Scrutiny Panel Meeting

Grand Jury Room, Town Hall, High Street, Colchester, CO1 1PJ
Tuesday, 27 January 2015 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

Access to information and meetings

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Have Your Say!

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 Attending Meetings and "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, 27 January 2015 at 18:00

Member:

Councillor Beverly Davies	Chairman
Councillor Marcus Harrington	Deputy Chairman
Councillor Mark Cable	
Councillor Dominic Graham	
Councillor Jo Hayes	
Councillor Peter Higgins	
Councillor Mike Hogg	
Councillor Sue Lissimore	
Councillor Chris Pearson	

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 - 16

To confirm as a correct record the minutes of the meeting held 11 November 2014.

The Minutes of the 2 December meeting will be submitted to the next meeting for confirmation.

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 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 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 14/15** See report of Assistant Chief Executive	17 - 26
12	**Homelessness Gold Standard** See report of Head of Commercial Services	27 - 34
13	**Strategic Plan 2015 -18** See report of Chief Operating Officer	35 - 46
14	**2015/16 General Fund Revenue Budget, Capital Programme and Medium Term Financial Forecast** See report of Assistant Chief Executive	47 - 134
15	**Treasury Management Strategy Statement** See report of Assistant Chief Executive	135 - 158

16 **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
11 NOVEMBER 2014

Present :-	Councillor Beverly Davies (Chairman) Councillors Jo Hayes, Marcus Harrington, Mike Hogg, Peter Higgins, Sue Lissimore and Chris Pearson.
Apologies :-	Councillor Mark Cable, Councillor Dominic Graham
Also Present:-	Councillor Tim Young

21. Decisions Taken Under Special Urgency Provisions

Councillor Marcus Harrington, Deputy Chairman, acted as Chairman for the following items as Councillor Davies was delayed in attending. The item on the Briefing Paper on the former Garrison Gym was delayed until the last item on the agenda.

Councillor Harrington introduced the report on the Decisions Taken Under Special Urgency Provisions, asking the Panel to note the details of the report.

The decision taken was for the Council to agree to join the Essex Pool for business rates. This decision enables the Section 151 Officer and Monitoring Officer in consultation with the Portfolio Holder to be authorised to finalise the specific pooling arrangements together with any necessary documentation.

RESOLVED that the details of a report taken by a portfolio holder in accordance with the Special Urgency Provisions be noted.

22. Work Programme 2014/15

Councillor Harrington introduced the Scrutiny Panel Work Programme for 14/15. It was suggested that the attendance of the Colchester Hospital University Foundation Trust be moved to the first item on the agenda for the meeting on the 2nd of December.

Ann Hedges stated that the Strategic Plan Action Plan 2015 had been added to the agenda for the meeting on 27 January.

RESOLVED that:

i) The item on Colchester Hospital Univeristy NHS Foundation Trust be moved to the top of the agenda for the meeting on 2 December.
ii) The Scrutiny Panel Work Programme 2014/15 be noted.

23. Local Council Tax Support 2015/16

Samantha Preston, Customer Solutions Manager, introduced the Local Council Tax Support scheme report, with Jason Granger, Customer Interventions Manager, and Councillor Paul Smith, Portfolio Holder for Business and Resources. The report asked for the Panel to review and comment on the third year of the Local Council Tax Support scheme.

The report recommends that the Local Council Tax support scheme 2015/16 remain fundamentally unaltered, other than the following changes;

- Disregard in full child maintenance income for the purpose of income assessment.
- Set a minimum level of entitlement to £1.00.
- Increase non dependant deductions from £10 to £11.

Samantha Preston highlighted, that the amendment to disregard in full child maintenance income for the purpose of the Local Council Tax support income assessment, was considered and put forward after representations received by Gingerbread, a charity for single parents, and after considering further guidance from the Department for Communities and Local Government on the subject.

The scheme will go to Cabinet on 26 November and to Full Council for approval on 11 December, in advance of 31 of January approval deadline. If a decision is not made before this date, the scheme reverts to a default scheme.

The report for the Scrutiny Panel also included the consultation responses, which show general support for the changes that have been recommended and not a fundamental change in the scheme.

Councillor Smith stated that the amendment to disregard in full child maintenance income for the purpose of income assessment has been put in the scheme at the earliest opportunity after the contribution from Gingerbread. With regard to the scheme amendment of the minimum level of entitlement being set at £1, this is because of the disproportionate cost of administration.

Councillor Smith also outlined that Colchester Borough Council are continuing the Back to Work Bonus from the 2014/15 scheme, which provides an additional four weeks support for those who find work.

The following issues were raised by Councillors:

- Councillor Harrington - How is the cost of the first recommendation being addressed to balance the scheme?
- Councillor Pearson - How many families will the minimal level of entitlement impact?
- Councillor Hayes - Why has the Council decided on a minimum level of entitlement at £1, and does this have any other effect on other benefits?
- Councillor Harrington - Asked for clarification regarding child maintenance and spousal maintenance and payment of Council Tax.
- Councillor Lissimore - Was there consideration for increasing the minimum level of entitlement to £5?
- Councillor Pearson - Asked whether there is a way to simplify the Local Council Tax scheme document for public consumption.

Samantha Preston, Jason Granger and Councillor Paul Smith provided the following responses:

- Councillor Smith responded to Councillor Harrington stating that the cost of the first recommendation totals £19,232.09. The second two recommendations will return over £13,000.
- This recommendation of a minimum level of entitlement of £1 will affect approximately 72 families across Colchester.
- The reasoning behind the recommendation of £1 is because of the disproportionate cost of administering those benefits. The recommendation aligns us with more with the wider benefit framework, and does not have any effect on any other benefits for an individual.
- In response to Councillor Harrington, Jason Granger stated that for the 2015/16 scheme the amendment is to disregard child maintenance, but spousal maintenance remains.
- A comparison has taken place with other local authorities and other local authorities do carry similar minimum levels of entitlement. This will be of minimal impact to residents and not a step change in our current scheme. Councillor Smith stated that increasing the minimum entitlement further could cause hardship over the length of a year.

RESOLVED that the Local Council Tax Support Scheme for 2015/16 be noted.

24. Financial Monitoring Report - April to September 2014

Councillor Davies joined the meeting in advance of this item, but Councillor Harrington maintained the Chair.

Darren Brown, Business Manager, introduced the Financial Monitoring Report, asking the Scrutiny Panel to review the financial performance of all General Fund Services and the Housing Revenue account (HRA) for the first six months of 2014/15.

Darren Brown stated that the report highlights that the projected outturn for both the General Fund and Housing Revenue are broadly on track. The outturn forecast after six monthsis an underspend of £409,000 in the General Fund Account, and a £200,000 underspend in the Housing Revenue Account. The report states that there have been improvements in income, particularly an increase in planning applications. but these have been partially offset by increasing cost pressures.

A further update will be provided for the Scrutiny Panel, at the January meeting as part of the 15/16 Budget setting cycle.

The following issues were identified by Councillors:

- Councillor Lissimore – Asked for clarification on the Commercial Services budget, as there are a number of red categories.

- Councillor Higgins – Questioned whether the information contained in Appendix A provided a true reflection of the budgets, as a number of them are categorised as Red or Amber.
- Councillor Davies – Are budgets being set realistically considering the underspend included in the budget?
- Councillor Hayes – Where are the returns from the investment on Solar Panels included within the budget, and are there plans to place solar panels on Council property assets?
- Councillor Pearson – At what point is a decision made to spend the underspend?
- Councillor Davies – Asked for further information about the underspend and overspends as part of the Governance restructure.

Darren Brown and Councillor Paul Smith provided the following responses:

- The Commercial Services budget is currently projected to have an underspend of £128,000 at the end of the financial year. That primarily relates to Trading Services budgets which include Helpline, CCTV, Bereavement and Building Control. Whilst the income is reduced in these areas for this year, there are savings for employee and general supplies and services budgets, resulting in a net benefit.
- Appendix A summarises money spent to date, alongside the expected profile of the budget. At the beginning of the year managers profile when payments are expected to be paid and forecast accordingly. The payments can be spread unevenly through the year, and therefore are categorised as amber or red. Instructions are given to managers to closely monitor red and amber schemes over the course of the year, any underspend that is compromising the service would be picked up on.
- Councillor Smith stated that the budgets are a prediction set at the beginning of the financial year. It is difficult to forecast budgets precisely because many are influenced by different factors. Examples of this are the early departure from Angel Court, which has led to a reduction in the amount Colchester Borough Council has had to pay in rent and additional Planning income from applications.
- In response to Councillor Hayes, income from the Solar Panels is included in Appendix D under Customer and Clients Receipts. This totals approximately £18,000, which is 5% above the predicted budget. Currently Colchester has solar panels installed on 5 buildings, including Leisureworld. As these are new installations they are not reflected in this year's budget but will be included next year.
- The Cabinet reviews the underspend throughout the year, and then allocates the funding to various projects. In previous years, funding has been allocated to staff costs and solar energy.
- With regard to the Governance Budget in Appendix C, this is as a result of an underspend for employee costs, but a larger overspend on legal consultancy and vehicle hire costs.

RESOLVED that the Financial Monitoring Report - April to September 2014 be noted.

25. Capital Expenditure Monitor 2014/15

Steve Heath, Finance Manager, introduced the Capital Expenditure Monitor for 2014/15 report, which asks the Scrutiny Panel to review the level of capital spending for the year to date, and the forecast for future years.

Steve Heath stated that the total spend so far during the year totalled £6.5m, accounting for 26% of the projected spend for the year. A significant proportion of this spending relates to the Housing Improvement programme with a number of new contracts starting this financial year.

Within the report, there are three schemes which are projecting a net overspend of £22,600. These schemes are the Town Hall DDA Sensory Project, Carbon Management Programme, and Site Disposal Costs. Across all schemes, eight are reported as amber, and none are categorised as red.

The following issues were identified by Councillors:

- Councillor Lissimore – Is there any further information on the new bailer at the Shrub End Depot, and are there any delays for adaptations?
- Councillor Higgins – Asked for clarification about the full year budget forecasts, and expenditure levels so far this year; asked for assurances that the Capital projects were continuing, particularly the Walls – Town, Castle and Closed Churchyard.
- Councillor Hayes – When are containers for flat recycling going to be distributed across Colchester, and asked for further information on the Surface Water Flooding – Distillery Lane/Haven Road.
- Councillor Davies – Asked for further information with regards to the Town Hall DDA Sensory Budget and Site Disposal Costs, particularly regarding the longevity of the schemes, and why the Garrison Gym is categorised as Amber when no funding is allocated.

Steve Health and Ann Hedges provided the following responses:

- There has been a delay in commencement for installing the new bailer, as a number of other factors have had to be taken into account. Essex County Council is currently in consultation on recycling sites, and as a result Colchester Borough Council are having a review of the Waste and Recycling Services locations to ensure best value for money. The project has been deliberately delayed to ensure the bailer is installed in the correct location. With regard to the adaptations, the scheme is rated as green, and there has been no indication to Senior Managers that there are any significant delays. The latest information on adaptations will be provided after the meeting.
- In response to Councillor Higgins, the actual expenditure represents when invoices and bills have been paid by Colchester Borough Council. These occur at different points throughout the year, which give the impression of a discrepancy. An example of this is the Castle which has been completed and is open, but the final bill has not yet been received. The Walls – Town, Castle and Closed Churchyard Scheme was also confirmed as continuing as scheduled. Paragraph 4.1 highlighted that expenditure is unlikely to be incurred evenly throughout the year.
- In response to Councillor Hayes, Steve Heath stated that further information on flat recycling and Surface water flooding will be circulated to Panel members.

- The Town Hall DDA Sensory project will be removed from the table in the next report as the final payment has been made. The Site Disposal costs are relating to land sales by the Borough Council and the on-going costs associated. The Garrison Gymnasium is included within the Capital report as it remains a live scheme. Its categorisation of amber is because the scheme is delayed, and because the Borough Council is waiting for information regarding the insurance claim, which may result in work taking place during this financial year at the site.

RESOLVED that the Capital Expenditure Monitor 2014/15 be noted.

26. Treasury Management Strategy Statement - Mid-Year Review Report 2014/15

Steve Heath, Finance Manager, introduced the report on the mid-year Treasury Management Strategy Statement. The report provides a half yearly update on treasury management at Colchester Borough Council and serves as a review of the strategy that was agreed in February.

Steve Heath highlighted a number of external factors that may impact the Treasury Management Strategy. The first is a forecast of an increase in the Bank Rate during quarter 2 of 2015, and the second is the expected removal of the current 'uplift' from the three credit ratings agencies. This will not directly affect Colchester Borough Council, but will alter the processes under taken by Capita Asset Management's methodology.

During this year, there has been no new borrowing undertaken, and it is anticipated that Colchester Borough Council will be able to continue to borrow internally for the foreseeable future. All of the borrowing by the Council is within approved limits, on a short term basis, and only with those institutions within the highest credit rating.

The Treasury Management Strategy in 2014/15 has outperformed the benchmark; the Central Loans and Investment Account (CLIA) currently has a favourable variance of £50,000. Steve Heath stated that the scheme is fit for purpose, and there are no changes proposed for the scheme during 2014/15.

Councillor Hayes asked for clarification on when the £126m of Capital financing requirement for housing was acquired. In response Steve Heath started that the majority of the debt related to the Governments Housing Revenue Account reform that took place two years ago. This meant that Colchester Borough Council had to buy itself out of the Housing Revenue Account subsidy system. A small element of the debt relates to the decent homes programme.

RESOLVED that the Treasury Management Strategy Statement - Mid-Year Review Report 2014/15 be noted.

27. Briefing Paper on the former Garrison Gym

Councillor Davies assumed the Chair for the Briefing Paper on the former Garrison Gym item.

Councillor Feltham, Portfolio Holder for Communities and Leisure Services, introduced the briefing paper on the former Garrison Gym.

Councillor Feltham outlined that the former Garrison Gym project began with the transfer of the asset from the Ministry of Defence to the Council as part of a Section 299A agreement. This meant that from the outset the building had to be put to community use. The Council held a tender process, and subsequently entered into negotiations with the preferred bidder the Abbeyfield Community Church. These negotiations were at a very advanced stage when the fire destroyed the building in June 2013.

Since the fire, there have been on-going negotiations with the insurer regarding the claim to rebuild the Gym. The difficulty and delay with the negotiations is that the rebuild will not replace the internal structure of the Garrison Gym as the previous layout would not be suitable for community use.

Colchester Borough Council are currently in consultation with the Abbeyfield Community Church over three options for a new internal layout.

The following issues were identified by Councillors:

- Councillor Davies – Is the Council keeping Abbeyfield Community Church informed of all the circumstances, and are they still wishing to proceed?
- Councillor Harrington – Is the Council satisfied with the rate of negotiations with the insurers, and is there an estimation of the time the negotiations will take?
- Councillor Hogg – Is there a minimum standard for the construction of the gym used as a starting point for negotiation.
- Councillor Hayes – Asked for clarification on the terms of the lease proposed for the building.

Councillor Feltham and Councillor Smith, provided the following responses;

- The Abbeyfield Church are being kept informed of the latest developments, and are still keen on pursuing the usage of the former Garrison Gym. This is evidenced by the three plans they have been a part of for the rebuilding of the Garrison Gym, and the commitment to fund this part of the rebuild.
- Difficult to provide a timescale for the conclusion of the negotiations. The delay is because the Council is not seeking a like for like rebuild of the internal layout of the Gym. Colchester Borough Council is trying to get the best possible deal as quickly as possible.
- There is some complication with regards to the construction of the Gym, as there is an issue with VAT exemption. As this is a repair rather than a demolition, the works completed by the Council would be classed as exempt, but those undertaken by the Community Group would not be. If the Council were to complete all the works, there is a risk that this could push the Council over the exemption limit.
- In response to Councillor Hayes, the property team are experienced in the arrangement of such leases. The procedure has gone through a transparent process with a clear requirement of the buildings usage. If the building was to be used for a commercial use, then the Secretary of State for Defence would be able to claw back some of funding raised.

RESOLVED that the Briefing paper on the former Garrison Gym be noted.

COLCHESTER

Scrutiny Panel

Item
11

27 January 2015

Report of	**Assistant Chief Executive**	**Author**	**Jonathan Baker** **Tel. 282274**
Title	**Work Programme 2014-15**		
Wards affected	Not applicable		

1. Decisions Required

1.1 The Panel is asked to consider and comment on the 2014-15 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 As requested by the Panel the results of the Colchester Borough Homes Peer Homelessness Review has now been scheduled in for the meeting in January. This was due to the number of items included on the agenda for the meeting in December.

3.3 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.

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
8 July 2014 1. Review of Colchester Borough Homes' Performance 2013/14 2. Year End 2013/14 Performance Report including progress on Strategic Plan Action Plan 3. Financial Monitoring Report – End of Year 2013/14 4. Capital Expenditure Monitor 2013/14
19 August 2014 1. Budget Strategy, Timetable and MTFF (Leader / Business and Resources) 2. Annual Report on Treasury Management (Business and Resources 3. 2014-15 Capital Monitor, period April – June 4. 2014-15 Financial Monitor, period April – June 5. Annual Scrutiny Report
16 September 2014 1. Safer Colchester Partnership (Crime and Disorder Committee) (Planning and Community Safety)
21 October 2014 1. Review of Public Events in Castle Park
11 November 2014 1. Briefing paper on the former Garrison Gym 2. Local Council Tax Support – Year 3 3. 2014-15 Revenue Monitor, period April – September 4. 2014-15 Capital Monitor, period April – September 5. Treasury Management – Half yearly update
2 December 2014 1. 2014-15 6-monthly Performance report and SPAP (Leader / Business and Resources) 2. Corporate and Financial Management Fundamental Service Review – One Year Business Case Update 3. Colchester Hospital University Foundation Trust
27 January 2015 1. Colchester Borough Homes – Peer Homelessness Review Result 2. Strategic Plan Action Plan 2015-18 3. 2015-16 Revenue Budget, Capital Programme and MTFF (Pre-scrutiny of Cabinet Decision (Leader / Business and Resources) 4. Treasury Management Investment Strategy
24 February 2015 1. 2014-15 Capital Monitor, period April – December 2. 2014-15 Revenue Monitor, period April – December
17 March 2015 1. Arts Review

COLCHESTER BOROUGH COUNCIL

FORWARD PLAN OF KEY DECISIONS 1 FEBRUARY 2015 – 31 MAY 2015

During the period from 1 February 2015 – 31 May 2015 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.

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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)
Award of Lease at Shrub End Sports Ground	Yes	February 2015	Portfolio Holder for Communities and Leisure Services (Cllr Annie Feltham) Please contact via Democratic Services (01206)507832 email: democratic.services @colchester.gov	Portfolio Holder report, which will contain brief details of tender submissions.	Simon Grady, Sport and Leisure Participation Manager (01206) 282908 Simon.Grady@colchester.gov.uk
Appointment of Main Contractor for the Rebuilding of the Former Garrison Gymnasium – decision on the appointment of the main contractor including the scope of the works which will be set to best facilitate the subsequent conversion to a community centre.	Yes	February 2015	Portfolio Holder for Business and Resources (Cnllr Paul Smith) Please contact via Democratic Services (01206)507832 email: democratic.services @colchester.gov	Portfolio Holder report, which will contain brief details of tender submissions and the scope of works.	Neil Hopkins, Regeneration Project Co-ordinator (01206) 282245 neil.hopkins@colchester.gov.uk

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Digital Collections Centre	Yes	23 February 2015	Revolving Investment Fund Committee (Cnllrs Feltham, Smith,, Turrell, T. Young) Please contact via Democratic Services (01206)507832 email: democratic.services @colchester.gov	Committee report, Plans, Business case	Howard Davies, Regeneration Project Manager (01206) 507885 howard.davies@colchester.gov.uk
Housing Strategy 2015 - to approve a new Housing Strategy for Colchester for 2015 to 2018 To recommend to full Council that the strategy be adopted as part of the Council's Policy Framework.	No	18 March 2015	Cabinet (Cnllrs Barlow Bourne, Feltham, Hunt, B. Oxford, Smith, Turrell, T. Young) Please contact via Democratic Services (01206)507832 email: democratic.services @colchester.gov.uk	Cabinet Report Housing Strategy and action plan Evidence base	Tina Hinson, Housing Strategy Manager (01206) 506903 Email tina.hinson@colchester.gov.uk Karen Paton, Housing Strategy Officer (01206) 282275 Email: karen.paton@colchester.gov.uk
Vineyard Gate – Approval of Development Agreement and key financial terms	Yes	18 March 2015	Cabinet (Cnllrs Barlow Bourne, Feltham, Hunt, B. Oxford, Smith, Turrell, T. Young) Please contact via	Cabinet Report	Fiona Duhamel, Economic Growth Manager (01206) 282252 Email: Fiona.duhamel@colchester.gov.uk

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			Democratic Services (01206) 507832 email: democratic.services @colchester.gov.uk		
Community Enabling Strategy – to adopt a Community Enabling Strategy for the Borough that highlights the scale of Colchester Borough Council's involvement in supporting our communities and shows a way we can refocus that work to promote self-help.	No	18 March 2015	Cabinet (Cnllrs Barlow Bourne, Feltham, Hunt, B. Oxford, Smith, Turrell, T. Young) Please contact via Democratic Services (01206) 507832 email: democratic.services @colchester.gov.uk	Cabinet report and Strategy document	Matthew Sterling, Assistant Chief Executive (01206) 282577 Email: matthew.sterling@colchester.gov.uk
Pay Award 2015/16	No	March 2015	Portfolio Holder for Business and Resources (Cnllr Paul Smith) Please contact via Democratic Services (01206)507832 email: democratic.services @colchester.gov	Portfolio Holder report	Jessica Douglas, Strategic People and Performance Manager (01206) 282239 Email: Jessica.douglas@colchester.gov.uk

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COLCHESTER BOROUGH COUNCIL

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Colchester

Scrutiny Panel

27 January 2015

Item 12

Report of	**Head of Commercial Services**	**Author**	**Geoff Beales ☏ 506514**
Title	**Homelessness Gold Standard**		
Wards affected	Not applicable		

The Panel is invited to review the feedback from the peer review on the Homelessness Gold Standard

1. Action required

1.1 To note the report outcomes and recommendations.

2. Reason for scrutiny

2.1 The Panel had previously asked for an update and feedback on the peer review of homelessness services provided by Colchester Borough Homes following Scrutiny Panel in July 2014. This report provides the panel with headline outcomes from the peer review, which will be used to develop a continuous improvement plan.

