Scrutiny Panel

Grand Jury Room, Town Hall
28 January 2014 at 6.00pm

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

Scrutiny Panel – Terms of Reference

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

(a) To review corporate strategies;

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

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

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

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

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

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

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

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

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

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

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

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

COLCHESTER BOROUGH COUNCIL
SCRUTINY PANEL
28 January 2014 at 6:00pm

Members

Chairman	:	Councillor Beverly Davies.
Deputy Chairman	:	Councillor Marcus Harrington.
		Councillors Dave Harris, Jo Hayes, Gerard Oxford, Kevin Bentley, Nick Cope, Peter Higgins and Mike Hogg.
Substitute Members	:	All members of the Council who are not Cabinet members ofr 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 **1**

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

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

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

2. Substitutions

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

3. Urgent Items

To announce any items not on the agenda which the Chairman has agreed to consider because they are urgent 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 **2 - 12**

To confirm as a correct record the minutes of the meeting held on 10 December 2013.

6. Decisions taken under special urgency provisions

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

7. Decisions taken under special urgency provisions

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

8. Referred items under the Call in Procedure

To consider any decisions taken under the Call in Procedure.

9. 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.

10. Revenue Budget 2014-15 **13**

See covering report by the Assistant Chief Executive.

a. General Fund Revenue Budget, Capital Programme and Medium Term Financial Forecast 2014-15 **14 - 53**

See report to Cabinet by the Assistant Chief Executive

b. Housing Revenue Account Estimates 2014-15 **54 - 75**

See report to Cabinet by the Head of Commercial Services

c. Housing Investment Programme 2014-15 **76 - 83**

See report to Cabinet by the Head of Commercial Services

11. Treasury Management Strategy Statement **84 - 101**

See report by the Assistant Chief Executive.

12. Work Programme 2013-14 **102 - 105**

See report by the Assistant Chief Executive.

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).

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SCRUTINY PANEL
10 DECEMBER 2013

Present :-	Councillor Beverly Davies (Chairman) Councillors Kevin Bentley, Nick Cope, Marcus Harrington, Dave Harris, Jo Hayes, Peter Higgins and Mike Hogg
Substitute Member :-	Councillor Philip Oxford for Councillor Gerard Oxford
Also in Attendance :-	Councillor Martin Hunt Councillor Paul Smith

38. Minutes

The minutes of the meeting held on 29 October and 12 November 2013 were confirmed as correct records.

39. Work Programme 2013/14

The Panel considered a report by the Assistant Chief Executive setting out the current Work Programme for the Panel for 2013 -14.

A review of the Council's overall IT provision in respect of the financial costs, practicalities, project management and milestones had been added to the programme for the meeting in March 2014. In addition, information was awaited from Colchester Hospital Trust regarding the attendance of the Chief Executive and Chairman of the Board at the Panel meeting in January 2014.

RESOLVED that the contents of the Work Programme be noted.

40. Review of Parking Services in Colchester

Councillors Bentley and Harris (in respect of their being members of Essex County Council) declared their non-pecuniary interests in the following item pursuant to the provisions of Meetings General Procedure Rule 7(5).

Councillor P Higgins (in respect of his spouse's membership of Essex County Council) declared his non-pecuniary interest in the following item pursuant to the provisions of Meetings General Procedure Rule 7(5).

The Panel received a report by the Head of Operational Services requesting consideration of the presentation delivered jointly by Matthew Young, Head of Operational Services and Richard Walker, North Essex Parking Partnership Group Manager.

At the meeting of the Panel in August 2013 it had been agreed that a review of parking services would be added to the Panel’s work programme with the intention of including the following items in particular:

- Whether the provision of parking services in Colchester is compliant with the Local Transport Plan
- Whether Colchester’s parking policy is helping Colchester businesses and residents, and helping to transform the town centre
- What the benefits of the North Essex Parking Partnership are to Colchester (including financial)
- An understanding of the decision making process (to include the relationship between NEPP and ECC).

Councillor Martin Hunt, Portfolio Holder for Street and Waste Services and Braintree District Councillor Robert Mitchell, Chairman of the North Essex Parking Partnership (NEPP) Joint Committee, had both accepted the Panel's invitation to attend the meeting and participate with the Panel in open discussion. Essex County Councillor Rodney Bass, Portfolio Holder for Highways and Transportation, had also been invited to attend the meeting but had declined.

The presentation gave details of the various pieces of legislation relating to traffic regulation and enforcement which had been introduced since 1984 and set out the local priorities for the parking service in Colchester which had been identified by the Cabinet as follows:

- Support town centre vitality
- Support the increasing costs of running and refurbishing car parks
- Encourage travel outside peak hours
- Influence supply, demand and congestion
- Be aware of price elasticity and resistance

Parking had been decriminalised in Essex between 2002 - 04, at which time Essex County Council (ECC), as makers of policy, had established twelve Highways Agencies within the Borough and District Councils to administer parking enforcement. ECC retained four area offices which administered engineering, traffic regulation orders and maintenance.

In 2009, with a growing deficit of £900,000 countywide, ECC issued notices to cancel the District and Borough agencies. A Review Group had been formed in 2010 with the following objectives:

- More efficient and consistent operation
- Address enforcement issues
- Eliminate the deficit

The agreed solution which was produced proposed an ownership model Local Authority partnership with a lead delivery authority providing shared services. The intention being to deliver the following benefits:

- A Partnership Agreement

- Each Local Authority member retained influence on parking authority decisions
- A lead delivery authority
- Support for all authorities in partnership
- A consistent approach to improving performance
- The opportunity to contract district off street enforcement and operations into the partnership
- More effective use of resources through reduced duplication
- The potential for market testing at a future time
- Alignment to sub regional economic solutions
- A single partnership financial account
- Shared risk and opportunity

The NEPP was created as a result which delivered a number of changes, including:

- All parking matters were brought into one place –with a single business case
- An agreed budget for and associated improvements to the signage and traffic restriction backlog
- Transfer of maintenance of signs and lines to the Partnership
- District sign up to off-street services was optional
- Income from Penalty Charge Notices (PCNs) was maintained
- Provision of improved enforcement and follow-up of PCNs
- Efficiencies in operation made in order to eliminate the deficit
- Savings delivered from reduced management, overheads and accommodation.

The presentation also provided information in relation to the staff structure and the Joint Committee decision making process.

The following issues were raised by Panel members:

- Councillor P Higgins - incidents whereby enforcement activity had been concentrated in particular locations at certain times and the reasons behind this approach, when the long awaited major review of residential parking schemes would be concluded, the proportion of fines which were paid early and those the subject of complaints being upheld and the length of time remaining on the NEPP Agreement;
- Councillor Harris – the restricted budget which was available for maintaining road signage, whether this would result in unclear parking restrictions with potential difficulties in imposing PCNs, welcoming the introduction of the 'camera car' to assist in the safety of school children on their journeys to and from school and the ability of staff to take on new traffic schemes given the limited resources available;
- Councillor Harrington – the reasons behind the length of time taken to implement a scheme after a request had been submitted and the ability of Enforcement Officers to act promptly on reports of contraventions by vehicles;
- Councillor Cope – the current average timescale for the delivery of a traffic scheme and the details of the appeals process;
- Councillor Bentley – the reasons behind the length of time taken to implement a traffic restriction in the locality of a school, the need to issue a summary document explaining the work and inter-relationships of the NEPP and the Local Highway Panel (LHP), the possibility of utilising the County Member Enquiry Service to

assist with parking related enquiries and the measures being proposed to compensate for income targets failing to be met;
- Councillor Hogg – how the ‘park safe’ car service will be structured and allocated within and across the Districts;
- Councillor Hayes – the need for residents in densely populated areas such as Castle ward, where it was not possible to obtain a parking permit, to be permitted to unload items such as shopping from their vehicles without the risk of incurring a PCN, the potential conflict between the regulation of traffic and the raising of revenue, the benefits to Colchester of it being the lead authority in the NEPP and her preference for all NEPP vehicles to not carry a Borough Council logo;
- Councillor Davies – to what extent the NEPP and South Essex Parking Partnership (SEPP) were similar, the need for the NEPP risk register to be regularly reviewed to take account of changing circumstances and service delivery and whether the partnership benefitted from the income generated from advertising in car parks.

In response to issues raised, the following information was provided jointly by Matthew Young and Richard Walker and Councillor Hunt:

- The recent introduction of regulations to enforce dropped kerbs did not provide discretion on the part of the Enforcement Officers other than to impose a PCN and this had initially created a problem in the New Town area where a significant number of dropped kerbs had been installed for drainage purposes rather than for access;
- The major review of residential parking schemes was due to be advertised in the local paper in January 2014 and it was hoped it would accord with the outcome of the consultation which had originally been conducted some 8 years ago. The statutory consultation period would be for 21days and would include maps to illustrate the proposals;
- The civil engineering funding made available over a number of years had amounted to approximately £1m however the backlog and complication of traffic regulation orders had proved a challenge to tackle and to improve;
- It was not possible to deviate from the prescribed process in relation to the implementation of traffic regulation orders, including the type and length of public consultation. It was felt that this situation had, however, been improved through the introduction of the Partnerships which had provided opportunities locally for representations to be made direct to the Joint Committee members;
- Enforcement Officers were able to determine their own routes for enforcement and to decide their ability to respond to information on contraventions. It was usually easier to act on these if they followed a regular pattern, as prior planning enabled route patterns to be varied more easily;
- The current timeframe for the delivery of a traffic scheme was thought to be a number of years although when the backlog of orders to be reviewed had been cleared, it was anticipated that this timeframe would be reduced to 12 months
- The reasons behind the time taken for the implementation of traffic restrictions was the need to undertake public consultation, there was currently around 300 schemes awaiting action and there were three members of staff who were responsible for this work load. The limited engineering staff resources meant that the reviews in each District exhausted the ability to take on work elsewhere until the

reviews were completed

- Before undertaking a review of parking charges generally the Portfolio Holder was waiting to assess the impact of the introduction of Park and Ride on the Council's Medium Term Financial Forecast;
- An information pack was due to be sent to all councillors explaining how the 'park safe' car service would work;
- In areas where there was no scheme for residents' parking the aim was to provide sensible zoned solutions and this was an area of work which was intended to be looked at after the completion of the current parking review;
- A hierarchy of priorities was in place to penalise those motorists breaking the law but this did not include the requirement to make a profit from fines or the imposition of targets for the issue of PCNs;
- Options for the future delivery of the NEPP cash collection service were being discussed with the Portfolio Holder for Business and Resources and whilst these discussions were being conducted alternative arrangements for the collection had been put in place;
- The context for the setting up of the NEPP was that Colchester had formed a parking partnership with Braintree and Uttlesford which subsequently led to Essex County Council inviting expressions of interest in taking the lead in a parking partnership. It was felt to be in Colchester's best interests to take the lead in this wider partnership given the continuing opportunities to share the costs of the support for the service across the region;
- It was confirmed that all NEPP vehicles carried only a NEPP logo and not a Borough Council logo;
- There was a trend towards fines being paid earlier and for people choosing to maximise the discounted rate period;
- New schemes were considered by the NEPP Joint Committee at each meeting when they were assessed in accordance with a scoring matrix. At the last meeting three new schemes had been approved for Colchester;
- The proportion of complaints against the issuing of PCNs being upheld was attributed to the cases of valid Blue Badges and pay and display tickets not being displayed adequately;
- The current NEPP Agreement had been signed in 2011 and was for a period of seven years, with the option to extend it for a further four years. Signatories had the option to give 12 months notice of their intention to withdraw from the partnership;
- Client officers from the parking partnership met regularly and it was felt that the County Council preferred the proactive approach adopted by the NEPP. The SEPP included a higher proportion of residents' parking schemes and off street parking which meant its income was greater. The two partnerships were similar in terms of issues and problems, however, the NEPP covered a far larger area;
- The NEPP risk register was reviewed regularly and was due to be considered at the next meeting of the NEPP Joint Committee in January;
- The NEPP Agreement provided for income generated from advertising in car parks to be retained by individual districts.

Braintree District Councillor Robert Mitchell was invited to contribute to the discussions by the Chairman of the Panel. He explained that all of the members of the NEPP were looking forward to the introduction of the CCTV vehicle on the basis that they were all of the view that it would greatly assist with enforcement in the locality of schools and would require fewer enforcement officers to issue PCNs. He wished to encourage the use of the term ‘Park Safe’ car in relation to the CCTV vehicle due to the anticipated contribution towards safe parking and increased cycling and walking.

He also referred to the NEPP budget, the need to address the inherited deficit of £900k, one third of which had been in respect of one of the Districts in the Partnership, and the recently identified disparity of funding awarded between the two Parking Partnerships by Essex County Council. He was strongly of the view that the inequality in funding from the County Council, despite the NEPP having paved the way for the SEPP, needed to be addressed as a priority for the NEPP.

Councillor Mitchell reminded the Panel that fewer Enforcement Officers would be required if motorists responded to the imposition of PCNs and became generally more compliant with traffic restrictions. He explained that the money generated from the PCNs was used to fund the Enforcement Team which was also responsible for enforcing the off street parking areas. However, shoppers were increasingly taking advantage of the low cost parking offers and this was impacting on the income being generated.

Councillor Mitchell went on to mention the complicated nature of some of the Traffic Regulation Orders that had been inherited by the Partnership which had impacted on officers’ abilities to undertake the reviews expeditiously.

In terms of the allocation of the ‘park safe’ car, Councillor Mitchell explained that it would be uttilised across all the Districts in the same way that the Enforcement Officers were apportioned. The service had a great deal of support across all Districts with the aim of providing an additional ‘policing’ mechanism of the zig-zag lines outside schools. It was hoped that the car would be able to attend four or five school locations each morning and each afternoon.

Councillor Mitchell referred to the cash collection for the NEPP which had been the subject of a tender exercise following the closure of Colchester’s Cash Office and that he was aware that concerns had been expressed informally by NEPP Joint Committee members about the implications of this arrangement across the Partnership Districts.

Councillor Mitchell confirmed that most of the Districts in the NEPP were satisfied with Colchester as lead authority. He agreed that this arrangement made sense in terms of efficiencies and effectiveness, although he acknowledged that the partnership was maturing, despite difficulties as a result of the very large geographical area.

At the conclusion of the discussions Richard Walker offered to circulate to councillors the list of priorities for the Enforcement Officers as well as the contact details for the Area Managers relevant to each ward.

A number of Panel members were of the view that a more detailed consideration needed to be undertaken of the financial side of the NEPP partly set out in the report from the Head of Operational Services, including the income generated, the current extent of the deficit and the measures proposed to address it. It was suggested that the Panel could request Cabinet to consider setting up a Task and Finish Group to undertake this further piece of work.

RESOLVED that –

(i) Arrangements be made for the Scrutiny Panel to undertake, at an additional meeting to be agreed, a more detailed consideration of the following issues:

- The NEPP budget situation, including the information set out in the report to this meeting from the Head of Operational Services;
- Details of income generated by the NEPP;
- Current extent of the NEPP deficit;
- The measures proposed to address the deficit

(ii) At the conclusion of the Panel's review of the financial issues identified above, consideration then be given to the need for Cabinet to consider the setting up of a Task and Finish Group.

41. Treasury Management Strategy Statement – Mid-Year Review Report 2013/14

A report was submitted by the Assistant Chief Executive inviting the Panel to note the activities relating to treasury management for the first six months of 2013/14 and consider performance.

Steve Heath, Finance Manager, Financial Accounting, explained that the Council operated a balanced budget, which broadly meant that income raised during the year would meet expenditure. Part of the treasury management operation ensured that the cash flow was adequately planned, with surplus monies being invested in low risk counterparties, providing adequate security and liquidity before considering investment returns.

The second main function of the treasury management service was the funding of the Council's capital plans. These capital plans provided a guide to the borrowing need of the Council to ensure the Council could meet its capital spending operations.

The Council employed Capita Asset Services (formerly known as Sector Treasury) to provide a consultancy service in respect of treasury management, to include advice on both debt and investments. During the year they had provided advice on borrowing, investments, counterparty credit details and general capital accounting information.

The report provided an update on the Council's position in the light of the latest economic performance as follows:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential

indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

The latest forecast for the borrowing element of Capital Expenditure showed increases in the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision).

The latest position in terms of the underlying need to borrow for capital purposes demonstrated that the Council had maintained gross borrowing within its authorised limit during the first six months of 2013/14. One key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing would only be for a capital purpose. No difficulties were envisaged for the current or future years in complying with this prudential indicator. The Council had borrowings of £136m and had utilised £13.5m of cash flow funds in lieu of borrowing. This was a prudent and cost effective approach in the current economic climate, but would require ongoing monitoring. It was anticipated that no new borrowing would be undertaken during this financial year and no debt rescheduling had been undertaken during the first six months of 2013/14.

