimates 2017/18		
Wards affected	All		

This report presents the Housing Revenue Account (HRA) estimates for 2017/18, the Medium Term Financial Forecast (MTFF) for 2017/18 to 2021/22, and the 30 Year HRA financial model

1. Decision Required

1.1 To approve the 2017/18 HRA revenue estimates as set out in Appendix A.

1.2 To approve dwelling rents as calculated in accordance with central Governments rent policy (set out in paragraph 4.7).

1.3 To approve the HRA revenue funded element of £6,747,300 included within the total management fee for Colchester Borough Homes (CBH) (set out in paragraph 4.13).

1.4 To note a revenue contribution of £3,614,000 to the Housing Investment Programme is included in the budget (paragraph 4.28).

1.5 To note the HRA balances position in Appendix B.

1.6 To note the Medium Term Financial Forecast (MTFF) set out at Appendix C and the 30 Year HRA financial position set out at Appendix E.

2. Reasons for Decision

2.1. Financial Procedures require the Head of Commercial Services to prepare detailed HRA estimates for approval by the Cabinet, setting the new rent levels for the new financial year.

3. Supporting Information

Key Issues for 2017/18

3.1 There are a number of key issues relating to the HRA budget for 2017/18, with further details being included within the main body of the report. However, in summary they are as follows;

- This is the second year of the Government's imposed rent reduction of 1%.
- This is the fourth HRA budget to be set under the terms of the new management agreement with CBH. The management fee consequently contains a larger range of budgets, and the budget is set with an emphasis on the medium term, to provide more stability and meet the governance arrangements within the new management agreement.
- This is the fourth HRA budget to be set in the context of the new 30 year HRA Business Plan, which was approved by Cabinet at its meeting on the 27th November 2013. The budget therefore reflects the strategic priorities identified within the HRA business plan.

- This is the sixth year of HRA Self-Financing, which radically altered the funding of Council Housing, and the increase in investment in the housing stock and other projects is reflected in this report and the Housing Investment Programme report included elsewhere on the agenda.

3.2 The Government made some key announcements in The Housing and Planning Act, which will continue to have a significant impact on our HRA budget for 2017/18, as well as our Medium Term Financial Forecast (MTFF) and 30 year Business Plan. Further information is contained within the following paragraphs;

Housing Rents

3.2.1 Members will be aware that the Chancellor of the Exchequer announced in the budget on 8th July 2015, that there will be an annual decrease of 1% in social housing rents from 2016/17 for four years. The budget for 2017/18 therefore reflects the second year of this change. At the time of setting the 2016/17 budget, it was assumed that the Government's rent reduction applied to all properties. However, the Government then stated after the budget had been set, that it was their intention that temporary accommodation would be subject to a permanent exception, whilst sheltered housing accommodation would benefit from a one year exception whilst the Government are carrying out a review of supported accommodation. The Government have now confirmed the 1% reduction will apply to sheltered accommodation from 2017/18 to 2019/20. The assumption within the MTFF and 30 year Business Plan is that rents will revert to increasing in line with the Consumer Price Index (CPI) + 1% from 2020/21, but there has been no information to confirm or deny this will be the case. Rents will still be able to be moved to target rent when a property becomes empty, although the target rent will also be reduced annually by 1% over the next three years.

Housing Futures Programme

3.2.2 As previously reported, the current Government introduced a number of changes during 2015 and 2016, including the Housing & Planning Act and the 1% rent reduction announcement, which has changed the viability of the HRA Business Plan. The rent reduction resulted in removing £143million of assumed rental income over the life of the 30 year business plan, significantly impacting our capacity to deliver on the plan's objectives. At the end of 2015 a joint CBC/CBH project team looked at ways of addressing the loss of income of £9.7 million over the first four years, and it identified and planned a number of ways of increasing income and reducing expenditure, which were included as part of the 2016/17 HRA budget setting cycle and which are currently part way through being delivered.

3.2.3 The business plan also faces further constraints following the announcement of the enforced 'Sale of Higher Value Assets'. This legislation forms part of the Housing & Planning Act 2016 which means that the Council will be required to pay a levy calculated on the number of empty properties and the worth of its higher value properties. Recently the introduction of the levy, as well as the announcement of the exact amount the Council will be required to pay, has been delayed from the current financial year until 2018/19.

3.2.4 The Council and CBH have been working together under the Housing Futures Programme to determine the effect of this regulation on the Business Plan, continue with delivering the outputs of the HRA Budget Project and to ensure that we also are compliant with the other areas of legislation introduced by the Housing and Planning Act 2016 and the future Homelessness Reduction Bill. The Housing Futures Programme will enable officers to provide the Portfolio Holder and Cabinet with vital information to allow the necessary decisions on the Council's future priorities and objectives, so that the Business Plan can be remodelled and the Asset Management Strategy reviewed.

Sale of “Higher Value voids”

3.2.5 This is the forced sale of Local Authority Higher Value assets to fund the voluntary Right To Buy scheme for housing associations. It was the Government’s original intention that this would come into effect from 1st April 2016. However, in the November 2016 Autumn Statement, the Government stated that they will fund the expanded pilot and that they will not be requiring Higher Value Asset payments from local authorities in 2017/18. But given there is no indication of how much the levy that we will have to pay will be, capital work programmes for 2017/18 have been reviewed and a reduction has been made which has been ring-fenced within the Housing Investment Programme for payment of the levy when it is implemented. This is reflected in the Housing Investment Programme report elsewhere on the agenda.

“High Income” Social Tenancies (Pay to Stay)

3.2.6 The Housing and Planning Act 2016 required local authorities to set higher rents for higher income Council tenants (households earning £40k in London, and £31k elsewhere). However, following consultation the Government have decided not to make the implementation of this mandatory, and instead make it voluntary to implement this policy. A formal decision has not been made yet as to whether we will adopt this locally, therefore for the purposes of the 2017/18 budget it has been assumed that this will not be implemented for the next financial year.

3.3 As part of the process for setting the 2017/18 HRA budget, it is necessary to revisit the 2016/17 position to forecast the predicted level of HRA balances along with identifying any risk areas or cost pressures which could have an impact in future years.

2016/17 Revised Housing Revenue Account

3.4 Appendix A shows the Revised Housing Revenue Account (HRA) estimates for 2016/17. There have been some amendments to the original budget for 2016/17 during the course of the current financial year. A reconciliation is therefore provided in the following table between the Original and Revised budget for 2016/17:-

Reconciliation between Original and Revised 2016/17 HRA Budget

	Budget 16/17	***Commentary***
	£’000	
Original Budget Deficit	**-**	Agreed 27th January 2016
2015/16 Budgets c/fwd	178	Agreed by Assistant Chief Executive/Head of Commercial Services
Revised Budget Deficit	**178**	

2016/17 Forecast Outturn Position

3.5 When considering the financial position of the HRA, in addition to the adjustments to the 2016/17 original budget shown in the above table, it is important to note the 2016/17 forecast outturn position. It is currently predicted that the HRA will be on budget at the year-end. The table below provides a breakdown of this net position. In addition, commentary is provided on the major variations;

	Outturn 16/17
	£'000
Rental & Tenants Service Charge Income	(230)
One-off/Technical Items	
Revenue Contribution to Capital (RCCO)	230
Forecast 2016/17 Outturn Variance	**-**

- It is forecast that we will receive more rental and tenants service charge income of £230k. This primarily reflects the amendment to those properties that the 1% rent reduction would apply to for 2016/17, as referred to in paragraph 3.2.1. The extra income also reflects the net impact of less rental & service charge income being lost from dwellings and garages than assumed within the budget, through a combination of voids and the number/timing of Right To Buy sales this year.

- As a direct result of the additional income forecast this financial year, there will be additional revenue resources available for an increased Revenue Contribution to Capital of £230k to fund the Housing Capital Programme in 2016/17.

3.6 To provide a further explanation of the forecast outturn position, the funding of the Housing Investment Programme considered elsewhere on the agenda is derived from a number of sources. After firstly taking into account depreciation, grants and capital receipts etc, the remaining sources of funding are revenue resources from the HRA as detailed in this report, then finally borrowing in the form of new loans. Any opportunity to forego new borrowing so that interest costs can be minimised and our HRA headroom can be maximised to deliver our strategic priorities should be taken. To this extent it is planned to use the forecast net underspend in 2016/17 to fund more of our Housing Capital Programme through an increased RCCO and minimise new borrowing, enabling us to meet our significant asset management priorities.

HRA Reform

3.7 Members will be aware of the implementation of the national reform of the Housing Revenue Account from April 2012. The 2017/18 budget therefore reflects the sixth year of the new financial regime for the HRA, with commentary included on the medium and long-term outlook in this report.

3.8 Appendix E summarises the 30 year financial modelling for Colchester's HRA. This is set out using the standard approach, which is to show each of the first 5 years individually, then group the remainder of the model in 5-year bands. Further information is provided at paragraph 6, including some of the underlying principles and assumptions that are included. Given the long time-span this modelling covers, it will clearly change as time progresses as both internal and external influences have an impact. However, what it does provide is an indication of the long-term viability of the Council's HRA, given the assumptions made and the plans the Council has already identified and committed to.