3. Background information

3.1 Colchester Borough Homes was delegated responsibility for the Housing Options service by Colchester Borough Council in November 2013. The peer review has been completed by them on behalf of Colchester Borough Council.

3.2 The Greater Haven Gateway is a partnership developed between 8 Local Authorities which supports housing options services. Each Local Authority shares the cost of a Project Co-ordinator and funding which can provide overarching research to advise, support and develop their services.

3.3 Colchester Borough Homes agreed that it would be beneficial to undertake the 'Gold Standard Challenge' which is a local authority, sector led peer review, funded by the Department of Communities and Local Government (DCLG) designed to deliver more efficient and cost effective homelessness prevention services.

3.4 The first part of the challenge – which has a ten-step continuous improvement approach - was to undertake a diagnostic peer review of the Housing Options services. To provide consistency the Greater Haven Gateway Co-Ordinator has participated in all the assessments. The process follows a diagnostic assessment framework that is validated by the National Practitioner Support Service (NPSS).

3.5 The Colchester Peer Review was carried out by Maldon District Council during July 2014. The Colchester Borough Homes staff then led a review of the services at Braintree District Council during August 2014. Tendring District Council and Chelmsford Borough

Council are also participating in the review. Outcomes and best practice from all Local Authorities that have participated will be shared and used to develop our service.

3.6 The overall process is likely to take 18 months to complete before accreditation is awarded, providing assurance that this service meets national expectation.

4. Homelessness Gold Standard Peer Review

4.1 The peer review is completed as a three stage process. The first stage is a 'desk top' review of information including the Homelessness Strategy and access and information for customers on the web site. A review of statistical information which is provided to the DCLG quarterly is assessed and compares the service with others.

4.2 The second stage assessment is completed over 5 days with assessors reviewing facilities, process and procedures and included the review of case files, interviews and outcomes. This part of the review also included visits to temporary accommodation.

4.3 The third stage is a series of interviews with frontline staff, managers and directors from Colchester Borough Homes and key stakeholders.

5. Outcomes and Recommendations

5.1 The assessment process benchmarks services through a scoring process. A score of 60% and above is accepted as "Good".

5.2 The overall average score of 64% confirms that CBH operate a good service, which has scope for improvement. ***(A more detailed baseline summary and breakdown of the assessment is attached to this report as Appendix 1)***

5.3 The individual elements were scored as follows:

Pre-visit assessment (strategy, website, returns)	65%
On-site assessment (reception, observations, file reviews)	58%
Interviews with staff and visits to temporary accommodation	73%

5.4 A number of areas of good practice were identified from the assessment, and the review was particularly complimentary regarding the way in which staff manage complex casework, and how CBH work in partnership with local agencies to deliver support services.

5.5 The supported temporary accommodation developed and managed by Family Mosaic in partnership with CBC was commended for the high quality accommodation and range of support available. The Colchester Night Shelter was commended for the way it provides direct access accommodation to complement and support the Housing Options service.

5.6 A number of recommendations are provided to improve the service. However, only one part of the customer process was reviewed as poor, that being "confirmation of advice is provided". Currently services are "triaged" through the Customer Service Team who make early assessment of the need for further advice or a homelessness assessment. The outcomes are not currently confirmed in writing to the customer.

5.7 CBH accept this as an area of weakness and will work with the Customer Services Team to re-assess the way in which advice is provided, particularly at the first point of contact.

5.8 Overall, Colchester Borough Homes have found the review to be challenging but fair and will use the outcomes and improvement plan to continue to develop the service. The report provides us with a baseline assessment in which to demonstrate their commitment to achieve the Gold Standard. An action plan has been developed as part of the Peer Review process. All four of the Authorities intend to meet together and to work jointly on each of the areas highlighted for improvement. It is hoped that not only will this provide a consistently high level of service across boundaries for those facing homeless, but also that efficiencies will be made by sharing the workload needed to apply for the Gold Standard challenge.

6. Strategic Plan references

6.1 The services and projects delivered by Colchester Borough Homes contribute directly to the following Strategic Plan priority areas:-

- Providing more affordable homes across the borough
- Regenerating our borough through buildings, employment, leisure and infrastructure
- Improving our streets and local environment
- Tackling anti-social behaviour and using enforcement to support priorities
- Enabling local communities to help themselves
- Supporting more vulnerable groups

7. Consultation

7.1 Colchester Borough Homes has developed a focus group that will provide the opportunity for residents to review service outcomes called the Customer Services Improvement Group.

8. Publicity considerations

8.1 The Medium Term Delivery Plan has been widely distributed.

9. Financial implications

9.1 The cost of the Gold Standard assessment is available within existing budgets, with resources for the assessment process supported by the Greater Haven Gateway Co-Ordinator.

10. Other standard references

10.1 Having considered 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

Appendix 1 – Baseline summary of Diagnostic Peer Review

Appendix 1

Baseline Summary of Diagnostic Peer Review

Pre-Visit Assessment	Score	Max	Overall Score %	
2. Homelessness Strategy Overview	80	116	69%	All parts over 60% - no actions
3. Website Review	29	48	60%	Two parts under 60% - Please see actions below
Total			**65%**	

Onsite Assessment	Score	Max	Overall Score %	
4. Reception and Interview Room	23	48	48%	All parts under 60% - Please see actions below
5. Customer Interview Observations	128	216	59%	Four parts under 60% - Please see actions below
6. Housing Options File Review	155	240	65%	One part under 60% - Please see action below
7. Homeless Assessment File Review	79	144	60%	Two parts under 60% - Please see actions below
12. Quality of Housing Options Service	53	92	58%	Two parts under 60% - Please see actions below
Total			**58%**	

Interview Summary Scores	Score	Max	Overall Score %	
8. Staff	72	96	75%	All parts over 60% - no actions
9. Managers	163	256	64%	Two parts under 60% - Please see actions below
10. Partners	184	288	64%	Two parts under 60% - Please see actions below
11. Visits	361	412	88%	All parts over 60% - no actions
Total			**73%**	

Total Overall Score	Average % Score	
Total	**64%**	

Appendix 1

Breakdown of Individual Parts of the Diagnostic Peer Review

2. Homelessness Strategy Overview	%
Current Homelessness Strategy	75%
Review and Strategy Development	70%
Strategic Priorities	64%
Fit for Purpose	70%
Corporate Commitment	63%
Investment	75%
Evidence of joint working	75%
Overall	69%

3. Website Review	%
Accessibility and Navigation	50%
Information and Advice	67%
Links and Directory	75%
Contact and On-line Application	56%
Overall	60%

4. Reception and Interview Room	%
Reception Facilities	46%
Interview Facilities	50%
Overall	48%

5. Customer Interview Observations	%
Preparation	47%
Establishing the Facts	56%
Providing Advice	56%
Engaging with the Customer	78%
Efficiency of Approach	69%
Effectiveness Of Approach	50%
Overall	59%

6. Housing Options File Review	%
Facts established	63%
Client's requirements	63%
Accurate and appropriate advice	55%
Timely and efficient casework	65%
Appropriate outcome/solution	70%
Effective file management	73%
Overall	65%

7. Homeless Assessment File Review	%
Facts established	60
Accommodation duties met	50
Efficient progress of inquiries	60
Accurate decision	65
Clearly reasoned s.184 letter	75
Effective file management	50
Overall	60

Breakdown of Individual Parts of the Diagnostic Peer Review continued….

8. Staff Summary	%
Customer Experience	72%
Operational Delivery	79%
Resources	75%
Staff Development & Involvement	75%
Evidence of Joint Working	75%
Overall	75%

9. Managers Summary	%
Service Structure & Staff Development/Involvement	75%
Customer Experience	55%
Resources	75%
Operational Delivery	58%
Evidence of Joint Working	85%
Corporate Commitment	63%
Overall	64%

10. Partners Summary	%
Operational Delivery	73%
Resources	56%
Evidence of Joint Working	69%
Customer Experience	56%
Overall	64%

11. Visits Summary	%
Visit to Statutory Temporary Accommodation	86%
Visit to Over Night Accommodation	89%
Visit to Day facility	
Overall	88%

12. Quality of Housing Options Service	%
Service standards promote quality	64%
Baseline threshold service	53%
Good practice systems in place	67%
Confirmation of advice is provided	25%
Overall	58%

Colchester	**Strategic Overview and Scrutiny Panel**		**Item 13**
	27 January 2015		
Report of	**Chief Operating Officer**	**Author**	**Ann Hedges** ☏ **282202**
Title	**Strategic Plan 2015 -18**		
Wards affected	All		

Scrutiny is invited to review the draft Strategic Plan 2015-18 and make any recommendations to Cabinet

1. Action Required

1.1 To consider and comment on the draft Strategic Plan 2015-18 prior to its consideration by Cabinet on 28 January and adoption by to full Council on 18 February 2015.

2. Reasons for Scrutiny

2.1 The last Strategic Plan was published in February 2012 and runs to 2015. It now needs to be refreshed in light of changing circumstances and expectations

2.2 The Strategic Plan is one of the core statutory elements of the Council's Policy framework, as set out in Article 4 of the Council's Constitution. It must therefore be adopted by full Council

2.3 The strategic Plan sets the framework for the Council's three year Medium Term Financial Forecast and its capital Programme. Both the Plan and the Budget will be debated at the same full Council on 18 February 2015.

3. Supporting Information

3.1 The new Strategic Plan will replace the existing plan that expires on the 31 March 2015.

3.2 The Strategic Plan sets the overall vision and a set of priorities for the borough and the Council for the next three years. An action plan will be developed to support the Strategic Plan. This will set out specific actions to be taken to deliver the priorities.

3.3 A set of principles was adopted for the new Strategic Plan:

- The new plan would be more about the place that just the Council
- It would demonstrate leadership and look at a long term vision
- That it would be meaningful
- That it would be ambitious for the place

3.4 The new Plan has a number of sections:

- A new vision statement "Rich heritage, ambitious future"
- A description of some of the achievements from the last Strategic Plan
- A set of four words that sum up what we want to achieve
- Broad descriptions of what we will work towards under each of these words

4. Consultation

4.1 The Council undertakes significant amounts of consultation every year however it was felt that some additional information was required to help develop the this Strategic Plan. A number of consultations have been undertaken:

4.2 Qualitative consultation with the public was commissioned and a series of structured focus group were held with residents representing different ages, gender, location, demographic profiles, BME and disability. Some important messages came out of these:

- That most people liked living in Colchester
- That we need to make more of our heritage
- That there need to be more opportunities for business
- That transport and retail need to be improved
- That growth needs to be managed and housing needs to be affordable
- That we need to be ambitious for the whole Borough

4.3 A series of workshops was also carried out with staff. These sessions listened to staff views about priorities and helped to shape the plan

4.4 Key partners were also consulted. A draft of the strategic plan was shared and views sought on how this fitted with the priorities in other organisations.

5. Publicity Considerations

5.1 The Strategic Plan is a key element of the Council's continued external engagement activity. The Council will continue to ensure promotion of strategic activity via new and existing communications channels including direct, in person, in the press and on social media platforms.

5.2 The Council will communicate at key milestones of strategic projects to promote a strong positive reputation as a vibrant, prosperous, thriving and welcoming borough

6. Financial implications

6.1 The financial implications of the action plan to deliver the priorities are incorporated into the annual budgeting process

6.2 A sum of £547k from the New Homes Bonus for 2015/16 will be used to support actions for delivery of the Strategic Plan in areas where it is felt additional resource is needed

7 Equality, Diversity and Human Rights implications

7.1 The Strategic Plan 2015-18 has a range of objectives and themes which will promote equality and diversity. This includes "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" and "Ensure Colchester is a welcoming and safe place for residents, visitors and businesses with a friendly feel that embraces tolerance and diversity".

7.2 An Equality Impact Assessment is available to view on the website here, or by following this pathway from the homepage:
Your Council>How the Council works>Equality and Diversity>Equality Impact Assessments>Corporate and Financial Management>Strategic Plan 2015-18.

7.3 The communication strategy for the Plan will comply with the existing Council policies for access and availability in different formats

7.4 The plan includes a priority about equality and diversity that meets the requirements of the Equality Act.

8 Community Safety Implications

8.1 Community Safety remains a priority in the Strategic Plan

9 Health and Safety Implications

9.1 There are no Health and Safety implications of the Strategic Plan.

10 Risk Management Implications

10.1 As action plans are developed, risks will be identified

10.2 The absence of a Strategic Plan would create a risk for the Council failing to deliver on its core priorities

Background Papers

- Strategic Plan 2015 -18
- Summary of the Public Consultation

VIBRANT
PROSPEROUS
THRIVING
WELCOMING

RICH HERITAGE, AMBITIOUS FUTURE

Colchester's Strategic Plan 2015–18

Achievements

The Strategic Plan 2012–2015 set out our priorities. Here are some of the things we have delivered:

Transport

- A new junction on the A12, enabling regeneration in North Colchester
- Additional cycle routes, encouraging more people to cycle
- Park & Ride in North Colchester
- Opened the Stanway Western Bypass

Economy

- Relocation of the Borough's Charter Market to the High Street
- Land deals for Northern Gateway creating new jobs
- Start up of Colchester Enterprise Hub to support future entrepreneurs

Investment

- Williams & Griffin committing £30m investment in the store
- The development of the Knowledge Gateway at Essex University
- Over £1m in grants to support the Voluntary Sector
- Maintained grants to the Arts

Housing

- The first new Council Houses built in 30 years
- Refurbishment of Worsnop House, a sheltered housing scheme
- Investment in our existing housing stock with the installation of 800 solar panels

Leisure and heritage

- Redevelopment of Colchester Castle with £4.2m of external funding
- Embraced the Olympics by staging a leg of the Torch Relay
- Created new play areas in Castle Park
- Usage of Leisure World increased by 20% after refurbishment
- Green Flags for green spaces

Environment

- Introduction of a food waste collection to 70,000 homes
- Undertook 11 Days of Action
- Achieved Purple Flag status for our town centre
- Met our target to reduce CO2 emissions

Our Colchester

The Strategic Plan 2015–2018

This plan sets out the direction and potential for our Borough. As a Council we have an ambitious range of goals to achieve that build on the successes of the last three years, working with a large number of partners to get the best for our residents. To help us decide on the priorities for the next three years we held a number of focus groups with the public, independently selected to make sure we included all sections of our communities.

These focus groups gave us some important messages:

- Most people like living in Colchester
- We need to make more of our heritage
- There need to be more opportunities for business
- Transport and retail need to be improved
- Growth needs to be managed and housing needs to be affordable
- We need to be ambitious for the whole Borough

These are the four words that we feel sum up what we want to achieve:

Vibrant
promoting our heritage and working hard to shape our future.

Thriving
attracting business and selling Colchester as a destination.

Prosperous
generating opportunities for growth and supporting infrastructure.

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

COLCHESTER
VIBRANT

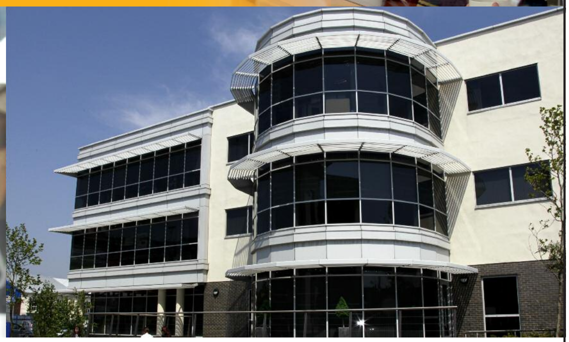
- Enhance the diverse retail and leisure mix supporting independent businesses valued by residents and visitors
- Develop a strong sense of community across the Borough by enabling people and groups to take more ownership and responsibility for their quality of life
- Make more of the great culture and heritage in Colchester so that visitors can enjoy the history and passion
- Create the right environment for people to develop and flourish in all aspects of life both business and pleasure.

COLCHESTER

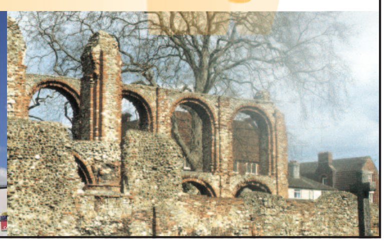
PROSPEROUS

- Promote Colchester to attract further inward investment and additional businesses, providing greater and more diverse employment and tourism opportunities
- Support people to develop the skills needed by employers in the future to take advantage of higher paid jobs being created
- 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
- Ensure transport infrastructure keeps pace with housing growth to keep the Borough moving.

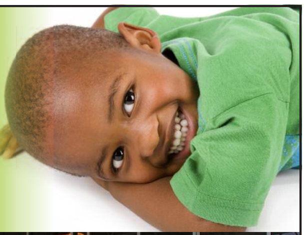
COLCHESTER THRIVING



- Promote Colchester's heritage and wide ranging tourism attractions to enhance our reputation as a destination
- Be recognised as a centre of learning with excellent schools and colleges and educational opportunities for young people to make the most of their potential
- Be clear about the major opportunities to work in partnership with public, private and voluntary sectors to achieve more for Colchester than we could on our own
- Cultivate Colchester's green spaces and opportunities for health, wellbeing and the enjoyment of all.



COLCHESTER WELCOMING



- Ensure Colchester is a welcoming and safe place for residents, visitors and businesses with a friendly feel that embraces tolerance and diversity
- Improve the cleanliness and health of the place by supporting events that promote fun and wellbeing
- Create a business friendly environment, encouraging business start-ups, support to small and medium sized enterprise and offer development in the right locations
- Make Colchester confident about its own abilities, to compete with the best of the towns in the region to generate a sense of pride.

Vibrant
promoting our heritage and working hard to shape our future.

Prosperous
generating opportunities for growth and supporting infrastructure.

Thriving
attracting business and selling Colchester as a destination.

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

Colchesterfuture Colchesterfuture

To find out more about this plan visit our website www.colchester.gov.uk or scan the code here.

Colchester

Scrutiny Panel

27 January 2015

Item 14

Report of	**Assistant Chief Executive**	**Author**	**Jonathan Baker** ☏ **282207**
Title	**2015/16 General Fund Revenue Budget, Capital Programme and Medium Term Financial Forecast** // Covering Report		
Wards affected	Not applicable		

This report invites the Panel to review and comment on the 2015/16 General Fund Revenue Budget, Capital Programme and Medium Term Financial Forecast reports which are being submitted to Cabinet.

1. Decision Required

1.1 The Panel is asked to review and comment on the following Cabinet reports which are listed under agenda items 13 and 14:-

- General Fund Revenue Budget, Capital Programme and Medium Term Financial Forecast 2015-16
- Housing Revenue Account Estimates 2015-16
- Housing Investment Programme 2015-16
- Treasury Management Strategy 2015-16

1.2 These reports form the decisions to be taken by Cabinet on the 28 January 2015. 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.

COLCHESTER

Cabinet

Item

28 January 2015

Report of	**Assistant Chief Executive**	**Author**	**Sean Plummer** **☏ 282347**
Title	**2015/16 General Fund Revenue Budget, Capital Programme and Medium Term Financial Forecast**		
Wards affected	n/a		

This report requests Cabinet to recommend to Council:

- **The 2015/16 General Fund Revenue Budget**
- **Colchester's element of the Council Tax for 2015/16**
- **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 the outturn for the current financial year is forecast to be within budget and that a reduction in the use of the Food Waste grant is proposed (paragraph 3.5).

