# Finance and Audit Scrutiny Panel

## Town Hall, Colchester
## 22 January 2013 at 6.00pm

The Finance and Audit Scrutiny Panel deals with the review of service areasand associated budgets, and monitors the financial performance of the Council.The panel scrutinises the Council's audit arrangements and risk management arrangements, including the annual audit letter and audit plans, and reviews Portfolio Holder 'Service' decisions referred to the Panel under the Call in procedure.

# Information for Members of the Public

## Access to information and meetings

You have the right to attend all meetings of the Council, its Committees and Cabinet. You also have the right to see the agenda, which is usually published 5 working days before the meeting, and minutes once they are published. Dates of the meetings are available at www.colchester.gov.uk or from Democratic Services.

## 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 meetings, with the exception of Standards Committee 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

## Private Sessions

Occasionally meetings will need to discuss issues in private. This can only happen on a limited range of issues, which are set by law. When a committee does so, you will be asked to leave the meeting.

## Mobile phones, pagers, cameras, audio recorders

Please ensure that all mobile phones and pagers are turned off or switched to silent before the meeting begins and note that photography or audio recording is not permitted.

## Access

There is wheelchair access to the Town Hall from St Runwald Street. There is an induction loop in all the meeting rooms. If you need help with reading or understanding this document please take it to Angel Court Council offices, High Street, Colchester or telephone (01206) 282222 or textphone 18001 followed by the full number that you wish to call and we will try to provide a reading service, translation or other formats you may need.

## Facilities

Toilets with lift access, if required, are located on each floor of the Town Hall. A vending machine selling hot and cold drinks is located on the ground floor.

## Evacuation Procedures

Evacuate the building using the nearest available exit. Make your way to the assembly area in the car park in St Runwald Street behind the Town Hall. Do not re-enter the building until the Town Hall staff advise you that it is safe to do so.

Colchester Borough Council, Angel Court, High Street, Colchester
telephone (01206) 282222 or textphone 18001 followed by the full number you wish to call
e-mail: democratic.services@colchester.gov.uk
**www.colchester.gov.uk**

## Terms of Reference

## Finance and Audit Scrutiny Panel

To review all existing service plans and associated budget provisions against options for alternative levels of service provision and the corporate policies of the Council, and make recommendations to the Cabinet

To have an overview of the Council's internal and external audit arrangements and risk management arrangements, in particular with regard to the annual audit plan, the audit work programme and progress reports, and to make recommendations to the Cabinet

To monitor the financial performance of the Council, and to make recommendations to the Cabinet in relation to financial outturns, revenue and capital expenditure monitors

To scrutinise the Audit Commission's annual audit letter

To scrutinise executive 'service' decisions made by Portfolio Holders and officers taking key decisions which have been made but not implemented referred to the Panel through the call-in procedure

# COLCHESTER BOROUGH COUNCIL
# FINANCE AND AUDIT SCRUTINY PANEL
# 22 January 2013 at 6:00pm

**Members**

| | | |
|---|---|---|
| Chairman | : | Councillor Dennis Willetts. |
| Deputy Chairman | : | Councillor Marcus Harrington.<br>Councillors Cyril Liddy, Jon Manning, Gerard Oxford, Ray Gamble, Glenn Granger, Scott Greenhill, Julia Havis and Theresa Higgins. |
| **Substitute Members** | : | All members of the Council who are not Cabinet members or members of this Panel. |

## Agenda - Part A

(open to the public including the media)

**Members of the public may wish to note that Agenda items 1 to 5 are normally brief and items 6 to 9 are standard items for which there may be no business to consider.**

**Pages**

### 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 off or to silent;
- 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 and to give reasons for the urgency.

### 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 judgment 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** **1 - 14**

To confirm as a correct record the minutes of the meeting held on 13 November 2012 and 20 November 2012.

**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. 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.***

**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. 2013-14 Revenue Budget** **15**

See report from the Head of Resource Management.

a. 2013/14 Generaal Fund Revenue Budget **16 - 55**

See report from the Head of Resource Management.

b. Housing Revenue Account Estimates 2013/14 **56 - 78**

See report from the Head of Strategic Policy and Regeneration.

c. Housing Investment Programme (HIP) 2013/14 **79 - 86**

See report from the Head of Strategic Policy and Regeneration.

**11. Treasury Management Investment Strategy** **87 - 105**

See report from the Head of Resource Management.

**12. Work Programme** **106 - 107**

See report from the Head of Corporate Management.

## 13. Exclusion of the public

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).

# FINANCE AND AUDIT SCRUTINY PANEL
# 13 NOVEMBER 2012

| | |
|---|---|
| *Present* :- | Councillor Dennis Willetts (Chairman)<br>Councillors Ray Gamble, Scott Greenhill, Marcus Harrington, Julia Havis, Theresa Higgins, Cyril Liddy, Jon Manning and Gerard Oxford |
| *Substitute Member* :- | Councillor Mark Cable for Councillor Glenn Granger |
| *Also in Attendance* :- | Councillor Martin Hunt<br>Councillor Paul Smith<br>Councillor Anne Turrell<br>Councillor Sue Lissimore<br>Councillor Will Quince |

## 24. Minutes

The minutes of the meeting held on the **16 October 2012** was confirmed as a correct record.

## 25. Have Your Say!

Councillor Quince addressed the Panel explaining that he was going to speak about Waste and recycling collection, but in broader and more strategic terms than would be for the next item, the review of Four Day Recycling and Waste Collection.

Councillor Quince said one of the largest issues for ward councillors was that of waste and recycling collection, identifying issues such as recycling bins overflowing on a regular basis, clear waste sacks and missed collections. Councillor Quince said this was against a backdrop of substandard waste and recycling collections rates in Colchester, whose performance against other districts in the County had dropped from being one of the top four a few years ago to 9$^{th}$ position at present. Whilst Councillor Quince acknowledged that waste and recycling rates had improved by 1% recently, he didn't think this was good enough. In 2008 the Administration had promised 60% waste and recycling collection rates by 2011, but by 2012 Colchester's performance was stagnating at just above 40%. On a positive note Councillor Quince welcomed the food waste collection initiative but questioned if it had been appropriate to undertake such a trial.

Looking forward, Councillor Quince said rather than penalise residents for not recycling the right way he would like to see residents encouraged to recycle the right way through some form of incentive. Councillor Quince asked the Portfolio Holder for Street and Waste Services to consider research by Colchester into the viability of schemes devised to incentivise waste and recycling through for example, a system of vouchers or discounts.

Councillor Willetts said whilst the comments from Councillor Quince were related to the next item, the points raised were more about the strategic direction of the Council in respect of Waste and Recycling Collections rather than the financial and operational performance of the Four Day Recycling and Waste Collection service, but was sure the Leader and Portfolio Holder will respond to the requests as and when appropriate.

In response to Councillor Manning, Councillor Quince said the need to improve waste and recycling collection rates and also reduce waste to landfill are of equal importance. The greater the level of recycling will decrease the level of landfill so both aspects of waste collection go hand in hand.

## 26. Four Day Recycling and Waste Collection

Councillor Hunt, Portfolio Holder for Street and Waste Services and Mr. Matthew Young, Head of Street Services attended the meeting.

### Presentation

Mr. Young presented the report detailing the progress on the four day operation of four-day recycling and waste collection since the move to Tuesday to Friday collections, including the Service Benefits, Customer Benefits, Staff Views and statistical data on missed collections and other operational issues.

Mr. Young clarified that whilst the new collection routes had seen a 6% reduction in fuel usage, equating to 12,000 litres of fuel saving per annum, this saving had enabled the service to absorb the increase in fuel prices without increasing their overall costs.

With regards to the new refuse collection fleet of vehicles, Mr. Young said the vehicles are performing well over the four-day collection period, and this enables the fleet to be scheduled for servicing on the 5th day.

Mr. Young said in general, customers have welcomed the new arrangements, with more consistency and certainty in the collections. Mr. Young said staff do enjoy the four-day week. Whilst the 9-hour days are longer, there remains the incentive to task and finish which they prefer, and it provides them with three days a week off. As far as he was aware, Mr. Young said there was no dissent with a 100% acceptance of the new arrangements.

Mr. Young provided more missed-collection data to the Panel, with September registering 647 and October 449. The trend over this data period of 7 months was continuous improvement. The performance target now being set for missed collections was 78 waste collections and 101 recycling collections per week, equating to two missed collections per crew per week, 0.035% of the overall annual collections. Whilst the Council would prefer no missed collections, the target set was a tiny fraction of the collections, currently at a level of 250,000 per week. Councillor Hunt said the intention is to bring the level of missed collections down to previous levels under the old collection system, and this is achievable. Later in the discussions, Councillors G. Oxford, Gamble and Manning confirmed the number of missed collections in the Highwoods Ward, St Johns Ward and Wivenhoe Ward was extremely low with very few complaints and that the service being provided was excellent.

Mr. Young confirmed to the Panel (following a request at the previous week's briefing) that the cost of the missed-collection service was £2,500 per month, for the costs of wages, vehicle and fuel. The person employed on this work was also responsible for completing void property collections and the tidying of the depot yard.

## Have Your Say

Councillor Lissimore addressed the Panel requesting further information to that provided in the report, suggesting for example, paragraph 4.5 of the report should be providing a breakdown of the overall wages costs including overtime.

Councillor Lissimore, whilst understanding the move to a four-day collection week, said these changes, and especially when there are problems with the collection service, do cause confusion and anxiety to elderly and vulnerable residents. Councillor Lissimore said it was incumbent on the Council to be sympathetic to these residents during these times.

Councillor Lissimore posed questions to the Portfolio Holder for Street Services. Would the improved service including new fleet vehicles, reduce the affects created by broken-down vehicles, and reduce the need for additional crews to help out when there is larger recycling tonnages collected, e.g. green waste. Councillor Lissimore also asked whether the missed bins rates set-out in the report included those properties where the collection was rolled-over from a Friday to a Saturday.

## General Discussion

Mr. Young confirmed that the anticipated savings of £180k from the fundamental service review had been delivered, and represented the loss of one refuse collection vehicle and crew. Mr. Young confirmed to Councillor Willetts that the £180k saving and the savings on fuel costs are all reflected in the Service Budget.

Also in response to Councillor Willetts, Mr. Young said the increase in motor vehicle insurance claims and subsequent knock-on affect on premiums was not reflected in the Service Budget and management had set-up a working group to implement an action plan designed to reduce the number of overall accidents. Mr. Young confirmed that the increase in claims was not linked to the four-day weekly collection period or the new refuse collection vehicles, but there had been a gradual increase in accidents over the last 3-4 years. Mr. Young said the cost of the new fleet will be reflected in the financial monitoring report submitted to the Panel on a regular basis.

Councillor Hunt responded to Councillor Manning, confirming the validity of recent newspaper articles that stated four-day weekly collections had increased the number of reports of vermin, but saying this was a national report not particularly related to Colchester.

Mr. Young confirmed to Councillor T. Higgins that crews do experience an increase in collections at the end of term times in areas with a high volume of students, and the increase was mainly in residue waste. Mr. Young confirmed that the effected Zone Teams do work closely with the University to minimise the impact and the budgets do have resources built-in to cope with the peaks in workload.

In respect to equality and diversity, Mr. Young explained that Street Services do work closely with Mr. Andrew Harley, Equality and Safeguarding Coordinator and local equality and diversity groups to ensure information is provided appropriately to all groups and individuals.

Councillor T. Higgins was assured that all Zone Team operatives are instructed that when 'pulling-out' black sacks onto the pavement for collection they avoid blocking pavements, alleys and roadways. Councillor Oxford said 'pulling-out' might not inhibit some residents from leaving out excessive waste with no recycling waste, whereas individual collections might jolt residents into a positive reaction to reduce waste and increase recycling. It was agreed this was about education, and Mr. Young confirmed that Zonal teams are informed or are aware of such properties, and they do visit these residents to inform and educate.

Mr. Young confirmed that 'plastic recycling collections' was about to commence in Colchester for blocks of flats. With regards to flats, Mr. Young also said they are investigating ways of collecting food waste from flats as part of the food waste trial.

Councillor Hunt said the top six recycling districts in Essex all used wheelie bins to collect waste, and this was the obvious way to dramatically increase recycling, but this investment would not be happening whilst he remained the Portfolio Holder.

*RESOLVED* that the Panel;

i) Thanked the Portfolio Holder and Head of Service for attending the meeting, presenting the report and responding to questions from the Panel.

ii) Noted the progress of the operation of four-day recycling and waste collections.

## 27. Business Continuity Annual Report

Mrs. Hayley McGrath, Risk and Resilience Manager presented the report on the annual review of Business Continuity.

Business continuity is an integral part of the risk management process and the Council has two duties relating to business continuity, to be able to carry on providing its own services in the event of a disruption, and to provide advice and guidance relating to business continuity to local businesses and voluntary organisations.

Mrs. McGrath said The Business Continuity Strategy has been updated for 2012/13, and the revised Strategy was attached as appendix 1 to the report. It is considered that the strategy continues to meet the needs of the organisation and therefore there are no fundamental changes to the strategy or the business continuity process.

In regards to developing business continuity in 2012/13, this will include: i) Testing individual service plans, including working through scenarios with group management teams to ensure that their plans contain the relevant information for their services; ii) Implementing an education programme so that all staff understand the business continuity process (including a comprehensive on-line training programme at officer and manager level; and iii) Reviewing the ‘specific event’ plans including the Rowan House and major absence plans.

In response to Councillor Willetts and the testing of individual service plans and the several near misses in the last eighteen months (web host provider and server room issues), despite an excellent strategy, Mrs. McGrath said the strategy will not avoid issues from arising, but enables management to determine how we respond to and manage these issues.

Mrs. Hedges, Executive Director said Business Continuity is about planning for eventualities and is inextricably linked with Risk Management, the next report on the agenda. IT (Information Technology) is an integral part of the way the Council does business and as such is now a ‘high risk’ area of work. In respect of the first of the two issues mentioned, the web host provider went into administration and the Council responded by introducing transitional arrangements, but at no time was the web site presence lost. As a result of this issue procedures around credit worthiness have been strengthened. The second issue concerning the Server Room was an increasing risk to resilience due to its ageing condition, but there are robust plans in place to address this issue, noted in the Risk Management Strategy. Mrs. Hedges said Members will be kept in the loop in regards to progress on the work that had already started.

Responding to Councillor Havis, Mrs. Hedges explained that the recent issue in Angel Court was an example where the Business Continuity Plan did come into play. The building was evacuated when burning smells were identified and the Fire Service attended. This was a minor issue, but alternative buildings to work-in and flexible working arrangements enabled staff to move to other locations and continue their work.

*RESOLVED* that the Panel;

i) Considered and noted the business continuity work undertaken during the reporting period.

ii) Considered and commented on the review of the business continuity strategy.

iii) Considered and noted the intended work plan for 2012-13.

## 28. Risk Management review April - September 2012

Mrs. McGrath presented the report on the half yearly Risk Management progress report.

The Risk Management Strategy, which forms part of the policy framework, identifies the Finance and Audit Scrutiny Panel as being responsible for reviewing the effectiveness of the risk management process and reporting critical items to the Cabinet as necessary. Six monthly progress reports, detailing work undertaken and current issues are provided to assist with this responsibility.

In respect of the key messages Mrs. McGrath explained that there has been an increase in the number of motor vehicle insurance claims, which has resulted in additional insurance premiums being charged. The causes of these incidents have been reviewed and action is being taken to reduce claims. Also, the key risk for quarters 1 & 2 continued to be the potential impact of future central government decisions to reduce public funding, including that of partners.

As well as the above, Mrs. McGrath said the work undertaken during the reporting period included i) Updating the risk strategies and registers for both The North Essex Parking Partnership and the Colchester and Ipswich Joint Museum Service; ii) The Cabinet and Full Council had agreed the revised risk strategy and the policy framework has been updated accordingly, iii) Following the migration of the website and the intranet, work has been undertaken to review and update the electronic information relating to risk management, and iv) Work to strengthen the anti-fraud and corruption processes has continued, including working with the National Anti Fraud Network to align risk and fraud issues, developing the Ethical Governance arrangements and looking at how the Welfare Reforms may impact on fraud investigation issues.

In response to Councillor Willetts, Mrs. McGrath said the risk matrix shows high risks that had not moved down in the level of risk, but had got more spread out within the high-risk area due to a change in probability or impact. Mrs. McGrath said this was not because scoring had become harder, but that officers had become more aggressive in dealing with the risks. An example was given, namely the economy, a high risk that the Council did not have a lot of control over, but there was still a need to mitigate against. Mrs. Hedges said risks 4d (reduced public funding) and 6e (ICT resilience) will remain high-risk for some time, whilst 3e (staff motivation) was to some extent within our control, and some further work on staff motivation is currently in progress.

In response to Councillor G. Oxford, Mrs. McGrath said in respect of risk 1c The Council is unable to influence changes to the local economy, the risk increased because of the upgrading of probability in recognition of how important the Council is to the local economy, though it was recognised that external factors are outside the Council's influence. Mrs. Hedges, in respect of the risk of decline in staff motivation due to the impact of FSR (fundamental service reviews), explained to Councillor Oxford that the Council had a loyal and committed workforce, but recognised there are pockets of people who do not recognise the change and there are staff who feel uncertain about the future. The FSR process does continue, and staff will need to apply for new jobs, but where officers leave the authority in many cases the vacancy remains unfilled pending the outcomes of the future recruiting process.

Mrs. McGrath explained to Councillor Cable that reports in the past had shown previous risk assessments with the current assessment for the purpose of comparison. The assessments do not move greatly within the year and it is a matter of how much information is needed, but comparable data could be provided if requested.

*RESOLVED* that the Panel;

i) Commented on and noted the work undertaken during the reporting period.

ii) Noted the Corporate Strategic Risk Register.

## 29. Work Programme

In response to Councillor Higgins who suggested the Panel should review the financial and staffing impact of the temporary closure of The Castle, Councillor Willetts suggested members should see what the Portfolio Holder is proposing to do at an executive level and then decide whether scrutinising the decision was appropriate.

Mr. Robert Judd, Democratic Services Officer confirmed that the outstanding item on the financial impact of a new Park and Ride Scheme, would be reviewed at the meeting on 26 February 2013.

*RESOLVED* that the Panel considered and noted the revised Work Programme.

# FINANCE AND AUDIT SCRUTINY PANEL
# 20 NOVEMBER 2012

| | |
|---|---|
| *Present* :- | Councillor Dennis Willetts (Chairman)<br>Councillors Glenn Granger, Scott Greenhill, Marcus Harrington, Julia Havis, Theresa Higgins, Cyril Liddy, Jon Manning and Gerard Oxford |
| *Substitute Member* :- | Councillor Colin Mudie for Councillor Ray Gamble |
| *Also in Attendance* :- | Councillor Paul Smith |

## 30. Items requested by members of the Panel and other Members

Councillor Granger requested the Panel to consider a review of the income from selling recycling materials.

Councillor Granger asked that such a review would consider how the Council is performing, the current revenue for this year and the forecast revenue for 2013-14, and the volume of recycling by material type for this year and previous years for comparison, and the assumptions for 2013-14.

Councillor Smith, Portfolio Holder for Business and Resources said this work has been subject to a review in the past when some of the issues were the separation of plastic and cardboard. Recycling remained a volatile market, but Councillor Smith said there was no reason why this area of work should not be scrutinised.

Councillor Willetts and Manning agreed that officers should provide a briefing note to the Chairman and Group Spokespersons at the next Panel briefing, to decide if it warrants a detailed scoping report to include the information requested plus graphs showing trends, to a future Panel meeting.

## 31. Interim Annual Governance Statement

Mrs. Hayley McGrath, Risk and Resilience Manager presented the report 'Interim Annual Governance Statement'.

Mrs. McGrath explained that the Annual Governance Statement for 2011-12 had been reported to the Panel in June, plus the annual review of Internal Control Arrangements, and that as part of this process an annual action plan for 2012-13 was produced.

The Panel were asked to consider the progress of the work undertaken to implement the current Annual Governance Statement Action Plan.

The key messages within the report were explained these being that there has been progress against all of the issues identified in the action plan and the audit of the final accounts 2011/12 did not raise any concerns with the Annual Governance Statement or the action plan, and accordingly the statement was published for inspection.

The issues that were included in the action plan had been discussed with the relevant lead officers, and the action plan has been updated to include the progress. This was included as an appendix to the report. The second key message was that the Council's joint services, Colchester & Ipswich Museum Service and The Parking Partnership had also issued governance statements. Whilst these are reported to their respective committees, a copy of the statements had also been included as an appendix to the report.

In response to Councillor Willetts, Mrs. McGrath said the new bailiff contract from 2013 will bring together into one contract all the separate contracts currently held with the Council. Separate contracts evolved over the years, for example, the North Essex Parking Partnership, who came into being in 2011 entered into a separate bailiff contract whilst other bailiff contracts were already in existence.

In response to Councillor Harrington, Mrs. McGrath said that whilst the review of the new Parking Partnership had raised significant internal control issues, and the twelve recommendations was above average, not all of these are high level, with the majority at level 2. Given the need to merge processes from all seven Councils within the partnership identifying areas for improvement was inevitable, but the process is being managed with many of the recommendations already implemented. Mrs. McGrath also said no issues had been raised as part of the governance review, so quality wasn't considered, however if it is an issue it will be included in the next annual governance statement process.

