Scrutiny Panel Meeting

Grand Jury Room, Town Hall, High Street, Colchester, CO1 1PJ
Tuesday, 29 January 2019 at 18:00

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

Information for Members of the Public

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Scrutiny Panel – Terms of Reference

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

(a) To review corporate strategies;

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

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

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

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

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

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

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

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

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

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

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

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

COLCHESTER BOROUGH COUNCIL
Scrutiny Panel
Tuesday, 29 January 2019 at 18:00

The Scrutiny Panel Members are:

Councillor Beverly Davies	Chairman
Councillor Kevin Bentley	Deputy Chairman
Councillor Phil Coleman	
Councillor Chris Hayter	
Councillor Andrea Luxford Vaughan	
Councillor Lee Scordis	
Councillor Barbara Wood	

The Scrutiny Panel Substitute Members are:
All members of the Council who are not Cabinet members or members of this Panel.

AGENDA
THE LIST OF ITEMS TO BE DISCUSSED AT THE MEETING
(Part A - open to the public)

Please note that Agenda items 1 to 5 are normally dealt with briefly.

1 **Welcome and Announcements**

The Chairman will welcome members of the public and Councillors and remind everyone to use microphones at all times when they are speaking. The Chairman will also explain action in the event of an emergency, mobile phones switched to silent, audio-recording of the meeting. Councillors who are members of the committee will introduce themselves.

2 **Substitutions**

Councillors will be asked to say if they are attending on behalf of a Committee member who is absent.

3 **Urgent Items**

The Chairman will announce if there is any item not on the published agenda which will be considered because it is urgent and will explain the reason for the urgency.

4 **Declarations of Interest**

Councillors will be asked to say if there are any items on the agenda about which they have a disclosable pecuniary interest which would prevent them from participating in any discussion of the item or participating in any vote upon the item, or any other pecuniary interest or non-pecuniary interest.

5 **Minutes of Previous Meeting**

The Panel will be invited to confirm that the minutes are a correct record of the meeting held on 11 December 2018.

Scrutiny Panel Minutes 111218 7 - 12

6 **Have Your Say!**

The Chairman will invite members of the public to indicate if they wish to speak or present a petition on any item included on the agenda or any other matter relating to the terms of reference of the meeting. Please indicate your wish to speak at this point if your name has not been noted by Council staff.

7 **Decisions taken under special urgency provisions**

The Councillors will consider any decisions by the Cabinet or a Portfolio Holder which have been taken under Special Urgency provisions.

8 **Cabinet or Portfolio Holder Decisions called in for Review**

The Councillors will consider any Cabinet or Portfolio Holder decisions called in for review.

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 **Waste and Zones Futures Business case** 13 - 26

The Panel will consider a report setting out proposed service changes, financial savings and investment in front line services following a review of the existing Recycling, Waste and Fleet Service and Community Zones Service.

11 **2019-20 General Fund Revenue Budget, Capital Programme, Medium Term Financial Forecast, Housing Revenue Account and Housing Investment Programme** 27 - 132

This report invites the Panel to review and comment on the 2019/20 General Fund Revenue Budget, Capital Programme, Medium Term Financial Forecast, Housing Revenue Accounts Estimates and the Housing Investment Programme reports before consideration by Cabinet.

12 **Treasury Management Strategy 2019/20** 133 - 154

The Panel will to review the 2019/20 Treasury Management Strategy Statement and associated Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy prior to it being considered by Cabinet and Full Council as part of the 2019/20 budget report.

13 **Corporate Key Performance Indicator Targets for 2019-20** 155 - 176

The Panel is invited to consider the Corporate Key Performance Indicator targets for 2019-20.

14 **Work Programme 2018-19** 177 - 190

This report sets out the current work programme for the Scrutiny Panel. This provides details of the items that are scheduled for each meeting during the current municipal year.

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

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

Part B
(not open to the public including the press)

SCRUTINY PANEL

11 DECEMBER 2018

Present: -	Councillor Davies (Chairman), Councillor Bentley, Councillor Coleman, Councillor Hayter, Councillor Luxford Vaughan, Councillor Scordis, Councillor Wood
Substitutions	None
Also present:-	Councillor King, Councillor T. Young

193. Minutes

RESOLVED that the minutes of the meeting held on 27 November 2018 be confirmed as a correct record.

194. Central Support Futures Review

Councillor King, Portfolio Holder for Resources, and Dan Gascoyne, Assistant Director Policy and Corporate, introduced the report setting out the proposed changes to the Policy and Corporate service area and associated savings, following a review of the Council's Central Support Services.

Councillor King highlighted that whilst one of the drivers behind the review was to identify savings, it was also looking ensure a more efficient and effective organisation. A particular issue that had been highlighted during the course of the review was to build the resilience of the service. It was also important that Council officers felt ownership of the final outcome. The recommendations were not for radical change and the changes proposed were comparatively small in scope. This partly because the degree of flexibility was small but he was satisfied that the proposals were manageable and deliverable.

Dan Gascoyne explained the main features of the review and in particular highlighted the following points:-

- The review had a savings requirement of £200,000 per annum with a 'stretch' target of an additional £50,000 in order to deliver a sustainable budget for Policy and Corporate going forward

- There had been a process of staff consultation and engagement, and consultation with other services, who were the service's key customers. This had identified a number of themes, which had been combined into a proposed vision for the review:-

  "The Central Services Futures Review will provide greater Workforce Resilience, make us more Customer Focussed and Financially Sustainable, and facilitate a Digital by Default approach, so we continue to be Transformation Enabling for the whole Council."

- The proposals were currently out for consultation with officers and other stakeholders.
- Building resilience was a key issue. Policy and Corporate was already a lean set of services, with little spare capacity and there were existing workload issues. One of the aims of the review was to find a way of alleviating some of the pressures felt by officers and ensuring work was done at the appropriate level.
- The review needed to cover the true costs of the service. Whilst the service did generate some income, the income levels couldn't necessarily be guaranteed.

The Chairman thanked Dan Gascoyne for the clarity and quality of the report submitted to the Panel.

In discussion some questions were raised about the proposals around Change and Performance. In response, it was stressed that change management needed to be led by senior management and was the responsibility of managers across the organisation. This did necessitate a cultural change across the organisation, which was underway. The Panel accepted these arguments but stressed the need for managers to be provided with appropriate training on change management issues. The Panel also explored issues around the resilience of the service.

The Panel also suggested that it would be able to provide more effective scrutiny and better value if it saw proposals for service reviews at an earlier stage, and before formal proposals were made. Whilst it was appreciated that the details were often confidential at an early stage, it could exclude the public if necessary. It was explained that the proposals were currently out for consultation and the Panel's views would be considered as part of the consultation. In addition, the proposals were due to be submitted to Cabinet at its meeting on 30 January 2019 and the Panel could made a recommendation to Cabinet in respect of the proposals, if it saw fit.

A member of the Panel noted the changes proposed to the ICT team and sought a reassurance that the Council had sufficient resources to deal with the ever-changing ICT environment. In response it was explained that the Business Partner model had not worked particularly well in ICT so there was a move away from that and towards the use of ICT advisors. Sharepoint and Office 365 should be fully embedded by March 2019, and this should free up additional resource, although support would still be provided for legacy systems. In addition, the revenue requirements for the next stage in the ICT Strategy were being met through the proposed structure in this review.

RESOLVED that:-

(a) The proposed changes in the Central Support Services Review were scrutinised and the Panel's comments be considered when the proposals were referred to Cabinet;

(b) The financial savings proposed in the Central Support Services Review were scrutinised.

195. Half Year 2018-2019 Performance Report including progress on the 2018-2019 Strategic Plan Action Plan

Councillor King, Portfolio Holder for Resources, and Dan Gascoyne, Assistant Director Policy and Corporate, introduced the report setting out the performance for the 2018-10 half year, and an update on the Strategic Plan Action Plan.

Councillor King explained that the Key Performance Indicators (KPIs) had been reviewed in view of the Panel's previous comments that some were insufficiently rigorous. The targets in respect of the time taken to process housing benefit claims and changes, and the time taken for local council tax support assessments had been made more challenging. He thanked the Panel for their comments which had proved beneficial. The presentation of the information about the KPIs had also been changed. It was now presented in graph form showing year to date performance and the previous year's performance and target. It also retained the narrative used in previous reports. This would make it easier for the Panel to identify and review trends in performance.

Dan Gascoyne highlighted the Key Performance Indicators where the performance was amber:-

- Processing of major planning applications: There were a comparatively small number of 'major' planning applications, so a small amount missing their target had a disproportionate impact. It was anticipated that performance against the target would improve and it was noted that performance in respect of processing of 'minor' and 'other' applications, which involved a far greater number of applications, was meeting its target.
- Residual waste per household: Notwithstanding that the performance was amber, performance against the target had improved dramatically. It was felt that the target may need to be amended slightly, but he was satisfied that performance was good and at a consistent level.
- Number of missed collections: Performance against this target was improving and it was anticipated that by year end it would be on track.

The only KPI where performance was red was in respect of sickness rates. Whilst rates of short term sickness were reducing, long term sickness was increasing. This was a matter of concern which was being taken very seriously within the Council. Each case was being looked at and case conferences being held to ensure that the necessary support was in place to facilitate a return to work, and where a return to work was unlikely addressing whether there were better options for the individual and the Council. The trends were not consistent across all the Council service groups and the organisation was looking at those areas where the issues were the most pronounced.

Councillor King stressed the seriousness with which this issue was taken. He was satisfied that the right approach was being taken. It would be difficult to bring the numbers down quickly or easily, in part because the figures were calculated on 12 month rolling period so it takes time for improved performance to be reflected in the figures. The level of change within the organisation and the consequent pressures being put upon staff were likely to be contributing factors. It was important that managers showed empathy and compassion and maintained relationships with those staff who were away from the office because of long term sickness issues and a briefing was being held for managers to reinforce these messages.

The Panel also expressed concern about presenteeism, particularly by those suffering with with mental health, and sought clarification about what training was available to managers to help identify and deal with this. Dan Gascoyne explained that whilst the Council was aware of presenteeism as a potential issue, he did not think it was a major problem partly as a consequence of the Council's flexible working practices. However, the Council was very much aware of the issue of mental health. The Staff Survey was currently being conducted which would provide helpful information about the views and morale of staff.

In discussion on the Strategic Plan Action Plan the Panel raised the following issues:-

- How the information in the report was assessed, amalgamated and reviewed and whether the structure of the report, in concentrating on particular actions, led to an incomplete picture being presented in respect of some issues.
- The timescale for the Economic Strategy Strategic Plan Action Plan report. It was also suggested that that this would be a useful item for pre-scrutiny. Councillor King undertook to provide further information to the Panel about the timescales.
- In respect of theme O5, whether the Council had the ambition to convert all Council vehicles to electric only by a set date, and to make them available to staff via a car share system. It was explained that the conversion of the fleet was being looked at, although it might be more difficult to convert waste collection vehicles.
- In respect of theme W5, why did the Diabetes Support Programme events at Leisure World have a low attendance and whether the Council was pushing health organisations to address diabetes. Pam Donnelly, Strategic Director for Customers and Partnerships, suggested that there may be some benefit in inviting the North Essex Health and Wellbeing Alliance to present their work to the Panel in the next municipal year.
- In theme R4, clarification was needed about the legal powers referred to and how these related to the legislation specified in the commentary.
- In theme G4, it was suggested the wording of this needed to include a caveat reflecting recent developments in respect of the Local Plan.
- In respect of theme O2, whether the charging points in Priory Street were being pursued given that it was understood that Priory Street would not continue as a car park. There should be a planning policy requiring the installation of charging policies as part of new developments. Councillor King indicated that he would look into these issues.
- In terms of the trial closure of the High Street mentioned at theme O3, the hours of closure were being looked at? Councillor King indicated that he would investigate and respond.

RESOLVED that:-

(i) The performance set out in the Strategic Plan Action Plan Half Year report April – September 2018, the KPI Half Year report covering April – September 2018 and the Awards and other Performance News be noted.

(ii) The Reporting Timetable covering 2018-19, specifically the dates for setting KPI targets for 2019-20, be noted.

196. Work Programme 2018-19

Richard Clifford, Democratic Services Officer, introduced the Scrutiny Panel Work Programme for 2018-19.

It was reported that the meeting on 19 March 2019, which was due to scrutinise the Arts Organisations, would be held at the Mercury Theatre. In addition an item relating to the North Essex Garden Communities would be added to the work programme for that meeting. An additional Crime and Disorder meeting had been scheduled for 26 February 2019. There was also a suggestion that the Scrutiny Panel also meet on that date, in order to consider the BID. However, it was noted that the BID were also due to present to the Policy and Public Initiatives Panel, and that the Chairs of the Committee would liaise over the arrangements.

In terms of items for the 2019-20 municipal year, following a suggestion from the Chair, the Panel agreed that it should scrutinise Colchester market, to ensure that it was fit for purpose and was delivering on its objectives. The Panel also welcomed the suggestion that the Panel invite the North Essex Health and Wellbeing Alliance to present to the Panel in the 2019-20 municipal year. It was suggested that it might also be appropriate to host this at an alternative venue away from the Town Hall, in order to encourage interested parties and members of the public to attend. The Chair explained that she would continue to contact the Deputy Police and Fire Commissioner so that the Panel could look at the Essex Fire Plan.

RESOLVED that the contents of the 2018-19 Scrutiny Panel Work Programme be noted.

Colchester

Scrutiny Panel

29 January 2019

Item 10

Report of	**Assistant Director - Environment**	**Author**	**Richard Block** ☏ **506825**
Title	**Waste and Zones Futures Business Case**		
Wards affected	All wards		

1. Executive Summary

1.1 This report outlines proposed service changes, financial savings and investment in front line services following a review of the existing Recycling, Waste and Fleet Service and Community Zones Service.

2. Action Required

2.1 The Scrutiny Panel should:

- Consider the proposed changes and whether from the information available, they will result in services that are fit for the future; and
- Scrutinise the financial savings and investment in front line services proposed.

3. Reason for Scrutiny

3.1 To ensure services are designed so they are fit for the future and that adequate financial savings in relation to the services being reviewed are achieved.

4. Background Information

<u>Introduction</u>

4.1 The senior management restructure which came into effect on 1 July 2017 included a clear intention to commence a series of service reviews to be known as “Service Futures”. These aim to drive out inefficiencies, progress further cultural change and take full advantage of our investment in Information Technology and more flexible ways of working.

4.2 A combined review of the Recycling Waste and Fleet Service and Community Zones Service under the theme of “Waste and Zones” was commenced in August 2018. These services are currently led by 2 different Group Managers but were bought together under the leadership of the Assistant Director for Environment in October 2018. This was because several links and potential benefits of bringing the services closer together had previously been recognised which is also why the areas were reviewed together.

<u>Scope</u>

4.3 The scope for this Futures Review was previously considered and agreed by Leadership Team and the Policy and Public Initiatives Panel. The Panel agreed the following parts of the services would be out of scope:

- Fleet – we are just going through a procurement for new fleet including both vehicles and maintenance so the decision about how we provide fleet is out of scope, but the overall management and operation of fleet are in scope

- Grounds maintenance contract – is largely out of scope as it still has 5 years to run. However, we should still challenge some of the assumptions in this contract such as who does what and resulting duplication. Therefore, the internal resource should be in scope

They also agreed that the following issues would not be looked at as part of this work:

- Collection methodology for the Waste Service. This was comprehensively considered as part of the changes to the Waste Service last year and while there remain many options, this is not the focus of this review

- Outsourcing the overall service is not an approach that will be considered. There may be discreet parts of Waste or Zones that may be better delivered by external suppliers, but the overall direction is to retain the services in-house and to continue to look for better ways for working

- Charging for collection of green waste or for replacement recycling kit will not be considered

<u>The Services</u>

Recycling, Waste and Fleet

4.4 The Recycling Waste and Fleet Service provides recycling and waste collections to every household in the Borough every week. Currently the service carries out individual collections of residual waste, food waste, garden waste, paper, glass, cans and textiles from households and all the associated support activities. Fleet provision and maintenance for all Council services is all also managed within the Service. The Service employs 132 full time equivalent (FTE) staff and has a gross budget of £4.5 million. The current organisational structure for Recycling, Waste and Fleet is shown at appendix 1.

Zones

4.5 Zones was created in 2009 to provide a single multi-skilled team to deal with a wide range of tasks, ranging from functional street cleansing tasks to community engagement and enforcement roles. In the following years Zones have also taken responsibility for Parks, Recreation, Open Spaces including management of the iDVerde Grounds Maintenance Contract, the Countryside Team including High Woods Country Park and the Cemetery and Crematorium. The Service employs 90.9 FTE and has a gross budget of £5.8 million. The current organisational structure for Zones is shown at appendix 2.

Findings of Review

4.6 At the start of the review, a series of staff workshops were undertaken involving staff at all levels to identify current issues and their ideas on how to respond to these. A notice board and confidential suggestions box was also made available to front line staff working from the Shrub End Depot for the same purpose. This extensive engagement resulted in several themes/issues being identified. These are shown in the table below:

Theme
With increasing housing growth capacity and resilience are issues across both services but are particularly acute in waste
There could be some ways to create more capacity by doing things differently
Waste and Zones have many shared purposes, but they often don't connect well when they need to
There are many opportunities for increased income although some will require investment and/or changes to the way we operate
Some processes could be improved and simplified
We could make some financial savings on our Grounds Maintenance Contracts without reducing service by eliminating duplication
The level of our resource used to manage and monitor the ID Verde Grounds Maintenance Contract is too high
Waste and Zones needs more support within the service to free up front line managers
The Shrub End Depot requires significant redevelopment to ensure it is fit for the future
Staff and management structures need to be reviewed

Identified Savings

4.7 It is proposed that a combination of new income/savings ideas and allocation of savings/income that has been previously identified but not budgeted for is used. This will enable frontline services to be protected.

A summary of the identified savings and additional income is shown in the table below:

Item	Comments	2019/20	2020/21	2021/22
Savings		£'000	£'000	£'000
Fleet	Savings associated with the decision previously made to purchase vehicles rather than leasing.	150	100	
Business rates for toilets	The recent Central Government budget resulted in Business Rates for public toilets no longer being payable from April 2019. Councils will also be compensated for any losses in business rate income.	12		
iDeverde contract savings	iDeverde currently conduct work that Zones also complete or could complete more efficiently e.g. locking and unlocking Castle Park resulting in savings in the Grounds Maintenance Contract cost.	40		
Management re-structure	By introducing an integrated management structure for Waste and Zones the overall number of managers can be reduced from 18 to 14.	130		
Income				
Fees & charges	This represents inflationary increases of existing fees and charges across all paid for services for each year.	30	30	30
Highwoods Country Park	The team at the Highwoods Park Visitor Centre believe there are opportunities for increased income from sales in the centre with very little additional investment i.e. provision of a credit card reader.	10		
Recycling credits	This was previously agreed by Cabinet and relates to getting a better deal from Essex County Council (ECC) for food waste recycling credits. We are currently in negotiation with ECC and if these fail a procurement exercise has been commenced to ensure we can claim recycling credits for food waste recycled by residents.	80	70	
Cemetery and Crematorium	This relates to new income from increasing the number of direct funerals. These are funerals with no associated service and can be fitted in before other funerals at the start of the day.	38		
Putt in the park	This is a new concession in Castle Park and a lease has been agreed. This new income is as a result of the lease.		18	
Castle Park café	This represents additional income from a new lease for this café over and above the levels already in the budget.	10		
Total		500	218	30

4.8 Most of the above savings/income proposals are self-explanatory but the most significant and the one that requires further explanation is the proposed new management structure.

4.9 It is proposed to deal with several of the identified the themes by a new integrated management structure and the proposed structure is shown at appendix 3. This will bring together Waste and Zones into a single, integrated service under one Group Manager. It retains the approach of zoning the Borough, makes no reductions in frontline staff and no changes to the geographical coverage of each zone.

4.10 It is clear from the review that Parks and Open Spaces is not truly integrated into the current Zones Structure. The proposed structure will result in full integration. It also joins up Waste and Zones by having a single front-line manager responsible for all issues in each zone. This then provides a single accountable point of contact for all issues in that area. Because of the additional pressures associated with managing the Town Centre Zone (Zone 2) which includes Castle Park, a deputy zone manager is proposed for that Zone.

4.11 The creation of a Specialist and Support element to the structure will free up frontline managers to manage frontline services in the Zone they are responsible for. The proposed structure will improve communication, result in less duplication and will build resilience across all services.

4.12 In the current structure there are 18 managers but by creating a new integrated service the overall number of managers can be reduced to 14 generating £130,000 of annual revenue savings, whilst maintaining frontline service levels.

4.13 The Cemetery and Crematorium does not fit well into this structure, so it is proposed this be moved to be managed in Communities. It is also proposed that the Zone Warden resource allocated to community engagement and development work (2 FTE) would move to be managed in Communities so this important work can be maintained and directly managed by the Community Engagement Team.

Other Areas Considered in the Review

Enforcement

4.14 A greater focus on enforcement of street environmental crime such as littering and low-level Antisocial Behaviour was identified as an outcome required from this Futures. We have seen excellent results from using a private company to conduct this enforcement through the Better Colchester Campaign. It is therefore proposed to continue the approach of using a private enforcement company through the Better Colchester Campaign until the level of Fixed Penalty Notices they issue starts to reduce significantly. Zone Wardens will also be developed and trained so they are able to conduct more enforcement.

New Technology

4.15 A number of areas of new technology including litter bins that communicate when they are full have been reviewed. At this stage the capital costs for such technology outweigh the savings made. Such technology will be kept under review as costs are likely to reduce resulting in the payback period for the initial investment reducing to an acceptable level.

Market and Street Trading

4.16 These areas are being reviewed as part of this Futures. Findings so far are that putting the market up and taking it down is a massive drain on Zone Operative time. We are examining alternative methods of operating the market and street trading including the potential of getting a private company to run it, including set up and take down. This would release around 70 hours of Zone Operative/Warden time adding capacity to the service. We still need to do more work before a final recommendation can be made.

Investment Proposed

Proposed Investment to Respond to Housing Growth

4.17 To enable services to keep pace with housing growth, it is proposed to invest to increase the capacity of frontline services. Waste and recycling collections are the service most impacted by this as a new round is required for every 1500 new houses built and at least this many have been built since the Waste Collection Service changes made in June 2017. We have been able to release some capacity during the review through simple changes such as allowing food waste collection crews to tip food waste at Shrub End rather than each vehicle travelling to the processing facility, but more significant investment is needed now and in the future.

4.18 It is proposed that a total of £187,500 is invested to provide an additional refuse and recycling collection vehicle and crew in May 2019 and a second new vehicle provided 6 months later. It is also proposed that a third vehicle is added in 2021/2022. If this investment is not made it will not be possible to provide waste and recycling collection services to new properties in the future. This has been included within the 2019/20 budget report.

Investment in Shrub End Depot

4.19 The Shrub End Depot is no longer fit for purpose and requires significant re-investment to provide the facilities and space to operate effectively now, and in the future. £800,000 has previously been allocated in the Capital Programme for the Shrub End Depot. It is anticipated that an additional £200,000 is required to redevelop the current site although further detailed work is underway to establish an accurate estimate. It is therefore, proposed to invest £200,000 of one-off additional capital funding in 2020/21 for redevelopment of Shrub End Depot. This has also been included within the budget proposals.

4.20 A table summarising the investment proposed is shown below:

	2019/20	2020/21	2021/22
Reinvestment to provide additional capacity in the service to respond to housing growth	£187,500	£62,500	£125,000
Investment at Shrub End Depot		£200,000	

Other Cost Pressures

Recycled materials

4.21 We have been reviewing the arrangements for processing and sale of dry recyclable materials collected from residents (Paper/Card, Plastic and Tins). The current contract with the existing processing company has come to an end and we have recently seen the financial position associated with the income received for recycled materials deteriorate due to challenging market conditions. Therefore, a procurement for a new contract has been commenced.

4.22 We recently held an open day with prospective recycling processing and sale contractors to help develop the specification for a new contract. All suppliers informed us on this day there is not likely to be a market for recycled plastic bags and film collected with other plastics in the foreseeable future. Therefore, if we were to continue to collect these materials from residents as recycling they would not actually be recycled. Removing these from the recycled material we collect from residents will also mean the net value received for materials under any new contract would be maintained.

4.23 It is therefore, proposed to no longer accept film, plastic bags and plastic wrappers in plastic collected from residents. These can be collected as refuse without adding any significant extra volume to black bag waste. An allowance has been made in the 2019/2020 budget for some increased costs in this area but also assumes that this is being mitigated through the steps proposed. If this change is approved an educational approach will initially be taken with residents rather than stickering and leaving bags of recycling.