1.2 To approve the cost pressures, growth items (including proposed use of New Homes Bonus), savings and increased income options identified during the budget forecast process as set out at Appendices B, C D and E.

1.3 To consider and recommend to Council the 2015/16 Revenue Budget requirement of £23,231k (paragraph 6.7) 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.

1.4 To recommend to Council Colchester's element of the Council Tax for 2015/16 at £175.23 per Band D property, which represents no change 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.

1.5 To note the provisional Finance Settlement figures set out in Section 7 including 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 7.11.

1.6 To agree the Revenue Balances for the financial year 2015/16 as set out at Appendix I and agree that the:-

- the minimum level be set at a minimum of £1,800k

- £71k of balances be applied to finance items in the 2015/16 revenue budget.
- A contribution to balances of £560k be made in respect of the specific items shown at paragraph 9.9

1.7. To note the updated position on earmarked reserves set out in section 10 and agree the release of £20k from the S106 monitoring reserve

1.8. To agree and recommend to Council that £100k of Revenue Balances be earmarked for potential unplanned expenditure within the guidelines set out at paragraph 11.3.

1.9. To note the Medium Term Financial Forecast for the financial years 2015/16 to 2018/19.

1.10. To note the position on the Capital Programme shown at section 14 and agree:-

- the releases set out in paragraph 14.5 and 14.6.
- to recommend to Council the inclusion in the Capital Programme of the Priory Street Car park scheme set out in paragraph 14.7

1.11 To note the comments made on the robustness of budget estimates at section 15.

1.12. To approve and recommend to Council the 2015/16 Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy as set out in the background paper at Appendix M.

2. Background Information and Summary

2.1 The 2015/16 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 2015/16 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 fundamental service review process
- making efficiencies through specific budget reviews and contract renewals
- 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 £2.2m. This compares to £2.7m included within the 14/15 budget. The majority of savings are based on proposals to work more efficiently and to maximise opportunities to increase income, however, budget reductions are also included.

2.4. Core Government funding for 2015/16 is being reduced by £1.3m. In total since 2011/12 this funding has now been reduced by £5.9m with further reductions expected in future years.

2.5. The budget includes a significant level of investment predominantly funded through the New Homes Bonus. This includes funding for projects which will support the delivery of increased income and projects that will support the community. An allocation has also been made for projects that will specifically support the new Strategic Plan.

2.5. 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 mean that the position will remain challenging. Having found a significant level of savings and additional income over recent years, and, with more forecast to be delivered through the Universal Customer Contact FSR (UCC FSR), the scope to find further savings to bridge remaining budget gaps without reductions in service levels continues to reduce.

2.6. Legislative changes such as the introduction of the Local Council Tax Support (LCTS) Scheme and the introduction of the business rates retention scheme have brought new financial risks for the Council to consider now and in future years. The budget includes consideration of these issues and recommends steps to manage the risks. However, the 15/16 budget also makes an assumption in terms of an increase in the level of retained business rates and the decision to join the Essex Business Rate Pool is expected to provide the potential for a further level of additional income.

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

2.8. 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 2015/16 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. A considerable amount of work has been undertaken to determine a reasonable forecast of the year-end position.

3.2 The current position is that the forecast outturn is expected to be within budget, with the likelihood that there could be a net underspend. Cabinet will consider this as part of the final accounts process and it will be reflected in the 2016/17 budget setting cycle. The 2014/15 budget included c£2.7m of savings and increased income and it has been reported during the year that these have largely been achieved.

3.3 As part of the budget setting process, consideration has also been given to the use in the current financial year of our Food Waste Grant. It is proposed that we will use £198k less of the grant in the current year than originally included in the budget, meaning the cost pressure of when it will all have been used will be deferred to 2017/18. This is also reflected in the 2015/16 budget proposals.

3.4 There remain some outstanding risks to the forecast and the position continues to be monitored and Scrutiny Panel will receive a report setting out a detailed position.

3.5 **Cabinet is asked to note that the forecast outturn position for the current year is expected to be within budget including the proposal to use £198k less of the food waste grant. The position will continue to be monitored.**

4. 2015/16 Revenue Cost Pressures

4.1 Appendix B sets out revenue cost pressures of £1.996m, over the 2014/15 base, which have been identified during the budget process. This includes an inflation allowance, the impact of reduced income and some specific service cost pressures.

4.2 A number of the cost pressures have been considered by Cabinet. However there are a number of changes including those reflecting work carried out to review budget variances in 14/15 and to assess the extent to which this may continue into 15/16.

4.3 Whilst not shown within the list of specific cost pressures the budget includes proposals totalling £71k in respect of carry forward items. These represent temporary staff resources supporting operational services and regeneration projects. This is reflected in the use of balances set out at paragraph 9.8.

4.4 **Cabinet is asked to approve inclusion within the 2015/16 Revenue Budget of the cost pressures set out at Appendix B.**

5. 2015/16 Growth Items

5.1. Appendix C sets out revenue growth items totalling £1.597m which are recommended for inclusion in the budget. This report now shows planned investment arising from the increase in the New Homes Bonus grant for 2015/16 of £1.2million. This reflects the approach to minimise the risk of changes to levels of New Homes Bonus funding by allocating the increase to one off investment to support corporate priorities. In addition it is proposed to reduce the use of the New Homes Bonus in supporting the base budget meaning that an additional sum of £238k has been made available to contribute toward projects supporting the delivery of new Strategic Plan.

5.2. In total there are new proposals for using the New Homes Bonus of £1.935m. This is set out at Appendix D.

5.3 **Cabinet is asked to approve inclusion within the 2015/16 Revenue Budget of the growth items shown at Appendix C and the use of the New Homes Bonus at Appendix D.**

6. 2015/16 Revenue Saving / Increased Income / Technical Items

6.1. Appendix E sets out savings / increased income totalling £2.243m.

6.2. This level of savings and increased income is similar to the amount identified for the 14/15 budget and represents a very significant sum. 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.

Technical Items / Adjustments

6.3. There are a number of various adjustments to our technical budgets such as the impact of recharges to the HRA and parking partnership and other smaller budgets. In total there is a net budget pressure from these items of £20k

6.4 **Cabinet is asked to approve inclusion of the savings / increased income items set out at Appendix E within the 2015/16 Revenue Budget.**

6.5. Summary Total Expenditure Requirement

6.6 Should Cabinet approve the items detailed above, the total expenditure requirement for 2015/16 is as follows:

	£'000
2014/15 Budget (excl. New Homes Bonus)	22,106
Less: 2014/15 one-off items	(199)
Cost Pressures (as per Appendix B)	1,996
Growth (as per Appendix C)	1,597
Savings/Increased Income (as per Appendix E)	(2,243)
Budget carry forward items	44
Other technical items (see para. 6.3)	20
Forecast Budget 15/16 (excl. New Homes Bonus)	**23,321**

Note. A summary of the 2015/16 budget is set out at Appendix F and a more detailed summary of service group expenditure is attached at Appendix G. Further detailed service group expenditure is available.

6.7 **Cabinet is asked to agree and recommend to Council the net revenue expenditure requirement for 2015/16 and the underlying detailed budgets set out in Appendix F.**

7. Finance Settlement (Government Funding)

7.1. The provisional Local Government Finance Settlement was announced in Parliament on 18 December 2014. 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

Settlement Funding Assessment (SFA)

7.2. The SFA is the total funding figure from Government which comprises both Revenue Support Grant (RSG) and retained business rates. In 2013/14 a number of grants were "rolled into" the SFA such as the LCTS grant and homelessness funding. For 2015/16 the only change is to include the Council Tax freeze grant received in 2014/15.

7.3. Each local authority's settlement funding has been split into two parts:-

- Funding provided through Revenue Support Grant

- Funding provided through business rates retention scheme (baseline funding level)

7.4. The business rates baseline level increases by inflation to reflect the level of increase in business rates. As such, where the SFA is being reduced by £1.3m (15%) this equates to an actual cut of almost 30% in our RSG.

	2014/15	2015/16	Cut	
	£m	£m	£m	%
SFA:-				
Revenue Support Grant	4,550	3,195	-1,355	-29.8%
Business Rates Baseline	3,854	3,927	73	1.9%
	8,404	7,122	-1,282	-15.3%

7.5. 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

7.6. The starting point of the business rates retention scheme in 2013/14 comprised an assessment by Government of the total local share of Business Rates for 2013/14, and then Colchester's proportionate share was calculated based on our historic business rates collection as a percentage of the overall business rate yield.

7.9. The retention scheme includes a system of tariffs and top-up adjustments. 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. Tariffs and top-ups are fixed until the business rates retention system is reset and are uprated by RPI each year to reflect the increase in NNDR.

7.10 The following table sets out a summary of the baseline position for Colchester for 2015/16 showing the required tariff payment of £19.9m.

	£'000
Billing Authority Baseline	29,850
Preceptor's share	80%
Individual Baseline	23,880
Baseline funding	**3,927**
Tariff	19,953

7.11. The arrangements for business rate retention require the Council to agree an estimate of business rates income for the coming year, 2015/16. This return (the NNDR 1) must be signed off by the Council's Section 151 Officer by 31 January. This return includes a number of key assumptions in respect of collections rates, growth in business rates 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 £700k. 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.

Levy and Safety net

7.12 The business rate retention scheme includes a degree of protection against reduction in business rates collected (the Safety Net) and a method for limiting the amount of any growth that an authority can keep (the Levy).

Safety net

7.13. The safety net is set at 7.5%. This means that 92.5% of the NNDR baseline in year is guaranteed. The safety net provides a measure for the risk CBC will be exposed to in any one year. The safety net threshold for Colchester is £3.633m (92.5% of £3.927m).

Business Rates Pooling

7.14 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.

7.15 Pooling has the benefit of enabling income that would otherwise be paid to Government as a 'Levy' to be retained in Essex, 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.

7.16 In 2013 eight District Councils together with the County Council and Fire Authority developed a pooling agreement for 2014/15 that unfortunately had to be withdrawn at a very late stage due to key information still being outstanding from the Government.

7.17 It was agreed by Cabinet in principle and later by the Portfolio Holder for Business and Resources to join a 2015/16 Essex pool for non-domestic rates. A total of nine District Councils together with the County Council and Fire Authority are considering becoming part of the 2015/16 pool. The pool lasts for a minimum of one year, but any changes to the pool for the second or subsequent years would result in the need to disband the pool and reapply for a new one to be set up.

7.18 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. This is because at the time of writing this report the pooling agreement between authorities is still to be finalised. However, it is projected that the Council will retain additional business rates income as part of this arrangement and that this will be considered in future year's budget reports and an update of the MTFF.

Summary

7.19. This section of the report seeks to explain the key funding mechanism within the settlement and key figures. It is acknowledged that the finance reforms bring a number of risks and the potential for rewards to the Council. These are considered as part of the balances assessment later in this report.

7.20. The Settlement is provisional and subject to consultation which ends on 15 January 2015. 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.

7.21. 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

7.22. The 2015/16 grant includes elements reflecting growth in the tax base during 2009/10 to 2013/14 and also the bonus payable in respect of delivering affordable homes for the last 3 years. The last budget update report considered by Cabinet included an estimate of the total grant. The final figure is a total grant for 2014/15 of £4.61m, an increase of £1.2m. An analysis is shown below:-

	Grant re: tax base growth	Affordable Homes Bonus	Total
	£'000	£'000	£'000
Payable annually until 16/17	724	n/a	724
Payable annually until 17/18	749	52	801
Payable annually until 18/19	986	105	1,091
Payable annually until 19/20	757	37	794
Total paid in 2014/15	**3,216**	**194**	**3,410**
Payable annually until 20/21 –increase for 2015/16	1,185	16	1,201
Total due in 2015/16	**4,401**	**210**	**4,611**

7.23. The budget strategy has been that any increase in New Homes Bonus would be used for one-off items. The existing methodology of the scheme means that we will receive *at least* this level of grant until 2016/17.

7.24. It has been highlighted in previous Cabinet reports that specific funding allocated by the Government for the New Homes Bonus is insufficient to meet the total cost of the scheme, therefore the shortfall is met by the main formula grant funding allocation. As such it is important that the New Homes Bonus is considered alongside the core grant funding and this issue is considered later in the report and as part of the Medium Term Financial Forecast (MTFF).

7.25. Appendix H sets out a summary of the proposed use of the New Homes Bonus. This shows specific expenditure plans linked to the New Homes Bonus of £2.67m which equates to 58% of the current total New Homes Bonus. Whilst the grant is being used to an extent to support the ongoing budget it is also being applied for one-off investment linked to the Council's priorities.

8. Council Tax, Collection Fund and Business Rates

Council Tax Rate

8.1. A freeze in the Council Tax rate of £175.23 is proposed for 2015/16 which means that the rate has been unchanged since 2010/11.

8.2. 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.

Council Tax referendum

8.3. 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.

8.4. The Secretary of State has proposed that the maximum increase a council can set without a referendum is 2%.

8.5. Currently, local precepting authorities (i.e. parish and town councils) are not included in the proposed principles. However, the Government has previously stated that it will monitor increases in this sector and has not ruled out setting principles that will apply to high spending town and parish councils and this has been raised as an issue within the settlement consultation.

Council Tax Freeze Grant 2015/16

8.6. The Government announced this year that there would be a grant available for authorities that do not increase Council Tax. The grant has been confirmed and is equivalent to a 1% increase in Council Tax. This is the fifth Council Tax freeze grant

	Grant £'000	Period paid / payable
Grants Received:-		
• Council Tax Freeze in 2011/12	267	2011/12 to 2015/16
• Council Tax Freeze in 2012/13	269	2012/13 only
• Council Tax Freeze in 2013/14	109	2013/14 to 2015/16
• Council Tax Freeze in 2014/15	107	2014/15 and 2015/16
Grant available :-		
• Council Tax Freeze in 2015/16	114	Payable in 2015/16

8.7. It should be noted that the Government has previously announced that all Council Tax freeze grants we continue to receive, and the funding for the next 2 freeze years (14/15 and 15/16) will be built into the spending review baseline. Through this Government hope to give greater certainty for councils that the extra funding for freezing Council Tax will remain available, and there will not be a 'cliff edge' effect from the freeze grant disappearing in due course. This will of course be subject to future Government funding announcements. For 2015/16 we have assumed that the grant is a one-off.

Collection Fund

8.8. As part of the formal budget setting process, the Council is required to estimate each year the estimated surplus or deficit arising from the Council Tax Collection Fund as at 31 March.

8.9 2013/14 included a number of significant changes that affected Council Tax such as the introduction of the Local Council Tax Support (LCTS) Scheme and also changes to discounts and exemptions for Council Tax such as those on second homes and empty properties. A prudent approach was therefore taken when agreeing these assumptions. In addition there was significant growth in the number of properties in the borough during this period, which resulted in the surplus as at 31 March 2014 being considerably higher than had been forecast. The combined impact of these assumptions means that there is a surplus of £409k to be included in the 2015/16 budget.

Business Rates

8.10. The scheme for the local retention of business rates works in a similar way to Council Tax and the Collection Fund arrangements in that part of the budget setting process for 2015/16 includes an assessment of the forecast surplus / deficit position for the current year, together with the variance between the forecast and actual outturn position for the previous year.

8.11. As was highlighted when the business rates retention scheme started, these arrangements have brought a number of new risks such as the impact of any growth or contraction in local businesses, the general economic environment and how this impacts on collection rates and bad debts and, perhaps most significantly, the impact arising from changes to the rateable value of properties following appeals.

8.12. Whilst there remains a considerable amount of uncertainty in respect of the forecast for this year, the budgeted position for 2015/16 largely reflects the difference between the Council's share of the 2013/14 surplus and the safety net position that had been projected at this point last year. The impact being a surplus of £400k to be included in the 2015/16 budget.

9 Revenue Balances

9.1 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 11 address this requirement.

Minimum level of balances

9.2. Cabinet, at its meeting on 26 November 2014, considered a report setting out the outcome of a risk analysis in respect of the Council's Revenue Balances. Cabinet agreed with the recommendation that Revenue Balances should be maintained at a minimum of £1.8m and that the situation would be reviewed based on the implications and details of items such as the grant settlement, budget savings and other variables.

9.3. In considering the level at which Revenue Balances should be set for 2015/16, Cabinet should note the financial position the Council is likely to face in the medium term through the levels of future Government funding and legislative system in place for business rates and LCTS scheme.

9.4. 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. Previously, our approach had been to budget at the baseline level, meaning that the risk was equivalent to the safety net of c£0.3m. However, we have a greater degree of confidence over business rates income exceeding the baseline and have therefore included additional income in the budget.

9.5. Consideration has previously been given to the risk arising from changes to local government finance such as NNDR and also the LCTS scheme and a provision of £400k is included within balances.

9.6. Given this, and based on the assumptions built into the budget, it is proposed to maintain balances at a minimum of £1.8m. The ongoing impact of the various local government reforms will be assessed as part of the budget strategy for 2016/17 and the level of balances can be reviewed at that time.

Level, use of balances and contributions

9.7. 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.

9.8. There are some proposals which total £71k where budgets will be carried forward to 2015/16. For budget purposes these are therefore regarded as a use of balances and as such are reflected in the budget report.

9.9. As part of finalising the budget consideration has been given to certain emerging issues and it is proposed that allocations are made within balances against three specific risks areas:-

(i) General Fund / HRA balances - £280k

The Council used the provision in Schedule 4, Part III, paragraph 2 of the Local Government and Housing Act 1989 to transfer £280k from HRA Balances to the General Fund. This has enabled the Council to resolve a funding anomaly that occurred some years ago when the Capital Financing regulations changed, which resulted in funding being held within the HRA that was intended to support the General Fund capital programme. This did not impact on the reported HRA or GF position, as it is shown as a commitment in the HRA and therefore has never been planned to be used by the HRA

The transfer of balances received approval in principle from our external auditor prior to making the transfer. The decision was not subsequently challenged during the audit of the 2013/14 Statement of Accounts. The DCLG has written to us and other authorities who also transferred funds between the HRA and General Fund on 3 occasions asking for the rationale behind the transfers and they have said that they are still reviewing this. Whilst, the approach of Colchester was purely to resolve a funding anomaly and not simply taking advantage of a one off opportunity to transfer money from the HRA to General Fund there is a possibility that our transfer may be challenged. Therefore, should this amount be required to be transferred back to the HRA it is recommended that £280k be added to balances in order to fund the resulting shortfall on the general fund capital programme.

(ii) Collection Fund - £150k
The 15/16 budget includes one off Council Tax and NNDR collection fund surpluses. These are one-off gains reflecting changes in the year in terms of collection rates and the 'tax base'. It is proposed that £150k of these one-off gains is set-aside within balances against any future deficit that might arise and against any other one-off pressures relating to local taxation.

(iii) Housing benefits - £130k
The DWP operates a 'Local Authority Error Incentive scheme' to try to ensure that all local authorities monitor and keep their levels low, the incentive is offered by way of a % of the total claims processed. In previous years Colchester has maintained an optimum low level of error between two target percentage points, which has resulted in an extra income stream of c£200k.

In the last two years the level of LA error in the processing of HB claims has fallen at CBC, and this has resulted in a lower level of incentive payment (13/14 = £160k), and 14/15 is forecast to come in lower again c£120k and the final figure can hinge on one or two large cases being identified within the year, and the subsequent audit. The 2015/16 budget remains at the optimum level of £193k, but it should be recognised that this is not guaranteed grant and therefore a risk. This has been offset in the last few years by an improved recovery of HB overpayments.
Whilst it could be considered prudent to not budget for the LA error gain a more practical approach is that we hold an amount in balances against this risk and a sum of £130k is suggested for this purpose

9.10. The forecast position in respect of Revenue Balances is set out at Appendix I and shows balances at c£2m, £0.2m above the recommended minimum balance as set out in the agreed 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£2m is considered appropriate.

9.11. 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 I and include some changes to allocations including adjustments to reflect the final balances figure for 2013/14. Following the 2014/15 closure of the accounts 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 16/17 budget strategy and updated MTFF.

9.12 **Cabinet is recommended to approve Revenue Balances for the financial year 2015/16 be set at a minimum of £1.8m and to approve the use of £71k to support the revenue budget and the contributions to balances set out at paragraph 9.9.**

10. Reserves and Provisions

10.1. Cabinet at its meeting on 26 November 2014 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 2015/16. 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.

10.2. Appendix J 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 2015, the split between General Fund and HRA and how much is 'committed'.

	Committed / allocated	Uncommitted / unallocated	Total
	£'000 (%)	£'000 (%)	£'000
Reserves:-			
General Fund	4,967 (90%)	530 (10%)	5,497
HRA	2,485 (100%)	-	2,485
Total Reserves	**7,452 (93%)**	**530 (7%)**	**7,982**
Provision	329 (100%)	-	329

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

Capital Expenditure Reserve (CER) – Community Stadium - nil

10.4. The Council had previously agreed that an approach to minimise the revenue pressure is to fund the annual MRP (Minimum Revenue Provision) cost by identifying new capital receipts in the period of the borrowing for the community stadium. This then allows a release of revenue funds within the capital expenditure reserve.