*RESOLVED* that the Panel considered and noted the work undertaken to implement the current Annual Governance Statement Action Plan.

## 32. Internal Audit Monitor - April - September 2012

Ms. Elfreda Walker, Finance Manager presented the report 'Half Year Internal Audit Assurance Report 2012-13'.

The key messages within the report were explained, that the Council has continued to provide an effective internal audit service during the first half of the 2012/13 financial year, that 5 priority 1, 32 priority 2 and 8 priority 3 recommendations had been raised and all these had been accepted by management. Mrs. Walker said there continues to be good progress made in implementing and verifying outstanding recommendations.

Ms. Walker explained the maintenance of an effective internal audit function is a key part of the Council's governance framework, and that the Council has a strategic internal audit work programme covering the period 2011/12 – 2013/14, and this has been approved by SMT and members. The programme showed the work required to enable internal audit to provide a reasonable level of assurance in internal control, and meets the needs of our external auditors.

The proposed 2013-14 work programme (as shown in appendix 1 of the report) has been approved by the Performance Management Board and provided a workload of 381 audit days, increasing from the 360 audit days for 2012-13.

With regards to the use of audit resources, Ms. Walker confirmed that 46% of the work programme was delivered between April – September 2012, in line with the profiled plan. A total of fourteen audits have been completed in this timeframe and the assurance rating remained the same in 70% of the systems audited. Officers remained confident that the work programme will be completed by the end of the year.

The report noted that during the period, internal audit have been monitoring 209 recommendations, and by the end of the period 45 recommendations (22%) had been implemented and verified, 47 (22%) had been implemented and were awaiting verification from internal audit, 112 (54%) were not due and 5 (2%) were overdue. Progress in implementing overdue recommendations will continue to be closely monitored with priority being given to the recommendations awarded a higher priority rating.

Ms. Walker concluded by saying the key performance indicators showed that the internal audit provider is meeting the majority of the standards set.

Ms. Walker confirmed to Councillor G. Oxford that the number of audit days in the 2013-14 work programme has been increased by 21, and this was considered sufficient to meet demand.

In respect to the Housing & Council Tax Benefit and the NNDR reviews, Ms. Walker said the days have been increased due to the significant legislative changes happening in 2013-14. In addition, IT audit work will also be carried out in these areas and the total number of IT audit days is shown in the work programme. It was however sressed that the IT reviews to be completed has still to be finalised.

In response to Councillor Harrington, Ms. Walker said there are no concerns regarding the Parking Partnership, that despite the audit receiving 2 priority 1 recommendations, and 2 priority 2 recommendations, the recommendations were not overdue, and as previously mentioned the process is being managed, and the audit recommendations are being implemented.

In response to Councillor Willetts and with regard to the Parking Partnership audit and the recommendation to consider the need for an alternative officer to reconcile Penalty Charge Notice payments in the absence of the service accountant, Ms. Walker said policies and procedures are now in place to pick up this work in the officer's absence. As part of the internal auditing process, the auditors do look at business continuity issues when key posts need covering during periods of absence. Councillor T. Higgins was reassured because continuity avoided people waiting for a response for weeks while an officer is on leave. Mrs. Hedges, Executive Director explained that there are some areas of work where the Council only have one person / expert, so there will inevitably be times when this person is on leave. To address this, and as part of the Fundamental Service Review of Customer Contact, process journeys are being mapped and documented with a view to helping towards simplifying processes and covering work during officer's absence.

Responding to Councillor Granger, Mrs. Hedges said with respect to the Data Protection audit, the key outcomes underplayed where the authority is on data protection. The overarching Data Protection Structure is underpinned by the appropriate procedures, to be strengthened as a result of the audit. Any data protection breaches are reported directly to Mrs. Hedges.

*RESOLVED* that the Panel commented on and noted the internal audit activity for the period April – September 2012, the performance of internal audit by reference to national best practice benchmarks and the proposed 2013/14 internal audit work programme

## 33. Financial Monitoring report - April - September 2012

**Councillor Havis declared a non-pecuniary interest in the following item (in respect of being a Director of the Mercury Theatre) pursuant to the provisions of Meetings General Procedure Rule 7(5);**

**Financial Monitoring Report – April to September 2012**

Mr. Sean Plummer, Finance Manager presented the report 'Financial Monitor – April to September 2012'.

Mr. Plummer explained that the projected outturn for the General Fund is currently been forecasted as a net overspend of £83k and does exclude the risk factor allowance of £285k.

With regards to service budgets, Mr. Plummer said the forecast outturn for all service budgets shows a net forecast overspend of £421k, with a breakdown detailed in appendix C of the report.

Mr. Plummer said the budget includes a number of corporate and technical budget areas such as net interest earnings, the provision to repay debt, pension costs and some non service specific grants, and currently there is a total net underspend of £338k in these areas. The main reason for the position is in respect of the interest budget where costs of borrowing are expected to be lower due to timing of capital schemes, funding decisions and the current strategy.

In respect of the Housing Revenue Account the Council has received £168k more income at the end of September 2012. This has primarily arisen due to less rental income lost through void dwellings than anticipated, and more income from Tenant and Leaseholder service charges. The budget also assumed a loss of garage rental income from the redevelopment of some sites. Given these have not been demolished yet, there is more garage rental income to date than anticipated. Mr. Plummer said the Housing Revenue Account forecast outturn position is currently showing a £150k underspend.

Mr. Plummer responded to Councillor Willetts to explain that in respect of net interest earnings there had been variances and shortfalls in the last 2 years, but in 2012-13 this had shifted the other way. The Council takes a prudent view with an ongoing strategy of internal borrowing on a short-term basis and in the knowledge that if external rates become advantageous the Council can take advantage of this.

In respect to the New Burdens Grant, Mr. Plummer explained that if this money is not used, it is not returned. That said it is possible the Community Right to Challenge will incur costs, though at this stage no additional costs had been identified.

In respect of the Housing Revenue Account, and more specifically the £307k underspend on Repairs and Maintenance, Mr. Plummer explained to Councillor T. Higgins that what is reported is at a point in time, so at this stage of accounting there will always be variances. Whilst this particular underspend suggested spending on Repairs and Maintenance was below budget, even though Councillors were hearing anecdotally that some residents are experiencing problems in getting repairs and maintenance work completed, it may be the case that this work is in-hand and it was expected that this year's spending will be on-budget. Mr. Plummer agreed to provide Panel Member with a more detailed breakdown of the spending on repairs and maintenance.

Councillor Paul Smith, Portfolio Holder for Business and Resources said Cabinet Members are aware of an increase in complaints in respect of repairs and maintenance and this was of some concern to Councillor Bourne. There does seem to be a bottleneck as funds are available for this work.

Councillor Manning suggested a simplified breakdown of the Housing Revenue Account figures, including details of money spent against budget on repairs and maintenance should be presented to the Panel at the meeting on 26 February 2013.

Mr. Plummer responded to Councillor Harrington saying the net forecast variance to date was for the first six months of 2012-13, and showed an overspend of £421k, due to a reduction in income of £740k mainly from fees and charges. Mr. Plummer said the middle column of Appendix C 'Income Variance' provided a breakdown of individual variances.

*RESOLVED* that the Panel;

i) Noted the financial performance of General Fund Services and the Housing Revenue Account in the first six months of 2012-13.

ii) Requested a simplified breakdown of the Housing Revenue Account figures, including details of money spent against budget on repairs and maintenance should be presented to the Panel at the meeting on 26 February 2013.

## 34. Capital Expenditure Monitor

Mr. Steve Heath, Finance Manager presented the report 'Capital Expenditure Monitor 2012-13 – Quarter 2'.

Mr. Heath referred members to the appendix to the report, which provided progress on all capital programmes for the first six months of 2012-13. The format of the appendix had been changed to provide more detailed profiling of capital schemes.

Mr. Heath explained that the Capital Programme has increased by £987.5k since the previous report, due to new funding including £434k grant funding for Mandatory Disabled Facilities Grants, along with further contributions from other external parties and Section 106 monies. The Capital Programme now stands at £26.7 million.

Following a request at the previous review it was explained that the sources of internal funding are as follows, Capital Receipts 24.41%, Borrowing 13.51%, Revenue Contributions 1.83% and others 10.37%. The sources of external funding was Grants 45.24%, EU 0.43%, Section 106 2.97% and others 1.24%.

Forecast spending for 2012/13 stood at £19.2 million, with the remainder of the programme planned for 2013/14 and beyond, and the forecast net overspend on the capital programme was £22.1k.

In response to Councillor T. Higgins, Mr. Heath said the Town Centre Station project had been delayed, but was still expected to be completed in 2012-13, and officers said there was a possibility of the project finishing inside 2012. Mr. Heath said an update on progress will be reported back to the Panel.

In response to Councillor Mudie, Mr. Heath said that he would obtain more information for the panel regarding the Abberton Church extension scheme.

*RESOLVED* that the Panel noted the level of capital spending during 2012-13 and forecasts for future years.

## 35. Certification of Claims and Returns 2011-12

Mr. Heath presented the report 'Certification of Claims and Returns 2011-12'.

The report summarises the outcomes of the Auditor's certification work on the Council's claims and returns for 2011/12 and includes agreed actions relating to recommendations arising from the Auditor's work. The main focus of the report was on the National Non-Domestic Rates return and the Housing and Council Tax Benefit claim, and the one qualification letter relating to the £1,826 difference in reconciliation of the rent allowances in the claim form and the benefit granted, out of a total claim of £64m.

Ms. Debbie Hanson, Officer of the Audit Commission responded to Councillor Manning, explaining that the simple errors mentioned arise from reconciliations and had in the main been errors when transposing figures from working papers. The errors can lead to over / under payments and can effect the overall grant claim, though in general the performance was very good.

*RESOLVED* that the Panel commented on and noted the contents of the 2011/12 Certification of Claims and Returns report from the Audit Commission.

## 36. Treasury Management - Half Yearly review

Mr. Heath presented the report 'Treasury Management Strategy Statement, Mid Year Review 2012-13'.

The report provided details of the activities and performance relating to treasury management for the first six months of 2012/13.

Mr. Heath explained that the report showed that activities and performance at the half-year stage are moving along in line with the strategy. Coupled with this, Mr. Heath said the latest economic forecast shows that the base-rate is not likely to increase until 2015. With no deviation from the strategy during this year and satisfied the strategy is fit for purpose, Mr. Heath confirmed no change for the remainder of the year.

Mr. Heath said that in regard to investments and the Icelandic monies, it was expected that approximately 50% of the investment has so far been return, which is ahead of the projected profile, with the Council still expecting to receive a 100% return in due course.

Mr. Heath confirmed to Councillor Manning that the Council did not have any direct exposure to the Euro zone.

In response to Councillor Harrington, Mr. Heath said the Economic Background (paragraph 4) was information mainly gained from the Council's treasury advisors. Whilst it was accepted that some areas of the economy are improving, the sentiment within the text supported the advisors view of the risks that remain within the economy, which in turn informs the approved Treasury Strategy. Councillor Smith said there was a degree of pessimism in the report, though it was broadly understood that the forecast for economic growth until 2015 remained weak.

RESOLVED that the Panel noted the activities and performance relating to treasury management for the first six months of 2012/13.

## 37. Work Programme

*RESOLVED* that the Panel noted the current Work Programme.

COLCHESTER

# Finance and Audit Scrutiny Panel

**Item**
**10**

**22 January 2013**

| | | | |
|---|---|---|---|
| **Report of** | **Head of Corporate Management** | **Author** | **Robert Judd**<br>**Tel. 282274** |
| **Title** | **2013/14 Budget Reports** | | |
| **Wards affected** | Not applicable | | |

**This report provides an update on the 2013/14 General Fund Revenue Budget, Capital Programme and Medium Term Financial Forecast**

## 1. Action Required

1.1 To review and note the attached Cabinet reports on:-

- The 2013/14 Revenue Budget, Capital Programme and Medium Term Financial Forecast
- Housing Revenue Account Estimates 2013/14
- Housing Investment Programme (HIP) 2013/14
- Treasury Management Strategy 2013/14 (See report under agenda item 11)

that forms the decision(s) to be taken by the Cabinet on the 23 January 2013. The Panel may refer any comments or concerns to tomorrow's Cabinet meeting for further consideration.

## 2. Reason for Action

2.1. The attached four 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 concerns or points for further consideration back to the Cabinet prior to the decision being taken.

| | | | |
|---|---|---|---|
| | **Cabinet** | | **Item** |
| | **23 January 2013** | | |
| **Report of** | **Head of Resource Management** | **Author** | **Sean Plummer** ☏ **282347** |
| **Title** | **2013/14 General Fund Revenue Budget, Capital Programme and Medium Term Financial Forecast** | | |
| **Wards affected** | n/a | | |

**This report requests Cabinet to recommend to Council:**
- **The 2013/14 General Fund Revenue Budget**
- **Colchester's element of the Council Tax for 2013/14**
- **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 an underspend in the region of £250k (paragraph 3.4.).

1.2 To approve the cost pressures, growth items, savings and increased income options identified during the budget forecast process as set out at Appendices B, C and D.

1.3 To consider and recommend to Council the 2013/14 Revenue Budget requirement of £23,051k (paragraph 6.11) and the underlying detailed budgets set out in summary at Appendix E and Background Papers.

1.4 To agree that Revenue Balances for the financial year 2013/14 be set at a minimum of £1,800k and that £750k of balances be applied to finance items in the 2013/14 revenue budget.

1.5 To note the provisional Finance Settlement figures set out in Section 7 including the start up figures for the new business rates retention scheme and the arrangements for completion of the required return of estimated business rates income as set out at paragraph 7.19.

1.6 To agree the following releases (paragraph 10.6):-

- £200k from the Capital Expenditure Reserve in 2013/14 to meet costs including the community stadium.
- £30k from the S106 monitoring reserve
- £102k from the Pensions Reserve

1.7 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.

1.8 To agree and recommend to Council that Colchester's element of the Council Tax for 2013/14 be set at £178.65 for Band D properties which is a 1.95% increase (paragraph 12.2).

1.9 To note that the formal resolution from Cabinet to Council will include the Parish, Police, Fire and County Council elements and any change arising from the formal Finance Settlement announcement in early February. This will be prepared in consultation with the Leader of the Council.

1.10 To note the Medium Term Financial Forecast for the financial years 2013/14 to 2016/17.

1.11 To note the position on the Capital Programme shown at section 14 and agree:-
- the releases set out at paragragh 14.6.
- to recommend to Council that the refurbishment of the lift in the Lion Walk Activity Centre is added to the Capital Programme.

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

1.13. To approve and recommend to Council the 2013/14 Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy as set out in the background paper at Appendix I.

## 2. Background Information and Summary

2.1 The 2013/14 Revenue Budget and the Capital Programme have been prepared in accordance with a process and timetable agreed at Cabinet and endorsed by the Strategic Overview and Scrutiny Panel (Appendix A).

2.2. The Revenue Budget for 2013/14 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 and the ongoing difficult economic background. Every effort has been made to produce a balanced budget that includes a high level of savings and investment in key services with an increase in Council Tax of 1.95%. 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
- making decisions on budget changes where necessary

2.3. Core Government funding for 2013/14 is being reduced by £727k. In total since 2011/12 this funding has now been reduced by £3.3m with a further provisional reduction of £1.2m announced for 2014/15.

2.4. The budget includes savings or additional income of £1.8m. This compares to £1.7m included within the 12/13 budget. The majority of savings are based on proposals to work more efficiently and to maximise opportunities to increase income.

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 further proposals recently agreed in respect of the Universal Customer Contact FSR (UCC FSR) the scope to find further savings to bridge remaining budget gaps without reductions in service levels is reducing.

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 bring new financial risks for the Council to consider for 2013/14 and the MTFF. The budget includes consideration of these issues and recommends steps to manage the risks by increasing the recommended level of balances.

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 2013/14 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 Finance and Audit Scrutiny Panel (FASP). 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 an underspend in the region of £250k. The 2012/13 budget included c£1.7m of savings and increased income and as has been reported during the year these have largely been achieved. A risk factor allowance of £285k was added to the 2012/13 budget and as this is reflected in the forecast outturn it shows that broadly the outturn is expected to be delivered within the budget and that the risk factor allowance is the reason for the net underspend. As shown later in this report the risk factor is being removed from the 2013/14 budget and therefore the underspend this year has been reflected in the 2013/14 budget.

3.3. There remain some outstanding risks to the forecast and the position continues to be monitored and FASP on 26 February 2013 will receive a report setting out a detailed position.

3.4 **Cabinet is asked to note that the forecast outturn position for the current year is anticipated to be an underspend of £250k and that the position will continue to be monitored.**

## 4. 2013/14 Revenue Cost Pressures

4.1 Appendix B sets out revenue cost pressures, over the 2012/13 base, of £2.12m which have been identified during the budget process. This includes an inflation allowance and the impact of reduced income.

4.2 The cost pressures have been mostly considered by Cabinet. However there are a number of changes including an increase next year in fleet costs and a number of other areas where income targets have been reduced. These changes reflect work carried out to review budget variances in 12/13 and to assess the extent to which this may continue into 13/14.

4.3 **Cabinet is asked to approve inclusion within the 2013/14 Revenue Budget of the cost pressures set out at Appendix B.**

## 5. 2013/14 Growth Items

5.1. Appendix C sets out revenue growth items totalling £1.415m which are recommended for inclusion in the budget. A number of these have been reported during the budget process however scope has been delivered within the budget to fund investment in services.

5.2. The separate report on this agenda sets out a review of the Food Waste trials and details of the grant received from the Weekly Collection Support Fund. An assessment has been made as to the use of the grant to offset the planned investment which has reduced the net investment in services to £565k.

5.3 **Cabinet is asked to approve inclusion within the 2013/14 Revenue Budget of the growth items shown at Appendix C.**

## 6. 2013/14 Revenue Saving / Increased Income

6.1. Appendix D sets out savings / increased income totalling £1.793m.

6.2. This level of savings and increased income is more than identified for the 12/13 budget and remains a significant sum. All proposals are set out within the appendix.

6.3. As with previous years there are likely to be one-off costs required to deliver some of the budget savings. A sum of £0.5m has therefore been allocated and it is proposed that this is funded from balances.

6.4. Within any year there will be risks attached to the delivery of proposed budget savings. In the current year a savings risk factor of £285k was included in the budget following an assessment of the level of risk. This is unlikely to be required this year and it is not proposed to make a specific allowance in the 2013/14 revenue budget.

*Technical Items / Adjustments*

6.5. As part of the Finance Settlement the grant the Council receives in respect of homelessness prevention has been 'rolled into' the Council's start up funding position. The grant of £196k has therefore been removed from the budget requirement figure.

6.6. The Local Council Tax Support Scheme (LCTS) was approved by Full Council in December. One of the issues with this scheme is that the Council receives a fixed grant from Government in respect of the cost of the agreed Council Tax discounts. The provisional grant allocations for LCTS included c£120k which was estimated to be related to parish councils. Therefore to mitigate the impact that would otherwise be faced by parish councils it has been agreed that this grant will be paid to them. The LCTS grant forms part of the Council's start up funding and therefore the cost of the parish grant needs to be shown as an increase in the budget requirement.

6.7. The level of the grant passed on to parishes is estimated to at least match the impact of LCTS in 2013/14. It should be noted that in future years financial settlements the grant in respect of LCTS is being included within our main funding levels and it is not expected that the assumed grant in respect of parishes will be separately identified. Given the notified further reductions in core funding for 2014/15 (shown later in this report) it will be necessary to review the level of any future parish grants in respect of LCTS.

6.8. The Council's budget includes several technical items such as net interest, Council Tax on second homes, various budget provisions and the net impact of charges between the General Fund and the Housing Revenue Account (HRA). These budgets are compiled based on final budget proposals and in total there is a forecast net difference compared to the 2012/13 budget of £56k.

6.9 **Cabinet is asked to approve inclusion of the savings / increased income items set out at Appendix D within the 2013/14 Revenue Budget.**

**6.10. Summary Total Expenditure Requirement**

6.11 Should Cabinet approve the items detailed above, the total expenditure requirement for 2013/14 is as follows:

| | **£'000** |
|---|---|
| 2012/13 Budget (excl. New Homes Bonus) | 21,567 |
| Less: 2012/13 one-off items | (280) |
| Cost Pressures (as per Appendix B) | 2,120 |
| Growth (as per Appendix C) | 565 |
| Savings/Increased Income (as per Appendix D) | (1,293) |
| Technical Items / Adjustments:- | |
| • Homelessness Protection Grant (see para 6.5) | 196 |
| • Parish Grants (re LCTS. see para 6.6)) | 120 |
| • Other technical items (see para. 6.8) | 56 |
| **Forecast Budget 13/14 (excl. New Homes Bonus)** | **23,051** |

**Note:**
*Detailed service group expenditure is available. A summary of service group expenditure is attached at Appendix E.*

6.12 **Cabinet is asked to agree and recommend to Council the net revenue expenditure requirement for 2013/14 and the underlying detailed budgets set out in Appendix E.**

**7. Finance Settlement (Government Funding)**

7.1. The provisional Local Government Finance Settlement was announced in Parliament on 19 December 2012. This is the first settlement that reflects the new "financial relationship" between central and local government. The Settlement introduces a number of new funding arrangements, concepts and terminology. This section of the budget report provides a summary of the key issues including:-

- Revenue Spending Power
- Start up funding
- Baseline funding level and Revenue Support Grant
- Business Rate Baseline and tariffs and top-ups
- Levies and safety net

*Revenue Spending Power*

7.2. The announced Settlement continues with the concept of "Revenue Spending Power" (the total of our Government grants and Council Tax Income) and now also includes an efficiency grant which is provided for those authorities whose change in revenue spending power fall below a set threshold to ensure that no authority receives a reduction in spending power of below a cut of 8.8%.