4. 2017/18 Housing Revenue Account Budget

4.1 Appendix A shows the Housing Revenue Account (HRA) estimates for 2017/18. This shows a break-even budget for the year, meaning there is no planned contribution to or use of uncommitted HRA balances.

4.2 It should be noted that the MTFF included within the 2016/17 HRA budget cycle and considered by Cabinet on 27th January 2016 estimated a break-even budget for 2017/18. However, following the rent reduction announcement, we are not able to make as large an RCCO to the capital programme as originally planned. This means there are less HRA revenue resources available to fund the 2017/18 Housing Capital Programme, and we are therefore having to use more of our borrowing headroom than originally planned, alongside reviewing investment and work programmes.

Balances

4.3 The prudent level of uncommitted balances for the HRA is currently £1,600k. This recognises the transfer of risk from Central to Local Government resulting from HRA Reform, as well as providing for any adverse effects of inflation, interest rates, or Right To Buy sales on the HRA. Provision is also made within the level of HRA balances for any potential additional revenue implications of our Sheltered Accommodation review. Whilst there is now some certainty around interest rates given we have secured long-term fixed rates on our HRA Reform settlement debt, the risk surrounding welfare reform continues to be recognised in our assessment of HRA balances, as does provision for a change to our assumptions on the high value voids levy should they require funding in 2017/18.

4.4 A risk assessment has been undertaken to review the minimum prudent level of HRA uncommitted balance the Council should maintain. The results of this review are set out at Appendix D and show that it would be reasonable to retain the uncommitted balance at £1,600k. This will continue to be reviewed annually.

4.5 The estimated balances for the HRA are set out in Appendix B. The anticipated level of the uncommitted HRA balance as at 31st March 2017 is £1,600k, which is equal to the recommended prudent level. This means we are now running the HRA at the minimum prudent level of revenue balances, and any additional cost or saving that might arise will directly impact on the use of our borrowing headroom.

4.6 The budget at Appendix A shows that we are using as much of our revenue balances as possible to make a Revenue Contribution to fund the Housing Investment Programme. This is because it is deemed to be a more economical use of resources, rather than fund the capital programme by undertaking additional borrowing, thus incurring additional borrowing costs and using available borrowing headroom. This fits with the prioritising of resources indicated in this report and in the Housing Investment Programme elsewhere on the agenda. From 2017/18 thereafter, the assumption is that where required, revenue contributions to the capital programme will be made up to the point that the minimum recommended level of balance is reached.

Income

Housing Rents

4.7 By following the rent reduction announcement, we are continuing to set **dwelling rents within Communities and Local Government (CLG) guidelines and so the annual changes in rents paid by tenants are set by reference to national Government policy.** The average rent proposed for 2017/18 is £86.31 per week compared to a current average of £87.17, a decrease of £0.86 (1.0%) per week. It is difficult to anticipate future rent increases after 2019/20, given the potential for the rate of inflation to vary in the short to medium term and also for any further changes in Government rent policy. However, modelling within the MTFF and 30 year financial modelling has been undertaken using reasonable estimates of inflation rates, and the assumption that we revert to CPI + 1% from 2020/21.

4.8 Sales of council houses under the Right to Buy (RTB) scheme could reach 50 in 2016/17 (34 sold in 2015/16 and 39 sold in 2014/15), which is higher than the number expected in the 2016/17 HRA budget. The level of sales is increasing in the current financial year, presumably due to the Governments changes to the RTB scheme (which primarily focused around increasing RTB discounts to tenants). The 2017/18 budget has been set assuming the sale of 50 properties, being broadly in line with historical levels. The MTFF and longer term modelling assume a reduction in the number of sales after 2017/18. However, these assumptions will be reviewed annually as part of our future budget setting.

4.9 The budget for 2017/18 has been set using the assumption that there will be a loss of rental income of 1.50% resulting from empty properties. This is consistent with the 2016/17 budget and is intended to provide for any additional void loss that may arise as a result of the various changes being undertaken within the housing stock.

Other Income

4.10 The rents for garages are included in the fees and charges report agreed by the Portfolio Holder for Housing and Public Protection. The increase proposed for 2017/18 is in line with September 2016 CPI.

4.11 There are a range of other fees and charges for services which are made to Tenants and Leaseholders, which are agreed by the Portfolio Holder for Housing. The budget for 2017/18 assumes that the demand for these services will remain the same as the current financial year, unless mentioned otherwise.

4.12 The de-pooling of service charges to individual tenants was implemented in 2008/09. There have not been any new service charges introduced for 2017/18, only an update of existing charges to reflect the actual cost of the services provided.

Expenditure

Colchester Borough Homes Management Fee

4.13 As part of the new management agreement which commenced in August 2013 between the Council and CBH, the management fee has been expanded to reflect the wider range of services CBH now provides on behalf of the Council. The fee incorporates the day to day repairs and maintenance budgets and associated overheads, along with the fee for managing the capital programme, as a result of the new housing arrangements. The management fee is funded from several sources within the Council's accounts, namely the Housing Revenue Account, the Housing Investment Programme, as well as the Council's General Fund. The following table analyses the total CBH management fee, and provides details of where the funding is shown in the Council's overall budget:

Breakdown of 2017/18 CBH Management Fee

	Budget 17/18	***Funding Source***
	£	
CBH Management costs	3,463,300	CBH Ltd Management Fee at Appendix A
R&M Management Fee	503,800	Included in Repairs & Maintenance at Appendix A
R&M Works	2,780,200	Included in Repairs & Maintenance at Appendix A
Sub-Total: HRA	**6,747,300**	
Capital Fee	1,328,000	Included within the 2017/18 Housing Investment Programme
Sub-Total: HIP	**1,328,000**	
Anti-Social Behaviour Team	47,000	Included within the 2017/18 General Fund Budget
Professional Support Unit	119,800	Included within the 2017/18 General Fund Budget
Housing Options Team	615,900	Included within the 2017/18 General Fund Budget
Facilities Management/ Engineering Team	492,900	Included within the 2017/18 General Fund Budget
Sub-Total: General Fund	**1,275,600**	
Total Management Fee	**9,350,900**	

4.14 The base management fee for 2017/18 includes an allowance for pay inflation, and some transfers of HRA delegated budgets into the CBH management fee.

4.15 Members will be aware that at its meeting on the 27th November 2013, Cabinet approved the Council's 30 year HRA Business Plan. The 2017/18 budget and management fee include the continuation of a number of service enhancements, which reflect the strategic priorities identified by Cabinet and which are included within the business plan. The majority of these are incorporated within the existing CBH Management Fee and Council budgets, with additional resources being directed in particular to supporting tenants.

Management Costs

4.16 The 2017/18 HRA budget includes £6,642,300 for management costs, an increase from 2016/17 (£6,144,200). Management costs form a substantial part of the HRA annual expenditure, and they consist of budgets managed directly by the Council, as well as those which are managed on behalf of the Council by CBH. Further information along with an explanation for any material changes from the 2016/17 budget is given in the following paragraphs;

4.17 The budget for Premises costs has decreased by £6,300 for 2017/18. A number of budgets have been reviewed, the net effect of which is a small reduction overall.

4.18 The budget for Supplies and Service costs has decreased by £87,200. This primarily relates to the transfer of HRA delegated budgets into the CBH Management Fee, as referred to in paragraph 4.14.

4.19 The budget for Removal and Disturbance payments has been increased by £40,000 to provide for the costs associated with tenants moving home in 2017/18 as a result of the sheltered housing accommodation project.

4.20 The HRA receives a significant level of recharges from other Council services, along with a proportion of central support costs, such as Corporate and Democratic Core and Pension costs associated with the back-funding of the scheme. The total budget for 2017/18 has increased by £545,900 from 2016/17. This primarily relates to an additional cost of £538,000, which reflects the approach of paying 3 years pension deficit funding contributions “up-front”, which will result in an overall saving over 3 years. This is the same approach adopted within the Councils General Fund budget for 2017/18, which is considered elsewhere on the agenda. The budget will reduce for 2018/19 & 2019/20, delivering the saving in those years. The table below shows the figures provided by the Essex Pension Fund for this option compared to the current arrangement showing a cash saving of £44k over three years:-

	17/18 Cost	Cost over 3 years
	£'000	£'000
Option - Annual payment	291	873
Option - One payment for 3 years	829	829
Cost / (saving)	**538**	**(44)**

Repairs and Maintenance

4.21 The 2017/18 Housing Investment Programme has been drafted and is included elsewhere on the agenda for approval. In respect of revenue works £4,983,400 has been included in the budget for repairs and maintenance (compared to £5,048,900 in 2016/17), of which £3,284,000 is specifically for works and associated overheads included within the CBH Management Fee. A provision of £1,405,000 is included in the budget for those works which are managed by CBH on behalf of CBC, such as external decorating and gas servicing, but where CBC still hold the contract. The balance of the budget is for works to sewage pumping stations, temporary accommodation and other CBH delegated areas. The revenue budget provides for repairs that are undertaken on a responsive basis, as well as works to void properties, and maintenance which is carried out under a planned programme such as external decorating and gas servicing.