10.5. It has previously been reported that the use of this reserve should be stopped and it has been reduced over recent years. It is proposed to stop using the reserve for the following reasons:-

- MRP should normally be funded from the base revenue budget recognising that they are ongoing costs
- The arrangement to use the CER reflected the assumption that the borrowing for the stadium would be temporary as capital receipts from future identified development would be used to repay debt. As this may now not be the case it is considered to prudent to reduce the use of the capital expenditure reserve.
- The CER is fully committed to the capital programme and as such to release the reserve requires new capital receipts to be identified each year.
- The level of the CER means that using the reserve may not be sustainable in the medium term.

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

10.6 The building maintenance programme has been based on in-depth condition surveys of all Council building assets. The programme will continue to be developed over the coming year. The 2015/16 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

10.7. This reserve was set up to provide funds to support the future monitoring of Section 106 agreements. It is proposed to reduce the use of this reserve from £30k to £20k

Contributions to this reserve are made from S106 payments received in respect of monitoring and as the balance on the reserve is reducing it is suggested that the use of the reserve is also reduced to a more appropriate level.

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

- **release of £20k from S106 monitoring reserve towards the costs of carrying out this function**

11. Contingency Provision

11.1 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.

11.2 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 £1,800k, although if this were to be the case the Council would need to consider steps to reinstate balances at a later date.

11.3 **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.**

12. Summary of Position

12.1 Summary of the Revenue Budget position is as follows:

	£'000
Revenue expenditure requirement for 2015/16 (para 6.6).	23,321
New Homes Bonus (para 7.22)	(4,611)
Use of balances re carry forward (see para 9.12)	(71)
Contribution to balances (see para 9.9)	560
Release of S106 monitoring reserve (para 10.7)	(20)
Budget Requirement	**19,179**
Funded by:	
Revenue Support Grant (para 7.4)	(3,195)
NNDR Baseline Funding (" ")	(3,927)
NNDR Improvement (para 7.11)	(700)
Collection Fund surplus (para 8.9)	(409)
Council Tax Freeze Grant (para 8.6)	(114)
NNDR surplus (para 8.12)	(400)
Council Tax Payers requirement (before Parish element) see below*	(10,434)
Total Funding	**19,179**

Council Tax*	
Council Tax Payers requirement (before Parish element)	10,434
Council Tax Base – Band D Properties	59,547.4
Council Tax at Band D	**175.23**

12.2 **Cabinet is asked to agree and recommend to Council Colchester's element of the Council Tax for 2015/16 at £175.23 per Band D property, which represents no change 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.**

13. Medium Term Financial Forecast – 2015/16 to 2018/19

13.1. 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

13.2. The Medium Term Financial Forecast (MTFF) is attached at Appendix K showing that the Council faces a continuing budget gap over the next three years from April 2015. The following table summarises the position showing a cumulative gap over the period from 2016/17 of c£3.2m

	2015/16	2016/17	2017/18	2018/19	See para
	£'000	£'000	£'000	£'000	
Net Budget (excl. NHB grant)	23,321	22,805	22,912	23,369	
SFA (incl. Freeze grant)	(7,236)	(6,201)	(5,781)	(5,362)	13.4
NNDR Growth	(700)	(800)	(900)	(1,000)	13.9
New Homes Bonus	(4,611)	(4,611)	(3,887)	(3,086)	13.7
Council Tax	(10,434)	(10,539)	(10,644)	(10,751)	13.15
Reserves / Collection Fund	(340)	(20)	(20)	(20)	
Cumulative Gap	0	634	1,680	3,150	
Annual increase		634	1,046	1,469	

13.3. 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 at the Appendix and summarised below:-

Government Funding and Business Rates

13.4. The 2015/16 Finance Settlement announcement did not provide any provisional figures for 2016/17. Whilst not providing any real detail on which we can make projections for funding, the Autumn Statement did show that further reductions in grant should be assumed. The key figure for the Council's financial planning is the comparable level of settlement funding. The table below shows a planning assumption of a reduction of 13% in 2016/17 followed by reductions of 7% pa for the following two years, a total reduction of 25% over these three years.

	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000
Revenue Support Grant	(3,195)	(2,195)	(1,695)	(1,195)
Business Rates Baseline	(3,927)	(4,006)	(4,086)	(4,167)
Settlement funding	*(7,122)*	*(6,201)*	*(5,781)*	*(5,362)*
Reduction (£'000)		(921)	(420)	(418)
Reduction (%)		13%	7%	7%

13.5. The table above excludes the Council Tax freeze grant for 2015/16 which is assumed will not be paid in 2016/17.

13.6. As set out within this report the New Homes Bonus is a key element of the Government's financial support for local authorities. The methodology of the scheme means that we should have degree of certainty over at least a minimum level of funding in the short to medium term. However, possible changes to the New Homes Bonus should be considered.

13.7. The MTFF provides a breakdown on how the New Homes Bonus may change over the next few years and at this stage a 'worst case' situation is shown within the figures. No increase is shown for next year and for the two years after it has been assumed that there will be no new NHB grant to replace the early years grant which 'drop out' after 6 years. It is assumed that current level of spending proposals linked directly to the New Homes Bonus will continue, although this assumption will need to be reviewed as part of the 2016/17 budget process. For later years it has been assumed that this money will be reduced by the same amount as the reduced grant.

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

13.9. The 15/16 budget includes the assumption that we will achieve an increase above the business rates baseline of £700k. In the MTFF it has been assumed that this will continue and an increase of a further £100k for each year thereafter. This assumption will need to be reviewed in future updates of the MTFF.

Pay, Inflation and costs

13.10. The 2015/16 budget includes an allowance for a pay award. For 2016/17 and beyond a sum is included for planning purposes to cover this and other inflationary pressures.

13.11. The 2014/15 budget included the outcome of the pension fund actuarial review which means that there will be no further increases in the pension fund deficit funding costs in 2015/16 or 2016/17. An assumption of an increased cost of £250k is shown for 2017/18 to recognise the likelihood of an increase following the next actuarial review and also an allowance for the impact of pensions 'auto enrolment'.

Forecast savings

13.12. The MTFF includes changes to forecast savings for 2016/7. These include savings previously identified through the UCC FSR, specifically, through efficiencies being made to processes and also through accommodation changes made through vacating Angel Court. Cost reductions and increased income are also forecast through improved procurement, and generation of commercial income from our assets and trading services. The MTFF also shows that the income from the sharing agreement with Essex County Council, Essex PCC and Fire Authority may end in 2018/19 and therefore a reduction is shown at that time.

Economic Background – Fees and charges

13.13. It is evident that there has been a reduction in some income budgets over recent years. The budget proposals for 2015/16 and 2014/15 have built in a number of adjustments to key areas such as car parking, community alarms, land charges and cemetery and crematorium. On this basis the MTFF assumes a broadly neutral position over the next three years and this will need to be reviewed annually to ensure income targets are reasonable.

Specific Cost Pressures

13.14. There are no service specific cost pressures included within the MTFF. However, there are a number of potential risks which will need to be considered including

- an increase in interest costs which are currently being minimised through internal borrowing
- demands on services arising from growth in the Borough, although an allowance has been built into the 2015/16 budget.

Council Tax

13.15. The MTFF shows the position based on no increase in Council Tax. This is shown for planning purposes to represent a ‘neutral’ position in the MTFF position and does not represent a proposal. The MTFF does now include an allowance for an increase in Council Tax income through growth in the tax base of 1% pa.

Growth items

13.16. No allowance has been built in to the MTFF for further growth items in 2016/17. However, in 2017/18 and 2018/19 an allowance has been made for the impact of no longer using the exhausted Food Waste grant. This has changed from the position previously reported, reflecting the proposal to reduce the use of grant in each year. The MTFF also shows that the *assumed* reduction in New Homes Bonus will be offset by a reduced amount allocated for one-off projects as commented on earlier.

Summary

13.17. 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. Critically, one of the most important elements will be the level of Government grant support received over the life of the MTFF.

13.18. In the 2015/16 budget savings of £2.2m have been found which, when looked at alongside the £9.8m identified in the budgets for 11/12 to 14/15, represents a significant level of budget savings found over 5 years. The MTFF shows that whilst anticipated savings from the UCC FSR 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.

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

14. Capital Programme

14.1. The Quarter 2 capital monitoring report that was reported to Scrutiny Panel on 11 November showed a total approved Capital Programme of £26.2m, and a projected spend for the year of £24.9m; the remainder of the funds being expected to be spent in 2015/16 and beyond. This is detailed in Appendix L. 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.

14.2 The monitoring report highlighted that there is a forecast net overspend on the Capital Programme of £22.6k in respect of the following schemes:

Scheme	Over/ (Under) £'000
Town Hall DDA Sensory Project	3.5
Carbon Management Programme	(5.9)
Site Disposal Costs	25.0
Total Net Overspend	**22.6**

14.3 As the Town Hall DDA Sensory Project and Carbon Management Programme are complete, it is proposed that the net amount of £22.6k is released to meet the site disposal costs that are required to secure future capital receipts.

14.4 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 2014/15. This shows a surplus that is available to support potential schemes in subsequent years.

Detail	£'000	Note
Balance of funds brought forward	1,150.2	Deficit
Capital receipts to date 2014/15	(1,418.5)	
Projected receipts for 2014/15	(889.0)	
Projected receipts for 2015/16	(200.0)	
Revenue contribution	(100.0)	From New Homes Bonus for Priory St Car Park
Balance available	**(1,457.3)**	
New releases proposed now	497.6	See para 14.5 & 14.6
New releases proposed for 2015/16	450.0	See para 14.7
Total forecast balance carried forward	**(509.7)**	Surplus

14.5 Within the above forecast there is £1.46m of unallocated resources available to release. It is recommended that part of this is used for the priorities detailed in below, which all require resources during the 2014/15 or 2015/16 financial years.

- £22.6k net overspend as detailed in paragraph 14.2

- £180k Funding to facilitate the release of Capital Expenditure Reserve money for Community Stadium MRP as agreed in the 14/15 budget.
- £295k Castle Museum overspend (see below)

14.6. The estimated final project cost of the Castle Museum project is £4.45m. Build account is being finalised and project is in completion stage with finishing touches and final account expected in the next few months. The nature of this complex heritage build and the addition, at a later stage, of some additional (and very popular) new technology along with less EU funding than expected means we are estimating additional spend of around £295k on the budget. This will be reported to Scrutiny Panel as part of the Quarter 3 review.

14.7. There is one new scheme proposed to include in the capital programme in respect of Priory Street Car Park. As Priory Street car park is in an area that is going to be proactively regenerated it needs to be renewed and redesigned itself to match the improved facilities that will be provided. The renovation work will include ensuring that the spaces provided conform to the car park space standards, replacing the surface of the car park, and renewing lining. In addition it will provide a visitor attraction with the Roman wall floodlit, interpretation panels and possible interactive facilities for the public. This project will deliver a better designed car park that serves the existing and proposed businesses in the immediate area and the existing residents alongside a much improved environment for the Roman Wall as an ancient monument. The estimated cost is £450k, including £100k revenue contribution from the New Homes Bonus.

14.8 In addition to the above it is proposed that projects to be funded from 2015/16 New Homes Bonus monies that qualify as Capital Expenditure are released into the Capital Programme.

14.9 The medium term forecast of projected capital receipts and spending plans is shown in the table below. This separately identifies the forecast position for the General Fund Capital Programme as well as those to be considered by the Revolving Investment Fund (RIF) Committee. It can be seen that the overall programme is broadly in balance. However, the spending plans are indicative and are still to be reviewed alongside what alternative funding arrangements may be available.

	2014/15 £'000	**2015/16 £'000**	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**
General Fund					
Shortfall / (Surplus) b/f	350	(660)	(510)	(610)	(710)
New schemes	1,298	350	100	100	100
Capital receipts	(2,308)	(200)	(200)	(200)	(200)
Shortfall / (Surplus) c/f	(660)	(510)	(610)	(710)	(810)
Revolving Investment Fund					
Shortfall / (Surplus) b/f	648	(1,068)	(544)	(11)	(1,629)
New schemes	1,200	3,000	2,550	1,600	5,500
Capital receipts	(2,916)	(2,476)	(2,017)	(3,218)	(3,018)
Shortfall / (Surplus) c/f	(1,068)	(544)	(11)	(1,629)	853
Overall Shortfall / (Surplus) c/d	**(1,728)**	**(1,054)**	**(621)**	**(2,339)**	**43**

15. Robustness of Estimates

15.1 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.

15.2 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.

15.3. This latest review of the budget for this financial year, 2014/15, has shown that broadly speaking budgets have been achieved, Steps have been taken to revise some expenditure and income budgets over recent years and in general budget targets are felt to be realistic.

15.4. By taking appropriate action, exposure to further downgrading of assumptions has been reduced and to that extent some of the risk has been mitigated.

15.5. 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 2015/16 are additional savings or income following budget decisions taken already.

15.6. 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, car parks and cemetery and crematorium.
- Delivery in the year of certain corporate savings such as procurement
- 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)

15.7. The budget risks will be managed during 2015/16 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 £1.8m. In addition, specific allocations have been made against larger risks such as NNDR and LCTS and other identified areas.

15.8. The Council has faced a number of in year cost pressures, however, as shown within this report our current forecast is that we will be within budget this year. This shows, and the experience of previous years, that the Council has a track record of dealing with issues that may arise during the year.

15.10 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.

15.11. 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. A new system is being introduced to provide budget managers with clear up to date budget information which they can easily access and use to provide in year forecasts.

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

16. Treasury Management and Prudential Code Indicators

16.1. The proposed Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy (TMSS) for 2015/16 is included at Appendix M. The follow paragraphs contain a summary of the strategy for 2015/16, 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
- the policy on use of external service providers.

16.2. The Council’s Prudential and Treasury Indicators for 2015/16 through to 2017/18 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.

16.3. The Minimum Revenue Provision (MRP) Policy Statement for 2015/16 states that the historic debt liability will continue to be charged at 4%, 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. This approach will be reviewed during the year and any proposed changes will be set out in future reports.

16.4. The UK Bank Rate has been unchanged from a historically low 0.5% since March 2009. The current view from the Council’s treasury advisers is that the Bank Rate is expected to remain unchanged until quarter 4 of 2015. **Appendix A to the TMSS** draws together a number of current forecasts for short term and longer term interest rates.

16.5. 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. This approach is intended to be maintained during the year.

16.6. 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 will only invest with institutions with the highest credit ratings, taking into account the views of all credit rating agencies and other market data when making investment decisions.
- The Council will use the creditworthiness service provided by Capita Asset Services, which combines data from credit rating agencies with credit default swaps and sovereign ratings.
- The Council will only use approved counterparties from countries with the highest credit rating of 'AAA', together with those from the UK.
- The suggested budgeted return on investments placed for periods up to 100 days during the year is 0.60%.
- The Council will now consider longer-term deals if attractive rates are available within the risk parameters set by the Council.

16.7. Investment instruments identified for use in 2015/16 are detailed in **Appendix B to the TMSS.** The investment limits shown focus solely on sort and long-term ratings to reflect the changes to Capita Asset Services' credit rating methodology detailed in the report. It should also 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.

16.8 **Cabinet is asked to agree and recommend to Council the 2015/16 Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy as set out in the paper at Appendix M**

17. Strategic Plan References

17.1. The budget forecasting process has been underpinned by the Strategic Plan. The objectives of the Strategic Plan have informed all stages of the budget setting process.

17.2. Appendix N provides an assessment of the links between the Strategic Plan and budget strategy.

17.3. This agenda includes a report on the new Strategic Plan for 2015-2018. The budget includes an allowance for additional resources to support actions for delivery of the Strategic Plan in areas where additional resources are required.

18. Financial Implications

18.1 As set out in the report.

19. Publicity Considerations

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

20.1. Human Rights Implications

20.1 None

21. Equality and Diversity

21.1. 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.

22. Community Safety Implications

22.1 None

23. Health and Safety Implications

23.1 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.

24. Risk Management Implications

24.1 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.

25. Consultation

25.1. The budget will be scrutinised by Scrutiny Panel on 27th January 2015. The statutory consultation with NNDR ratepayers takes place in either January or early February 2015 and notes of the meeting will be provided in due course.

Background Papers
Budget reports to Cabinet – 26 November 2014

2015/16 Budget Timetable	
Budget Strategy March 14 – July 2014	
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 – 30 July 14	• Report on updated budget strategy / MTFF • Timetable approved
Scrutiny Panel – 19 August 14	Review Cabinet report
Detailed Budget preparation and Budget Setting Consultation	
Budget Group / Leadership Team regular sessions on progress / budget options up to December 14	Review budget tasks Consider delivery of existing Fundamental Service Reviews
Cabinet – 3 September 14 and /or 15 October 14	• Budget Update • Review of capital resources / programme • Consider any impact arising from in year budget monitoring.
Cabinet – 26 November 14	• Budget update • Reserves and balances • Agree fees and charges / budget changes • Government Finance settlement (if available)
Scrutiny Panel – 27 January 15	Review consultation / Budget position (Detailed proposals)
Cabinet – 28 January 15	Revenue and Capital budgets recommended to Council
Council – 18 February 15	Budget agreed / Capital programme agreed / Council Tax set

APPENDIX B

2015/16 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 26th November 2014 are highlighted.

	Current allowance £'000	Updated allowance £'000	Comment
Inflationary pressure	640	640	Net inflation impact. This allowance includes adjustments to reflect assumptions in respect of pay and energy as well as other general changes.
Park and Ride – Car park income	300	300	An allowance is included in the budget for a reduction in car park income arising from the introduction of park and ride.
Borrowing – interest costs	100	50	An allowance for an increase in borrowing costs.
Fleet costs		38	Additional costs of fleet in line with changes to vehicles in 2015/16.
Insurance costs		30	Increase in premiums primarily relating to insuring vehicles.
Elections		9	Increase in costs relating to the processing of Electoral Registrations.
Benefits/LCTS Admin Grant		87	The Government has recently announced reductions to the administration grant provided in respect of Housing Benefit and the LCTS scheme.
New Burdens Grant		65	The DWP has announced reductions to the New Burdens grant provided in respect of LCTS.
Food Waste Grant		200	Proposed reduced use of food waste grant.
IT Servers		250	One-off cost relating to the Server upgrade programme that we are required to deliver, due to the fact that Windows 2003 servers will no longer be supported.

	Current allowance £'000	Updated allowance £'000	Comment
NNDR Empty Properties		50	Resources relating to the continuation of inspection activity funded in 2014/15 from the New Homes Bonus.
Fraud Compliance		12	CBC contribution to new business case which also attracts additional funding from ECC, Police and Fire.
Provision for service pressures re: growth in borough (e.g. waste)		200	Provision in recognition of growth in the borough, and the associated impact on front-line services.
Middleborough Service Charge		25	Increase in costs as a result of planned maintenance being undertaken.
EMT – Local Government Devolution		5	One off cost for a piece of collaborative work with all Essex Districts and the County Council to look at options for what greater devolution to local government might look like.
Revenues and Benefits Funding		35	Costs associated with providing support for technical areas of the service that were previously being funded through various small Government grants.
Total	**1,040**	**1,996**	

APPENDIX C

2015/16 Growth Items

The following are growth items included in budget proposals. Changes since the report to Cabinet on 26th November 2014 are highlighted.