Recycling Kit

4.24 Apart from Garden Waste Sacks, we currently have limited control over replacement recycling kit for residents. A roll of 62 clear sacks is delivered to every household and top up supplies of clear sacks and recycling boxes/containers are available at a range of stockists across the Borough. This has resulted in expenditure forecast to exceed the budget by £170,000 (77%) this year which is mainly due to clear sacks. If no changes are made for next year, there will be a similar budget pressure. It is therefore proposed to introduce a downloadable voucher system for all replacement recycling kit. Where it appears a greater amount of replacement recycling kit is being requested than could feasibly be used, further investigation will be undertaken and the request for a voucher could be refused. This will allow greater control over stock whilst still allowing residents to obtain replacement recycling kit free of charge.

Conclusion

4.25 Significant annual budget savings are generated by the proposals in this report whilst maintaining frontline services and investing in them, so they can grow to respond to additional demands created by new housing.

4.26 The proposed integration of Waste and Zones will create more efficient, effective and resilient services facilitating a reduction in management posts to protect frontline services. The proposed structure will also allow other themes identified through the review to be tackled effectively in the future.

5. Equality, Diversity and Human Rights implications

5.1 The proposals have no equality, diversity or human rights implications. No service reductions are being proposed. Additional controls are being proposed over how residents can obtain replacement recycling kit, but the system proposed is the same as that is issued for replacement garden waste sacks and this has presented no implications in these areas.

6. Strategic Plan References

6.1 The services that have been reviewed through this Futures are wide ranging and as such contribute to all of the themes of the Strategic Plan 2018-21. If the proposals made in this report are implemented the resulting services would continue to have this wide-ranging contribution.

7. Consultation

7.1 A formal consultation process is currently being undertaken with staff affected by these proposals to get their views on them. Staff workshops early in the review also helped to inform the proposals.

8. Publicity Considerations

8.1 If proposals to ask residents to dispose of plastic bags and film with other refuse and to introduce a voucher system to obtain all replacement recycling kit are approved, Borough wide publicity will be required.

9. Financial Implications

9.1 Reviews carried out under the Futures Programme make a key contribution to savings identified in the medium-term financial plan. If all the proposals in this report are approved a cumulative annual revenue saving of £738,000 would be made by 2021/2022 with no reduction to frontline services.

9.2 This Futures Review has also identified the need to invest in frontline services to ensure they grow to meet the needs of new housing growth and to ensure the Shrub End Depot is fit for purpose. If approved this would mean that by 2021/2022 a total of £375,00 additional annual revenue funding and £200,000 of one-off capital is invested in these front-line services.

9.3 If the steps proposed above to control recycling kit and to remove plastic film from recycling are not taken, this will create further financial implications which have not been allowed for in the budget proposals for 2019/2020.

10. Community Safety, Health and Wellbeing Implications

10.1 The proposed changes and structure would ensure services continue to play a key role in delivering Community Safety, Health and Wellbeing. The proposed Neighbourhood Zone Managers and Zone Wardens would play a key role in ensuring Community Safety in the Neighbourhood Zones.

10.2 Moving some Zone Wardens to Communities will ensure their work continues to be closely aligned with identified community needs.

10.3 It will be vital to ensure that excellent links are maintained between Neighbourhood Services and Communities as there are many areas where both services need to work closely together to ensure Community Safety, Health and Wellbeing objectives are achieved. Multidisciplinary Projects such as the Town Centre Action Plan provide a useful example of how this can be achieved.

11. Health and Safety Implications

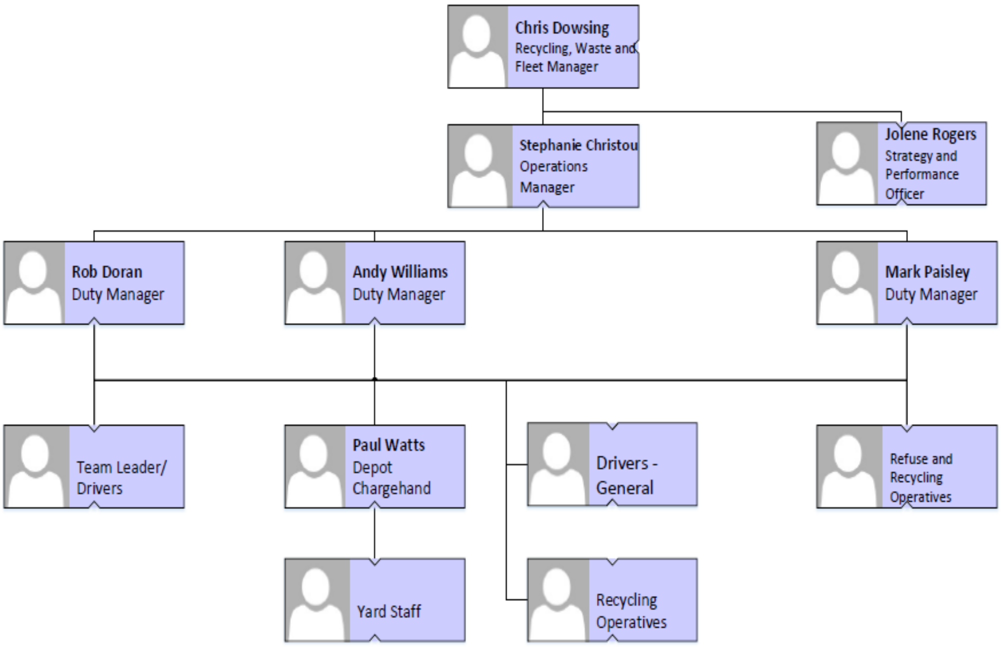
11.1 There are no health and safety implications.

12. Risk Management Implications

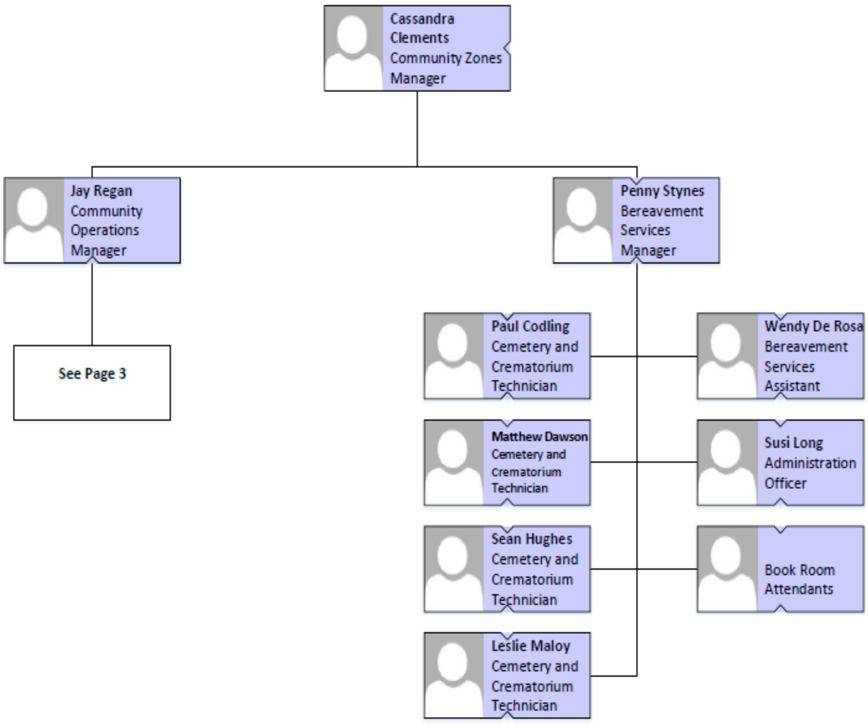
12.1 The proposals above will result in reduced overall management capacity, but this is mitigated by the new integrated management structure reducing duplication and creating greater synergies and alignment of services.

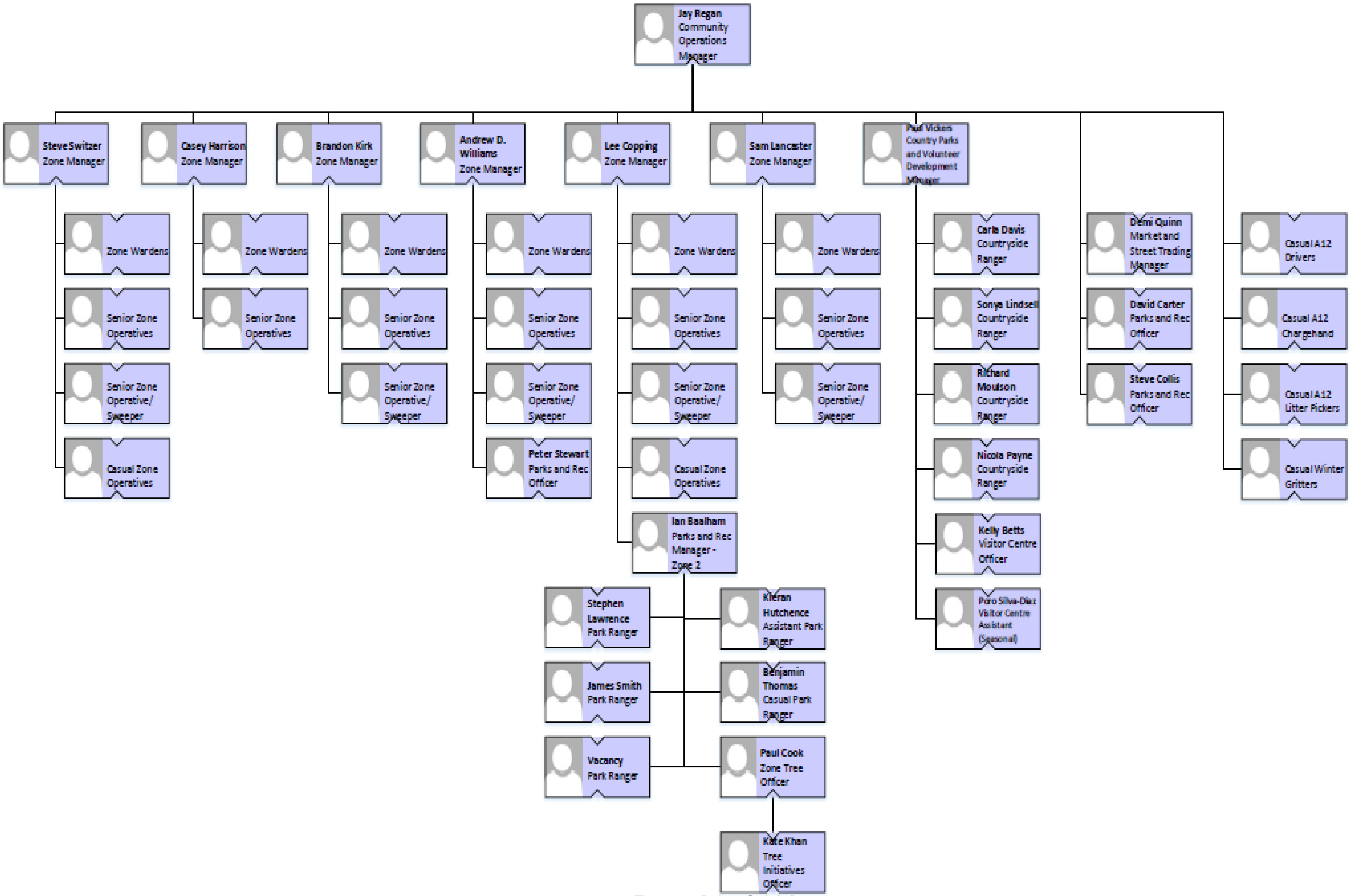
12.2 There is a risk that the level of savings and new income referred to above is not achieved although some are already guaranteed as they are underpinned by contracts or legislation. Other estimates are minimum expected levels.

Appendix 1 – Current Management Structure for Recycling, Waste and Fleet



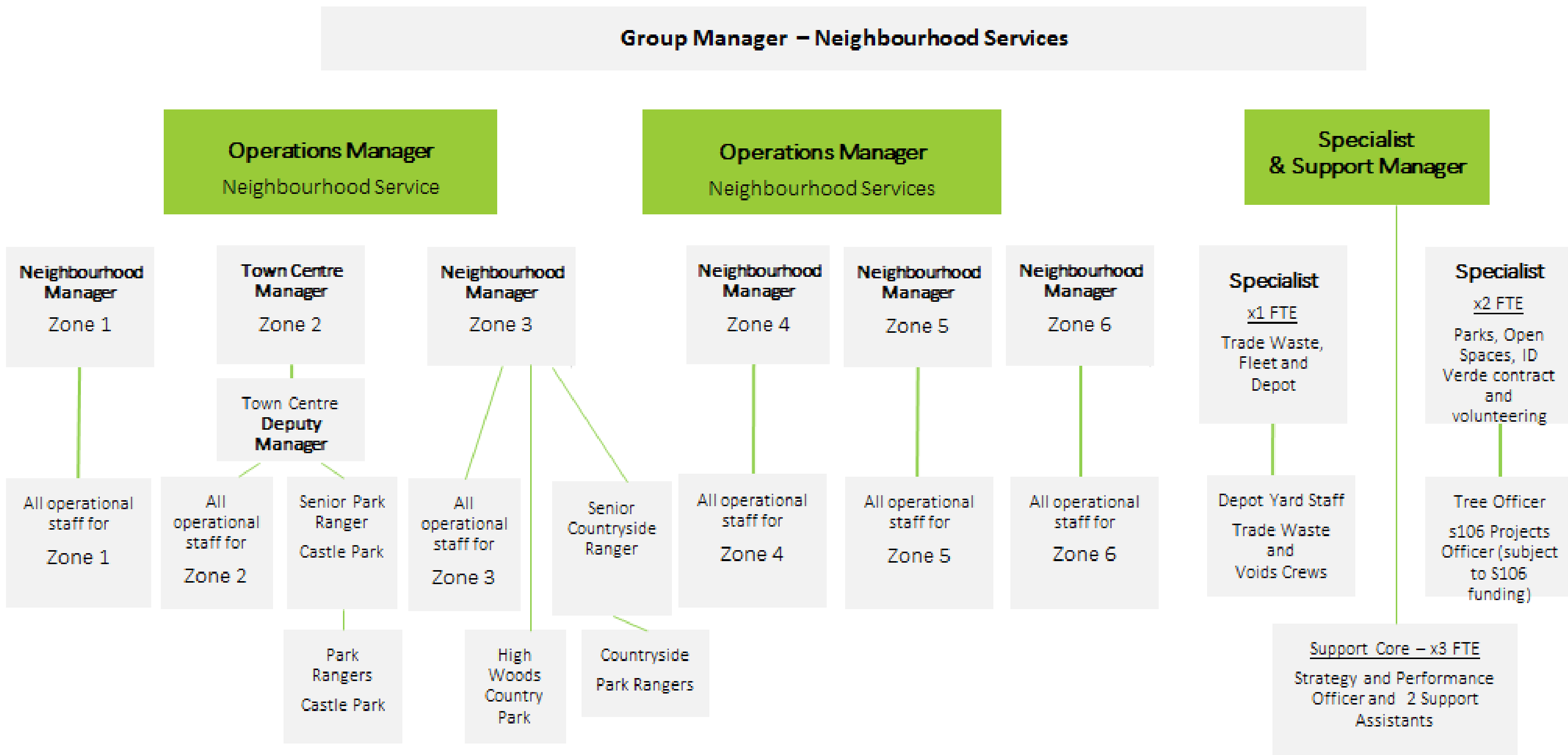
Appendix 2 – Current Management Structure for Zones




Jay Regan
Community Operations Manager
Steve Switzer
Zone Manager
Casey Harrison
Zone Manager
Brandon Kirk
Zone Manager
Andrew D. Williams
Zone Manager
Lee Copping
Zone Manager
Sam Lancaster
Zone Manager
Paul Vickers
Country Parks and Volunteer Development Manager
Zone Wardens
Senior Zone Operatives
Senior Zone Operative/ Sweeper
Casual Zone Operatives
Zone Wardens
Senior Zone Operatives
Zone Wardens
Senior Zone Operatives
Senior Zone Operative/ Sweeper
Zone Wardens
Senior Zone Operatives
Senior Zone Operative/ Sweeper
Peter Stewart
Parks and Rec Officer
Zone Wardens
Senior Zone Operatives
Senior Zone Operative/ Sweeper
Casual Zone Operatives
Ian Baalham
Parks and Rec Manager - Zone 2
Stephen Lawrence
Park Ranger
James Smith
Park Ranger
Vacancy
Park Ranger
Kieran Hutchence
Assistant Park Ranger
Benjamin Thomas
Casual Park Ranger
Paul Cook
Zone Tree Officer
Kate Khan
Tree Initiatives Officer
Zone Wardens
Senior Zone Operatives
Senior Zone Operative/ Sweeper
Carla Davis
Countryside Ranger
Sonya Lindsell
Countryside Ranger
Richard Moulson
Countryside Ranger
Nicola Payne
Countryside Ranger
Kelly Betts
Visitor Centre Officer
Paro Silva-Diaz
Visitor Centre Assistant (Seasonal)
Demi Quinn
Market and Street Trading Manager
David Carter
Parks and Rec Officer
Steve Collis
Parks and Rec Officer
Casual A12 Drivers
Casual A12 Chargehand
Casual A12 Litter Pickers
Casual Winter Gritters

Appendix 3 – Proposed Organisational Structure

Cem and Crem and Zone Warden FTE for Community Engagement/Development moves to Communities



Colchester	**Scrutiny Panel**	**Item 11**
	29 January 2019	

Report of	**Assistant Director Policy & Corporate**	**Author**	**Richard Clifford** **☏ 507832**
Title	**2019/20 General Fund Revenue Budget, Capital Programme and Medium Term Financial Forecast – Covering Report**		
Wards affected	Not applicable		

1. Executive summary

1.1 This report invites the Panel to review and comment on the 2019/20 General Fund Revenue Budget, Capital Programme, Medium Term Financial Forecast, Housing Revenue Accounts Estimates and the Housing Investment Programme reports which are being submitted to Cabinet.

2. Action Required

2.1 The Panel is asked to review and comment on the 2019/20 General Fund Revenue Budget, Capital Programme and Medium Term Financial Forecast report which are being submitted to Cabinet on 30 January 2019. Any comments made by the Panel will be submitted to the Cabinet meeting for further consideration.

3. Reason for Scrutiny

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

3.2 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.

Appendices

Appendix A – 2019/20 General Fund Revenue Budget, Capital Programme and Medium Term Financial Forecast – Cabinet Report

Appendix B - Housing Revenue Account Estimates 2019/20

Appendix C - Housing Investment Programme (HIP) 2019/20

Item

Appendix A

Cabinet

30 January 2019

Report of	**Assistant Director Policy and Corporate**	**Author**	**Sean Plummer** **☏ 282347**
Title	**2019/20 General Fund Revenue Budget, Capital Programme and Medium Term Financial Forecast**		
Wards affected	n/a		

This report requests Cabinet to recommend to Council:

- **The 2019/20 General Fund Revenue Budget**
- **Colchester's element of the Council Tax for 2019/20**
- **The Medium Term Financial Forecast**
- **The Capital Programme and Capital Strategy**
- **The Prudential Indicators and Treasury Management Strategy and Annual Investment Strategy**

1. Executive Summary

1.1. This report provides the Cabinet with the recommended 2019/20 revenue budget including all proposed savings and the Council's Council Tax Rate for 2019/20.

1.2. The report provides a summary of the local government finance settlement, which included a £275k reduction in Revenue Support Grant (RSG) meaning that the Council will receive no RSG in 2019/20.

1.3. The report sets out the Council's Capital Programme and Capital Strategy and Treasury Management Strategy for 2019/20.

1.4. Finally, the report sets out the updated Medium Term Financial Forecast (MTFF) for the period up to 2022/23. This includes an assessment of the Council's balances and reserves.

1.5. Specifically the report includes the following:-

- A proposal that Council's Council Tax rate for 2019/20 should be set at £190.62 per Band D property, which represents an increase of £5.49 (2.97%) from the current rate.
- Savings proposals totalling £1.5m
- A proposed allocation of just over £2.4m to support investment in line with the Council's Strategic Plan including funding previously agreed for the Northern Gateway sports scheme.
- A continuing challenging financial positon over the next three year's showing a budget gap of £2.3m with a high level of uncertainty in respect of local government funding.
- The Council's general fund balances remain close to our recommended level.
- Proposals for investment through the capital programme

2. Recommended Decisions

2.1. To note that for the purpose of assessing the impact on balances the outturn for the current financial year is assumed to be on budget. (paragraph 6.4.).

2.2. To note the provisional Finance Settlement figures set out in Section 7 showing a cut to Revenue Support Grant of £275k meaning that there is no RSG in the 19/20 budget.

2.3. To note the figures for the business rates retention scheme and the arrangements for completion of the required return of estimated business rates income as set out at paragraph 7.8.

2.4. To note the reduction in the New Homes Bonus grant and that further reductions in later years are expected as set out in section 7.

2.5. To approve the cost pressures, proposed use of New Homes Bonus, savings and increased income options identified during the budget forecast process as set out at in section 8 and detailed in Appendices C and D.

2.6. To consider and recommend to Council the 2019/20 Revenue Budget requirement of £20,206k (paragraph 8.24) and the underlying detailed budgets set out in summary at Appendix E and available background papers subject to the final proposal to be made in respect of Council Tax.

2.7. To recommend to Council, Colchester's element of the Council Tax for 2019/20 at £190.62 per Band D property, which represents an increase of £5.49 (2.97%) from the current rate noting that the formal resolution to Council will include Parish, Police, Fire and County Council precepts and any changes arising from the formal Finance Settlement announcement and final completion of the business rates NNDR 1. This will be prepared in consultation with the Leader of the Council.

2.8. To recommend to Council the following changes to Council Tax discounts and premiums:-

- To introduce a 28 day exemption of 100% Council Tax for empty and substantially unfurnished properties (Class C Dwellings)
- To increase the long term empty premium to the maximum amounts as stated in Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Act 2018

2.8. To agree the Revenue Balances for the financial year 2019/20 as set out at Appendix J and agree that the minimum level be set at a minimum of £1,900k

2.9. To note the updated position on earmarked reserves set out in section 10 and agree the following:-

- Release of £185k use of parking reserve
- Contribution to balances in respect of redundancy costs.
- Contribution to the business rates reserve of £406k

2.10. To agree the reinstatement of balances in respect of the pensions deficit payment made in 2017/18 as set out in section 8.22

2.11. To agree and recommend to Council that £100k of Revenue Balances be earmarked for potential unplanned expenditure within the guidelines set out at paragraph 12.3.

2.12. To note the Medium Term Financial Forecast for the financial years 2019/20 to 2022/23 set out in section 14.

2.13. To note the position on the Capital Programme and approve and recommend to Council the Capital Strategy set out at Appendix O

2.14. To recommend to Council the inclusion the increased capital allocations sets out at paragraphs 15.5 to 15.7.

2.15 To note the comments made on the robustness of budget estimates at section 16.

2.16. To approve and recommend to Council the 2019/20 Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy as set out in the background paper at Appendix P.

3. **Reason for Recommended Decision**

3.1. The Council is required to approve an annual budget.

3.2. This report sets out supporting information and also statutory commentary about the robustness of the budget and the level of balances.