It was the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which was consistent with the Council's risk appetite. It was a very difficult investment market as rates were very low in line with the 0.5% Bank Rate. Given this risk averse environment, investment returns were likely to remain low. The Council held £37.0m of investments as at 30 September 2013 (£21.6m at 31 March 2013) and the investment portfolio yield for the first six months of the year was 0.54% against the three-month LIBID benchmark of 0.38%. The level of investments held, and therefore the total returns available, were likely to reduce during the remainder of the year as a result of cash flow fluctuations and the continuing strategy of internal borrowing. The report confirmed that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2013/14 whilst the Council's budgeted investment return for 2013/14 was £100k, and performance for the year to date was expected to be above budget.

The Council had invested a total of £4m in Icelandic banks in September 2008, which suffered a default following the collapse of the Icelandic banking system. The Landsbanki winding up board made a fourth distribution to creditors in September 2013, making the total distribution approximately 53% of the claim. The insolvency administration of the bank was likely to continue for several years and Panel members would be kept updated on the latest developments.

The following issues were raised by Panel members:

- Councillor Harrington – whether the Portfolio Holder for Business and Resources had previously implied that 100% of the Council's claim regarding its Icelandic investments had been successfully recovered;
- Councillor Cope - the accuracy of the interest forecasts, particularly those up to the period 2017;
- Councillor Harris – an explanation of the terms 'underborrowing' and 'internal

borrowing'.

In response to issues raised, the following information was provided by Steve Heath and Councillor Smith:

- Previous announcements regarding the Icelandic investments had been in relation to the Priority Creditor status of the Council and the expectation that this would assist in the full recovery of the claim;
- The interest rate forecasts were provided by the Council's Treasury Management Consultants who were employed to provide us with their advice in this field;
- 'Underborrowing' related to the Council's need to borrow compared to the actual level of borrowing which was lower. If the Council was 'fully borrowed' it would create a cost pressure in the order of £300knet.

RESOLVED that the activities and performance relating to treasury management for the first six months of 2013/14 be noted.

42. Half-yearly Performance Report including progress on Strategic Plan Action Plan

Councillor Harris (in respect of his membership of Colchester in Bloom) declared his non-pecuniary interest in the following item pursuant to the provisions of Meetings General Procedure Rule 7(5).

A report was submitted by the Assistant Chief Executive inviting the Panel to consider the performance report for the period up to the end of September 2013, including progress on performance measures and an update on progress of the Strategic Plan Action Plan.

Councillor Paul Smith, Portfolio Holder for Business and Resources, together with Matthew Sterling, Assistant Chief Executive, attended the meeting and explained that the Council had agreed a number of key performance areas which were used as part of its Performance Management Framework to help monitor progress and improvement. An update of indicators and a half-yearly review of progress against our Strategic Plan Action Plan was provided as follows:

- Progress towards achieving the overall set of organisational performance measures showed that 13 (65%) of measures were on track to be achieved (or 'green'), four (20%) were not meeting expectations to date but with improvement likely ('amber'), and three (15%) were not meeting expectations and unlikely to do so by the year-end ('red');
- The actions within the Strategic Plan Action Plan showed that there was a considerable amount of positive activity being undertaken across the Council and with partners to achieve the Strategic Priorities;
- The Council had also received a number of awards and accreditations which were highlighted in the Appendix to the report.

The following issues were raised by Panel members:

- Councillor P Higgins – the reasons behind the marked increase in mental health sickness absence and the reasons behind the shortfall in savings from the Sport and Leisure Fundamental Service Review (FSR);
- Councillor Hogg – the reasons behind the time taken to re-let sheltered housing vacancies and the valuable work undertaken by the zone wardens in enabling numerous community events across the Borough;
- Councillor Harris – whether the days quoted for the re-letting of vacancies at Harrison Court and Heathfields House were days respective to each sheltered scheme or was a figure between the two quoted, whether the target for the amount of waste being recycled would be increased in the light of the success of the food waste collection service, the reference to the Colchester in Bloom award needing to be amended and the need for further research to be undertaken into the trends behind the incidents of missed waste collections;
- Councillor Cope - the valuable work done in partnership with the April Centre to initiate the street drinkers outreach project and the importance of educating young people about alcohol mis-use;
- Councillor Harrington – the continuing low number of planning appeals allowed against the Council's decision to refuse and the potential for the Planning Committee to be encouraged by this statistic;
- Councillor Davies – whether the processing time for housing benefit claims and changes had been negatively impacted by the Universal Customer Contact FSR and whether costs benefit analyses were standard practice for all current council projects;
- Councillor Hayes – whether the waste recycling rate was considered to be a high achieving one compared to other Local Authorities and whether it was expected that food waste and recycling from flats would deliver a significant difference in the overall recycling rate

In response to issues raised, the following information was provided by Matthew Sterling and Councillor Smith:

- The sickness performance indicator had improved since the report had been written. The mental health cases tended to be in pockets across the organisation and was in relation to a relatively small number of people;
- The re-letting time for sheltered housing voids was partly due to the poor quality and hard to let nature of the accommodation but also the recent need to hold places in order to successfully reallocate residents from schemes which were subject to closure;
- Further clarification of the period of time for the re-letting of vacancies at Harrison Court and Heathfield House would be sent to Councillors;
- The shortfall in savings from the Sport and Leisure FSR was partly due to the very ambitious income targets but there had been significant improvements over the previous year and it was anticipated that the targets would be achieved but over a slightly longer timeframe;
- The processing time for housing benefit claims had been effected by a recent issue with the upgrade of the Council's document management system which had required resources to be directed from the processing of claims to account management responsibilities;

- All new projects across the Council tended to adopt accepted project management arrangements, including cost benefit analyses;
- The period covered by the report included all of the summer months and as such the recycling rate benefitted from the increased garden waste proportion at this time of year. It was also reported that the composition of the recycling was beginning to change in terms of the amount of card coming into the system which was thought to be a reflection of changes in packaging materials;
- The introduction of the food waste collection would contribute positively to the recycling rate. However it would not deliver the recycling rates achievable by those Authorities which used a wheelie bin collection service.

RESOLVED that the contents of the performance report for the period up to the end of September 2013, including progress on performance measures and an update on progress of the Strategic Plan Action Plan be noted.

Colchester

Scrutiny Panel

28 January 2014

Item 10

Report of	**Assistant Chief Executive**	**Author**	**Amanda Chidgey** ☏ **282227**
Title	**Revenue Budget 2014-15** // Covering Report		
Wards affected	Not applicable		

This report invites the Panel to review and comment on the Revenue Budget reports which are being submitted to Cabinet.

1. Decision Required

1.1 The Panel is asked to review and comment on the following Cabinet reports which are listed under agenda items 10 and 11:-

- General Fund Revenue Budget, Capital Programme and Medium Term Financial Forecast 2014-15
- Housing Revenue Account Estimates 2014-15
- Housing Investment Programme 2014-15
- Treasury Management Strategy 2014-15

1.2 These reports form the decisions to be taken by Cabinet on the 29 January 2014. Any comments made by the Panel will be submitted to the Cabinet meeting for further consideration.

2. Reason for Action

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

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

COLCHESTER	**Cabinet**	**Item 10(a)**
	29 January 2014	
Report of	**Assistant Chief Executive**	**Author** **Sean Plummer** ☏ **282347**
Title	**2014/15 General Fund Revenue Budget, Capital Programme and Medium Term Financial Forecast**	
Wards affected	n/a	

This report requests Cabinet to recommend to Council:
- **The 2014/15 General Fund Revenue Budget**
- **Colchester's element of the Council Tax for 2014/15**
- **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 on budget (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 2014/15 Revenue Budget requirement of £22,006k (paragraph 6.8) and the underlying detailed budgets set out in summary at Appendix E and Background Papers subject to the final proposal to be made in respect of Council Tax.

1.4 To agree that a proposal to Council on Colchester's element of the Council Tax for 2014/15 will be to made in consultation with the Leader of the Council following the formal Finance Settlement announcement and confirmation of Council Tax referendum threshold. The formal resolution to Council will also include the Parish, Police, Fire and County Council elements. (paragraph 12.2).

1.5 To agree that Revenue Balances for the financial year 2014/15 be set at a minimum of £1,800k and that £74k of balances be applied to finance items in the 2014/15 revenue budget.

1.6 To note the provisional Finance Settlement figures set out in Section 7 including the figures for the business rates retention scheme and the arrangements for completion of the required return of estimated business rates income as set out at paragraph 7.11.

1.7 To agree the following releases (paragraph 10.7):-

- £100k from the Capital Expenditure Reserve in 2014/15 to meet costs including the community stadium.
- £30k from the S106 monitoring reserve

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

1.9 To note the Medium Term Financial Forecast for the financial years 2014/15 to 2017/18.

1.10 To note the position on the Capital Programme shown at section 14 and agree the release of £100k as set out.

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

1.12. To approve and recommend to Council the 2014/15 Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy as set out in the background paper at Appendix H.

2. Background Information and Summary

2.1 The 2014/15 Revenue Budget and the Capital Programme have been prepared in accordance with a process and timetable agreed at Cabinet and endorsed by the Scrutiny Panel (Appendix A).

2.2. The Revenue Budget for 2014/15 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 higher level of savings and investment in key services. This has been achieved through a budget strategy that has resulted in:-

- the delivery of savings through the fundamental service review process
- making efficiencies through specific budget reviews and contract renewals
- maximising new and existing income streams
- recognising cost pressures and making decisions on budget changes where necessary

2.3. The budget includes savings or additional income of £2.7m. This compares to £1.8m included within the 13/14 budget. The majority of savings are based on proposals to work more efficiently and to maximise opportunities to increase income, however, budget reductions are also included.

2.4. Core Government funding for 2014/15 is being reduced by £1.3m. In total since 2011/12 this funding has now been reduced by £4.6m with a further provisional reduction of £1.3m announced for 2015/16.

2.5. The financial outlook set out within the Medium Term Financial Forecast (MTFF) shows that further reductions in core Government funding and cost pressures faced by the Council mean that the position will remain challenging. Having found a significant level of savings and additional income over recent years, and, with more forecast to be delivered through the Universal Customer Contact FSR (UCC FSR), the scope to find further savings to bridge remaining budget gaps without reductions in service levels continues to reduce.

2.6. Legislative changes such as the introduction of the Local Council Tax Support (LCTS) Scheme and the introduction of the business rates retention scheme have brought new financial risks for the Council to consider now and in future years. The budget includes consideration of these issues and recommends steps to manage the risks.

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 2014/15 budget process and forecast level of reserves it is useful to first review the current year's financial position. Revenue budgets are monitored on a monthly basis with regular reports to Senior Management Team and the Scrutiny Panel. A considerable amount of work has been undertaken to determine a reasonable forecast of the year-end position.

3.2 The current position is that the forecast outturn is expected to broadly on budget. The 2013/14 budget included c£1.8m of savings and increased income and it has been reported during the year that these have largely been achieved.

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

3.4 **Cabinet is asked to note that the forecast outturn position for the current year is anticipated to be on budget and that the position will continue to be monitored.**

4. 2014/15 Revenue Cost Pressures

4.1 Appendix B sets out revenue cost pressures of £1.6m, over the 2013/14 base, which have been identified during the budget process. This includes an inflation allowance, the impact of reduced income and some specific service cost pressures.

4.2 A number of the cost pressures have been considered by Cabinet. However there are a number of changes including those reflecting work carried out to review budget variances in 13/14 and to assess the extent to which this may continue into 14/15.

4.3 Whilst not shown within the list of specific cost pressures the budget includes proposals totalling £74k in respect of carry forward items. These represent temporary staff resources supporting the UCC FSR. This is reflected in the use of balances set out at paragraph 9.9.

4.4	**Cabinet is asked to approve inclusion within the 2014/15 Revenue Budget of the cost pressures set out at Appendix B.**

5. 2014/15 Growth Items

5.1. Appendix C sets out revenue growth items totalling £810k which are recommended for inclusion in the budget. This report now shows planned investment arising from the increase in the New Homes Bonus grant for 2014/15. This reflects the approach to minimise the risk of changes to levels of New Homes Bonus funding by allocating the increase to one off investment to support corporate priorities.

5.2. The budget includes growth in the food waste service to deliver the full year costs of the scheme which will be funded through the Weekly Collection Support Fund grant.

5.3	**Cabinet is asked to approve inclusion within the 2014/15 Revenue Budget of the growth items shown at Appendix C.**

6. 2013/14 Revenue Saving / Increased Income / Technical Items

6.1. Appendix D sets out savings / increased income totalling £2.7m.

6.2. This level of savings and increased income is more than identified for the 13/14 budget and represents a very significant sum. All proposals are set out within the appendix, the majority of which were reported and in some specific cases agreed at the last Cabinet meeting.

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 was allocated in the 2013/14 budget and no further allocations are proposed at this stage.

Technical Items / Adjustments

6.4. The Council's budget includes several technical items such as 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 2013/14 budget of £26k.

6.5	**Cabinet is asked to approve inclusion of the savings / increased income items set out at Appendix D within the 2014/15 Revenue Budget.**

6.6. Summary Total Expenditure Requirement

6.7 Should Cabinet approve the items detailed above, the total expenditure requirement for 2014/15 is as follows:

	£'000
2013/14 Budget (excl. New Homes Bonus)	22,986
Less: 2013/14 one-off items (note 1)	(777)
Cost Pressures (as per Appendix B)	1,625
Growth (as per Appendix C)	810

Savings/Increased Income (as per Appendix D)	(2,686)
Budget carry forward items	74
Other technical items (see para. 6.4)	(26)
Forecast Budget 14/15 (excl. New Homes Bonus)	**22,006**

Note 1. The one-off items has been updated to reflect a change in respect of the previously shown adjustment for net interest costs.
Note 2. Detailed service group expenditure is available. A summary of service group expenditure is attached at Appendix E.

6.8 **Cabinet is asked to agree and recommend to Council the net revenue expenditure requirement for 2014/15 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 18 December 2013. This is the second settlement that reflects the "financial relationship" between central and local government. The Settlement includes a number of funding arrangements, concepts and terminology introduced in 2013/14. This section of the budget report provides a summary of the key issues including:-

- Revenue Spending Power
- Settlement Funding Assessment (SFA)
- Baseline funding level and Revenue Support Grant (RSG)
- 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 6.9%.

7.3. Colchester's revenue spending power has decreased by £389k (2%). As the table below shows the decrease is mainly as a result of the cut in the Council's SFA of £1.28m (13%) and that this is partially offset by the increase in New Homes Bonus.

	2013/14	2014/15	Change	
	£m	£m	£m	%
Council Tax	9.684	9.733	0.049	1%
Settlement Funding Assessment (SFA) (see para 7.4)	**9.569**	**8.290**	**-1.279**	**-13%**
New Homes Bonus (see para 7.22)	2.616	3.410	0.794	30%
Other Grants (benefit subsidy etc)	1.064	1.112	0.48	4%
Total Spending Power	*22.933*	*22.545*	*-0.388*	*-2%*

Settlement Funding Assessment (SFA)

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

7.5. 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)

7.6. The business rates baseline level increases by inflation to reflect the level of increase in business rates. As such, where the SFA is being reduced by £1.3m (13%) this equates to an actual cut of 23% on our RSG.

	2013/14	2014/15	Cut	
	£'000	£'000	£'000	%
Revenue Support Grant	5,789	4,436	-1,353	-23%
Business Rates Baseline	3,780	3,854	74	2%
Total	9,569	8,290	-1,279	-13%

7.7. The split of the start up funding is important. The Revenue Support Grant element is an unringfenced fixed 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

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

7.9. The retention scheme includes a system of tariffs and top up adjustments. A local authority must pay a tariff if its individual authority business 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 are fixed until the business rates retention system is reset and are uprated by RPI each year to reflect the increase in NNDR.

7.10 The following table sets out a summary of the baseline position for Colchester for 2014/15 showing the required tariff payment of £19.6m.

	£’000
Billing Authority Baseline	29,291
Preceptor’s share	80%
Individual Baseline	23,433
Baseline funding	3,854
Tariff	19,579

7.11. The arrangements for business rate retention require the Council to agree an estimate of business rates income for the coming year, 2014/15. 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. Based on initial projections it is not expected that the NNDR 1 will show a potential shortfall up to the value of the safety net, however, this will remain a significant risk and one which will be considered in the final paper for Full Council and within updates to the MTFF.