	Current allowance £'000	Updated allowance £'000	Comment
Big Screen	25	25	Big Screens are used regularly to provide opportunities for social engagement and family outdoor activities including movies and sporting events in public places. This funding will enable a one off or short term provision of a large outdoor screen during 2015.
Economic Development Grants	33	33	The base budget reflects the ending of the agreed funding for the Eastern Enterprise Hub. It is proposed to re-invest part of this into the grants budget providing additional resources for organisations to bid for. This will be a one off proposal for 2015/16.
Allowance for affordable housing	27	16	Growth achieved through New Homes Bonus element allocated to support affordable housing initiatives
Investment funded through New Homes Bonus	1,184	1,185	One off funding to be allocated to support • Projects that will deliver income/savings • Community projects
Additional contribution to Strategic Plan priorities funded through New Homes Bonus		238	Funding to be allocated to priorities in the new Strategic Plan. This reflects a reduced use of the New Homes Bonus in supporting the base budget.
Investment in Regeneration post		100	One-off funding for post to provide project support to assist with delivery in Northern Gateway over a two year period.
Total Growth Items	**1,269**	**1,597**	

Appendix D

New Homes Bonus projects 2015-16 – New Proposals

Item	Description	Cost £'000
Projects that support the Strategic Plan	To support actions for delivery of the Strategic Plan in areas where it is felt additional resource is needed. An action plan to be developed once the Strategic Plan has been formally adopted. This funding will support projects to enable deliver for the changing emphasis of the plan	547
Community projects		
Community Enabling projects	Development of a new Community Enabling Strategy and a range of projects directly supporting communities across a range of areas including health and housing	205
CCTV	Upgrade of strategically important cameras across the Town Centre Network to enhance night vision and 'intervention' via overt lighting.	45
Range of projects to support the improvements to the Town centre	Working with the new Town Team on a number of projects, joint events, promoting Colchester and improving the physical environment. Includes £100k contribution towards Priory Street car park scheme.	445
Community facilities	The need to keep investing in facilities for our communities. Specifically here the need to improve the 3G pitch at the Shrub End community site.	195
Provision of Open Spaces	Contribution towards open space acquisition.	100
Land Development	Decontamination studies on site at Haven Road to establish potential strategy and costings for land clean-up.	75
Transport projects	Projects supporting improvements to the transport infrastructure including joint work around the A120, increasing the number of cycle trails	100
Produce a new 5 year Local Authority Carbon Management (LACM) Plan	Deliver a new 5 year LACM plan to reduce environmental impact and make financial savings through implementation of carbon saving projects. The LACM 2008-2012 plan saved the Council in excess of 2,500 tonnes of CO_2e. The 5 year target is to deliver a further 2,000 tonnes of carbon savings.	11
Projects supporting income earning opportunities and service efficiency		
Improvements to remote access and web site development	IT projects that will improve our ability to access information when out of the office. It would improve our ability to answer customer's questions while on site meaning faster delivery. Supporting ongoing changes to the way we use websites.	62

Item	Description	Cost £'000
Partnership projects for shared services	Opportunities for partnership working to deliver shared services including for example Building Control and joint working on the Strategic Housing and Economic Development with Haven Gateway and Mid Essex	80
Improving income opportunities	A range of projects including advertising, improved income from events and venue hire, and joint ticketing opportunities with partners	70
Total New Projects		**1,935**

APPENDIX E

Savings / Increased Income

Service	**Opportunity**	**2015/16 £'000**	*Additional Comments e.g. impact on service / risk to delivery/ description of delivery*
Efficiencies, Income and Fundamental Service Review			
All Services UCC FSR	UCC FSR - Savings / income as identified in the business case	740	Forecast savings have been updated to reflect revised projections in respect of commercial activities (asset income, trading services and procurement), journey management (business process changes / efficiencies) and the early delivery of accommodation savings. The total saving has reduced for 2015/16 but is expected to be fully delivered in later years.
All Services	Outturn review	525	Review of recent year's outturns and current year position has identified areas where expenditure budgets can be reduced or income budgets increased. The £525k comprises:- • £200k net additional planning income • £50k gain on interest earned • £275k across various areas expenditure lines including employee, premises and supplies and services.
Corporate & Democratic Core	External Audit	20	This saving has been achieved as a result of the Audit Commissions latest procurement exercise, which has resulted in a 25% reduction in the scale fee.
Corporate & Financial Management	FSR	50	This is the additional year 2 saving from the Corporate and Financial Management FSR as envisaged in the Business Case approved by Cabinet in November 2013.
Corporate & Financial Management	Increased income from staff and councillor car parking	7	This is the estimated additional revenue from 2015's 50p increase in staff and Members' parking charges.

Service	**Opportunity**	**2015/16 £'000**	*Additional Comments e.g. impact on service / risk to delivery/ description of delivery*
Corporate & Financial Management	Capita Contract underspend	17	This saving will be achieved as a result of a reduction in the number of separate servers we use. The contract with Capita includes a charge per server.
Commercial Services	Review of Commercial Portfolio	100	The £100k target will be met through a combination of new income and business rate savings from property deals completed and rising rental rates due to the improving economic situation.
Community Services	Public Conveniences	15	Asset transfer of public conveniences (subject to separate Portfolio Holder decisions). First year savings reflect potential one-off costs in year, therefore, higher savings expected in 2016/17.
Customer Services	Review of Welfare Rights service	60	To carry out a detailed review of all the functions performed by the Welfare Rights service. To research and review whether these functions are also provided externally, both nationally and locally. To put forward a proposal of how the remaining budget (£40K) can be used to support vulnerable customers with wider welfare benefits advice and assistance as a 1st tier service for those residents and for members. To also provide a reduced 2nd tier service to ensure partners are providing adequate support for customers and residents through training and campaigns.
Operational Services	Joint use sports centres	90	This reduction has been included in the base budgets for both the Highwoods and Tiptree Joint Use Centres and work continues with both the Gilberd and Thurstable Schools to ensure that it is delivered by the start of the new financial year. The change will be achieved through a mixture of increased usage therefore generating more income and reductions in expenditure.
Professional Services	Change to call out process	6	Saving achieved by changing the call-out process associated with Environmental Health services with the impact mitigated by increasing the scope and range of

Service	Opportunity	2015/16 £'000	*Additional Comments e.g. impact on service / risk to delivery/ description of delivery*
			duties covered by the Weekend Noise Service.
	Sub total	***1,630 (73% of savings)***	
Budget Reductions			
Community Services	Arts Grants	35	Further reductions in grants as set out agreed as part of the 2014/15 budget.
Community Services	Grounds Maintenance	93	Savings were achieved in 2014/15 primarily by reducing maintenance frequencies on highways areas. Further savings for 2015/16 will be achieved by continuing to work with our contractor in delivering efficiencies while at the same time minimising the impact on the appearance of the Borough
Corporate & Financial Management	Parish Grants re: LCTS scheme	16	Reduction in grants as set out in Appendix C
	Sub total	***144 (6%) of savings***	
Corporate / Technical Items			
Customer Services	NNDR Discretionary reliefs	106	The cost of business rates discretionary reliefs is now accounted for within retained business rate income and therefore no longer needs to be shown in the General Fund budget.
General Fund / HRA	Reduce contingency in budget	100	The budget includes a contingency reflecting the risk of changes in costs between the General Fund and HRA. A review of recharges has been undertaken and as a result of this it is proposed to reduce the contingency by £100k.

Service	Opportunity	2015/16 £'000	*Additional Comments e.g. impact on service / risk to delivery/ description of delivery*
Council Tax Sharing Agreement	Income from sharing agreement with Essex County Council and Essex Fire Authority	250	Based on an agreement a proportion of the income which accrues to major preceptors from technical changes to Council Tax discounts (such as second homes) is paid to billing authorities. Based on the revised funding agreement and adjustments made to the taxbase additional income of c£250k is expected.
New Homes Bonus	Top sliced grant paid by Government from unallocated New Homes Bonus allocation	13	One-off grant paid to all authorities from funds set aside for New Homes Bonus but not being paid through this process.
		469 (21%) of savings	
Total Savings		**2,243**	

Appendix F

Budget Analysis

	Adjusted Base Budget	One-off items	Cost Pressures	Growth Items	Technical Items	Total Savings	Detailed 14/15 Budgets
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Corporate & Democratic Core	289	0	0	0	(2)	(74)	213
Corporate & Financial Management	6,425	(49)	109	0	1	(304)	6,182
Executive Management Team	590	0	11	0	1	(2)	600
Community Services	6,068	0	188	25	(8)	(267)	6,006
Commercial Services	2,497	(75)	79	244	(1)	(628)	2,116
Customer Services	2,171	0	347	0		(390)	2,128
Operational Services (excl NEPP)	1,047	0	690	0	(15)	(232)	1,490
Professional Services	2,597	(25)	111	0	(1)	(368)	2,314
Total General Fund Services	**21,684**	**(149)**	**1,535**	**269**	**(25)**	**(2,265)**	**21,049**
Corporate Items / sums to be allocated to services							
UCC FSR Target/Procurement/Journey Management	(657)	(50)	0			379	(328)
Investment Allowance funded by New Homes Bonus	1,007		0	1,328			2,335
IT Servers	0		250				250
Borough-Wide service pressures	0		200				200
EMT Local Govt Devolution	0		5				5
NHB Top-Slice	0		0			(13)	(13)
Non-Service Budgets			0				0
Grants to Parish councils	118		0			(16)	102
CLIA (net interest)	599		50			(50)	599
R&R Contribution	150		0				150
Min Revenue Provision	669		0				669
Pensions	2,147		0				2,147
C Tax Sharing Agreement	(400)		0			(250)	(650)
GF/HRA/NEPP Adjustment	(3,211)		20		25	(28)	(3,194)

	Adjusted Base Budget	One-off items	Cost Pressures	Growth Items	Technical Items	Total Savings	Detailed 14/15 Budgets
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Total Below the Line	422	(50)	525	1,328	25	22	2,272
Total including Below the Line	**22,106**	**(199)**	**2,060**	**1,597**	**0**	**(2,243)**	**23,321**
Funded by:							
General Reserve	(100)	100	0				0
Use of balances: re carry forwards	(74)	74	(44)				(44)
Use of balances: re NHB carry forward	0		(27)				(27)
Contribution to balances	0		560				560
Capital Expenditure Reserve	(189)		189				0
Other Reserves - S.106	(30)		10				(20)
Government Grant (RSG / NNDR)	(8,290)		1,168				(7,122)
NNDR Growth above Baseline	0		0		(700)		(700)
Council Tax Freeze Grant	(107)		0	(7)			(114)
Council Tax	(10,048)		0		(386)		(10,434)
Collection fund Transfer	(142)	142	0		(409)		(409)
New Homes Bonus	(3,410)		0		(1,201)		(4,611)
NNDR Deficit / (Surplus)	284	(284)	0		(400)		(400)
Total	**(22,106)**	**32**	**1,856**	**(7)**	**(3,096)**	**0**	**(23,321)**

Appendix G

Detailed General Fund Service Budgets 2015/16

	Direct Budgets				*Non-Direct **	Total
Area	**Spend**	**Income**	**Net**		***Net***	
	£'000	**£'000**	**£'000**		***£'000***	**£'000**
Corporate & Democratic Core	213	-	213		*2,447*	2,661
Total	**213**	**-**	**213**		***2,447***	**2,661**
Corporate & Financial Management						
Assistant Chief Executive	95	-	95		*(95)*	-
Finance	916	(102)	814		*(814)*	-
ICT and Communications	2,382	(265)	2,117		*(2,117)*	-
People and Performance	540	(112)	428		*(459)*	(30)
Governance	2,903	(175)	2,728		*(2,689)*	39
Total	**6,835**	**(653)**	**6,182**		***(6,173)***	**9**
Executive Management Team						
EMT	600	-	600		*(600)*	-
Partner Projects	-	-	-		-	-
Total	**600**	**-**	**600**		***(600)***	**-**
Community Services						
Head of Community Services	55	-	55		*(130)*	(76)
Cultural Services	739	(170)	569		*714*	1,283
Community Zones	4,599	(843)	3,756		*1,623*	5,379
Community Development	1,092	(137)	955		*410*	1,365
Subtotal	**6,485**	**(1,150)**	**5,335**		***2,618***	**7,953**

	Direct Budgets			Non-Direct *	Total
Area	**Spend**	**Income**	**Net**	***Net***	
	£'000	**£'000**	**£'000**	***£'000***	**£'000**
Colchester & Ipswich Museums	2,193	(1,523)	671	*658*	1,329
Total	**8,678**	**(2,673)**	**6,006**	***3,276***	**9,282**
Commercial Services					
Head of Commercial Services	76	-	76	*(76)*	-
Place Strategy	1,460	(140)	1,320	*60*	1,380
Economic Growth	3,360	(3,409)	(49)	*(983)*	(1,033)
Commercial	3,997	(3,227)	770	*275*	1,045
Total	**8,893**	**(6,776)**	**2,116**	***(724)***	**1,393**
Customer Services					
Head of Customer Services	46	(60)	(14)	*(46)*	(60)
Customer Operations	2,408	(230)	2,178	*(2,178)*	-
Customer Demands & Research	402	-	402	*(402)*	-
Customer Solutions	890	(175)	715	*(544)*	172
Local Taxation & NNDR	223	(595)	(372)	*1,333*	961
Subtotal	**3,969**	**(1,061)**	**2,908**	***(1,836)***	**1,073**
Benefits - Payments & Subsidy	57,893	(58,673)	(780)	*1,454*	674
Total	**61,862**	**(59,734)**	**2,128**	***(382)***	**1,746**
Operational Services					
Head of Operational Services	109	-	109	*(109)*	-
Sport & Leisure	4,205	(4,595)	(389)	*1,585*	1,195
Recycling & Fleet	6,755	(2,565)	4,190	*433*	4,623
Car Parking	944	(3,363)	(2,419)	*1,156*	(1,264)

Area	Direct Budgets Spend	Income	Net		Non-Direct * Net	Total
	£'000	**£'000**	**£'000**		***£'000***	**£'000**
Subtotal	**12,013**	**(10,522)**	**1,490**		***3,064***	**4,555**
Parking Partnership (NEPP)	3,074	(3,005)	69		*(31)*	38
Total	**15,087**	**(13,527)**	**1,559**		***3,034***	**4,593**
Professional Services						
Head of Professional Services	90	-	90		*(90)*	-
Planning, Licensing & Food Safety	1,061	(1,431)	(369)		*1,094*	725
Environmental Health Services	858	(89)	769		*447*	1,216
Electoral Services	335	(3)	332		*260*	592
Prof Support Units	1,734	(76)	1,658		*(1,658)*	-
Land Charges	153	(318)	(165)		*57*	(108)
Total	**4,231**	**(1,917)**	**2,314**		***111***	**2,425**
Total (excl. NEPP)	**103,324**	**(82,275)**	**21,049**		***1,020***	**22,069**

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

Appendix H

Proposed Use of New Homes Bonus in 2015/16

	2014/15		2015/16
Item	**Existing**	**New**	**Total**
	£'000	**£'000**	**£'000**
New Homes Bonus Grant	3,410	1,201	4,611
Carry forward from 14/15	-27	54	27
Total available	**3,383**	**1,255**	**4,638**
Use of New Homes Bonus			
Previously agreed allocations:-			
Affordable housing	194	16	210
Contribution to infrastructure (in RIF)	250	0	250
Projects agreed in 2014/15:-			
Various one off projects	730	-730	0
Community alarms		95	95
North Colchester Community Links		25	25
East Colchester Transit Feasibility		30	30
Wayfinding for North Colchester		40	40
North Colchester travel plan		32	32
Market development		50	50
New Proposals			0
Projects set out in Appendix D		1,935	1,935
Total allocated to projects	**1,174**	**1,493**	**2,667**
Funding included in base budget	**2,209**	**-238**	**1,971**
Total allocation of New Homes Bonus	**3,383**	**1,255**	**4,638**

Appendix I

General Fund Balances

The following table sets out the current level of General Fund balances.

	£'000
Balance as at 31 March 2014 (As per Statement of Accounts)	(6,515)
Use of balances:	
• Financing carry forwards – Agreed c/fwd of 13/14 budgets (note 1)	1,102
• Commitments (see note 2)	933
• Existing allocations (note 3)	1,002
• Supporting the 14/15 Budget including releases agreed in year (note 4)	359
• Allocations against specific risks (note 5)	1,092
• Budget carry forward (note 6)	(71)
Projected uncommitted / allocated Balances as at 31 March 2015 (note 7	**(2,098)**
Use of balances (note 6)	71
Potential Surplus Balances as at 31 March 2016 (note 7)	**(2,027)**
Proposed minimum balance	1,800
Potential Surplus Balances as at 31 March 2016 (note 7)	**(227)**

Notes:

1. This reflects items agreed to be carried forward from 2013/14. Most of these are expected to be spent in 2014/15.
2. This includes sums which are 'committed' against specific costs expected either in 2014/15 or later years. This includes a provision for future cost pressure in respect of Community Stadium funding.
3. This includes previous sums allocated from balances which have not yet been spent and where costs are not yet committed but are expected to be fully incurred in part in 2014/15 with other sums expected in 2015/16 or beyond. These include funding allocated for potential redundancy costs and also revenue funds earmarked against the RIF.
4. This includes use of balances agreed as part of the 14/15 budget and as part of the review of the 13/14 outturn position.
5. This includes funding allocated in balances in respect of a number of key risk areas such as the various Government welfare reforms and proposed changes in respect of NNDR and the risk factor which has been carried forward from the 12/13 budget as reported to Scrutiny Panel on 11 July 13. This also includes an updated assessment of other risks for which sums are being held in balances such as potential costs for planning legal and other appeals. For most of these areas we do not expect to need to use these allocations in 15/16 but they remain an important part of the overall risk assessment for the prudent level of balances.
6. This reflects the carry forward and use of balances set out within this report.
7. The position shown assumes a neutral outturn position for 2014/15 and as commented on in this report the expectation is that we will be within budget for the current year. This position also excludes the contribution to reserves shown in this report of £560k as this is all allocated against costs or specific risks.

Appendix J

Earmarked Reserves and Provisions

Reserve	Amount at 31/03/14	Transfers - In	Transfers - Out	Estimate at 31/03/15	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.	1,890	476	(300)	2,066	2,066	-
Insurance: To cover the self-insurance of selected properties.	379	30	(41)	368	-	368
Capital Expenditure: Revenue provision to fund the capital programme. The reserve is fully committed to funding the current capital programme.	708	109	(339)	478	478	-
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.	72	-	-	72	-	72
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.	318	8	(85)	241	241	-
Heritage Reserve: This represents balance held of museums donations and as such represents a small element of the Council's support to heritage schemes.	5	2	(5)	2	-	2

Reserve	Amount at 31/03/14	Transfers - In	Transfers - Out	Estimate at 31/03/15	Allocated / Committed	Unallocated
	£'000	£'000	£'000	£'000	£'000	£'000
Hollies Bequest: Provision for the upkeep of open space.	5	-	(1)	4	4	-
Section 106 Monitoring: Required for future monitoring of Section 106 agreements. From 2015/16 this has been set at £20k per year.	63	25	(30)	58	58	-
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.	1,492	951	(733)	1,710	1,710	-
Regeneration Reserve: Contribution to reserve in respect of balancing any deficit in funding schemes in particular years.	71			71	-	71
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	397	-	-	397	397	-

Reserve	Amount at 31/03/14	Transfers - In	Transfers - Out	Estimate at 31/03/15	Allocated / Committed	Unallocated
	£'000	£'000	£'000	£'000	£'000	£'000
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.	13	-	-	13	13	-
Mercury Theatre: Provision for the building's long term structural upkeep. Accumulated funds have been used to support roof repairs to the Mercury Theatre.	2	25	(10)	17	-	17
Total General Fund	**5,415**	**1,626**	**(1,544)**	**5,497**	**4,967**	**530**
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.	894	896	-	1,790	1,790	-

Reserve	Amount at 31/03/14	Transfers - In	Transfers - Out	Estimate at 31/03/15	Allocated / Committed	Unallocated
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
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.	891	805	(1,001)	695	695	-
Total HRA	**1,785**	**1,701**	**(1,001)**	**2,485**	**2,485**	**-**
Total	**7,200**	**3,327**	**(2,545)**	**7,982**	**7,452**	**530**

Provision	Amount at 31/03/14	Transfers - In	Transfers - Out	Estimate at 31/03/15	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.	370	13	(54)	329	329	-
Total	**370**	**13**	**(54)**	**329**	**329**	**-**

Medium Term Financial Forecast				
2015/16 to 2018/19				
	2015/16	**2016/17**	**2017/18**	**2018/19**
	£'000	**£'000**	**£'000**	**£'000**
Base Budget	22,106	23,321	22,805	22,912
14/15 One-off items	(199)			
Cost Pressures (net of one off changes)	1,840	291	1,090	640
Growth Items (net of one off changes)	1,797	(100)	(583)	(433)
Savings	(2,243)	(707)	(400)	250
Technical Items	20			
Forecast Base Budget	**23,321**	**22,805**	**22,912**	**23,369**
Funded By:				
Revenue Support Grant	(3,195)	(2,195)	(1,695)	(1,195)
Business Rates Baseline	(3,927)	(4,006)	(4,086)	(4,167)
Settlement funding	*(7,122)*	*(6,201)*	*(5,781)*	*(5,362)*
Increase in NNDR / taxbase above baseline	(700)	(800)	(900)	(1,000)
New Homes Bonus	(4,611)	(4,611)	(3,887)	(3,086)
Total Gov't grants	***(12,433)***	***(11,612)***	***(10,568)***	***(9,448)***
Council Tax	(10,434)	(10,539)	(10,644)	(10,751)
Council Tax Freeze Grant (re 15/16)	(114)			
Collection Fund Deficit / (Surplus)	(409)	0	0	0
Business Rates Deficit / (surplus)	(400)	0	0	0
Use of Reserves	469	(20)	(20)	(20)
Total Funding	**(23,321)**	**(22,171)**	**(21,232)**	**(20,219)**
Budget (surplus) / gap before changes (cumulative)	**0**	**634**	**1,680**	**3,150**
Annual increase		**634**	**1,046**	**1,469**