Capital Financing Costs

4.22 The budget includes the statutory charges to the HRA for the interest costs of the Councils borrowing in respect of the housing stock. This represents a significant proportion of the Councils HRA expenditure each year. The 2017/18 budget for interest costs has decreased compared to the 2016/17, which reflects the lower level of opening debt than assumed in the budget, as a result of the 2015/16 overall HRA outturn position. It is worth noting that new borrowing to fund the overall Housing Investment Programme next year will be borrowed internally from the Councils General Fund, which is at a lower rate than would be payable were we to borrow externally. This also delivers a benefit to the General Fund, as it will be receiving more interest than it would attract were it to invest externally. This approach has been considered and agreed as part of the Council’s treasury management strategy.

4.23 No provision has been made at this point in time for the repayment of any HRA debt, as there is no statutory duty to provide for it. However, the Council now has circa £130million of housing debt, and it would be prudent to start to consider providing for some repayment in the future. The Treasury Management Strategy Statement approved by Cabinet on 25th January 2012 stated “That the Council plans to make Voluntary Revenue Provisions (VRP) for the repayment of HRA debt to enable maturing debt to be repaid, whilst ensuring that this does not create an adverse impact on the business case”. However, this also needs to be considered alongside the rent reduction announcement by the Government.

4.24 Members will be aware that the Government’s announcement of the rent reduction for four years has had a considerable impact on the HRA Business Plan model. The financial modelling undertaken as part of this year’s budget setting cycle currently indicates that there will be no surplus resources generated over the next 30 years which could be used to provide for the repayment of debt, and in fact after 2022/23 (Year 6), there is a deficit in resources meaning that we are unable to generate the resources required to meet the existing spending plans within the current financial model. However, it should be noted that the extent of this is based upon assumptions around inflation etc, which could increase/decrease the amount of resources available by the time this point is reached.

4.25 Given the need to undertake additional HRA borrowing to support the Housing Investment Programme over the next 5 years, it would currently seem impractical to set-aside revenue resources for debt redemption over this period of time, which as a result would leave a funding gap which would need to be met by further borrowing (and hence incur additional revenue interest costs). However, this should be considered each year as part of the Councils annual budget setting process and review of the 30 year HRA financial model. Given the medium term investment needs currently identified and priorities agreed by Cabinet, it is proposed that no voluntary provision for debt repayment is included in the 2017/18 budget or MTFF at this point in time.

Revenue Contributions to Capital Outlay (RCCO)

4.26 The Council has continuously made revenue contributions to capital spending recognising the significance of targeting resources to invest in our Housing Investment Programme. Given the regime of HRA self-financing and the additional revenue resources subsequently generated, the Council is able to make significant revenue contributions to support the capital investment included within the Housing Investment Programme.

4.27 The revenue contribution included in the estimates is £3,614,000. The majority of this budget is to support the capital work programmes to the housing stock in 2017/18, which are included within the Housing Investment Programme report elsewhere on the agenda. However a provision of £140,000 has been included for ICT, which is intended to support various projects.

Risk areas and budget review process

4.28 Some of the key variables that may impact during the year are shown in the table below:-

Area	Comment
Rental Income	The budget makes assumptions on the future level of Right To Buy sales and void levels. These are to a certain extent demand led and due to the significance of Rental Income within the HRA, can have a significant effect on the level of the HRA balance. Furthermore, the risk exists that the Government could change rent policy unexpectedly, as demonstrated by the rent reduction announcement last year.
Governments Welfare Reform	The budget includes an estimate of the impact of Welfare Reform. As well as providing for transaction costs etc, the budget also includes an estimate of the potential impact upon rent arrears and consequently the level of bad debts provision we would need to maintain.
Revenue Contributions to Capital (RCCO) / Prudential Borrowing	Capital Resources have been provisionally allocated for 2017/18 within the Housing Investment Programme report contained elsewhere on the agenda. If these resources prove insufficient, then options exist to either finance capital expenditure from revenue, or undertake HRA borrowing subject to the HRA debt cap. Clearly, if one of these options was pursued, then there will be a requirement to find additional resources from the HRA.
Repairs and Maintenance	Historically, this is an area where pressure has existed on budgets such as Responsive and Void repairs, given that they are demand-led. However, in recent years this has become less of a risk. These budgets now form part of the CBH Management Fee, and the terms of the management agreement specify that CBH will be liable for any overspend up to a maximum of £200k per year, but also that they may retain any underspend up to £100k per year. Therefore, there could be a reduced impact on the HRA of variations in expenditure.
Utility costs	The budget makes assumptions on future prices for Gas and Electricity that are consumed within the Council's housing stock, such as Sheltered Schemes, Temporary Accommodation and Communal entrances in blocks of flats. Given the volatility of utility prices in recent years, there is a risk that prices could rise, the cost of which would have to be funded from existing resources or HRA balances.
2016/17 Outturn	An underspend of £230k is currently predicted for this year, which is planned to be used to fund a greater proportion of our Housing Capital Programme instead of new borrowing. Any variance on the forecast will result in a higher or lower RCCO, which will have a knock-on impact on the use of our borrowing headroom.

4.29 As shown in paragraph 4.28 above several key variables have been identified. It is therefore essential that a programme of formal reviews of the HRA be set out to provide an opportunity to make changes to resource allocations during the year. The following schedule therefore sets out a suggested framework for these reviews.

Review	Comment
March 2017	Updated outturn forecast.
July 2017	Provisional pre-audit outturn / current year issues etc.
September 2017/ October 2017	Mid-year review.
December 2017 / January 2018	Outturn review / Budget 2018/19.

5. Supporting Information - Medium Term Financial Forecast (MTFF)

5.1 As part of the budget process for 2017/18 a MTFF has been produced for the HRA. This sets out the indicative budget position for the period 2017/18 to 2021/22. Although we are operating under the new HRA Finance regime, and more certainty is now in place, assumptions still have to be made around inflation rates, void levels, bad debts and increases in costs etc, which can of course change. To that extent, the MTFF should still be viewed as indicative.

5.2 Appendix C sets out the MTFF for the period analysed by the main areas of expenditure and income. This shows that the level of uncommitted HRA balance is able to be maintained at prudent levels throughout the MTFF. This is after meeting all the running costs of managing & maintaining the housing stock, along with servicing the borrowing costs on all HRA debt. It is also after substantial revenue contributions have been made to support the Housing Investment Programme. Planning to run the HRA balance at the minimum prudent level fits with the principle that it is more cost effective to minimise/reduce borrowing costs where possible, rather than hold a higher revenue balance than is prudently required, whilst also providing reassurance to tenants and residents that the Council is wisely managing its finances and its housing stock. This approach fits with the principle referred to in paragraph 4.6 above. The recommended level of uncommitted balance on a risk based approach is £1,600k. There are several factors which can affect the forecast position, namely:-

- ***Capital financing***

Given the treasury management strategy relating to our HRA Reform debt settlement was to borrow at fixed interest rates, this means we are able to plan with certainty into the long-term surrounding the financing costs of this debt. The MTFF includes assumptions on the interest rate we will have to pay on the further HRA borrowing that would need to be undertaken to support the Housing Investment Programme, included elsewhere on the agenda. Given that any future additional borrowing would be undertaken at the prevailing interest rates at the time, for the purposes of the MTFF a reasonable assumption has been made on what those rates might be. This will be reviewed as part of the annual budget setting process.

- ***Rental income***

Rent forecasts reflect the rent reduction announcement by the Government. Prior to the announcement, rental income forecasts were particularly dependent upon assumptions on future inflation levels. However, whilst causing a significant reduction on our rental income, the announcement brings some degree of certainty for the next three years. The MTFF currently assumes that the Government will return to the rent increase formula of CPI + 1% in 2020/21, but there has been no indication from central Government as to whether this will be the case or not. The assumptions on the number of Right To Buy sales and the level of anticipated rent lost through void properties have been updated to reflect recent activity, but once again these are areas which can significantly alter the forecast of Rental Income and are to a certain extent demand led.

- ***Welfare Reform***

Continued provision has been made within the MTFF for the estimated potential effect on levels of rent arrears and bad debts, resulting from the introduction of Welfare Reform by the Government. The contribution to the provision for bad debts has been broadly maintained at the level for 2016/17 going forwards, with the level of provision being reviewed annually as part of the budget setting process.

- ***Sheltered Housing Accommodation Review***

At its meeting on the 12th October 2011, Cabinet considered a number of recommendations relating to making improvements to the Councils sheltered housing stock. The MTFF makes provision for the revenue impact of these decisions, whilst the Housing Investment Programme report elsewhere on the agenda reflects an estimated planned capital reinvestment of £3.414million in sheltered accommodation over the next 3 years. The revenue budget makes provision for home loss & disturbance payments plus the potential interest costs that would be incurred if additional borrowing is undertaken to fund capital works at future schemes due for improvement.

- ***Higher Value Voids***

As previously stated, the Government have not given any indication of how much the levy that we will have to pay will be. However, in anticipation the capital work programmes for 2017/18 to 2021/22 have been reviewed and a reduction has been made which has been ring-fenced within the Housing Investment Programme for payment of the levy when it is implemented. This is reflected in the Housing Investment Programme report elsewhere on the agenda. Potentially the HRA will need to manage the impact of any loss of future rental income (net of marginal cost savings), and any difference between payments we have to make to the Government and capital receipts actually realised, should we dispose of dwellings to fund the levy. No assumptions for these are currently reflected in the budget and MTFF, but will be considered in future budget setting cycles as and where appropriate.