Levy and Safety net

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

Safety net

7.13. The safety net is 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 £3.565m (92.5% of £3.854m). In other words, the risk to Colchester of NNDR income reductions is limited to £289k for 2014/15.

Levy rate

7.14. 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 includes a cap on the levy rate of 50% and based on Colchester's position this is our levy rate.

7.15. 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).

Business Rates Pooling

7.16 It was agreed by Cabinet in principle and later by the Portfolio Holder for Business and Resources that the Council should, along with a number of Essex authorities submit an application to setup an Essex Pool for business rates. Prior to the Finance Settlement we received notification that this had been agreed by Government and that authorities had until 14 January to confirm whether to formally setup the pool.

7.17. Since making the application to create a pool work has taken place to formalise a draft governance agreement and to assess more detailed forecasts of the financial implications of running the pool. This has included assessing the impact of changes announced in the Autumn Statement such as the methodology for dealing with Small Business Rate Relief and also the impact of rating appeals especially given the Government's statement to accelerate the processing of appeals.

7.18. A meeting took place recently to consider the impact of various changes and specifically what are considered to be the increased risks of continuing with a pool. The conclusion from this work is that there has been a greater shift in terms of risks and reward and at this stage there is a general view across prospective members that the pool should not be setup for 2014/15 and notification has been provided to

Government accordingly. This does not preclude Colchester being involved in a pool in the future and the work carried out this year will provide a basis for considering any proposal to form a pool. The information set out in this report in respect of business rates therefore reflects the arrangements for business rate retention as an individual authority and not in a pool.

Summary of Start up Position

7.19. This section of the report seeks to explain the key funding mechanism within the settlement and key figures. It is acknowledged that the finance reforms bring a number of risks and the potential for rewards to the Council. These are considered as part of the balances assessment later in this report. Provisional figures have also been set out for 2015/16 and these are considered as part of the Medium Term Financial Forecast (MTFF).

7.20. The Settlement is provisional and subject to consultation which ends on 15 January 2014. Traditionally, there has been very little change between the provisional and actual Settlement. Any marginal change to the Council's entitlement will be reflected in the final budget recommendation to Council.

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

New Homes Bonus

7.22. The 2014/15 grant includes elements reflecting growth in the taxbase during 2009/10 to 2012/13 and also the bonus payable in respect of delivering affordable homes for the last 3 years. The last budget update report considered by Cabinet included an estimate of the total grant. The final figure is a total grant for 2014/15 of £3.41m, an increase of £0.8m. An analysis is shown below:-

	Grant re taxbase growth	Affordable Homes Bonus	Total
	£'000	£'000	£'000
Payable annually until 16/17	724		724
Payable annually until 17/18	749	52	801
Payable annually until 18/19	986	105	1,091
Total paid in 2013/14	*2,459*	*157*	*2,616*
Payable annually until 19/20 – Increase for 2014/15	757	37	794
Total due in 2014/15	**3,216**	**194**	**3,410**

7.23. The methodology of the scheme means that we will receive *at least* this level of grant until 2016/17 with further increases until then.

7.24. It has been reported to previous Cabinet meetings that the Government was consulting on the mechanism for transferring nationally £400million from the New Homes Bonus to the Growth Fund from 2015/16. It has been confirmed by Government that this will now not be happening for areas outside London. This is an important announcement as the Council stood to lose a minimum of £0.7m and potentially over £1.2m.

7.25. 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).

7.26. It should be noted that based on the proposal within this report there will be specific expenditure plans linked to the New Homes Bonus of £1.2m which equates to c35% of the current total New Homes Bonus. This shows that whilst the grant is being used to an extent to support the ongoing budget it is also being applied for one-off investment linked to the Council's priorities.

8. Council Tax, Collection Fund and Business Rates

Council Tax Rate

8.1. **At this stage no formal proposal for Colchester's element of the Council Tax is made.** Within the summary budget position an assumption of an increase in Council Tax of £3.42 (1.95%) is shown. There are two specific issues that should be considered alongside any proposal: the arrangements to hold a referendum and the Government offer of a Council Tax Freeze grant for 2014/15.

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. 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 yet to propose the maximum increase a council can set without a referendum. The current rate is 2%, however, there is increasing speculation that this will reduce, possibly to 1.5%.

8.4. Currently, local precepting authorities (i.e. parish and town councils) are not included in the proposed principles. However, the Government has previously stated that it will monitor increases in this sector and has not ruled out setting principles that will apply to high spending town and parish councils. Based on recent announcements this is not expected to apply for 2014/15.

Council Tax Freeze Grant 2014/15

8.5. The Government announced this year that there would be a grant available for authorities that do not increase Council Tax. The grant will be equivalent to a 1% increase in Council Tax. This is the fourth Council Tax freeze grant

	Grant £'000	Period paid / payable
Grants Received:-		
• Council Tax Freeze in 2011/12	267	2011/12 to 2015/16 (recently extended to cover 2015/16 and see para 8.6)
• Council Tax Freeze in 2012/13	269	2012/13 only

• Council Tax Freeze in 2013/14	109	2013/14 to 2015/16 (recently extended to cover 2015/16 and see para 8.6)
Grant available :-		
• Council Tax Freeze in 2014/15	107	2014/15 and 2015/16 (and see para 8.6)

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

Collection Fund

8.7. 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.

8.8 2013/14 included a number of significant changes that affected Council Tax such as the introduction of the Local Council Tax Support (LCTS) Scheme and also change to discounts and exemptions for Council Tax such as those on second homes and empty properties. A prudent approach was taken when agreeing assumptions in respect of collection rates and the cost of LCTS and so far overall collection rates have proved to be better than anticipated. The combined impact of this and other assumptions means that there is a surplus of £142k to be included in the 2014/15 budget.

Business Rates

8.9. The new scheme for retention of business rates works in a similar way to Council Tax and the Collection Fund arrangements in that part of the budget setting process for 2014/15 includes an assessment of the forecast surplus / deficit position for the current year.

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

8.11. Whilst there remains a considerable amount of uncertainty in respect of the forecast for this year the current position is that we expect to see a shortfall greater than our safety net level. The safety net does mean that the shortfall is limited to £283k and it is therefore considered prudent to include this in the budget for 2014/15.

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 27 November 2013, considered a report setting out the outcome of a risk analysis in respect of the Council's Revenue Balances. Cabinet agreed with the recommendation that Revenue Balances should be maintained at a minimum of £1.8m and that the situation would be reviewed based on the implications and details of items such as the grant settlement, budget savings and other variables.

9.3. In considering the level at which Revenue Balances should be set for 2014/15, Cabinet should note the financial position the Council is likely to face in the medium term through the levels of future Government funding and legislative system in place for business rates and LCTS scheme.

9.4. The analysis of the business rates retention scheme and specifically the operation of a safety net shows that there is a risk to the Council's budget of £289k (see para. 7.13). As has been highlighted within this report we are currently forecasting a deficit on business rates in this year and have forecast a pressure equivalent to the safety net. This highlights the potential risk from business rate income.

9.5. When Council approved the LCTS scheme for 2013/14 and 2014/15 it was acknowledged that there are a number of risk areas such as:-

- *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 previous benefit scheme there was no direct financial impact on the Council of changes in the amount of benefit paid. Under the LCTS scheme the Government grant is fixed and therefore any increase will be borne by all of the major preceptors including Colchester.

9.6. Consideration has again been given to these issues in estimating the likely costs of LCTS and the necessary changes to the taxbase. 2014/15 will be the second year of the LCTS scheme and therefore we now have some practical experience and have amended some assumptions, however funding by a fixed grant means that the Council continues to face a risk exposure.

9.7. Based on the assumptions built into the budget it is proposed to maintain balances at a minimum of £1.8m. The ongoing impact of the various local government reforms will be assessed as part of the budget strategy for 2015/16 and the level of balances can be reviewed at that time. A specific allocation is held within balances against the risks associated with LCTS and NNDR.

Level and use of balances

9.8. The use of balances to support the budget can be considered where there is scope and it is prudent to do so. Our normal approach is to consider the use of balances to fund one-off items and none are proposed.

9.9. There are a number of proposals which total £74k where budgets will be carried forward to 2014/15. For budget purposes these are therefore regarded as a use of balances and as such are reflected in the budget report.

9.10. The forecast position in respect of Revenue Balances is set out at Appendix F and shows balances at £2,042k, £242k above the recommended minimum balance as set out in the agreed Risk Analysis. The level at which balances are held above the recommended minimum level is a matter for Cabinet and Council to consider. It should be noted that the Council faces significant budget gaps over the coming years and that it may be necessary to use balances to support future budgets especially to fund any one-off costs. With future budget gaps, increasing risk and uncertainty and a requirement to deliver already stretching savings targets maintaining balances at c£2m is considered appropriate.

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

9.12 **Cabinet is recommended to approve Revenue Balances for the financial year 2014/15 be set at £1.8m and to approve the use of £74k to support the revenue budget.**

10. Reserves and Provisions

10.1. Cabinet at its meeting on 27 November 2013 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 2014/15. 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 which have all been previously reported.

Capital Expenditure Reserve (CER) – Community Stadium - £100k

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.

10.3. It is proposed that the use of the reserve be reduced to £100k for the following reasons:-

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

10.4. Reducing the use of the CER by £100k should be viewed as a step towards removing this from future budgets.

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

10.5 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 2014/15 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

10.6. 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 2014/15 budget. Contributions to this reserve are made from S106 payments received in respect of monitoring.

10.7. **Cabinet is recommended to agree the:**
- **release of £100k from the Capital Expenditure Reserve**
- **release of £30k from S106 monitoring reserve towards the costs of carrying out this function**

11. Contingency Provision

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

11.2 It is recommended that £100k of Revenue Balances be specifically earmarked for potential items of unplanned expenditure. It should be noted that based on current estimates if this sum was used during the year it would not take revenue balances below the recommended level of £1,800k, although if this were to be the case the Council would need to consider steps to reinstate balances at a later date.

11.3 **Cabinet is asked to agree and recommend to Council that £100k of Revenue Balances be specifically earmarked for potential items of unplanned expenditure which are:**
- **The result of new statutory requirements or**
- **An opportunity purchase which meets an objective of the Strategic Plan or**
- **Is considered urgent, cannot await the next budget cycle and cannot be funded from existing budgets**
- **Authorisation being delegated to the Leader of the Council.**

12. Summary of Position

12.1 Summary of the Revenue Budget position is as follows:

	£'000
Revenue expenditure requirement for 2014/15 (para 6.7).	22,006
New Homes Bonus (para 7.22)	(3,410)
Use of balances re carry forward (see para 9.9)	(74)
Release from Capital Expenditure Reserve (para 10.2)	(100)
Release of S106 monitoring reserve (para 10.6)	(30)
Budget Requirement	**18,392**
Funded by:	

Revenue Support Grant (para 7.6)	(4,436)
NNDR Baseline Funding (“ “)	(3,854)
Collection Fund surplus (para 8.9)	(142)
NNDR deficit - at safety net level (para 8.11)	283
Council Tax Payers requirement (before Parish element) see below* and para 12.2	(10,243)
Total Funding	**18,392**
Council Tax*	
Council Tax Payers requirement (before Parish element)	10,243
Council Tax Base – Band D Properties	57,337.5
Council Tax at Band D	**178.65**

12.2. The above table has been produced based on an increase in Council Tax of 1.95%. The option of considering a freeze in Council Tax would impact on the budget as follows:-

	£’000
Reduction in Council Tax income (Based on a freeze / tax rate of £175.23)	196
Council Tax Freeze Grant receivable	(107)
Budget Gap	**89**

12.3. Given the uncertainty of the arrangements for referendums it is proposed that no recommendation to Council is made at this stage until confirmation is received in order to make an informed decision.

12.4 **Cabinet is asked to note that Colchester’s element of the Council Tax for 2014/15 will be considered within the report to Council which will be agreed with the Leader. This will include the formal resolutions to Council and Parish, Police, Fire and County Council precepts and any changes arising from the formal Finance Settlement announcement and final completion of the business rates NNDR 1.**

13. Medium Term Financial Forecast – 2014/15 to 2017/18

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 which have arisen 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 2015. The following table summarises the position showing a cumulative gap over the period from 2015/16 of c£5.9m and how the potential savings and income identified in Universal Customer Contact (UCC) FSR will reduce this to almost £4m

	2015/16	2016/17	2017/18	See para
	£'000	£'000	£'000	
Net Budget (excl UCC FSR)	22,887	24,244	25,610	
SFA (incl. Freeze grant)	(7,021)	(6,000)	(6,000)	13.4
New Homes Bonus	(3,410)	(3,410)	(3,410)	13.6
Council Tax	(10,243)	(10,243)	(10,243)	13.14
Reserves	(130)	(130)	(130)	
Cumulative Gap Before UCC	**2,083**	**4,461**	**5,827**	
UCC Savings (cumulative)	(990)	(1,880)	(1,880)	
Cumulative Gap (after UCC)	**1,093**	**2,581**	**3,947**	
Annual increase	**1,093**	**1,488**	**1,366**	

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 2014/15 Finance Settlement announcement the Government set out provisional figures for 15/16. The key figure for the Council's financial planning is the comparable level of start-up funding which shows **a reduction in 15/16 of £1.3m (15%)**.

13.5. For years beyond 15/16 a reduction of c15% has been assumed for 2016/17 with no change for 17/18. This represents a planning assumption and this will be revised as more information becomes available.

13.6. 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, however, as has been seen this year the possibility of changes to the scheme cannot be ruled out.

13.7. The MTFF provides a breakdown on how the New Homes Bonus may change over the next few years and at this stage a 'worst case' situation is shown within the figures. 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 and a prudent approach it is proposed at this stage. It is assumed that current spending proposals linked directly to the New Homes Bonus will continue, although this assumption will need to be reviewed as part of the 2015/16 budget process.

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

Pay, Inflation and costs

13.9. The 2014/15 budget includes an allowance for a pay award. For 2015/16 and beyond a sum is included for planning purposes to cover this and other inflationary pressures.

13.10. The 2014/15 budget includes the outcome of the pension fund actuarial review which means that there will be no further increases in the pension fund deficit funding costs in the following two years. An assumption of an increased cost of £250k is shown for 2017/18 to recognise the likelihood of an increase following the next actuarial review.

Forecast savings

13.11. The MTFF includes changes to forecast savings for 2015/6. These include further savings from the CFM FSR and additional savings from the UCC FSR. The MTFF also shows that the income from the sharing agreement with Essex County Council and Fire Authority may end in 2016/17 and therefore the increase shown for 2014/15 has been removed.

Economic Background – Fees and charges

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

Specific Cost Pressures

13.13. There are certain specific cost pressures included within the MTFF. These include:-

- an allowance for a reduction in car park income arising from the impact of park and ride
- an allowance for an increase in interest costs which are currently being minimised through internal borrowing

Council Tax

13.14. The MTFF shows the position based on an increase in Council Tax of 1.95% in 2014/15 with an assumption of no increase in Council Tax thereafter. This is shown for planning purposes to represent a ‘neutral’ position 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 2015/16. However, in 2016/17 and 2017/18 an allowance has been made for the impact of the end of the Food Waste grant.

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 2014/15 budget savings of £2.7m have been found which, when looked at alongside the £7.1m identified in the budgets for 11/12 to 13/14, represents a significant level of budget savings found over 4 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 and in some more detail at the meeting of 27 November 2013. The review of resources available to support the Capital Programme in the medium term has been carried out, and the following table provides a summary of the projected position for 2013/14. This shows a surplus that is available to support potential schemes in subsequent years.

Detail	£'000	Note
Balance of funds brought forward from 2012/13	(987.2)	Surplus
Cabinet 28 November 2012	2,464.5	UCC FSR; Castle Park Olympic Legacy
Cabinet 23 January 2013	1,176.0	Town & castle walls, temp accommodation review, closed churchyards, DFGs, site disposal, MRP, Lion Walk lift
Cabinet 27 November 2013	935.2	Shrub End baler & shed, Site disposal costs, Relocation of Visitor Information Centre
Capital receipts to date 2013/14	(2,570.0)	Angel Court (balance), Axial Way, Northern Gateway
Projected receipts for 2013/14	(1,314.0)	Receipts which are confirmed but not yet received
Balance available	**(295.5)**	
New releases proposed now	100.0	Funding to facilitate the release of Capital Expenditure Reserve money for Community Stadium MRP.(see para 10.2)
Total forecast balance carried forward	**(195.5)**	Surplus

14.2. Further capital receipts of approximately £3m are identified for potential delivery in 2014/15 and capital proposals alongside these will be made in due course.