7.3. Colchester's revenue spending power has increased by £211k (0.9%). As the table below shows the main reason for the increase is the level of additional income from the New Homes Bonus. **This also highlights that the Council's main 'formula grant' has reduced by £727k (7.1%)**

| | 2012/13 | 2013/14 | Change | |
|---|---|---|---|---|
| | £m | £m | £m | % |
| Council Tax | 10.761 | 10.761 | 0.000 | 0.0% |
| **Start-up funding (see para 7.4 to 7.11)** | **10.189** | **9.462** | **-0.727** | **-7.1%** |
| Council Tax Freeze grant (see para 8.4) | 0.269 | 0.109 | -0.160 | -59.6% |
| New Homes Bonus(see para 7.25) | 1.525 | 2.616 | 1.091 | 71.6% |
| Community Right to Challenge and Bid | 0.009 | 0.016 | 0.008 | 91.9% |
| *Total Spending Power* | *22.753* | *22.964* | *0.211* | *0.9%* |

*Start-up Funding*

7.4. The Government has set out the methodology for determining the total sum available for Local Government. This includes an assessment of business rate revenues, grants transferring into the spending control totals and other adjustments to funding values. At a local level the start-up funding is allocated to individual councils in two parts: formula Funding and grants transferring into the Settlement.

*Formula Funding*

7.5. The mathematical formulae used for allocating funding are based on that used for 2012/13. The Settlement again shows that the level of the "floor" remains one of the most critical factors in the grant allocation methodology as shown below.

*Grant Damping - Floors*

7.6. As has been the case for the last five years our grant has been reduced by the system of damping or floors. The floor methodology is designed to ensure that no authority receives a cut greater than a given level. The system is self financing between categories of local authorities. The table below shows that for Colchester the cost of damping is £0.2m. The table below sets out the key figures:-

| | £'000 | |
|---|---|---|
| Formula Grant 2012/13 | 8,404 | |
| Formula Grant (before Floor) 2013/14 | 7,878 | Based on formula grant mechanism |
| Reduction in grant (before floor) | 526 | |
| ***Cost of floor*** | ***201*** | |
| Actual reduction in grant | 727 | |

*Grants transferring into the Settlement*

7.7. A number of grants have been 'rolled into' the overall start up funding position with three being relevant to Colchester:-

*Local Council Tax Support Grant (LCTS) - £1.321m*

7.8. Full Council agreed the LCTS for Colchester for 2013/14. This was done on the basis of indicative Government funding of £1.294m. The final figure announced in the Settlement is slightly higher at £1.321m.

*Homelessness prevention grant - £0.196m*

7.9. This grant was previously paid outside of the main grant figures and as such the move into the start up funding position for 2013/14 is a mostly technical change.

*Council Tax Freeze grant (re decision for 2011/12) - £0.267m*

7.10. This grant will be paid for 13/14 and 14/15 and relates to the decision to freeze Council Tax in 2011/12.

7.11. The following table sets out the total start up funding assessment:-

| | £'000 |
|---|---|
| Formula funding | 7,678 |
| Council Tax Freeze Grant | 267 |
| LCTS | 1,321 |
| Homelessness | 196 |
| Total Start up funding assessment | 9,462 |

*Baseline Funding level and Revenue Support Grant*

7.12. Each local authority's start up funding has been split into two parts:-

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

7.13. These two amounts are determined by applying a Local Share:Revenue Support Grant ratio. This is the same for all authorities and is principally informed by the Government's stated intention that 50% of business rates will be retained locally. The table below shows the analysis of the start up funding:-

| | *Revenue Support Grant* | *Baseline Funding Level* | *Total Start up Funding* |
|---|---|---|---|
| | *£'000* | *£'000* | *£'000* |
| Formula funding | 4,611 | 3,067 | 7,678 |
| Council Tax Freeze Grant | 160 | 107 | 267 |
| LCTS | 793 | 528 | 1,321 |
| Homelessness | 118 | 78 | 196 |
| **Total start up funding assessment** | **5,682** | **3,780** | **9,462** |

7.14. The split of the start up funding is important. The Revenue Support Grant element is an unringfenced grant. The baseline funding level is used as part of the retention of business rates scheme as explained below.

**Business Rate Baseline and tariffs and top-ups**

7.15. The starting point of the business rates retention scheme comprises of an assessment by Government of the total local share of Business Rates for 2013/14 which has been agreed as £10.9billion. To then calculate an individual billing authority's baseline the Government has calculated of how much of this relates to each council. This is known as the "proportionate share" and has been based on a billing authority's historic business rate collection as a percentage of the overall business rate yield. For Colchester this is 0.0026%

7.16. The regulations then include an allocation of this baseline for those authorities, such as Colchester, with major preceptors. The set percentage split is shown below:-

| | |
|---|---|
| Colchester | 80% |
| Essex County | 18% |
| Essex Fire Authority | 2% |

7.17. The retention scheme includes a system of tariffs and top up adjustments. A local authority must pay a tariff if its individual authority business rate 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 rate baseline. Tariffs and top-ups will be fixed until the business rates retention system is reset but will be uprated by RPI each year.

7.18. The following table sets out a summary of the baseline position for Colchester showing the required tariff payment of £19.2m.

| | £'000 | Note | See Para. |
|---|---|---|---|
| Billing Authority Baseline | 28,731 | £10.9bn x proportionate share (0.0026%) | 7.15 |
| Preceptor's share | 80% | | 7.16 |
| Individual Baseline | 22,985 | | |
| Baseline funding | 3,780 | | 7.13 |
| Tariff | 19,205 | | |

7.19. Part of the new arrangements for business rate retention is for the Council to agree an estimate of business rates income for 2013/14. This return (the NNDR 1) must be signed off by the Council's Section 151 Officer by 30 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. It is recommended that given the uncertainty over the first year of the business rates scheme should there be any estimated increase in income above the baseline funding level then this will be held in a specific reserve for budgeting purposes.

**Levy and Safety net**

7.20. 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*

7.21. The safety net is being set at 7.5%. This means that 92.5% of the NNDR revenue 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 £3.497m

(92.5% of £3.780m). On other words, the risk to Colchester of NNDR income reductions is limited to £283k for 2013/14.

*Levy rate*

7.22. The levy rate is a calculation to determine the amount of any growth in business rate income that a council can keep. The levy is designed to ensure that authorities do not keep a *disproportionate* amount of any growth and in turn to provide funds for the safety net. The formula to calculate the levy rate is shown below which results in a rate of 84%.

$$1 - \left[ \frac{\text{baseline funding level (£3.78m)}}{\text{individual authority business rates baseline (£22.985m)}} \right]$$

7.23. However, the Government has now agreed that there should be cap on the levy rate at 50%. Put simply, this means that CBC can keep 50% of any growth above our baseline (subject to the required allocation of 20% to the major preceptors: ECC and Fire).

*Summary of Start up Position*

7.24. 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 new risks and the potential for rewards to the Council. These are considered as part of the balances assessment later in this report. Provisional figures have also been set out for 2014/15 and these are considered as part of the Medium Term Financial Forecast (MTFF).

7.25. The Settlement is provisional and subject to consultation which ends on 15 January 2013. 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.

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

*New Homes Bonus*

7.27. The 2013/14 grant includes elements reflecting growth in the taxbase during 2009/10, 2010/11 and 2011/12 and also the bonus payable in respect of delivering affordable homes for the last 2 years. The last budget update report considered by Cabinet included an estimate of the total grant. The final figure is a total grant for 2013/14 of £2.616m, an increase of £1.091m. An analysis is shown below:-

| | *£'000* | *Note* |
|---|---|---|
| Grant re growth in Oct 09 – Oct 10 | 724 | Payable annually until 16/17 |
| Grant re growth in Oct 10 – Oct 11 | 749 | Payable annually until 17/18 |
| *Total Grant re growth in taxbase* | *1,473* | |
| Affordable homes bonus | 52 | Payable annually until 17/18 |
| ***Total grant for 12/13*** | ***1,525*** | |
| Grant re growth in Oct 11 – Oct 12 | 986 | Payable annually until 18/19 |
| Affordable homes bonus | 105 | Payable annually until 18/19 |
| ***Total grant for 13/14*** | **2,616** | |
| Increase | 1,091 | |

7.28. The methodology of the scheme means that we will receive *at least* this level of grant until 2016/17 with the likelihood that the grant will continue to increase significantly.

7.29. 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 any shortfall is met by the main formula grant funding allocation. As such it is important that the New Homes Bonus is considered alongside the formula grant funding and this issue is considered later in the report and as part of the Medium Term Financial Forecast (MTFF).

## 8. Council Tax and Collection Fund

*Council Tax Rate*

8.1. An increase in Colchester's element of the Council Tax is proposed of 1.95% taking the cost to £178.65 per Band D property, which is an increase of £3.42 per year. There are two specific issues that should be considered alongside this proposal: the arrangements to hold a referendum and the Government offer of a Council Tax Freeze grant for 2013/14.

*Council Tax referendum*

8.2. 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. The principles are subject to approval by the House of Commons. 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.

8.3. The Secretary of State has proposed that the maximum increase a council can set without a referendum is 2% and therefore there is no requirement for Colchester to hold a referendum.

8.4. Currently, local precepting authorities (i.e. parish and town councils) are not included in the proposed principles. However, the Government has 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.

*Council Tax Freeze Grant 2013/14*

8.5. The Chancellor of the Exchequer announced on the 8th October that the Government will set aside an extra £450 million to help freeze council tax bills in England. The new grant will be paid to local authorities who decide to freeze or reduce their Council Tax in 2013/14. The grant paid will be paid for 2 years and will be equivalent to a 1% increase in Council Tax. For Colchester the notified estimated grant is £109k for 2013/14 and 2014/15.

8.6. This will be the third Council Tax freeze grant which has been made available to local authorities:-

| | Grant £'000 | Period paid / payable |
|---|---|---|
| *Grants Received:-* | | |
| • Council Tax Freeze in 2011/12 | 267 | 4 years from 2011/12 to 2014/15 |
| • Council Tax Freeze in 2012/13 | 269 | 2012/13 only |
| *Potential Grant available:-* | | |
| • Council Tax Freeze in 2013/14 | 109 | 2013/14 and 2014/15 |

8.7. The proposal within this report is for an increase in Council Tax and as such Colchester would not qualify for this new grant. This proposal has no impact on the grant that continues to be received in respect of the decision to freeze Council Tax in 2011/12.

*Collection Fund*

8.8. As part of the formal budget setting process, the Council is required to determine each year, as at 15 January, the estimated surplus or deficit arising from the Council Tax Collection Fund as at 31 March.

8.9 The collection rate continues to be close to our target with small surplus on the fund is forecast of £18k.

*Council Tax discounts (LCTS and other changes)*

8.10. Full Council agreed the Local Council Tax Support Scheme (LCTS) for 2013/14. To account for the cost of this scheme for Colchester it is necessary to make a reduction to the taxbase. Other Council Tax changes are also being made in respect of second homes and empty properties as outlined in the report to Cabinet on 28 November and these changes are reflected in the taxbase.

## 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 28 November 2012, 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 increased to 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 2013/14, 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 changes such as the business rate changes 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 of £283k (see para. 7.20).

9.5. When Council considered the LCTS scheme for 2013/14 a number of risk areas were identified as follows:-

- *Recovery of Council Tax.* There is a risk of a lower level of collection of Council Tax, given that more people will have to pay Council Tax and many for the first time.
- *Recovery costs and resources*. The number of people paying Council Tax will increase and we will need to consider the impact on resources.
- *Demand*. Under the existing benefit scheme there is no direct financial impact on the Council of changes in the amount of benefit paid. Under the LCTS scheme the Government grant will be a fixed sum and therefore any increase will be borne by all of the major preceptors including Colchester.

9.6. Consideration has been given to these issues in estimating the likely costs of LCTS and the necessary changes to the taxbase. Whilst detailed modelling has been undertaken to inform all the proposals the introduction of LCTS and the funding by a fixed grant means that the Council faces an increased risk exposure.

9.7. Based on the assumptions built into the budget it is considered prudent to set balances at a minimum level at £1.8m. The impact of the various local government reforms will be assessed as part of the budget strategy for 2014/15 and the level of balances can be reviewed at that time.

*Level and Use of balances*

9.8. The cost pressures and growth items set out in the following table and included within the appendices to this report include a number of one-off costs. It has been identified that it would be prudent to therefore use £700k from general balances to fund these items.

| | *Cost in 13/14 £'000* | *Note* |
|---|---|---|
| Potential one-off costs to deliver budget options | 500 | See paragraph 6.3. |
| PV Panels | 15 | See Growth items (Appendix C) |
| Market study | 15 | |
| Welfare reform | 30 | |
| Strategic Plan priorities | 100 | |
| Museums | 67 | See Cost pressures (Appendix B) |
| **Total** | **727** | |

9.9. The forecast position in respect of Revenue Balances is set out at Appendix F and shows balances at £1,859k, £59k above the recommended minimum balance as set out in the agreed Risk Analysis. This assessment includes some changes to a number of assumptions:-

*Icelandic Investments*

9.10. Based on accounting guidance we have had to account for the impairment during 2010/11. This includes capital and adjustments for interest. There has been a further accounting guidance release which has updated the assumptions to be used. These include:-

- Recent distributions

- Following the confirmation of priority status recommendation that the recoverable amount is based on a total repayment of 100%. This has increased from 94.85%.
- The latest bulletin estimates the remaining balance being repaid annually in equal instalments between 2012 and 2019.

9.11. The impact of these changes has reduced the impairment by £489k. Therefore, there is a potential one-off revenue gain of almost £0.5m that has been taken to balances.

9.12. Consideration has also been given to a number of existing allocations held within balances and future calls on funds. These changes are reflected in the figures shown at Appendix F.

9.13 **Cabinet is recommended to approve Revenue Balances for the financial year 2013/14 be set at £1.8m and to approve the use of £700k to support the revenue budget.**

## 10. Reserves and Provisions

10.1. Cabinet at its meeting on 28 November 2012 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 2013/14. 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. The proposed budget includes a number of releases from reserves, including some changes to those already proposed.

*Capital Expenditure Reserve (CER) – Community Stadium - £200k*

10.2. The Council 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. For 2013/14 the use of the reserve continues at £200k which broadly reflects the current MRP cost.

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

10.3 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 2013/14 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 £30k*

10.4. This reserve was set up to provide funds to support the future monitoring of Section 106 agreements. It is proposed to use £30k to support the 2013/14 budget. Contributions to this reserve are made from S106 payments received in respect of monitoring. This reserve has reduced over time and therefore the proposed use for 13/14 is lower to reflect this.

*Pension costs – release of £102k*

10.5. Previous triennial reviews of the pension fund have shown a significant deficit due to market conditions and increased life expectancy. The last review resulted in a forecast increase in pension costs. As part of the 2011/12 budget a provision was established to fund these increased costs. For 2013/14 the increase shown within the list of cost pressures is £102k.

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

- **release of £200k from the Capital Expenditure Reserve**
- **release of £30k from S106 monitoring reserve towards the costs of carrying out this function**
- **release of £102k from the pensions provision to provide for the increase in pension deficit costs.**

## 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 if this sum was used during the year it may take revenue balances below the recommended level of £1,800k and 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 2013/14 (para 6.10). | 23,051 |
| New Homes Bonus (para 7.26) | (2,616) |
| Use of balances (para 9.4) | (700) |
| Use of balances re carry forward (see cost pressures Appendix B) | (50) |
| Release from Capital Expenditure Reserve (para 10.2) | (200) |
| Release of S106 monitoring reserve (para 10.4) | (30) |
| Release of pensions reserve (para 10.5) | (102) |
| **Budget Requirement** | **19,353** |
| Funded by: | |
| Revenue Support Grant (para 7.13) | (5,682) |
| NNDR Baseline Funding ( " " ) | (3,780) |
| Collection Fund surplus (para 8.9) | (18) |
| Council Tax Payers requirement (before Parish element) see below* | (9,873) |
| **Total Funding** | **19,353** |
| | |

| Council Tax* | |
|---|---|
| Council Tax Payers requirement (before Parish element) | 9,873,000 |
| Council Tax Base – Band D Properties | 55,265.4 |
| **Council Tax at Band D** | **178.65** |

12.2 **Cabinet is asked to agree and recommend to Council Colchester's element of the Council Tax for 2013/14 at £178.65 per Band D property, which is an increase of £3.42 (1.95%) from 2012/13, noting that the formal resolution to Council will include Parish, Police, Fire and County Council precepts and any minor change arising from the formal Finance Settlement announcement.**

## 13. Medium Term Financial Forecast – 2013/14 to 2016/17

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 reduction in several sources of fees and charges and potential revenue implications of strategic priorities. However, the most significant factor that will impact on budget will be the level of Government funding support including changes arising from the Local Government Resource Review and also implications of benefit reforms.

13.2. The Medium Term Financial Forecast (MTFF) is attached at Appendix G showing that the Council faces a continuing budget gap over the next three years from April 2014. The following table summarises the position showing a cumulative gap over the period from 2014/15 of c£5m and how the potential savings and income identified in Universal Customer Contact (UCC) FSR will reduce this to £2.3m

| | 2014/15 | 2015/16 | 2016/17 | See para |
|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | |
| Net Budget | 23,064 | 24,674 | 25,564 | |
| Gov't Funding (RSG & NNDR) | (8,266) | (7,586) | (7,207) | 13.5 and 13.6 |
| New Homes Bonus | (2,616) | (2,616) | (2,616) | 13.8 |
| Council Tax | (10,071) | (10,272) | (10,477) | 13.14 |
| Reserves | (230) | (230) | (230) | |
| **Cumulative Gap Before UCC FSR** | **1,881** | **3,970** | **5,034** | |
| UCC FSR Savings (cumulative) | (815) | (1,805) | (2,695) | 13.12 |
| **Cumulative Gap (after UCC)** | **1,066** | **2,165** | **2,339** | |
| **Annual increase** | **1,066** | **1,099** | **174** | |

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*

13.4. Alongside the 2013/14 Finance Settlement announcement the Government set out provisional figures for 14/15. These figures reflect previously announced reductions in local government funding with the additional 2% departmental budget savings to be found in 2014/15 announced in the Autumn Statement.

13.5. The key figure for the Council's financial planning is the comparable level of start-up funding which shows **a reduction in 14/15 of £1.2m (12.6%)**.

13.6. For years beyond 14/15 an annual reduction of 5% is assumed based on overall totals although the actual change that Colchester may see could be different.

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

13.8. 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. There is a clear likelihood that funding from the New Homes Bonus will be much higher than the figures shown. However, given the link with other Government funding a prudent approach is proposed at this stage.

13.9. Further changes in Government funding over the course of the MTFF are likely with potential reductions in grants for benefit administration.

*Pay, Inflation and costs*

13.10. The 2013/14 budget includes an allowance for a pay award. For 2014/15 and beyond a sum is included for planning purposes to cover this and other inflationary pressures.

13.11. An allowance for changes to pension costs following has been included in the 2013/14 budget. The next actuarial review will take place base on the position at April 2013. The outcome of this review will not be known until the Autumn and an assumption of an increased cost of £250k is currently shown and this will be refined in future years as the position becomes clearer.

*Forecast savings*

13.12. The MTFF includes changes to forecast savings for 2014/15. These include further savings from the sport and leisure FSR and additional procurement savings. However, the most significant area for saving is the UCC FSR where, as commented earlier cumulative savings and increased income of £2.7m are anticipated.

*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 this year and 2013/14 have built in a number of adjustments to key areas such as car parking, planning and land charges. 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.

*Council Tax*

13.14. A planning assumption has been used of an increase in Council Tax of 2%pa. This is shown for planning purposes only in the MTFF position and does not represent a proposal.

*Growth items*

13.15. No allowance has been built in to the MTFF for further growth items in 2014/15. However, in 2015/16 an allowance has been made for the impact of the end of the Food Waste grant. The actual impact in that year and possibly the year after will depend on the level of funding used in 13/14 and 14/15 to support the rollout of the food waste collection service. This issue will be considered in more detail when the MTFF is next updated.

*Summary*

13.16. 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.

13.17. In the 2013/14 budget savings of £1.8m have been found which, when looked at alongside the £5.3m identified in the budgets for 11/12 and 12/13, represents a significant level of budget savings found over 3 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.

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

## 14. Capital Programme

14.1. Cabinet has considered the Capital Programme throughout this financial year. The most recent changes were agreed at the meeting of 28 November 2012 when Cabinet agreed the inclusion in the Capital Programme and release of resources for the following schemes:

- £2.366m for the Universal Customer Contact Fundamental Service Review.
- £94k for the Castle Park Olympic Legacy project.