4. **Alternative Options**

4.1 There are different options that could be considered as part of the budget within the constraints set out in this report

5. Background Information and Overview

Budget Process

5.1. The timetable for the 2019/20 budget process (see Appendix A) was agreed at Cabinet on 11 July 2018.

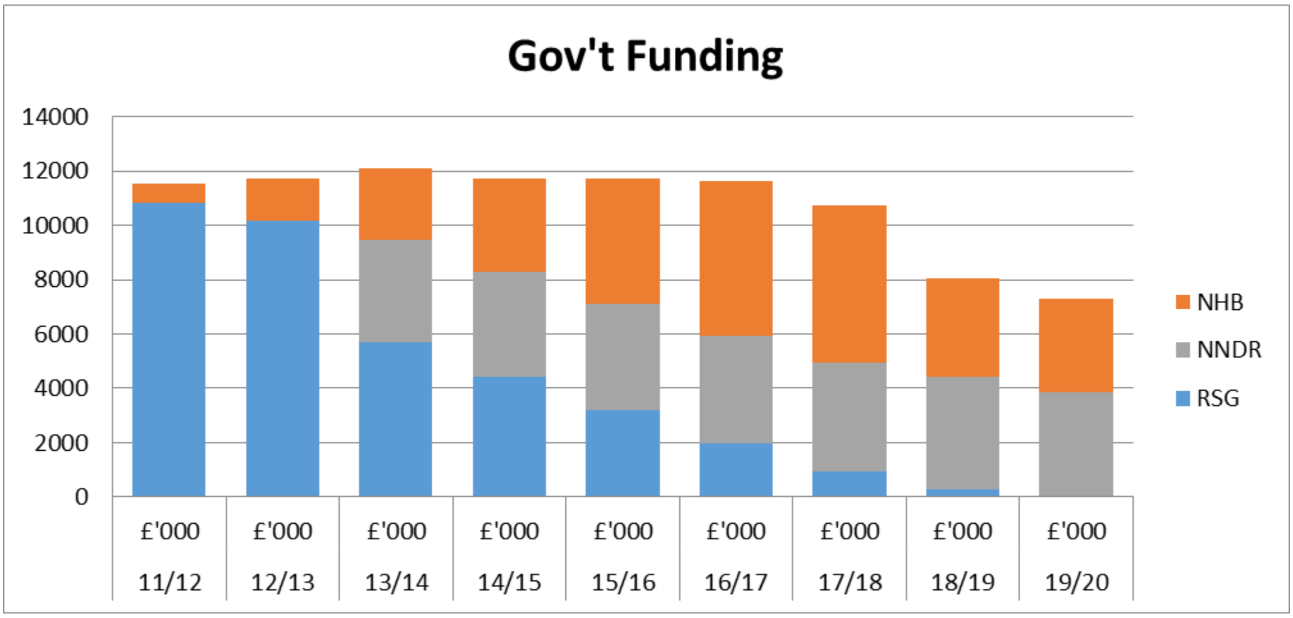
5.2. The Revenue Budget for 2019/20 has been prepared against a background of meeting the Council's Strategic Plan objectives whilst continuing to face significant financial pressures from the reductions in core Government funding. Every effort has been made to produce a balanced budget that includes a deliverable level of savings and income and provides for investment in key services. This has been achieved through a budget strategy that has included:-

- The budget process being led by Budget Group comprising all of Cabinet and senior officers
- "Service Futures" Reviews to ensure that service areas are designed to meet demands and take advantage of new ways of working to deliver efficiencies and income.

- Assessment of in year budget pressures to ensure that these are considered in budget proposals
- All detailed budgets produced and signed off by budget managers
- Consideration of the future impact of decisions
- Providing funds for investment
- Reviewing reserves and balances to ensure they remain appropriate for the risks the Council faces

Summary of Budget Position and Proposals

5.3. 2019/20 is the last year of the 4 year settlement and means that from 2019/20 the Council receives no Revenue Support Grant (RSG). The following graph shows how RSG has reduced from over £10m in 2011/12 to nil next year. It also shows how the Council is now keeping a share of business rates (NNDR) and also the level of funding from New Homes Bonus (NHB) has changed. Importantly, both these sources of funding come with risks and uncertainty.



Other cost pressures

5.4. The Council faces other cost pressures. These include:-

- ***Inflation / price related*** (almost £0.8m). Energy costs have increased significantly and there is an agreed pay award of 2%. In addition, changes in the market for plastics has increased costs.
- ***Meeting on-going costs*** from ICT investment (£0.2.m)
- ***Changes to external funding.*** The food waste grant has now all been used leaving a funding gap of £0.2m and the Essex Council Tax sharing agreement has reduced resulting in a budget reduction of over £0.2m
- ***Demand pressures***. The budget includes £0.2m to fund additional investment in the waste and recycling service to provide capacity to deal with a growing borough.
- ***Maintaining assets and investing in new facilities***. The budget includes an extra £0.15m to provide more investment in maintain council assets and £0.14m to meet the setup and initial running costs of the new Northern Gateway sports scheme.

Balancing the budget

5.5. Council funding comes from our own income through fees and charges, keeping a share of business rates and Council Tax. The proposal within this report is to increase Council Tax by £5.49 a year for a Band D property. The increase in the tax rate brings in an extra £0.35m with the growth in the borough bringing in just over £0.25m, resulting in an increase in Council Tax income of c£0.6m. When looked at alongside the inflation pressures alone of £0.8m shows that that given the reductions in Government funding Council Tax cannot cover some of the basic pressures.

5.6. The budget therefore includes savings or additional income of almost £1.5m. This compares to £2.8m included within the 18/19 budget. A large proportion of savings continue to be based on proposals to work more efficiently and to maximise opportunities to increase income. These include forecast additional income from the Council's commercial companies of £0.1m. It also includes agreed reductions in some grants of over £0.1m.

Investment

5.7. The New Homes Bonus remains one of the Council's main sources of funding new one off investment. The grant has reduced next year and the future of this grant remains uncertain. About 30% of this grant is still being used to support the base budget with the balance being used to support investment. In 2019/20 almost £2.4m is being invested. This includes the final agreed contribution towards the Northern Gateway Sports scheme, supporting investment in the Revolving Investment Fund (RIF), supporting housing and a number of new and emerging proposals to support strategic plan priorities.

Outlook and Resilience

5.8. The current year's outturn is expected to be within the agreed budget. A number of in year pressures in year have been managed and savings and income identified to contain risks. The budget has been adjusted for some of these main issues.

5.9. Balances remain above the recommended minimum level. In addition reserves are held for known expenditure commitments and also in respect of some specific risks.

5.10 The medium term outlook remains challenging with a gap of £3.4m over the next three years. Steps are already in place to deliver savings and income to reduce this reduce this.

5.11. Proposals are emerging for changes to local government funding as part of the fair funding review and increased localisation of business rates. This is likely to see removal of business rates growth as part of a "reset" of the system and potentially other changes to funding such as New Homes Bonus. In comparative terms the Council has benefited from business rate retention and NHB. Therefore, looking ahead beyond 2019/20 to future budgets with no more RSG and reductions in other external funding it is essential that the Council ensures that reserves and balances are maintained to provide flexibility to respond to budget pressures.

5.12. Further detailed information on the budget is provided in the following paragraphs and appendices.

5.13. 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.

6. Current Year's Financial Position

6.1. In order to inform the 2019/20 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.

6.2. It was reported to Scrutiny Panel on 27 November that the current year's budget position showed a forecast net overspend £288k. This reflected various budget variances with the main area being waste and recycling. A review at the end of December has identified some further changes to this forecast (both positive and negative). One of the main changes is a one off-income receipt which has provided confidence that the year-end position will be 'on budget'.

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

6.4 **Cabinet is asked to note that the forecast outturn position for the current year is expected to be 'on budget' and that there will be no call on balances. The position will continue to be monitored.**

7 Finance Settlement (Government Funding)

7.1. The provisional Local Government Finance Settlement was announced in Parliament on 13 December 2018. The Settlement includes a number of funding arrangements, concepts and terminology introduced in 2013/14. This section of the budget report provides a summary of the key issues including:

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

7.2. The SFA which comprises our RSG and business rate baseline figure has been cut by **£0.180million (4%)** as shown in the following table. This is the last year of the agreed 4 year settlement and it was confirmed in the settlement that there would be no negative RSG. The business rates baseline figure has increased in line with inflation.

	18/19	19/20	Change	
	£'000	£'000	£'000	%
RSG	275	0	(-275)	-100%
Business Rates Baseline	4,162	4,257	95	2.3%
Settlement Funding Allocation (SFA)	*4,437*	*4,257*	*(-180)*	*-4.1%*

7.3. The baseline funding level is used as part of the retention of business rates scheme as explained in the following paragraphs.

Business Rates Baseline and tariffs and top-ups

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

7.5. The following table sets out a summary of the baseline position for Colchester for 2019/20 showing the required tariff payment of £19m.

	£'000
CBC Individual Baseline	23,235
Less Tariff	-18,978
Baseline funding	**4,257**
Safety Net threshold (92.5%)	3,938

7.6. It should be noted that the above tariff figure has been reduced by £320k. This is an 'adjustment' representing the difference between the tariff that was set out in the 2017/18 local government finance settlement, and a revised 2017/18 tariff that reflects the impact of the 2017 revaluation exercise on the Business Rates Retention scheme.

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

7.8. The arrangements for business rate retention require the Council to agree an estimate of business rates income for the coming year (the NNDR 1) by 31 January. This return includes a number of key assumptions in respect of collection rates, growth and an allowance for the impact of revaluation appeals. Based on initial projections it is anticipated that the NNDR 1 will show income above the baseline funding level, of which the Council's share is forecast to be in the region of £1.6m. This takes into account of the tariff position and the estimated Section 31 grant due to the Council in relation to business rates relief provided to small businesses and retailers, which forms part of the Levy and Safety Net calculation. This will remain a risk and one which will be considered in the final paper for Full Council and within updates to the MTFF.

Business Rates Pooling

7.9. Under the business rates retention scheme local authorities are able to come together, on a voluntary basis to pool their business rates receipts and then agree collectively how these will be distributed between pool members. Pooling provides the opportunity to keep a greater share of business rates within Essex that would otherwise be paid to Government as a ‘Levy’, providing that districts experience growth above their baselines. However the protection each authority receives under the safety net arrangements in the event of a shortfall is removed, with the 7.5% safety net only applying to the overall pool. In 2018/19 Colchester is part of the Essex business rates pool which comprises all Essex councils and the Fire authority with the exception of Thurrock.

7.10. It was reported to Cabinet last year that the Government had invited local authorities to pilot 75% business rate retention in 2019/209. Following an assessment of what a pilot might mean for Colchester and discussions between all Essex authorities a bid was submitted to be a pilot. The bid was made by all Essex authorities, again with the exception of Thurrock.

7.11. Alongside, the Settlement it was reported that the Essex bid to be a pilot had not been accepted. The pooling arrangement will continue for 2019/20 and is forecast to generate additional income for Colchester based on current business rates forecasts.

7.12. It should be noted that the information set out in this report in respect of business rates reflects the arrangements for business rate retention as an individual authority and not in a pool. However, based on indicative forecasts it is projected that pooling in 2019/20 would be beneficial to the Council.

7.13. Cabinet has previously agreed to allocate £200k from the gain received last year to support the 19/20 budget. Given that a gain of at least £200k is currently expected in this financial year it is proposed that a similar arrangement can be made to support the 20/21 budget. This proposed approach will need to be reviewed based on any future pooling opportunities.

7.14. The Settlement is provisional and subject to consultation which ended on 10 January 2019. 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. In addition to the Settlement funding figures other grants have been announced. The key grant for Colchester is the New Homes Bonus.

New Homes Bonus (NHB)

7.15. The 2019/20 grant has been announced and reflects the continuation of the changes to the methodology of the scheme introduced in 2017/18. It had previously been reported to Cabinet that the Government were consulting on a possible increase to the national baseline of 0.4%. The Settlement has confirmed that this baseline will remain in place for 2019/20 at 0.4%. NHB is only paid on housing growth above this level. It is still worth noting that the change to only pay NHB above a 0.4% threshold has reduced the grant we received by £0.4m in respect of last year’s housing growth.

7.16 The final figure is a total grant for 2019/20 of £3.415m, which is a reduction of £28k The detailed breakdown of the grant is set out at Appendix B and is summarised below:-

	2018/19	2019/20	Change
	£'000	**£'000**	**£'000**
Basic NHB	3,296	3,252	(44)
Affordable homes bonus	147	163	16
Total New Homes Bonus	**3,443**	**3,415**	**(28)**

7.17. Changes to the NHB scheme have reduced the grant that this Council would otherwise have received in 19/20. Appendix B also sets out forecasts for NHB in later years, however, these figures should be treated with caution given the uncertainty over the future of NHB.

7.18. The Council has recognised the risk that the New Homes Bonus would change and has been reducing how much of the grant is used to support the base. Given the scale of reduction in grant and the continuing uncertainty about this funding source it is proposed that from 2019/20 the use of NHB to support the base budget be reduced by £200k pa over the life of the MTFF. In 2019/20 this would mean that £1.033m will be used to support the base budget.

7.19. Cabinet has already agreed to allocate £500k from next year's New Homes Bonus towards the Northern Gateway Sports Project and it is proposed that the annual contribution of £250k to the RIF (Revolving Investment Fund) is maintained and that the bonus received in respect of affordable housing continues to be earmarked for housing purposes. Based on this it would mean that there could be a further c£1.469m available to support new 2019/20 budget decisions which is considered later in the report.

	£'000	
Contribution to RIF	250	7%
Affordable housing allocation	163	5%
Allocation to CNG Sports Project	500	15%
Support for one-off schemes	1,469	43%
Base Budget	1,033	30%
Total Grant	**3,415**	**100%**

Core Spending Power

7.20 This term relates to the Government's assessment of the "expected" available revenue for local government spending. It includes the announced SFA and New Homes Bonus and income from Council Tax. This takes account of an *assumed* increase in the taxbase and a Council Tax rate increase.

7.21. For 2019/20 the change in the spending power as per Government figures is shown as an increase of £411k or 2.11% as shown below.

7.22. It is important to stress that spending power figures include the Government's assumption in respect of an increase in Council Tax income and the taxbase. The following sets out the Government's spending power assessment showing an increase in spending power of 2.11%.

	18/19	19/20	Change	
	£'000	£'000	£'000	%
RSG	275	0	(275)	-100%
Business Rates	4,162	4,257	95	2.28%
Settlement Funding Allocation (SFA)	*4,437*	*4,257*	*(180)*	*-4.06%*
NHB	3,443	3,415	(28)	-0.81%
Business Rates (under indexing)	95	139	44	46.32%
Total SFA and NHB etc	*7,975*	*7,811*	*(164)*	*-2.06%*
Council Tax	11,471	12,046	575	5.01%
Spending Power	**19,446**	**19,857**	**411**	**2.11%**

8. 2019/20 Budget Changes

Revenue Cost Pressures

8.1. Appendix C sets out revenue cost pressures of £2.2m, over the 2018/19 base, which have been identified during the budget process. This includes an inflation allowance and some specific service cost pressures.

8.2. Many of the cost pressures have been considered by Cabinet. However there are a number of changes to assumptions and details are set out. These include an allowance for additional waste vehicles and crew to meet increased demand. A number of issues that have impacted on the current year budget have been allowed for in next year's budget.

8.3. **Cabinet is asked to approve inclusion within the 2019/20 Revenue Budget of the cost pressures set out at Appendix C.**

Growth Items

8.4. The main source of revenue investment for the Council remains the New Homes Bonus. The total grant is £3.415m and £1.033m is used to support the base budget, leaving £2.38m for projects. The following table sets out the proposed use of the NHB in 19/20:-

Area	£'000	Comment
Contribution to RIF	250	Annual contribution to support a number of regeneration and commercial projects.
Affordable housing allocation	163	Annual contribution to support housing projects.
Allocation to CNG Sports Project	500	Agreed final contribution as part of £2m investment from NHB.
Support for one-off schemes	1,469	Investment to support strategic plan priorities
Total Grant	**2,382**	

8.5. As shown in the MTFF in this report future income from the New Homes Bonus is uncertain and is expected to reduce in future years. It is therefore essential that the Council carefully considers how this grant might be used in the coming year as well as future years.

8.6. In the current year funding from the New Homes Bonus and other funding sources is being used to support strategic plan priorities as part of the "Better Colchester" campaign. In total £1.95m was made available for projects and initiatives that would continue into 2019/20 and funding will be carried forward for these schemes.

8.7. Cabinet agreed some revised allocations of this in year funding in November and it was shown that £439k was unallocated. For example, £37k of this has already been agreed to support the Fixing the Link project. This project, already supported by Greater Anglia, Essex County Council and Colchester Borough Council, looks to encourage visitors and residents to walk and cycle into Colchester.

8.8. The balance of £402K remains available for strategic spending priorities but it is recommended that £100k of this be held as a contingency against existing proposals meaning that £302k is available to allocate plus £65k available by way of a Government grant that returns the surplus on the business rates levy account.

8.9. In total, this £367k means that there is £1.836m available that can be used to help deliver projects which continue to support strategic plan priorities as part of the Better Colchester campaign, to address one off service pressures and to support schemes which can deliver income to assist with managing future budget pressures.

8.10. Proposed Allocations of £1.1m are set out in the table below:

	£'000	
Funding Available:-		
Funding c/f	302	Para 8.8
New Homes Bonus	1,469	Table at 8.4
Business Rates levy grant	65	Para 8.8
	1,836	
Proposed Allocations:-		
Fighting Crime and Community Safety	150	Para 8.11
Local Highways Panel	100	Para 8.12
Cleaner Streets (Zone teams)	100	Para 8.13
Better Colchester and Communication	150	Para 8.14
Local Plan work	450	Para 8.15
Rural Projects (including Colchester Orbital)	150	Para 8.16
Total Proposed allocations	**1,100**	
Balance for other investment	736	

8.11. **Fighting crime and improving community safety:** The Council will continue funding for additional police resource, which includes 'Team Ten' and the Town Centre Action Plan, as well as resources to support the 'Street Weeks' programme. The funding has already been put in place for policing of £330k covering a two-year period. The proposed additional funding of £150k will also aid partnership work with the Community Safety Partnership to address security of our car parks and the effectiveness of town wide CCTV.

8.12. **Local Highways Panel additional investment:** Comprehensive proposals are being drawn up for priorities already declared in 2018/19 such Transport for Colchester. As such they will include an allocation of £100k to continue additional funding of Local Highways Panel (LHP) in 2019/20, as well as funding, to terms to be agreed with Essex County Council, on other improvements to town centre or other infrastructure and in further exploration of the benefits and scope for pedestrianisation. Further funding for this work remains unallocated until further clarity from partners is agreed.

8.13. **Cleaner Streets:** The Council will also continue to invest as required in projects that further enhance the look, condition and cleanliness of the town centre, which will include £100k to retain the additional improvement capacity of the 3 operative roles created in 2018/19.

8.14. **Better Colchester and Communications:** Building on the success of 'Better Colchester' projects in 2018/19, for example the 'Gum Blows' Gumdrop Campaign, 'Better Colchester' communication projects and other work to increase public engagement will continue, to increase public understanding of our services. This will include funding of the Colchester Centurion newsletter.

8.15. **Local Plan Work:** A key objective for the Council is to get a new Local Plan adopted. Local Plan and the Section 1 Garden Communities analysis and engagement will continue through the coming year, in support of the submissions to the Inspector, but the issues and possible next steps are still in the process of debate and review with detailed analysis, submissions and proposals being currently worked on. A commitment of this Council is to ensure the community is engaged in the work going forward and the Council needs to assign resources to a programme of engagement with various communities. Decisions will be made when required on the use of the funding.

8.16. **Rural Projects:** Fulfilling the aspirations for the Council to work with other partners, including local businesses and parish/community councils, this Council will look to support projects that help residents in rural as well as urban areas, including the Colchester Orbital. The Colchester Orbital projects re-affirms the strategic aim of improving connectivity and encouraging awareness and use of our invaluable green spaces, parks and walking and cycling routes. An allocation of £150K will enable such partnership and connectivity work.

8.17. If agreed this would leave c£0.7m to allocate to further schemes and proposals to be brought forward to Cabinet. Funding will be allocated in line with key strategic plans priorities not referenced above such as: Highlighting Heritage, Reducing Rough Sleeping, 'Live Well' Sport, Health and Wellbeing for All, Enterprising Colchester.

8.18 **Cabinet is asked to approve inclusion within the 2019/20 Revenue Budget of the use of the New Homes Bonus for new projects as set out in the table at 8.10**

Revenue Saving / Increased Income / Technical Items

8.19. Appendix D sets out budget reductions, savings and increased income totalling £1.486m.

8.20. 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.

8.21. **Cabinet is asked to approve inclusion of the savings / increased income items set out at Appendix D within the 2019/20 Revenue Budget.**

Pension Fund Contributions

8.22. As part of the 2017/18 budget it was agreed to make the required pensions deficit contribution in respect of the period 2017/18 to 2019/20 in a one-off payment. We were required to show this full payment in the 2017/18 budget.

8.23. To facilitate this arrangement, and to reflect the equivalent annual costs in the budget, required a use of balances / reserves in 2017/18 of £3.2m. Given this approach the 2019/20 budget continue to shows a contribution to balances of £1.6m. This is reflected in the summary budget requirement and the contribution to balances.

Summary Total Expenditure Requirement

8.24. Should Cabinet approve the items detailed above, the total expenditure requirement for 2019/20 is as follows:

	2019/20	
	£'000	
Base Budget	19,695	
One-off items	(456)	
Cost Pressures	2,216	See para 8.3.and Appendix C
Growth Items	65	See Section 8
Savings	(1,486)	See para 8.21 and Appendix D
Change in use of NHB for one off investment	172	Impact of reducing use of NHB on base budget less reduction in grant.
Forecast Base Budget	**20,206**	

Notes:-

A summary of the 2019/20 budget is set out at Appendix E.

A more detailed summary of service group expenditure is attached at Appendix F with a graph showing net expenditure by service at Appendix G.

Further detailed service group expenditure is available.

8.25 **Cabinet is asked to agree and recommend to Council the net revenue expenditure requirement for 2019/20 and the underlying detailed budgets set out in Appendix E.**

9. Council Tax, Collection Fund and Business Rates

Council Tax Rate.

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

9.2. For 2019/20 the Secretary of State has again proposed that district councils such as Colchester can increase their Council Tax by the higher of £5 or 3%. This means that the Council can increase Council Tax by up to 3%.

9.3. The 2019/20 budget forecast and MTFF has reflected the planning assumption of an increase in Band D Council Tax and the proposal within this report is for a Band D Council Tax Rate of £190.62, an increase of £5.49 (2.97%). Based on the taxbase for next year this results in estimated Council Tax income for the Council of £12.072m, an increase of £601k on the current year.

9.4. The Local Government Act 2003 gave local billing authorities the ability to vary the discounts on second and empty homes. More recently local authorities were also given the opportunity to use new powers within the Finance Bill to reduce the level of discounts currently granted in respect of second homes and some classes for empty properties. Furthermore, the Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Act 2018 allows councils to make further changes in respect charging empty house premiums.

9.5. The opportunity has been taken to review all these powers and certain changes are proposed. This is summarised below with more some provided at Appendix H:-

Exemption from Council Tax for a dwelling which is unoccupied for up to 6 months and is substantially unfurnished

9.6. The Council is able to provide a 100% exemption for up to six months where properties are empty and substantially unfurnished. Currently there is no exemption in Colchester. Introducing an exemption for 28 days will help to significantly reduce administration within the Council Tax Team as well as making a more fair and simple process for residents simply moving property.

Long Term Empty Premium

9.7. The Council has been given powers to extent the long term empty property premium by:

- From April 2019 properties empty for over 2 years may be charged a 100% premium (making total liability 200%).
- From April 2020 properties empty for over 5 years may be charged a 200% premium (making total liability 300%).
- From April 2021 properties empty for over 10 years may be charged a 300% premiums (making total liability 400%).

Introducing these premium charges will help the Council to further encourage homes being brought back into use as quickly as possible.

9.8. No further changes are proposed to the existing arrangements and it is recommended to Council that the Council Tax setting report includes these discounts and premiums.

Collection Fund

9.9. As part of the formal budget setting process, the Council is required to estimate each year the estimated surplus or deficit arising from Council Tax and Business Rates collection. These Collection Fund calculations include an assessment of the forecast surplus / deficit position for the current year, together with the variance between the 2017/18 forecast and actual outturn position.

9.10. The budgeted Council Tax surplus of £306k has arisen as a result of the combined impact of higher growth in the number of properties in the borough than had been forecast in 2017/18, together with further expected growth during the current year.

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

9.12. The budgeted surplus of £298k has occurred largely as a result of changes to business rates forecast in previous years and changes to appeals.

9.13 It is proposed that surplus is added to the business rate reserve along with part of the forecast growth in business rates income. The proposed contribution of £406k would result in a balance on the reserve of £1.859m as summarised in the following table:

Collection Fund - Business Rates Reserve	**£'000**
NNDR reserve – @ 1st April 18	**853**
Forecast 18/19 movement (estimate)	600
Forecast balance on reserve @ 31 March 19	**1,453**
Contribution to reserve in 19/20	406
Forecast balance on reserve	**1,859**

10 Revenue Balances

10.1 The Local Government Act 2003 places a specific duty on the Chief Financial Officer (Section 151 Officer) to report on the adequacy of the proposed financial reserves of an Authority when the budget is being considered. This section and section 16 address this requirement.

Minimum level of balances

10.2. Each year the assessment of the recommended level of balances is reviewed. The assessment for 2019/20 is summarised at Appendix I and shows that the recommended level continues to be set at £1.9m. Whilst the risk assessment remains unchanged there are two issues that should be highlighted.

- *Commercial company arrangements*

Last year the Council agreed to transfer certain services and functions to new commercial companies owned by the Council. Whilst these have transferred some of the budget risk to the company no changes were made to the Council's recommended level of balances and this continues to be the case.