15. Robustness of Estimates

15.1 The Local Government Act 2003 placed a specific duty on the Chief Financial Officer to report on the robustness of estimates in the budget proposals of an Authority when the budget is being considered. This section addresses this requirement.

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

15.3. This latest review of the budget for this financial year, 2013/14, has shown that broadly speaking budgets have been achieved, however, there remain some pressures in certain areas. Steps have been taken to revise some expenditure and income budgets for 2014/15 including some of these current risk areas.

15.4. By taking appropriate action within the proposed 2014/15 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 some of the savings shown for 2014/15 are additional savings or income following budget decisions taken already (such as the Sport and Leisure FSR, ICT contract). Other savings such as not funding the Tour Series next year and removing the allocation for ward budgets do not pose an immediate financial risk to delivery.

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

- Meeting ongoing, and in some cases increasing, income levels in particular in respect of sport and leisure, car parks and cemetery and crematorium.
- Delivery of savings and income and the costings in respect of the UCC FSR
- Delivery in the year of certain corporate savings such as procurement
- Collection rates of Council Tax and changes in demand levels following the implementation of the LCTS scheme and other Council Tax changes
- Collection rates and level of business rates (including the impact of appeals)

15.7. One of the main risks within the coming year is still 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.

15.8. The budget risks will be managed during 2014/15 by regular targeted monitoring and review at Senior Management Team and Scrutiny Panel. The Revenue Balance Risk Analysis considered these areas in establishing a minimum level of required balance of £1.8m. In addition, specific allocations have been made against larger risks such as NNDR and LCTS and other identified areas.

15.9. The Council has faced a number of in year cost pressures from such items as reduced car park and sport and leisure income. As shown within this report our current forecast is that we will be on budget this year. This shows, and the experience of previous years, that the Council has a track record of dealing with issues that may arise during the year.

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

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

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

16. Treasury Management and Prudential Code Indicators

16.1. The proposed Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy (TMSS) for 2014/15 is included at Appendix H. The follow paragraphs contain a summary of the strategy for 2014/15, 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.

16.2. The Council's Prudential and Treasury Indicators for 2014/15 through to 2016/17 have been produced to support capital expenditure and treasury management decision making, and are designed to inform whether planned borrowing and the resultant revenue costs are affordable and within sustainable limits. The indicators take into account all the economic forecasts and proposed borrowing and investment activity detailed in the report.

16.3. The Minimum Revenue Provision (MRP) Policy Statement for 2014/15 states that the historic debt liability will continue to be charged at 4%, with the charge for more recent capital expenditure being based on the useful life of the asset and charged using the equal annual instalment method. This approach will be reviewed during the year and any proposed changes will be set out in future reports.

16.4. The UK Bank Rate has been unchanged from a historically low 0.5% since March 2009. The current view from the Council's treasury advisers is that the Bank Rate is expected to remain unchanged until quarter 2 of 2016. **Appendix A** to the TMSS draws together a number of current forecasts for short term and longer term interest rates.

16.5. The Council is currently maintaining an under-borrowed position. The borrowing strategy is to reduce the difference between gross and net debt by continuing to 'borrow internally', which is primarily due to investment rates on offer being lower than long term borrowing rates. This has the advantages of maximising short-term savings and reducing the Council's exposure to interest rate and credit risk. This approach is intended to be maintained during the year.

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

- The Council will only invest with institutions with the highest credit ratings, taking into account the views of all credit rating agencies and other market data when making investment decisions.
- The Council will use the creditworthiness service provided by Capita Asset Services, which combines data from credit rating agencies with credit default swaps and sovereign ratings. 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 periods up to 100 days during the year is 0.50%.

16.7. Investment instruments identified for use in 2014/15 are detailed in **Appendix B** off the TMSS. The investment limits for the highest rated banks and building societies, as well as that for UK nationalised and part nationalised banks have been increased to reflect the anticipated level of cash available for investment, and the limited number of high quality counterparties available. It should also be noted that whilst this table includes a wide range of investment instruments, it is likely that a number of these will not be used. However, their inclusion enables the required credit controls to be stated if their use is to be considered.

16.8 **Cabinet is asked to agree and recommend to Council the 2014/15 Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy as set out in the paper at Appendix H**

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 I 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 28 January 2014. The statutory consultation with NNDR ratepayers takes place in either January or early February 2014 and notes of the meeting will be provided in due course.

Background Papers
Budget reports to Cabinet – 27 November 2013

2014/15 Budget Timetable	
Budget Strategy March 13 – July 2013	
March – June (SMT and Budget Group)	Budget Group Meetings Agreed Update MTFF /Budget Strategy Review potential cost pressures, growth and risks Consider approach to budget Initial budget reviews started
Cabinet – 10 July 13	• Report on updated budget strategy / MTFF • Timetable approved
Scrutiny Panel – 23 July 13	Review Cabinet report
Detailed Budget preparation and Budget Setting Consultation	
Budget Group / Leadership Team regular sessions on progress / budget options now - December	Review budget tasks Consider delivery of existing and new Fundamental Service Reviews
Cabinet – 4 September 13 and /or 9 October 13	• Budget Update • Review of capital resources / programme • Consider any impact arising from in year budget monitoring.
Cabinet – 27 November 13	• Budget update • Reserves and balances • Government Finance settlement (if available) .
Scrutiny Panel – 28 January 14	Review consultation / Budget position (Detailed proposals)
Cabinet – 29 January 14	Revenue and Capital budgets recommended to Council
Council – 19 February 14	Budget agreed / capital programme agreed / Council Tax set

APPENDIX B

2014/15 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 27 November 2013 are highlighted.

	Current allowance £'000	Updated allowance £'000	Comment
Inflationary pressure	440	440	Net inflation impact. This allowance includes adjustments to reflect assumptions in respect of pay and energy as well as other general changes.
Incremental pension contributions	100	22	The provisional results of the actuarial review of the pension fund have been received. These reflect an increase in basic employer contributions and changes to the pension deficit contribution. Discussions are taking place with Essex County Council about possible options to spread this cost pressure. Currently an additional cost for 2014/15 of £22k is now assumed.
Elections	85	95	Cost relating to Borough elections in 2014/15
Fleet	110	210	Planned additional costs of fleet in line with changes to vehicles in 2014/15
Housing Benefit Administration grant and benefit subsidy	90	190	The Government has recently announced reductions to the administration grant provided in respect of Housing Benefit and the LCTS scheme. There is also a forecast pressure of £100k arising from a drop in recovery levels from both the LA error incentive scheme and also benefit overpayment rates.
Existing net income streams	230	560	Within the current year there are some shortfalls in estimated income. These include general car parking income (£150k), community alarms (£230k), income from trade waste and depot (£100k), income within EMT and parking income at Leisure World. It is considered necessary to reduce these budgets to a more appropriate level.
Minimum Revenue Provision (MRP)		21	Increase in MRP to reflect previous borrowing decisions
Bank charges		12	Increase in costs based on volume of credit card transactions
Bus Station		25	Staffing costs associated with running bus station

	Current allowance £'000	Updated allowance £'000	Comment
Operational Services – Agency Costs		50	Increase cost for staffing cover arrangements
Risk allowance	150	nil	Pressures now separately identified
Total	**1,205**	**1,625**	

APPENDIX C

2014/15 Growth Items

The following are growth items included in budget proposals. Changes since the report to Cabinet on 27 November 2013 are highlighted.

	Current allowance £'000	Updated allowance £'000	Comment
A12 / A120 litter picking		16	Allocation of funding to allow the Zone teams to continue to undertake fortnightly litter picking of the A12 and A120 following Essex County Council (ECC) confirming that they would no longer be providing funding to Colchester Borough to continue the service.
Allowance for affordable housing		37	Growth achieved through New Homes Bonus element allocated to support affordable housing initiatives
Investment funded through New Homes Bonus		757	One off funding to be allocated to support • Projects that will deliver income/savings • Community projects
Total Growth Items	**0**	**810**	

APPENDIX D

Savings / Increased Income

Service	**Opportunity**	**2014/15 £'000**	*Additional Comments e.g. impact on service / risk to delivery/ description of delivery*
Efficiencies and Fundamental Service Review			
Cross Cutting	UCC FSR	965	Second year savings of agreed UCC FSR. Savings increased by a further £140k in respect of changes to management structure / support arrangements.
Operational Services	Sport & Leisure FSR	195	Final year savings / increased income of review.
Corporate & Financial Management	FSR	250	Based on proposal reported to Cabinet. Saving based on proposed implementation timetable.
Professional Services	Private Sector leasing	20	Full year savings in private sector leasing scheme due to implementation of new scheme arrangements.
Corporate & Financial Management	ICT contract savings	40	Additional third year savings of new ICT contract
Cross cutting	Procurement saving target	100	Increased target to achieve through improved procurement activity.
Community Services	Joint Museum Service	22	'Repayment' of additional funding provided in 2013/14 due to cost pressure arising from loss of income resulting from Castle closure.
Executive Management Team		22	Reduction in consultancy budget
	Sub total	***1,614 (60% of all savings)***	

Service	**Opportunity**	**2014/15 £'000**	*Additional Comments e.g. impact on service / risk to delivery/ description of delivery*
Income			
Commercial Services and Professional Services	Cemetery and crematorium and land charges income	190	Forecast additional income.
Corporate & Financial Management	Increased income from staff and councillor car parking	30	Estimated additional revenue from increased parking charges.
	Sub total	**220 (8%)**	
Budget Reductions			
Community Services	Activity Centres	39	Based on Cabinet decision in respect of Abbots Activity Centre.
Corporate & Financial Management	Ward (locality)budgets	120	Scheme originally started in 2012/13 as a one-off but continued in 2013/14. Now proposed to stop for 2014/15.
Community Services	Grounds Maintenance	200	Return of highway verge maintenance responsibility to Essex County Council. Saving achieved by removing additional CBC budget to supplement the ECC contribution towards maintenance costs
Commercial	Tour Series	80	Remove funding for Tour Series event for 2014/15
Corporate & Financial Management	Parish Grants re: LCTS scheme	17	Reduction in grants as agreed
Community Services	Grants	50	Reduction in grants as agreed
	Sub total	***506 (19%)***	

Service	**Opportunity**	**2014/15 £'000**	*Additional Comments e.g. impact on service / risk to delivery/ description of delivery*
Corporate / Technical Items			
Corporate / Technical	Changes in charges to HRA	50	Estimated changes in charges between General Fund and Housing Revenue Account.
Corporate / Technical	Net interest costs / earnings	85	Net reduction in budget based on projected borrowing costs and income projections.
Corporate / Technical	Income from sharing agreement with Essex County Council and Essex Fire Authority	211	Based on an agreement a proportion of the income which accrues to major preceptors from technical changes to Council Tax discounts (such as second homes) is paid to billing authorities. Based on the experience of the current year and adjustment made to the taxbase additional income of c£211k is expected.
		346 (13%)	
Total Savings		**2,686**	

Appendix E

Budget Analysis

	Adjusted Base Budget	One-off items	Cost Pressures	Growth Items	Technical Items	Total Savings	Detailed 14/15 Budgets
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Corporate & Democratic Core	257	-	12	-	-	21	290
Corporate & Financial Management	8,937	(15)	374	-	-	(185)	9,111
Executive Management Team	655	-	81	-	-	(120)	616
Community Services	6,085	(67)	173	16	-	(245)	5,962
Commercial Services	292	(15)	322	37	-	(185)	451
Customer Services	1,973	(50)	245	-	-	-	2,168
Operational Services (excl NEPP)	392	-	758	-	18	(159)	1,008
Professional Services	2,342	-	192	-	-	(185)	2,348
Total General Fund Services	**20,932**	**(147)**	**2,156**	**53**	**18**	**(1,058)**	**21,954**
Corporate Items / sums to be allocated to services							
Procurement savings	(50)	-	-	-	-	(100)	(150)
UCC FSR	300	-	(220)	-	-	(715)	(635)
Strategic Plan	100	(100)	-	-	-	-	-
Welfare Reform	30	(30)	-	-	-	-	-
Investment Allowance funded by New Homes Bonus	250	-	-	757	-	-	1,007
CFM FSR	-	-	-	-	-	(250)	(250)
Parish Council Grants (re LCTS)	135	-	-	-	-	(17)	118
Saving to be allocated to services	-	-	-	-	-	(30)	(30)
Non-Service Budgets							
CLIA (net interest)	685	-	-	-	-	(85)	600
R&R Contribution	150	-	-	-	-	-	150
Min Revenue Provision (MRP)	648	-	21	-	-	-	669
Pension Fund	2,384	-	(280)	-	-	-	2,104
One-off Costs	500	(500)	-	-	-	-	-
Technical C Tax changes - Sharing Agreement	(189)	-	-	-	-	(211)	(400)

	Adjusted Base Budget	One-off items	Cost Pressures	Growth Items	Technical Items	Total Savings	Detailed 14/15 Budgets
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Natural History Museum	(20)	-	-	-	-	-	(20)
Heritage Reserve & Gosbecks Reserve	10	-	-	-	-	-	10
GF/HRA/NEPP adjustment	(2,878)	-	22	-	(44)	(221)	(3,120)
Total Below the Line	2,054	(630)	(457)	757	(44)	(1,629)	52
Total including Below the Line	**22,986**	**(777)**	**1,699**	**810**	**(25)**	**(2,687)**	**22,006**
Funded by:							
General Reserve	(683)	683	-	-	-	-	-
Use of balances: re carry forwards	(50)	50	(74)	-	-	-	(74)
Pensions Reserve	(102)	102	-	-	-	-	-
Capital Expenditure Reserve	(200)	-	100	-	-	-	(100)
Other Reserves - S106	(30)	-	-	-	-	-	(30)
Government Grant (RSG)	(5,682)	-	1,246	-	-	-	(4,436)
Government Grant (NNDR)	(3,780)	-	(74)	-	-	-	(3,854)
Council Tax Freeze Grant	(109)	109	-	-	-	-	-
Council Tax	(9,684)	-	-	-	(559)	-	(10,243)
Collection Fund Transfer	(18)	18	-	-	(142)	-	(142)
New Homes Grant Adjustment	(32)	32	-	-	-	-	-
New Homes Bonus	(2,616)	-	-	(794)	-	-	(3,410)
NNDR deficit	-	-	-	-	283	-	283
Total	**(22,986)**	**994**	**1,198**	**(794)**	**(418)**	**-**	**(22,006)**

Appendix F

General Fund Balances
Current Position

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

	£'000
Balance as at 31 March 2013 (As per Statement of Accounts)	(5,893)
Use of balances during 2013/14:	
• Financing carry forwards – Proposed carry forward of 13/14 budgets (note 1)	594
• Existing items carry forward in balances (see note 2)	901
• Existing allocations for 13/14 and future years budget (note 3)	1,185
• Supporting the 13/14 Budget (note 4)	867
• New releases agreed in 2013/14 (note 5)	304
• Budget carry forward (note 6)	(74)
Projected Balances as at 31 March 2014	**(2,116)**
Use of balances (note 6)	74
Potential Surplus Balances as at 31 March 2015 (note 7)	**(2,042)**
Proposed minimum balance	1,800
Potential Surplus Balances as at 31 March 2015 (note 7)	**(242)**

Notes:

1. This reflects items agreed as part of the 12/13 closure of accounts process as reported to Scrutiny Panel on 11 June 13.
2. This includes previous sums allocated from balances which have not yet been spent. For example it includes funding allocated for potential redundancy costs, funds allocated as part of the Jubilee Fund and provisions allocated in respect of certain key risks.
3. 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 and the risk factor which has been carried forward from the 12/13 budget as reported to Scrutiny Panel on 11 July 13. None of these are expected to be used in 2013/14
4. Agreed use of balances to support the revenue budget including the use of the pensions provision
5. Proposed releases from balances as agreed by Cabinet on 10 July 2013.
6. This reflects the carry forward and use of balances set out within this report.
7. The position shown assumes a neutral outturn position.