14.2. The quarter 2 capital monitoring report that was reported to FASP on 20 November showed a total ‘live’ Capital Programme of £26.7m, and a projected spend for the year of £19.2m. The remainder of the funds being expected to be spent in 2013/14 and beyond. The monitoring report highlighted that there is a forecast net overspend on the ‘live’ Capital Programme of £22.1k in respect of the following schemes:

| **Scheme** | **Over / (Under) £’000** |
|---|---|
| Town Hall DDA Sensory Project | 3.1 |
| Carbon Management Programme Phase 2 | 4.0 |
| Site Disposal Costs | 15.0 |
| **Total Net Overspend** | **22.1** |

14.3. Whilst it is hoped that the small projected overspends against the Town Hall DDA Sensory Project and phase 2 of the Carbon Management Programme can be mitigated, it is proposed that resources are released to meet the additional site disposal costs in respect of the A12 restaurant site.

14.4. A review of resources available to support the Capital Programme has been carried out, and the following table provides a summary position. This shows that there is currently a surplus of resources compared to the approved Capital Programme.

| Detail | £'000 | Note |
|---|---|---|
| Estimated balance of funds brought forward from 2012/13 | (864.9) | Surplus |
| Projected receipts for 2013/14 | (2,459.0) | Receipts which are confirmed but not yet received |
| **Balance available** | **(3,323.9)** | |
| Current commitments for 2013/14 | 1,335.0 | UCC FSR & Olympic Legacy |
| Forecast overspend on programme | 15.0 | See paras 14.2 – 14.3 |
| New releases proposed now | 1,161.0 | See **Appendix H** |
| **Total forecast balance carried forward** | **(812.9)** | Surplus |

14.5. Looking ahead, against these likely available resources needs to be considered emerging capital requirements, some of which have been previously reported to Cabinet. These include the Universal Customer Contact Fundamental Service Review, ongoing repair costs of the town and castle walls, the Vineyard Gate development, and ongoing support to Disabled Facilities Grants and the impact of minimising revenue pressures relating to borrowing for the Community Stadium.

14.6. Within the above forecast there is currently an estimated total of £1.9m of unallocated resources available to release. It is recommended that part of this is used for the priorities detailed in **Appendix H** to this report and summarised below, which all require resources during the 2013/14 financial year:-.

- £50k for repairs to the town walls.
- £379k for repairs to the external walls of Colchester castle.
- £200k in respect of the Temporary Accommodation Review.
- £92k for repairs to the walls of closed church yards.
- £200k for CBC funding for Disabled Facilities Grants in 2013/14.
- £200k contribution towards MRP costs for the Community Stadium in 2013/14.
- £40k for the refurbishment of the lift in the Lion Walk Activity Centre.

14.7. It is also proposed that Cabinet recommend to Council that the last project shown above, which is a new scheme, is added to the capital programme.

## 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, Finance and Audit 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, 2012/13, has shown that broadly speaking budgets have been achieved, however, there remain some pressures in certain areas. Steps have been taken to revise some income budgets for 13/14 including some of these current risk areas.

15.4. By taking appropriate action within the proposed 2013/14 budget, 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 most of the savings shown for 2013/14 are additional savings or income following budget decisions taken already (such as the Sport and Leisure FSR and the ICT contract). Other savings such as the removal of the redundancy provision and the savings risk factor do not pose an immediate financial risk to delivery.

15.6. As shown above, the risk factor built into the 12/13 budget has been removed from the base budget. This proposal is supported by the outturn forecast for 12/13 showing that this is not expected to be required this year.

15.7. 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 stretching income levels in particular in respect of sport and leisure, street services functions and the new sources of income.
- Delivery of savings and income and costings in respect of the UCC FSR
- 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 (NNDR) following the finance settlement changes.

15.8. One of the main risks within the coming year is likely to be the need to monitor the impact of the Local Government finance reforms (i.e. LCTS and NNDR) including the increased demand on services and the ability to support customers.

15.9. The budget risks will be managed during 2013/14 by regular targeted monitoring and review at Senior Management Team and Finance and Audit Scrutiny Panel. The Revenue Balance Risk Analysis considered these areas in establishing a minimum level of required balance which has increased to £1.8m.

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 is developing systems to provide better financial information through greater use of our commitments system.

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 aims of the Prudential Code are to assist local authorities to ensure that:

- Capital expenditure plans are affordable
- All external borrowing is at a prudent and sustainable level
- Treasury management decisions are taken in accordance with good practice
- The authority is accountable in taking decisions by providing a clear and transparent framework.
- The framework is consistent with and supports local strategic and asset management planning and proper option appraisal.

16.2. The prudential indicators are designed to support and record decision making in relation to capital expenditure plans, external debt and treasury management. Estimating capital expenditure for the forthcoming financial year and the following two financial years is the starting point of the calculation of prudential indicators. The Council has made reasonable estimates of both HRA and non-HRA total capital expenditure.

16.3 In agreeing the Council's revenue budget and capital programme there is a requirement to approve the prudential indicators for the coming year.

16.4 The recommended Prudential Indicators for 2013/14 are set out in the paper shown at Appendix I with relevant commentary.

16.5. One of the key requirements of the Code is that the Council agrees a number of prudential indicators which set out the limits to which the Council may borrow and the implications of borrowing. The main assumptions used in setting these indicators are that:

- The revenue and capital budget proposals set out in this report will be agreed.
- That treasury management decisions will be carried out in line with the Treasury Management Strategy.

16.6. The Council is required to annually approve the Treasury Management Strategy and Annual Investment Strategy that underpins the setting of some of the prudential indicators, the Council's capital programme and the revenue budget for net interest earnings. The 2013/14 strategy reflects the revised CIPFA Treasury Management in the Public Services Code of Practice. The strategy states that the Council will continue to 'borrow internally' for the foreseeable future to reduce exposure to interest rate and credit risk, as well as providing forecasts on interest rates and setting the policy for calculating the Minimum Revenue Provision.

16.7 **Cabinet is asked to agree and recommend to Council the 2013/14 Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy as set out in the paper at Appendix I**

## 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 J provides an assessment of the links between the Strategic Plan and budget strategy.

**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 Finance and Audit Scrutiny Panel on 22 January 2013. The statutory consultation with NNDR ratepayers takes place in January 2013 and notes of the meeting will be provided in due course.

**Background Papers**
Budget reports to Cabinet – 28 November 2012

**APPENDIX A**

| 2013/14 Budget Timetable | |
|---|---|
| **Budget Strategy March 12 – July 2012** | |
| **March – June (SMT and Budget Group)** | Budget Group Meetings Agreed<br>Update MTFF /Budget Strategy<br>Review potential cost pressures, growth and risks<br>Consider approach to budget<br>Initial budget reviews started |
| **Cabinet – 4 July 12** | • Report on updated budget strategy / MTFF<br>• Timetable approved |
| **SOSP – 17 July 12** | Review Cabinet report |
| **Budget Group / Leadership Team - June / July** | Consider review of capital programme<br>Consider approach to consultation |
| **Detailed Budget preparation and Budget Setting Consultation** | |
| **Budget Group / Leadership Team regular sessions on progress / budget options now - December** | Review budget tasks<br>Consider outcomes of Fundamental Service Reviews |
| **Cabinet –3 October 12** | • Budget Update<br>• Review of capital resources / programme (if available) |
| **Cabinet – 28 November 12** | • Budget update<br>• Reserves and balances<br>• Government Finance settlement (if available) |
| **FASP – 22 January 13** | Review consultation / Budget position (Detailed proposals) |
| **Cabinet – 23 January 13** | Revenue and Capital budgets recommended to Council |
| **Council – 20 February 13** | Budget agreed / capital programme agreed / Council Tax set |

**APPENDIX B**

## 2013/14 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 28 November 2012 are highlighted.

| | Current allowance £'000 | Updated allowance £'000 | Comment |
|---|---|---|---|
| Inflationary pressure | 640 | 500 | Net inflation impact. This allowance will be reviewed as assumptions for key areas such as energy and pay are assessed. |
| Incremental pension contributions | 102 | 102 | Additional cost arising from actuarial review which is being funded from reserve setup in 2011/12. |
| Elections | (92) | (92) | One-off reduction due to no borough elections in May 2013. |
| Castle Museum - Income | 50 | 67 | The planned temporary closure of the museum will result in a reduction in income. Steps to manage this continue to be put in place, however, it is considered prudent at this stage to allow for a reduction in income. |
| Land Charges | 200 | 200 | Current assumed reduction in income from land charges due to more information now being available for free under the Environmental Information Regulations. |
| Insurance | 150 | 182 | Increased vehicle insurance premiums increased costs due to increased number of vehicles and claims history. The pressure has increased to reinstate the contribution to the insurance provision. |
| UCC FSR | 370 | 397 | The report on this agenda sets out net additional costs of £340k in respect of this review. This reflects a number of additional costs and also savings. The most significant costs element is ICT which includes the revenue impact of capital investment. £30k relates to a previous shared management target now reflected within FSR figures and the further adjustment of £27k relates to income previously built into the budget that is now not likely to be delivered. |
| Housing Benefit Administration grant | 61 | 61 | Grant reduced |
| St James / Roman House – Business Rates | 75 | 75 | £75k pressure due to ongoing full year NNDR costs for vacant St James/Roman House. |
| Fleet Costs | | 208 | Costs of additional / replacement vehicles |

| | Current allowance £’000 | Updated allowance £’000 | Comment |
|---|---|---|---|
| Local Taxation Court Fees - income | | 100 | The estimated income from court fees paid is less than budgeted and it is considered prudent to reduce the estimate for 2013/14 |
| Council Tax Benefits (CTB) | | 150 | The budget needs to be adjusted to take account of the current treatment of benefit overpayments and subsidy arrangements associated with CTB which will no longer exist following the move to LCTS. |
| Firstsite – repairs contribution | | 15 | Proposed contribution to a fund for the maintenance of the building. |
| Digital Strategy income | | 30 | Potential partner for Digital Strategy withdrew from contract negotiations and as such the income target for 13/14 has been reduced. |
| Market Income | | 30 | The 2012/13 income budget for market included third trading day, which has not been approved, is under budget and this is expected to continue for 2013/14. |
| Trade Waste income | | 45 | Trade refuse income is lower than budgeted this year for existing client base and increase in customers not in line with predictions. The 2013/14 budget is therefore proposed to be reduced. |
| Revenues and Benefits | | 50 | Temporary staff costs for 2013/14 required in respect of legislative reforms to be funded from unspent funding in current year (see use of carry forward in summary table at para. 12.1) |
| **Total** | **1,556** | **2,120** | |

**APPENDIX C**

## 2013/14 Growth Items

The following are growth items included in budget proposals. Changes since the report to Cabinet on 28 November 2012 are highlighted.

| | Current allowance £'000 | Updated allowance £'000 | Comment |
|---|---|---|---|
| Food Waste | 750 | 750 | Allowance for rollout of Food Waste Scheme. |
| New Homes Bonus | 250 | 250 | Allocated sum from New Homes Bonus to support enabling projects. |
| Allowance for affordable housing | 100 | 105 | Growth achieved through New Homes Bonus element allocated to support affordable housing initiatives |
| Tour Series | | 40 | In previous years the costs of the Tour Series have been supported by Essex County Council and other organisations. It is felt that this is now at risk and to ensure delivery of an event that is welcomed by our communities that the full costs need to be allocated |
| Supporting local entrepreneurs (through Eastern Enterprise Hub) | | 75 | An opportunity to develop local entrepreneurs through dedicated training and a Colchester based network of business advisors and mentors. |
| Ward Budgets | | 35 | Net impact of continuing ward based budgets less the reduction in parish grants. It has been decided to continue the ward based budgets introduced as one of the Jubilee Projects in 2011/12 to provide local projects from a wide spectrum of communities to access money through their ward Councillors. |
| PV Panels | | 15 | Funding has been allocated to allow for preparatory costs for the installation of PV panels on a range of appropriate Corporate Buildings |
| Colchester Market Provision | | 15 | This study will review market provision and consider further opportunities for markets in the Borough to meet the needs of a range of customers and businesses |
| Strategic Plan Priorities | | 100 | A range of one off projects to support deliver of the Strategic Plan priorities |
| Welfare Reform Support | | 30 | We have taken a proactive approach in supporting people in the welfare reform changes. This allocation will support the continuation of that work together with a grant from Essex County Council |
| **Total Growth Items** | **1,100** | **1,415** | |
| Less use of specific grants | | (850) | Waste grant |
| **Net Growth cost** | | **565** | |

**APPENDIX D**

**Savings / Increased Income**

| **Service** | **Opportunity** | **2013/14 £'000** | *Additional Comments e.g. impact on service / risk to delivery/ description of delivery* |
|---|---|---|---|
| *Efficiencies and Fundamental Service Review* | | | |
| Life Opportunities | Sport & Leisure FSR | 618 | Full year savings of review agreed by Cabinet. |
| Life Opportunities | Private Sector leasing | 8 | Full year savings in private sector leasing scheme due to implementation of new scheme arrangements. |
| Strategic Policy and Regeneration | Estates and Regeneration team review | 30 | Full year saving following review of the work of these teams |
| Corporate Mgt | ICT contract savings | 265 | Additional second year savings of new ICT contract |
| Resource Management / CDC | External audit savings | 60 | Reduction in external audit costs. |
| Cross cutting | Procurement saving target | 50 | Target to achieve through improved procurement. |
| *Additional Income* | | | |
| Env & Prot Services | Planning Income | 50 | Planning fees increased. Current volumes remain above target, therefore reasonable to assume increased income |
| EMT | Earned income | 10 | Increased income target. |
| Strategic Policy and Regeneration | Estates income | 5 | Full year impact of Rowan House lease income |
| Corporate Management | Magistrates Court | 15 | Savings / income associated based on proposals agreed by Cabinet. |
| Corporate / Technical Items | | | |

| **Service** | **Opportunity** | **2013/14 £'000** | *Additional Comments e.g. impact on service / risk to delivery/ description of delivery* |
|---|---|---|---|
| Corporate / Technical | Reduced Minimum Revenue Provision | 50 | Required MRP will be less due to reduction in borrowing requirement through use of revenue funds. |
| | Net Interest earnings / costs | 150 | Current net interest costs are forecast to be lower than budget this year. This is expected to continue in 2013/14 given the Council's policy of internal borrowing, however, the MTFF recognises this as a temporary saving. |
| | One-off pension costs budget | 197 | Recurring budget provision to be removed on the basis that provision for one-off costs is provided in balances (See below). |
| | Risk factor | 285 | This was included in the 12/13 budget and is not expected to be called upon. Given the assessment of 13/14 savings no risk factor is proposed for 13/14. |
| **Total Savings** | | **1,793** | |
| One-off costs to deliver savings | | 500 | |
| **Net Total savings** | | **1,293** | |

**Appendix E**

## Budget Analysis

| | Adjusted Base Budget | One-Off Items | Cost Pressures | Growth Items | Technical Items | Total Savings | Detailed 13/14 Budgets |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Corporate & Democratic Core | 321 | | 0 | | | (65) | 256 |
| Executive Management Team | 794 | | 27 | | | (10) | 811 |
| Corporate Management | 6,309 | | 143 | 135 | | (280) | 6,307 |
| Customer Services | 992 | | 40 | | | | 1,032 |
| Env. & Protective Services | 2,213 | | 58 | | | (50) | 2,221 |
| Life Opportunities | 5,218 | (30) | 35 | | | (626) | 4,597 |
| Resource Management | 2,128 | (30) | 554 | | | 5 | 2,657 |
| Strategic Policy & Regen. | (166) | (120) | 130 | 235 | | (35) | 44 |
| Street Services | 2,337 | | 301 | (100) | | | 2,538 |
| **Total Services** | **20,196** | **(180)** | **1,288** | **270** | **0** | **(1,061)** | **20,463** |
| **Technical Items** | | | | | | | |
| *Corporate Items / sums to be allocated to services* | | | | | | | |
| Savings Risk Factor | 285 | | 0 | | | (285) | 0 |
| Shared Services | (30) | | 30 | | | | 0 |
| Cross cutting | 0 | | 0 | | | (50) | (50) |
| UCC FSR | 0 | | 300 | | | | 300 |
| Strategic Plan | 0 | | 0 | 100 | | | 100 |
| Welfare Reform | 0 | | 0 | 30 | | | 30 |
| Service Inflation Allowance | 0 | | 400 | | | | 400 |
| Investment Allowance funded by New Homes Bonus | 0 | | 0 | 250 | | | 250 |
| *Corporate Grants* | | | | | | | |
| Homelessness Grant | (192) | | 0 | | 196 | | 4 |
| New Homes Bonus | (1,525) | | 0 | | | (1,091) | (2,616) |

| | Adjusted Base Budget | One-Off Items | Cost Pressures | Growth Items | Technical Items | Total Savings | Detailed 13/14 Budgets |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| | | | | | | | |
| *Non-Service Budgets* | | | | | | | |
| Grants to Parish councils | 102 | | 0 | (85) | 120 | | 137 |
| CLIA (net interest) | 854 | | 0 | | | (150) | 704 |
| R&R Contribution | 150 | | 0 | | | | 150 |
| Min Revenue Provision | 698 | | 0 | | | (50) | 648 |
| Pensions | 2,494 | | 102 | | | (197) | 2,399 |
| One-off costs | 100 | (100) | 0 | | | 500 | 500 |
| GF/HRA adjustments | (3,040) | | 0 | | 56 | | (2,984) |
| Total Below the Line | (104) | (100) | 832 | 295 | 373 | (1,323) | (27) |
| **Total incl Below the line** | **20,092** | **(280)** | **2,120** | **565** | **372** | **(2,384)** | **20,435** |
| ***Funded by:-*** | | | | | | | |
| General Reserve | | | (50) | | | (700) | (750) |
| Pensions Reserve | (97) | 97 | 0 | | | (102) | (102) |
| Capital Expenditure Reserve | (200) | | 0 | | | | (200) |
| Other Reserves - S.106 | (70) | 70 | 0 | | | (30) | (30) |
| Government Grant (RSG / NNDR) | (8,404) | | 726 | | | | (7,678) |
| Council Tax Freeze Grant (re 11/12) | (267) | | 0 | | | | (267) |
| LCTS Grant | 0 | | 0 | | (1,321) | | (1,321) |
| Homelessness Grant | 0 | | 0 | | (196) | | (196) |
| Council Tax Freeze Grant | (269) | 269 | 0 | | | | 0 |
| Council Tax | (10,761) | | 0 | | 1,201 | (313) | (9,873) |
| Collection fund Transfer | 26 | (26) | 0 | | (18) | | (18) |
| **Total** | **(20,092)** | **410** | **676** | **0** | **(334)** | **(1,145)** | **(20,435)** |

**Appendix F**

## General Fund Balances
## Current Position

| | £'000 | £'000 |
|---|---|---|
| Balance as at 31 March 2012 (As per Statement of Accounts) | | (4,920) |
| **Use of balances during 2012/13:** | | |
| • Financing carry forwards – Proposed carry forward of 12/13 budgets (note1) | | 1,808 |
| • Further Changes in 2012/13 (see Note 2) | | 142 |
| • Iceland – change in impairment calculation (see note 3) | | (489) |
| **Projected Balances as at 31 March 2013** | | **3,459** |
| • Existing allocations for 13/14 and future years budget (Note 4) | | 900 |
| • Supporting the 13/14 Budget (Note 5) | | 700 |
| **Projected Balances as at 31 March 2014** | | **1,859** |
| Proposed minimum balance | | 1,800 |
| **Potential Surplus Balances as at 31 March 2014** (note 6) | | **59** |

**Notes:**

1. This includes previous approved releases from balances which have not yet been spent including funding agreed by Cabinet in March as part of the Jubilee budget. This also includes revisions to previous held sums to provide for changing risk items. A proportion of this sum will not be required in 2013/14 and will therefore be carried forward into 13/14.
2. This reflects decisions made to use balances this year.
3. The latest budget outturn forecast for 2012/13 reported to Finance and Audit Scrutiny Panel showed a potential surplus of £202k after allowing for use of the risk factor of £285k. Based on the most recent review a net surplus of £250k is now shown.
4. 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. This also includes a provision for future cost pressure in respect of Community Stadium funding.
5. Proposed use of balances to support the revenue budget. This does not include £50k carry forward from 12/13 outlines within report
6. The latest budget outturn forecast for 2012/13 reported to Finance and Audit Scrutiny Panel showed a potential surplus of £202k after allowing for use of the risk factor of £285k. Based on the most recent review a net surplus of £250k is currently anticipated and the impact of this on balances will be considered as part the Budget Strategy for 2014/15.