- *VAT Partial exemption*

The assessment includes the risk that the VAT exemption limit will be exceeded with a consequent loss of recoverable VAT. Regular monitoring and active management of new schemes minimises this risk. However, potential changes to VAT treatment, such as those relating to sport and leisure services, means this is an increasing area of concern. Whilst no increase in balances is proposed this should be kept under review in the current year.

10.3. In considering the level at which Revenue Balances should be set for 2019/20, Cabinet should note the financial position the Council is likely to face in the medium term.

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

10.5. Based on the assumptions built into the budget, it is proposed to hold balances at a **minimum** of £1.9m. The ongoing impact of the various local government reforms will be assessed as part of the budget strategy for 2020/21 and the level of balances should be reviewed again as part of this process.

Level and use of balances

10.6. 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. There are no proposals to use balances to support the 2019/20 budget other than the agreed uses of £200k from the business rate pooling gain in 17/18.

10.7. Within balances we are holding an allocation to meet redundancy costs including pension strain payments. During the current year over £200k is expected to be used from this budget. Given the ongoing series of reviews for which anticipated savings are included within the budget and MTFF it is considered prudent to reinstate this allocation by contributing £200k for this purpose.

10.8. It should also be highlighted that certain sums are held in balances against specific risks. These include funds for welfare reform, planning appeals, housing benefits and any negative impact on the collection fund. The allocation of these funds has been considered when setting the minimum level of balances.

10.9. The forecast position in respect of Revenue Balances is set out at Appendix J and shows balances at c£2.167m, £0.267m above the recommended minimum balance as set out in the risk analysis. The level at which balances are held above the recommended minimum level is a matter for Cabinet and Council to consider. It should be noted that the Council will continue to face significant budget pressures over the coming years and that it may be necessary to use balances to support future budgets especially to fund any one-off costs. With future budget gaps, increasing risk and uncertainty and a requirement to deliver already stretching savings targets maintaining uncommitted or allocated balances at c£2.167m is considered appropriate.

10.10. Following the 2018/19 accounts closure it will be necessary to review all balances and the risk assessment to ensure allocations remain appropriate. This will be done as part of the 2020/21 budget strategy and updated MTFF.

10.11 **Cabinet is recommended to approve Revenue Balances for the financial year 2019/20 be set at a *minimum* of £1.9m and to approve the allocation of £200k into balances to provide for future redundancy costs.**

11 Reserves and Provisions

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

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

11.2. Cabinet considered the Council's earmarked reserves at its meeting on 21 November 2018. As part of the budget process a review was undertaken into the level and appropriateness of earmarked reserves and provisions for 2018/19. 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.

11.3. Appendix K sets out an updated position on these earmarked reserves and provisions. The table below summarises the total position showing the forecast level of the reserves at the end of March 2019, the split between General Fund and HRA and how much is 'committed'.

	Committed / allocated		Uncommitted / unallocated		Total
	£'000	(%)	£'000	(%)	£'000
Reserves:-					
General Fund	8,166	80%	2,098	20%	10,264
HRA	11,334	100%	-	0%	11,334
Total Reserves	**19,500**	**90%**	**2,098**	**10%**	**21,598**
Provision	2,265	100%	-	0%	2,265

11.4. The earmarked reserves figures uncommitted / unallocated simply means that whilst the reserve is required there are no specific spending plans for the coming year. The main item uncommitted relates to the business rates reserve. This is required to be held and may be required to be used to fund pressures relating to the business rates retention scheme and in particular to help to balance any changes in funding that may emerge from the Government's local government finance reforms.

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

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

11.6. The building maintenance programme has been based on in-depth condition surveys of all Council building assets. The 2019/20 budget includes the proposal to increase the contribution to the continue to the BMP by £150k to £300k to support the cost of future repairs. New releases are possible for next year and will be reported to Cabinet as required.

Business Rates Reserve – contribution to reserve of £406k

11.7. As set out in section 9.12. there is an estimated surplus on the collection fund for business rates. It is recommended that this is transferred to the business rate reserve to reinforce the sum held. Business rates remains an area which is subject to risk and variability and as such maintaining the reserve provides some protection against a number of changes.

Parking Reserve – release of £185k

11.8. As ECC no longer provide a contribution towards TRO work, the NEPP (North Essex Parking Partnership) agreed to use earmarked parking reserves to mitigate this pressure. This is the third year of this arrangement and it is proposed that £185k be used for this purpose.

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

- **Release of £185k from the parking reserve.**
- **£200k be added to balances and held for potential redundancy costs**
- **£406k be transferred to reinstate the business rates reserve.**

Funding one-off pensions payment

11.10. As part of the 2017/18 budget it was agreed to make the required pensions deficit contribution in respect of the period 2017/18 to 2019/20 in a one-off payment in 2017/18. We were required to show this full payment in the 2017/18 budget.

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

11.12 **Cabinet is recommended to agree to reinstate balances of £1.6m in 2019/20**

12. Contingency Provision

12.1 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.

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

12.3 **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.

13. Summary of Position

13.1 Summary of the Revenue Budget position is as follows:

	£'000	Note / para
Revenue expenditure requirement for 2019/20	20,206	Para.8.24
Collection fund surplus (business rates and Council Tax)	-604	Section 9
New Homes Bonus	-3,415	Para 7.16
One off grant	-65	Para 8.8
Contribution to balances / Reserves:-		
Contribution to balances / reserves for pensions payment	1,586	Para 8.23.
Contribution to Business Rates Reserve	406	Para 9.13
Contribution towards redundancy costs	200	Para 10.7
Use of Balances / reserves		
Use of Business Rates Pooling gain	-200	Para 7.13
Release of earmarked reserves	-185	Para. 11.8
Budget Requirement	**17,929**	
Funded by:		
Revenue Support Grant	0	Para 7.2
Business Rates Baseline Funding	-4,257	Para 7.2
Business Rates Improvement	-1,600	Para 7.8
Council Tax Payers requirement (before Parish element) see below*	-12,072	Para 9.3 and table below
Total Funding	**-17,929**	

Council Tax*	
Council Tax Payers requirement (before Parish element)	12,072
Council Tax Base – Band D Properties	63,331
Council Tax at Band D	**£190.62**

13.2 **Cabinet is asked to agree and recommend to Council Colchester's element of the Council Tax for 2019/20 at £190.62 per Band D property, which represents an increase of £5.49 (2.97%) from the current rate noting that the formal resolution to Council will include Parish, Police, Fire and County Council precepts and any changes arising from the formal Finance Settlement announcement and final completion of the NNDR 1.**

14. Medium Term Financial Forecast – 2019/20 to 2022/23

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

14.2. The Medium Term Financial Forecast (MTFF) is attached at Appendix L showing that the Council faces a continuing budget gap over the next three years from April 2020. The following table summarises the position showing a cumulative gap over the period from 2020/21 to 2022/23 of c£2.3m.

	2019/20	**2020/21**	**2021/22**	**2022/23**	See para
	£'000	**£'000**	**£'000**	**£'000**	
Net Budget	20,206	20,175	20,673	21,009	
SFA (includes allowance for reduction)	(4,257)	(3,354)	(2,897)	(2,440)	11.6
NNDR Growth (incl. pooling gain)	(1,800)	(1,800)	(1,800)	(1,800)	11.13
New Homes Bonus	(3,415)	(2,890)	(2,837)	(2,304)	11.9
Other Grants	(65)	0	0	0	
Council Tax	(12,072)	(12,556)	(13,062)	(13,588)	11.21
Reserves / Collection Fund	1,403	1,401	1,401	1,401	
Cumulative Gap	**0**	**976**	**1,478**	**2,278**	
Annual increase	**0**	**976**	**502**	**800**	

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

Government Funding and Business Rates

14.4. The SFA which comprises our RSG and baseline NNDR figure has been cut in 19/20 and we will receive no RSG. In the Settlement the Government removed the so called 'negative RSG'. However, it is assumed that this represents a one off adjustment and that the agreed reduction in resources will still be made as part of the fair funding review and business rates retention plans. There is no certainty as to the level of funding beyond 2019/20 as there will be a new spending review and consideration of the other changes being examined in respect of local authority funding. For planning purposes a further reduction of £500k has been allowed for each year.

14.5. As set out within this report the New Homes Bonus is a key element of the financial support for local authorities and the Government announced changes to the scheme that reduced the grant in 2017/18. In 2019/20 the grant has reduced again but by less than expected due to the level of housing growth. The future for NHB remains uncertain and whilst it was welcomed that the Government did not make certain changes to NHB in 2019/20 (such as increasing the baseline figure) the potential for changes in the future appears likely.

14.6. The MTFF includes projections based on the existing New Homes Bonus scheme and assumes an 'average' level of growth for future years. The MTFF assumes that the New Homes Bonus will continue to be used to support the base budget, however, this will be reduced year on year by £200k to limit the risk of future changes to this grant. It is also assumed that the annual contribution of £250k to the RIF will continue and that the bonus paid for affordable housing will continue to be earmarked for housing. These assumptions are set out in the following table.

	2019/20	**2020/21**	**2021/22**	**2022/23**
	£'000	**£'000**	**£'000**	**£'000**
New Homes Bonus	**3,415**	**2,890**	**2,837**	**2,304**
Allocated to:-				
Contribution to RIF	250	250	250	250
Affordable housing allocation	163	163	163	163
Base Budget	1,033	833	633	433
Allocation to CNG Sports Project	500			
Support for one-off schemes	1,469	1,644	1,791	1,458
Total allocation	**3,415**	**2,890**	**2,837**	**2,304**

14.7. As has been reported earlier the Essex bid to be a pilot for 75% business rates retention was not successful. Further retention pilots were agreed which it is intended will enable aspects of the retention system to continue to be tested. Colchester remains in an Essex Business Rates Pool and we expect to receive additional income in this year and next year from this arrangement. The budget assumes we will use £200k to support the budget in each year. This is included in the 2019/20 budget and we are confident that funding will continue to be available to continue this arrangement in 2020/21 and 2021/22.

14.8. Alongside the local government finance settlement, the Government confirmed that it is looking to implement the Fair Funding Review in April 2020 and published a further consultation on its progress. The deadline for responses is 21 February 2019. This consultation covers all three key strands of the Review. In particular, it:

- Sets out the Government's preferred options on the structure of the relative needs assessment, including tier-specific foundation formulas and formulas to assess specific services, the leading cost drivers for inclusion in these formulas, and analytical techniques to weight cost drivers;

- Sets out the Government's preferred options on measuring the council tax base, in particular treatment of mandatory and discretionary council tax discounts, and the choice of council tax level to be used when calculating the resources adjustment; and

- Outlines options on high level principles that could underpin the choices of transition mechanism, and the definition and measurement of ‘baseline’ and ‘target’ between which the transition mechanism would be applied to.

14.9. The Secretary of State confirmed his aim to introduce 75 per cent Business Rates Retention for all in 2020/21 and published a consultation document on possible changes to the system. The main proposals relate to balancing risk and reward; resets, the safety net, the levy, tier splits within areas, incentivising pools, central and local rating lists, including inviting proposals for properties that should change lists, There is also consideration of the best way of dealing with appeals and an alternative model of business rates retention. The deadline for responses is also 21 February 2019.

14.10. These issues are important for the Council as they will inform how baseline funding is established. It is proposed that a response be made to the proposals following consideration of how these reforms are likely to affect Colchester.

Pay, Inflation and costs

14.11. The 2019/20 budget includes an allowance for the agreed pay award. For 2020/21 and beyond a sum is included for planning purposes to cover this and other inflationary pressures.

14.12. The next actuarial review of the pension fund will take place in 2019. No allowance has been included for any impact from this review, however, this will be considered in future updates. On the assumption that the Council again pays the 3 year deficit in one payment it will be necessary to show the use of reserves in that year with the subsequent repayment over the next two years. For ease and planning purposes the MTFF simply shows an annual cost / contribution to reserve as a ‘marker’.

Forecast savings

14.13. The MTFF includes forecast savings for 2020/21 and beyond. These include:-

- The Northern Gateway Sports scheme business plan assumptions.
- The second year savings from the proposed Waste and Zones review.
- The projections for the dividend from CCHL (Colchester Commercial Holdings Ltd)
- The forecast income arising from assets included within the RIF.
- Assumed income from HMO licencing

14.14. The MTFF does not include the anticipated revenue gains from on-lending investment in the Colchester’s companies. This will be updated when the budget strategy for 2020/21 is produced in the summer. These gains will need to be viewed alongside the temporary borrowing costs for the Northern Gateway Sports scheme.

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

Fees and charges income

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

Specific Cost Pressures

14.17. The MTFF includes an allowance for additional resources to support the waste and recycling service. This includes the full year cost of additional vehicles and staff included in the 2019/20 budget as well as an allowance for further resources in 2021/22 and 2022/23. An allowance has also been made for a potential reduction in the Council Tax sharing agreement in 2020/21. The current agreement has been extended into 2019/20 and it is understood that a new agreement will be developed during the next year with all relevant Essex authorities.

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

- an increase in interest costs which are currently being minimised through internal borrowing
- Any increase in pensions contributions arising from the actuarial review
- Any contribution towards supporting garden communities

Council Tax

14.19. The MTFF assumes that Council Tax will increase by 3% each year however, this does not represent a proposal. An allowance for an increase in Council Tax income through growth in the tax base of 1% pa is also included.

Summary

14.20. A realistic approach has been taken to the MTFF and it is evident that it will be necessary to review and revise a number of the assumptions set out. The funding changes to local government will continue with further grant reductions, the changes to business rates retention arrangements and any impact of the Government's wider review of local government funding.

14.21. In the 2019/20 budget savings and reductions of £1.5m have been identified which, when looked at alongside about £17m identified in the budgets since 2011/12, represents a significant level of budget savings found. The MTFF shows that whilst anticipated savings from the current plans will make a contribution to reducing future budget gaps, further budget changes will be necessary. The area of most uncertainty remains the nature and extent of Government funding changes.

14.22. The budget group has considered some savings area beyond 2019/20 and certain service reviews are planned to help to identify savings to close the budget gap for 2020/21 and beyond. 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.

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

15 Capital Programme

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

15.2. The latest monitoring report highlighted that there was a small net underspend on the Capital Programme and it is proposed that this is reallocated as shown.

General Fund position		
Open Spaces Provision (funded by New Homes Bonus)	(43)	The purchase of land included within the project is no longer required as it has been provided for through a S106 agreement.
Completed schemes – Garrison Gym Rebuild	25	Additional works required for completion of the scheme.
Relocation of Museum Resource Centre	18	
Subtotal	**0**	

15.3. A review of resources available to support the Capital Programme in the medium term has been carried out, and the following table provides a summary of the projected position for 2018/19. This shows a surplus that is available to support potential schemes in subsequent years.

Detail	**£'000**
Surplus brought forward	(321)
Capital receipts projection for 2018/19	(771)
New schemes (see below)	200
Balance available	**(892)**

15.4. There are a number of items to report for inclusion in the capital programme:

Waste Fleet – Increase of £0.9m from £4m to £4.9m

15.5 The Council agreed to purchase new waste fleet once the current leasing arrangements expired. An options appraisal exercise found that external borrowing from the Public Works Loan Board was the most competitive funding option. The initial allocation of £4m was an indicative figure. The proposed increase represents revised costings and proposals for additional vehicles for which provision has been made in the revenue budget for borrowing costs.

Shrub End Depot – Increase of £200k from £840k to £1,040k.

15.6. The Shrub End Depot is no longer fit for purpose and requires significant re-investment to provide the facilities and space to operate effectively now, and in the future. It is anticipated that an additional £200,000 is required to redevelop the current site although further detailed work is underway to establish an accurate estimate. It is therefore, proposed to invest £200,000 of one-off additional capital funding in 2020/21 for redevelopment of Shrub End Depot. This proposal forms part of the Waste and Zones review which will be reported to Cabinet in March.

Revolving Investment Fund (RIF) – Reallocation of £1.275m

15.7. RIF Committee agreed a number of changes to the programme at the meeting on 16 January 2019. This included the following changes.

	£'000	Note
Sport and Leisure Asset review	120	New opportunities are being explored to support growing Sport and Leisure in the Borough with a focus on the Colchester Leisureworld site.
Vineyard Gate feasibility	15	CBC continues to explore a new set of proposals for the Vineyard Gate area
Grow-on former Queen St Bus Depot	19	Work is underway to explore the development of new grow on space units in the town centre following on from the success of the 37 Queen Street incubator
Public Realm - St Nicholas Square	20	This project will develop new designs for a public square
Broad Lane Sports Ground Wivenhoe	10	Feasibility work to explore options for the Sports Group at Wivenhoe
Pre development / feasibility funds	250	Allocation to fund initial feasibility studies for emerging income generation or regeneration opportunities.
Current Shortfall on programme	841	
Total costs (incl. shortfall)	**1,275**	
Funded by :-		
Town Centre - uncommitted balance	(1,275)	

15.8. As a result of changes to the Prudential Code and statutory requirements in relation to Non-Treasury Management investments (for example Commercial and retail investments not related to local economic development), the Council is required to prepare, give due consideration to and approve as part of the budget process and long term financial planning; a Capital Strategy. The proposed strategy is set out at Appendix O.

15.9. In summary this sets out that the Council's approach to the capital programme is to support deliver of Strategic Plan priorities. The Council has established the Revolving Investment Fund (RIF) as a way to invest in schemes that support economic growth through regeneration and also more commercial schemes. Importantly, these schemes are all within the Borough, and there are no plans for commercial investment outside the Borough.

15.10. The Council has agreed to provide financial support to the Amphora commercial companies by way of equity and loan finance. This has been supported by business plans and will continue to be monitored and scrutinised to ensure the risks to the Council are managed.

15.11. The Capital Strategy will be developed over the course of the year and agreed annually.

16. Robustness of Estimates

16.1 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.

16.2 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.

16.3. This latest review of the budget for this financial year, 2018/19, has shown that there are a number of budget pressures across the Council. Outturn reviews in previous years have been undertaken to ensure that budgets reflect best estimates and do not contain "contingencies". This has meant that services have less scope to absorb unforeseen budget pressures and any requests for new spending that may arise in-year. Steps taken through the 2018/19 budget process, such as reducing income targets for planning, helpline and broadband helped to set achievable budget targets. The final outturn position for 2018/19 is expected to be within budget, however, there have been a number of cost pressures.

16.4. As part of the 2019/20 budget exercise attention has been given to these and other in year budget pressures. As a result of this some of the main budget changes have been in respect of waste and recycling. This has been informed by the Waste and Zones review which will be reported to Cabinet in March.

16.5. This budget again includes significant new or increased savings and income targets across the Council totalling £1.5m. Most of these items have been identified through budget reviews and assumptions have been checked to ensure that there are reasonable and achievable. They comprise a mix of spending reductions and efficiencies and additional income most of which have already been considered by Cabinet. They also include the Corporate Services review which is subject to a separate report on this agenda and the Waste and Zones review which, as already stated, will be considered in detail by Cabinet in March.

16.6. All Assistant Directors have reviewed their detailed budgets and various changes have been incorporated into their individual budgets. Allowance have been made for a number of costs pressures such as reducing some income targets (e.g land charges) and allowing for additional costs some of which are one-off (e.g. an allowance for ICT costs relating to risks to delivery of various projects).

16.7. The 2019/20 budget contains measures to ensure that the Council is looking beyond day to day issues. For example, there is an increase in funds set aside for the maintenance and upkeep of assets and balances have been added to ensure that funds are set-aside for any potential redundancy costs to ensure that saving targets can be met in year.

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

- Meeting ongoing, income levels in particular in respect of sport and leisure where income is below current budget targets. Targets for 19/20 and 20/21 have now been reduced but remain challenging.

- The delivery of business plan for the new Northern Gateways Sports Park.
- Delivery in the year of certain agreed savings, for example, the £500k for the Waste and Zones review.
- Collection rates of Council Tax and changes in demand levels following the implementation of the LCTS scheme and other Council Tax changes. In particular there is a risk that income will be lower due the proposal in respect of the 28 day exemption period for empty properties.
- Collection rates and level of business rates (including the impact of appeals)
- Cost of benefits payments and ensuring that the Council receives the expected subsidy income to pay for these.
- Impact on budgets relating to homelessness and other demand pressures.
- Asset rental income assumptions, in particular income from Northern Gateway and other investment properties
- Assumptions within the Council's commercial company arrangements, including borrowing levels.
- Impact of Council borrowing on interest costs / income.

16.9. The budget risks will be managed during 2019/20 by regular targeted monitoring and review at Senior Management Team and Scrutiny Panel. The Revenue Balance Risk Analysis considered these areas in establishing a minimum level of required balance of £1.9m.

16.10. The External Auditor has previously commented that *"the Council has a strong history of delivering savings targets……and taking effective steps to address future budget gaps".* As part of the 2017/18 audit of accounts the external auditor reported that the Council *"did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people."* As part of the in-year budget monitoring action has been taken to mitigate pressures and as commented earlier, adjustments have been made in respect of the 2018/19 budget proposals.

16.10. 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.

16.11. 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.

16.12. This report highlights that balances remain above our recommended level and we have confidence that there will be no call on balances in this year. In addition, the Council has made allowance for a number of specific risks, either within balances or earmarked reserves.

16.13. Looking ahead beyond 2019/20 the future financial position is more uncertain with the prospect of significant changes to local authority funding. In particular, it will be necessary to review the use of business rates income and the New Homes Bonus. The Council has benefited from the income received from these sources and this has been used to support one off investment. If the local government funding review provides clarity and certainty on these funding sources it may be necessary to consider how this income is used in the future.

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

17. Treasury Management and Prudential Code Indicators

17.1. The proposed Treasury Management Strategy Statement (TMSS) for 2019/20, including the Minimum Revenue Provision Policy Statement and Annual Investment Strategy, is included at **Appendix P**. The following paragraphs contain a summary of the strategy for 2019/20, which covers the following issues:

- the capital plans and the prudential indicators;
- the Minimum Revenue Provision (MRP) Policy;
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- the economic background and prospects for interest rates;
- the borrowing strategy;
- the policy of borrowing in advance of need;
- debt rescheduling;
- the investment policy and strategy, and credit worthiness policy;
- the policy on use of external service providers.

17.2. The Council's Prudential and Treasury Indicators for 2019/209 through to 2021/22 have been produced to support capital expenditure and treasury management decision making, and are designed to inform whether planned borrowing and the resultant revenue costs are affordable and within sustainable limits. The indicators take into account all the economic forecasts and proposed borrowing and investment activity detailed in the report, as well as the latest medium term revenue and capital forecasts.

17.3. The Minimum Revenue Provision (MRP) Policy Statement for 2019/120 states that the historic debt liability will continue to be repaid on an equal instalment basis over a period of 50 years, with the charge for more recent capital expenditure being based on the useful life of the asset and charged using the equal annual instalment method.

17.4. The strategy sets out that the Council's borrowing requirement over the coming years. The Council has agreed long term borrowing to support the Northern Gateway Sports scheme and purchase of waste vehicles. In addition separate reports on this agenda set out proposals relating to Council housing which include borrowing. The Council continues a policy of 'internal borrowing' to support the capital programme where it is possible. However, during the coming year it is likely that it will be necessary to borrow some funds externally. Given some of this is expected to cover temporary borrowing it is expected that most new borrowing will be for short periods to take advantage of lower interest rates.

17.5 **Cabinet is asked to agree and recommend to Council the 2019/20 Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy as set out in the paper at Appendix P.**

18. Strategic Plan References

18.1. The 2019/20 budget and the Medium Term Financial Forecast is underpinned by the Strategic Plan priorities and will seek to preserve and shift resources where needed to these priorities.

18.2. Appendix N provides an overview of the links between the Strategic Plan and budget strategy.

19. Financial Implications

19.1 As set out in the report.

20. Publicity Considerations

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

21 Human Rights Implications

21.1. None

22. Equality and Diversity

22.1. 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.

23. Community Safety Implications

23.1 None

24. Health and Safety Implications

24.1 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.

25. Risk Management Implications

25.1 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.

26. Consultation

26.1. The budget will be scrutinised by Scrutiny Panel on 28th January 2019. The statutory consultation with NNDR ratepayers takes place in early February 2019 and notes of the meeting will be provided in due course.