APPENDIX G

Medium Term Financial Forecast 2014/15 to 2017/18				
	2014/15 £'000	**2015/16 £'000**	**2016/17 £'000**	**2017/18 £'000**
Base Budget	22,986	22,006	21,897	22,364
13/14 One-off items	(777)	(74)		22
Cost Pressures (net of one off changes)	1,699	1,040	640	1,090
Growth Items (net of one off changes)	810	0	506	254
UCC FSR (yoy) change	(825)	(990)	(890)	
Savings	(1,887)	(85)	211	0
Technical Items				
Forecast Base Budget	**22,006**	**21,897**	**22,364**	**23,730**
Funded By:				
Revenue Support Grant	(4,436)	(3,061)		
Business Rates Baseline	(3,854)	(3,960)		
Settlement funding assessment (SFA)	*(8,290)*	*(7,021)*	*(6,000)*	*(6,000)*
New Homes Bonus	(3,410)	(3,410)	(3,410)	(3,410)
Total Gov't grants	***(11,700)***	***(10,431)***	***(9,410)***	***(9,410)***
Council Tax	(10,243)	(10,243)	(10,243)	(10,243)
Collection Fund Deficit / (Surplus)	(142)	0	0	0
Business Rates Deficit / (Surplus)	283	0	0	0
Use of Reserves	(204)	(130)	(130)	(130)
Total Funding	**(22,006)**	**(20,804)**	**(19,783)**	**(19,783)**
Budget (surplus) / gap before changes (cumulative)	**0**	**1,093**	**2,581**	**3,947**
Annual increase		**1,093**	**1,488**	**1,366**

Medium Term Financial Forecast 2014/15 to 2017/18				
	2014/15 **£'000**	**2015/16** **£'000**	**2016/17** **£'000**	**2017/18** **£'000**
Cost Pressures				
General Inflation	440	640	640	640
Pensions	22	0	0	250
MRP (Minimum Revenue Provision)	21	0	0	0
Elections	95			
Fleet	210			
Benefit Admin grant & benefit subsidy	190			
Existing net income streams	560			
Agency Costs	50			
Bank Charges	12			
Bus Station	25			
Support to FSR (funded by c/f)	74			
Pensions - auto enrolment				200
Park and Ride - Impact		300		
Interest costs - allowance		100		
Total	**1,699**	**1,040**	**640**	**1,090**
Growth Items				
Food Waste (net impact)			506	254
Affordable homes	37			
Growth linked to New Homes Bonus	757			
A12 / A120 litter picking	16			
Total	**810**	**0**	**506**	**254**
Savings (incl. one off adjustments)				
ICT	(40)			
Sport & Leisure FSR	(195)			
Private sector leasing	(20)			
Procurement Target	(100)			
Interest earnings (mostly one-off)	(85)			
Sharing agreement (extra)	(211)		211	
Management capacity	(140)			
C&FM FSR	(250)	(50)		
Ward Budgets	(120)			
Housing Revenue Account (HRA) to General Fund (GF)	(50)			
Grounds Maintenance	(200)			
Activity Centres	(39)			
Museums	(22)			
Community Services Grants	(50)	(35)		
LCTS grant to parishes	(17)			
Tour Series	(80)			

Medium Term Financial Forecast 2014/15 to 2017/18				
	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
EMT	(22)			
Staff & Member car parking	(30)			
Land Charges	(100)			
Cemetery and crematorium income	(90)			
Technical items	(26)			
Total	**(1,887)**	**(85)**	**211**	**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	757	757	757	757
Growth re 13/14		x	x	x
Total basic NHB	*3,216*	*3,216*	*3,216*	*3,216*
Affordable Housing element				
re 10/11 delivery	52	52	52	52
re 11/12 delivery	105	105	105	105
re 12/13 delivery	37	37	37	37
re 13/14 delivery		x	x	x
Total affordable homes bonus	*194*	*194*	*194*	*194*
Total New Homes Bonus	**3,410**	**3,410**	**3,410**	**3,410**
Use of Reserves				
Balances (General)				
Funding c/f	74			
S106 monitoring reserve	30	30	30	30
Capital Expenditure Reserve:-				
Community Stadium	100	100	100	100
Total	**204**	**130**	**130**	**130**

Addressing the Budget Gap
The MTFF shows a budget gap of circa £6m over the three years from 2015/16. Whilst cumulative additional net savings of c£2m through the UCC FSR have been identified this leaves a gap £4m. This should also be seen in the context of the risks and variables set out below and also in terms of reduced budgets and more efficient services resulting in savings that will be increasingly hard to deliver.

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

Ref	Risk / Area of uncertainty	
1	*Government Funding / Business Rate Retention Scheme*	The MTFF includes the reduction in the 'SFA' for 2015/16 of 15% with further reductions thereafter. From 2013/14 a proportion of the Council's core income that used to be provided by Government grant is now funded by the Council keeping a share of business rates income. This poses a new risk as well as a potential reward. The level of risk is currently equivalent to the safety net in place of £289k.
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. Provision has been made in the 2014/15 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. Provision has been made for changes in other Government grants, such as housing benefit administration, in 2014/15, however, the impact of any further reductions in these will be considered as the MTFF is reviewed.
4	*Pensions*	An allowance has been built in for increases in pensions costs based on the results of the last actuarial review and which therefore are fixed until 2016/17. Thereafter an allowance has been assumed of £250k
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 car parks, sport and leisure and community alarms income are not meeting the budget. Looking ahead to 2014/15 and beyond it is difficult to estimate how income levels may continue to be affected. The 14/15 budget forecast assumes a decrease in revenue in certain areas such as car parks, community alarms and trade waste and future updates of the MTFF will consider any other changes to income.

Ref	Risk / Area of uncertainty	
6	*Inflation*	An allowance for general inflation including pay has been built into the 14/15 forecast and MTFF. The current (December 2013) CPI is 2% and RPI is 2.7% The economic forecasts published by HM Treasury point to inflation figures for 2014 of 2.3% and 3% 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 2014/15 includes proposals to use certain reserves. The MTFF assumes the ongoing use of the capital expenditure reserve and S106 reserve. The 2014/15 budget includes no proposals to use general balances.
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. An allowance has been built into the MTFF for reductions in car park income.
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 2014/15 budget forecast maintains the additional allocation of £150k in respect of planned repairs. This will continue to be reviewed to consider if it is sufficient to meet ongoing requirements.
11	*Impact of growth in the Borough and demand for services*	A number of Local Authority services are directly impacted by the increase of population in the Borough, such as waste services, planning, benefits etc. As part of 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. 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 2014/15 budget includes c£2.7m 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.
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 2014/15 highlights the outlook for

Ref	Risk / Area of uncertainty	
		interest rates in the medium-term which points to continuation of unprecedented low levels into 2014/15. The budget forecast has been adjusted by £85k to reflect the ongoing benefit of the Council's strategy to 'internally borrow' to minimise our interest costs. The MTFF recognises that this is not an ongoing gain and a contingency allowance of £100k is included for 2015/16.

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

Appendix H

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and
Annual Investment Strategy
2014/15

Not duplicated here. Please see separate report on agenda

Impact of Budget Strategy 2014/15

Impact of Budget Strategy 2014/15

The budget for 2014/15 has been prepared in continuing difficult financial conditions. This is alongside the bedding in of changing local government financial arrangements. It is worth noting now only 20% of the proposed net budget of £22m is funded by core Government grant (RSG).

There continue to be reductions in the amount of money we receive with a cut in combined funding of 13%. In addition there continue to be a number of significant risks for local government not least the Local Council Tax Support scheme which will be in place for a second year.

Our programme of Fundamental Service Reviews (FSR) continues to provide a significant proportion of savings to meet budget gaps. For example, the budget includes £195k of savings in respect of the third year of the Sport and Leisure FSR and £250k in respect of the recently approved Corporate and Financial Management FSR.

Over the next two years the implementation of the Universal Customer Contact FSR will be crucial to delivering cost savings and additional income 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.

The proposed 2014 budget does include £0.5m of savings from budget reductions. This represents 19% of all proposed savings illustrating the majority of savings have been identified through efficiencies, income or technical budget changes. As such any negative impact on delivering against Strategic Plan priorities can be minimised.

Growth items

Despite the continuing pressures on budgets it has been possible to identify some funding to support actions that support the Strategic Plan priorities with the main items shown in the table below

Item	
Food Waste	Reduce, reuse, recycle: A government grant was awarded following a successful bid for funding. This has allowed for the implementation of the 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	Providing more affordable homes: This is the amount of grant in the New Homes Bonus specifically paid for the delivery of affordable homes and in total the budget now contains £194k. This is allocated to enable additional affordable homes
A12 / A120 litter picking	Being cleaner and greener: Allocation of funding to allow the Zone teams to continue to undertake fortnightly litter picking of the A12 and A120 following Essex County Council (ECC) confirming that they would no longer be providing funding to

Item	
	Colchester Borough to continue the service.
Investment funded through New Homes Bonus	This may support a number of Strategic Plan priorities and is in addition to the ongoing annual contribution allocated from the New Homes Bonus of £250k to enable infrastructure projects to support the growth

	Cabinet		**Item 10(b)**
Colchester	**29th January 2014**		
Report of	**Head of Commercial Services**	**Author**	**Darren Brown ☎ 282891**
Title	**Housing Revenue Account Estimates 2014/15**		
Wards affected	**All**		

This report presents the Housing Revenue Account (HRA) estimates for 2014/15, the Medium Term Financial Forecast (MTFF) for 2014/15 to 2018/19, and the 30 Year HRA financial model

1. Decision Required

1.1 To approve the 2014/15 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 4.11).

1.4 To approve the HRA revenue funded element of £6,960,200 included within the total management fee for Colchester Borough Homes (CBH) (set out in paragraph 4.14).

1.5 To note a revenue contribution of £6,900,000 to the Housing Investment Programme is included in the budget (paragraph 4.29).

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 Commercial Services to prepare detailed HRA estimates for approval by the Cabinet, setting the new rent levels for the new financial year.

3. Supporting Information

Key Issues for 2014/15

3.1 There are a number of key issues relating to the HRA budget for 2014/15, with further details being included within the main body of the report. However, in summary they are as follows. This is the first HRA budget to be set under the terms of the new management agreement with CBH. The management fee consequently contains a larger range of budgets, and the budget is set with an emphasis on the medium term, to provide more stability and meet the governance arrangements within the new management agreement. Secondly, this is the first HRA budget to be set in the context of the new 30 year HRA Business Plan, which was approved by Cabinet at it's meeting on the 27th November 2013. The budget therefore reflects the strategic priorities identified within the HRA business plan. Finally, this is the third 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 2014/15 HRA budget, it is necessary to revisit the 2013/14 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.

2013/14 Revised Housing Revenue Account

3.3 Appendix A shows the Revised Housing Revenue Account (HRA) estimates for 2013/14. There have been some amendments to the original budget for 2013/14 during the course of the current financial year. A reconciliation is therefore provided in the following table between the Original and Revised budget for 2013/14:-

Reconciliation between Original and Revised 2013/14 HRA Budget

	Budget 13/14	***Commentary***
	£'000	
Original Budget Deficit	**74**	Agreed 23rd January 2013
2012/13 Budgets c/fwd	168	Agreed by Assistant Chief Executive/Head of Commercial Services
Use of Earmarked Balances:		
Funding of 2013/14 Pay Award for CBH	67	Original budget assumed no pay-award for this financial year.
Money & Welfare Advice for Tenants/Moving Assistance	60	Funding of 2 year fixed-term post within CBH and related budgets agreed by Portfolio Holder.
Revised Budget Deficit	**369**	

2013/14 Forecast Outturn Position

3.4 When considering the financial position of the HRA, in addition to the adjustments to the 2013/14 original budget shown in the above table, it is important to note the 2013/14 forecast outturn position. It is currently predicted that the HRA will be underspent by £806k compared to the revised budget for 2013/14. The table below provides a breakdown of this forecast underspend. In addition, commentary is provided on the major variations;

	Outturn 13/14
	£'000
Rental & Service Charge Income	(97)
One-off/Technical Items	
Capital Financing costs - Depreciation	(1,392)
Revenue Contribution to Capital (RCCO)	683
Forecast 2013/14 Underspend	**(806)**

- It is forecast that we will receive more rental and service charge income of £97k. This reflects the impact of less rental & service charge income being lost from dwellings and garages than assumed within the budget, through a combination of voids and the timing of the garage site redevelopment project.

- The depreciation charge for 2013/14 is estimated to decrease by £1,392k. This is because during 2012/13 we changed the way we calculate our depreciation charge, which has resulted in a lower charge to the HRA then the methodology we used to set the 2013/14 budget. This has freed up resources which are therefore available to fund the Housing Capital Programme in 2013/14 via an RCCO, ensuring the agreed capital programme will still be funded. In effect, this is an accounting issue and represents a switch in revenue funding between depreciation and Revenue Contributions to Capital.

- As a result of the reduction in the depreciation charge being made to the HRA as stated above, there will be revenue resources available for an increased RCCO of £683k to fund the Housing Capital Programme in 2013/14. It should be noted that the increased RCCO is less than the reduction in the depreciation charge due to a smaller funding requirement in the capital programme in 2013/14, which is primarily because of the timing of expenditure on the redevelopment of garage sites and the timing of capital receipts from the review of sheltered accommodation. The balance of resources will be carried forward in the HRA balance and used to fund the re-profiled expenditure on garage sites when it occurs in 2014/15.

HRA Reform

3.5 Members will be aware of the implementation of the national reform of the Housing Revenue Account from April 2012. The 2014/15 budget therefore reflects the third year of the new financial regime 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. 2014/15 Housing Revenue Account Budget

4.1 Appendix A shows the Housing Revenue Account (HRA) estimates for 2014/15. This shows a predicted HRA deficit of £2,920k which will be funded by a planned use of uncommitted HRA balances.

4.2 It should be noted that the MTFF included within the 2013/14 HRA budget cycle and considered by Cabinet on 23rd January 2013 estimated a deficit for 2014/15 of £1,702k. However, given that the HRA balance is now higher than planned due to the favourable 2012/13 outturn position on both the revenue account and the capital programme, we are able to make a larger RCCO to the capital programme than originally planned. Although this shows as a higher deficit than envisaged this time last year, it simply reflects that there is more HRA balance available to fund the 2014/15 Housing Capital Programme, and therefore preserve the borrowing headroom for future years and other projects.

Balances

4.3 The prudent level of uncommitted balances for the HRA is currently £1,600k. This recognises the transfer of risk from Central to Local Government resulting from HRA Reform, as well as providing for any adverse effects of inflation, interest rates, or Right To Buy sales on the HRA. Provision is also made within the level of HRA balances for any potential additional revenue implications of our Sheltered Accommodation and 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, the risk surrounding welfare reform continues to be recognised in our assessment of HRA balances.

4.4 A risk assessment has been undertaken to review the minimum prudent level of HRA uncommitted balance the Council should maintain. The results of this review are set out at Appendix D and show that it would be reasonable to retain the uncommitted balance at £1,600k. This will continue to be reviewed annually. As we move through the early years of HRA Reform, we will have more certainty and resources will become greater, meaning we may revert to a lower minimum level of balances in the future.

4.5 The estimated balances for the HRA are set out in Appendix B. The anticipated level of the uncommitted HRA balance as at 31st March 2014 is £4,520k. The recommended prudent level of balance is £1,600k. Members will recall from previous year's HRA budget reports that it has always been the intention to use the proportion of HRA balance which is over and above the minimum prudent level to fund the 2014/15 budget. Prior to this, we have used our major repairs reserve and other resources to fund the capital programme. However, the 2014/15 Capital Programme includes a much higher level of investment compared to previous years, given the timing of expenditure on our projects relating to development on garage sites and the sheltered accommodation improvement programme. Therefore, we will be using a significant proportion of the uncommitted balance to meet the budget deficit for 2014/15 as mentioned in paragraph 4.1.

4.6 The budget at Appendix A shows the use of uncommitted balances in 2014/15 to make a Revenue Contribution to fund the Housing Investment Programme. This is because it is deemed to be a more economical use of resources, rather than fund the capital programme by undertaking additional borrowing, thus incurring additional borrowing costs and using available borrowing headroom. This fits with the prioritising of resources indicated in this report and in the Housing Investment Programme elsewhere on the agenda. From 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 2014/15 is the thirteenth 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 2014/15 is £86.06 per week compared to a current average of £81.47, an increase of £4.59 (5.63%) per week. (It should be noted that the September 2013 RPI figure was 3.2%). Given the potential for the rate of inflation to vary in the short to medium term, it is difficult to anticipate future rent increases. However, modelling within the MTFF and 30 year financial modelling has been undertaken using reasonable estimates of inflation rates.