APPENDIX G

| Medium Term Financial Forecast 2013/14 to 2016/17 | | | | |
|---|---|---|---|---|
| | **2013/14 £'000** | **2014/15 £'000** | **2015/16 £'000** | **2016/17 £'000** |
| **Base Budget** | 21,567 | 23,051 | 22,249 | 22,859 |
| 12/13 One-off items | (280) | | | |
| Cost Pressures (net of one off changes) | 1,780 | 968 | 890 | 890 |
| Growth Items (net of one off changes) | 565 | (160) | 720 | 0 |
| UCC FSR (yoy) change | 340 | (815) | (990) | (890) |
| Savings | (1,293) | (795) | 0 | 0 |
| Parish Grant re LCTS | 120 | | | |
| Homelessness Grant (adjustment) | 196 | | | |
| Technical Items | 56 | | | |
| **Forecast Base Budget** | **23,051** | **22,249** | **22,869** | **22,869** |
| *Funded By:* | | | | |
| *Formula Grant* | *(7,678)* | | | |
| *Council Tax Freeze Grant (re 11/12)* | *(267)* | | | |
| *Homelessness Grant* | *(196)* | | | |
| *LCTS grant* | *(1,321)* | | | |
| Start up grant funding | (9,462) | (8,266) | (7,586) | (7,207) |
| New Homes Bonus | (2,616) | (2,616) | (2,616) | (2,616) |
| ***Total Gov't grants*** | ***(12,078)*** | ***(10,882)*** | ***(10,202)*** | ***(9,823)*** |
| Council Tax | (9,873) | (10,071) | (10,272) | (10,477) |
| Collection Fund Deficit / (Surplus) | (18) | 0 | 0 | 0 |
| Use of Reserves | (1,082) | (230) | (230) | (230) |
| **Total Funding** | **(23,051)** | **(21,183)** | **(20,704)** | **(20,530)** |
| **Budget (surplus) / gap before changes (cumulative)** | **0** | **1,066** | **2,165** | **2,339** |
| **Annual increase** | **0** | **1,066** | **1,099** | **174** |

| | 2013/14 £'000 | 2014/15 £'000 | 2015/16 £'000 | 2016/17 £'000 |
|---|---|---|---|---|
| **Cost Pressures** | | | | |
| General Inflation (incl. risk factor of £400k) | 500 | 640 | 640 | 640 |
| Pensions | 102 | 250 | 250 | 250 |
| MRP (Minimum Revenue Provision) | 0 | 0 | 0 | 0 |
| Elections | (92) | 85 | | |
| Castle Museum Closure (one off pressure in 13/14) | 67 | (67) | | |
| Land Charges (recurring risk) | 200 | | | |
| Fleet | 208 | 110 | | |
| Insurance - Vehicle premiums | 182 | | | |
| St James / Roman House | 75 | | | |
| Benefit Admin grant | 61 | | | |
| Shared Management Saving | 30 | | | |
| Trade Waste | 45 | | | |
| Firstsite - R&M | 15 | | | |
| Council Tax Benefits - base budget adjustment | 150 | | | |
| EMT income | 27 | | | |
| Digital Strategy | 30 | | | |
| Market Income | 30 | | | |
| Revenues and Benefits (funded by c/f) | 50 | (50) | | |
| Local Taxation - Court Fees | 100 | | | |
| **Total** | **1,780** | **968** | **890** | **890** |
| **Growth Items** | | | | |
| Food Waste (net impact) | (100) | | 720 | |
| Tour Series | 40 | | | |
| Affordable homes | 105 | | | |
| Growth linked to New Homes Bonus | 250 | | | |
| Eastern Enterprise Hub | 75 | | | |
| Ward Budgets (net of parish grants) | 35 | | | |
| PV Panels (one off) | 15 | (15) | | |
| Market Study (one off) | 15 | (15) | | |
| Strategic Plan Priorities (one off) | 100 | (100) | | |
| Welfare Reform (one off) | 30 | (30) | | |
| **Total** | **565** | **(160)** | **720** | **0** |
| | | | | |
| **Savings** | | | | |
| Remove savings risk factor | (285) | | | |
| ICT | (265) | (40) | | |
| Sport & Leisure FSR | (618) | (195) | | |
| Private sector leasing | (8) | (20) | | |
| Estates regeneration | (30) | | | |
| EMT Income | (10) | | | |
| Rowan House lease | (5) | | | |
| Procurement Target | (50) | (150) | | |
| Magistrates Court | (15) | | | |
| Audit fee | (60) | | | |

| | 2013/14 £'000 | 2014/15 £'000 | 2015/16 £'000 | 2016/17 £'000 |
|---|---|---|---|---|
| Remove Pension Strain budget | (197) | | | |
| Planning Fees | (50) | | | |
| One off costs to deliver savings | 500 | (500) | | |
| Interest earnings (mostly one-off) | (150) | 110 | | |
| MRP | (50) | | | |
| **Total** | **(1,293)** | **(795)** | **0** | **0** |

| | | | | |
|---|---|---|---|---|
| **New Homes Bonus** | | | | |
| Growth re 09/10 | 724 | 724 | 724 | 724 |
| Growth re 10/11 | 749 | 749 | 749 | 749 |
| Growth re 11/12 | 986 | 986 | 986 | 986 |
| Growth re 12/13 | | x | x | x |
| Growth re 13/14 | | | x | x |
| *Total basic NHB* | *2,459* | *2,459* | *2,459* | *2,459* |
| | | | | |
| **Affordable Housing element** | | | | |
| re 10/11 delivery | 52 | 52 | 52 | 52 |
| re 11/12 delivery | 105 | 105 | 105 | 105 |
| re 12/13 delivery | | x | x | x |
| re 13/14 delivery | | | x | x |
| | | | | |
| *Total affordable homes bonus* | *157* | *157* | *157* | *157* |
| **Total New Homes Bonus** | **2,616** | **2,616** | **2,616** | **2,616** |

| | | | | |
|---|---|---|---|---|
| **Use of Reserves** | | | | |
| Balances (General) | 700 | | | |
| Funding c/f | 50 | | | |
| S106 monitoring reserve | 30 | 30 | 30 | 30 |
| Pensions Provision | 102 | | | |
| Capital Expenditure Reserve:- | | | | |
| Community Stadium | 200 | 200 | 200 | 200 |
| **Total** | **1,082** | **230** | **230** | **230** |

## Addressing the Budget Gap

The MTFF shows a budget gap of circa £5m over the three years from 2014/15. Whilst cumulative net savings of £2.7m through the UCC FSR have been identified this leaves a gap £2.3m. 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 'start up funding' for 2014/15 of 12.6% with reduction of at least 5% pa thereafter. It was also confirmed in the autumn Statement that details of departmental spending plans for 2015-16 will be set at a spending review, which will be announced during the first half of 2013.<br>From 2013/14 a proportion of the Council's core income that used to be provided by Government grant will now be funded by the Council keeping a share of business rates income. This poses a new risk as well as a potential reward. |
| 2 | *Welfare Reform (including Local Council Tax Support - LCTS)* | The budget paper sets 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.<br>Provision has been made in the 2013/14 budget for the New Homes Bonus based on the notified grant and the MTFF takes a prudent view by forecasting no change to this grant in future years.<br>Provision has been made for changes in other Government grants, such as housing benefit administration, in 2013/14, 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 2013/14. Thereafter an allowance has been assumed of £250k |
| 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. In the current year it has been reported that some targets such as land charges and community alarms income are not meeting the budget. Looking ahead to 2013/14 and beyond it is difficult to estimate how income levels may continue to be affected. The 13/14 budget forecast assumes a decrease in revenue from land charges |

| Ref | Risk / Area of uncertainty | |
|---|---|---|
| | | and future updates of the MTFF will consider any other changes to income. |
| 6 | *Inflation* | An allowance for general inflation including pay has been built into the 13/14 forecast and MTFF.<br>The current (December 2012) CPI is 2.7% and RPI is 3.2% The economic forecasts published by HM Treasury point to inflation figures for 2013 of 2.2% and 2.5% for CPI and RPI respectively. Not all the Council's costs are directly linked to RPI and therefore we will continue to monitor the impact of inflation on all Council costs |
| 7 | *Use of reserves* | The budget position for 2013/14 includes proposals to use certain reserves. The MTFF assumes the ongoing use of the capital expenditure reserve and S106 reserve.<br>The 2013/14 budget included the proposal to agree that up to £0.7m be used to support the budget to meet one-off costs including £0.5m required to deliver the budget savings. |
| 8 | *Legislation* | There is 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. car park closure and staff resources* | As the regeneration programme progresses there will be an ongoing impact on income from car parks due to temporary and permanent closure of certain car parks and also the introduction of park and ride. |
| 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 2013 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.<br>As part of the budget 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.<br>The current financial assumption made is that the Council programme of FSRs will assist in identifying efficiencies to cope with changes in demand, however, this will be regularly reviewed. |
| 12 | *Delivery of budget savings* | The 2013/14 budget includes c£1.8m 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. |

| Ref | Risk / Area of uncertainty | |
|---|---|---|
| 13 | *Net Interest earnings and investments* | The budget is influenced by a number of factors including interest rates and cashflow movements. The treasury management strategy for 2013/14 highlights the outlook for interest rates in the medium-term which points to continuation of unprecedented low levels into 2013/14.<br>The budget forecast has been adjusted by £150k to reflect the ongoing benefit of the Councils ongoing strategy to ‘internally borrow’ to minimise our interest costs. The MTFF recognises that this is not an ongoing gain. |

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

**Appendix H**

## Capital Programme – 2013/14
## Proposed Releases

| Proposed Scheme | Forecast 2013/14 £'000 | Notes | Live Prog 2012/13 £'000 |
|---|---|---|---|
| **Est. Surplus B/Fwd** | **(864.9)** | | |
| Town Walls | 50.0 | The additional £50k proposed relates to repairs to the Priory St. and East Hill stretch of the Town Wall. This work is grant-aided by English Heritage. The funding in the capital programme relates to repairs to the walls in Middleborough/Balkerne Way, which commenced in May 2012. | 353.8 |
| Castle Walls | 379.0 | Essential repairs to external facades of Colchester Castle. Works to be completed whilst HLF funded redevelopment project is on site. Repairs to the Western façade completed in 11/12, and the current funding in the programme relates to repairs to the North wall. £379k represents NPS costing for repairs to eastern and southern façades. It is a condition of the HLF grant funding that the Council demonstrates a commitment to properly maintain the Castle. | 114.1 |
| Temporary Accommodation Review | 200.0 | Partnership with Family Mosaic to rebuild and refurbish temporary accommodation. Cabinet of 2 December 2009 approved the implementation of the findings of a review of temporary accommodation. The total scheme costs were estimated at £4.5m, with the Council contributing £600k plus the land at Ascott House. The scheme was added to the Capital Programme in March 2012, and £400k was released to enable the first instalment to be made in June 2012. It is forecast that some residual temporary accommodation units will generate capital receipts to offset the Council's contribution. | 400.0 |
| Walls to closed church yards | 92.0 | The Council is responsible for the maintenance of Closed Churchyards and their walls and fences. As a result of this annual surveys have been undertaken of all churchyard walls since 2009. These surveys have prioritised the works into categories, the most urgent health and safety works requiring funding from the Council's Capital Programme. The additional amount proposed relates to further urgent repairs identified in the latest survey.<br>Due to lime mortar being used in many of the wall repairs the works are weather and temperature dependent. Approval would enable the tenders and costs of the works to be prepared during the winter and then undertaken in the Summer of 2013. | 24.2 |

| Proposed Scheme | Forecast 2013/14 £'000 | Notes | Live Prog 2012/13 £'000 |
|---|---|---|---|
| Disabled Facilities Grants | 200.0 | CBC's annual commitment for 2013/14 based on current levels of expenditure and DCLG grant. | 1,120.5 |
| Support to revenue projects | 200.0 | The Council agreed that an approach to minimise revenue pressures is to fund the annual MRP (Minimum Revenue Provision) cost for the Community Stadium by identifying new capital receipts in the period of the borrowing for the stadium. This then allows a release of revenue funds within the capital expenditure reserve. | 200.0 |
| Lift refurb - Lion Walk Activity Centre | 40.0 | The current lift at Lion Walk Activity Centre is nearing the end of its useful life. The proposal is to re-furbish the lift to give it an estimated 10 years additional life. All options reviewed and this is the most cost effective solution. | 0.0 |
| Site disposal costs | 15.0 | Relates to costs of securing capital receipts. Further funding required for Agent fees and marketing expenses for the A12 restaurant site. | 6.9 |
| **Subtotal** | **1,176.0** | | |
| Forecast Capital Receipts | (2,459.0) | | |
| Current Commitments | 1,335.0 | Funding agreed for Universal Customer Contact Fundamental Service Review and Castle Park Olympic Legacy project. | |
| **Est. Surplus C/Fwd** | **(812.9)** | | |

**Impact of Budget Strategy 2013/14**

## Impact of Budget Strategy 2013/14

The budget for 2013/14 has been prepared in continuing difficult financial conditions. This is alongside changing local government financial arrangements. From 2013/14 much of our budget will be through the retention of a proportion of business rates and the distribution of the New Homes Bonus, which replaces much of what would have been core government grant.

There continue to be reductions in the amount of money we receive. In addition there are a number of additional risks for local government not least the introduction of the new Local Council Tax Support scheme which replaces Council Tax Benefit and shifts the liability from central to local government.

Our programme of Fundamental Service Reviews (FSR) is now providing the majority of savings to meet budget gaps and to allow for priority items of growth and change. For example the Sport and Leisure is on target to deliver £0.6m of improved budget in 2013/14. We also continue to look for better procurement and the ICT contract will provide further savings of almost £0.3m in the next financial year.

Over the next three years the implementation of the Universal Customer Contact FSR will help to support the budget. It must be recognised that implementation of the FSRs is resource intensive and the approach has been to look at a few significant areas for savings. This is a more strategic approach than asking services to deliver percentage reductions which inevitably impact on service delivery.

## Growth items

Despite the continuing pressures it has been possible to identify funding to support actions that directly support the Strategic Plan priorities. The main items are shown in the table below

| Item | | |
|---|---|---|
| Food Waste | £2.35m over 3 years | Reduce, reuse, recycle: A government grant has been awarded following as successful bid for funding. This will allow implementation of food waste collection across the Borough following the trial. The grant is dependent on retaining residual waste collections for 5 years and we will have to fund the additional cost at the end of the grant. |
| Affordable Homes | £105k | Providing more affordable homes: This is the amount of grant in the New Homes Bonus specifically paid for the deliver of affordable homes and in total the budget now contains £152k. This is allocated to enable additional affordable homes |
| Infrastructure | £250k | Bringing investment to the Borough: An allocation from the New Homes Bonus has been built into the budget from 2013/14 to |

| Item | | |
|---|---|---|
| | | enable infrastructure projects to support the growth |
| Voluntary sector grants | Inflationary increase | Engaging with the voluntary sector: At a time when many authorities are reducing the funding to the voluntary sector, the grants have been sustained with an inflation increase, recognising the contribution the voluntary sector makes to our communities |
| Welfare reform support | £30k | Supporting the more vulnerable groups: We have taken a proactive approach in supporting people in the welfare reform changes. This allocation will support the continuation of that work together with a grant from Essex County Council |
| Tour series | £40k | Supporting tourism: In previous years the costs of the Tour Series have been supported by Essex County Council and other organisations. It is felt that this now at risk and to ensure delivery of an event that is welcomed by our communities that the full costs need to be allocated |
| Supporting local entrepreneurs (through the Eastern Enterprise Hub) | £75k | Improving opportunities for local businesses: An opportunity to develop local entrepreneurs through dedicated training and a Colchester based network of business advisors and mentors |
| Ward Budgets | £35k | Enabling local communities to help themselves: Net impact of continuing ward based budgets less the reduction in parish grants. It has been decided to continue the ward based budgets introduced as one of the Jubilee Projects in 2011/12 to provide local projects from a wide spectrum of communities to access money through their ward Councillors. |
| Colchester Market Provision | £15k | Supporting tourism and improving opportunities for local businesses: This study will review market provision and look at further opportunities for markets in the Borough to meet the needs of a range of customers and businesses |
| Photo Voltaic Panel installations | £15k | Promoting sustainability: Funding has been allocated to allow for a tender for the installation of PV panels on a range of appropriate Corporate Buildings |
| Other Strategic Plan Priorities | £100k | A range of one off projects to support deliver of the Strategic Plan priorities |

COLCHESTER

# Cabinet

**Item**

**23 January 2013**

| | | | |
|---|---|---|---|
| Report of | **Head of Strategic Policy & Regeneration** | Author | **Gareth Mitchell**<br>**Darren Brown**<br>**☎ 506972** |
| Title | **Housing Revenue Account Estimates 2013/14** | | |
| Wards affected | **All** | | |

**This report presents the Housing Revenue Account (HRA) estimates for 2013/14, the Medium Term Financial Forecast (MTFF) for 2013/14 to 2017/18, and the 30 Year HRA financial model**

## 1. Decision Required

1.1 To approve the 2013/14 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 rents for garages (set out in paragraph 4.10).

1.4 To approve the 2013/14 management fee of £3,238,300 for Colchester Borough Homes (CBH) (set out in paragraph 4.16).

1.5 To note a revenue contribution of £2,812,000 to the Housing Investment Programme is included in the budget (paragraph 4.30).

1.6 To note the HRA balances position in Appendix B.

1.7 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 Strategic Policy and Regeneration 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 2013/14***

3.1 There are a number of key issues relating to the HRA budget for 2013/14, with further details being included within the main body of the report. However, in summary they are as follows. First, there is the introduction of Welfare Reform. This is expected to have a significant impact across social landlords, and provision has been included within this budget for expenditure on increased transaction costs, providing support to tenants who may need advice or assistance, as well as providing for any potential impact on rent collection levels. Secondly, we are entering the third and final year of the fundamental services review undertaken by Colchester Borough Homes, which is expected will continue the work from years 1 and 2 in delivering a more efficient and effective service. Finally, this is the second 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 2013/14 HRA budget, it is necessary to revisit the 2012/13 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.

***2012/13 Revised Housing Revenue Account***

3.3 Appendix A shows the Revised Housing Revenue Account (HRA) estimates for 2012/13. There have been some amendments to the original budget for 2012/13 during the course of the current financial year. A reconciliation is therefore provided in the following table between the Original and Revised budget for 2012/13:-

**Reconciliation between Original and Revised 2012/13 HRA Budget**

| | ***Budget 12/13*** | ***Commentary*** |
|---|---|---|
| | ***£'000*** | |
| | | |
| **Original Budget Deficit** | **466** | Agreed 25th January 2012 |
| | | |
| 2011/12 Budgets c/fwd | 80 | Agreed by Head of Resource Management/Head of Strategic Policy and Regeneration |
| | | |
| **Revised Budget Deficit** | **546** | |

***2012/13 Forecast Outturn Position***

3.4 When considering the financial position of the HRA, in addition to the adjustments to the 2012/13 original budget shown in the above table, it is important to note the 2012/13 forecast outturn position. It is currently predicted that the HRA will be underspent by £962k compared to the revised budget for 2012/13. The table below provides a breakdown of this forecast underspend. In addition, commentary is provided on the major variations;

| | ***Outturn 12/13*** |
|---|---|
| | ***£'000*** |
| | |
| HRA Subsidy payable | (40) |
| Rental & Service Charge Income | (180) |
| Photovoltaic Income | (42) |
| **Sub-total** | **(262)** |
| | |
| *One-off/Technical Items* | |
| Capital Financing costs | (700) |
| Capitalisation of External Overview contract costs | (175) |
| Revenue Contribution to Capital | 175 |
| | |
| **Forecast 2012/13 Underspend** | **(962)** |

- The actual final audited HRA subsidy claim for 2011/12 was lower than the estimated figure used for the closure of accounts, therefore there is a one-off benefit of £40k to the HRA from this prior year adjustment. The HRA subsidy system was abolished from 2012/13 onwards as part of HRA self-financing.

- It is forecast that we will receive more rental and service charge income of £180k. This primarily relates to less rental income lost through void dwellings and more income received from Tenant and Leaseholder service charges than anticipated. The budget also assumed a loss of garage rental income from the redevelopment of some sites. Given the stage these redevelopments are currently at, it is anticipated that we will receive more garage rental income than included within the budget.

- We have received the first payment of income relating to the installation of solar panels on housing properties. A proportion of the income was provided for in the 2011/12 accounts, therefore we have received £42k of income relating to the current financial year.

- The 2012/13 HRA Budget prudently assumed that the borrowing we would undertake to fund our HRA self-financing payment to DCLG would be at a rate of 4.5%. However, subsequent to the budget being set, DCLG reduced our final settlement figure by £0.644 million, and more significantly the actual loans we took out on the 28th March 2012 were at a lower average rate of 3.5%. This has produced recurring annual savings to the HRA which have been reflected in the forecast outturn position aswell as the HRA budget for 2013/14 onwards.

- A larger proportion than anticipated of the external works programme relates to the installation of UPVC soffits and fascias this financial year (circa £175k), as opposed to painting. These works reflect an improvement to the property and hence can be capitalised, which has produced a revenue underspend of £175k in the current financial year, aswell as leading to ongoing revenue savings in future years given these elements of the property are now UPVC and will not require painting. These ongoing savings are reflected in the HRA Medium Term Financial Forecast.

- As stated above, the transfer of external decorating costs from revenue to capital has led to a revenue underspend, but which in turn has increased the cost of the Housing Capital Programme by £175k. Therefore we will use the revenue underspend referred to above to make a larger Revenue Contribution to Capital to fund this capitalised expenditure.

**HRA Reform**

3.5 Members will be aware of the implementation of the national reform of the Housing Revenue Account from April 2012. The 2013/14 budget therefore reflects the second year of the new financial arrangements for the HRA, with commentary included on the medium and long-term outlook in this report.

3.6 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. 2013/14 Housing Revenue Account Budget

4.1 Appendix A shows the Housing Revenue Account (HRA) estimates for 2013/14. This shows a predicted HRA deficit of £74K which will be funded by a use of uncommitted HRA balances.

4.2 It should be noted that the MTFF included within the 2012/13 HRA budget cycle and considered by Cabinet on 25th January 2012 estimated a deficit for 2013/14 of £835K. However, this position has now significantly improved given the gains in capital financing costs and additional rental income, which has enabled a greater RCCO to be made to fund the 2013/14 Housing Capital Programme and therefore preserve the borrowing headroom for other projects.