- ***High Income Social Tenancies (Pay to Stay)***

The assumption within the 2017/18 budget and MTFF is that this voluntary policy will not be adopted locally, although a formal decision has yet to be made. If this assumption subsequently proves incorrect, then the financial implications will be considered in future budget setting cycles as and where appropriate.

5.3 The MTFF therefore provides a baseline position against which to make decisions as to the allocation of HRA resources and to determine the budget strategy over the next 5 years. The MTFF will be updated on a regular basis.

6. Supporting Information – 30 Year Financial Modelling

6.1 The implementation of HRA Reform in 2012 brought the expectation that Councils will take a greater business planning role when managing their Housing Revenue Account. Cabinet approved the Councils 30 year HRA Business Plan at its meeting on 27th November 2013. This included a 30 year financial model which set out the long-term position of the Councils HRA, using 2013/14 as the base year. As part of the 2017/18 budget setting process, this model has been refreshed and updated. This is summarised at Appendix E. This is set out using a standard approach, which is to show each of the first 5 years individually, then group the remainder of the model in 5-year bands. It incorporates expenditure & income for both revenue and capital, along with the HRA balances and debt position.

6.2 The information provided by the model for future years should be viewed as indicative. This is because a number of assumptions have to be made when projecting into the future, and the following paragraphs give some further details on these. Given the potential for these to vary, the impact upon the modelling could result in an improvement or decline in the position shown, dependant on the size of change and the degree of impact upon the plan. However, prudent assumptions are made wherever possible to protect the Councils financial position and to ensure the ongoing viability of the HRA.

6.3 Officers have undertaken sensitivity analysis on the 30 year model to evaluate the impact any change or combination of changes in the assumptions could have. Further information on the work undertaken is provided at paragraph 6.25.

Income Assumptions

6.4 One of the key drivers within the financial model is inflation. This is the factor which determines future annual rent increases for tenants, and it is this income which we are able to retain in the future to meet the increased stock investment and additional borrowing costs resulting from our increased debt arising from HRA Reform.

6.5 It has been assumed that the Government will only implement the 1% rent reduction for four years, and that in 2020/21 there will be a return to their rent formula of increasing tenants rents by CPI + 1.0%, for the duration of the 30 year model. There is currently no indication to suggest that this is going to alter. As a reminder to members, a change in rent policy is the example the Government at the time quoted within the HRA Reform debt settlement that would possibly re-open the original debt settlement. However, this has not occurred. Therefore, Colchester along with all other housing authorities nationally, entered into the new self-financing HRA arrangements at the time on the basis that the Government was providing certainty on national rent policy, which has now clearly changed.

6.6 Assumptions have been made within the model for loss of stock, primarily from Right to Buy sales. These are consistent with those made in the budget and MTFF. The Council has entered into agreement with DCLG to retain additional RTB receipts to deliver new affordable housing, and a proportion of these have been used to contribute to the cost of delivering the 34 units of new build accommodation on our garage sites. However, given the impact the rent reduction has had on our available borrowing headroom and subsequent potential to undertake further new build within the HRA, there is the possibility we will have to repay retained RTB receipts commencing in 2017/18, although officers are currently exploring alternative delivery options which could utilise them.

6.7 Assumptions have been made regarding rent lost from void properties and bad debts. An allowance has been made for ongoing operational voids, as well as an ongoing increase to the level of bad debts provision we may need to hold following the introduction of the Governments welfare reforms.

6.8 It has been assumed that income from garages will increase in line with CPI. There is the potential for this to increase, with the improvement to the financial model coming through a combination of reduced void levels as well as an increase in annual charges.

6.9 All other income budgets are assumed to increase in line with inflation.

Expenditure Assumptions

6.10 Similarly to income, inflation can have a significant impact upon expenditure levels within the 30 year financial model. It has been assumed that the Retail Price Index (RPI) will be 1% higher than the Consumer Price Index (CPI), although the assumption that rents will increase by CPI + 1% means inflation on expenditure will be at the same rate as assumed for income.

6.11 Management costs have been assumed to remain at the current base level throughout the life of the 30 year model, subject to inflationary increases. The exception to this is where it is known they will alter, for example tri-annual reviews of the pension scheme by Essex County Council, or where one-off sums have been included within the base budget.

6.12 Maintenance costs have been extracted from the Councils 30 year Asset Management Strategy. Assumptions have been made around future increases in line with general inflation, but these costs are also subject to changes to the BCIS (Building Cost Inflation) and market conditions that impact as contracts are re-tendered.

Funding & Financing Assumptions

6.13 The Council's Asset Management Strategy includes the expenditure requirements of our housing stock over the next 30 years. This has been reflected in the 30 year financial model. The day to day repairs and maintenance costs are funded from the revenue account, whilst the capital expenditure requirements are funded from a variety of sources which is considered within the Housing Investment Programme (HIP) report elsewhere on the agenda

6.14 The priority of how resources are used to fund the HIP is contained within that report for 2017/18, which in summary is aimed at using specific grants and capital receipts first, then reserves, with the intention of preserving revenue resources as far as possible as they offer the greatest funding flexibility. Should there be no or insufficient revenue resources available, then additional borrowing utilising any available headroom would be the final approach. This is because borrowing carries a cost of doing so; therefore it is treated as the last option to gain the maximum use of revenue resources available.

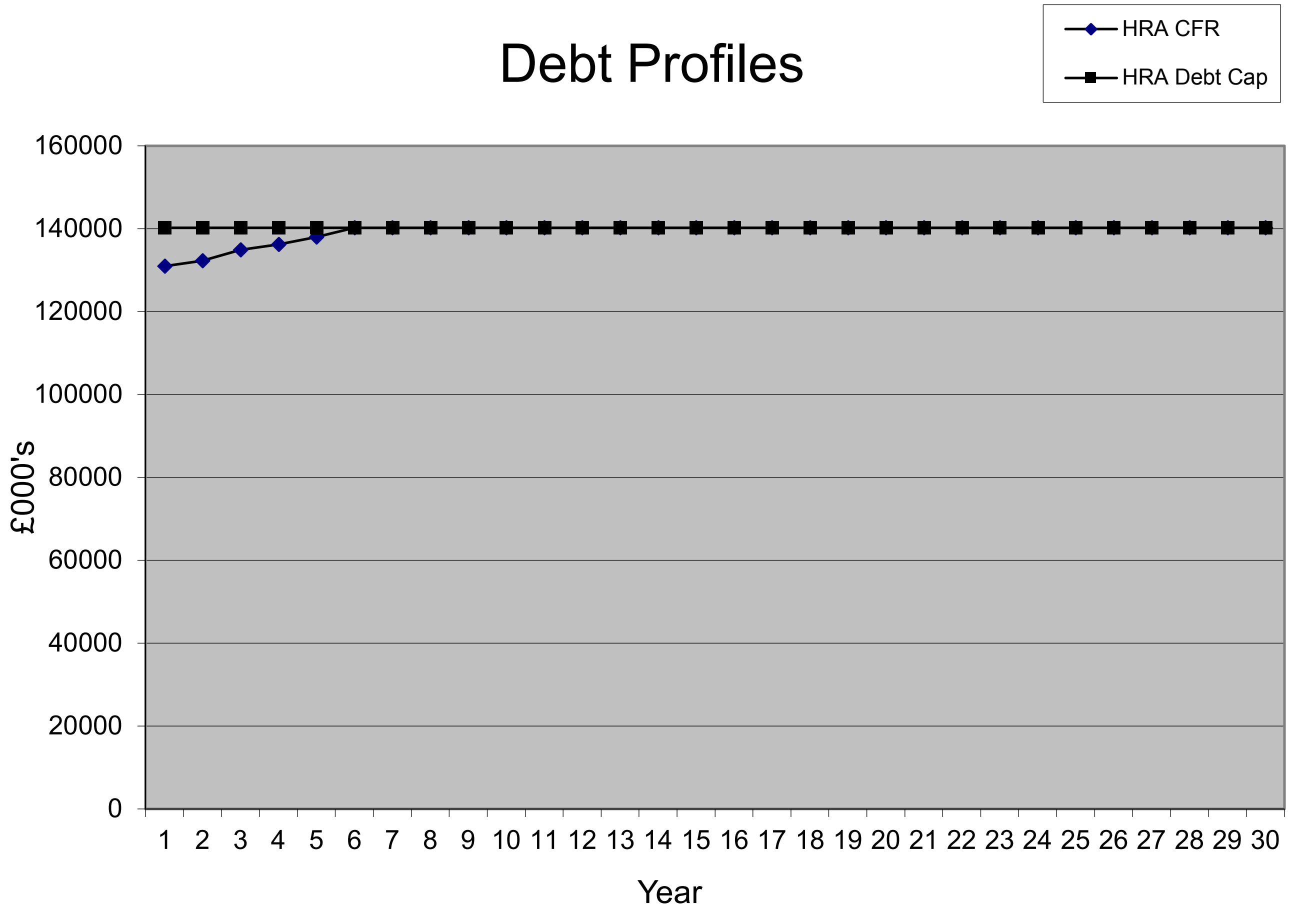
6.15 Under HRA Reform, the primary source of funding the Housing Capital Programme, especially in the early years, is a charge to the HRA which reflects the cost of depreciation to the housing stock. This is calculated locally, with reference to our actual stock condition and asset management strategy.