4.8 The Government has recently published a consultation paper entitled "Rents for Social Housing from 2015-16". It is proposing the abolition of the current rent convergence policy from 2015/16. The paper proposes moving away from using the current formula of RPI + 0.5% to calculate the annual increase in rent, and replace it with CPI + 1%. It also proposes to remove the additional £2 per week that is used to enable individual rents to converge with their target rent. Rents will be able to be moved to target rent when a property becomes empty, but this may take many years for a number of properties and will reduce the amount of future rental income we will receive compared to the Government's existing rent policy. Whilst not an issue for the 2014/15 budget, this does have an adverse impact upon the medium term forecast and 30 year financial modelling included within this report. Whilst the results of the consultation have not been published at the time of preparing this report, to be prudent our financial modelling has been prepared on what we expect the likely outcomes to be.

4.9 Sales of council houses under the Right to Buy (RTB) scheme could reach 25 in 2013/14 (21 sold in 2012/13 and 16 sold in 2011/12), which is in line with the number expected in the 2013/14 HRA budget. The level of sales has remained at a relatively low level in the current financial year considering the Government's 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 these do not appear to be materialising into completions, presumably due to the issues of affordability and the availability of private finance. The 2014/15 budget has been set assuming the sale of 25 properties, being broadly in line with the current level. The MTFF and longer term modelling assume a reduction in the number of sales after 2014/15, given the Government's re-invigoration of the RTB scheme currently only appears to be for a period of 3 years. However, these assumptions will be reviewed annually as part of our future budget setting.

4.10 The budget for 2014/15 has been set using the assumption that there will be a loss of rental income of 1.50% resulting from empty properties. This is consistent with the 2013/14 budget and is intended to provide for any additional void loss that may arise as a result of the various changes being undertaken within the housing stock.

Other Income

4.11 The rent proposed for garages for 2014/15 is £8.91 per week compared to £8.44 in 2013/14. Although these rents are outside of the rent reform arrangements this increase is in line with the proposed increase in dwelling rents, i.e. 5.63%. 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 2014/15.

4.12 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 2014/15 assumes that the demand for these services will remain the same as the current financial year, unless mentioned otherwise.

4.13 The de-pooling of services charges to individual tenants was implemented in 2008/09. There have not been any new service charges introduced for 2014/15, only an update of existing charges to reflect the actual cost of the services provided.

Expenditure

Colchester Borough Homes Management Fee

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

Breakdown of 2014/15 CBH Management Fee

	Budget 14/15	***Funding Source***
	£	
CBH Management costs	3,339,700	CBH Ltd Management Fee at Appendix A
R&M Management Fee	541,300	Included in Repairs & Maintenance at Appendix A
R&M Works	3,079,200	Included in Repairs & Maintenance at Appendix A
Sub-Total: HRA	**6,960,200**	
Capital Fee	1,298,100	Included within the 2014/15 Housing Investment Programme
Sub-Total: HIP	**1,298,100**	
Anti-Social Behaviour Team	42,400	Included within the 2014/15 General Fund Budget
Professional Support Unit	111,900	Included within the 2014/15 General Fund Budget
Housing Options Team	575,500	Included within the 2014/15 General Fund Budget
Sub-Total: General Fund	**729,800**	
Total Management Fee	**8,988,100**	

4.15 The base management fee for 2014/15 includes an allowance for inflation aswell as a provisional increase in pension costs relating to CBH employees following the tri-annual actuarial review of the scheme by Essex County Council. The 2014/15 fee has been reduced by £60k to reflect the savings target set by the Council. As a consequence of the new management agreement, the fee has also been adjusted to reflect the movement of teams between the Council and CBH, for example the Housing Options team and associated Professional Support Unit staff moving to CBH, and the Customer services team moving from CBH into the Council's Universal Customer Environment. Finally, to be consistent with the 2014/15 General Fund budget considered elsewhere on the agenda, provision has also been made within the fee for the review of the cost of services CBH buys-in from the Council.

4.16 Members will be aware that at its meeting on the 27th November 2013, Cabinet approved the Council's 30 year HRA Business Plan. The 2014/15 budget and management fee include a number of service enhancements, which reflect the strategic priorities identified by Cabinet and which are included within the business plan. The majority of these have been incorporated within the existing CBH Management Fee and Council budgets, however additional resources have been directed in particular to supporting tenants.

4.17 As part of the new housing arrangements and new management agreement, provision was made for the incorporation of some CBH delegated budgets into the base CBH Management Fee. However, the potential areas of budget and level of funding to be included requires further work, and following recent recruitment to the Council's commercial team this piece of work will commence shortly. The 2014/15 budget therefore has made no assumption on what the outcome of this may be, but potentially there is scope for the split of CBH Management Fee and Management costs shown at Appendix A to alter during the course of the next financial year, which members are asked to note.

Management Costs

4.18 The 2014/15 HRA budget includes £6,436,000 for management costs, an increase from 2013/14 (£5,717,900). 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 2013/14 budget is given in the following paragraphs.

4.19 The budget for Employee costs has decreased by £36,700 for 2014/15, which reflects the transfer of the EPC & Contract Standards officer post to Colchester Borough Homes under the new housing arrangements. The funding for this post now forms part of the Housing Investment Programme.

4.20 The budget for Premises costs has increased by £11,600 for 2014/15. This primarily relates to the Grounds Maintenance budget, where a provision has been made for an inflationary increase in accordance with the contract.

4.21 The budget for Supplies and Service costs has increased by £255,200. The main reasons for this increase are as follows: One-off funding of £30,000 has been included to upgrade existing telecare & telehealth systems, aswell as £150,000 to meet the set-up costs of the second phase of the Photovoltaic Panels scheme which occur in the next financial year. Provision of £60,000 has been made within the budget for the 2nd year of the Money & Welfare Advice for Tenants/Moving Assistance agreed by the Portfolio Holder. Finally, £30,000 has been included to provide a caretaking service to remedy minor repairs which may compromise the health and safety of vulnerable tenants, although there is an opportunity to recover the cost of this through a service charge, the income for which is also included within the budget. For information, the first and last items fall under the category of supporting tenants referred to in paragraph 4.16.

4.22 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 2014/15 has increased from 2013/14. This predominantly relates to the accounting treatment of the transfer of the Customer services team from CBH back to the Council as part of the new housing arrangements. As a result of the transfer, the management fee to CBH has been reduced as they no longer incur this cost as an organisation, but the Customer Service centre now recharge the cost of these staff to the HRA instead, given we are still providing a service to Council tenants. Furthermore, the re-organisation of the Council under the UCC FSR has resulted in changes to the proportion of central costs incurred by new service areas, which has had a minor impact on the allocation of costs to the HRA.

Repairs and Maintenance

4.23 The 2014/15 Housing Investment Programme has been drafted and is included elsewhere on the agenda for approval. In respect of revenue works £5,037,300 has been included in the budget for repairs and maintenance (compared to £4,978,700 in 2013/14), of which £3,620,500 is specifically for works and associated overheads included within the CBH Management Fee. A provision of £1,103,500 is included in the budget for those works which are managed by CBH on behalf of CBC, such as external decorating and gas servicing, but where CBC still hold the contract. The balance of the budget is for works to sewage pumping stations, temporary accommodation and other CBH delegated areas. The revenue budget provides for repairs that are undertaken on a responsive basis, as well as works to void properties, and maintenance which is carried out under a planned programme such as external decorating and gas servicing.

Capital Financing Costs

4.24 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 Council's HRA expenditure each year. The 2014/15 budget for interest costs has increased compared to 2013/14, which reflects that we will be undertaking new borrowing to fund the overall Housing Investment Programme next year.

4.25 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".

4.26 The 30 year financial modelling undertaken as part of this years budget setting cycle currently indicates that surplus resources (over and above what is required to meet existing spending plans) would be generated from 2019/20 onwards (Year 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.

4.27 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 Council's 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 2014/15 budget or MTFF at this point in time.

Revenue Contributions to Capital Outlay (RCCO)

4.28 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.

4.29 The revenue contribution included in the estimates is £6,900,000. This is substantially higher than previous years, as it includes the planned use of HRA balances down to the minimum prudent level as detailed in this report. The majority of this budget is to support the capital work programmes to the housing stock in 2014/15, which are included within the Housing Investment Programme report elsewhere on the agenda.

4.30 Within the total revenue contribution, a provision of £100,000 has been included to meet the Council's technical strategic asset management role within the repairs and maintenance arrangements with CBH, and £140,000 has also been provided for ICT, which is intended to support various projects. Finally, £140,000 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

4.31 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.
Government Welfare Reform	The budget includes an estimate of the impact of Welfare Reform. Aswell as providing for transaction costs etc, the budget also includes an estimate of the potential impact upon rent arrears and consequently the level of bad debts provision we would need to maintain.
Revenue Contributions to Capital (RCCO) / Prudential Borrowing	Capital Resources have been provisionally allocated for 2014/15 within the Housing Investment Programme report contained elsewhere on the agenda. If these resources prove insufficient, then options exist to either finance capital expenditure from revenue, or undertake HRA borrowing subject to the HRA debt cap. Clearly, if one of these options was pursued, then there will be a requirement to find additional resources from the HRA.
Repairs and Maintenance	Historically, this is an area where pressure has existed on budgets such as Responsive and Void repairs, given that they are demand-led. However, in recent years this has become less of a risk. These budgets now form part of the CBH Management Fee, and the terms of the new management agreement specify that CBH will be liable for any overspend up to a maximum of £200k per year, but also that they may retain any underspend up to £100k per year. Therefore, there could be a reduced impact on the HRA of variations in expenditure.
Utility costs	The budget makes assumptions on future prices for Gas and Electricity that are consumed within the Council's housing stock, such as Sheltered Schemes, Temporary Accommodation and Communal entrances in blocks of flats. Given the volatility of utility prices in recent years, there is a risk that prices could rise, the cost of which would have to be funded from existing resources or HRA balances.
2013/14 Outturn	An underspend of £806k is currently predicted for this year. Any variance on the forecast will either be a contribution to or from balances.

4.32 As shown in paragraph 4.31 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 2014	Updated outturn forecast.
July 2014	Provisional pre-audit outturn / current year issues etc.
September 2014/ October 2014	Mid year review.
December 2014 / January 2015	Outturn review / Budget 2015/16.

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

5.1 As part of the budget process for 2014/15 a MTFF has been produced for the HRA. This sets out the indicative budget position for the period 2014/15 to 2018/19. 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. As previously mentioned, the Government has recently published a consultation paper on social housing rents from 2015/16 onwards. Whilst the results of the consultation have not been published at the time of preparing this report, to be prudent the MTFF has been prepared on what we expect the likely outcomes to be.

- ***Welfare Reform***

Continued provision has been made within the MTFF for the estimated potential effect on levels of rent arrears and bad debts, resulting from the introduction of Welfare Reform by the Government. The contribution to the provision for bad debts has been broadly maintained at the level for 2013/14 going forwards, with the level of provision being reviewed annually as part of the budget setting process.

- ***Temporary Accommodation Unit Review***

Work is still 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.

- ***Sheltered Housing Accommodation Review***

At its meeting on the 12th October 2011, Cabinet considered a number of recommendations relating to making improvements to the Council's 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 £10.541million in sheltered accommodation over the next 5 years. The revenue budget makes provision for home loss and disturbance payments plus the potential interest costs that would be incurred if additional borrowing is undertaken to fund capital works at future schemes due for improvement.

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

6. Supporting Information – 30 Year Financial Modelling

6.1 The implementation of HRA Reform in 2012 brought the expectation that Councils will take a greater business planning role when managing their Housing Revenue Account. Cabinet approved the Council's 30 year HRA Business Plan at it's meeting on 27th November 2013. This included a 30 year financial model which set out the long-term position of the Council's HRA, using 2013/14 as the base year. As part of the 2014/15 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 and 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 Council's 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 implement the proposals included in their recent consultation paper on future rent setting, which would see the abolition of the current rent restructuring policy from 2015/16 and lead to future rents being increased as described in paragraph 4.8. It is estimated that only around 83% of properties will be at target rent by April 2015. Whilst there is the potential for this number to increase as re-lets occur, it will still result in a shortfall in the income assumed within previous financial models and our HRA Business Plan. This has the effect of making less revenue resources available to fund the Housing Investment Programme through Revenue Contributions to Capital, and therefore we will need to use more of our borrowing headroom to fund our currently planned future capital programme.

6.6 Assumptions have been made within the model for loss of stock, not only through the various projects being undertaken, but more significantly from Right to Buy sales. These are consistent with those made in the budget and MTFF. The Council has entered into agreement with DCLG to retain additional RTB receipts to deliver new affordable housing, with the intention being to use the balance of receipts retained to contribute to the cost of delivering our 34 units of new build accommodation on our garage sites. However, no allowance has currently been made within the budget or modelling for any further 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 Government's 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, which has reviewed the options relating to these assets and has led to a pilot scheme being commenced. The improvement to the financial model 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, or where one-off sums have been included within the base budget.

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

6.14 The priority of how resources are used to fund the HIP is contained within that report for 2014/15, which in summary is aimed at using specific grants and capital receipts first, then reserves, with the intention of preserving revenue resources as far as possible as they offer the greatest funding flexibility. Should there be no or insufficient revenue resources available, then additional borrowing utilising any available headroom would be the final approach. This is because borrowing carries a cost of doing so; therefore it is treated as the last option to gain the maximum use of revenue resources available.

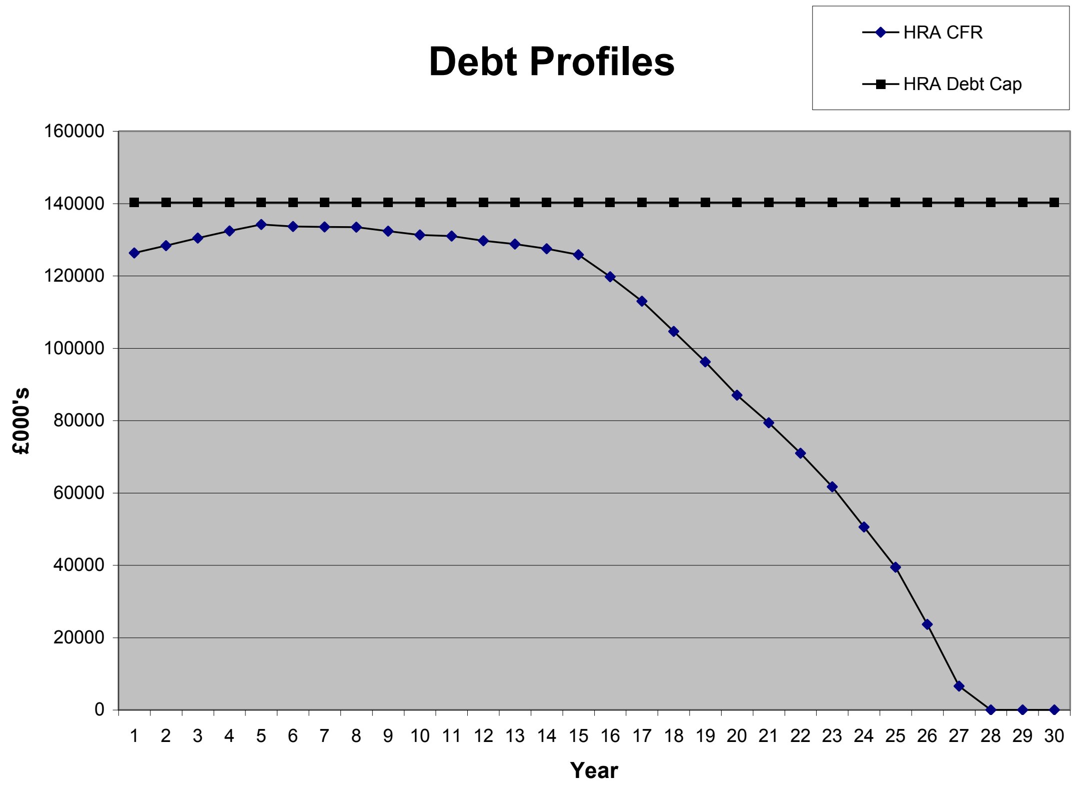
6.15 Under HRA Reform, the primary source of funding the Housing Capital Programme, especially in the early years, is a charge to the HRA which reflects the cost of depreciation to the housing stock. This is calculated locally, with reference to our actual stock condition and asset management strategy.

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

Debt

6.17 The measure of an authority's debt under self-financing is the HRA Capital Financing Requirement (HRA CFR). Our opening HRA debt on 1st April 2014 is expected to be £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 and 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
2014/15	13,952
2015/16	11,903
2016/17	9,824
2017/18	7,890
2018/19	6,081
2019/20	6,615
2020/21	6,780
2021/22	6,807
2022/23	7,922
2023/24	8,946

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 Council's overall position on repayment of HRA debt versus the desire to provide maximum investment locally.