***Balances***

4.3 As part of the 2012/13 HRA budget, the recommended prudent level of uncommitted balances was increased to £1,600k. This was to recognise the transfer of risk from Central to Local Government resulting from HRA Reform, aswell as providing for any adverse effects of inflation, interest rates, or Right To Buy sales on the HRA. Provision was also made within the level of HRA balances for any potential additional revenue implications of our Sheltered Accommodation and Garage Site projects. Whilst there is now some certainty around interest rates given we have secured long-term fixed rates on our HRA Reform settlement debt, another risk has been introduced relating to welfare reform. Whilst provision has been made within the budget for the potential impact of this, it is prudent to recognise it in our assessment of HRA balances aswell.

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 2013 is £3,367K. 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 2013/14 as mentioned in paragraph 4.1.

4.6 The MTFF at Appendix C shows the use of uncommitted balances in 2014/15 to make a Revenue Contribution to fund the Housing Investment Programme in that year. This is because it is deemed to be a more economical use of resources, rather than fund the capital programme in that year 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 2014/15 thereafter, the assumption is that where required, revenue contributions to the capital programme will be made up to the point that the minimum recommended level of balance is reached.

**Income**

***Housing Rents***

4.7 2013/14 is the twelfth year of transitional rent reform arrangements. **Dwelling rents are set 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 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 has a target rent calculated using the Government's formula, and this increases annually by the September RPI figure + 0.5%. Actual rents are expected to "converge" with the target rent by 2015/16. As our actual rents are lower than our target rents, this means an increase over and above RPI + 0.5% to "close the gap" and converge. There are however caps and limits in place to protect tenants from very large increases. The most an actual rent can increase in any one year is RPI +0.5% +£2 a week. The average rent proposed for 2013/14 is £81.75 per week compared to a current average of £77.91, an increase of £3.84 (4.93%) per week. (It should be noted that the September 2012 RPI figure was 2.6%). 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 15 in 2012/13 (16 sold in 2011/12 and 8 sold in 2010/11), which is in line with the number expected in the 2012/13 HRA budget. The level of sales has remained at a relatively low level in the current financial year considering the Governments changes to the RTB scheme (which primarily focused around increasing RTB discounts to tenants to stimulate the housing market). There has been an increase in applications compared to previous years, although it is difficult to gauge how much of this increased activity will result in actual completions. To be prudent, the 2013/14 budget has been set assuming the sale of 30 properties to reflect the potential increase in sales as a result of the number of applications received. This increase in provision has been reflected in the MTFF and longer term modelling and will be reviewed annually as part of our future budget setting.

4.9 The budget for 2013/14 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 2012/13 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. Provision has also been made in the budget for the anticipated cost arising from the changes to the Council Tax discount scheme for voids, although it is anticipated this could be partially offset by a further reduction in void turn-around times.

***Other Income***

4.10 The rent proposed for garages for 2013/14 is £8.44 per week compared to £8.04 in 2012/13. Although these rents are outside of the rent reform arrangements this increase is in line with the proposed increase in dwelling rents, i.e. 4.93%. An assumption has been made for rental income that will be lost as a result of re-developing some of our garage sites for new affordable housing. Clearly the timing of these schemes and any knock-on impact on letting garages which are currently void will affect the level of income receivable in 2013/14.

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 2013/14 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 not been any new service charges introduced for 2013/14, only an update of existing charges to reflect the actual cost of the services provided.

4.13 Finally, the 2013/14 budget includes an estimate of £70,000 for income generated from the first phase of the Photovoltaic (Solar Panel) installations on the Council's housing properties. However, this figure could be slightly higher once any inflationary increase has been applied. As originally agreed, the income in the early years of this project will be used to offset the set up costs which were temporarily funded from HRA balances.

***Expenditure***

**Service Transformation**

4.14 As previously stated, 2013/14 will be the third year of CBH implementing their fundamental service review which is transforming the way services are delivered in Colchester. The CBH Board formally approved the business case in January 2011, with the anticipated further additional year 3 savings (over & above years 1 and 2) analysed in the table below to give an indication of the areas within the Councils HRA budget where the saving will be achieved;

| | ***Year 3*** |
|---|---|
| | ***2013/14*** |
| | ***£'000*** |
| | |
| Management Fee | 75 |
| Property Services | 35 |
| | |
| **Total Savings** | 110 |

***Local Housing Review***

4.15 At the conclusion of the local housing review, the recommendation made by the project board was to progress the option to continue with its ALMO. As a formal decision is yet to be made by Cabinet on these new arrangements, no provision has been made within the 2013/14 budget for any organisational changes which may arise. It is anticipated that the financial impact of this review will be considered for approval as part of the business case to be considered later this year.

***Colchester Borough Homes Management Fee***

4.16 The management fee payable by the Council to CBH is funded entirely from the Council's HRA. Other resources such as those for housing repairs and the capital programme are delegated to CBH to manage but do not form part of the management fee. No provision has been made for inflation, given that a large proportion of the costs relate to staff for which there is currently no assumed pay award in 2013/14. The 2013/14 budget has been reduced by £75k to reflect the Year 3 efficiency savings arising from the FSR which relate to activities funded by the management fee.

***Management Costs***

4.17 The 2013/14 HRA budget includes £5,717,900 for management costs, a decrease from 2012/13 (£5,907,200). Management costs form a substantial part of the HRA annual expenditure, and they consist of budgets managed directly by the Council, as well as those which are managed on behalf of the Council by CBH. Further information along with an explanation for any material changes from the 2012/13 budget is given in the following paragraphs;

4.18 The budget for Employee costs has decreased by £105,100 for 2013/14 which reflects the removal of the posts that directly managed our temporary accommodation units. This function is now provided by Colchester Borough Homes on behalf of the Council.

4.19 The budget for Premises costs has decreased by £18,000 for 2013/14. There has been a decrease of £58,300 in the budget for Utilities, primarily reflecting a lower price increase than originally anticipated along with a reduction in the numbers of our housing stock resulting from the temporary and sheltered accommodation projects being undertaken. Utilities are discussed further in the following paragraph. The budget for Grounds Maintenance has increased by £13,200 as provision has been made for an inflationary increase in accordance with the contract, along with an increase of £20,000 in the furnishings budget for communal areas in our sheltered accommodation schemes.

4.20 The budget for Utility costs for 2013/14 is £434,100 (compared to £492,400 for 2012/13). The majority of these costs relate to our Sheltered Housing schemes and Homeless Persons Units. The Council procures electricity and gas through the use of the OGC (Office of Government Commerce) which aims to purchase energy in bulk to secure efficiency in procurement. Utility costs can be recovered from tenants as a service charge and are included in the Fees and Charges report for approval by the Portfolio Holder for Housing.

4.21 The budget for Supplies and Service costs has increased by £153,200. The main reasons for this increase are as follows: Funding of £58,000 has been included for the potential costs of Welfare Reform, including banking and postage costs arising from direct payments to tenants. An additional provision of £40,000 has been included for potential one-off set-up costs associated with the implementation of the Council's new housing arrangements and the new management agreement with CBH. There is an increased provision of £28,000 on ICT costs, primarily to meet the rising demands on the revenue budget, along with the introduction of a £15,000 budget to meet the CBC costs of operating the Choice Based Lettings scheme, which had been omitted from previous year's budgets.

4.22 The budgets for Third Party payments and Transfer payments have decreased by £153,000. The budget for Removal and Disturbance payments has reduced by £163,000 given the fall-out of one-off costs included within the 2012/13 budget. The budget for Transfer Incentive Payments has been increased by £10,000 to support tenants who wish to move as they may be deemed to be under occupying and therefore would be subject to the "bedroom tax" under the Governments Welfare Reform proposals, which in turn could lead to a further reduction in the number of our void properties.

4.23 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 2013/14 has decreased from 2012/13, which predominantly relates to a reduction in ICT costs. Furthermore, there has been an increase in premiums relating to insuring our housing stock following the annual renewals process. It should also be noted that no provision has been made in services budgets for a pay award in 2013/14. Should one be agreed, then this would increase the salary element of any recharges from the General Fund to the HRA.

***Repairs and Maintenance***

4.24 The 2013/14 Housing Investment Programme has been drafted and is included elsewhere on the agenda for approval. In respect of revenue works £4,978,700 has been included in the budget for repairs and maintenance (compared to £4,974,600 in 2012/13), of which £4,590,000 is specifically for works provided and/or managed by CBH Property Services. The balance of the budget is for works to sewage pumping stations, Homeless Persons Units 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***

4.25 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. As previously mentioned the actual interest rates secured on the borrowing undertaken as a result of HRA Reform were significantly less than assumed within the 2012/13 budget, which has provided annual ongoing savings of around £750,000. The achievement of low cost borrowing also means we have been able to fund more of the Housing Investment Programme from revenue resources, preventing the need to undertake HRA borrowing in the short-term, and consequently preserving the HRA borrowing headroom for other priorities.

4.26 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".

4.27 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 2018/19 onwards (Year 6). 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.

4.28 Given the need to undertake additional HRA borrowing to support the Housing Investment Programme over the next 5 years, it would currently seem impractical to set-aside revenue resources for debt redemption over this period of time, which as a result would leave a funding gap which would need to be met by further borrowing (and hence incur additional revenue interest costs). However, this should be considered each year as part of the Councils annual budget setting process and review of the 30 year HRA financial model. Given the medium term investment needs currently identified and priorities agreed by Cabinet, it is proposed that no voluntary provision for debt repayment is included in the 2013/14 budget or MTFF at this point in time.

***Revenue Contributions to Capital Outlay (RCCO)***

4.29 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.

4.30 The revenue contribution included in the estimates is £2,812,000. The majority of this budget is to support the capital work programmes to the housing stock in 2013/14, which are included within the Housing Investment Programme report elsewhere on the agenda.

4.31 A provision of £110,000 has been included to meet the Council's technical strategic asset management role within the repairs and maintenance arrangements with CBH, and supports the continuing work on ICT projects required to support the HRA and the maintenance and repairs programmes. No RCCO is required to support the Housing ICT programme in 2013/14, as there are sufficient unspent resources from previous years to meet the expenditure requirements for next year. However, it is expected an RCCO for Housing ICT will be re-instated in the 2014/15 HRA budget. Finally, £150,000 has been included to fund the ongoing programme of works to Sewage Treatment Plants, which will result in their eventual adoption by Anglian Water leading to recurring revenue savings to the HRA.

***Risk areas and budget review process***

4.32 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, which is due to be introduced next year. Aswell as providing for additional 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 2013/14 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 |

| Area | Comment |
|---|---|
| | 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, although it still needs to be recognised that any additional costs would have to be met either from savings elsewhere or from balances. |
| 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, Homeless Persons Units and Communal entrances in blocks of flats. Given the volatility of utility prices previously experienced, there is a risk that prices could rise again, the cost of which would have to be funded from existing resources or HRA balances. |
| CBH Fundamental Service Review | The budget includes assumptions on the level of savings arising from Year 3 of the Fundamental Service Review at CBH. Given this is still in the implementation phase, there is the potential for this to alter, which could have a consequential impact upon HRA balances. |
| 2012/13 Outturn | An underspend of £962k is currently predicted for this year. Any variance on the forecast will either be a contribution to or from balances. |

4.33 As shown in paragraph 4.32 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 2013 | Updated outturn forecast. |
| July 2013 | Provisional pre-audit outturn / current year issues etc. |
| September 2013/ October 2013 | Mid year review. |
| December 2013 / January 2014 | Outturn review / Budget 2014/15. |

***Savings and Efficiencies***

4.34 During the process of formulating the budget, officers have continued to review areas where savings and efficiencies can be made. A number of these net savings have been built into the 2013/14 revenue budget and include;

- Review of CBC HRA budgets - £71k
- FSR at CBH (Management Fee) - £75k
- FSR at CBH (Property Services) - £35k

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

5.1 As part of the budget process for 2013/14 a MTFF has been produced for the HRA. This sets out the indicative budget position for the period 2013/14 to 2017/18. 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 anticipated changes as the Council moves towards rent restructuring. 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 (including the impact of the recent changes to the RTB scheme), 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***

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 doubled for the 2013/14 budget, and the MTFF assumes this will broadly double again by 2015/16. At this stage, the actual effect on our levels of rent arrears and subsequent write-offs is unknown, but these levels of increase are broadly in line with advice being provided by the housing sector in general. Provision has also been made to recognise the potential additional processing costs the Council might incur resulting from making direct payments to tenants, such as bank charges and postage. In total we have provided an additional £183k in the 2013/14 budget for the impact of Welfare Reform, with increases in subsequent years as previously mentioned.

- ***Temporary Accommodation Unit Review***

Work is ongoing with this project, with a joint CBC/CBH group looking at the options for the remainder of the units. No financial implications arising from this review have been included in the MTFF at this point in time.

- ***Fundamental Service Review at Colchester Borough Homes***

Provision has been made within the MTFF for the recurring savings in 2013/14 and beyond arising from this review, based on information supplied by CBH.

- ***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 £10.393million in sheltered accommodation over the next 5 years. The revenue budget not only reflects the start of works at Worsnop House, but also 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.

- ***Local Housing Review***

As previously mentioned, the recommendation from the project board was to progress the option to continue with its ALMO. As a formal decision is yet to be made by Cabinet on these new arrangements, no provision has currently been made within the MTFF for any costs/savings which may arise from any resultant organisational changes.

- ***Universal Customer Contact Fundamental Service Review (UCCFSR)***

Given the wide-ranging impact the UCCFSR will have on the Councils structure and ways of operating, there is likely to be an impact upon the HRA. However, given the early stage of the implementation of this review, the detail of this impact is unknown. Therefore, no specific budget provision has been included within the MTFF at this stage.

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. As part of the first year of the reforms, we produced a 30 year financial model which set out the long-term position of the Councils HRA and was considered by Cabinet at its meeting on 25th January 2012. As part of the 2013/14 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 6.24.

***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 current rent restructuring policy of increasing tenants rents by RPI + 0.5% 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. Although the Council has entered into agreement with DCLG to retain additional RTB receipts to deliver new affordable housing, it is not clear in this first year of the new scheme how much this will amount to. Therefore, no allowance has currently been made within the budget or modelling for any replacement units, additional capital resources generated or expenditure which might be incurred. This will be reviewed annually as part of the HRA budget setting process.

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 as a result of the joint CBC/CBH project group that has been set-up to review some of the possible options relating to these assets, which could be through 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.

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 inflation, but these costs are also subject to changes to the BCIS (Building Cost increases) 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 2013/14, 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.

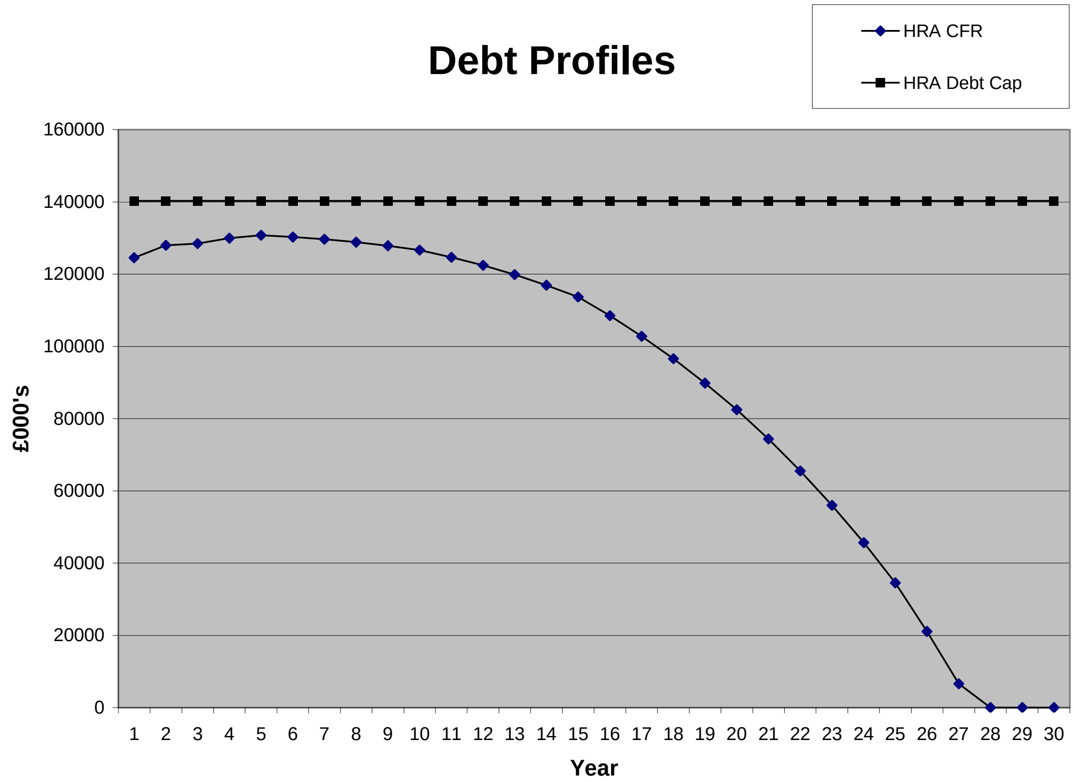
6.15 Under HRA Reform, the primary source of funding the Housing Capital Programme, especially in the early years, is a charge to the HRA which reflects the cost of depreciation to the housing stock. This is calculated locally, with reference to our actual stock condition and asset management strategy.

6.16 As previously stated, we are able to plan with certainty for the borrowing costs relating to the HRA Reform debt settlement. The achievement of lower interest rates than we prudently budgeted for has provided around £22million more resources over the 30 year period, which is reflected in the 30 year financial model. 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 2013 is expected to be £124.577million. 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 5), but then peaking in Year 5 and starting to reduce in Year 6 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** |
|---|---|
| 2013/14 | 15,698 |
| 2014/15 | 12,301 |
| 2015/16 | 11,768 |
| 2016/17 | 10,292 |
| 2017/18 | 9,549 |
| 2018/19 | 10,003 |
| 2019/20 | 10,621 |
| 2020/21 | 11,419 |
| 2021/22 | 12,411 |
| 2022/23 | 13,617 |

*Outlook Summary*

6.21 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.

6.22 The Councils current 30 year model shows that all HRA debt would be able to be repaid by year 28. This is taking into account the additional borrowing that is being undertaken to provide the 34 new units of affordable housing on garage sites, and the improvements to the sheltered housing accommodation. Were these projects not to go ahead, then all the debt would be able to be repaid approximately 2 years earlier.

6.23 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*

6.24 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 there 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 5 | Year 5 | Year 5 | Year 5 | Year 5 |
| Year Debt Repaid | Year 28 | Year 32 | Year 25 | Year 35 | Year 28 |
| Capital Investment over 30 Years | £374.3million | £324.8million | £433.8million | £324.2million | £432.9million |
| Surplus HRA Balance at Year 30 | £41.5million | £1.9million | £107.5million | £1.9million | £45.6million |

6.25 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 restructuring 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.

6.26 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 2013/14
- 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 2013/14** | | |
| | **Housing Revenue Account** | | |
| | **Summary** | | |
| **2011/2012** | | **2012/13** | **2013/14** |
| **Actuals** | **Expenditure & Income Analysis** | **Revised** | **Original** |
| | | **Budget** | **Budget** |
| **£000's** | | **£000's** | **£000's** |
| | | | |
| | **INCOME** | | |
| (22,983) | Dwelling Rents (Gross) | (24,594) | (26,093) |
| (749) | Non-Dwelling Rents (Gross) | (727) | (732) |
| (2,175) | Charges for Services and Facilities | (2,254) | (2,259) |
| (282) | Contributions towards Expenditure | (282) | (215) |
| | | | |
| **(26,189)** | **Total Income** | **(27,857)** | **(29,299)** |
| | | | |
| | **EXPENDITURE** | | |
| 4,717 | Repairs and Maintenance | 4,975 | 4,979 |
| 3,429 | CB Homes Ltd Management Fee | 3,313 | 3,238 |
| 5,381 | Management Costs | 5,987 | 5,718 |
| 109 | Rents, Rates and Other Charges | 123 | 188 |
| 4,655 | Payment of Subsidy to CLG | - | - |
| 134 | Increased provision for Bad or Doubtful Debts | 125 | 250 |
| 2,598 | Interest Payable | 6,330 | 5,567 |
| 13,816 | Depreciation and Impairments of Fixed Assets | 7,012 | 6,500 |
| 108 | Amortisation of Deferred Charges | 100 | 150 |
| 121 | Debt Management Costs | 100 | 106 |
| | | | |
| **35,068** | **Gross Expenditure** | **28,065** | **26,696** |
| | | | |
| **8,879** | **Net Cost of Services** | **208** | **(2,603)** |
| | | | |
| (7,424) | Net HRA Income from the Asset Management Account | (100) | (150) |
| 199 | Amortised Premiums and Discounts | 212 | 38 |
| (22) | HRA Investment Income (including mortgage interest and interest on Notional Cash Balances | (24) | (23) |
| | | | |
| **1632** | **Net Operating Expenditure** | **296** | **(2,738)** |
| 642 | Revenue Contribution to Capital Expenditure | 250 | 2,812 |
| (1,892) | Transfer to/(from) Major Repairs Reserve | - | - |
| | | | |
| **382** | **Deficit/(Surplus) for the Year** | **546** | **74** |
| | | | |
| (3,919) | Deficit/(Surplus) at the Beginning of the Year | (3,537) | (2,991) |
| 382 | Deficit/(Surplus) for the Year | 546 | 74 |
| (3,537) | Deficit/(Surplus) at the End of the Year | (2,991) | (2,917) |

**<u>Housing Revenue Account - Estimated Balances</u>**

| | £'000 |
|---|---:|
| **Balance as at 1 April 2012** | **(3,537)** |
| **Committed -** Capital Spending in 2012/13 and onwards | 586 |
| Less budgeted deficit/use of balances in 2012/13 | 546 |
| Plus Forecast underspend in 2012/13 | (962) |
| ***Unallocated balance at 31st March 2013*** | **(3,367)** |
| Less Proposed Use of balances in 13/14 Budget | 74 |
| **Estimated uncommitted balance at 31st March 2014** | **(3,293)** |
| **Recommended level of Balances** | **(1,600)** |
| **Forecast balances above prudent level at 31st March 2014** | **(1,693)** |

Note:

This forecast is on the basis that there are no further calls on balances during the remainder of the year and that the 2012/13 budget underspends by £962k, as currently predicted at this stage. Any deviation from this forecast underspend would either increase or decrease our uncommitted balances.