6.16 We are able to plan with certainty for the borrowing costs relating to the HRA Reform debt settlement, given that we entered into a number of long-term fixed rate loans. We are currently assuming a rate of 4.5% on any future borrowing undertaken to support the Housing Capital Programme, which will be reviewed annually as part of the budget cycle. However, it should be noted that the impact of interest rates can be significant, given any 1% change in interest rates would result in an annual cost of £157k (based on the maximum amount of borrowing headroom currently unused).

Debt

6.17 The measure of an authority's debt under self-financing is the HRA Capital Financing Requirement (HRA CFR). Our opening HRA debt on 1st April 2017 is expected to be £128.969million. We have a debt cap of £140.275million, which is the limit the Government have imposed to control public sector borrowing under HRA Reform.

6.18 The following graph shows our current debt profile that is being generated by the 30 year financial model. This works on the principle that once all of the costs of managing & maintaining our housing stock have been met, and the interest costs of our HRA borrowing have been paid, any residual income can be used to repay debt. It is important to state that this is an indication of the ability to repay debt, as what actually dictates whether debt is reduced is where the Council actually repay loans as they mature.



6.19 The above debt curve shows that due to the reduction in social housing rents for four years, we are now having to use our borrowing headroom to deliver the capital investment requirements of the housing stock as set out in the current Asset Management Strategy. It is currently projected that we will have used all our available headroom by Year 6, and will reach our debt cap. The current modelling also shows that our debt will remain at the level of the debt cap for the remainder of the 30 years based on current assumptions and investment plans, meaning there is no borrowing headroom available for further investment. In fact, Appendix E shows a shortfall in resources on the Capital Account when compared to the investment requirements in all years after 2021/22.

6.20 The difference between the HRA Debt Cap and the HRA CFR is known as the "borrowing headroom", and represents the amount of additional resources the Council can generate through further borrowing. This is set to decrease as time progresses (and we will eventually hit the debt cap), as given the rent reduction has reduced our rental income over the life of the plan, there are no surplus resources being generated within the model which we can use to repay debt (or set aside to repay debt if it is not able to be repaid at that point in time). The following table shows the predicted level of available headroom over the first 10 years of the current financial model, after taking into account the potential borrowing that may be undertaken to fund the Housing Investment Programme and any provision for the repayment of debt;

Year	Available Borrowing "Headroom" £000's
2017/18	9,282
2018/19	7,955
2019/20	5,389
2020/21	4,076
2021/22	2,268
2022/23	-
2023/24	-
2024/25	-
2025/26	-
2026/27	-

6.21 The above table shows that there is available headroom in each of the next 5 years, after which it is **projected** we will reach our debt cap. This projection is derived from a number of assumptions in the financial model, many of which are out of our direct control, for example inflation, Right To Buy numbers etc. Therefore the headroom figures in the table above should be viewed entirely as indicative.

6.22 If, as projected, the headroom figures reduce to the point that they reach zero, or in other words we reach our debt cap and no longer have any headroom available, then to accommodate any further cost pressures/reductions in income that could occur, we would need to reduce our expenditure plans on either our Housing Capital Programme or revenue budgets, or a combination of both. Consideration needs to be given to this possibility when setting this and future years' budgets, and when considering any further plans for the use of borrowing headroom.

6.23 As stated in paragraph 4.7, the assumption is that rents will return to increasing by CPI + 1% from 2020/21. However, to illustrate an alternative scenario, the following table shows the level of available headroom we would have over the next 10 years, using the assumption that the Government froze rents over this period of time.

Year	Available Borrowing "Headroom" £000's
2017/18	9,282
2018/19	7,955
2019/20	5,389
2020/21	3,307
2021/22	-
2022/23	-
2023/24	-
2024/25	-
2025/26	-
2026/27	-

6.24 The above table shows that after the end of the rent reduction, we would have used all of our available headroom by year 5 if rents were frozen from 2020/21 onwards

Outlook Summary

6.25 The Government's rent reduction for four years has had a major impact on the HRA financial model. As members will be aware, this change in policy has resulted in a reduction in forecast rental income of circa £143million. This means we are predicting that we will reach our debt cap in 2022/23 (6 years' time), and not be able to reduce our debt over the remaining 24 years of the plan, meaning we will not be able to undertake any further borrowing to fund capital investment. In fact, Appendix E is showing that there is a shortfall in capital funding from year 6 onwards, based on existing investment plans and our current Asset Management Strategy.

6.26 Given the current projected 30 year position, officers will continue to progress the work being undertaken within the Housing Futures Programme referred to in paragraph.3.2.4, looking for opportunities where income can be maximised, and expenditure savings can be achieved.

Sensitivity Analysis

6.27 A key part of business planning is understanding the factors that can influence the outputs, and their potential impact. Therefore, a number of sensitivities can be modelled, to see how they effect the base position. The following table sets out some examples of the sensitivity analysis undertaken and their resultant impact upon the 30 year HRA model, compared to the base position shown at Appendix E;

		Variation to Base Position			
		Scenario 1	Scenario 2	Scenario 3	Scenario 4
	Base Position	Reduction in Inflation of 1% over 30 Years	Increase in Inflation of 1% over 30 Years	Decrease in Inflation of 1%, Increase in RTB's by 10,Decrease in Mgt Costs by £200k in every Year	Increase in Inflation of 1%, Increase in RTB's by 10, Increase in Mgt Costs by £200k in every Year
Peak Debt Year	Year 6-30	Year 6-30	Year 6-30	Year 7-30	Year 5-30
Year Debt Repaid	-	-	-	-	-
Capital Investment affordable over 30 Years	£367.0million	£312.5million	£430.7million	£295.9million	£383.3million
Surplus HRA Balance at Year 30	£3.3million	£2.6million	£4.3million	£0.2million	£1.0million

6.28 The sensitivity analysis in Scenarios 1 & 2 above demonstrates the impact that inflation can have on the long-term HRA model. If inflation increases, rental income (following the Governments rent policy) increases at a higher rate than expenditure. Also, a large proportion of our costs are not affected by inflation, such as the fixed rate interest costs on our borrowing. Consequently, rising inflation results in a net gain to the HRA. Conversely though, lower inflation results in a net loss to the HRA, as we receive less rental income than we save in lower costs.

6.29 The sensitivity analysis also demonstrates how a combination of variables can influence the modelling, such as changes in inflation rates, numbers of Right To Buy sales and variations in costs for example. Depending on the scale of these changes, they could either bring a significant benefit to/put pressure on the viability of the current plan, or could actually be broadly neutral. Finally, the analysis above assumes any change would exist for each of the 30 years in the HRA, which is highly unlikely given the long time-scale involved, and also assumes no corrective action would be taken if there were a negative impact, which clearly would not be the case. However, it aims to give an understanding of how changes could impact upon the current base 30 year HRA model.

7. Strategic Plan References

7.1 The revenue estimates presented here link to the following areas of the Councils strategic plan:

- **Welcoming -** a place where people can grow and be proud to live.
- **Vibrant -** Develop a strong sense of community across the Borough by enabling people and groups to take more ownership and responsibility for their quality of life.
- **Prosperous -** Provide opportunities to increase the number of homes available including those that are affordable for local people and to build and refurbish our own Council houses for people in significant need

8. Consultation and Publicity

8.1 With the potential consideration of service improvements that would lead to new service charges for tenants, it is anticipated that an appropriate amount of consultation will be undertaken during the course of the financial year. Furthermore, extensive consultation has been undertaken with tenants regarding future works programmes, including those within the Housing Investment Programme, which have a resultant impact upon this budget report.

8.2 On the 18th November 2015, Colchester Borough Homes facilitated an independent focus group of engaged residents (Task and Finish Group) to discuss the specific impact of the Governments rent reduction announcement over the next four years, and the main measures of the Housing and Planning Bill 2015, During this consultation CBH were able to determine residents views about priorities for the customer base, and consider areas where CBH should seek to make savings.

8.3 At the beginning of 2016, Colchester Borough Council and Colchester Borough Homes jointly commissioned a survey looking at levels of tenant and leaseholder satisfaction with CBC as a landlord and CBH as its management organisation. A full report on the outcomes of the survey can be found on the CBH website. The overall result showed an increase in tenant satisfaction from the previous survey in 2014.

9. Financial Implications

9.1 Are set out in this report.

10. Equality, Diversity and Human Rights Implications

10.1 This report has no specific human rights implications. Consideration has been given to equality and diversity issues in respect of any budget changes proposed as part of the budget process. This has been done in line with agreed policies and procedures including production of Equality Impact Assessments where appropriate.