6.22 The Council's 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 their resultant impact upon the 30 year HRA model, compared to the base position shown at Appendix E;

		Variation to Base Position			
		Scenario 1	Scenario 2	Scenario 3	Scenario 4
	Base Position	Reduction in Inflation of 1% over 30 Years	Increase in Inflation of 1% over 30 Years	Decrease in Inflation of 1%, Increase in RTB's by 10,Decrease in Mgt Costs by £200k in every Year	Increase in Inflation of 1%, Increase in RTB's by 10, Increase in Mgt Costs by £200k in every Year
Peak Debt Year	Year 5	Year 8	Year 5	Year 7	Year 8
Year Debt Repaid	Year 28	Year 31	Year 25	Year 34	Year 28
Capital Investment over 30 Years	£428.3million	£370.2million	£498.4million	£369.5million	£497.4million
Surplus HRA Balance at Year 30	£55.3million	£2.3million	£131.1million	£2.3million	£57.5million

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 Government's 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 Council's 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 2014/15
- 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 2014/15		
	Housing Revenue Account		
	Summary		
2012/13		**2013/14**	**2014/15**
Actuals	**Expenditure & Income Analysis**	**Revised**	**Original**
		Budget	**Budget**
£000's		**£000's**	**£000's**
	INCOME		
(24,732)	Dwelling Rents (Gross)	(26,093)	(26,783)
(810)	Non-Dwelling Rents (Gross)	(732)	(722)
(2,294)	Charges for Services and Facilities	(2,259)	(2,272)
(256)	Contributions towards Expenditure	(215)	(208)
(28,092)	**Total Income**	**(29,299)**	**(29,985)**
	EXPENDITURE		
4,634	Repairs and Maintenance	4,998	5,037
3,330	CB Homes Ltd Management Fee	3,287	3,340
5,716	Management Costs	5,946	6,436
116	Rents, Rates and Other Charges	188	210
(40)	Payment of Subsidy to CLG	-	-
166	Increased provision for Bad or Doubtful Debts	250	250
5,567	Interest Payable	5,567	5,572
11,826	Depreciation and Impairments of Fixed Assets	6,500	5,108
124	Amortisation of Deferred Charges	150	150
98	Debt Management Costs	105	85
31,537	**Gross Expenditure**	**26,991**	**26,188**
3,445	**Net Cost of Services**	**(2,308)**	**(3,797)**
(6,419)	Net HRA Income from the Asset Management Account	(150)	(150)
212	Amortised Premiums and Discounts	38	-
(28)	HRA Investment Income (including mortgage interest and interest on Notional Cash Balances	(23)	(33)
(2,790)	**Net Operating Expenditure**	**(2,443)**	**(3,980)**
1,540	Revenue Contribution to Capital Expenditure	2,812	6,900
(1,250)	**Deficit/(Surplus) for the Year**	**369**	**2,920**
(3,537)	Deficit/(Surplus) at the Beginning of the Year	(4,787)	(4,418)
(1,250)	Deficit/(Surplus) for the Year	369	2,920
(4,787)	Deficit/(Surplus) at the End of the Year	(4,418)	(1,498)

Housing Revenue Account - Estimated Balances

	£'000
Balance as at 1 April 2013	**(4,787)**
Committed - Capital Spending in 2013/14 and onwards	424
Less technical adjustment between HRA/GF in 2013/14	280
Less budgeted deficit/use of balances in 2013/14	369
Plus Forecast underspend in 2013/14	(806)
Unallocated balance at 31st March 2014	**(4,520)**
Less Proposed Use of balances in 14/15 Budget	2,920
Estimated uncommitted balance at 31st March 2015	**(1,600)**
Recommended level of Balances	**(1,600)**
Forecast balances above prudent level at 31st March 2015	**-**

Note:

This forecast is on the basis that there are no further calls on balances during the remainder of the year and that the 2013/14 budget underspends by £806k, 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 13/14*	*Budget 14/15*	*Budget 15/16*	*Budget 16/17*	*Budget 17/18*	*Budget 18/19*
	£'000	***£'000***	***£'000***	***£'000***	***£'000***	***£'000***
Income						
Housing Rents	(26,093)	(26,783)	(27,529)	(28,317)	(29,045)	(29,829)
Other Income	(3,206)	(3,202)	(3,317)	(3,394)	(3,434)	(3,504)
	(29,299)	**(29,985)**	**(30,846)**	**(31,711)**	**(32,479)**	**(33,333)**
Expenditure						
Repairs & Maintenance	4,998	5,037	5,006	5,130	5,257	5,387
Running Costs	9,670	10,237	10,234	10,475	10,574	10,820
Interest Payable	5,567	5,572	5,657	5,749	5,838	5,921
Depreciation	6,500	5,108	5,672	5,814	5,960	6,440
Other Capital Financing	121	51	53	55	57	59
RCCO	2,812	6,900	4,224	4,488	4,792	4,706
Contribution to Balances	0	0	0	0	0	0
Other	0	0	0	0	0	0
	29,668	**32,905**	**30,846**	**31,711**	**32,478**	**33,333**
Budgeted (Surplus)/Deficit	**369**	**2,920**	**0**	**0**	**(1)**	**0**
Forecast 2013/14 underspend	(806)	0	0	0	0	0
Revised (Surplus)/Deficit	* **(437)**	**2,920**	**0**	**0**	**(1)**	**0**

Opening Balance	**(4,787)**	**(4,520)**	**(1,600)**	**(1,600)**	**(1,600)**	**(1,601)**
Committed Balance	**704**	**-**	**-**	**-**	**-**	**-**
(Surplus)/Deficit	**(437)**	**2,920**	**0**	**0**	**(1)**	**0**
Uncommitted Closing Balance	**(4,520)**	**(1,600)**	**(1,600)**	**(1,600)**	**(1,601)**	**(1,601)**

* It should be noted that it is currently forecast the HRA will be underspent by £806k in 2013/14, 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 2014/15

Risk Management Assessment

Factor	Assessed Risk		
	High £'000	**Medium £'000**	**Low £'000**
Cash flow (1% of £58m)	580		
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	
	1,030	1,070	50

	Minimum Provision £'000
High Risk – 100%	1,030
Medium – 50%	535
Low – 10%	5
Sub Total	**1,570**
Other - say	30
Recommended Prudent Level	**1,600**

Appendix E

Housing Revenue Account – 30 Year Financial Model

	Year 1 2014/15 £000's	Year 2 2015/16 £000's	Year 3 2016/17 £000's	Year 4 2017/18 £000's	Year 5 2018/19 £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	(29,985)	(30,846)	(31,711)	(32,479)	(33,333)		(181,757)	(208,647)	(239,533)	(274,996)	(315,709)
Expenditure	32,905	30,846	31,711	32,478	33,333		181,535	208,407	239,259	274,688	263,049
(Surplus)/Deficit	2,920	0	0	(1)	0		(222)	(240)	(274)	(308)	(52,660)
Opening HRA Balance (Surplus)	(4,520)	(1,600)	(1,600)	(1,600)	(1,601)		(1,601)	(1,823)	(2,063)	(2,337)	(2,645)
Closing HRA Balance (Surplus)	(1,600)	(1,600)	(1,600)	(1,601)	(1,601)		(1,823)	(2,063)	(2,337)	(2,645)	(55,305)
Capital Account											
Investment:											
Stock Investment Programme	9,980	9,484	10,315	10,568	11,033	51,380	61,196	74,672	63,768	85,161	77,852
Sheltered Accommodation Review	2,350	2,084	2,066	2,118	1,923	10,541	0	0	0	0	0
New Build	3,338	444	0	0	0	3,782	0	0	0	0	0
Total	**15,668**	**12,012**	**12,381**	**12,686**	**12,956**	**65,703**	**61,196**	**74,672**	**63,768**	**85,161**	**77,852**
Funded By (Resources):											
Depreciation	(5,108)	(5,672)	(5,814)	(5,960)	(6,440)	(28,994)	(34,695)	(41,273)	(48,980)	(58,001)	(68,546)
Revenue Contribution	(6,900)	(4,224)	(4,488)	(4,792)	(4,706)	(25,110)	(26,501)	(33,399)	(14,788)	(27,161)	(9,306)
Capital Receipts	(825)	0	0	0	0	(825)	0	0	0	0	0
Grant	(154)	(68)	0	0	0	(222)	0	0	0	0	0
HRA Reserves	(935)	0	0	0	0	(935)	0	0	0	0	0
New Borrowing	(1,746)	(2,048)	(2,079)	(1,934)	(1,810)	(9,617)	0	0	0	0	0
Total	**(15,668)**	**(12,012)**	**(12,381)**	**(12,686)**	**(12,956)**	**(65,703)**	**(61,196)**	**(74,672)**	**(63,768)**	**(85,161)**	**(77,852)**
Debt:											
HRA Debt at Year End	126,323	128,372	130,451	132,385	134,194		131,329	125,839	86,998	39,422	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	13,952	11,903	9,824	7,890	6,081		8,946	14,436	53,277	100,853	140,275

	Cabinet		**Item 10(c)**
	29th January 2014		
Report of	**Head of Commercial Services**	**Authors**	**Darren Brown** **John Rock** **Tel: 282891**
Title	**Housing Investment Programme (HIP) 2014/15**		
Wards affected	All		

This report concerns the Housing Investment Programme for 2014/15

1. Decision(s) Required

1.1 To approve the Housing Investment Programme for 2014/15.

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 2014/15 Capital programme being the third 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 Management Agreement dated 9th August 2013, which governs the contractual relationship between Colchester Borough Council (CBC) and CBH.

3. Supporting Information

Key Issues for 2014/15

3.1 There are a number of key issues relating to the HIP budget for 2014/15, with further details being included within the main body of the report. However, in summary they are as follows. First, this is the third year of HRA Self-Financing and the continued increase in investment in the housing stock and other projects is reflected in this report. Secondly, provision has been made for the anticipated continuation of our own programme of house building on garage sites. Finally, construction works will continue at Worsnop House and be continued into the next scheme to be identified, signalling our ongoing commitment to undertake 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 Council's 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 third 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 2014/15 is the third year of the HRA self-financing regime. This has fundamentally changed the way in which Council Housing is financed, and as a consequence a financial model for the HRA has been developed, which forecasts the HRA and HIP for each of the next 30 years, using a range of assumptions on areas such as inflation, stock numbers, future expenditure and income levels etc. This is considered further in the 2014/15 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 2014/15 HIP budget and financial forecasts are as follows;

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

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

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

5. 2014/15 Programme of Works

5.1 The requested budget allocation for the 2014/15 programme is £15.668million. This continues to represent a substantial increase in investment compared to the years spent operating under the now-abolished HRA Subsidy system, which members will recall was replaced on 1st April 2012 by the HRA Self-Financing regime. A further breakdown of the areas of work that are planned to be undertaken is shown at paragraph 8.

5.2 As part of the new management agreement which commenced in August 2013 between the Council and CBH, the management fee has been expanded to reflect the wider range of services CBH now provides on behalf of the Council, so it now incorporates the fee for managing the capital programme. Members are therefore asked to note that the requested budget allocation in paragraph 5.1, and the budget sums included in paragraph 8 and Appendix A all include the fee for managing the capital programme, which for 2014/15 totals £1,298,100. A further breakdown of the management fee is included in the HRA Revenue Estimates report elsewhere on the agenda.

5.3 Cabinet are also asked to note that provision has been made within the 2014/15 programme to provide third year funding for the Sheltered Housing review agreed by Cabinet on 12th October 2011. The fourth year of the programme (2015/16) will see the completion of Worsnop House coupled with a start on the second scheme where investment is scheduled to take place.

6. HRA Capital Medium Term Financial Forecast - 2014/15 to 2018/19

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 2015/16 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 Council's 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 2014/15 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 Officers are currently undertaking work to progress the building of 34 new Council owned homes, and an estimated split between 2014/15 and 2015/16 of the anticipated expenditure figures is included within the capital programme in 2014/15, as shown at Appendix A. 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 Council's expenditure relating to this scheme, which still applies.

6.4 The estimated RCCO in 2014/15 is £6.900million. This is substantially higher than previous years, as it includes the planned use of HRA balances down to the minimum prudent level as highlighted in the 2014/15 HRA Revenue Estimates report elsewhere on the agenda. In recent years, the RCCO has been used to fund non-works programmes, such as Housing ICT and the capitalisation of costs associated with the Commercial 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 Council's Asset Management Strategy. Finally, provision has been made within the RCCO to fund the continued programme of works to Sewage Treatment Plants, which will lead to their adoption by Anglian Water.

6.5 Members will be aware that the Council entered into agreement with DCLG in 2012 to retain additional RTB receipts to deliver new affordable housing. The 2014/15 budget therefore includes an estimate of the level of resources that will be available from this source, which will contribute to the funding of our 34 units of new build accommodation on our garage sites. Furthermore, the budget also includes capital grant as an additional resource, which is EU funding we have received as a result of the improvement works being undertaken at Worsnop House.

6.6 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 2014/15 as defined by the Asset Management Strategy (AMS) with the following comments setting out the basis of the allocation.

8.2 ***Capital Investment Programme - £4.040million –*** 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 - £0.560million -*** This continues to support the budget at historic levels. The proposed allocation achieves the requirement to adapt Council dwellings to meet the special needs of our customers and also meet the high priority that Members place on this service.

8.4 ***Emergency Failures (statutory obligation) and Voids - £0.790million –*** This allocation supports the AMS and the experience gained through the management controls being exercised. It reflects the necessity to recognise capital works in the voids process along with emergency failures.

8.5 ***Emergency failures structural works - £0.390million –*** As with the previous allocation this reflects the AMS and the experience gained through the management controls being exercised. The work is generally associated with premature failure of structural elements.

8.6 ***Roofing Programme - £0.450million –*** This allocation supports the Asset Management Strategy in the continuation of a new roof replacement programme.

8.7 ***Environmental Works - £1.800million -*** 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 continue to reduce the revenue reliance on painting programmes.

8.8 ***Asbestos, Legionella, Fire Safety and Overall Contingency - £0.900million –*** 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 - £0.240million*** – This is for the further development of the Capita Housing system, various other one off projects and also meeting the Council's technical strategic asset management role for repairs and maintenance capital projects.

8.10 ***Sewage Treatment Works - £0.140million*** – 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 - £2.350million*** – This allocation supports the continuation of the overall refurbishment programme. Individual delivery contracts will be reported to Cabinet as tenders are returned.

8.12 ***Garages - £0.560million*** – 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 - £0.110million*** – 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 Council's 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 – 2014/15 to 2018/19

Appendix A

Expenditure	Notes	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Stock Investment Programme		9,040	8,659	9,473	9,705	10,148
Adaptations		560	579	590	605	620
Sheltered Accommodation Review		2,350	2,084	2,066	2,118	1,923
New Build		3,338	444	-	-	-
Stock Investment Sub - Total		**15,288**	**11,766**	**12,129**	**12,428**	**12,691**
ICT/SAMS		240	246	252	258	265
Sewage Treatment Works		140	-	-	-	-
Other Works Sub - Total		**380**	**246**	**252**	**258**	**265**
Total Programme		**15,668**	**12,012**	**12,381**	**12,686**	**12,956**

Resources	Notes	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Major Repairs Reserve		5,108	5,672	5,814	5,960	6,440
Revenue Contribution to Capital	14/15 includes use of HRA balance down to minimum prudent level	6,900	4,224	4,488	4,792	4,706
Capital Grant		154	68	-	-	-
Capital Receipts		825	-	-	-	-
Retained RTB Receipts Reserve		935	-	-	-	-
New Borrowing		1,746	2,048	2,079	1,934	1,810
Total Funding		**15,668**	**12,012**	**12,381**	**12,686**	**12,956**

Colchester

Scrutiny Panel

28 January 2014

Item 11

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

This report presents the 2014/15 Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for pre-scrutiny prior to its submission to Cabinet and Council as part of the final budget process

1. Action Required

1.1 The panel is asked to review the 2014/15 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 2014/15 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 2014/15 is included as a background paper to this report. The follow paragraphs contain a summary of the strategy for 2014/15, 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 2014/15 through to 2016/17 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 2014/15 states that the historic debt liability will continue to be charged at 4%, with the charge for more recent capital expenditure being based on the useful life of the asset and charged using the equal annual instalment method.

3.4 The UK bank rate has been unchanged from a historically low 0.5% since March 2009. The current view from the Council's treasury advisers is that the Bank Rate is expected to remain unchanged until quarter 2 of 2016. **Appendix A** to the TMSS draws together a number of current forecasts for short term and longer term interest rates.