Background Papers
Budget reports to Cabinet – 21 November 2018

Appendix A

2019/20 Budget Timetable	
Budget Strategy	
March – June (SMT and Budget Group)	Budget Group Meetings Agreed Update MTFF /Budget Strategy Review potential cost pressures, growth and risks Consider approach to budget Initial budget reviews started
Cabinet – 11 July 18	• Review 17/18 outturn • Report on updated budget strategy / MTFF • Timetable approved
Scrutiny Panel – 17 July 18	Review Cabinet report
Detailed Budget preparation and Budget Setting Consultation	
Budget Group / Leadership Team regular sessions on progress / budget options now - December	Review budget tasks Consider delivery of existing budget savings Complete outturn review
Cabinet – 5 September 18	• Budget Update • Review of capital resources / programme
Cabinet – 21 November 18	• Budget update • Reserves and balances • Agree fees and charges / budget changes • Government Finance settlement (if available) • Review in year budget position
Scrutiny Panel – 29 January 19	Budget position (Detailed proposals)
Cabinet – 30 January 19	Revenue and Capital budgets recommended to Council
Council – 20 February 19	Budget agreed / capital programme agreed / Council Tax set

Appendix B

2019/20 New Homes Bonus

	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
	£’000	£’000	£’000	£’000	£’000	£’000	£’000
Growth re 09/10	724	*nil*	*nil*	*nil*	*nil*	*nil*	*nil*
Growth re 10/11	749	*nil*	*nil*	*nil*	*nil*	*nil*	*nil*
Growth re 11/12	986	986	*nil*	*nil*	*nil*	*nil*	*nil*
Growth re 12/13	757	757	*nil*	*nil*	*nil*	*nil*	*nil*
Growth re 13/14	1,185	1,185	1,185	*nil*	*nil*	*nil*	*nil*
Growth re 14/15	1,025	1,025	1,025	1,025	*nil*	*nil*	*nil*
Growth re 15/16		553	553	553	553	*nil*	*nil*
Growth re 16/17			533	533	533	533	*nil*
Growth re 17/18				1,141	1,141	1,141	1,141
Growth re 18/19 (est)					500	500	500
Growth re 19/20 (est)						500	500
Growth re 20/21 (est)							500
Total basic NHB	**5,426**	**4,506**	**3,296**	**3,252**	**2,727**	**2,674**	**2,641**
Affordable Homes Bonus	288	277	147	163	163	163	163
Estimated NHB	**5,714**	**4,783**	**3,443**	**3,415**	**2,890**	**2,837**	**2,804**

APPENDIX C

2019/20 Revenue Cost pressures

Assistant Director / 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 21st November 2018 are highlighted in the "final" column.

	Previous	**Final**	
	£'000	**£'000**	
Cost Pressures			
General Inflation	540	595	The budget allowance is mainly to cover the agreed pay award of 2% and other inflationary increases. The total has increased to allow for general increases in energy costs and other miscellaneous cost increases.
Food Waste (net impact of loss of grant)	204	204	The Government grant has been used for a number of years to support the roll out of food waste collection. This grant has now been fully spent.
Stadium rent	22	52	Assumed reduced rent arising from change in methodology. Pressure has been updated to reflect a rent of £120k pa.
IT costs	150	225	Ongoing costs relating to ICT strategy. This allowance has been increased to reflect potential one-off costs relating to server costs and also the potential risk that other licence fees may need to be paid for a longer period than previously assumed.
C-Tax Sharing Agreement	250	250	Changes have been made to the sharing agreement which reduce the payment to CBC. In addition the budget has been reduced to reflect current estimates.
BID levy	29	29	The Council pays the levy on properties within the BID area.
Building Maintenance Plan		150	To meet ongoing costs of building maintenance it is necessary to increase the annual budgetary contribution from £150k to £300k.
Northern Gateway Sports		140	Cabinet agreed the Northern Gateway sports project. This represents start-up costs and the initial period of operation.

	Previous	Final	
	£'000	£'000	
HMO (Homes in Multiple Occupation) Licensing		90	Upfront costs of new HMO licencing requirements have been funded. Income from new licences will eventually cover the costs and this has been allowed for in the MTFF.
Plastics (income / costs)		100	Market prices for recycled plastics are lower and expected to continue into next year.
Sport and leisure - energy and business rates		93	There has been a significant increase in energy costs which will affect the 19/20 budget. In addition, there is an increase in business rates arising from the extension of the gym.
Land charges income		32	Income was increased for 18/19 however, income targets were becoming harder to achieve due to competition and the fact that paid for searches were being overtaken by the availability of free searches under EIR's (Environmental Information Services)
Procurement Hub		23	We have opted not to renew our membership of the Essex Procurement Hub due reduced income and increasing pressures forecast for future years. There will still be a budget pressure associated with the TUPE transfer of one member of staff tbc.
Refuse vehicles and crew		188	The Waste and Zones Futures Review identified the need for extra refuse and recycling collection vehicles to respond to housing growth. This cost represents 2 new vehicles with crews being provided.
Review of budget targets		30	The 18/19 budget included assumptions regarding additional income and savings from carbon management investment and some other budget changes. These have all been reviewed in setting detailed budgets and therefore these targets now need to be removed.
Allowance to comply with statutory accounting changes		15	In the coming year it will be necessary to prepare for a number of accounting changes in respect of accounting for leases. This will require external specialist support and a one-off allowance is therefore proposed in the budget.
Total cost pressures	**1,195**	**2,216**	

Appendix D

Savings and Income – 2019/20

	November Position	Final Position	
	£'000		
Efficiencies, income and service reviews			
Service Reviews:-			
• Sport & Leisure	150	100	Additional £100k from Sport and Leisure Futures Review as reported to Cabinet in November. Savings and additional income from sport and leisure business case have now been removed given pressure on income levels in current year.
• Customer Futures 2	228	228	Final year savings from agreed review
• Environment & Communities	150	150	Review agreed by Cabinet incudes cost reductions and additional income.
• Corporate Services Review		150	Review subject to report on this agenda
• Waste and Zones Review		500	Review reported to Scrutiny Panel in January with recommendations to be submitted to Cabinet in March.
• Museums Review		29	Savings have been achieved from a change in a management role, and reduced costs for deep storage. There is also additional income forecast for 2019/20 from the Castle retail which has been performing well.
Income:-			
• Commercial Company assumptions	107	107	Forecast increase in dividend from Colchester Commercial Holdings Ltd.
• Commercial Assets	50	50	Due to revised profile of delivery of commercial asset income an increase of £50k is forecast. This will be reviewed alongside detailed budgets in this area.
• Temporary housing income		40	This represents the revenue implications as set out in the January 2018 Cabinet report, where it was agreed to purchase up to 16 homes to be used as temporary accommodation for homeless households.

Budget reductions			
Arts Grant	50	50	Reduction agreed as part of package of 2 year grant reductions.
LCTS grant to parishes	7	7	Reduction in line with 4 year Settlement.
Economic Development Grants	75	75	Proposed savings set out within report.
Total	**817**	**1,486**	

Appendix E

Summary Budget 2019/20

	Adjusted Base Budget	One-Off Items	Cost Pressures	Growth Items	Technical Items	Total Savings	Detailed 19/20 Budgets
		£'000	£'000	£'000	£'000	£'000	£'000
Corporate & Democratic Core	(503)	0	250	0		(7)	(260)
Executive Management Team	686	0	10	0		0	696
Community	2,779	(31)	210	0		(201)	2,757
Customers	3,354	(18)	98	0		(195)	3,240
Environmental (excl NEPP)	5,321	0	462	0		(185)	5,598
Policy & Corporate	7,870	(407)	595	16		(495)	7,578
Total General Fund Services	**19,507**	**(456)**	**1,625**	**16**	**0**	**(1,083)**	**19,609**
Technical Items							
Corporate Items / sums to be allocated to services							
Investment Allowance funded by New Homes Bonus	2,062	0	0	221	0	0	2,283
NNDR Revaluation / Inflation Index	(10)		10			0	0
Futures Reviews	0	0	188			(511)	(323)
Northern Gateway Sports Project	0		140			0	140
PV Panels / LACM	(20)		20			0	0
IT Server costs	0		75			0	75
Leasing Changes Advice	0		15			0	15
Non-Service Budgets							

	Adjusted Base Budget	One-Off Items	Cost Pressures	Growth Items	Technical Items	Total Savings	Detailed 19/20 Budgets
		£'000	£'000	£'000	£'000	£'000	£'000
CLIA (net interest)	432		0			65	497
R&R Contribution	150		150				300
Min Revenue Provision	561		0			58	619
Pensions	366		0				366
GF/HRA/NEPP Adjustment	(3,353)		(7)		0	(15)	(3,375)
Total Below the Line	188	0	591	221	0	(403)	597
Total incl Below the line	**19,695**	**(456)**	**2,216**	**237**	**0**	**(1,486)**	**20,206**
Funded by:-							
Use of balances: re carry forwards	(63)	63	0		0		0
Use of balances	(73)	73	0		0		0
Contribution to balances	2,186	(2,186)	0		1,786		1,786
Contribution to Business Rates Reserve	0	0	0		406		406
Use of other Earmarked Reserves	(485)	485	0		(185)		(185)
Revenue Support Grant	(275)		275				0
Business Rates Baseline	(4,162)		(95)				(4,257)
NNDR Levy Surplus	0	0	0		(65)		(65)
NNDR Growth above Baseline	(1,100)		0		(500)		(1,600)
Business Rates Pooling	(200)		0		0		(200)
Council Tax	(11,471)		0		(601)		(12,072)
Collection fund Transfer	(609)	609	0		(604)		(604)
New Homes Bonus	(3,443)		0		28		(3,415)
Total	**(19,695)**	**(956)**	**180**	**0**	**265**	**0**	**(20,206)**

Appendix F

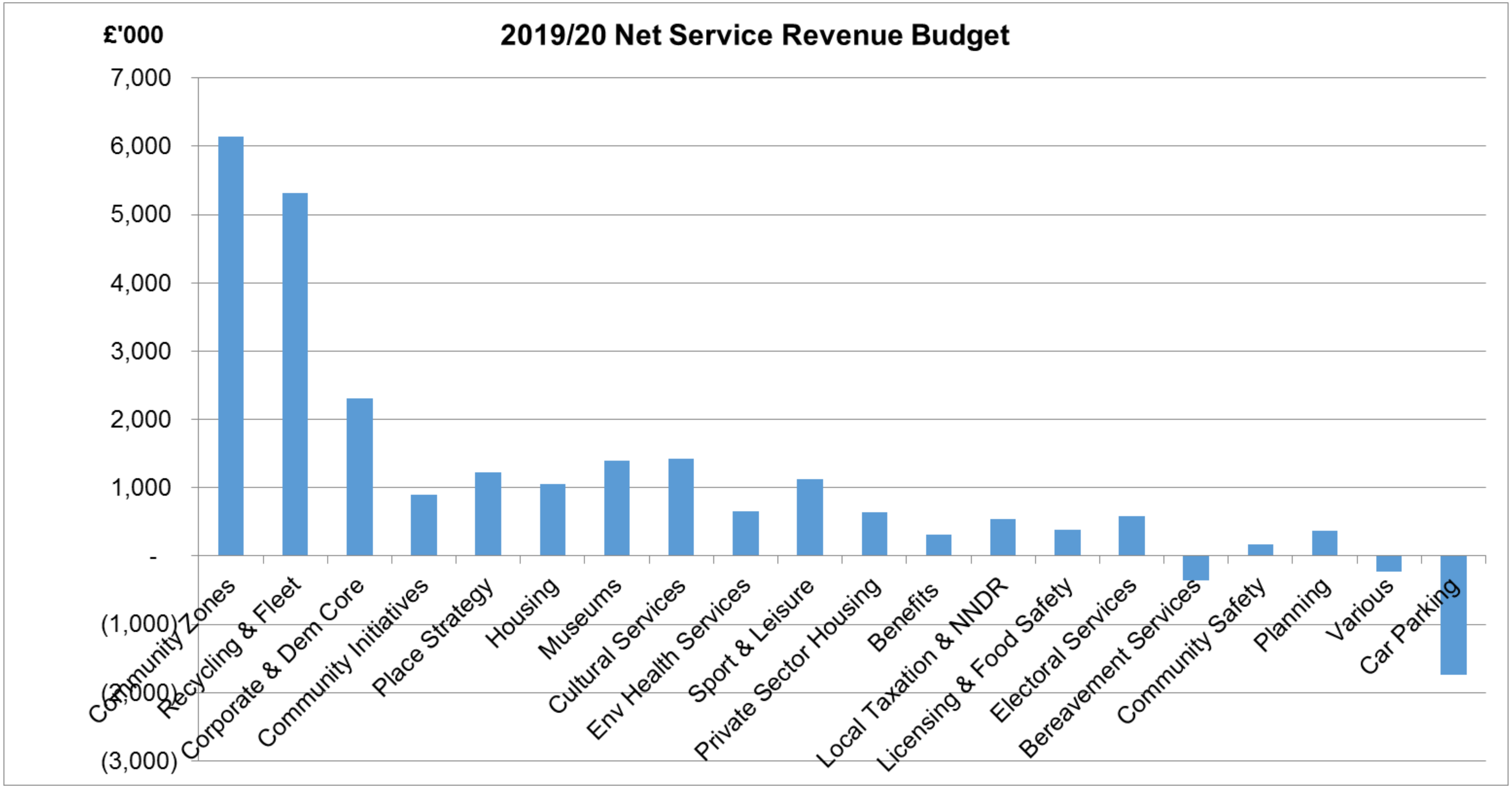
2019/20 General Fund Budgets

		Direct Budgets				*Non-Direct Budgets*	
	Area	**Spend**	**Income**	**Net**		***Net***	**Total**
		£'000	**£'000**	**£'000**		***£'000***	**£'000**
	Corporate & Democratic Core	290	(550)	(260)		*2,566*	2,306
	Total	**290**	**(550)**	**(260)**		***2,566***	**2,306**
	Executive Management Team						
	EMT	696	-	696		*(696)*	-
	Total	**696**	**-**	**696**		***(696)***	**-**
	Community						
	Assistant Director	140	-	140		*(140)*	-
	Licencing, Food & Safety	496	(538)	(42)		*431*	389
	Community Safety	96	-	96		*80*	176
	Environmental Health Services	514	(62)	452		*206*	658
	Building Control	405	(400)	5		*202*	207
	Community Initiatives	696	(50)	646		*256*	902
	Private Sector Housing	550	(167)	383		*262*	645
	Cultural Services	595	(112)	483		*934*	1,417
	Colchester Museums	70	(502)	(432)		*22*	(410)
	Subtotal	**3,562**	**(1,831)**	**1,731**		***2,253***	**3,984**
	Colchester & Ipswich Museums	2,118	(1,092)	1,026		*775*	1,801
	Total	**5,680**	**(2,923)**	**2,757**		***3,028***	**5,785**
	Customer						
	Assistant Director	139	-	139		*(139)*	-
	Customer Business	979	(497)	482		*(414)*	68
	Local Taxation & NNDR	467	(660)	(193)		*737*	544
	Customer Solutions	1,134	(3)	1,131		*(1,128)*	3
	Customer Experience	2,349	(376)	1,973		*(2,101)*	(128)
	Electoral Services	438	(3)	435		*150*	585
	Subtotal	**5,506**	**(1,539)**	**3,967**		***(2,895)***	**1,072**
	Benefits - Payments & Subsidy	48,862	(49,589)	(727)		*1,040*	313
	Total	**54,368**	**(51,128)**	**3,240**		***(1,855)***	**1,385**
	Environment						
	Assistant Director	142	-	142		*(142)*	-
	Recycling & Fleet	6,987	(2,429)	4,558		*759*	5,317
	Zones	4,979	(897)	4,082		*2,056*	6,138
	Bereavment Services	905	(1,498)	(593)		*236*	(357)
	Car Parking	1,094	(3,870)	(2,776)		*1,030*	(1,746)
	Subtotal	**14,107**	**(8,694)**	**5,413**		***3,939***	**9,352**

		Direct Budgets				***Non-Direct Budgets***	
	Parking Partnership (NEPP)	3,339	(3,223)	116		*116*	232
	Total	**17,446**	**(11,917)**	**5,529**		***4,055***	**9,584**
	Policy & Corporate						
	Assistant Director	145	-	145		*(180)*	(35)
	Finance	847	(100)	747		*(747)*	-
	ICT and Communications	2,358	(392)	1,966		*(1,966)*	-
	People and Performance	802	(184)	618		*(673)*	(55)
	Governance	2,985	(302)	2,683		*(2,633)*	50
	Place Strategy	1,152	(31)	1,121		*105*	1,226
	Planning	991	(1,177)	(186)		*561*	375
	Housing	2,032	(818)	1,214		*(165)*	1,049
	Subtotal	**11,312**	**(3,004)**	**8,308**		***(5,698)***	**2,610**
	Company Related:-						
	Client - Commercial Company	1,941	(393)	1,548		*(1,941)*	(393)
	Corporate Asset Management	2,194	(265)	1,929		*(1,874)*	55
	Commercial & Investment	248	(3,770)	(3,522)		*2,572*	(950)
	Sport & Leisure	4,488	(5,173)	(685)		*1,810*	1,125
	Total	**20,183**	**(12,605)**	**7,578**		***(5,131)***	**2,447**
	Adjustment for NEPP use of balances	-	**185**	185		-	185
	Total (excl. NEPP)	**95,324**	**(75,715)**	**19,609**		***1,851***	**21,460**

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

Appendix G


£'000
2019/20 Net Service Revenue Budget
7,000
6,000
5,000
4,000
3,000
2,000
1,000
-
(1,000)
(2,000)
(3,000)
Community Zones
Recycling & Fleet
Corporate & Dem Core
Community Initiatives
Place Strategy
Housing
Museums
Cultural Services
Env Health Services
Sport & Leisure
Private Sector Housing
Benefits
Local Taxation & NNDR
Licensing & Food Safety
Electoral Services
Bereavement Services
Community Safety
Planning
Various
Car Parking

Appendix H

Council Tax

Background Information

The Local Government Finance Act 2012 introduced powers for Local Authorities to:

- **Remove the Class C Exemption**
    - *(A Class C Exemption provides an exemption from Council Tax for a dwelling which is unoccupied for up to 6 months and is substantially unfurnished)*
- **Introduce a long term empty property premium charge of 50%**
    - *(This is an additional 50% premium for dwellings that are empty for over two years, making the total liability 150% of Council Tax)*

From 1st April 2013, the Council agreed that there would be no empty property exemption, therefore removing the 6 month exemption previously given. In addition it was agreed that the full premium charge would be introduced.

Class C Exemption for Council Tax

The Council Tax (Exempt Dwellings) Order 1992 provided a Council Tax exemption for Class C properties. Class C properties are defined as:
'A dwelling which is unoccupied and has been for a period of less than 6 months since the last occupation day and which is substantially unfurnished and has been throughout that period.'
The proposals set out in this report to introduce a 28 day exemption will help to reduce administration for the Council as well as not unfairly penalising residents who are simply moving property.

Long Term Empty Premium

The Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Act 2018 introduced powers for Councils to increase the premium levels as follows:

- From April 2019 properties empty for over 2 years may be charged a 100% premium (making total liability 200%).
- From April 2020 properties empty for over 5 years may be charged a 200% premium (making total liability 300%).
- From April 2021 properties empty for over 10 years may be charged a 300% premiums (making total liability 400%).

The proposals set out in this report seek to introduce to higher premiums in order to encourage homes being brought back into use as quickly as possible.
It is noted that the long term premiums can in some situations penalise property owners who are unable to sell or use a property. As such the government provided guidance which expects Council's to consider the reasons why a property is unoccupied or unfurnished. In order to ensure that the premium is administered fairly the Council will develop a key principles document that will take into account individual circumstances when applying the charge.

Appendix I

General Fund Balances – Risk Assessment

A risk assessment has been undertaken to determine the prudent level of general fund balances as part of the 2019/20 budget process. This has been carried out with reference to specific risk allocation sums held within balances

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

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

Risk Assessment

The results of the current assessment are summarised below and no changes are proposed.

	Assessed Risk			Comment
Factor	**High**	**Med**	**Low**	
	£'000	**£'000**	**£'000**	
Cash Flow	1,000			No change to current level
Inflation		100		
Investment Income	75			
Trading Activities and fees and charges		200		No change made for new company arrangements.
Benefits		200		Separate allocation also held in balances
New legal commitments			100	
Litigation		150		
Partnerships			100	
VAT Exemption Limit			450	Increased to £450k in 16/17 representing current impact.
Budget Process		150		Increased in 16/17 by £50k to reflect removal of contingency sums
Revenue impact of capital schemes			150	
Impact of Local Government Finance reforms	300			Maintained, given funds held in earmarked reserve and balances
	1,375	800	800	

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

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

The main issues to mention concerning the assessment are: -

- The key reason for proposing to increase balances in 2013/14 was the new risks associated with major Local Government reforms such as the creation of a Local Council Tax Support Scheme and the local retention of business rates. This remains a key risk area. However, separate provision is also being made through the business rates reserve and without this it might be necessary to consider increasing the recommended minimum level.

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

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

Implications

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

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

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

Appendix J

General Fund Balances Position

Balances					
	Allocated	Risk allocations	Unallocated	Total	Note
	£'000	£'000	£'000	£'000	
Opening balance 1/4/18	**(2,575)**	**(844)**	**(2,167)**	**(5,586)**	per 17/18 accounts
Reallocations				0	
Revised opening position	**(2,575)**	**(844)**	**(2,167)**	**(5,586)**	
Budget Carry Forwards and sums held in balances:-					
17/18 Service Budget c/fs (incl. NHB)	803			803	As reported to Scrutiny Panel June 18
Previous pooling gain c/f (contr'n to reserve)	216			216	
Business rates c/f	982			982	
17/18 Business rates pooling c/f	634			634	As reported to Scrutiny Panel June 17 and being used to support Better Colchester investment. In addition £200k is being used to support 2019/20
Use of balances for Better Colchester plan	253			253	Agreed by Cabinet 11 July 2018
Carry forwards held in balances	475			475	Agreed budget sums, such as New Homes Bonus, which have not yet been moved to service budgets. These items have been reviewed and unused balances transferred to the redundancy allocation

Balances					
	Allocated	Risk allocations	Unallocated	Total	Note
	£'000	£'000	£'000	£'000	
Allocations in previous years c/f	143			143	Allocations against specific projects. This has been reviewed as part of closure and certain allocations no longer required have been transferred to the redundancy allocation.
Colchester & Ipswich Museum Service (CIMS)	38			38	Use of balances subject to decisions made by joint Committees. Some of this is being used in 18/19 and some may be c/f to 19/20.
North Essex Parking Partnership (NEPP)	223			223	
Redundancy costs	528			528	Costs of over £200k incurred this year. It is proposed to add £200k to balances to reinstate this allocation.
Council Tax Sharing agreement	271			271	Carry forward sum from previous years. Currently expect some of this to be used in current year to support expected shortfall. The balance will be c/f as a risk for this budget.
Right to challenge - Gov't funding	46			46	Funds held against any issues.
Startwell	100			100	Agreed by Cabinet 12 October 2016. Remaining funds committed in year.
Use of pooling gain to support budget	200			200	As agreed in budget report 18/19
Funding LDF etc	43			43	As agreed in budget report 18/19
Funding c/f (PSU post, startwell post & comms post)	93			93	As agreed in budget report 18/19
Community Stadium - rent adjustment	500			500	Provision for one-off reduction in rent. Paid out in 2018/19.
Total contribution to reserves in 18/19 and 19/20	(1,586)	0	0	(1,586)	Reinstatement of reserves to fund one off cost.