11. Community Safety Implications

11.1 This report has no significant community safety implications

12. Health and Safety Implications

12.1 This report has no significant Health and Safety implications

13. Risk Management Implications

13.1 These have been taken into account in the body of the report.

Appendices

- Appendix A - Housing Revenue Account Estimates 2017/18
- Appendix B - HRA Balances Statement
- Appendix C - Medium Term Financial Forecast
- Appendix D - HRA Balances Risk Management Assessment
- Appendix E - 30 Year Financial Model

Background Papers

- None

	COLCHESTER BOROUGH COUNCIL		
	Revenue Estimates 2017/18		
	Housing Revenue Account		
	Summary		
2015/16		**2016/17**	**2017/18**
Actuals	**Expenditure & Income Analysis**	**Revised**	**Original**
		Budget	**Budget**
£000's		**£000's**	**£000's**
	INCOME		
(27,282)	Dwelling Rents (Gross)	(26,728)	(26,264)
(776)	Non-Dwelling Rents (Gross)	(853)	(899)
(2,659)	Charges for Services and Facilities	(2,509)	(2,553)
(106)	Contributions towards Expenditure	(91)	(91)
(30,823)	**Total Income**	**(30,181)**	**(29,807)**
	EXPENDITURE		
5,015	Repairs and Maintenance	5,059	4,984
3,434	CB Homes Ltd Management Fee	3,395	3,463
6,130	Management Costs	6,262	6,642
189	Rents, Rates and Other Charges	195	202
258	Increased provision for Bad or Doubtful Debts	250	250
5,589	Interest Payable	5,629	5,616
8,190	Depreciation and Impairments of Fixed Assets	5,581	5,000
92	Amortisation of Deferred Charges	92	66
69	Debt Management Costs	68	68
28,966	**Gross Expenditure**	**26,531**	**26,291**
(1,857)	**Net Cost of Services**	**(3,650)**	**(3,516)**
1,356	Net HRA Income from the Asset Management Account	(92)	(66)
(22)	HRA Investment Income (including mortgage interest and interest on Notional Cash Balances	(32)	(32)
(523)	**Net Operating Expenditure**	**(3,774)**	**(3,614)**
645	Revenue Contribution to Capital Expenditure	3,952	3,614
122	**Deficit/(Surplus) for the Year**	**178**	**-**
(2,510)	Deficit/(Surplus) at the Beginning of the Year	(2,388)	(2,210)
122	Deficit/(Surplus) for the Year	178	-
(2,388)	Deficit/(Surplus) at the End of the Year	(2,210)	(2,210)

Appendix B

Housing Revenue Account - Estimated Balances

	£'000
Balance as at 1 April 2016	**(2,388)**
Committed - Capital Spending in 2016/17 and onwards	610
Less budgeted deficit/use of balances in 2016/17	178
Plus Forecast underspend in 2016/17	-
Unallocated balance at 31st March 2017	**(1,600)**
Less Proposed Use of balances in 17/18 Budget	-
Estimated uncommitted balance at 31st March 2018	**(1,600)**
Recommended level of Balances	**(1,600)**
Forecast balances above prudent level at 31st March 2018	**-**

Note:

This forecast is on the basis that there are no further calls on balances during the remainder of the year.

Housing Revenue Account – Medium Term Financial Forecast

Area	*Revised Budget 16/17*	*Budget 17/18*	*Budget 18/19*	*Budget 19/20*	*Budget 20/21*	*Budget 21/22*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Income						
Housing Rents	(26,728)	(26,273)	(25,814)	(25,873)	(25,988)	(26,629)
Other Income	(3,453)	(3,534)	(3,541)	(3,660)	(3,748)	(3,859)
	(30,181)	**(29,807)**	**(29,355)**	**(29,533)**	**(29,736)**	**(30,488)**
Expenditure						
Repairs & Maintenance	5,059	4,983	5,133	5,544	5,711	5,882
Running Costs	10,102	10,558	9,897	10,150	10,769	11,049
Interest Payable	5,629	5,616	5,689	5,953	5,319	5,381
Depreciation	5,581	5,000	5,150	5,305	5,464	5,628
Other Capital Financing	36	36	53	55	58	60
RCCO	3,952	3,614	3,433	2,527	2,414	2,488
Contribution to Balances	0	0	0	0	0	0
Other	0	0	0	0	0	0
	30,359	**29,807**	**29,355**	**29,534**	**29,735**	**30,488**
Budgeted (Surplus)/Deficit	**178**	**0**	**0**	**1**	**(1)**	**0**
Forecast 2016/17 underspend	0	0	0	0	0	0
Revised (Surplus)/Deficit	**178**	**0**	**0**	**1**	**(1)**	**0**

Opening Balance	**(2,388)**	**(1,600)**	**(1,600)**	**(1,600)**	**(1,599)**	**(1,600)**
Committed Balance	**610**	**-**	**-**	**-**	**-**	**-**
(Surplus)/Deficit	**178**	**-**	**-**	**1**	**(1)**	**-**
Uncommitted Closing Balance	**(1,600)**	**(1,600)**	**(1,600)**	**(1,599)**	**(1,600)**	**(1,600)**

* It should be noted that it is currently forecast the HRA will be underspent by £230k in 2016/17, which will be used to increase the RCCO in the year. Clearly, if this level of underspend is not achieved, then there will be a resultant impact upon the level of RCCO we are able to make, and thus a knock-on impact on the use of our borrowing headroom.

Review of Housing Revenue Account Balances 2017/18

Risk Management Assessment

Factor	Assessed Risk		
	High £'000	Medium £'000	Low £'000
Cash flow (1% of £56m)	560		
Interest Rate (3% on £16m)		480	
Inflation (Decrease of 1%)		250	
Emergencies		100	
Right To Buy Sales		100	
Litigation			50
Welfare Reform	200		
Sheltered Accommodation Project	100		
High Value Voids Levy	250		
	1,110	930	50

	Minimum Provision £'000
High Risk – 100%	1,110
Medium – 50%	465
Low – 10%	5
Sub Total	**1,580**
Other - say	20
Recommended Prudent Level	**1,600**

Housing Revenue Account – 30 Year Financial Model

Appendix E

	Year 1 2017/18 £000's	Year 2 2018/19 £000's	Year 3 2019/20 £000's	Year 4 2020/21 £000's	Year 5 2021/22 £000's	Year 1-5 Total £000's	Year 6-10 Total £000's	Year 11-15 Total £000's	Year 16-20 Total £000's	Year 21-25 Total £000's	Year 26-30 Total £000's
Revenue Account											
Income	(29,807)	(29,355)	(29,533)	(29,736)	(30,488)		(164,856)	(187,386)	(212,994)	(243,679)	(277,856)
Expenditure	29,807	29,355	29,534	29,735	30,488		164,601	187,090	212,651	243,282	277,395
(Surplus)/Deficit	0	0	1	(1)	0		(255)	(296)	(343)	(397)	(461)
Opening HRA Balance (Surplus)	(1,600)	(1,600)	(1,600)	(1,599)	(1,600)		(1,600)	(1,855)	(2,151)	(2,494)	(2,891)
Closing HRA Balance (Surplus)	(1,600)	(1,600)	(1,599)	(1,600)	(1,600)		(1,855)	(2,151)	(2,494)	(2,891)	(3,352)
Capital Account											
Investment:											
Stock Investment Programme	9,378	9,289	8,442	8,446	9,141	44,696	68,959	75,800	81,383	87,081	158,468
Sheltered Accommodation Review	770	1,397	1,247	0	0	3,414	0	0	0	0	0
High Value Assets Levy	1,140	1,174	1,209	1,246	1,283	6,052	0	0	0	0	0
New Build	0	0	0	0	0	0	0	0	0	0	0
Total	**11,288**	**11,860**	**10,898**	**9,692**	**10,424**	**54,162**	**68,959**	**75,800**	**81,383**	**87,081**	**158,468**
Funded By (Resources):											
Depreciation	(5,000)	(5,150)	(5,305)	(5,464)	(5,628)	(26,547)	(32,620)	(39,956)	(48,802)	(59,451)	(72,255)
Revenue Contribution	(3,614)	(3,433)	(2,527)	(2,414)	(2,488)	(14,476)	(11,626)	(11,988)	(11,666)	(11,895)	(10,332)
Capital Receipts	(650)	(1,950)	(500)	(500)	(500)	(4,100)	0	0	0	0	0
Grant	0	0	0	0	0	0	0	0	0	0	0
HRA Reserves	0	0	0	0	0	0	0	0	0	0	0
New Borrowing	(2,024)	(1,327)	(2,566)	(1,314)	(1,808)	(9,039)	(2,268)	0	0	0	0
Total	**(11,288)**	**(11,860)**	**(10,898)**	**(9,692)**	**(10,424)**	**(54,162)**	**(46,514)**	**(51,945)**	**(60,468)**	**(71,346)**	**(82,587)**
Debt:											
HRA Debt at Year End	130,993	132,320	134,886	136,199	138,007		140,275	140,275	140,275	140,275	140,275
Debt Cap	140,275	140,275	140,275	140,275	140,275		140,275	140,275	140,275	140,275	140,275
Available Headroom	9,282	7,955	5,389	4,076	2,268		0	0	0	0	0

COLCHESTER

Item

Cabinet

1st February 2017

Report of	**Head of Commercial Services**	**Authors**	**Darren Brown** **Lynn Thomas** **Tel: 282891**
Title	**Housing Investment Programme (HIP) 2017/18**		
Wards affected	All		

This report concerns the Housing Investment Programme for 2017/18

1. Decision(s) Required

1.1 To approve the Housing Investment Programme for 2017/18.

1.2 To note the Capital Medium Term Financial Forecast (CMTFF) set out at Appendix A.

2. Reasons for Decision(s)

2.1 Each year as part of the process to agree the Council's revenue and capital estimates the Cabinet is required to agree the allocations to the Housing Stock Investment Programme. These allow for work to be undertaken to maintain, improve, and refurbish the housing stock and its environment.