3.5 The Council is currently maintaining an under-borrowed position. The borrowing strategy is to reduce the difference between gross and net debt by continuing to 'borrow internally', which is primarily due to investment rates on offer being lower than long term borrowing rates. This has the advantages of maximising short-term savings and reducing the Council's exposure to interest rate and credit risk. This approach is intended to be maintained during the year.

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

- The Council will only invest with institutions with the highest credit ratings, taking into account the views of all credit rating agencies and other market data when making investment decisions.
- The Council will use the creditworthiness service provided by Capita Asset Services, which combines data from credit rating agencies with credit default swaps and sovereign ratings. 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 periods up to 100 days during the year is 0.50%.

3.7 Investment instruments identified for use in 2014/15 are detailed in **Appendix B** of the TMSS. The investment limits for the highest rated banks and building societies, as well as that for UK nationalised and part nationalised banks have been increased to reflect the anticipated level of cash available for investment, and the limited number of high quality counterparties available. It should also be noted that whilst this table includes a wide range of investment instruments, it is likely that a number of these will not be used. However, their inclusion enables the required credit controls to be stated if their use is to be considered.

4. Strategic Plan References

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

5. Financial Implications

5.1 Interest paid and earned on borrowing and investments is shown within the Central Loans and Investment Account (CLIA). The strategy documents have been produced with reference to the agreed CLIA budget for 2014/15.

6. Risk Management Implications

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

6.2 TMP1 covers the following areas of risk all of which are considered as part of our treasury management activities:

- Credit and counterparty risk
- Liquidity risk
- Interest rate risk
- Exchange rate risk
- Refinancing risk
- Legal and regulatory risk
- Fraud, error and corruption, and contingency management
- Market risk

7. Standard References

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

Background Papers
Treasury Management Strategy Statement 2014/15

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2014/15

1 Introduction

Background

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

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

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

Reporting requirements

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

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

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

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

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

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

Training

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

Treasury Management Strategy for 2014/15

1.10 The strategy for 2014/15 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, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

Treasury management consultants

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

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

2 The Capital Prudential Indicators 2014/15 – 2016/17

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 the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

Capital Expenditure

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

Capital Expenditure £'000	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Non-HRA	8,755	13,708	7,648	6,880	550
HRA	7,112	10,746	15,668	12,012	12,381
Total	**15,867**	**24,454**	**23,316**	**18,892**	**12,931**

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

Capital Expenditure £'000	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Total Expenditure	**15,867**	**24,454**	**23,316**	**18,892**	**12,931**
Financed by:					
Capital receipts	875	6,595	5,032	1,500	400
Capital grants	3,836	6,703	2,221	281	0
Capital reserves	5,452	6,331	6,043	5,672	5,814
Finance leases	2,359	246	0	0	0
Revenue	2,376	4,302	7,100	4,391	4,638
Net financing need	**969**	**277**	**2,920**	**7,048**	**2,079**

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 £2.7m of such schemes within the CFR as at 31 March 2013. Members are asked to approve the CFR projections below:

£'000	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Capital Financing Requirement					
CFR – non housing	26,693	26,143	26,183	30,021	28,918
CFR - housing	124,577	124,577	126,323	128,371	130,450
Total CFR	**151,270**	**150,720**	**152,506**	**158,392**	**159,368**
Movement in CFR	2,555	(550)	1,786	5,886	976
Movement in CFR represented by					
Net financing need	969	277	2,920	7,048	2,079
Assets aquired under finance leases	2,359	246	0	0	0
Less MRP	773	1,073	1,134	1,162	1,103
Movement in CFR	**2,555**	**(550)**	**1,786**	**5,886**	**976**

Minimum revenue provision (MRP) Policy Statement

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

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

2.9 For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will follow the existing practice outlined in former CLG regulations (option 1). This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

2.10 From 1 April 2008 for all unsupported borrowing (including finance leases) the MRP policy will be the Asset Life Method (option 3) – MRP will be based on the estimated life of the assets, in accordance with the 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 The Accountancy team will keep the Council's MRP Policy under review to ensure that it remains fit for purpose in relation to its borrowing requirements.

Affordability Prudential Indicators

2.13 The previous 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.

%	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Non-HRA	6.86%	8.43%	9.65%	10.06%	9.83%
HRA	19.82%	19.00%	18.58%	18.34%	18.13%

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.

£	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Council Tax - Band D	0	0	0

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

£	2014/15 Estimate	2015/16 Estimate	2016/17 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 2013, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£'000	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
External Debt					
Borrowing	136,094	138,673	143,651	152,292	155,549
Other long-term liabilities	2,302	2,058	1,593	1,178	810
Gross debt at 31 March	**138,396**	**140,731**	**145,244**	**153,470**	**156,359**
CFR	151,270	150,720	152,506	158,392	159,368
Under / (over) borrowing	**12,874**	**9,989**	**7,262**	**4,922**	**3,009**
Investments at 31 Mar	21,600	21,323	18,403	11,355	9,276
Net Debt	**116,796**	**119,408**	**126,841**	**142,115**	**147,083**

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 2014/15 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

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

Treasury Indicators: Limits to Borrowing Activity

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

Operational boundary £'000	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Debt	138,673	143,651	152,292	155,549
Other long term liabilities	2,058	1,593	1,178	810
Total	**140,731**	**145,244**	**153,470**	**156,359**

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

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

Authorised limit £'000	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Debt	163,562	166,013	172,914	174,458
Other long term liabilities	2,058	1,593	1,178	810
Total	**165,620**	**167,606**	**174,092**	**175,268**

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	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
HRA debt cap	140,275	140,275	140,275	140,275
HRA CFR	124,577	126,323	128,371	130,450
HRA headroom	15,698	13,952	11,904	9,825

4 Economic Outlook

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

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (incl. certainty rate adjustment)		
		5 year	25 year	50 year
Dec-13	0.50%	2.50%	4.40%	4.40%
Mar-14	0.50%	2.50%	4.40%	4.40%
Jun-14	0.50%	2.60%	4.50%	4.50%
Sep-14	0.50%	2.70%	4.50%	4.50%
Dec-14	0.50%	2.70%	4.60%	4.60%
Mar-15	0.50%	2.80%	4.60%	4.70%
Jun-15	0.50%	2.80%	4.70%	4.80%
Sep-15	0.50%	2.90%	4.80%	4.90%
Dec-15	0.50%	3.00%	4.90%	5.00%
Mar-16	0.50%	3.10%	5.00%	5.10%
Jun-16	0.75%	3.20%	5.10%	5.20%
Sep-16	1.00%	3.30%	5.10%	5.20%
Dec-16	1.00%	3.40%	5.10%	5.20%
Mar-17	1.25%	3.40%	5.10%	5.20%

4.2 Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 to surpass all expectations, propelled by recovery in consumer spending and the housing market. Forward surveys are also currently very positive in indicating that growth prospects are strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. This therefore means that labour productivity must improve significantly for this situation to be corrected by the warranting of increases in pay rates. The overall balance of risks to economic recovery in the UK is currently evenly weighted. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

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

- Although Eurozone concerns have subsided considerably in 2013, sovereign debt difficulties have not gone away and major concerns could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2014/15 and beyond;
- Borrowing interest rates have risen significantly during 2013 and are on a rising trend. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring even higher borrowing costs, which are now looming ever closer, where authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt, in the near future;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

5 Borrowing Strategy

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

5.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2014/15 treasury operations. The Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term 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 are still lower than they will be in the next few years.

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

Treasury Management Limits on Activity

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

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

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

Interest rate Exposures (£'000)	2014/15	2015/16	2016/17
Upper limit on fixed interest rates based on net debt	126,800	142,100	147,100
Upper limit on variable interest rates based on net debt	63,400	71,100	73,500

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 Scrutiny Panel at the earliest meeting following its action.

6 Annual Investment Strategy

Investment Policy

6.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 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 security first, liquidity second and then return.

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 Capita Asset Services 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, Capita Asset Services 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. The intention of the strategy is to provide security of investment and minimisation of risk.

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 The Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody’s and Standard and 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 that indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands:

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

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

6.11 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 will use is a Short Term rating (Fitch or equivalents) of 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 spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

Country limits

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

Australia	Canada	Denmark	Finland	Germany
Luxembourg	Norway	Singapore	Sweden	Switzerland

Investment strategy

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

6.17 The Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2013/ 2014 0.50%
- 2014/ 2015 0.50%
- 2015/ 2016 0.50%
- 2016/ 2017 1.25%

6.18 There are upside risks to these forecasts if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk, particularly if Bank of England forecasts for the rate of fall of unemployment were to prove to be too optimistic.

6.19 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 100 days during each financial year for the next four years are as follows:

- 2014/15 0.50%
- 2015/16 0.50%
- 2016/17 1.00%
- 2017/18 2.00%

6.20 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

6.21 The Council invested a total of £4m in Icelandic banks in September 2008, which suffered a default following the collapse of the Icelandic banking system. The impairments recognised in the 2010/11 accounts reflected the guidance issued by CIPFA in May 2011. The level of the impairment was reduced in the 2012/13 accounts to reflect updated guidance from CIPFA, which takes into account the Council's preferred creditor status and the distributions received.

6.22 The Council has now received four distributions between February 2012 and September 2013, which amount to approximately 53% of the value of the claim. The current position on estimated future payouts is based on recovering 100p in the £. However, the administration of the insolvent estate of the bank is likely to continue for several years, which creates a level of uncertainty around the timing of recoveries through the administration process, and 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.

End of year investment report

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

Interest Rate Forecasts 2014 - 2017

	Mar 2014	Jun 2014	Sep 2014	Dec 2014	Mar 2015	Jun 2015	Sep 2015	Dec 2015	Mar 2016	Jun 2016	Sep 2016	Dec 2016	Mar 2017
Capita Asset Services Interest Rate View													
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.00%	1.25%
3 month LIBID	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.60%	0.70%	0.90%	1.30%
6 month LIBID	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.70%	0.80%	1.00%	1.20%	1.40%
12 month LIBID	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	1.00%	1.20%	1.40%	1.60%	1.80%	2.00%	2.30%
5yr PWLB Rate	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.40%
10yr PWLB Rate	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.30%	4.40%	4.50%
25yr PWLB Rate	4.40%	4.50%	4.50%	4.60%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.10%
50yr PWLB Rate	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.20%
Bank Rate													
Capita Asset Services	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.00%	1.25%
UBS	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%					
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%					
5yr PWLB Rate													
Capita Asset Services	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.40%
UBS													
Capital Economics	2.60%	2.60%	2.60%	2.60%	2.70%	2.80%	3.00%	3.20%					
10yr PWLB Rate													
Capita Asset Services	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.30%	4.40%	4.50%
UBS	3.70%	3.80%	3.90%	4.05%	4.05%	4.30%	4.55%	4.55%					
Capital Economics	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	4.05%					
25yr PWLB Rate													
Capita Asset Services	4.40%	4.50%	4.50%	4.60%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.10%
UBS	4.55%	4.55%	4.80%	4.80%	5.05%	5.05%	5.30%	5.30%					
Capital Economics	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.45%					
50yr PWLB Rate													
Capita Asset Services	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.20%
UBS	4.45%	4.45%	4.70%	4.70%	4.90%	4.90%	5.05%	5.05%					
Capital Economics	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.60%					

ORGANISATION	Colour Code	CRITERIA Short-Term	Long-Term	Viability	Maximum limit per institution	MAX. PERIOD Support Rating 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	£5m	1 year	1 year	
		Minimum F1	A+, A	Minimum a-	£2.5m	6 mths	6 mths	
				Minimum bbb	£2.5m	100 days	100 days	
UK nationalised / part nationalised banks	Blue	F1+		Minimum c	£7.5m	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 / Enhanced Money Market Funds			AAA		£10m	Liquid		
Bonds issued by Multilateral Development Banks			UK sovereign rating		£3m	6 mths		

Notes:
- Sovereign debt rating of AAA only + UK counterparties
- Country limit £10m
- Limit in all Building Societies £10m
- Limit of £20m in aggregate in non-specified investments
- Viability and Support ratings are only available from Fitch

* Covered by UK Government (explicit) guarantee

	Scrutiny Panel		**Item 12**
	28 January 2014		
Report of	**Assistant Chief Executive**	**Author**	**Amanda Chidgey** ☏ **282227**
Title	**Work Programme 2013-14**		
Wards affected	Not applicable		

This report sets out the current Work Programme 2013-2014 for the Scrutiny Panel.

1. Decisions Required

1.1 The Panel is asked to consider and comment on the contents Panel's Work Programme for 2013-14.

2. Alternative options

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

3. Supporting Information

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

3.2 At the last meeting of the Panel, it was agreed to undertake a more detailed consideration of the Parking Service in relation to the following issues:

- the NEPP budget situation, including the information set out in the report to this meeting from the Head of Operational Services;
- details of income generated by the NEPP;
- current extent of the NEPP deficit;
- the measures proposed to address the deficit.

An update on the timescale for this further consideration will be reported at the meeting.

3.3 Following the last meeting of the Panel it was confirmed that Dr Coutts, the Chief Executive at the Hospital Trust, had resigned. In the light of these developments the arrangements for the planned review of Colchester Hospital were discussed with the Chairman and it was decided to cancel the arrangement with the Hospital with a view to the matter being considered at a more suitable time.

4. Strategic Plan References

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

5. Standard References

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

WORK PROGRAMME 2013-14

Meeting date / agenda items and relevant portfolio
11 June 2013 1. 2012-13 Year-end Performance Report and SPAP (Leader / Head of Community Services) 2. 2012-13 Revenue Expenditure Monitoring Report 3. 2012-13 Capital Expenditure Monitoring Report
2 July 2013 (extra) 1. New Housing Arrangements (Housing / Head of Commercial Services) deferred from 11 June 2013
23 July 2013 (briefing 18 July, 5pm, S11 Rowan House) 1. Pre-scrutinise the Portfolio Holder decision 'To Close the Abbots Activity Centre' (Community and Leisure) 2. Budget Strategy, Timetable and MTFF (Leader / Business and Resources Portfolio) 3. Annual Report on Treasury Management (Business and Resources Portfolio)
20 August 2013 (briefing 14 August, 5pm, S11 Rowan House) 1. 2013-14 Capital Monitor, period April – June 2. 2013-14 Financial Monitor, period April – June
10 September 2013 (briefing 5 September, 5pm, S11 Rowan House) 1. Safer Colchester Partnership (Crime and Disorder Committee) (Planning and Community Safety Portfolio) 2. firstsite project: Final Overview (Scrutiny Panel)(I Vipond, Strategic Director)
29 October 2013 (briefing 24 October, 5pm, S11 Rowan House) 1. Corporate and Financial Management FSR - Pre Cabinet scrutiny of Business Case (Leader) 2. Report of urgent decision where call-in does not apply
12 November 2013 (briefing 7 November, 4.30pm, S11 Rowan House) 1. Call-in – Allotment Charges and Review of Tenancy Agreements 2. Localising Council Tax Support (follow-up on 2012-13 implementation review) 3. 2013-14 Revenue Monitor, period April – September 4. 2013-14 Capital Monitor, period April – September
10 December 2013 (briefing 4 December, 5pm, S11 Rowan House) 1. Review of Parking Services in Colchester (Deputy Leader / Head of Operational Services) Presentation from Head of Operational Services and North Essex Parking Partnership Group Manager

2. Treasury Management – Half yearly update 3. 2013-14 6-monthly Performance report and Strategic Plan Action Plan (Leader / Business and Resources Portfolio)
28 January 2014 (briefing 23 January, 5pm, S11 Rowan House) 1. 2014/15 Revenue Budget, Capital Programme and MTFF (Pre-scrutiny of Cabinet Decision (Leader / Business and Resources Portfolio) 2. Treasury Management Investment Strategy
11 February 2014 (briefing 6 February, 5pm, S11 Rowan House) 1. 2013-14 Capital Monitor, period April – December 2. 2013-14 Revenue Monitor, period April – December 3. Homelessness Strategy (Head of Commercial Services / Housing Portfolio)
Additional meeting, date to be confirmed 1. Review of Parking Services Budget Situation including income and deficit position (Deputy Leader / Head of Operational Services)
18 March 2014 (briefing 13 March, 5pm, S11 Rowan House) 1. Colchester Community Stadium Limited review (last review 20 March 2012)(Leader) 2. Review of Council's overall IT provision including financial costs, practicalities, project management and milestones (Assistant Chief Executive / Business and Resources Portfolio).

Items for Scheduling on 2014-15

1. Review of Colchester Hospital (The Chief Executive and Chairman to attend)