## Housing Revenue Account – Medium Term Financial Forecast

| *Area* | *Revised Budget 12/13* | *Budget 13/14* | *Budget 14/15* | *Budget 15/16* | *Budget 16/17* | *Budget 17/18* |
|---|---|---|---|---|---|---|
| | *£'000* | *£'000* | *£'000* | *£'000* | *£'000* | *£'000* |
| **Income** | | | | | | |
| Housing Rents | (24,594) | (26,093) | (26,765) | (28,026) | (28,583) | (29,226) |
| Other Income | (3,263) | (3,206) | (3,244) | (3,279) | (3,408) | (3,505) |
| | **(27,857)** | **(29,299)** | **(30,009)** | **(31,305)** | **(31,991)** | **(32,731)** |
| **Expenditure** | | | | | | |
| Repairs & Maintenance | 4,975 | 4,979 | 4,893 | 4,913 | 5,011 | 5,100 |
| Running Costs | 9,548 | 9,394 | 9,733 | 9,973 | 10,126 | 10,333 |
| Interest Payable | 6,330 | 5,567 | 5,643 | 5,731 | 5,776 | 5,825 |
| Depreciation | 7,012 | 6,500 | 6,663 | 7,249 | 7,394 | 7,542 |
| Other Capital Financing | 288 | 121 | 86 | 86 | 87 | 104 |
| RCCO | 250 | 2,812 | 4,693 | 3,344 | 3,598 | 3,827 |
| Contribution to Balances | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 |
| | **28,403** | **29,373** | **31,711** | **31,296** | **31,992** | **32,731** |
| **Budgeted (Surplus)/Deficit** | **546** | **74** | **1,702** | **(9)** | **1** | **0** |
| Forecast 2012/13 underspend | (962) | 0 | 0 | 0 | 0 | 0 |
| **Revised (Surplus)/Deficit** | * **(416)** | **74** | **1,702** | **(9)** | **1** | **0** |

| | | | | | | |
|---|---|---|---|---|---|---|
| Opening Balance | **(3,537)** | **(3,367)** | **(3,293)** | **(1,591)** | **(1,600)** | **(1,599)** |
| Committed Balance | **586** | **-** | **-** | **-** | **-** | **-** |
| (Surplus)/Deficit | **(416)** | **74** | **1,702** | **(9)** | **1** | **0** |
| **Uncommitted Closing Balance** | **(3,367)** | **(3,293)** | **(1,591)** | **(1,600)** | **(1,599)** | **(1,599)** |

* It should be noted that it is currently forecast the HRA will be underspent by £962k in 2012/13, which will result in a contribution to balances. Clearly, if this level of underspend is not achieved, then there will be a resultant impact upon the level of HRA balances.

## Review of Housing Revenue Account Balances 2013/14

## Risk Management Assessment

| Factor | Assessed Risk | | |
|---|---|---|---|
| | **High £'000** | **Medium £'000** | **Low £'000** |
| Cash flow (1% of £53m) | 530 | | |
| Interest Rate (2% on £16m) | | 320 | |
| Inflation (Decrease of 1%) | | 150 | |
| Emergencies | | 50 | |
| Right To Buy Sales | | 250 | |
| New Spending | | 100 | |
| Litigation | | | 50 |
| Welfare Reform | 250 | | |
| Sheltered Accommodation Project | 200 | | |
| Garage Sites Project | 200 | | |
| | 1,180 | 870 | 50 |

| | **Minimum Provision £'000** |
|---|---|
| High Risk – 100% | 1,180 |
| Medium – 50% | 435 |
| Low – 10% | 5 |
| **Sub Total** | **1,620** |
| | |
| Other - say | (20) |
| **Recommended Prudent Level** | **1,600** |

**Appendix E**

# Housing Revenue Account – 30 Year Financial Model

| | Year 1 2013/14 £000's | Year 2 2014/15 £000's | Year 3 2015/16 £000's | Year 4 2016/17 £000's | Year 5 2017/18 £000's | Year 1-5 Total £000's | Year 6-10 Total £000's | Year 11-15 Total £000's | Year 16-20 Total £000's | Year 21-25 Total £000's | Year 26-30 Total £000's |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue Account** | | | | | | | | | | | |
| Income | (29,299) | (30,009) | (31,305) | (31,991) | (32,731) | | (173,927) | (193,002) | (214,605) | (238,564) | (265,127) |
| Expenditure | 29,373 | 31,711 | 31,296 | 31,992 | 32,731 | | 173,926 | 192,869 | 214,423 | 238,363 | 225,757 |
| (Surplus)/Deficit | 74 | 1,702 | (9) | 1 | 0 | | (1) | (133) | (182) | (201) | (39,370) |
| | | | | | | | | | | | |
| Opening HRA Balance (Surplus) | (3,367) | (3,293) | (1,591) | (1,600) | (1,599) | | (1,599) | (1,600) | (1,733) | (1,915) | (2,116) |
| Closing HRA Balance (Surplus) | (3,293) | (1,591) | (1,600) | (1,599) | (1,599) | | (1,600) | (1,733) | (1,915) | (2,116) | (41,486) |
| | | | | | | | | | | | |
| **Capital Account** | | | | | | | | | | | |
| *Investment:* | | | | | | | | | | | |
| Stock Investment Programme | 8,337 | 9,241 | 9,361 | 10,331 | 10,590 | 47,860 | 58,572 | 61,873 | 60,609 | 66,164 | 65,064 |
| Sheltered Accommodation Review | 2,023 | 2,946 | 1,765 | 2,137 | 1,522 | 10,393 | | | | | |
| New Build | 1,000 | 2,737 | 0 | 0 | 0 | 3,737 | | | | | |
| **Total** | **11,360** | **14,924** | **11,126** | **12,468** | **12,112** | **61,990** | **58,572** | **61,873** | **60,609** | **66,164** | **65,064** |
| | | | | | | | | | | | |
| *Funded By (Resources):* | | | | | | | | | | | |
| Depreciation | (7,723) | (6,663) | (7,249) | (7,394) | (7,542) | (36,571) | (41,195) | (47,084) | (53,753) | (61,300) | (65,064) |
| Revenue Contribution | (2,812) | (4,693) | (3,344) | (3,598) | (3,827) | (18,274) | (17,377) | (14,788) | (6,855) | (4,864) | 0 |
| Capital Receipts | (825) | 0 | 0 | 0 | 0 | (825) | 0 | 0 | 0 | 0 | 0 |
| Grant | 0 | (170) | 0 | 0 | 0 | (170) | 0 | 0 | 0 | 0 | 0 |
| New Borrowing | 0 | (3,398) | (533) | (1,476) | (743) | (6,150) | 0 | 0 | 0 | 0 | 0 |
| **Total** | **(11,360)** | **(14,924)** | **(11,126)** | **(12,468)** | **(12,112)** | **(61,990)** | **(58,572)** | **(61,873)** | **(60,609)** | **(66,164)** | **(65,064)** |
| | | | | | | | | | | | |
| **Debt:** | | | | | | | | | | | |
| HRA Debt at Year End | 124,577 | 127,974 | 128,507 | 129,983 | 130,726 | | 126,658 | 113,659 | 82,460 | 34,558 | 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 | 15,698 | 12,301 | 11,768 | 10,292 | 9,549 | | 13,617 | 26,616 | 57,815 | 105,717 | 140,275 |

| | | | |
|---|---|---|---|
| COLCHESTER | **Cabinet**<br><br>**23 January 2013** | | **Item** |
| **Report of** | **Head of Strategic Policy and Regeneration** | **Authors** | **Gareth Mitchell**<br>**Darren Brown**<br>**John Rock**<br>**Tel: 506972** |
| **Title** | **Housing Investment Programme (HIP) 2013/14** | | |
| **Wards affected** | All | | |

**This report concerns the Housing Investment Programme for 2013/14**

## 1. Decision(s) Required

1.1 To approve the Housing Investment Programme for 2013/14.

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 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 2013/14 Capital programme being the second year of the (HIP).

2.5 This report seeks the release of funds under grouped headings as described in the Asset Management Strategy and supported by the Deed of Variation which governs the contractual delivery relationship between Colchester Borough Council and Colchester Borough Homes.

## 3. Supporting Information

### *Key Issues for 2013/14*

3.1 There are a number of key issues relating to the HIP budget for 2013/14, with further details being included within the main body of the report. However, in summary they are as follows. First, this is the second 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 commencement of our own programme of house building on garage sites. Finally, construction works will commence at Worsnop House, signalling the commencement of improvements to a number of sheltered housing schemes over the coming years.

3.2 This report is considered as part of agreeing the Housing Revenue Account (HRA) estimates as the funding for the Housing Investment Programme (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 second 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 2013/14 is the second year of the new national 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 2013/14 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 2013/14 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 has been built up with resources under the former HRA subsidy system & the new 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 new 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. 2013/14 Programme of Works

5.1 The requested budget allocation for the 2013/14 programme is £11.360million. 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 Cabinet are also asked to note that provision has been made within the 2013/14 programme to provide second year funding for the Sheltered Housing review agreed by Cabinet on 12th October 2011. This is designed to contribute to the funding of Worsnop House being the first sheltered scheme to benefit from the investment programme. The third year of the programme (2014/15) will see the completion of Worsnop House coupled with a start on the second scheme where investment is scheduled to take place.

## 6. HRA Capital Medium Term Financial Forecast - 2013/14 to 2017/18

6.1 As previously stated, on the 30th November 2011 Cabinet agreed in principle to accept a proposed 5 year Housing Investment Programme 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 first year being completed and a new fifth year 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 asset management strategy for which the resources had not been available under the previous HRA subsidy system. It should be noted that the figures for 2014/15 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 Asset Management

Strategy 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 2013/14 budget, and the capital medium term financial forecast at Appendix A, show the indicative expenditure requirements and capital receipts relating to the review of sheltered accommodation, and have been taken into account when determining the sources of funding available and required.

6.3 Members will be aware that at its meeting on the 25th May 2011, Cabinet approved the Councils initial bid to the Homes and Community Agency (HCA) as part of their 2011-2015 Affordable Homes Programme to fund the building of 34 new Council-owned homes. As a result, the Council was awarded £170,000 of HCA funding. The bid to the HCA contained the indicative capital costs of the scheme to be incurred by the Council. Officers are currently undertaking work to progress this scheme, and an estimated split between 2013/14 and 2014/15 of the expenditure figures included within the HCA bid has been made and is included within the capital programme in 2013/14, as shown at Appendix A**.** Once the detailed timeline of construction works has been finalised, this will inform the profile of expenditure over the next 2 years with more certainty. Finally, 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 this scheme, which still applies.

6.4 The estimated RCCO in 2013/14 is £2,812k. In recent years, this has been used to fund non-works programmes, such as Housing ICT and the capitalisation of costs associated with the Housing Strategy and Solutions team. However, as indicated in the Housing Investment Programme 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 Asset Management Strategy. It should be noted that in 2013/14, no RCCO is required to support the Housing ICT programme, as there are sufficient unspent resources from previous years to meet the expenditure requirements for next year. However, it is expected an RCCO for Housing ICT will be re-instated in the 2014/15 HRA budget. 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 The Medium Term financial forecast shows a requirement to undertake additional borrowing in the next 5 years. This is entirely related to the funding of the development of the 34 new units of accommodation on garage sites 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 no 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 the new Colchester Housing Asset Management Strategy (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 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.

## 8. Proposals

8.1 The report sets out below a summary of the proposed allocation of new resources for 2013/14 as defined by the Asset Management Strategy (AMS) with the following comments setting out the basis of the allocation.

8.2 ***Capital Investment Programme - £3.483million –*** 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 - £0.562million -*** 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 - £1.010million –*** This allocation supports the (AMS) and the experience gained through the management controls exercised for the Deed of Variation. It reflects the necessity to recognise capital works in the voids process along with emergency failures. It is possible that this work will actually be spent using the contractual arrangements entered into with our Capital Improvement contractors.

8.5 ***Emergency failures structural works - £0.281million –*** As with the previous allocation this reflects the (AMS) and the experience gained through the management controls exercised for the Deed of Variation. The work is generally associated with premature failure of structural elements and in particular the continuance of the canopy replacement programme.

8.6 ***Roofing Programme - £0.562million –*** This allocation supports the Asset Management Strategy in starting a new roof replacement programme.

8.7 ***Environmental Works - £1.461million -*** This allocation supports the Asset Management Strategy by once again starting to address the improvements to the overall estate living environment. It will include door entry systems, boundary works and PVC installations to start to reduce the revenue reliance on painting programmes.

8.8 ***Asbestos, Legionella, Fire Safety and Overall Contingency - £0.437million –*** 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.

8.9 ***Non-Works Programmes - £0.110 million*** – This is to meet the Council's technical strategic asset management role for repairs and maintenance capital projects.

8.10 ***Sewage Treatment Works - £0.150 million*** – 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 Housing Revenue Account.

8.11 ***Sheltered Accommodation Improvements - £2.023 million*** – This allocation supports the refurbishment at Worsnop House for the second year of the programme. Individual delivery contracts will be reported to Cabinet as tenders are returned.

8.12 ***Garages - £0.225 million*** – 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.

8.13 ***Temporary Accommodation - £0.056 million*** – This allocation supports investment which has been identified to bring the units up to a minimum standard.

## 9. Strategic Plan References

9.1 The Housing Investment Programme 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 – 2013/14 to 2017/18

| **Expenditure** | Notes | 2013/14 £'000 | 2014/15 £'000 | 2015/16 £'000 | 2016/17 £'000 | 2017/18 £'000 |
|---|---|---|---|---|---|---|
| Stock Investment Programme | | 7,515 | 8,418 | 8,510 | 9,469 | 9,708 |
| Adaptations | | 562 | 566 | 588 | 594 | 609 |
| Sheltered Accommodation Review | | 2,023 | 2,946 | 1,765 | 2,137 | 1,522 |
| New Build | | 1,000 | 2,737 | - | - | - |
| **Stock Investment Sub - Total** | | **11,100** | **14,667** | **10,863** | **12,200** | **11,839** |
| ICT | | - | 144 | 147 | 150 | 153 |
| SAMS | | 110 | 113 | 116 | 118 | 120 |
| Sewage Treatment Works | | 150 | - | - | - | - |
| **Other Works Sub - Total** | | **260** | **257** | **263** | **268** | **273** |
| **Total Programme** | | **11,360** | **14,924** | **11,126** | **12,468** | **12,112** |

| **Resources** | Notes | 2013/14 £'000 | 2014/15 £'000 | 2015/16 £'000 | 2016/17 £'000 | 2017/18 £'000 |
|---|---|---|---|---|---|---|
| Major Repairs Reserve | 13/14 includes balance from previous years | 7,723 | 6,663 | 7,249 | 7,394 | 7,542 |
| Revenue Contribution to Capital | 14/15 includes use of HRA balance down to minimum prudent level | 2,812 | 4,693 | 3,344 | 3,598 | 3,827 |
| Capital Grant | | - | 170 | - | - | - |
| Capital Receipts | | 825 | - | - | - | - |
| New Borrowing | | - | 3,398 | 533 | 1,476 | 743 |
| **Total Funding** | | **11,360** | **14,924** | **11,126** | **12,468** | **12,112** |

| | | |
|---|---|---|
| Colchester | **Finance and Audit Scrutiny Panel**<br>**23 January 2013** | Item **11** |

| | | | |
|---|---|---|---|
| **Report of** | **Head of Resource Management** | **Author** | **Steve Heath**<br>☏ **282389** |
| **Title** | **Treasury Management Strategy Statement** | | |
| **Wards affected** | Not applicable | | |

**The Panel is invited to review the 2013/14 Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 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 note and comment on the 2013/14 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 2013/14 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 2013/14 is included as a background paper to this report. The follow paragraphs contain a summary of the strategy for 2013/14, which covers the following issues:

- the capital plans and the prudential and treasury indicators;
- the MRP strategy.
- 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 2013/14 through to 2015/16 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 2013/14 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 growth prospects for the UK economy are expected to remain weak, with very limited prospects for any changes in the Bank Rate before 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 Sector Treasury's creditworthiness service, which combines data from credit rating agencies with credit default swaps and sovereign ratings. However, whereas this service uses ratings from all agencies in a weighted scoring system, the Council will continue to follow the approach suggested by CIPFA of using the lowest rating from all the agencies (i.e. the lowest common denominator).
- The Council will only use approved counterparties from countries with the highest credit rating of 'AAA', together with those from the UK.
- The Council will continue to avoid longer term deals while investment rates are at such low levels, unless attractive rates are available within the risk parameters set by the Council. The suggested budgeted return on investments placed for up to three months during the year is 0.50%.

3.7 Investment instruments identified for use in 2013/14 are detailed in **Appendix B** of the TMSS. It should be noted that whilst this 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 2013/14.

## 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:

- Liquidity.
- Interest rates.
- Exchange rates.
- Inflation.
- Credit and counterparty.
- Refinancing.
- Legal and regulatory.
- Fraud, error and corruption, and contingency management.
- Markets.

## 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

# Treasury Management Strategy Statement
## Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2013/14

### 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 adequately scrutinised by the Finance and Audit Scrutiny Panel.

1.5 **Prudential and Treasury Indicators and Treasury Strategy** (This report) – The first, and most important report is recommended to Full Council. 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 the Finance and Audit Scrutiny Panel.

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 2013/14**

1.10 The strategy for 2013/14 covers the following Capital and Treasury Management issues:

- the capital plans and the prudential and treasury indicators;
- the MRP strategy.
- 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, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

## *2 The Capital Prudential Indicators 2013/14 – 2015/16*

2.1 The Council's capital expenditure plans are a key driver of treasury management activity. The output of the capital expenditure plans is reflected in 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 | 2011/12 Actual | 2012/13 Estimate | 2013/14 Estimate | 2014/15 Estimate | 2015/16 Estimate |
|---|---|---|---|---|---|
| Non-HRA | 7,943 | 15,087 | 7,940 | 2,392 | 1,300 |
| HRA | 80,040 | 7,262 | 11,360 | 14,924 | 11,126 |
| **Total** | **87,983** | **22,349** | **19,300** | **17,316** | **12,426** |

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

| Capital Expenditure £'000 | 2011/12 Actual | 2012/13 Estimate | 2013/14 Estimate | 2014/15 Estimate | 2015/16 Estimate |
|---|---|---|---|---|---|
| Total Expenditure | **87,983** | **22,349** | **19,300** | **17,316** | **12,426** |
| **Financed by:** | | | | | |
| Capital receipts | (373) | 3,461 | 5,196 | 1,459 | 1,300 |
| Capital grants | 6,023 | 5,010 | 3,101 | 1,103 | 0 |
| Capital reserves | 5,704 | 6,439 | 7,723 | 6,663 | 7,249 |
| Finance leases | 218 | 4,289 | 0 | 0 | 0 |
| Revenue | 2,307 | 1,075 | 3,216 | 4,693 | 3,344 |
| **Net financing need** | **74,104** | **2,075** | **64** | **3,398** | **533** |

**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 £356k of such schemes within the CFR as at 31 March 2012. Members are asked to approve the CFR projections below:

| £'000 | 2011/12 Actual | 2012/13 Estimate | 2013/14 Estimate | 2014/15 Estimate | 2015/16 Estimate |
|---|---|---|---|---|---|
| **Capital Financing Requirement** | | | | | |
| CFR – non housing | 24,136 | 29,791 | 29,147 | 28,439 | 27,764 |
| CFR - housing | 124,577 | 124,577 | 124,577 | 127,975 | 128,508 |
| **Total CFR** | **148,713** | **154,368** | **153,724** | **156,414** | **156,272** |
| **Movement in CFR** | 73,629 | 5,655 | (644) | 2,690 | (142) |
| | | | | | |
| **Movement in CFR represented by** | | | | | |
| Net financing need | 74,104 | 2,075 | 64 | 3,398 | 533 |
| Assets aquired under finance leases | 218 | 4,289 | 0 | 0 | 0 |
| Less MRP | 693 | 709 | 708 | 708 | 675 |
| **Movement in CFR** | **73,629** | **5,655** | **(644)** | **2,690** | **(142)** |

**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 proposed 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 Should the Council decide to participate in the Local Authority Mortgage Scheme (LAMS) using the cash backed option, the mortgage lenders would require a five year deposit from the local authority to match the five year life of the indemnity. The deposit placed with the mortgage lender provides an integral part of the mortgage lending, and is treated as capital expenditure and a loan to a third party. The Capital Financing Requirement (CFR) will increase by the amount of the total indemnity. The deposit is due to be returned in full at maturity, with interest paid either annually or on maturity. Once the deposit matures and funds are returned to the local authority, the returned funds are classed as a capital receipt, and the CFR will reduce accordingly. As this is a temporary (five years) arrangement and the funds will be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application.