2.2 Members will be aware that following the Cabinet meeting on the 30 November 2011 it was agreed in principle to accept a proposed 5 year Housing Investment Programme (HIP) as the framework for procuring housing related planned works, improvements, responsive and void works and cyclical maintenance, subject to overall budget decisions in January 2012 and annually thereafter.

2.3 It was also agreed that the proposed 5 year investment programme would be linked to the Asset Management Strategy (AMS) and reviewed annually in the light of available resources and for each annual allocation to continue to be brought to Cabinet for approval as part of the overall HIP report.

2.4 The Colchester Borough Homes (CBH) Board has been apprised of the content of the Cabinet report submitted on the 30 November 2011 and is now seeking approval for the 2017/18 Capital programme.

2.5 This report seeks the release of funds under grouped headings as described in the AMS and supported by the Management Agreement dated 9th August 2013, which governs the contractual relationship between Colchester Borough Council (CBC) and CBH.

3. Supporting Information

Key Issues for 2017/18

3.1 There are a number of key issues relating to the HIP budget for 2017/18, with further details being included within the main body of the report. However, in summary they are as follows. This is the sixth year of HRA Self-Financing and the continued increase in investment in the housing stock and other projects is reflected in this report. As part of the Sheltered Housing refurbishment programme, construction works continues at Enoch House and is due for completion in summer 2017, whilst the feasibility and scope of the next two schemes is appraised.

3.2 Members will be aware of the forced sale of Local Authority High Value assets to fund the voluntary Right To Buy for housing association tenants, which was announced in the Housing and Planning Act 2016. This requires local housing authorities to make a payment to the Government equivalent to the market value of a proportion of high value vacant housing owned by the authority (165 stock retaining local authorities who maintain a housing revenue account). Government announced in the recent autumn statement that this has been delayed and will not be implemented in 2017/18. However, given there is no indication of how much the levy that we will have to pay will be, work programmes for 2017/18 have been reviewed and a reduction of £1.140million has been made which has been ring-fenced for payment of the levy when it is implemented. An equivalent sum has been provisionally included in futures years as shown in the CMTFF at Appendix A.

3.3 This report is considered as part of agreeing the Housing Revenue Account (HRA) estimates as the funding for the HIP, which covers capital investment in the housing stock, is very much linked to the overall level of resources for housing.

3.4 In recognition of the need to define future trends and changes influencing the needs of the housing assets, a 30 year investment model was established to support the HRA business planning process. This was undertaken as part of the Councils response to the proposal from the Government to disband the Housing Subsidy system and to introduce self-financing from April 2012.

3.5 Members will be aware of the announcements made in the Chancellor of the Exchequer's Budget on 8th July 2015 regarding the proposal to decrease social housing rents by 1% annually from 2016/17 for four years, and the resultant projected loss of rental income within the HRA business plan over the next 30 years. Therefore it is necessary to review the Housing Revenue Account (HRA) current budgets and investment plans to ensure that these can operate within the limits of the Business Plan and do not exceed the peak debt limit.

3.6 The outcome of the review will provide the Council, as part of its budget setting process, alternative options on existing HRA budgets to mitigate the impact of the imposed reduction in income through these changes without detrimentally impacting service to residents in the Borough.

3.7 It is now the sixth year of this programme which is being recommended as the framework for procuring housing related planned works and improvements.

4. Funding the Housing Investment Programme

4.1 2017/18 is the sixth year of the HRA self-financing regime. This fundamentally changed the way in which Council Housing is financed, and as a consequence a financial model for the HRA has been developed, which forecasts the HRA and HIP for each of the next

30 years, using a range of assumptions on areas such as inflation, stock numbers, future expenditure & income levels etc. This is considered further in the 2017/18 HRA Estimates report elsewhere on the agenda. The source of resources, and the priority order in which it is assumed they will be used to fund capital expenditure in the 2017/18 HIP budget and financial forecasts are as follows;

- Specific Areas of Finance (e.g. Grants),
- Capital Receipts,
- Major Repairs Reserve (Depreciation),
- Revenue contributions to capital (RCCO),
- New Additional Borrowing

4.2 The assumption made when prioritising resources to fund the HIP is that resources specifically designated to the programme will be used first, followed by capital receipts. This is so the receipts can be re-invested in affordable housing, and be retained locally and not be clawed back by Central Government under the capital receipts pooling arrangements. The next form of resource to be used is the Major Repairs Reserve, which is the reserve that is built up from the depreciation charge to the HRA. This is the resource that is set aside to maintain the housing stock in its current form & condition. If there are insufficient resources within the Major Repairs Reserve to fund all of the capital works in the year, then the next call on funding is revenue. The amount of this resource will depend on the level of balances within the HRA and the extent to which they are directed to the HIP, as opposed to other budget priorities.

4.3 Finally, should there be insufficient revenue resources to fund the overall programme the assumption is that the Council will undertake HRA borrowing to fully fund the HIP. This is assumed to be the lowest priority source of funding, to minimise the resultant additional interest costs that would be incurred by the HRA. Further borrowing will be subject to the debt cap which applies under the self-financing regime. Should this be breached, or should the Council decide it does not want to undertake additional HRA borrowing or use revenue resources etc, then the Council would need to re-consider the programme of works proposed and the corresponding budget provision. This could include foregoing works, or re-profiling the year in which they are undertaken.

5. 2017/18 Programme of Works

5.1 The requested budget allocation for the 2017/18 programme is £11.288million. This continues to represent a substantial increase in investment compared to the years spent operating under the now-abolished HRA Subsidy system, which members will recall was replaced on 1st April 2012 by the HRA Self-Financing regime. A further breakdown of the areas of work that are planned to be undertaken is shown at paragraph 8.

5.2 As part of the new management agreement which commenced in August 2013 between the Council and CBH, the management fee has been expanded to reflect the wider range of services CBH now provides on behalf of the Council, so it now incorporates the fee for managing the capital programme. Members are therefore asked to note that the requested budget allocation in paragraph 5.1, and the budget sums included in paragraph 8 and Appendix A all include the fee for managing the capital programme, which for 2017/18 totals £1,328,000. A further breakdown of the management fee is included in the HRA Revenue Estimates report elsewhere on the agenda.

5.3 Cabinet are also asked to note that provision has been made within the 2017/18 programme to provide funding for the Sheltered Housing review agreed by Cabinet on

12th October 2011. The sixth year of the programme (2017/18) will see the completion of the refurbishment of Enoch House.

6. HRA Capital Medium Term Financial Forecast - 2016/17 to 2020/21

6.1 As previously stated, on the 30th November 2011 Cabinet agreed in principle to accept a proposed 5 year HIP subject to overall budget considerations. As a result, expenditure proposals have been included in the capital medium term financial forecast at Appendix A and updated to take account of the early years being completed and new updated year's being introduced. As previously stated there is a significant increase in capital investment in the housing stock compared to previous years. Members will be aware that the Government introduced the Decent Homes Standard in 2010 which required all social housing within England to be brought up to and maintained to this standard, and therefore our on-going investment reflects what is required to ensure our housing stock continues to meet the decent homes standard as a minimum. The HIP also includes investment in other work programmes identified in the AMS for which the resources had not been available under the previous HRA subsidy system. It should be noted that the figures for 2018/19 onwards are indicative at this stage, and will be subject to confirmation and agreement by Cabinet in their appropriate year's budget setting cycle. This is primarily because the main source of increased resources under HRA Self-Financing is the retention of 100% of tenant's rental income locally. However, as previously stated, the Government has announced a decrease in social rents over four years rather than the anticipated inflationary increase, and we are awaiting more detail from the Government on these proposals and what might happen at the end of the four year reduction. It should also be noted that the assumed level of resources available to fund the HIP is not only influenced by future inflation levels, but also by other income and expenditure requirements within the HRA.

6.2 At its meeting on the 12th October 2011, Cabinet considered a number of recommendations relating to making improvements to the Councils sheltered housing stock. It was agreed that any capital receipts relating to disposals would be ring-fenced to the HRA, and that the financial implications of the in-principle decisions taken are modelled and reflected in the overall budget setting process. It was also indicated in the report that additional borrowing would be likely to be required to fund the programme of works, which would be via the use of the available borrowing headroom arising under HRA Reform. It is worth reminding Members that the 30 year AMS already made provision for investment in the sheltered housing stock, therefore the borrowing required is as a result of bringing these works elements forward, rather than any shortfall in funding in the overall business plan. Therefore the 2017/18 budget, and the capital medium term financial forecast at Appendix A, show the indicative expenditure requirements relating to the review of sheltered accommodation, and have been taken into account when determining the sources of funding available and required.