Balances					
	Allocated	Risk allocations	Unallocated	Total	Note
	£'000	£'000	£'000	£'000	
Total carry forwards and allocations	**3,962**	**0**	**0**	**3,962**	
Agreed use in 2019/20 Budget					
Use of pooling gain to support budget	200			200	As proposed in 19/20 budget
Contribution to reserves in 19/20	(1,587)			(1,587)	Reinstatement of reserves to fund one off cost.
	(1,387)	**0**	**0**	**(1,387)**	
Risk allocations held in balances					
Business rates / Welfare reform		172		172	Provision for impact arising from reforms.
Planning appeals, legal, HR etc- risk allocation		222		222	Some spend possible in year, however, most expected to be held.
Housing benefit - risk allocation		300		300	Agreed in 15/16 budget
Collection Fund - risk allocation		150		150	Agreed in 15/16 budget
Total use in 19/20 and later years allocations	**(1,387)**	**844**	**0**	**(543)**	
Uncommitted / unallocated Balance	**0**	**0**	**(2,167)**	**(2,167)**	
Recommended level			(1,900)	(1,900)	Proposed level
Surplus above recommended level	**0**	**0**	**(267)**	**(267)**	

Appendix K

Earmarked Reserves and Provisions

Reserve	Amount at 31/03/18	Transfers - In	Transfers - Out	Estimate at 31/03/19	Allocated / Committed	Unallocated
	£'000	£'000	£'000	£'000	£'000	£'000
Renewals and Repairs (incl Building Maintenance Programme): Maintained for the replacement of plant and equipment and the maintenance of premises.	1,973	454	(527)	1,900	1,900	-
Insurance: To cover the self-insurance of selected properties.	432	110	(7)	535	-	535
Capital Expenditure: Revenue provision to fund the capital programme. The reserve is fully committed to funding the current capital programme.	3,615	750	(2,565)	1,800	1,800	-
Asset Replacement Reserve: A reserve for the future replacement of vehicles and plant. The vehicle replacement policy has been reviewed. Revenue contributions to this reserve have now ceased and the funding is now sourced from the Council's Capital Programme.	69	-	(69)	-	-	-
Gosbecks Reserve: Maintained to provide for the development of the Archaeological Park. The main source of funding was a 'dowry' agreed on the transfer of land.	189	1	(16)	174	174	-
Heritage Reserve: This represents balance held of museums donations and as such represents a small element of the Council's support to heritage schemes.	113	7	-	120	-	120
Section 106 Monitoring: Funds allocated for future monitoring of Section 106 agreements.	10	-	(10)	-	-	-

Reserve	Amount at 31/03/18	Transfers - In	Transfers - Out	Estimate at 31/03/19	Allocated / Committed	Unallocated
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue Grants Unapplied: Under new accounting rules any grant received where there are no clear conditions that the grant is repayable if not spent now have to be transferred to this reserve. For all these grants proposals for use of the money exist and the funds are held in the reserve until the money is spent.	3,389	1,000	(1,940)	2,449	2,449	-
Parking Reserve: As part of the existing 'on street' parking arrangements there is requirement to keep any surplus funds separate from the General Fund. With the North Essex Parking Partnership (NEPP) there is also a requirement to hold separately funds provided to support TRO (Traffic Regulation Order) work and also initial funding provided by Essex County Council	1,199	-	(185)	1,014	1,014	-
Building Control: The Building (Local Authority Charges) Regulations came into force on 1 April 2010. The new charges allow Building Control to more accurately reflect the cost of chargeable services. In any year there is therefore the likelihood of a balance on this account that must be assessed as part of ongoing charges.	-	-	-	-	-	-
Heritage Mersea Mount: Funding received from English Heritage towards costs relating to Mersea Mount.	11	-	-	11	11	-
Mercury Theatre: Provision for the building's long term structural upkeep. Accumulated funds have been used to support roof repairs to the Mercury Theatre.	84	25	-	109	109	-

Reserve	Amount at 31/03/18	Transfers - In	Transfers - Out	Estimate at 31/03/19	Allocated / Committed	Unallocated
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Business Rates Reserve: Maintained to cover the risk of any residual issues resulting from the introduction of the Local Business rates Retention scheme.	843	600		1,443		1,443
Revolving Investment Fund Reserve: Maintained as a way to deliver income-producing development schemes and regeneration/economic growth projects. The three main sources of funding into the RIF are existing capital programme allocations, capital receipts and revenue funding. Revenue funding will be held in this reserve until it is required for future capital schemes or revenue expenditure as necessary.	1,202	257	(750)	709	709	-
Total General Fund	**13,129**	**3,204**	**(6,069)**	**10,264**	**8,166**	**2,098**
HRA Retained Right To Buy (RTB) Receipts - Debt: Reserve following Government changes to the RTB scheme. From 2012/13 the Council can retain a proportion of RTB receipts to offset debt taken on by the HRA Self-Financing settlement. The reserve must be used for HRA purposes.	4,975	800	-	5,775	5,775	-
HRA Retained Right To Buy (RTB) Receipts - Replacement: Reserve following Government changes to the RTB scheme. From 2012/13 the Council can retain a proportion of RTB receipts to fund affordable housing development. Receipts held within the reserve must be used within 3 years for this purpose; otherwise they must be repaid to the Government.	5,859	2,500	(2,800)	5,559	5,559	-
Total HRA	**10,834**	**3,300**	**(2,800)**	**11,334**	**11,334**	**-**

Reserve	Amount at 31/03/18	Transfers - In	Transfers - Out	Estimate at 31/03/19	Allocated / Committed	Unallocated
	£'000	£'000	£'000	£'000	£'000	£'000
Total	**23,963**	**6,504**	**(8,869)**	**21,598**	**19,500**	**2,098**

Provision	Amount at 31/03/18	Transfers - In	Transfers - Out	Estimate at 31/03/19	Allocated / Committed	Unallocated
	£'000	£'000	£'000	£'000	£'000	£'000
Insurance: This element of the fund is specifically set aside as a provision to meet the cost of identified claims including subsidence. It also includes a contingency for liable costs if a previous insurer, which has gone into administration, is unable to remain solvent.	322	-	(27)	295	295	-
NNDR Appeals: The Council has created a provision to meet the financial impact of successful appeals made against rateable values as defined by the Valuation Office as part of the Business Rates Retention scheme introduced from 1 April 2013.	2,306	-	(336)	1,970	1,970	-
Total	**2,628**	**-**	**(363)**	**2,265**	**2,265**	**-**

Medium Term Financial Forecast 2019/20 to 2022/23				
	2019/20	**2020/21**	**2021/22**	**2022/23**
	£'000	**£'000**	**£'000**	**£'000**
Base Budget	19,695	20,206	20,175	20,673
One-off items	(456)	0	0	0
Cost Pressures	2,216	597	653	669
Growth Items	65	0	0	0
Savings	(1,486)	(303)	(302)	0
Change in use of NHB for one off investment	172	(325)	147	167
Pensions contribution				
Forecast Base Budget	**20,206**	**20,175**	**20,673**	**21,509**
Funded By:				
Revenue Support Grant adjustment	446	446	446	446
One-off negative RSG adjustment	(446)			
Allowance for financing changes		500	1,000	1,500
Business Rates Baseline	(4,257)	(4,300)	(4,343)	(4,386)
SFA	***(4,257)***	***(3,354)***	***(2,897)***	***(2,440)***
Increase in NNDR / taxbase above baseline	(1,600)	(1,600)	(1,600)	(1,600)
Business Rates Pooling	(200)	(200)	(200)	(200)
New Homes Bonus	(3,415)	(2,890)	(2,837)	(2,804)
One-off Gov't grant	(65)			
Total Gov't grants & business rates	***(9,537)***	***(8,044)***	***(7,534)***	***(7,044)***
Council Tax	(12,072)	(12,556)	(13,062)	(13,588)
Collection Fund Deficit / (Surplus)	(306)	0	0	0
Business Rates Deficit / (surplus)	(298)	0	0	0
Contribution to / (Use of Reserves)	2,007	1,401	1,401	1,401
Total Funding	**(20,206)**	**(19,199)**	**(19,195)**	**(19,231)**
Budget (surplus) / gap before changes (cumulative)	**0**	**976**	**1,478**	**2,278**
Annual increase	**0**	**976**	**502**	**800**

	2019/20	2020/21	2021/22	2021/22
	£'000	**£'000**	**£'000**	**£'000**
Cost Pressures				
Inflation and specific cost pressures:-				
General Inflation	595	640	640	640
Food Waste (net impact of loss of grant)	204			
Stadium rent	52			
ICT costs	225	(75)		
Council Tax Sharing Agreement	250	100		
BID levy	29			
Building Maintenance Plan	150			
Northern Gateway Sports	140	(25)	(82)	(56)
HMO Licensing	90	(90)	(30)	(40)
Plastics	100			
Sport and Leisure (energy and business rates)	93			
Land charges income	32			
Procurement Hub	23			
Refuse vehicles and crew	188	62	125	125
Review of budget targets	30			
Allowance to comply with statutory accounting changes	15	(15)		
Total cost pressures	**2,216**	**597**	**653**	**669**
One-off adjustments:-				
Budget Carry forwards	(348)			
LDF	(30)			
CBH Inflation	(13)			
Wiring costs	(20)			
Additional Comms and marketing	(45)			
One-off adjustments	**(456)**	**0**	**0**	**0**
Total	**1,760**	**597**	**653**	**669**
Growth Items				
Affordable homes				

Contribution to Strategic plan priorities	65			
Total	**65**	**0**	**0**	**0**

Savings (incl. one off adjustments)				
Efficiencies, income and service reviews				
Sport & leisure	(100)			
Commercial Assets	(50)	50	(142)	

	2019/20	2020/21	2021/22	2021/22
	£'000	**£'000**	**£'000**	**£'000**
Commercial Company assumptions	(107)	(135)	(130)	
Customer Futures 2	(228)			
Waste and Zones Review	(500)	(218)	(30)	
Central Services Review	(150)			
Environment & communities	(150)			
Museums	(29)			
Temporary housing	(40)			
Budget reductions				
Arts Grant	(50)			
LCTS grant to parishes	(7)			
Business grants	(75)			
Total	**(1,486)**	**(303)**	**(302)**	**0**

Change in use of New Homes Bonus for one off investment				
Reduction due to falling grant	(28)	(525)	(53)	(33)
Increase due to change in use for base budget	200	200	200	200
Total saving	**172**	**(325)**	**147**	**167**
Reduced investment from NHB - affordable homes				
Total reduced one off investment funded by NHB	**172**	**(325)**	**147**	**167**

Use of / contribution to Reserves				
One offs	(200)			
Use of balances - pensions	(1,586)	(1,586)	(1,586)	(1,586)
Use of NEPP reserve	185	185	185	185
Business Rates Reserve	(406)			
Total	**(2,007)**	**(1,401)**	**(1,401)**	**(1,401)**

New Homes Bonus Grant				
Basic NHB	(3,252)	(2,727)	(2,674)	(2,641)
Affordable Homes Bonus	(163)	(163)	(163)	(163)
Total Grant	**(3,415)**	**(2,890)**	**(2,837)**	**(2,804)**

Addressing the Budget Gap

The MTFF shows a budget gap of circa £2.3m over the three years from 2020/21. This should also be seen in the context of the risks and variables set out below and also in terms of reduced budgets and more efficient services resulting in savings that will be increasingly hard to deliver.

Risk Areas / Comments

The key risk areas to the forecast are:-

Risk / Area of uncertainty	
Impact of EU referendum 'leave' result.	The likely impacts from the 'leave' decision are unclear. However, as the 29 March withdrawal deadline approaches, the likelihood of a 'no deal' Brexit is increasing. This would mean no transition period and impacts that may increase the level of budgetary risks to the Council. These include: • Any changes to the announced public sector funding levels including New Homes Bonus • Any impact on the Council's business rates 'tax base' • Any impact on the Council's treasury management costs arising from interest rate changes. • Any impact of an economic downturn on public sector funding, the costs of supplies and services, and commercial income • Increased demand on services such as housing and homelessness, emergency planning and community safety
Government Funding / Business Rate Retention Scheme	The MTFF includes the removal of 'RSG for 2019/20. This is the final year of the 4 year settlement and a new spending review is expected. From 2013/14 a proportion of the Council's core income that used to be provided by Government grant is now funded by the Council keeping a share of business rates income. This poses a new risk as well as a potential reward. The budget includes an assumption that in 2019/20 we will retain an extra £1,600k of business rates income above our baseline figure. The business rates revaluation took effect in 2017/18 and the risk and impact of business rate appeals remains an area of concern. The Government's Fair Funding review and plan to move to 75% business rate retention could result in significant funding changes for CBC. The MTFF allows for:- • The reduction in funding assumed in the 4 year settlement (the negative RSG) • A further £500k reduction in funding in 20/21 and each year thereafter. These planning assumptions will need to be updated as more detailed information is released during the year.
Welfare Reform (including Local Council Tax Support -	Budget papers have previously set out some of the key risks associated with the implications of the Council having approved the LCTS scheme. The combined impact of the Government's

Risk / Area of uncertainty	
LCTS)	welfare reforms and demands on Council services will need to be considered during the period of the MTFF.
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 2019/20 budget for the New Homes Bonus based on the notified grant.
Pensions	In the 17/18 budget an allowance was built in for an increase in pensions costs based on the results of the actuarial review. In addition the budget allowed for the payment of the deficit for the next three years in one payment. This was partly funded from reserves which are being repaid in 18/19 and 19/20. In 20/21 it will be necessary to reflect the deficit costs resulting from the next actuarial review which is due to be reported in the Autumn. The assumption in the MTFF is that this is again funded in the same way as it has been in 17/18, however, this will need to be considered as part of the 20/21 budget.
Fees and charges and other income	In the past few years we have experienced a number of pressures arising from changes in income levels. In 2018/19 the main pressure has been in respect of sport and leisure. Targets in respect of parking and planning are broadly expected to be on budget. Looking ahead to 2019/20 some changes have been made to income targets. For example, the planned additional income from sport and leisure has been removed in 19/20 and from the MTFF. With the planned new Northern Gateway sports scheme due to open in the next financial year it is necessary to prepare a revised comprehensive business plan to ensure that forecasts made are realistic. The 2019/20 budget includes the assumed dividend payment from Colchester Commercial Holdings Ltd (CCHL). This is an increase on the forecast for the current year with further increases to this assumed for later years in the MTFF. These continue to be reviewed to ensure they remain realistic and achievable.
Inflation	An allowance for general inflation including pay has been built into the 19/20 forecast and MTFF. The pay award has already been agreed for 2019/20 which helps to provide certainty in the budget for next year. Beyond that an allowance has been made for a 2% increase as a planning assumption. Council's cost inflation is in general not directly linked to RPI and therefore we will continue to monitor the impact of inflation on all Council costs. Some of the main risk areas include energy, fuel costs and pay assumptions. An increased allowance has been made for energy prices next year.
Use of reserves	The budget position for 2019/20 includes proposals to use certain reserves mostly for one off items. The MTFF includes some assumptions in respect of reserves but these are mostly

Risk / Area of uncertainty	
	associated with the funding of the pensions deficit payment.
Legislation	There are likely to be several items of new legislation over the life of the MTFF for which any available funding may not cover costs or which may impact significantly on the Council
Property review	A review of our assets was carried out and a 5-year Building Repairs and Maintenance Plan produced. There continue to be financial implications arising from this for both the revenue budget and capital programme and these will be considered in detail and included in the on-going updates of the MTFF. The 2019/20 budget forecast includes an additional allocation of £150k in respect of planned repairs. The adequacy of this arrangement will be kept under review and consideration given to whether this contribution needs to be further increased for future years.
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. It is necessary to consider whether there is a need for additional resources in these or other areas in order to maintain levels of service. The 19/20 includes an allowance for additional resources for waste and recycling services and the MTFF includes further planned investment.
Delivery of budget savings	The 2019/20 budget includes c£1.5m of savings, increased income or budget reductions. The savings and income forecasts have been risk assessed and all are considered deliverable, however, the budget report considers the risk to delivering some of the income targets and if these cannot be achieved there is the risk in the MTFF of the ongoing impact. The MTFF includes further savings from the ongoing budget and service reviews and whilst these are currently considered to be on track to be delivered these will be reviewed as part of the 20/21 budget. As referred to earlier one of the main areas to consider is the assumptions linked to the Council's commercial companies.
Net Interest earnings and investments	The budget is influenced by a number of factors including interest rates and cashflow movements. The Council's strategy of internal borrowing has helped minimise our interest cost, however, it is recognised that this is not a long term approach and therefore there may be future cost pressures from any need to borrow externally. This is currently not reflected in the MTFF but will continue to be considered as part of future budget updates.
Capital Programme (incl. RIF)	The Council's capital programme (incl. Revolving Investment Fund – RIF) has grown in recent years to reflect significant new schemes such as projects in the Northern Gateway area and lending to the Council's commercial companies. A number of these schemes include complicated funding arrangements that can give rise to short term cashflow costs. The RIF Committee has agreed changes to balance the programme and the Cabinet and Council has agreed funding arrangements in respect of the Northern Gateway Sports Project. However, there remain a number of assumptions in respect of the

Risk / Area of uncertainty	
	delivery of capital receipts and forecast dividends from agreed housing developments which require close monitoring. It is also important to note that there are projects under consideration by the Council for which ongoing funding has not been agreed. As such consideration may need to be given to how new projects may be funded.

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

Appendix M

Capital Programme

Service / Scheme	Total Programme £'000	Spend to Q3 £'000	Projected Expenditure 2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	(Surplus) / Shortfall £'000
SUMMARY							
Communities	10,026.5	760.5	2,153.3	5,922.9	1,650.3	300.0	0.0
Environment	6,401.6	69.0	2,648.9	3,401.5	351.2	0.0	0.0
Policy & Corporate	45,790.4	2,258.4	14,132.6	25,646.6	6,011.2	0.0	0.0
Revolving Investment Fund (RIF)	36,510.3	4,833.8	10,815.7	23,713.2	1,981.4	0.0	0.0
Completed Schemes	231.4	81.3	231.4	0.0	0.0	0.0	0.0
Total (General Fund)	**98,960.2**	**8,003.0**	**29,981.9**	**58,684.2**	**9,994.1**	**300.0**	**0.0**
Housing Revenue Account	12,807.6	5,934.2	12,807.6	0.0	0.0	0.0	0.0
Total Capital Programme	**111,767.8**	**13,937.2**	**42,789.5**	**58,684.2**	**9,994.1**	**300.0**	**0.0**

Service / Scheme	Total Programme £'000	Spend to Q3 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	(Surplus) / Shortfall £'000
COMMUNITIES							
Tiptree P C - Store & WCs S106	89.1	0.0	89.1	0.0	0.0	0.0	0.0
St Luke's Church Hall Tiptree	48.5	2.9	48.5	0.0	0.0	0.0	0.0
Stanway Scout Hut	158.2	41.6	158.2	0.0	0.0	0.0	0.0
Headway Essex S106	10.0	0.0	10.0	0.0	0.0	0.0	0.0
Walls - new merged scheme	126.5	16.6	22.5	60.0	44.0	0.0	0.0
Heritage Lighting	200.0	0.0	0.0	200.0	0.0	0.0	0.0
Mercury Theatre Redevelopment Phase 2	6,390.7	389.1	1,000.0	4,640.7	750.0	0.0	0.0
Cemetery Extension	38.6	0.0	0.0	38.6	0.0	0.0	0.0

Service / Scheme	Total Programme £'000	Spend to Q3 £'000	Projected Expenditure 2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	(Surplus) / Shortfall £'000
Cemetery Exterior Lighting	20.0	0.0	0.0	20.0	0.0	0.0	0.0
Mandatory Disabled Facilities Grants	2,657.3	300.2	700.0	801.0	856.3	300.0	0.0
Private Sector Renewals - Loans and Grants	287.6	10.1	125.0	162.6	0.0	0.0	0.0
TOTAL - Communities	**10,026.5**	**760.5**	**2,153.3**	**5,922.9**	**1,650.3**	**300.0**	**0.0**
ENVIRONMENT							
Shrub End Depot	1,040.5	0.0	0.0	840.5	200.0	0.0	0.0
Waste Collection Strategy	17.7	0.0	17.7	0.0	0.0	0.0	0.0
Shrub End - Fuel Tank	50.0	39.0	50.0	0.0	0.0	0.0	0.0
Waste Fleet Vehicles	4,912.2	0.0	2,200.0	2,561.0	151.2	0.0	0.0
Wivenhoe Adult Gym	16.0	0.0	16.0	0.0	0.0	0.0	0.0
Castle Park Cricket Pavilion Extension S106	125.0	0.0	125.0	0.0	0.0	0.0	0.0
Castle Park Improvements	192.7	11.0	192.7	0.0	0.0	0.0	0.0
Mile End Sports Ground	22.5	19.0	22.5	0.0	0.0	0.0	0.0
Highwoods Country Park - Coffee Shop improvements	25.0	0.0	25.0	0.0	0.0	0.0	0.0
TOTAL - Environment	**6,401.6**	**69.0**	**2,648.9**	**3,401.5**	**351.2**	**0.0**	**0.0**
POLICY & CORPORATE							
Assistance to Registered Housing Providers	36.0	0.0	0.0	36.0	0.0	0.0	0.0
Use of 1-4-1 Right to Buy Receipts	1,346.0	224.7	671.7	522.1	152.2	0.0	0.0

Service / Scheme	Total Programme £'000	Spend to Q3 £'000	Projected Expenditure 2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	(Surplus) / Shortfall £'000
Purchase of properties for temporary accommodation	2,880.0	1,904.6	2,880.0	0.0	0.0	0.0	0.0
Lending to new Council Housing Company	27,886.0	0.0	1,623.0	21,304.0	4,959.0	0.0	0.0
Equity Investment in CCHL	7,300.0	0.0	7,300.0	0.0	0.0	0.0	0.0
District Heating Project North	137.1	25.3	137.1	0.0	0.0	0.0	0.0
Colchester Northern Gateway Heat Network	5,900.0	0.0	1,300.0	3,700.0	900.0	0.0	0.0
CCTV Monitoring	111.1	0.0	111.1	0.0	0.0	0.0	0.0
Charter Hall - improvements	109.7	103.8	109.7	0.0	0.0	0.0	0.0
LWC - Aqua Springs Refurbishment	84.5	0.0	0.0	84.5	0.0	0.0	0.0
TOTAL - Policy & Corporate	**45,790.4**	**2,258.4**	**14,132.6**	**25,646.6**	**6,011.2**	**0.0**	**0.0**
REVOLVING INVESTMENT FUND							
Northern Gateway North	89.5	32.8	89.5	0.0	0.0	0.0	0.0
CNGN - Mile End Cricket	122.2	108.2	122.2	0.0	0.0	0.0	0.0
CNGN - Sports Hub	24,481.4	1,679.9	5,500.0	17,280.0	1,701.4	0.0	0.0
Northern Gateway South	204.0	182.0	204.0	0.0	0.0	0.0	0.0
CNGS - Detailed Planning	923.8	324.2	923.8	0.0	0.0	0.0	0.0
CNGS - Boulevard	3,471.2	0.0	100.0	3,371.2	0.0	0.0	0.0
CNG - Marketing & Branding	11.5	11.5	11.5	0.0	0.0	0.0	0.0
Town Centre	3,480.6	1,018.4	1,076.0	2,124.6	280.0	0.0	0.0
Jacks - St Nicholas St	337.4	52.9	337.4	0.0	0.0	0.0	0.0
St Nicholas Square & Balkerne Gardens	55.0	28.7	55.0	0.0	0.0	0.0	0.0
Sheepen Road	4.0	4.0	4.0	0.0	0.0	0.0	0.0

Service / Scheme	Total Programme £'000	Spend to Q3 £'000	Projected Expenditure 2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	(Surplus) / Shortfall £'000
Sheepen Road Phase 2	2,204.0	1,372.7	2,204.0	0.0	0.0	0.0	0.0
St Botolphs Public Realm	155.0	0.8	50.0	105.0	0.0	0.0	0.0
East Colchester Enabling Fund	217.4	0.0	50.0	167.4	0.0	0.0	0.0
Breakers Park	69.0	0.0	12.0	57.0	0.0	0.0	0.0
Site Disposal Costs	4.8	0.0	4.8	0.0	0.0	0.0	0.0
Moler Works Site	2.5	0.0	2.5	0.0	0.0	0.0	0.0
CMP Phase 3 - PV Systems	95.4	0.0	0.0	95.4	0.0	0.0	0.0
Digital Strategy - feasibility	182.6	17.7	40.0	142.6	0.0	0.0	0.0
Sport & Leisure Asset Review	120.0	0.0	0.0	120.0	0.0	0.0	0.0
Grow-on former Queen St Bus Depot	19.0	0.0	19.0	0.0	0.0	0.0	0.0
Broad Lane Sports Ground Wivenhoe	10.0	0.0	10.0	0.0	0.0	0.0	0.0
Pre development/feasibility funds	250.0	0.0	0.0	250.0	0.0	0.0	0.0
TOTAL - RIF	**36,510.3**	**4,833.8**	**10,815.7**	**23,713.2**	**1,981.4**	**0.0**	**0.0**
COMPLETED SCHEMES (OR WHERE RETENTION ONLY OUTSTANDING)							
Creative Business Centre	0.6	0.0	0.6	0.0	0.0	0.0	0.0
Colchester Business Centre	1.8	1.8	1.8	0.0	0.0	0.0	0.0
LWC - Health & Fitness Extension	16.0	15.7	16.0	0.0	0.0	0.0	0.0
Oak Tree Community Centre Roof	20.5	0.6	20.5	0.0	0.0	0.0	0.0
Lion Walk Activity Centre	1.4	0.0	1.4	0.0	0.0	0.0	0.0
Garrison Gym Rebuild	29.0	28.0	29.0	0.0	0.0	0.0	0.0
Old Heath Recreation Ground Improvements	30.3	0.2	30.3	0.0	0.0	0.0	0.0

Service / Scheme	Total Programme £'000	Spend to Q3 £'000	Projected Expenditure 2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	(Surplus) / Shortfall £'000
Longridge Toddler Play Area	25.0	25.0	25.0	0.0	0.0	0.0	0.0
Relocation of Museum Resource Centre	13.3	11.3	13.3	0.0	0.0	0.0	0.0
Replacement of Cremators	4.8	0.0	4.8	0.0	0.0	0.0	0.0
St Johns Car Park	7.8	0.0	7.8	0.0	0.0	0.0	0.0
Local Authority Carbon Management (LACM)	82.2	0.0	82.2	0.0	0.0	0.0	0.0
Mercury Theatre Redevelopment Phase 1	(1.3)	(1.3)	(1.3)	0.0	0.0	0.0	0.0
TOTAL - Completed Schemes	**231.4**	**81.3**	**231.4**	**0.0**	**0.0**	**0.0**	**0.0**
HOUSING REVENUE ACCOUNT							
Housing Improvement Programme	9,359.0	3,948.0	9,359.0	0.0	0.0	0.0	0.0
Adaptations to Housing Stock	618.0	609.6	618.0	0.0	0.0	0.0	0.0
Sheltered Accommodation	350.0	320.4	350.0	0.0	0.0	0.0	0.0
Housing ICT Development	477.3	1.0	477.3	0.0	0.0	0.0	0.0
Purchase of properties - HRA	2,003.3	1,055.2	2,003.3	0.0	0.0	0.0	0.0
TOTAL - Housing Revenue Account	**12,807.6**	**5,934.2**	**12,807.6**	**0.0**	**0.0**	**0.0**	**0.0**

Appendix N

Impact of Budget Strategy 2019/20

A new Strategic Plan was agreed at full Council in February 2018. During 2019/19 Cabinet agreed to allocate funding for the priorities in this plan across a range of themes. In total additional funding of £1.95m was identified to support the eight themes identified:-
:

- Create Transport for Colchester
- Clean up and promote the Town Centre
- Fight Crime and Improve Community Safety
- Reduce Homelessness
- Enterprising Colchester
- Sports and Health for All
- Reform and Refresh
- Co-operation

Some funding agreed in year will actually be spent during 2019/20. For example, the £0.3 million allocated to jointly funding additional police resources. In addition, other allocations are likely to be spent in 2019/20.