**Affordability Prudential Indicators**

2.13 The previous sections 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 **Actual and estimates of the 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.

| % | 2011/12 Actual | 2012/13 Estimate | 2013/14 Estimate | 2014/15 Estimate | 2015/16 Estimate |
|---|---|---|---|---|---|
| Non-HRA | 8.29% | 6.55% | 5.91% | 5.94% | 5.90% |
| HRA | 9.92% | 19.98% | 18.99% | 18.49% | 17.70% |

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.

| £ | 2013/14 Estimate | 2014/15 Estimate | 2015/16 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 budget 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.

| £ | 2013/14 Estimate | 2014/15 Estimate | 2015/16 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 2012, with forward projections are summarised below. The table shows the actual external borrowing (the treasury management operations), against the capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

| £'000 | 2011/12 Actual | 2012/13 Estimate | 2013/14 Estimate | 2014/15 Estimate | 2015/16 Estimate |
|---|---|---|---|---|---|
| **External Debt** | | | | | |
| Borrowing | 136,094 | 138,387 | 142,740 | 146,138 | 146,671 |
| Other long-term liabilities | 218 | 4,289 | 0 | 0 | 0 |
| **Gross debt at 31 March** | **136,312** | **142,676** | **142,740** | **146,138** | **146,671** |
| CFR | 148,713 | 154,368 | 153,724 | 156,414 | 156,272 |
| **Under / (over) borrowing** | **12,401** | **11,692** | **10,984** | **10,276** | **9,601** |
| Investments at 31 Mar | 20,995 | 18,920 | 18,856 | 15,458 | 14,925 |
| **Net Debt** | **115,317** | **123,756** | **123,884** | **130,680** | **131,746** |

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 2013/14 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 Head of Resource Management 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 | 2012/13 Estimate | 2013/14 Estimate | 2014/15 Estimate | 2015/16 Estimate |
|---|---|---|---|---|
| Debt | 138,387 | 142,740 | 146,138 | 146,671 |
| Other long term liabilities | 4,289 | 0 | 0 | 0 |
| Total | **142,676** | **142,740** | **146,138** | **146,671** |

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 borrowing 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 | 2012/13 Estimate | 2013/14 Estimate | 2014/15 Estimate | 2015/16 Estimate |
|---|---|---|---|---|
| Debt | 165,079 | 169,124 | 172,014 | 171,872 |
| Other long term liabilities | 4,289 | 0 | 0 | 0 |
| Total | **169,368** | **169,124** | **172,014** | **171,872** |

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 | 2012/13 Estimate | 2013/14 Estimate | 2014/15 Estimate | 2015/16 Estimate |
|---|---|---|---|---|
| Total | 140,275 | 140,275 | 140,275 | 140,275 |

## *4 Economic Outlook*

4.1 The Council has appointed Sector 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 Sector central view.

| Annual Average % | Bank Rate | Money Rates | | PWLB Borrowing Rates | | |
|---|---|---|---|---|---|---|
| | | 3 month | 1 year | 5 year | 25 year | 50 year |
| Dec-12 | 0.50% | 0.50% | 1.00% | 1.50% | 3.70% | 3.90% |
| Mar-13 | 0.50% | 0.50% | 1.00% | 1.50% | 3.80% | 4.00% |
| Jun-13 | 0.50% | 0.50% | 1.00% | 1.50% | 3.80% | 4.00% |
| Sep-13 | 0.50% | 0.50% | 1.00% | 1.60% | 3.80% | 4.00% |
| Dec-13 | 0.50% | 0.50% | 1.00% | 1.60% | 3.80% | 4.00% |
| Mar-14 | 0.50% | 0.50% | 1.10% | 1.70% | 3.90% | 4.10% |
| Jun-14 | 0.50% | 0.60% | 1.10% | 1.70% | 3.90% | 4.10% |
| Sep-14 | 0.50% | 0.60% | 1.20% | 1.80% | 4.00% | 4.20% |
| Dec-14 | 0.50% | 0.70% | 1.30% | 2.00% | 4.10% | 4.30% |
| Mar-15 | 0.75% | 0.80% | 1.30% | 2.20% | 4.30% | 4.50% |
| Jun-15 | 1.00% | 1.10% | 1.50% | 2.30% | 4.40% | 4.60% |
| Sep-15 | 1.25% | 1.40% | 1.80% | 2.50% | 4.60% | 4.80% |
| Dec-15 | 1.50% | 1.70% | 2.10% | 2.70% | 4.80% | 5.00% |
| Mar-16 | 1.75% | 1.90% | 2.40% | 2.90% | 5.00% | 5.20% |

4.2 The economic recovery in the UK since 2008 has been the slowest in recent history, although the economy returned to positive growth in the third quarter of 2012. Growth prospects are weak and consumer spending, the usual driving force of recovery, is likely to remain under pressure due to consumers focusing on repayment of personal debt, inflation eroding disposable income, general malaise about the economy and employment fears.

4.3 The primary drivers of the UK economy are likely to remain external. 40% of UK exports go to the Eurozone so the difficulties in this area are likely to continue to hinder UK growth. The US, the main world economy, faces similar debt problems to the UK, but urgently needs to resolve the fiscal cliff now that the Presidential elections are out of the way. The resulting US fiscal tightening and continuing Eurozone problems will depress UK growth and is likely to see the UK deficit reduction plans slip.

4.4 Given the weak outlook for economic growth, Sector sees the prospects for any changes in Bank Rate before 2015 as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

4.5 Economic forecasting remains difficult with so many external influences weighing on the UK. There does, however, appear to be consensus among analysts that the economy remains relatively fragile and whilst there is still a broad range of views as to potential performance, expectations have all been downgraded during 2012. Key areas of uncertainty include:

- the potential for the Eurozone to withdraw support for Greece at some point if the costs of such support escalate were to become prohibitive, so causing a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself;
- inter government agreement on how to deal with the overall Eurozone debt crisis could fragment; the impact of the Eurozone crisis on financial markets and the banking sector;

- the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to manufactured goods;
- the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that are unlikely to be achieved;
- the risk of the UK's main trading partners, in particular the EU and US, falling into recession ;
- stimulus packages failing to stimulate growth;
- elections due in Germany in 2013;
- potential for protectionism i.e. an escalation of the currency war / trade dispute between the US and China.
- the potential for action to curtail the Iranian nuclear programme
- the situation in Syria deteriorating and impacting other countries in the Middle East.

4.6 This challenging and uncertain economic outlook has several key treasury management implications:

- The Eurozone sovereign debt difficulties provide a clear indication of high counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2013/14 and beyond;
- Borrowing interest rates continue to be attractive and may remain relatively low for some time. The timing of any borrowing will need to be monitored carefully;
- There will remain a cost of carry – any borrowing undertaken that results in an increase in investments 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 high.

5.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2013/14 treasury operations. The Head of Resource Management 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 borrowings 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 were still relatively cheap.

5.3 Any decisions will be reported to the Finance and Audit 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) | 2013/14 | 2014/15 | 2015/16 |
|---|---|---|---|
| Upper limit on fixed interest rates based on net debt | 123,900 | 130,700 | 131,700 |
| Upper limit on variable interest rates based on net debt | 61,900 | 65,300 | 65,900 |

| Maturity Structure of fixed interest rate borrowing | Lower | Upper |
|---|---|---|
| Under 12 months | 0% | 10% |
| 12 months to 2 years | 0% | 50% |
| 2 years to 5 years | 0% | 50% |
| 5 years to 10 years | 0% | 70% |
| 10 years and above | 0% | 100% |

**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 Finance and Audit Scrutiny Panel at the earliest meeting following its action.

## *6 Investment Policy*

6.1 The Council’s investment policy has regard to the CLG’s Guidance on Local Government Investments (“the Guidance”) and the 2011 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 the security and liquidity of its investments, although the yield or return on the investment is also a key consideration.

6.2 In accordance with the above, and in order to minimise the risk to investments, the Council has stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings and watches published by all three ratings agencies with a full understanding of what the ratings reflect in the eyes of each agency. Using the Sector ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies advise of modifications.

6.3 Furthermore, the Council’s officers recognise that ratings should 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. This is fully integrated into the credit methodology provided by the advisors, Sector in producing its colour coding which shows the varying degrees of suggested creditworthiness.

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

6.5 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.

6.6 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.

6.7 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**

6.8 This Council applies the creditworthiness service provided by Sector. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poors. 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.

6.9 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 which 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 (AAA rated Government debt or equivalent)
- Purple 2 years
- Blue 1 year (nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour not to be used

6.10 The Sector 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.

6.11 This methodology does not apply the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties. The Council will however continue to apply the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, and one meets the Council's criteria while the other does not, that institution will fall outside the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

6.12 Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of Short Term rating F1, Long Term rating A, Viability ratings of c, and a Support rating of 2.

6.13 The Council is alerted to changes to ratings of all three agencies through its use of the Sector 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 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.

6.14 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

6.15 The Council may consider participating in the Local Authority Mortgage Scheme (LAMS). This is a cash backed mortgage scheme which requires the Council to place a matching five year deposit to the life of the indemnity. This investment is an integral part of the policy initiative and is outside the criteria above.

**Country limits**

6.16 The Council will only use approved counterparties from countries with a minimum sovereign credit rating of AAA, based on the lowest available rating. The list of countries that qualify using this credit criteria as at the date of this report are shown below. This list will be amended by officers should ratings change in accordance with this policy.

| | | | |
|---|---|---|---|
| Australia | Canada | Denmark | Finland |
| Germany | Luxembourg | Netherlands | Norway |
| Singapore | Sweden | Switzerland | UK |

6.17 The above policy excludes UK counterparties. While the UK currently has an AAA sovereign rating, the credit rating agencies will be carefully monitoring the rate of growth in the economy. It is possible that the UK could have this rating downgraded by one, or more, rating agencies. This approach therefore ensures continuity of being able to invest in UK banks if such a downgrading were to occur.

## *7 Investment Strategy*

7.1 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).

7.2 The Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 4 of 2014/15. Bank Rate forecasts for financial year ends (March) are:

- 2012/ 2013 0.50%
- 2013/ 2014 0.50%
- 2014/ 2015 0.75%
- 2015/ 2016 1.75%

7.3 There are downside risks to these forecasts if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if the Bank of England inflation forecasts for two years ahead exceed its 2% target rate.

7.4 In light of the Eurozone situation Sector are advocating a restriction of duration limits of investments to a maximum of 3 months. The only exceptions to this being the UK Government and related entities (such as Local Authorities), UK semi-nationalised institutions and money market funds.

7.5 The Council will avoid locking into longer-term deals while investment rates are down at historically low levels unless attractive rates are available within the risk parameters set by the Council that make longer-term deals worthwhile. The suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year for the next three years are as follows:

- 2013/14 0.50%
- 2014/15 0.60%
- 2015/16 1.50%

7.6 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 three months) in order to benefit from the compounding of interest.

**Icelandic Bank Investments**

7.7 The Council received three distributions between February and October 2012 relating to its investments in Icelandic banks, which amount to approximately 50% of the value of the claim. At present, the Council expects to recover approximately 100% of its deposits in Landsbanki but the precise amount may vary owing to foreign exchange fluctuations. The exchange rate risk will continue to be managed proactively with assets converted to sterling at the earliest opportunity.

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

## *8 Policy on the use of external service providers*

8.1 The Council uses Sector 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.

8.2 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.

**Interest Rate Forecast 2011/2015** **APPENDIX A**

| | NOW | Dec 2012 | Mar 2013 | Jun 2013 | Sep 2013 | Dec 2013 | Mar 2014 | Jun 2014 | Sep 2014 | Dec 2014 | Mar 2015 | Jun 2015 | Sep 2015 | Dec 2015 | Mar 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Sector's Interest Rate View** | | | | | | | | | | | | | | | |
| Bank Rate | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.75% | 1.00% | 1.25% | 1.50% | 1.75% |
| 3 month LIBID | 0.40% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.60% | 0.60% | 0.70% | 0.80% | 1.10% | 1.40% | 1.70% | 1.90% |
| 6 month LIBID | 0.56% | 0.70% | 0.70% | 0.70% | 0.70% | 0.70% | 0.70% | 0.80% | 0.90% | 1.00% | 1.10% | 1.30% | 1.60% | 1.90% | 2.20% |
| 12 month LIBID | 0.92% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.10% | 1.10% | 1.20% | 1.30% | 1.30% | 1.50% | 1.80% | 2.10% | 2.40% |
| 5yr PWLB Rate | 1.66% | 1.50% | 1.50% | 1.50% | 1.60% | 1.60% | 1.70% | 1.70% | 1.80% | 2.00% | 2.20% | 2.30% | 2.50% | 2.70% | 2.90% |
| 10yr PWLB Rate | 2.64% | 2.50% | 2.50% | 2.50% | 2.60% | 2.60% | 2.70% | 2.70% | 2.80% | 3.00% | 3.20% | 3.30% | 3.50% | 3.70% | 3.90% |
| 25yr PWLB Rate | 3.88% | 3.70% | 3.80% | 3.80% | 3.80% | 3.80% | 3.90% | 3.90% | 4.00% | 4.10% | 4.30% | 4.40% | 4.60% | 4.80% | 5.00% |
| 50yr PWLB Rate | 4.04% | 3.90% | 4.00% | 4.00% | 4.00% | 4.00% | 4.10% | 4.10% | 4.20% | 4.30% | 4.50% | 4.60% | 4.80% | 5.00% | 5.20% |
| **Bank Rate** | | | | | | | | | | | | | | | |
| Sector | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.75% | 1.00% | 1.25% | 1.50% | 1.75% |
| UBS | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | | | | | |
| Capital Economics | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | | | | | |
| **5yr PWLB Rate** | | | | | | | | | | | | | | | |
| Sector | 1.66% | 1.50% | 1.50% | 1.50% | 1.60% | 1.60% | 1.70% | 1.70% | 1.80% | 2.00% | 2.20% | 2.30% | 2.50% | 2.70% | 2.90% |
| UBS | 1.66% | | | | | | | | | | | | | | |
| Capital Economics | 1.66% | 1.30% | 1.30% | 1.30% | 1.30% | 1.30% | 1.30% | 1.30% | 1.50% | 1.60% | | | | | |
| **10yr PWLB Rate** | | | | | | | | | | | | | | | |
| Sector | 2.64% | 2.50% | 2.50% | 2.50% | 2.60% | 2.60% | 2.70% | 2.70% | 2.80% | 3.00% | 3.20% | 3.30% | 3.50% | 3.70% | 3.90% |
| UBS | 2.64% | 2.80% | 3.00% | 3.10% | 3.20% | 3.40% | 3.50% | 3.60% | 3.70% | 3.80% | | | | | |
| Capital Economics | 2.64% | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | | | | | |
| **25yr PWLB Rate** | | | | | | | | | | | | | | | |
| Sector | 3.88% | 3.70% | 3.80% | 3.80% | 3.80% | 3.80% | 3.90% | 3.90% | 4.00% | 4.10% | 4.30% | 4.40% | 4.60% | 4.80% | 5.00% |
| UBS | 3.88% | 4.00% | 4.20% | 4.30% | 4.40% | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% | | | | | |
| Capital Economics | 3.88% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | | | | | |
| **50yr PWLB Rate** | | | | | | | | | | | | | | | |
| Sector | 4.04% | 3.90% | 4.00% | 4.00% | 4.00% | 4.00% | 4.10% | 4.10% | 4.20% | 4.30% | 4.50% | 4.60% | 4.80% | 5.00% | 5.20% |
| UBS | 4.04% | 4.10% | 4.30% | 4.40% | 4.50% | 4.60% | 4.60% | 4.60% | 4.60% | 4.60% | | | | | |
| Capital Economics | 4.04% | 3.80% | 3.80% | 3.80% | 3.80% | 3.80% | 3.80% | 3.80% | 3.80% | 3.80% | | | | | |

| ORGANISATION | Colour Code | CRITERIA | | | MAXIMUM AMOUNT | MAX. PERIOD Support Rating | | |
|---|---|---|---|---|---|---|---|---|
| | | Short-Term | Long-Term | Viability | | 1 | 2 | 3 |
| Deposits with Banks and Building Societies (including unconditionally guaranteed subsidiaries) * | As per Section 6 of TMSS | Minimum F1+ | AAA, AA+, AA, | Minimum a- | £7.5m | 2 years | 2 years | |
| | | Minimum F1+ | Minimum AA | Minimum bbb | £2.5m | 1 year | 1 year | |
| | | Minimum F1 | A+, A | Minimum a- | £2.5m | 6 mths | 6 mths | |
| | | | | Minimum bbb | £2.5m | 3 mths | 3 mths | |
| UK nationalised / part nationalised banks | Blue | F1+ | | Minimum c | £5m | 1 year | | |
| CDs or corporate bonds with Banks and Building Societies ** | As per Section 6 of TMSS | | | | As above | As above | | |
| 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 | | | AAA | | Unlimited | 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
- Viability and Support ratings are only available from Fitch
- The Local Authority Mortgage Scheme is classified as being a service investment rather than a treasury management investment, and is therefore outside of the specified / non specified categories.

* Temporary restriction of duration limits to a maximum of 3 months (see Section 7 of TMSS)
** Covered by UK Government (explicit) guarantee

COLCHESTER

# Finance and Audit Scrutiny Panel

**Item 12**

**22 January 2013**

| | | | |
|---|---|---|---|
| **Report of** | **Head of Corporate Management** | **Author** | **Robert Judd**<br>**Tel. 282274** |
| **Title** | **Work Programme 2012-13** | | |
| **Wards affected** | Not applicable | | |

**This report sets out the 2012-13 Work Programme for the Finance and Audit Scrutiny Panel**

## 1. Action required

1.1 The Panel is asked to consider and note the rolling 2012-13 work programme.

## 2. Reason for Scrutiny

2.1 This function forms part of the Panel's Terms of Reference in the Constitution.

## 3. Amendments

- o The review of the financial impact of a new Park and Ride Scheme has been scheduled for the meeting on 26 February 2013.
- o The firstsite project remains an outstanding item for review.
- o The Ernst and Young reports due on 22 January 2013 have been deferred to a later date.

## 4. Work Programme

4.1 **26 June 2012**

1. Honorary Alderman (A&R)
2. Myland Community Governance Review (A&R)
3. Annual review of the Governance Framework and 2011-12 Statement (A&R)
4. 2011-12 Revenue Expenditure Monitoring Report
5. 2011-12 Capital Expenditure Monitoring Report

4.2 **24 July 2012**

1. Draft Annual Statement of Accounts (A&R)
2. 2011-12 Internal Audit Report
3. Annual Report on Treasury Management
4. 2011-12 Risk Management Summary & Strategy Review

4.3 **21 August 2012**

1. 2012-13 Revenue Expenditure Monitoring Report, period April to June
2. 2012-13 Capital Expenditure Monitoring Report, period April to June

4.4 **25 September 2012**

Annual Statement of Accounts (A&R) briefing 20 September 2012

1. Audited Annual Statement of Accounts
2. Annual Governance Report (AC)
3. Consultation on name of 'HARBOUR WARD'

4.5 **16 October 2012**
1. Call-in – COM-003-12 Proposed Transfer of the Abbots Building
2. Call-in – REN-001-12 Setting Local Speed Limits
3. Publication of the Audited SofA – A&R
4. Annual Audit letter – A&R

4.6 **13 November 2012 (extra meeting)**
1. Annual Business Continuity Year end
2. Risk Management, period April – September 2012
3. Review of Waste Collection and Recycling
4. CGR Myland CC – A&R

4.7 **20 November 2012**
1. 2012-13 Revenue Expenditure Monitoring Report, period April to September
2. 2012-13 Capital Expenditure Monitoring Report, period April to September
3. Treasury Management – 6-monthly update
4. Interim Annual Governance Statement review
5. 2012-13 Internal Audit Monitor, period April to September
6. Certification of Claims and Returns Annual Report

4.8 **22 January 2013**
1. Audit Opinion Plan – Ernst Young (EY)
2. Audit Commission Progress report (EY)
3. 2013-14 Revenue Budget
4. Treasury Management - Investment Strategy
5. Housing Revenue Account Estimates and Housing Investment Programme

4.9 **26 February 2013**
1. 2012-13 Revenue Expenditure Monitoring Report, period April to December
2. 2012-13 Capital Expenditure Monitoring Report, period April to December
3. Review of Grounds Maintenance Contract
4. The financial impact of a new Park and Ride Scheme

4.10 **26 March 2013**
1. Annual Governance Statement Process
2. Certificate of Claims and Returns (EY)

4.11 **2013-14**
To consider updated information on income and expenditure for the High Woods Country Park in June 2013.

**5. Standard and Strategic Plan References**

5.1 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, of which scrutiny is a part, underpins the implementation and application of all aspects of the Council's work.

5.2 Scrutiny is a key function to ensure decisions have been subject to full appraisal and that they are in line with the Council's strategic aims. The role of scrutiny is also an important part of the Council's risk management and audit process, helping to check that risks are identified and challenged.

5.3 There is no publicity, equality and diversity, human rights, community safety, health and safety, risk management or financial implications in this matter.