	2015/16	**2016/17**	**2017/18**	**2018/19**
	£'000	**£'000**	**£'000**	**£'000**
Cost Pressures				
General Inflation	640	640	640	640
Pensions	0	0	250	
Elections	9			
Fleet	38			
Benefit Admin Grant & Benefit Subsidy cost pressures	187			
Pensions - auto enrolment			200	
Insurance	30			
Park and Ride - Impact	300			
IT servers (one off)	250	(250)		
Local Taxation Inspection	50	(50)		
Fraud and compliance business case	12			

	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000
EMT - local government devolution	5	(5)		
Middleborough car park	25			
Carry forward items	44	(44)		
Provision for growth	200			
Interest costs - allowance	50			
Total	**1,840**	**291**	**1,090**	**640**
Growth Items				
Food Waste (net impact)	200		141	368
Affordable homes	16			(52)
Economic Development Grants	33			
Growth linked to New Homes Bonus	1,185		(724)	(749)
Additional investment for Strategic Plan priorities from reducing use of New Home Bonus in base budget.	238			
Big screen	25			
Regeneration resources (one off)	100	(100)		
Total	**1,797**	**(100)**	**(583)**	**(433)**

Savings (incl. one off adjustments)				
Council Tax sharing agreement (extra)	(250)			250
C&FM FSR	(50)			
Housing Revenue Account (HRA) to General Fund (GF)	(100)			
Grounds Mtce	(93)			
Community Services Grants	(35)			
LCTS grant to parishes	(16)			
Staff & Member car parking	(7)			
Outturn review	(525)			
Commercial property review	(100)			
Shared leisure sites	(90)			
Discretionary business rates relief	(106)			
Development of customer support team/Welfare Rights service	(60)			
Change to call out process	(6)			
Public Conveniences	(15)			
ICT underspend	(17)			
Business process efficiencies (Net of removal of behaviour change savings)	(250)	(300)		
Commercial income and procurement savings	(490)	(150)	(400)	
Accommodation savings		(270)		
External audit fees	(20)			
NHB top sliced grant (one off)	(13)	13		
Technical items	20			
Total	**(2,223)**	**(707)**	**(400)**	**250**

	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000
New Homes Bonus				
Growth re 09/10	724	724		
Growth re 10/11	749	749	749	
Growth re 11/12	986	986	986	986
Growth re 12/13	757	757	757	757
Growth re 13/14	1,185	1,185	1,185	1,185
Total basic NHB	*4,401*	*4,401*	*3,677*	*2,928*
Affordable Housing element				
re 10/11 delivery	52	52	52	
re 11/12 delivery	105	105	105	105
re 12/13 delivery	37	37	37	37
re 13/14 delivery	16	16	16	16
Total affordable homes bonus	*210*	*210*	*210*	*158*
Total New Homes Bonus	**4,611**	**4,611**	**3,887**	**3,086**

Use of / contribution to Reserves				
Funding c/f	71			
S106 monitoring reserve	20	20	20	20
Contribution to reserves:-				
Capital expenditure reserve (General Fund / HRA risk)	(280)			
Collection Fund Reserve	(150)			
Benefits allocation	(130)			
Total	**(469)**	**20**	**20**	**20**

Addressing the Budget Gap
The MTFF shows a budget gap of circa £3.2m over the three years from 2016/17. 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:-

Ref	Risk / Area of uncertainty	
1	*Government Funding / Business Rate Retention Scheme*	The MTFF includes the reduction in the 'SFA' for 2015/16 of 15% with further reductions thereafter. 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 15/16 we will retain an extra £700k of NNDR income above our baseline figure.
2	*Welfare Reform (including Local Council Tax Support - LCTS)*	Budget papers have previously set out some of the key risks associated with the implication 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.
3	*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 2015/16 budget for the New Homes Bonus based on the notified grant and the MTFF takes a prudent view by forecasting no increase to this grant in future years. Provision has been made for changes in other Government grants, such as housing benefit administration, in 2015/16, however, the impact of any further reductions in these will be considered as the MTFF is reviewed.
4	*Pensions*	An allowance has been built in for increases in pensions costs based on the results of the last actuarial review and which therefore are fixed until 2016/17. Thereafter an allowance has been assumed of £250k and this will need to be reviewed closer to the time.
5	*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 2015/16 and beyond it is difficult to estimate how income levels may continue to be affected.
6	*Inflation*	An allowance for general inflation including pay has been built into the 15/16 forecast and MTFF. Not all the Council's costs are directly linked to RPI and

Ref	Risk / Area of uncertainty	
		therefore we will continue to monitor the impact of inflation on all Council costs
7	*Use of reserves*	The budget position for 2015/16 includes limited proposals to use certain reserves. No proposals to use general balances are currently included in the MTFF.
8	*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.
9	*Impact of regeneration programme e.g. staff resources*	The budget includes a proposal for additional resources of £100k to support work in the Northern Gateway. Furthermore, the recently established Revolving Investment Fund (RIF) provides a framework for managing potential pressures.
10	*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 continue to be considered in detail and included in the on-going updates of the MTFF. The 2015/16 budget forecast maintains the additional allocation of £150k in respect of planned repairs. This will continue to be reviewed to consider if it is sufficient to meet ongoing requirements.
11	*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. However, the 2015/16 includes an allowance of £200k recognising that there is likely to be some pressure on services from the increasing number of households in the Borough, for example, the cost of providing our waste service.
12	*Delivery of budget savings*	The 2015/16 budget includes c£2.2m 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. In addition the 2016/17 budget includes further savings from the ongoing FSR work and whilst these are currently considered to be on track to be delivered these will be reviewed as part of the 16/17 budget.
13	*Net Interest earnings and*	The budget is influenced by a number of factors including interest rates and cashflow movements. The treasury

Ref	Risk / Area of uncertainty	
	investments	management strategy for 2015/16 highlights the outlook for interest rates in the medium-term which points to continuation of unprecedented low levels into 2015/16. 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 reflect 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.

Service / Scheme	Total Programme £'000	Forecast Expenditure 2014/15 £'000	2015/16 £'000	(Surplus) / Shortfall £'000
SUMMARY				
Corporate & Financial Management	2,866.4	2,609.7	254.3	(2.4)
Operational Services	986.0	986.0	0.0	0.0
Professional Services	1,848.2	804.9	1,043.3	0.0
Commercial Services	2,111.1	2,133.1	3.0	25.0
Community Services	2,057.7	2,033.2	24.5	0.0
Total (General Fund)	**9,869.4**	**8,566.9**	**1,325.1**	**22.6**
Housing Revenue Account	16,366.6	16,306.6	60.0	0.0
Total Capital Programme	**26,236.0**	**24,873.5**	**1,385.1**	**22.6**
CORPORATE & FINANCIAL MANAGEMENT				
Town Hall DDA Sensory Project	0.1	3.6	0.0	3.5
Carbon Management Programme phase 2	11.3	5.4	0.0	(5.9)
CMP Phase 3 - PV Systems	561.1	561.1	0.0	0.0
Moot Hall Organ	463.7	209.4	254.3	0.0
Universal Customer Contact Fundamental Service Review - ICT	1,650.0	1,650.0	0.0	0.0
Universal Customer Contact Fundamental Service Review - Accommodation	125.7	125.7	0.0	0.0
Financial Systems Migration	54.5	54.5	0.0	0.0
TOTAL - Corporate & Financial Management	**2,866.4**	**2,609.7**	**254.3**	**(2.4)**
OPERATIONAL SERVICES				
Flat Recycling Extension	10.3	10.3	0.0	0.0
Street Services FSR	43.8	43.8	0.0	0.0
Shrub End Depot - new baler and shed	840.5	840.5	0.0	0.0
Sport & Leisure FSR - Building works to Colchester Leisure World	3.9	3.9	0.0	0.0
Sport & Leisure FSR - IT works	0.5	0.5	0.0	0.0
Colchester School of Gymnastics S106	87.0	87.0	0.0	0.0
TOTAL - Operational Services	**986.0**	**986.0**	**0.0**	**0.0**
PROFESSIONAL SERVICES				
Mandatory Disabled Facilities Grants	1,426.2	650.0	776.2	0.0
Private Sector Renewals - Loans and Grants	417.1	150.0	267.1	0.0
Elections - Hardware	4.9	4.9	0.0	0.0
TOTAL - Professional Services	**1,848.2**	**804.9**	**1,043.3**	**0.0**
COMMERCIAL SERVICES				
Park & Ride	124.4	124.4	0.0	0.0
Community Stadium	19.2	19.2	0.0	0.0
North Colchester Development Land	60.0	60.0	0.0	0.0
St Botolphs Regeneration	376.7	376.7	0.0	0.0
Town Centre Improvements	141.8	141.8	0.0	0.0
Town Station Square	50.0	50.0	0.0	0.0
Bus Station - CBC Enhancements	71.0	71.0	0.0	0.0
Osborne Street Bus Station	39.8	39.8	0.0	0.0
A12 Junction Facilitation	69.6	69.6	0.0	0.0
Creative Business Hub	74.7	74.7	0.0	0.0
Transcoast	26.4	26.4	0.0	0.0
East Colchester Enabling Fund	71.2	71.2	0.0	0.0
Capital Feasibility	32.6	32.6	0.0	0.0
Site Disposal Costs	2.3	27.3	0.0	25.0
Moler Works Site	41.4	41.4	0.0	0.0
Assistance to Registered Housing Providers	91.9	91.9	0.0	0.0
Abberton Community Fund S106	134.1	134.1	0.0	0.0
Layer Road Statue S106	10.8	10.8	0.0	0.0
Surface Water Flooding - Distillery Lane/Haven Road	81.5	81.5	0.0	0.0
CCTV Equipment & move of CCTV Monitoring Centre	255.3	252.3	3.0	0.0
Cemetery Extension	125.0	125.0	0.0	0.0
Replacement of Cremators	11.4	11.4	0.0	0.0
Temporary Accommodation Review	200.0	200.0	0.0	0.0
TOTAL - Commercial Services	**2,111.1**	**2,133.1**	**3.0**	**25.0**

Service / Scheme	Total Programme £'000	Forecast Expenditure 2014/15 £'000	2015/16 £'000	(Surplus) / Shortfall £'000
COMMUNITY SERVICES				
Improving Life Opportunities	53.3	53.3	0.0	0.0
Lion Walk Activity Centre Lift	40.0	40.0	0.0	0.0
Garrison Gymnasium & MRS	0.0	0.0	0.0	0.0
Castle Park - Playground Refurbishment	22.2	22.2	0.0	0.0
Resource Centre - Highwoods Country Park	19.1	19.1	0.0	0.0
King George V Pavilion Wivenhoe S106	1.7	1.7	0.0	0.0
Holly Trees WCs Castle Park	11.5	11.5	0.0	0.0
Castle Park Sensory Garden S106	61.5	61.5	0.0	0.0
Cook's Shipyard Playsite Wivenhoe S106	5.8	5.8	0.0	0.0
Castle Park Olympic Legacy Project	131.0	131.0	0.0	0.0
Old Heath Recreation Ground Improvements	272.7	272.7	0.0	0.0
Royal Square & Pavilion Dedham	7.9	7.9	0.0	0.0
Wivenhoe Cricket Club Pavilion	28.6	4.1	24.5	0.0
Corunna Drive Play Area S106	20.0	20.0	0.0	0.0
West Mersea Skate Park S106	20.0	20.0	0.0	0.0
Walls - new merged scheme	453.2	453.2	0.0	0.0
Visitor Information Centre relocating to Hollytrees	4.8	4.8	0.0	0.0
Redevelopment of Castle Museum	904.4	904.4	0.0	0.0
TOTAL - Community Services	**2,057.7**	**2,033.2**	**24.5**	**0.0**
HOUSING REVENUE ACCOUNT				
Housing Improvement Programme	9,821.2	9,821.2	0.0	0.0
Adaptations to Housing Stock	560.0	560.0	0.0	0.0
Sheltered Accommodation Review	2,350.0	2,350.0	0.0	0.0
Council House New Build	3,356.0	3,356.0	0.0	0.0
Housing ICT Development	279.4	219.4	60.0	0.0
TOTAL - Housing Revenue Account	**16,366.6**	**16,306.6**	**60.0**	**0.0**

Appendix N

Impact of Budget Strategy 2015/16

The budget for 2015/16 has been prepared in continuing difficult financial conditions. This is alongside the bedding in of changing local government financial arrangements. It is worth noting now only 16% of the proposed net budget of £19m is funded by core Government grant (RSG).

There continue to be reductions in the amount of money we receive with a cut in combined funding of 15%. In addition to these cuts in core funding the budget has to accommodate cost pressures from inflation, other Government funding reductions, reductions in parking income from the introduction of Park and Ride and provisions for increased demand from a growing borough.

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 have helped to identify £1.6m of savings and extra income. This strategic approach to delivering savings minimises the need to ask services to deliver percentage reductions which may impact on service delivery.

The proposed 2015/16 budget does include £114k of savings from budget reductions. This represents 6% of all proposed savings illustrating the majority of savings have been identified through efficiencies, income or technical budget changes. As such any negative impact on delivering against Strategic Plan priorities can be minimised.

The budget increasingly reflects the changing Government funding streams with income through the New Homes Bonus and to a lesser extent the local retention of business rates becoming important sources of income. The Council is proposing to invest a greater level and proportion of the New Homes Bonus to deliver projects that will support priorities in the new Strategic Plan.

Specifically £547k of the New Homes Bonus has been allocated to support the new Strategic Plan. The Cabinet report on this agenda asks for a decision for officers to prepare an action plan to achieve the commitments in the new Strategic Plan. This funding recognises the different emphasis in the Plan and will allow for a set of ambitious actions to deliver against the new priorities. For example the new Plan has a greater emphasis on our heritage, tourism and business and this will need to be supported with a range of new actions, over and above what we are currently doing.

The rest of the New Homes Bonus money is being used as described earlier in this paper. Many of these projects also reflect the changing emphasis on the Strategic Plan, as well as supporting some of our day to day responsibilities. For example:

- A range of projects to support improvements to the Town centre
- A number of projects aimed at community enabling
- Initiatives that support partnership working
- Transport and Housing related projects
- Projects that will deliver increase income to continue to support our budget strategy.

COLCHESTER

Cabinet

Item

28th January 2015

Report of	**Head of Commercial Services**	**Authors**	**Darren Brown** **John Rock** **Tel: 282891**
Title	**Housing Investment Programme (HIP) 2015/16**		
Wards affected	All		

This report concerns the Housing Investment Programme for 2015/16

1. Decision(s) Required

1.1 To approve the Housing Investment Programme for 2015/16.

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 2015/16 Capital programme being the fourth year of the (HIP).

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 2015/16

3.1 There are a number of key issues relating to the HIP budget for 2015/16, with further details being included within the main body of the report. However, in summary they are as follows. This is the fourth year of HRA Self-Financing and the continued increase in investment in the housing stock and other projects is reflected in this report. Secondly, provision has been made for the anticipated continuation of our own programme of house building. As part of the Sheltered Housing refurbishment programme, construction works will be drawing to a close at Worsnop House and be continued into the next scheme which has been identified as Enoch House. This commitment signals our ongoing commitment to undertake improvements to a number of sheltered housing schemes over the coming years. The programme reflects a bringing forward of the replacement of a significant number of timber fascias, soffits and other external elements. This has been proposed to maximise the benefit of current advantageous contracted rates which will come to an end in early 2016.

3.2 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.

3.3 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.

3.4 It is now the fourth year of the opening five years 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 2015/16 is the fourth year of the HRA self-financing regime. This has 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 2015/16 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 2015/16 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. 2015/16 Programme of Works

5.1 The requested budget allocation for the 2015/16 programme is £14.714million. 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 2015/16 totals £1,370,000. 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 2015/16 programme to provide fourth year funding for the Sheltered Housing review agreed by Cabinet on 12th October 2011. The fourth year of the programme (2015/16) will see the completion of Worsnop House coupled with a start on the second scheme which will be at Enoch House.

6. HRA Capital Medium Term Financial Forecast - 2015/16 to 2019/20

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, the expenditure proposals from that report have been included in the capital medium term financial forecast at Appendix A and updated to take account of the early year's 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, reflecting the need to maintain decency, and to start to invest 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 2016/17 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. Future rent increases are not known until the Government announce the inflation figures in November of each preceding year, so at this stage future rent increases are based on an estimate of inflation. It should 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 2015/16 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 Officers continue to progress the building of 34 new Council owned homes on former garage sites, and the 2015/16 estimate reflects completion of this programme and an allocation to allow officers to investigate the potential for the second phase of this programme. The May 2011 Cabinet report stated the intention was to use a part of the borrowing headroom arising under HRA Self-Financing to finance the Councils expenditure relating to new build, which is currently still the case.

6.4 The estimated RCCO in 2015/16 is £4.689million, which is broadly in-line with the assumptions in the business plan. In recent years, 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 are required to support the works element of the capital programme for 2013/14 onwards. These increased contributions are affordable as under HRA Self-Financing the Council now retains all rental income. Furthermore, as these resources increase in line with inflation, we are able to substantially increase investment in the housing stock and meet the needs contained within the Councils AMS. Finally, provision has been made within the RCCO to fund the continued programme of works to Sewage Treatment Plants, which will lead to their adoption by Anglian Water.

6.5 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 2015/16 budget includes resources from this source, which will contribute to the funding of our 34 units of new build accommodation on our garage sites. The budget also assumes that we will be able to use retained RTB receipts to contribute to the funding of the next phase of new build. However, as this work is at a very early stage and no decisions have been made on the next sites, there is the possibility that we would not be able to use retained receipts as a source of funding. As a reminder, retained receipts can only be used on delivering new additional units of accommodation, not on refurbishing existing schemes. Furthermore, the budget also includes capital grant as an additional resource, which is EU funding we have received as a result of the improvement works being undertaken at our sheltered schemes.

6.6 The Medium Term financial forecast shows a requirement to undertake additional borrowing in the next 5 years. This virtually all relates to the funding of new Council House building discussed at paragraph 6.3, and the proposed sheltered accommodation improvements discussed at paragraph 6.2. Were these projects not included in the spending plans for the next 5 years, then only minimal additional borrowing would be required to fund the CMTFF shown at Appendix A. This confirms the approach that has been adopted, which is to ensure there is maximum flexibility in the early years of the programme to deliver the needs of the housing stock as well as the other projects the Council has committed to.

7. Priorities for the Council

7.1 To use a refreshed Colchester Housing AMS as the basis for long term planning, provision and sustainability of Colchester Borough Council's housing assets following Cabinet acceptance of the Strategy on 1 December 2010.

7.2 To update the AMS and obtain approval for its continued use as the basis for long term planning.

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 this is 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 2015/16 as defined by the AMS with the following comments setting out the basis of the allocation.

8.2 ***Capital Investment Programme - £3.520million –*** 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 - £0.580million -*** 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 - £0.800million –*** 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 - £0.330million –*** 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 ***Roofing Programme - £0.110million –*** This allocation supports the AMS in the continuation of a new roof replacement programme.

8.7 ***Environmental Works - £3.730million -*** 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. As previously mentioned this allocation is recommended to take advantage of favourable current contract rates

8.8 ***Asbestos, Legionella, Fire Safety and Overall Contingency - £1.270million –*** 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.

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

8.10 ***Sewage Treatment Works - £0.160million*** – This is to provide funding for the continued programme of works, leading to the adoption of the sewage treatment plants by Anglian Water which will significantly improve customer satisfaction and generate ongoing savings within the HRA.

8.11 ***Sheltered Accommodation Improvements - £2.350million*** – This allocation supports the continuation of the overall refurbishment programme and a feasibility study for an Extra Care scheme. Individual delivery contracts will be reported to Cabinet as tenders are returned.

8.12 ***Garages - £0.280million*** – This allocation supports investment in our garage stock to bring them back into use and is a recommendation by a sub-group of the Asset Management Group.

9. Strategic Plan References

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

- Regenerating our borough through buildings, employment, leisure and infrastructure
- Promoting sustainability and reducing congestion
- Providing more affordable homes across the borough
- Supporting more vulnerable groups

10. Consultation

10.1 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.