The budget for 2019/20 has been prepared in continuing difficult financial conditions. There continues to be reductions in the amount of money we receive from Government and from 2019/20 the Council no longer receives any core Revenue Support Grant (RSG).

The New Homes Bonus (NHB) remains one of the main ways in which the Council is able to identify funds for investment to support the delivery of the Strategic Plan. Proposals within the budget report for using the NHB include allocation of funds to continue or add to those made during 2018/19. For example, additional funding for community safety and highways and transportation
The NHB is also being used to contribute to funding to build a new sports facility at Northern Gateway with provision also being made for the initial setup and running costs.

Funding is being made available to invest in vehicles and staff to ensure that the waste and recycling service can meet the needs of the growing population. With capital funding identified to invest in depot facilities.

The Revolving Investment Fund (RIF) continues to set out a number of funding allocations to support major projects such as Northern Gateway as well as funding within the Town Centre and East Colchester.

In order to balance the budget whilst still preserving reserves for the future requires savings to be made or additional income to be secured. Where possible these have been identified through service reviews which focus on how the service is delivered and not just how savings can be made.
Reductions to grants to external organisations have been made. However, these needs to be seen in the context of other funding decisions For example, the reductions in arts grants can be viewed alongside the investment being made in capital projects for both the Mercury Theatre and Colchester Arts Centre.

Appendix O

CAPITAL STRATEGY 2019/20 to 2024/25

1. Introduction

1.1. As a result of changes to the Prudential Code and statutory requirements in relation to Non-Treasury Management investments(for example commercial and retail investments not related to local economic development), the Council is required to prepare, give due consideration to and approve as part of the budget process and long term financial planning; a Capital Strategy.

1.2. A Capital Strategy, provides the foundation of robust and effective long-term planning (financial and non-financial) for capital investment by the Council both in its own operational assets, as a partner in economic redevelopment, and in the provision of social care, social housing and community services within its local area.

1.3. In addition, as a result of the ‘commercialisation’ agenda and the need to close ongoing budget gaps, many Local Authorities are considering ‘commercial investments’ both within and out with their local boundaries; and investment in other organisations to support public services (for example investment in Local Authority companies to deliver services – ‘service investments’). Both these investments are classified as ‘Non Treasury Management’ Investments

1.4. Under the prudential framework, Local Authorities are required to consider and identify their risk appetite for treasury investment and manage these risks appropriately. The updated prudential framework clarifies that the same evaluation and management of risk should be taken for Non-Treasury Management investments such long term property investment; and that these requirements be set out in the Council’s prudential framework and capital strategy. Thus ensuring that investment and associated funding decisions are taken with full knowledge and management of the associated risks and with a view to deliver sustainable long term financial planning.

2. Context

2.1. The Council’s operational assets are one of its most valuable resources in delivering services for the benefit of its local community. The Council’s Property, Plant and Equipment, Heritage and Intangible assets account for 88.8% of the Council’s gross balance sheet value of £608.929m as at 31 March 2018. The most significant Council owned operational assets are the housing stock of 5945 properties, with a net value of £344.203m as at 31 March 2018.

2.2. As at 31 March 2018, the Council held £39.9m in Investment properties (commercial investments); comprising 104 commercial and retail properties, 3 carparks and 18 other sites, all within the district. The total net income from these properties was approximately £2.0m, which reflected 0.01% of the Council's net spend in 2017/18. Providing a yield of return of 5%.This level of non-treasury management investment is not disproportionate to the Council's total income stream; therefore presenting at present minimal risk to long term financial planning and ongoing service delivery were rental incomes for these properties to materially reduce. However, going forward the Council needs to set its risk appetite for these investment and related monitoring requirements to manage potential volatility in income. This becomes more important as the investment portfolio develops to include service investments.

2.3. As yet, the Council has not made any investments in its various Local Authority Companies to support future service delivery. A temporary loan of £0.462m has been made to subsidiaries within Amphora Holdings Ltd, to provide cashflow support in the short term. This loan is repayable on 31 March 2019.

2.4. Effective asset planning ensures that the Council's assets maintain their value, full operational capability and provide maximum income generation where required; supporting the Council's long term service objectives.

2.5. In addition the Council manages external funding (S106 contributions and external funding via grants) of £8.8m as at 31 March 2018 to deliver projects and new assets which support regeneration, facilitate social care requirements and community aspirations.

2.6. After numerous years of rationalising its operational assets and the downturn in council house sales, the Council has limited capacity to generate capital receipts apart from its available land and local commercial holdings. Therefore, in capital investment terms, the Council has become a facilitator in terms of sourcing and managing external public and commercial funds for local investment in line with the Council's Strategic Plan.

2.7. The overarching aim of the 2019/20 to 2024/25 Capital Strategy is to provide a framework within which the Council's capital investment plans are to be delivered. It has been prepared to cover a five year timeframe; however recognising that there are some uncertainties in relation to later years, the Strategy focuses on 2019/20 to 2021/22 in detail.

2.8. To be effective the Capital Strategy needs to link to the Local Plan, the Council's corporate objectives and various strategies; including the Medium Term Financial Strategy, Treasury Management Strategy and Prudential Code, Asset Management Strategy, Economic Development Strategy, Housing Revenue Account Business Plan and Asset Management Plan, etc.

2.9. The draft Local Plan (2017-2033), which was submitted to the Planning Inspector in October 2017 outlines the strategy for growth in the district to 2033 and beyond, setting the vision, long term aims and aspirations for the local area. The key element of the draft Plan is the identification of the ambition for high-quality, strategic scale development in North Essex.

2.10. Given the following factors, the Council has a significant part to play as a key enabler in delivering the Local Plan:

- owner of substantial land and property holdings for economic development,
- enabler for both government and other external funding,
- negotiator for S106 planning contributions and obligations.

2.11. The Council's capital investment plan is driven by the Council's Strategic Plan, which is linked to the Local Plan. The Strategic Plan is the Council's key strategic document and outlines the Council's contribution, both as facilitator and enabler in delivering the Local Plan and local strategic objectives. The Strategic Plan was approved by the Council in February 2018 and identified 8 key themes:

- Create Transport for Colchester
- Clean up and Promote the Town Centre
- Fight Crime and Improve Community Safety
- Reduce Homelessness
- Enterprising Colchester
- Sports and Health for All
- Reform and Refresh – to look at alternative delivery models for services and identify efficiencies in delivering services
- Co-operation – to work with all those wanting to improve life and prospects within the Borough

2.11 In order to prioritise limited capital resources, the capital strategy and associated capital projects need to align and achieve determined outputs in relation to the key themes within the Strategic Plan.

3. The principles of the Capital Strategy

3.1 The overarching principles of the Capital Strategy are detailed below:

- The Council will set and approve the strategic direction of the Council's long term capital investment and funding allocation; by approving an annual capital strategy. The strategy will be approved as part of the budget setting process and considered alongside with:
  - The General Fund budget setting report (including the capital programme) and Medium Term Financial Plan,

    - The Housing Revenue Account Business Plan, associated budget report, capital asset management plan and Housing Investment Programme, and
    - The Treasury Management Strategy and prudential framework.
- The Housing Revenue Account (HRA) investment Programme (HIP) will be approved by Council annually in conjunction with the HRA business plan and asset management plan and associated budget report. The funding of the five year HIP will be in line with the funding priorities identified at paragraph 5.3.7
- Cabinet (including the Revolving Investment Fund Cabinet Committee) will approve new capital investment and associated funding in line with the principles of the capital strategy and on the basis of a robust business case.
- The priority in delivering the capital strategy will be to support all schemes already approved in the capital programme and contractually committed to enable schemes to proceed and complete.
- Robust review and scrutiny of the capital programmes progress (both in financial and non-financial terms) will be undertaken on a quarterly basis by members of the Audit and Governance Committee and Scrutiny Panel, with any recommendations from these forums being referred to Cabinet. In addition, senior officers undertake internal review and challenge on a quarterly basis through Project Management Board.
- The Council set up and maintains a Revolving Investment Fund (RIF), to improve the commercial management of the Council's disposal of assets, capital investment and drive forward long term income generation projects. The governance of the fund is the responsibility of the RIF Cabinet committee. In line with these objectives the key mechanics of the RIF are:
    - Develop and set reinvestment strategy for a rolling 5 year programme, including the establishment of high rental growth projects and agree annual capital funds to be set aside for capital investment.
    - Ensure robust project management processes are in place to identify and manage projects within the RIF and associated funding requirements, and related risks.
    - Capital receipts generated by RIF projects are to be reinvested in the RIF to fund future projects.
- The Council will maximise the application and community benefit realised as a result of S106 financial and non-financial contributions. Appropriate records will be maintained and action planned to ensure that the Council fulfils its obligations under individual S106 agreements.
- With regards to non-treasury management investments, the Council will formalise the required performance and risk criteria for such investments, which will be required to be met. Ongoing monitoring arrangements will also be formalised, to enable effective due diligence and management of the Council's risk appetite.
- The Council will consider any option for external funding (central government, other public bodies or private sector) of capital investment in line with its strategic objectives. Proposals will be robustly reviewed, with match capital funding being identified and prioritised and long term revenue implications and financial liabilities for the Council, being comprehensively and clearly

identified and included in the Council's Medium Term Financial Plan as appropriate.

4. Priority Areas for Investment

4.1 The priority investment areas identified for the 2019/20 to 2024/25 period are covered below. Future schemes will be taken forward subject to available resources and the approval by Cabinet of a relevant business case.

Existing programme

4.2. There is a requirement for the continued funding on existing key schemes:

- Mercury Theatre redevelopment Phase 2 – Forecast cost of c£6.4m for the period 2018/19 to 2020/21, with external funding totalling c£5m and Council funding of c£1m.
- The first phase of the ~~,~~replacement of the Council's vehicle fleet, including waste and street cleaning vehicles - £4.9m for 2018/19 to 2020/21. A substantial part of the Council's vehicle fleet is leased, a financial review has identified cost savings for the council where the fleet is directly purchased and maintained on a contract basis.
- Disabled Facilities Grants – total budget £2.657m to support private sector tenants to remain in their own homes. Funding over a four year period from 2018/19 of which £1.993m financed from central government grant.
- Financial support to the Council's Commercial companies to deliver investment in housing and regeneration and provide a long term income return for the Council through various commercial undertakings - c£41m
- Various RIF schemes to deliver investment in the local area and generate long term revenue and capital income for reinvestment – c£37m.
- Ongoing investment in the Council's Housing stock and repurchase of Right to Buy properties to add to the housing stock - £12.808m for 2018/19.

4.3 In addition the following new schemes will require approval to progress and consideration for future funding:

- The ongoing replacement of the Council's vehicle fleet,
- Development of sports, leisure and health facilities within the district, supported with external funding,
- Town Centre regeneration,
- The ongoing development of commercial property on Council land to generate long term revenue income, and
- Housing Investment Programme (HIP) 2019/20 to 2024/25 totalling £117.295m, agreed in principle by Cabinet for ongoing stock investment and adaptions, development of new housing stock(including the ongoing redevelopment of garage sites) and acquisitions(including buy back of Right to Buys). A report elsewhere

on this agenda details the 2019/20 HIP to be approved totalling £20.851m and provides details of ongoing investment for the HRA.

5. Capital Resources to Support Capital Investment

5.1 The Council's strategy for deploying resources is to ensure that all resources are utilised effectively to achieve the Council's long term investment objectives in line with the Strategic Plan, even where resources are available through national initiatives.

5.2 Cabinet and the RIF will evaluate and approve all bids for resources and approve any revisions to the capital programme.

5.3 There are a range of methods of funding the Council's capital investment:

5.3.1 Capital Receipts

Apart from Housing Revenue and RIF capital receipts, the Council will ensure that it takes full advantage of the freedom and flexibility arising from the withdrawal of national ring-fencing of capital receipts. In addition, all non ringfenced capital resources will be pooled into a corporate capital resource. This resource will be managed so that only schemes which can demonstrate the attainment of Council capital priorities will be allocated funds.

As the Council has limited capital receipts which are not ringfenced, the Council is unable to make use of MHLG dispensation to use these resources for transformational projects which are expected to deliver future ongoing revenue savings up until 2022. Should this provision become feasible for application locally, the Council will reconsider the use of this government dispensation.

5.3.4 Government and other Public Sector Funding

Government Grants for Capital schemes are usually ringfenced, that is they have restricted use to deliver a particular scheme and outputs. For example Disabled Facilities Grants, Arts Council funding, etc.
Where there is a requirement to make an application for government funding, with the requirement for match funding from Council resources; a business case is required to be prepared and reported to the relevant body responsible for governance. This must justify the bid for resources prior to the application for funding, to ensure that those charged with governance are aware of the terms of funding and the associated risks in delivering the scheme and abiding by the required restrictions.

5.3.3 S106 Contributions

S106 of the Town and Country Planning Act 1990;enables local authorities to negotiate a ‘planning obligation’ to either improve the quality of the development or overcome difficulties which would otherwise result in planning permission being refused. The Council may receive funds to enable it to undertake works arising from these obligations, for example provision of affordable housing, improved transport facilities, provision of additional open space, etc.
The council is bound by the conditions of the funding agreements and failure to deliver the planning obligation in line with the agreement, will result in funding being repaid.

5.3.4 Revenue Contributions

Revenue resources can be used to fund capital investment as long as it can be proven that the revenue budget is not restricted and is within budget.

5.3.5 Capital Expenditure and RIF Reserves

These two revenue reserves can be used to finance future capital investment.

5.3.6 Use of Leasing

Some of the Council’s assets are currently financed by a lease arrangement, for example refuse vehicles and street sweepers. With the reduction in interest rates and the Council’s policy of financing new assets from internal borrowing, this finance option has become more expensive. The Council will consider leasing arrangements which could offer value for money.

5.3.7 Funding Housing Revenue Account Investment

For HRA capital investment, source of resources, and the priority order in which it is assumed they will be used to fund capital expenditure in the 2019/20 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

The assumption made when prioritising resources to fund the HIP is that resources specifically designated to the programme will be used first, followed by capital receipts. This is so the receipts can be re-invested in affordable housing, and be retained locally and not be clawed back by Central Government under the capital receipts pooling arrangements. The next form of resource to be used is the Major Repairs Reserve, which is the reserve that is built up from the depreciation charge to the HRA. This is the resource that is set aside to maintain the housing stock in its current form & condition. If there are insufficient resources within the

Major Repairs Reserve to fund all of the capital works in the year, then the next call on funding is revenue. The amount of this resource will depend on the level of balances within the HRA and the extent to which they are directed to the HIP, as opposed to other budget priorities.

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 undertaken following the Council's Treasury Management Strategy and prudential borrowing code. The Council has a statutory duty to self-manage its external borrowing and ensure that it is affordable in the long term. For the HRA, this has become more important with the removal of the 'debt cap' in the October 2018 Budget announcement.

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.

5.3.8 Private Finance Initiatives

This method of funding can be used to fund major new schemes, such as infrastructure, schools, etc. Such schemes involve partnership between public and private sector, funding public sector capital investment from private capital. The Council has no such schemes at the moment and there is no intention to fund capital investment this this way.

6. Knowledge and skills

6.1 The Council employs qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. Where Council staff do not have the knowledge and skills required, use is made of external advisors and consultants that are specialist in their field. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

7. Going Forward

7.1 As the Council's capital strategy develops consideration will be given to criteria for performance and risk management to provide full due diligence for Non-Treasury Management investment.

Appendix B
Cabinet

30th January 2019

Report of	**Assistant Director of Policy and Corporate**	Author	**Darren Brown ☎ 282891**
Title	**Housing Revenue Account Estimates 2019/20**		
Wards affected	**All**		

Item

1. Executive Summary

1.1 This report sets out the Housing Revenue Account budget for 2019/20, including proposals for changes to tenants rents for the coming financial year, and the management fee payable to Colchester Borough Homes. It includes at Appendix C a forecast of the potential expenditure requirements and income projections for the HRA for the next 5 years, and the updated 30 year HRA financial model at Appendix E.

2. Recommended Decision

2.1 To approve the 2019/20 HRA revenue estimates as set out in Appendix A.

2.2 To approve dwelling rents as calculated in accordance with central Governments rent policy (set out in paragraph 5.7).

2.3 To approve the HRA revenue funded element of £6,723,000 included within the total management fee for Colchester Borough Homes (CBH) (set out in paragraph 5.14).

2.4 To note a revenue contribution of £2,448,500 to the Housing Investment Programme is included in the budget (paragraph 5.30).

2.5 To note the HRA balances position in Appendix B.

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

3. Reasons for Decision

3.1 Financial Procedures require the Assistant Director of Policy and Corporate to prepare detailed HRA estimates for approval by the Cabinet, setting the new rent levels for the new financial year.

4. Supporting Information

Key Issues for 2019/20

4.1 There are a number of key issues relating to the HRA budget for 2019/20, with further details being included within the main body of the report. However, in summary they are as follows;

- The Government announced in October 2018 that the HRA Debt Cap would be removed, enabling Councils to build more homes.
- The Government published the Social Housing Green paper in August 2018 which confirmed the high value asset levy would not go ahead.
- This is the fourth and final year of the Government's imposed rent reduction of 1%.
- To mitigate the impact of the Governments rent reduction, members will recall that officers from CBC and CBH have worked together on the Housing Futures Programme, which established a set of principles to ensure the investment required within the stock maintained lettable properties, whilst working to a reduced budget over the next 5 years.
- A revised Asset Management Strategy has been produced as a result of the Housing Futures Programme, and the outputs have been included in this report and the Housing Investment Programme report elsewhere on the agenda.
- This is the sixth HRA budget to be set under the terms of the new management agreement with CBH. The management fee consequently contains a larger range of budgets, and the budget is set with an emphasis on the medium term, to provide more stability and meet the governance arrangements within the new management agreement.
- This is the sixth HRA budget to be set in the context of the new 30 year HRA Business Plan, which was approved by Cabinet at its meeting on the 27th November 2013. The budget therefore reflects the strategic priorities identified within the HRA business plan.
- This is the eight year of HRA Self-Financing, which radically altered the funding of Council Housing, and the investment in the housing stock and other projects is reflected in this report and the Housing Investment Programme report included elsewhere on the agenda.

4.1.1 This report and the 2019/20 Housing Investment Programme included elsewhere on the agenda reflect significant capital spending plans over the next 5 years, reflecting the clear signal and expectation from Government that Councils will increase the supply of Council housing through new build etc, following the abolition of the HRA debt cap. For information, the Councils housing stock at 1st April 2018 totalled 5,945 dwellings, with a balance sheet value of £355.2million.

Housing Rents

4.2.1 Members will be aware that the Chancellor of the Exchequer announced in the budget on 8th July 2015, that there would be an annual decrease of 1% in social housing rents from 2016/17 for four years. The budget for 2019/20 therefore reflects the fourth and final year of this change. The Government has announced that when the 4 year period of rent reductions ends, rents will revert to the previous formulaic increase for a period of 5 years. Therefore, rents will increase by Consumer Price Index (CPI) + 1% from 2020/21 to 2024/25.

4.2.2 There is no information to suggest what will happen to rents after 2024/25, but the assumption within the MTFF and 30 year Business Plan is that rents will continue to increase in line with the Consumer Price Index (CPI) + 1%. Rents will still be able to be moved to target rent when a property becomes empty, although the target rent will also be reduced annually by 1% over the next year.

4.3 As part of the process for setting the 2019/20 HRA budget, it is necessary to revisit the 2018/19 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.

2018/19 Revised Housing Revenue Account

4.4 Appendix A shows the Revised Housing Revenue Account (HRA) estimates for 2018/19. There have been some amendments to the original budget for 2018/19 during the course of the current financial year. A reconciliation is therefore provided in the following table between the Original and Revised budget for 2018/19:-

Reconciliation between Original and Revised 2018/19 HRA Budget

	Budget 18/19	***Commentary***
	£'000	
Original Budget Deficit	**-**	Agreed 31st January 2018
2017/18 Budgets c/fwd	189	Agreed by Assistant Director of Policy and Corporate
Revised Budget Deficit	**189**	

2018/19 Forecast Outturn Position

4.5 When considering the financial position of the HRA, in addition to the adjustments to the 2018/19 original budget shown in the above table, it is important to note the 2018/19 forecast outturn position. It is currently predicted that the HRA will be on budget at the year-end. The table below provides a breakdown of this net position. In addition, commentary is provided on the major variations;

	Outturn 18/19
	£'000
Rental & Tenants Service Charge Income	(282)
One-off/Technical Items	
Revenue Contribution to Capital (RCCO)	282
Forecast 2017/18 Outturn Variance	**-**

- It is forecast that we will receive more rental and tenants service charge income of £282k. This primarily reflects the net impact of less rental & service charge income being lost from dwellings and garages than assumed within the budget, through a combination of voids and the number/timing of Right To Buy sales this year.

- As a direct result of the additional income forecast this financial year, there will be additional revenue resources available for an increased Revenue Contribution to Capital of £282k to fund the Housing Capital Programme in 2018/19.

4.6 To provide a further explanation of the forecast outturn position, the funding of the Housing Investment Programme considered elsewhere on the agenda is derived from a number of sources. After firstly taking into account depreciation, grants and capital receipts etc, the remaining sources of funding are revenue resources from the HRA as detailed in this report, then finally borrowing in the form of new loans. Any opportunity to forego new borrowing so that interest costs can be minimised should be taken. To this extent it is planned to use the forecast net underspend in 2018/19 to fund more of our Housing Capital Programme through an increased RCCO and minimise new borrowing, enabling us to meet our significant asset management priorities.

HRA Reform

4.7 Members will be aware of the implementation of the national reform of the Housing Revenue Account from April 2012. The 2019/20 budget therefore reflects the eighth year of operating within this financial regime for the HRA, with commentary included on the medium and long-term outlook in this report.

4.8 Appendix E summarises the 30 year financial modelling for Colchester's HRA. This is set out using the standard approach, which is to show each of the first 5 years individually, then group the remainder of the model in 5-year bands. Further information is provided at paragraph 7, 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.

5. 2019/20 Housing Revenue Account Budget

5.1 Appendix A shows the Housing Revenue Account (HRA) estimates for 2019/20. This shows a break-even budget for the year, meaning there is no planned contribution to or use of uncommitted HRA balances.

5.2 It should be noted that the MTFF included within the 2018/19 HRA budget cycle and considered by Cabinet on 31st January 2018 estimated a break-even budget for 2019/20. Following the work undertaken by the Housing Futures Programme, we are able to make an RCCO to the capital programme broadly at the levels originally planned.

Balances

5.3 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. Whilst there is certainty around interest rates given we have secured long-term fixed rates on our HRA Reform settlement debt, the abolition of the debt cap and our plans to borrow does bring a risk relating to increasing interest rates. The risk surrounding welfare reform continues to be recognised in our assessment of HRA balances.

5.4 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.