6.3 The estimated RCCO in 2017/18 is £3.614million, which is broadly in-line with the assumptions in the business plan. In the years prior to HRA Self-Financing, the RCCO has been used to fund non-works programmes, such as Housing ICT and the capitalisation of costs associated with the Housing Client team. However, as indicated in the HIP report agreed by Cabinet on 25th January 2012, RCCO's have been required to support the works element of the capital programme for 2013/14 onwards. These increased contributions have been affordable as under HRA Self-Financing the Council retains all rental income. However, following the rent reduction announcement by the Government in July, these resources will now be much lower than indicated in previous year's budget reports, which will have an impact on the level of capital investment in the housing stock that we are able to afford in the medium to long-term.

6.4 Members will be aware that the Council entered into agreement with DCLG in 2012 to retain additional RTB receipts to deliver new affordable housing. The Capital Medium Term Financial Forecast considered by Cabinet at its meeting on 28th January 2015 assumed that we would be able to use retained RTB receipts to contribute to the funding of the next phase of new build. However, given the impact the rent reduction announcement has had on our available borrowing headroom and the resultant putting on hold of phase 2 of our new build programme, there is the likelihood that we will not be able to use any more of our retained receipts as a source of funding via this method of delivery, and we would be required to repay any unused receipts to the Government plus interest, unless alternative delivery options can be found which utilise them. The latest projection is that this would occur in 2017/18 onwards, however officers are currently exploring alternative schemes to prevent repayment being necessary where possible. As a reminder, retained receipts can only be used on delivering new additional units of accommodation, not on refurbishing existing schemes.

6.5 The Medium Term financial forecast shows a requirement to undertake additional borrowing in the next 5 years. Prior to the rent reduction announcement, this virtually all related to the funding of new Council House building and the proposed sheltered accommodation improvements discussed at paragraph 6.2. However, we are now having to use borrowing to fund the requirements of our housing stock contained within the AMS, as our ability to use RCCO’s to fund the capital programme have diminished due to there being less rental income available as a result of the rent reduction announcement.

7. Priorities for the Council

7.1 To implement the Colchester Housing AMS that was revised and adopted by Cabinet in April 2015 as the basis for long term planning, provision and sustainability of Colchester Borough Council’s housing assets.

7.2 To allocate appropriate funding to CBH within the resources that are available to enable stock investment to proceed, improving housing conditions for our tenants.

7.3 To ensure that having achieved delivery of the decent homes’ targets in December 2011 that the overall level of decency is maintained at the end of any one financial year but ensure compliance on a five yearly basis.

7.4 To build upon current monitoring arrangements and ensure programme delivery and the effective targeting of resources particularly in respect of maintaining the value of the asset and providing Adaptations for our customers with disabilities.

7.5 To note that the overall and general Building Cost Inflation Indices (BCIS) used within the HIP contracts is showing significant increases, and also the tenders returned on newly contracted works are significantly higher, reflecting the current building market conditions. Both of these are used as a major consideration in producing and delivering the intended programmes of work.

8. Proposals

8.1 The report sets out below a summary of the proposed allocation of new resources for 2017/18 as defined by the AMS with the following comments setting out the basis of the allocation.

8.2 ***Capital Investment Programme - £5.275million –*** This allocation supports the AMS and acknowledges the work required to allow the decency standard to be maintained, therefore this substantial proportion of the overall allocation is recommended.

8.3 ***Aids & Adaptations - £0.600million -*** This continues to support the budget at historic levels. The proposed allocation achieves the requirement to adapt Council dwellings to meet the special needs of our customers and also meet the high priority that Members place on this service.

8.4 ***Emergency Failures (statutory obligation) and Voids - £0.693million –*** This allocation supports the AMS and the experience gained through the management controls being exercised. It reflects the necessity to recognise capital works in the voids process along with emergency failures.

8.5 ***Emergency failures structural works - £0.581million –*** As with the previous allocation this reflects the AMS and the experience gained through the management controls being exercised. The work is generally associated with premature failure of structural elements.

8.6 ***Environmental Works - £1.125million -*** This allocation supports the AMS by continuing to address the improvements to the overall estate living environment. It will include door entry systems, boundary works and PVC installations to continue to reduce the revenue reliance on painting programmes.

8.7 ***Asbestos, Legionella, Fire Safety and Overall Contingency - £0.589million –*** This allocation recognises the need to continue to proactively manage our statutory obligations in the defined areas and provides a general contingency to cover the whole of the programme together with survey work and the potential to Buy Back properties offered back to the Council through the Right to Buy legislation.

8.8 ***Non-Works Programmes - £0.140million*** – This is for the further development of the Capita Housing system and various other one off projects.

8.9 ***Sheltered Accommodation Improvements - £0.770million*** – This allocation supports the continuation of the overall refurbishment programme and a feasibility and appraisal of the next two schemes. Individual delivery contracts will be reported to Cabinet as tenders are returned.

8.10 ***Garages - £0.375million*** – This investment in the garage stock is intended to secure additional revenue income that will support the business plan in future years. We have already seen a return on the investment made in the last financial year by increased garage tenancies and fewer empty garages on the sites that have been refurbished.

8.11 ***Higher Value Voids Levy - £1.140million*** – This allocation is setting resources aside to meet the estimated impact of the disposal of higher value voids levy, which the Government are using to fund the extension of the Right To Buy for Registered Provider tenants introduced as part of the Housing and Planning Act 2016.

9. Strategic Plan References

9.1 The HIP links to the following areas of the Councils strategic plan:

- **Welcoming -** a place where people can grow and be proud to live.

- **Vibrant -** Develop a strong sense of community across the Borough by enabling people and groups to take more ownership and responsibility for their quality of life.

- **Prosperous -** Provide opportunities to increase the number of homes available including those that are affordable for local people and to build and refurbish our own Council houses for people in significant need

10. Consultation

10.1 The Council conducted the bi-annual STAR survey through ARP Research in April 2016 with the specific aim of obtaining customer feedback through a sample survey of general needs tenants (1600), and all sheltered tenants and leaseholders. Questions were centred on Colchester Borough Homes performance, tenant satisfaction with their homes, neighbourhood and services. The survey also attempted to identify tenants' priorities on where we focus the provision of non-statutory services.

10.2 As a result of the Cabinet report submitted on the 30th November 2011 members will be aware of the extensive consultation process which has been undertaken to arrive at a position where it has been possible to recommend this report and budget allocation.

10.3 Further consultation will be undertaken as part of the process to review spending plans given the impact of the Governments rent reduction announcement referred to in paragraph 3.5.

10.4 It should also be noted that thorough consultation will be carried out with tenants and leaseholders affected by any works to properties or areas as a result of the works programmes proposed within this report.

11. Publicity Considerations

11.1 Any housing investment has a significant impact on the quality of life for local people. As a consequence the targeting and effectiveness of the programme has huge interest for members and the public as a whole. It is recognised that ongoing publicity will need to be conducted particularly as existing programmes continue and new capital programmes are introduced. Updates will be publicised to the customers in the areas to receive work during the year.

12. Financial implications

12.1 As set out in the report.

13. Equality, Diversity and Human Rights implications

13.1 An impact assessment has been prepared and can be viewed through the following link

http://www.colchester.gov.uk/article/12743/Commercial-Services

14. Community Safety Implications

14.1 These are taken into consideration in delivery of the HIP programme.

15. Health and Safety Implications

15.1 CBH will be responsible for implementing the delivery of this programme in a manner that reflects Health and Safety legislation, although the Council does retain the responsibility to ensure that all procedures are in place and being implemented.

16. Risk Management Implications

16.1 Risk management will be considered as the programme is developed, particularly the issues around the introduction of new programmes of work.

HRA Capital Medium Term Financial Forecast – 2017/18 to 2021/22

Appendix A

Expenditure	Notes	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Stock Investment Programme		8,638	8,528	7,645	7,603	8,280
Adaptations		600	617	648	690	703
Sheltered Accommodation Review		770	1,397	1,247	-	-
Stock Investment Sub - Total		**10,008**	**10,542**	**9,540**	**8,293**	**8,983**
Higher Value Assets Levy		1,140	1,174	1,209	1,246	1,283
ICT		140	144	149	153	158
Other Works Sub - Total		**1,280**	**1,318**	**1,358**	**1,399**	**1,441**
Total Programme		**11,288**	**11,860**	**10,898**	**9,692**	**10,424**

Resources	Notes	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Major Repairs Reserve		5,000	5,150	5,305	5,464	5,628
Revenue Contribution to Capital		3,614	3,433	2,527	2,414	2,488
Capital Grant		-	-	-	-	-
Capital Receipts	Disposal of Assets/Stock Rationalisation	650	1,950	500	500	500
Retained RTB Receipts Reserve		-	-	-	-	-
New Borrowing		2,024	1,327	2,566	1,314	1,808
Total Funding		**11,288**	**11,860**	**10,898**	**9,692**	**10,424**