10.2 The consultation process has been inclusive of tenants and leaseholders and the Asset Management Group.

10.3 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/4962/Strategic-Policy-and-Regeneration

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 – 2015/16 to 2019/20 Appendix A

Expenditure	Notes	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Stock Investment Programme		10,044	8,894	8,891	9,282	9,479
Adaptations		581	585	607	618	652
Sheltered Accommodation Review		2,348	2,407	2,686	2,735	-
New Build		1,444	1,700	-	-	-
Stock Investment Sub - Total		**14,417**	**13,586**	**12,184**	**12,635**	**10,131**
ICT		140	143	146	149	152
Sewage Treatment Works		157	161	164	167	176
Other Works Sub - Total		**297**	**304**	**310**	**316**	**328**
Total Programme		**14,714**	**13,890**	**12,494**	**12,951**	**10,459**

Resources	Notes	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Major Repairs Reserve		5,199	5,406	5,514	5,624	5,737
Revenue Contribution to Capital		4,689	4,515	4,757	4,929	4,722
Capital Grant		68	-	-	-	-
Capital Receipts		-	-	-	-	-
Retained RTB Receipts Reserve		393	440	-	-	-
New Borrowing		4,365	3,529	2,223	2,398	
Total Funding		**14,714**	**13,890**	**12,494**	**12,951**	**10,459**

COLCHESTER

Cabinet

Item

28th January 2015

Report of	**Head of Commercial Services**	Author	**Darren Brown** ☎ **282891**
Title	**Housing Revenue Account Estimates 2015/16**		
Wards affected	**All**		

This report presents the Housing Revenue Account (HRA) estimates for 2015/16, the Medium Term Financial Forecast (MTFF) for 2015/16 to 2019/20, and the 30 Year HRA financial model

1. Decision Required

1.1 To approve the 2015/16 HRA revenue estimates as set out in Appendix A.

1.2 To approve dwelling rents as calculated in accordance with the rent restructuring formula (set out in paragraph 4.7).

1.3 To approve the HRA revenue funded element of £6,754,400 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 £4,689,000 to the Housing Investment Programme is included in the budget (paragraph 4.27).

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 2015/16

3.1 There are a number of key issues relating to the HRA budget for 2015/16, with further details being included within the main body of the report. However, in summary they are as follows. This is the second 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 also the second HRA budget to be set in the context of the new 30 year HRA Business Plan, which was approved by Cabinet at it’s meeting on the 27th November 2013. The budget therefore reflects the strategic priorities identified within the HRA business plan. Finally, this is the fourth year of HRA Self-Financing. This has 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 As part of the process for setting the 2015/16 HRA budget, it is necessary to revisit the 2014/15 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.

2014/15 Revised Housing Revenue Account

3.3 Appendix A shows the Revised Housing Revenue Account (HRA) estimates for 2014/15. There have been some amendments to the original budget for 2014/15 during the course of the current financial year. A reconciliation is therefore provided in the following table between the Original and Revised budget for 2014/15:-

Reconciliation between Original and Revised 2014/15 HRA Budget

	Budget 14/15	***Commentary***
	£'000	
Original Budget Deficit	**2,920**	Agreed 29th January 2014
2013/14 Budgets c/fwd	310	Agreed by Assistant Chief Executive/Head of Commercial Services
Revised Budget Deficit	**3,230**	

2014/15 Forecast Outturn Position

3.4 When considering the financial position of the HRA, in addition to the adjustments to the 2014/15 original budget shown in the above table, it is important to note the 2014/15 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 14/15
	£'000
Rental & Tenants Service Charge Income	(33)
Leaseholder Service Charge Income	(307)
Energy Costs	(70)
Supplies & Services	(90)
One-off/Technical Items	
Revenue Contribution to Capital (RCCO)	500
Forecast 2014/15 Outturn Variance	**-**

- It is forecast that we will receive more rental and tenants service charge income of £33k. This reflects the 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 of Right To Buy sales this year. We are also predicting an additional £307k of unbudgeted Leaseholder service charge income this year, relating to the External Decorating programme.

- There is an anticipated £70k saving in energy costs this year, reflecting that actual costs have not increased in line with the expectation built into the budget for the current year.

- There is a general underspend across Supplies & Services budgets this year. As a result, it is predicted there will be an underspend at year-end of circa £90k. This has also been considered as part of the budget setting for 2015/16.

- As a direct result of the additional income and reduced expenditure forecast this financial year, there will be additional revenue resources available for an increased Revenue Contribution to Capital of £500k to fund the Housing Capital Programme in 2014/15.

3.5 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 2014/15 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

3.6 Members will be aware of the implementation of the national reform of the Housing Revenue Account from April 2012. The 2015/16 budget therefore reflects the fourth year of the new financial regime for the HRA, with commentary included on the medium and long-term outlook in this report.

3.7 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. 2015/16 Housing Revenue Account Budget

4.1 Appendix A shows the Housing Revenue Account (HRA) estimates for 2015/16. This shows a predicted HRA deficit of £246k which will be funded by a planned use of uncommitted HRA balances.

4.2 It should be noted that the MTFF included within the 2014/15 HRA budget cycle and considered by Cabinet on 29th January 2014 estimated a break-even budget for 2015/16. However, given that the HRA balance is higher than planned due to the favourable 2013/14 outturn position, we are able to make a larger RCCO to the capital programme than originally planned. Although this shows as a higher deficit than envisaged this time last year, it simply reflects that there is more HRA balance available to fund the 2015/16 Housing Capital Programme, and therefore preserve the borrowing headroom for future years and other projects.

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 and other capital projects. 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.

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. As we move through the early years of HRA Reform, we will have more certainty and resources will become greater, meaning we may revert to a lower minimum level of balances in the future.

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 2015 is £1,846k. The recommended prudent level of balance is £1,600k. Therefore, we are able to use part of the uncommitted balance to meet the budget deficit for 2015/16 as mentioned in paragraph 4.1.

4.6 The budget at Appendix A shows the use of part of the uncommitted balances in 2015/16 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 2015/16 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.

<u>Income</u>

Housing Rents

4.7 For 2015/16, the Government has changed the way annual rent increases are calculated. As a result of the formula changing and Colchester following it, we are continuing to set **dwelling rents within Communities and Local Government (CLG) guidelines and so the annual increases in rents paid by tenants are set by reference to national Government policy.** The main changes are: that the formula for increasing rents now is Consumer Price Index (CPI) + 1%, compared to Retail Price Index (RPI) + 0.5% under the previous methodology. Also, the additional £2 per week that was used to enable individual rents to converge with their target rent has been removed. However, rents will be able to be moved to target rent when a property becomes empty. The Government expects local authorities to apply rent restructuring to all their HRA properties, and is the assumption the Government made when establishing the amount of debt we would take on under HRA Reform. As a reminder, the aim is that social rents reflect the condition and location of properties, local earnings and property size. Each property continues to have a target rent calculated using the Government's formula, and this increases annually by the September CPI figure + 1.0%. There are still caps in place to protect tenants from very large increases. The average rent proposed for 2015/16 is £87.82 per week compared to a current average of £85.93, an increase of £1.89 (2.20%) per week. (It should be noted that the September 2014 CPI figure was 1.2%). Given the potential for the rate of inflation to vary in the short to medium term, it is difficult to anticipate future rent increases. However, modelling within the MTFF and 30 year financial modelling has been undertaken using reasonable estimates of inflation rates.

4.8 Sales of council houses under the Right to Buy (RTB) scheme could reach 40 in 2014/15 (28 sold in 2013/14 and 21 sold in 2012/13), which is higher than the number expected in the 2014/15 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 to stimulate the housing market). The 2015/16 budget has been set assuming the sale of 25 properties, being broadly in line with historical levels. The MTFF and longer term modelling assume a reduction in the number of sales after 2015/16. However, these assumptions will be reviewed annually as part of our future budget setting.

4.9 The budget for 2014/15 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 2014/15 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. An assumption has been included in the budget for a number of garages that are currently empty, to be brought into a condition where they can be let, and therefore generate additional income.

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 2015/16 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 services charges to individual tenants was implemented in 2008/09. There have been some new service charges introduced for 2015/16, primarily relating to servicing of equipment in communal areas, such as Fire Alarms, Emergency Lighting Portable Appliance Testing and Legionella testing. There has also been the annual 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 also now 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 now funded from several sources within the Council's accounts, namely the Housing Revenue Account, the Housing Investment Programme, aswell 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 2015/16 CBH Management Fee

	Budget 15/16	***Funding Source***
	£	
CBH Management costs	3,441,400	CBH Ltd Management Fee at Appendix A
R&M Management Fee	529,000	Included in Repairs & Maintenance at Appendix A
R&M Works	2,784,000	Included in Repairs & Maintenance at Appendix A
Sub-Total: HRA	**6,754,400**	
Capital Fee	1,370,000	Included within the 2015/16 Housing Investment Programme
Sub-Total: HIP	**1,370,000**	
Anti-Social Behaviour Team	43,200	Included within the 2015/16 General Fund Budget
Professional Support Unit	113,700	Included within the 2015/16 General Fund Budget
Housing Options Team	586,500	Included within the 2015/16 General Fund Budget
Facilities Management/ Engineering Team	452,600	Included within the 2015/16 General Fund Budget
Sub-Total: General Fund	**1,196,000**	
Total Management Fee	**9,320,400**	

4.14 The base management fee for 2015/16 includes an allowance for inflation along with an increased provision following the completion of the review of the cost of services CBH buys-in from the Council.

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 2015/16 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 2015/16 HRA budget includes £6,222,400 for management costs, a decrease from 2014/15 (£6,436,000). 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 2014/15 budget is given in the following paragraphs;

4.17 The budget for Employee costs has increased by £2,600 for 2015/16, which reflects the net effect of a provision for a pay award, and a small reduction in the training budget.

4.18 The budget for Premises costs has decreased by £35,400 for 2015/16. This primarily relates to the Grounds Maintenance budget where a provision has been made for an inflationary increase in accordance with the contract, and a reduction in utilities budgets primarily reflecting lower anticipated prices.

4.19 The budget for Supplies and Service costs has decreased by £194,900. The main reasons for this decrease are as follows: One-off funding of £30,000 included in the 2014/15 budget to upgrade existing telecare & telehealth systems has dropped-out, aswell as a proportion of the £150,000 to meet the set-up costs of the second phase of the Photovoltaic Panels on Council dwellings scheme. The remainder of the decrease relates to a general review of budgets, and reflects the current year forecast outturn shown in paragraph 3.4.

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 2015/16 has increased by £6,100 from 2014/15.

Repairs and Maintenance

4.21 The 2015/16 Housing Investment Programme has been drafted and is included elsewhere on the agenda for approval. In respect of revenue works £5,028,100 has been included in the budget for repairs and maintenance (compared to £5,037,300 in 2014/15), of which £3,313,000 is specifically for works and associated overheads included within the CBH Management Fee. A provision of £1,436,700 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 Council's borrowing in respect of the housing stock. This represents a significant proportion of the Councils HRA expenditure each year. The 2015/16 budget for interest costs has increased compared to 2014/15, which reflects that we will be undertaking new borrowing to fund the overall Housing Investment Programme next year.

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 £125million 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".

4.24 The 30 year financial modelling undertaken as part of this years budget setting cycle currently indicates that surplus resources (over and above what is required to meet existing spending plans) would be generated from 2019/20 onwards (Year 5). Under the principle of HRA Reform these resources will increase year on year. 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 4 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 2015/16 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 new 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 £4,689,000. The majority of this budget is to support the capital work programmes to the housing stock in 2015/16, 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.
Governments Welfare Reform	The budget includes an estimate of the impact of Welfare Reform. Aswell 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 2015/16 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,

Area	Comment
	there is a risk that prices could rise, the cost of which would have to be funded from existing resources or HRA balances.
2014/15 Outturn	An underspend of £500k 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 2015	Updated outturn forecast.
July 2015	Provisional pre-audit outturn / current year issues etc.
September 2015/ October 2015	Mid year review.
December 2015 / January 2016	Outturn review / Budget 2016/17.

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

5.1 As part of the budget process for 2015/16 a MTFF has been produced for the HRA. This sets out the indicative budget position for the period 2015/16 to 2019/20. 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 in difficult economic times. 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 have been updated for the changes the Government have made to the annual rent setting formula. A key component of this forecast is assumptions on future inflation levels but the CLG have not given any guidance on rates to assume when undertaking modelling of future rent increases. Rental income remains one of the areas of the MTFF in particular which is subject to change. 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 2014/15 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 £10.176million in sheltered accommodation over the next 4 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.

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 it's 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 2015/16 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 6.26.

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 retain the new rent formula, increasing tenants rents by CPI + 1.0%, for the duration of the 30 year model. There is no indication to suggest that this is going to alter, but it is the example the Government quoted within the HRA Reform debt settlement whereby if it were to change, then they would possibly re-open the original debt settlement.

6.6 Assumptions have been made within the model for loss of stock, not only through the various projects being undertaken, but more significantly 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 we will be using these to contribute to the cost of delivering our 34 units of new build accommodation on our garage sites, and also to fund where possible the next phase of Council Housing new build.

6.7 Assumptions have been made regarding rent lost from void properties and bad debts. An allowance has been made for ongoing operational voids, aswell 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 continue to increase in line with future dwelling rent increases. There is the potential for this to increase, with the improvement to the financial model coming through a combination of reduced void levels aswell 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 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 Councils 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 2015/16, 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.

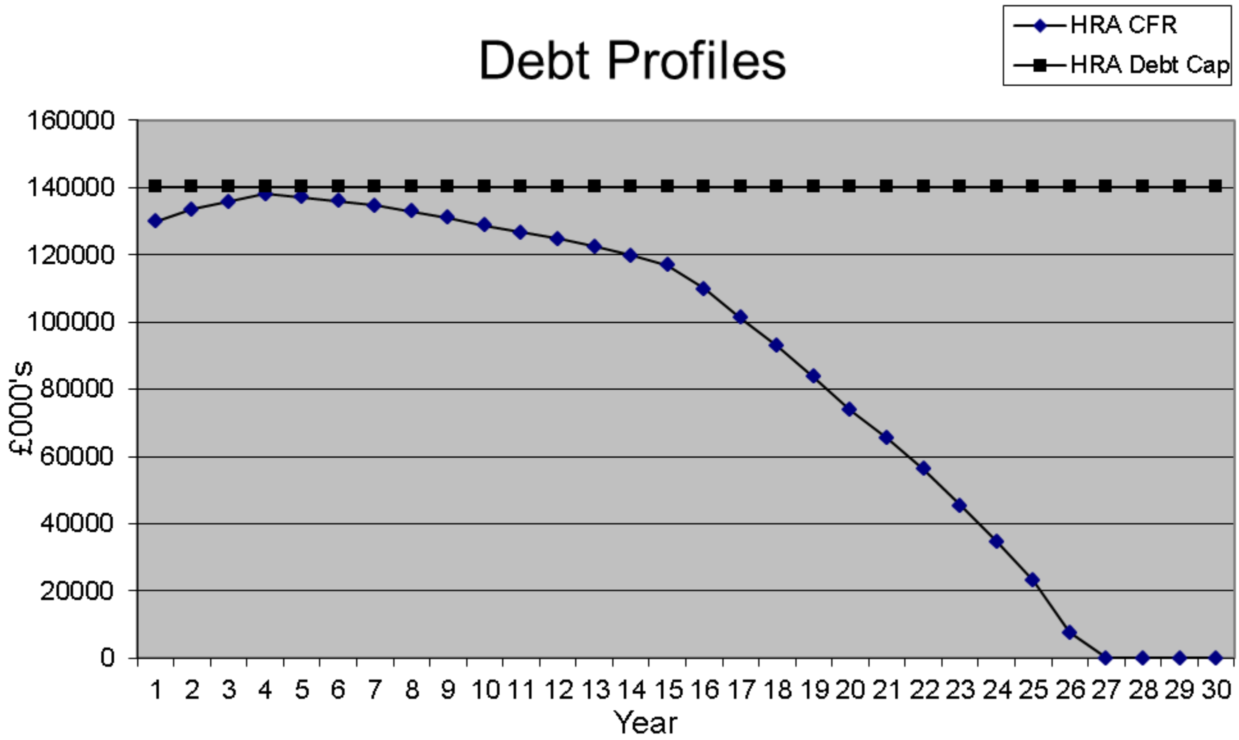
6.15 Under HRA Reform, the primary source of funding the Housing Capital Programme, especially in the early years, is a charge to the HRA which reflects the cost of depreciation to the housing stock. This is calculated locally, with reference to our actual stock condition and asset management strategy.

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 2014 is expected to be £125.647million. 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 is consistent with a business plan for which HRA self-financing works well. There is currently borrowing headroom in every year of the plan. The graph shows debt rising initially (due entirely to the additional investment in new build and the sheltered accommodation review in Years 1 to 4), but then peaking in Year 4 and starting to reduce in Year 5 as we are able to start repaying debt (or setting resources aside for repayment).

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 increase as time progresses, as the surplus resources generated within the model are used 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**
2015/16	10,263
2016/17	6,734
2017/18	4,511
2018/19	2,113
2019/20	3,202
2020/21	4,264
2021/22	5,601
2022/23	7,233
2023/24	9,177
2024/25	11,424

6.21 The above table shows that whilst there is available headroom in each of the next 10 years, the estimated amount available when we reach peak-debt (Year 4) is **projected** to be circa £2.1million. This 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. As part of this budget setting cycle, the amount of available headroom has reduced significantly, simply from lower rates of CPI than assumed a year ago, aswell as a sharp increase in building cost inflation, which is contractually payable on a number of our revenue and capital maintenance contracts. An increase in Right To Buy numbers resulting from the Government's change in maximum discount has also seen our rental income reduce. These are all issues that could continue in the short to medium term, therefore the headroom figures in the table above should be viewed entirely as indicative.

6.22 If the headroom figures were to 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.

Outlook Summary

6.23 To remind Members, the main test adopted when determining the viability of an HRA business plan is whether the debt is able to be repaid by year 30. This mirrors the process that private funders adopt when considering a stock transfer proposal, as they want to be comfortable that their borrowing is capable of eventually being repaid. However, given HRA Reform has put Councils firmly in control of their business plans, it is acknowledged that Councils may wish to retain debt, and in return use those resources which would otherwise have been used to repay debt to provide even greater investment locally, whether it be in relation to the existing housing stock, the provision of new affordable housing and/or improved services to tenants. Therefore, whilst the year by which all debt would be repaid is useful as a measure, it should be considered alongside the Councils overall position on repayment of HRA debt versus the desire to provide maximum investment locally.

6.24 The Councils current 30 year model shows that all HRA debt would be able to be repaid by year 27. This is taking into account the additional borrowing that relates to the building of new Council Housing, and the improvements to our sheltered housing accommodation. Were these projects not to go ahead, then all the debt would be able to be repaid approximately 2 years earlier.

6.25 Therefore, using the current set of assumptions and information available, alongside fully meeting the investment requirements of the Councils Asset Management Strategy, the 30 year financial model set out at Appendix E continues to show a viable long-term HRA for Colchester.

Sensitivity Analysis

6.26 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 4	Year 4	Year 4	Year 4	Year 4
Year Debt Repaid	Year 27	Year 30	Year 24	Year 32	Year 27
Capital Investment over 30 Years	£391.9million	£339.8million	£454.6million	£339.2million	£453.7million
Surplus HRA Balance at Year 30	£66.6million	£4.25million	£137.3million	£2.1million	£73.1million

6.27 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.

6.28 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:

- Regenerating our borough through buildings, employment, leisure and infrastructure
- Promoting sustainability and reducing congestion
- Providing more affordable homes across the borough
- Supporting more vulnerable groups

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.

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 polices 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 2015/16
- 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 2015/16		
	Housing Revenue Account		
	Summary		
2013/14		**2014/15**	**2015/16**
Actuals	**Expenditure & Income Analysis**	**Revised**	**Original**
		Budget	**Budget**
£000's		**£000's**	**£000's**
	INCOME		
(26,177)	Dwelling Rents (Gross)	(26,783)	(27,201)
(754)	Non-Dwelling Rents (Gross)	(722)	(820)
(2,376)	Charges for Services and Facilities	(2,272)	(2,383)
(178)	Contributions towards Expenditure	(208)	(108)
(29,485)	**Total Income**	**(29,985)**	**(30,512)**
	EXPENDITURE		
5,126	Repairs and Maintenance	5,177	5,028
3,252	CB Homes Ltd Management Fee	3,340	3,441
5,473	Management Costs	6,606	6,222
187	Rents, Rates and Other Charges	210	219
207	Increased provision for Bad or Doubtful Debts	250	250
5,567	Interest Payable	5,572	5,668
115	Depreciation and Impairments of Fixed Assets	5,108	5,199
101	Amortisation of Deferred Charges	150	100
80	Debt Management Costs	85	74
20,108	**Gross Expenditure**	**26,498**	**26,201**
(9,377)	**Net Cost of Services**	**(3,487)**	**(4,311)**
5,849	Net HRA Income from the Asset Management Account	(150)	(100)
38	Amortised Premiums and Discounts	-	-
(30)	HRA Investment Income (including mortgage interest and interest on Notional Cash Balances	(33)	(32)
(3,520)	**Net Operating Expenditure**	**(3,670)**	**(4,443)**
2,563	Revenue Contribution to Capital Expenditure	6,900	4,689
(957)	**Deficit/(Surplus) for the Year**	**3,230**	**246**
(4,507)	Deficit/(Surplus) at the Beginning of the Year	(5,464)	(2,234)
(957)	Deficit/(Surplus) for the Year	3,230	246
(5,464)	Deficit/(Surplus) at the End of the Year	(2,234)	(1,988)

Housing Revenue Account - Estimated Balances

	£'000
Balance as at 1 April 2014	**(5,464)**
Committed - Capital Spending in 2014/15 and onwards	388
Less budgeted deficit/use of balances in 2014/15	3,230
Plus Forecast underspend in 2014/15	-
Unallocated balance at 31st March 2014	**(1,846)**
Less Proposed Use of balances in 15/16 Budget	246
Estimated uncommitted balance at 31st March 2016	**(1,600)**
Recommended level of Balances	**(1,600)**
Forecast balances above prudent level at 31st March 2016	**-**

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 14/15*	*Budget 15/16*	*Budget 16/17*	*Budget 17/18*	*Budget 18/19*	*Budget 19/20*
	£'000	***£'000***	***£'000***	***£'000***	***£'000***	***£'000***
Income						
Housing Rents	(26,783)	(27,201)	(27,770)	(28,392)	(29,017)	(30,266)
Other Income	(3,202)	(3,311)	(3,312)	(3,378)	(3,445)	(3,535)
	(29,985)	**(30,512)**	**(31,082)**	**(31,770)**	**(32,462)**	**(33,801)**
Expenditure						
Repairs & Maintenance	5,177	5,028	5,125	5,226	5,329	5,435
Running Costs	10,406	10,133	10,154	10,213	10,416	10,623
Interest Payable	5,572	5,667	5,842	6,015	6,118	6,147
Depreciation	5,108	5,199	5,406	5,514	5,624	5,737
Other Capital Financing	52	42	42	44	46	1,136
RCCO	6,900	4,689	4,515	4,757	4,929	4,722
Contribution to Balances	0	0	0	0	0	0
Other	0	0	0	0	0	0
	33,215	**30,758**	**31,084**	**31,769**	**32,462**	**33,800**
Budgeted (Surplus)/Deficit	**3,230**	**246**	**2**	**(1)**	**-**	**(1)**
Forecast 2014/15 underspend	-	0	0	0	0	0
Revised (Surplus)/Deficit	*** 3,230**	**246**	**2**	**(1)**	**-**	**(1)**

Opening Balance	**(5,464)**	**(1,846)**	**(1,600)**	**(1,598)**	**(1,599)**	**(1,599)**
Committed Balance	**388**	**-**	**-**	**-**	**-**	**-**
(Surplus)/Deficit	**3,230**	**246**	**2**	**(1)**	**0**	**(1)**
Uncommitted Closing Balance	**(1,846)**	**(1,600)**	**(1,598)**	**(1,599)**	**(1,599)**	**(1,600)**

* It should be noted that it is currently forecast the HRA will be underspent by £500k in 2014/15, 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.

Appendix D

Review of Housing Revenue Account Balances 2015/16

Risk Management Assessment

Factor	Assessed Risk		
	High £'000	**Medium £'000**	**Low £'000**
Cash flow (1% of £56m)	560		
Interest Rate (2% on £16m)		320	
Inflation (Decrease of 1%)		250	
Emergencies		50	
Right To Buy Sales		250	
New Spending		100	
Litigation			50
Welfare Reform	250		
Sheltered Accommodation Project	150		
Garage Sites Project		200	
	960	1,170	50

	Minimum Provision £'000
High Risk – 100%	960
Medium – 50%	585
Low – 10%	5
Sub Total	**1,550**
Other - say	50
Recommended Prudent Level	**1,600**

Housing Revenue Account – 30 Year Financial Model

Appendix E

	Year 1 2015/16 £000's	Year 2 2016/17 £000's	Year 3 2017/18 £000's	Year 4 2018/19 £000's	Year 5 2019/20 £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	(30,512)	(31,082)	(31,770)	(32,462)	(33,801)		(177,915)	(199,995)	(224,102)	(251,113)	(281,376)
Expenditure	30,758	31,084	31,769	32,462	33,800		177,748	199,811	223,897	250,889	217,159
(Surplus)/Deficit	246	2	(1)	0	(1)		(167)	(184)	(205)	(224)	(64,217)
Opening HRA Balance (Surplus)	(1,846)	(1,600)	(1,598)	(1,599)	(1,599)		(1,600)	(1,767)	(1,951)	(2,156)	(2,380)
Closing HRA Balance (Surplus)	(1,600)	(1,598)	(1,599)	(1,599)	(1,600)		(1,767)	(1,951)	(2,156)	(2,380)	(66,597)
Capital Account											
Investment:											
Stock Investment Programme	10,922	9,783	9,808	10,216	10,459	51,188	58,143	69,432	57,677	75,181	66,962
Sheltered Accommodation Review	2,348	2,407	2,686	2,735	0	10,176	0	0	0	0	0
New Build	1,444	1,700	0	0	0	3,144	0	0	0	0	0
Total	**14,714**	**13,890**	**12,494**	**12,951**	**10,459**	**64,508**	**58,143**	**69,432**	**57,677**	**75,181**	**66,962**
Funded By (Resources):											
Depreciation	(5,199)	(5,406)	(5,514)	(5,624)	(5,737)	(27,480)	(32,176)	(37,428)	(43,425)	(50,264)	(58,057)
Revenue Contribution	(4,689)	(4,515)	(4,757)	(4,929)	(4,722)	(23,612)	(25,967)	(32,004)	(14,252)	(24,917)	(8,905)
Capital Receipts	0	0	0	0	0	0	0	0	0	0	0
Grant	(68)	0	0	0	0	(68)	0	0	0	0	0
HRA Reserves	(393)	(440)	0	0	0	(833)	0	0	0	0	0
New Borrowing	(4,365)	(3,529)	(2,223)	(2,398)	0	(12,515)	0	0	0	0	0
Total	**(14,714)**	**(13,890)**	**(12,494)**	**(12,951)**	**(10,459)**	**(64,508)**	**(58,143)**	**(69,432)**	**(57,677)**	**(75,181)**	**(66,962)**
Debt:											
HRA Debt at Year End	130,012	133,541	135,764	138,162	137,073		128,851	116,919	73,852	23,186	0
Debt Cap	140,275	140,275	140,275	140,275	140,275		140,275	140,275	140,275	140,275	140,275
Available Headroom	10,263	6,734	4,511	2,113	3,202		11,424	23,356	66,423	117,089	140,275

Scrutiny Panel			**Item 15**
27 January 2015			
Report of	**Assistant Chief Executive**	**Author**	**Steve Heath** ☏ **282389**
Title	**Treasury Management Strategy Statement**		
Wards affected	Not applicable		

This report presents the 2015/16 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 2015/16 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 2015/16 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, Minimum Revenue Provision Policy Statement and Annual Investment Strategy (TMSS) for 2015/16 is included as a background paper to this report. The follow paragraphs contain a summary of the strategy for 2015/16, 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
- the policy on use of external service providers.

3.2 The Council's Prudential and Treasury Indicators for 2015/16 through to 2017/18 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.

3.3 The Minimum Revenue Provision (MRP) Policy Statement for 2015/16 states that the historic debt liability will continue to be charged at 4%, 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 has been unchanged from a historically low 0.5% since March 2009. The current view from the Council's treasury advisers is that the Bank Rate is expected to remain unchanged until quarter 4 of 2015. **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. This approach is intended to be maintained during the year.

3.6 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 will only invest with institutions with the highest credit ratings, taking into account the views of all credit rating agencies and other market data when making investment decisions.
- The Council will use the creditworthiness service provided by Capita Asset Services, which combines data from credit rating agencies with credit default swaps and sovereign ratings.
- The Council will only use approved counterparties from countries with the highest credit rating of 'AAA', together with those from the UK.
- The suggested budgeted return on investments placed for periods up to 100 days during the year is 0.60%.
- The Council will now consider longer-term deals if attractive rates are available within the risk parameters set by the Council.

3.7 Investment instruments identified for use in 2015/16 are detailed in **Appendix B** of the TMSS. The investment limits shown focus solely on sort and long-term ratings to reflect the changes to Capita Asset Services' credit rating methodology detailed in the report. It should also 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.

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 2015/16.

6. Risk Management Implications

6.1 Risk Management is essential to effective treasury management. The Council's Treasury Management 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 2015/16

Treasury Management Strategy Statement
Minimum Revenue Provision Policy Statement and
Annual Investment Strategy
2015/16

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 receive and approve three main reports each year, which incorporate a variety of polices, estimates and actuals. These reports are all required to be reviewed by the Council's Scrutiny Panel.

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 the treasury strategy is meeting requirements or 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.

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 2015/16

1.10 The strategy for 2015/16 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
- 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 2015/16 – 2017/18

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	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Non-HRA	12,732	10,113	2,775	1,280	1,700
HRA	10,077	16,214	14,714	13,890	12,494
Total	**22,809**	**26,327**	**17,489**	**15,170**	**14,194**

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	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Total Expenditure	**22,809**	**26,327**	**17,489**	**15,170**	**14,194**
Financed by:					
Capital receipts	6,836	7,240	1,966	0	1,700
Capital grants	5,046	3,001	760	1,280	0
Reserves	6,164	7,590	5,592	5,846	5,514
Revenue	2,693	7,936	4,806	4,515	4,757
Finance leases	1,057	149	0	0	0
Net financing need	**1,013**	**411**	**4,365**	**3,529**	**2,223**

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 2014. The Council is asked to approve the CFR projections below:

£'000	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Capital Financing Requirement					
CFR – non housing	27,653	26,009	24,890	23,830	22,824
CFR - housing	124,577	125,647	130,012	133,541	135,764
Total CFR	**152,230**	**151,656**	**154,902**	**157,371**	**158,588**
Movement in CFR	966	(574)	3,246	2,469	1,217

Movement in CFR represented by					
Net financing need	1,013	411	4,365	3,529	2,223
Assets acquired under finance leases	1,057	149	0	0	0
Less MRP	1,104	1,134	1,119	1,060	1,006
Movement in CFR	**966**	**(574)**	**3,246**	**2,469**	**1,217**

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 follow the existing practice outlined in former CLG regulations (option 1). This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

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.

% Financing costs to net revenue stream	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Estimate	Estimate	Estimate	Estimate
Non-HRA	7.48%	7.72%	7.50%	7.50%	7.60%
HRA	18.88%	18.57%	18.26%	18.20%	18.10%

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.

£	2015/16	2016/17	2017/18
	Estimate	Estimate	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.

£	2015/16	2016/17	2017/18
	Estimate	Estimate	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 2014, 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	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
External Debt					
Borrowing	136,094	139,292	145,905	151,180	154,677
Other long-term liabilities	2,787	2,248	1,746	1,274	760
Gross debt at 31 March	**138,881**	**141,540**	**147,651**	**152,454**	**155,437**
CFR	152,230	151,656	154,902	157,371	158,588
Under / (over) borrowing	**13,349**	**10,116**	**7,251**	**4,917**	**3,151**
Investments at 31 Mar	34,764	34,353	29,988	26,459	24,236
Net Debt	**104,117**	**107,187**	**117,663**	**125,995**	**131,201**

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 2015/16 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	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Debt	139,292	145,905	151,180	154,677
Other long term liabilities	2,248	1,746	1,274	760
Total	**141,540**	**147,651**	**152,454**	**155,437**

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	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Debt	164,308	168,456	171,697	173,628
Other long term liabilities	2,248	1,746	1,274	760
Total	**166,556**	**170,202**	**172,971**	**174,388**

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	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
HRA debt cap	140,275	140,275	140,275	140,275
HRA CFR	125,647	130,012	133,541	135,764
HRA headroom	14,628	10,263	6,734	4,511

HRA Debt Ratios £'000	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
HRA debt	125,647	130,012	133,541	135,764
HRA revenues	29,985	30,512	31,082	31,769
Ratio of debt to revenues	4	4	4	4
Number of HRA dwellings	6,099	6,064	6,059	6,034
Debt per dwelling	21	21	22	22

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 a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Capita Asset Services central view.

Annual Average %	**Bank Rate %**	**PWLB Borrowing Rates % (incl. certainty rate adjustment)**		
		5 year	**25 year**	**50 year**
Dec-14	0.50%	2.00%	3.30%	3.30%
Mar-15	0.50%	2.20%	3.40%	3.40%
Jun-15	0.50%	2.20%	3.50%	3.50%
Sep-15	0.50%	2.30%	3.70%	3.70%
Dec-15	0.75%	2.50%	3.80%	3.80%
Mar-16	0.75%	2.60%	4.00%	4.00%
Jun-16	1.00%	2.80%	4.20%	4.20%
Sep-16	1.00%	2.90%	4.30%	4.30%
Dec-16	1.25%	3.00%	4.40%	4.40%
Mar-17	1.25%	3.20%	4.50%	4.50%
Jun-17	1.50%	3.30%	4.60%	4.60%
Sep-17	1.75%	3.40%	4.70%	4.70%
Dec-17	1.75%	3.50%	4.70%	4.70%
Mar-18	2.00%	3.60%	4.80%	4.80%

4.2 UK GDP growth surged during 2013 and the first half of 2014. Since then it appears to have subsided but still remains strong by UK standards and is expected to continue likewise into 2015 and 2016. There needs to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this recovery to become more firmly established. One drag on the economy has been that wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought CPI inflation down to a low of 1.0% in November, the lowest rate since September 2002. Inflation is expected to stay around or below 1.0% for the best part of a year; this will help improve consumer disposable income and so underpin economic growth during 2015. However, labour productivity needs to improve substantially to enable wage rates to increase and further support consumer disposable income and economic growth. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen early in 2015.

4.3 The US, the biggest world economy, has generated growth rates of 4.6% (annualised) in Q2 2014 and 5.0% in Q3. This is hugely promising for the outlook for strong growth going forwards and it very much looks as if the US is now firmly on the path of full recovery from the financial crisis of 2008. Consequently, it is now confidently expected that the US will be the first major western economy to start on central rate increases by mid-2015.

4.4 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Greece: the general election on 25 January 2015 is likely to bring a political party to power which is anti EU and anti-austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strengthening of anti EU and anti-austerity political parties throughout the EU is much more difficult to quantify;
- As for the Eurozone in general, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation, Middle East and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and prolonged very weak growth. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2015/16 and beyond;
- Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. The closing weeks of 2014 saw gilt yields dip to historically remarkably low levels after inflation plunged, a flight to quality from equities

(especially in the oil sector), and from the debt and equities of oil producing emerging market countries, and an increase in the likelihood that the ECB will commence quantitative easing (purchase of EZ government debt) in early 2015. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

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 relatively high.

5.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2015/16 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 a greater than expected 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 still lower than they will be in the next few years.

5.3 Any decisions will be reported to the Scrutiny Panel at the next available opportunity.

Treasury Management Limits on Activity

5.4 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.

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

Interest rate Exposures (£'000)	2015/16	2016/17	2017/18
Upper limit on fixed interest rates based on net debt	117,700	126,000	131,200
Upper limit on variable interest rates based on net debt	58,800	63,000	65,600

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

Policy on Borrowing in Advance of Need

5.6 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

5.7 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).

5.8 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.

5.9 Any rescheduling will be reported to the Scrutiny Panel at the earliest meeting following its action.

Municipal Bond Agency

5.10 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.

6 Annual Investment Strategy

Changes to credit rating methodology

6.1 The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". This process may commence during 2014/15 and / or 2015/16. The actual timing of the changes is still subject to discussion, but this does mean immediate changes to the credit methodology are required.

6.2 It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into ratings through the financial crisis. The eventual removal of implied sovereign support will only take place when the regulatory and economic environments have ensured that financial institutions are much stronger and less prone to failure in a financial crisis.

6.3 Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the future removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be in line with their respective Long Term ratings. As such, there is no point monitoring both Long Term and these "standalone" ratings.

6.4 Furthermore, Fitch has already begun assessing its Support ratings, with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon." With all institutions likely to drop to these levels, there is little to no differentiation to be had by assessing Support ratings.

6.5 As a result of these rating agency changes, the credit element of Capita Asset Services future methodology will focus solely on the Short and Long Term ratings of an institution. Rating Watch and Outlook information will continue to be assessed where it relates to these categories. This is the same process for Standard & Poor's that has always been taken, but a change to the use of Fitch and Moody's ratings. Furthermore, CDS prices will continue to be utilised as an overlay to ratings in the new methodology.

Investment Policy

6.6 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.

6.7 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.

6.8 Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

6.9 As with previous practice, ratings will not be the sole determinant of the quality of an institution and that 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.

6.10 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.

6.11 The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk in one counterparty or country. The intention of the strategy is to provide security of investment and minimisation of risk.

6.12 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.

6.13 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

6.14 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.

6.15 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

6.16 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.

6.17 Typically the minimum credit ratings criteria the Council will use is a Short Term rating (Fitch or equivalents) of F1, and a Long Term rating 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.

6.18 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.

- any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list.
- 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 weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

6.19 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, information on sovereign support for banks and the credit ratings of that supporting government.

Country limits

6.20 The Council will only use approved counterparties from countries with a minimum sovereign credit rating of AAA, 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.

Investment strategy

6.21 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).

6.22 The Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 4 of 2015. Bank Rate forecasts for financial year ends (March) are:

- 2015/ 2016 0.75%
- 2016/ 2017 1.25%
- 2017/ 2018 2.00%

6.23 There are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken, there could be an upside risk

6.24 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.

6.25 The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next eight years are as follows:

- 2015/16 0.60%
- 2016/17 1.25%
- 2017/18 1.75%
- 2018/19 2.25%
- 2019/20 2.75%
- 2020/21 3.00%
- 2021/22 3.25%
- 2022/23 3.25%
- Later years 3.50%

Investment treasury indicator and limit

6.26 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	2015/16	2016/17	2017/18
Max. principal sums invested > 364 days	5,000	5,000	5,000

End of year investment report

6.27 At the end of the financial year, the Council will report on its investment activity to the Scrutiny Panel as part of its Annual Treasury Report.

Interest Rate Forecasts Mar 2015 - Mar 2018

APPENDIX A

	Mar 2015	Jun 2015	Sep 2015	Dec 2015	Mar 2016	Jun 2016	Sep 2016	Dec 2016	Mar 2017	Jun 2017	Sep 2017	Dec 2017	Mar 2018
Capita Asset Services Interest Rate View													
Bank Rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
3 month LIBID	0.50%	0.50%	0.60%	0.80%	0.90%	1.10%	1.10%	1.30%	1.40%	2.50%	1.80%	1.90%	2.10%
6 month LIBID	0.70%	0.70%	0.80%	1.00%	1.10%	1.20%	1.30%	1.50%	1.60%	1.70%	2.00%	2.10%	2.30%
12 month LIBID	0.90%	1.00%	1.10%	1.30%	1.40%	1.50%	1.60%	1.80%	1.90%	2.00%	2.30%	2.40%	2.60%
5yr PWLB Rate	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
10yr PWLB Rate	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB Rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
50yr PWLB Rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Bank Rate													
Capita Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%					
5yr PWLB Rate													
Capita Asset Services	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
Capital Economics	2.20%	2.50%	2.70%	3.00%	3.10%	3.20%	3.30%	3.40%					
10yr PWLB Rate													
Capita Asset Services	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
Capital Economics	2.80%	3.05%	3.30%	3.55%	3.60%	3.65%	3.70%	3.80%					
25yr PWLB Rate													
Capita Asset Services	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Capital Economics	3.25%	3.45%	3.65%	3.85%	3.95%	4.05%	4.15%	4.25%					
50yr PWLB Rate													
Capita Asset Services	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Capital Economics	3.30%	3.50%	3.70%	3.90%	4.00%	4.10%	4.20%	4.30%					

ORGANISATION	Min. Credit Criteria		Maximum limit per institution	Maximum maturity period
	Short-Term	Long-Term		
Deposits with Banks and Building Societies (including unconditionally guaranteed subsidiaries)	Minimum F1+	AAA, AA+, AA,	£7.5m	As per colour band - see Section 6 of TMSS
	Minimum F1+	Minimum AA-	£5m	
	Minimum F1	A+, A	£2.5m	
UK nationalised / part nationalised banks	F1+		£7.5m	1 year
CDs or corporate bonds with Banks and Building Societies *	As per colour band		As above	As per colour band
UK Govt. Gilts	UK sovereign rating		£10m	1 year
UK Govt. Treasury Bills	UK sovereign rating		£10m	1 year
UK Local & Police Authorities			Unlimited	1 year
Debt Management Agency Deposit Facility			Unlimited	6 mths
Money Market Funds / Enhanced Money Market Funds	AAA		£10m	Liquid
Bonds issued by Multilateral Development Banks	UK sovereign rating		£3m	6 mths

Notes:
- Sovereign debt rating of AAA only + UK counterparties
- Country limit £10m
- Limit in all Building Societies £10m
- Limit of £20m in aggregate in non-specified investments

* Covered by UK Government (explicit) guarantee

Based on Lowest available rating

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