5.5 The estimated balances for the HRA are set out in Appendix B. The anticipated level of the uncommitted HRA balance as at 31st March 2019 is £1,600k, which is equal to the recommended prudent level. This means we are now running the HRA at the minimum prudent level of revenue balances, and any additional cost or saving that might arise could impact on the amount of any new borrowing undertaken.

5.6 The budget at Appendix A shows that we are using as much of our revenue balances as possible to make a Revenue Contribution to fund the Housing Investment Programme. This is because it is deemed to be a more economical use of resources, rather than fund the capital programme by undertaking additional borrowing and thus incurring additional borrowing costs. This fits with the prioritising of resources indicated in this report and in the Housing Investment Programme elsewhere on the agenda. From 2019/20 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

5.7 By following the rent reduction announcement, we are continuing to set **dwelling rents within Communities and Local Government (CLG) guidelines and so the annual changes in rents paid by tenants are set by reference to national Government policy.** The average rent proposed for 2019/20 is £84.95 per week compared to a current average of £85.81, a decrease of £0.86 (1.0%) per week. It is difficult to anticipate future rent increases after 2020/21, given the potential for the rate of inflation to vary in the short to medium term and also for any further changes in Government rent policy. However, modelling within the MTFF and 30 year financial modelling has been undertaken using reasonable estimates of inflation rates.

5.8 Sales of council houses under the Right to Buy (RTB) scheme have slowed down this year, but could reach 30 (46 sold in 2017/18 and 51 sold in 2016/17), which is less than the number included in the 2018/19 HRA budget. The level of sales has levelled out in recent years, therefore the 2019/20 budget has been set assuming the sale of 30 properties, being broadly in line with the current year. The MTFF and longer term modelling does not assume a reduction in the number of sales until 2021/22. However, these assumptions will be reviewed annually as part of our future budget setting.

5.9 The budget for 2019/20 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 2018/19 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.

5.10 As detailed in reports elsewhere on the agenda, given the abolition of the debt cap it is intended to continue with plans to increase our Council Housing stock, through a combination of new build and acquisitions. The 2019/20 budget includes an estimate for the additional rental income these measures will generate. Also, rental income from the HEYLO Housing scheme agreed by Cabinet at its meeting of 21st November 2018 has been included in the budget.

Other Income

5.11 The rents for garages are included in the fees and charges report agreed by the Portfolio Holder for Housing and Communities, and continues the policy that reflects a pricing strategy based on market forces.

5.12 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. The budget for 2019/20 assumes that the demand for these services will remain the same as the current financial year, unless mentioned otherwise.

5.13 The de-pooling of service charges to individual tenants was implemented in 2008/09. There have not been any new service charges introduced for 2019/20, only an update of existing charges to reflect the actual cost of the services provided.

Expenditure

Colchester Borough Homes Management Fee

5.14 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 incorporates the day to day repairs and maintenance budgets and associated overheads, along with the fee for managing the capital programme, as a result of the new housing arrangements. The management fee is funded from several sources within the Council's accounts, namely the Housing Revenue Account, the Housing Investment Programme, as well as the Council's General Fund. The following table analyses the total CBH management fee, and provides details of where the funding is shown in the Council's overall budget:

Breakdown of 2019/20 CBH Management Fee

	Budget 19/20	***Funding Source***
	£	
CBH Management costs	3,508,600	CBH Ltd Management Fee at Appendix A
R&M Management Fee	518,300	Included in Repairs & Maintenance at Appendix A
R&M Works	2,696,100	Included in Repairs & Maintenance at Appendix A
Sub-Total: HRA	**6,723,000**	
Capital Fee	1,343,000	Included within the 2019/20 Housing Investment Programme
Sub-Total: HIP	**1,343,000**	
Anti-Social Behaviour Team	48,100	Included within the 2019/20 General Fund Budget
Professional Support Unit	122,600	Included within the 2019/20 General Fund Budget
Housing Options Team	630,500	Included within the 2019/20 General Fund Budget
Facilities Management/ Engineering Team	505,800	Included within the 2019/20 General Fund Budget
Housing Systems Team	79,200	Included within the 2019/20 General Fund Budget
Sub-Total: General Fund	**1,386,200**	
Total Management Fee	**9,452,200**	

5.15 The base management fee for 2019/20 includes an allowance for pay inflation, and transfer of funding for a horticultural officer post from an HRA delegated budget into the CBH management fee. Furthermore, a one-off allowance that had been made in the 2018/19 fee for the increased employer pension contributions CBH now have to pay following the schemes actuarial review has fallen out in 2019/20.

5.16 Members will be aware that at its meeting on the 27th November 2013, Cabinet approved the Council's 30 year HRA Business Plan. The 2018/19 budget and management fee include the continuation of a number of service enhancements, which reflect the strategic priorities identified by Cabinet and which are included within the business plan. The majority of these are incorporated within the existing CBH Management Fee and Council budgets, with additional resources being directed in particular to supporting tenants.

Management Costs

5.17 The 2019/20 HRA budget includes £5,993,300 for management costs, an increase from 2018/19 (£5,490,600). 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 2018/19 budget is given in the following paragraphs;

5.18 The budget for Premises costs has increased by £173,200 for 2019/20. A provision of £114,000 has been made for the revenue costs of the HEYLO Housing scheme agreed by Cabinet at its meeting of 21st November 2018. There has also been an increase in the budgets for utilities, reflecting an update on usage and pricing.

5.19 The budget for Supplies and Service costs has increased by £252,200. A provision of £250,000 has been included to commence the replacement of our Housing Management system with a solution that meets the Councils ICT strategy, can be fully supplier hosted and also meets the current and future business needs of CBH and our customers.

5.20 The budget for Removal and Disturbance payments has been increased by £50,000 as provision has been made for any recommencement of the sheltered housing refurbishment programme that was stopped as a result of the Governments rent reduction, and given the debt cap has now been abolished.

5.21 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 2019/20 has decreased by £19,900 from 2018/19.

Repairs and Maintenance

5.22 The 2019/20 Housing Investment Programme has been drafted and is included elsewhere on the agenda for approval. In respect of revenue works £5,156,400 has been included in the budget for repairs and maintenance (compared to £4,913,400 in 2018/19), of which £3,214,400 is specifically for works and associated overheads included within the CBH Management Fee. A provision of £1,727,600 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

5.23 The budget includes the statutory charges to the HRA for the interest costs of the Councils borrowing in respect of the housing stock. This represents a significant proportion of the Councils HRA expenditure each year. It is worth noting that any new borrowing to fund the overall Housing Investment Programme next year may be borrowed internally from the Councils General Fund, subject to the levels of borrowing required and funding available, which is at a lower rate than would be payable were we to borrow externally. This also delivers a benefit to the General Fund, as it would be receiving more interest than it would attract were it to invest externally. This approach has been considered and agreed as part of the Council's treasury management strategy.

5.24 No provision has been made at this point in time for the annual repayment of any HRA debt, as there is no statutory duty to provide for it. The Council though is statutorily responsible for self-managing its long-term indebtedness. The Council now has circa £130million of housing debt, and it would be prudent to start to consider providing for some repayment in the future. The Treasury Management Strategy Statement approved by Cabinet on 25th January 2012 stated "That the Council plans to make Voluntary Revenue Provisions (VRP) for the repayment of HRA debt to enable maturing debt to be repaid, whilst ensuring that this does not create an adverse impact on the business case". However, this also needs to be considered alongside the Governments rent reduction policy, the investment requirements of the housing stock, and the clear message from Government that local authorities are expected to increase their Council housing stock to help address the housing crisis.

5.25 Given the need to undertake additional HRA borrowing to support the Housing Investment Programme over the next 5 years, it would currently seem impractical to set-aside revenue resources for debt redemption over this period of time, which as a result would leave a funding gap which would need to be met by further borrowing (and hence incur additional revenue interest costs). However, this should be considered each year as part of the Councils annual budget setting process and review of the 30 year HRA financial model. Given the medium term investment needs currently identified and priorities agreed by Cabinet, it is proposed that no voluntary provision for debt repayment is included in the 2019/20 budget or MTFF at this point in time.

5.26 The 2019/20 Housing Investment Programme report included elsewhere on the agenda contains significant capital spending plans over the next 5 years, directly as a result of the Governments abolition of the HRA debt cap and the clear signal and expectation that Councils will increase the supply of Council housing through new build etc. This expenditure will be funded through a combination of using our retained 1-4-1 Right To Buy receipts, and prudential borrowing. The Councils General Fund is already able to borrow using prudential borrowing, so the HRA is simply now being treated consistently.

5.27 The Councils Treasury Management Strategy is included elsewhere on the agenda, and contains prudential indicators which 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, and include the HRA. It is also proposed to use the following indicator within this report, which is a measure also adopted by Registered Providers to demonstrate how easily they can pay their interest costs:

5.28 **Interest Cover Ratio.** This indicator identifies the ability of the net operating surplus in the HRA to meet the interest costs of HRA debt. It would be reasonable to expect this indicator to be in the region of 1.50 or above.

17/18 Actual	18/19 Estimate	19/20 Estimate	20/21 Estimate	21/22 Estimate	22/23 Estimate	23/24 Estimate
1.54	1.66	1.50	1.53	1.64	1.62	1.59

Revenue Contributions to Capital Outlay (RCCO)

5.29 The Council has continuously made revenue contributions to capital spending recognising the significance of targeting resources to invest in our Housing Investment Programme. Given the 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.

5.30 The revenue contribution included in the estimates is £2,448,500. The majority of this budget is to support the capital work programmes to the housing stock in 2019/20, which are included within the Housing Investment Programme report elsewhere on the agenda. However a provision of £140,000 has been included for ICT, which is intended to support various projects.

Risk areas and budget review process

5.31 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. Furthermore, the risk exists that the Government could change rent policy unexpectedly, as demonstrated by the rent reduction announcement in 2015.
Governments Welfare Reform	The budget includes an estimate of the impact of Welfare Reform. As well as providing for transaction costs etc, the budget also includes an estimate of the potential impact upon rent arrears and consequently the level of bad debts provision we would need to maintain.
New Build	The budget makes assumptions on the numbers of new properties being built, the amount and timing of expenditure, and the amount of borrowing required. These factors can all change as schemes progress.
Revenue Contributions to Capital (RCCO) / Prudential Borrowing	Capital Resources have been provisionally allocated for 2019/20 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 additional HRA borrowing. Clearly, if one of these options was pursued, then there will be a requirement to find additional resources from the HRA.
Repairs and Maintenance	Historically, this is an area where pressure has existed on budgets such as Responsive and Void repairs, given that they are demand-led. However, in recent years this has become less of a risk. These budgets now form part of the CBH Management Fee, and the terms of the management agreement specify that CBH will be liable for any overspend up to a maximum of £200k per year, but also that they may retain any underspend up to £100k per year. Therefore, there could be a reduced impact on the HRA of variations in expenditure.
Utility costs	The budget makes assumptions on future prices for Gas and Electricity that are consumed within the Council's housing stock, such as Sheltered Schemes, Temporary Accommodation and Communal entrances in blocks of flats. Given the volatility of utility prices in recent years, there is a risk that prices could rise, the cost of which would have to be funded from existing resources or HRA balances.
2018/19 Outturn	An underspend of £282k is currently predicted for this year, which is planned to be used to fund a greater proportion of our Housing Capital Programme instead of new borrowing. Any variance on the forecast will result in a higher or lower RCCO, which will have a knock-on impact on the amount of any new borrowing undertaken.

5.32 As shown in paragraph 5.31 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 2019	Updated outturn forecast.
July 2019	Provisional pre-audit outturn / current year issues etc.
September 2019/ October 2019	Mid-year review.
December 2019 / January 2020	Outturn review / Budget 2020/21.

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

6.1 As part of the budget process for 2019/20 a MTFF has been produced for the HRA. This sets out the indicative budget position for the period 2019/20 to 2023/24. 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.

6.2 Appendix C sets out the MTFF for the period analysed by the main areas of expenditure and income. This shows that the level of uncommitted HRA balance is able to be maintained at prudent levels throughout the MTFF. This is after meeting all the running costs of managing & maintaining the housing stock, along with servicing the borrowing costs on all HRA debt. It is also after substantial revenue contributions have been made to support the Housing Investment Programme. Planning to run the HRA balance at the minimum prudent level fits with the principle that it is more cost effective to minimise/reduce borrowing costs where possible, rather than hold a higher revenue balance than is prudently required, whilst also providing reassurance to tenants and residents that the Council is wisely managing its finances and its housing stock. This approach fits with the principle referred to in paragraph 5.6 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.

- ***Debt Repayment***

As a result of the Governments “Re-invigorating the Right To Buy” policy in 2012, Councils are selling more properties than Government assumed as part of the original HRA Reform debt settlement in April 2012. The Government therefore introduced a system which shares capital receipts. Part of this sharing enables Councils to re-invest capital receipts in the replacement of these additional sales (namely 1-4-1 RTB receipts). It also allows Councils to retain a proportion of capital receipts to reduce HRA debt, which are held in a separate reserve. The logic being that each property in the HRA supports the overall level of HRA debt through its net rental income (excess of rental income over running costs). Therefore, if we didn’t reduce debt, it would mean our HRA Business Plan would have debt but without the necessary number of dwellings to service that debt as a result of their sale. Therefore by reducing debt, we would reduce our interest costs payable and be able to maintain existing levels of services to tenants and leaseholders. Put another way, if we did not reduce our debt, an increasing proportion of tenants rental income would be spent on interest costs, with a decreasing proportion being spent on existing services.

The next opportunity to repay debt is in May 2020, when a £17.6million loan matures. It is prudently assumed that there will be circa £4.2million in the debt repayment reserve at that point in time. Therefore, at the time of maturity, it is assumed that we will re-finance and use the resources in the reserve so we can borrow a lower figure. Using these figures, it would mean we would take out a new loan of £13.4million. Hence our overall level of debt would reduce by £4.2million and there would be a saving to the HRA as interest costs payable would be lower, due to the lower level of debt and the projected borrowing rate being considerably lower than that of the current loan.

- ***Rental income***

Rent forecasts reflect the Governments rent reduction for the remaining year. Prior to the announcement, rental income forecasts were particularly dependent upon assumptions on future inflation levels. However, whilst causing a significant reduction on our rental income, the announcement brings certainty for the next year. From 2020/21, the MTFF reflects the Governments announcement that rent increases will return to the previous formula of CPI + 1% up until 2024/25. There has been no indication from Government what rent policy would be after that year. The assumptions on the number of Right To Buy sales and the level of anticipated rent lost through void properties have been updated to reflect recent activity, but once again these are areas which can significantly alter the forecast of Rental Income and are to a certain extent demand led.

- ***Welfare Reform***

Continued provision has been made within the MTFF for the estimated potential effect on levels of rent arrears and bad debts, resulting from the introduction of Welfare Reform by the Government. The contribution to the provision for bad debts has been broadly maintained at the level for 2018/19 going forwards, with the level of provision being reviewed annually as part of the budget setting process.

6.3 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.

7. Supporting Information – 30 Year Financial Modelling

7.1 The implementation of HRA Reform in 2012 brought the expectation that Councils will take a greater business planning role when managing their Housing Revenue Account. Cabinet approved the Councils 30 year HRA Business Plan at its meeting on 27th November 2013. This included a 30 year financial model which set out the long-term position of the Councils HRA, using 2013/14 as the base year. As part of the 2019/20 budget setting process, this model has been refreshed and updated. This is summarised at Appendix E. This is set out using a standard approach, which is to show each of the first 5 years individually, then group the remainder of the model in 5-year bands. It incorporates expenditure & income for both revenue and capital, along with the HRA balances and debt position.

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

7.3 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 7.24.

Income Assumptions

7.4 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.

7.5 The Government announced that when the 4 year period of rent reductions ends, rents will revert to the previous formulaic increase for a period of 5 years. Therefore, rents will increase by Consumer Price Index (CPI) + 1% from 2020/21 to 2024/25. For the purposes of Business Planning, it has been assumed this formulaic increase will continue from 2024/25 for the remaining duration of the 30 year model. There is currently no indication to suggest that this is going to alter. As a reminder to members, a change in rent policy is the example the Government at the time quoted within the HRA Reform debt settlement that would possibly re-open the original debt settlement. However, this has not occurred. Therefore, Colchester along with all other housing authorities nationally, entered into the new self-financing HRA arrangements at the time on the basis that the Government was providing certainty on national rent policy, which has clearly changed.

7.6 Assumptions have been made within the model for changes in stock numbers, primarily from Right to Buy sales and from the additional stock that will be delivered as part of our new build and acquisition plans. These assumptions are consistent with those made in the budget and MTFF. The Council has entered into agreement with DCLG to retain additional RTB receipts to deliver new affordable housing, and the proposals already approved by Cabinet (e.g. the HEYLO scheme) and those shown in reports elsewhere on the agenda should minimise the amount that has to be repaid to Government.

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

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

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

Expenditure Assumptions

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

7.11 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.

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

Funding & Financing Assumptions

7.13 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

7.14 The priority of how resources are used to fund the HIP is contained within that report for 2018/19, 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 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.

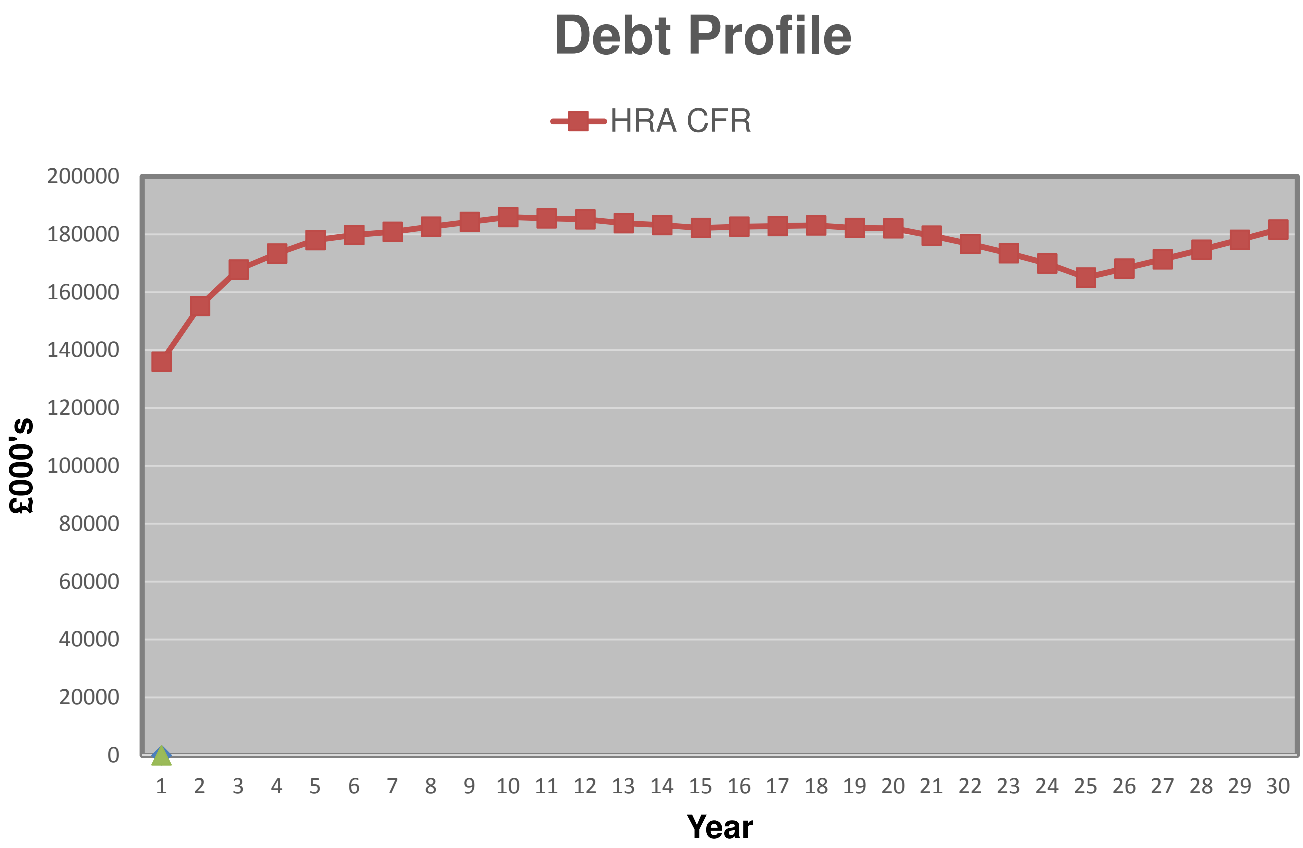
7.15 Under HRA Reform, the primary source of funding the Housing Capital Programme, especially in the early years, is a charge to the HRA which reflects the cost of depreciation to the housing stock. This is calculated locally, with reference to our actual stock condition and asset management strategy.

7.16 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 3.5% 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 circa £150k (based on current levels of borrowing).

Debt

7.17 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 2018 is expected to be £127.933million. As previously stated, the HRA debt cap has been abolished by Government, therefore the only constraint on borrowing now is that it is affordable under the prudential borrowing code.

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



7.19 The above debt curve is consistent with a business plan for the HRA where a significant level of new build/stock acquisitions etc are being undertaken. In the early years, debt increases and then levels out around mid-way through the plan, then starts to reduce in the second half of the plan as rents have increased sufficiently to enable repayment of debt. The graph also shows that in Years 25 to 30, further borrowing will be required to fund the work from the 2003-2008 decent homes programme re-entering the asset management plan.

7.20 Given the abolition of the HRA debt cap, the Council is planning to undertake additional prudential borrowing to deliver the plans set out in papers elsewhere on the agenda. The following table shows the predicted level of debt over the first 10 years of the current financial model, taking into account the additional borrowing and any provision for the repayment of debt;

Year	Forecast HRA Debt £000's
2019/20	135,984
2020/21	155,188
2021/22	167,840
2022/23	173,304
2023/24	178,004
2024/25	179,720
2025/26	180,871
2026/27	182,589
2027/28	184,275
2028/29	185,909

7.21 The projection in the above table is derived from a number of assumptions in the financial model, many of which are out of our direct control, for example inflation, Right To Buy numbers etc. Therefore the figures in the table above should be viewed as indicative.

Outlook Summary

7.22 The Government's rent reduction for four years has had a major impact on the HRA financial model. As members will be aware, this change in policy has resulted in a reduction in forecast rental income of circa £143million. Given the debt cap has now been abolished, the issue we faced in the past (hitting the debt cap and having to curtail investment plans) has now been removed. However, we will be increasing our debt significantly to deliver the proposals set out in the Housing Investment Programme and other reports elsewhere on this agenda.

7.23 The focus has now moved from managing within the debt cap, to managing our overall level of debt and ensure it is affordable in the long-term. The plans to increase our housing stock should be viewed as growth, and will last beyond the current 30 year modelling. As rents increase beyond year 30, then the ability to repay debt or invest further will increase.

Sensitivity Analysis

7.24 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 affect 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 10	Year 30	Year 10	Year 0	Year 10
Debt at Year 30	£181.6million	£220.5million	£135.9million	£216.6million	£170.4million
Capital Investment affordable over 30 Years	£584.7million	£505.2million	£681.6million	£503.9million	£679.7million
Surplus HRA Balance at Year 30	£2.6million	£2.6million	£2.6million	£2.6million	£2.6million

7.25 The sensitivity analysis in Scenarios 1 & 2 above demonstrates the impact that inflation can have on the long-term HRA model. If inflation increases, rental income (following the Governments rent 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.

7.26 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.

8. Strategic Plan References

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

Growth

- Ensuring all residents benefit from the growth of the borough.
- Help make sure Colchester is a welcoming place for all residents and visitors.
- Ensure residents benefit from Colchester economic growth with skills, jobs and improving infrastructure.

Opportunity

- Promoting and improving Colchester and its environment
- Ensure a good supply of land available for new homes through our local plan.
- Promote initiatives to help residents live healthier lives.

Wellbeing

- Making Colchester an even better place to live and supporting those who need most help
- Encourage belonging, involvement and responsibility in all the boroughs communities.
- Create new social housing by building Council homes and supporting Registered Providers.
- Target support to the most disadvantaged residents and communities.

9. Consultation and Publicity

9.1 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.

9.2 The Council conducted the bi-annual STAR survey through ARP Research in April 2018 with the specific aim of obtaining customer feedback through a survey of general needs tenants, all sheltered tenants and leaseholders. There was an increased response rate from tenants and leaseholders on previous surveys. Questions were centred on Colchester Borough Homes performance, tenant satisfaction with their homes, neighbourhood and services. The survey also attempted to identify tenants' priorities on where we focus the provision of non-statutory services. It is planned to repeat the STAR survey during 2020 and the report of the results will be made available to Cabinet and Members.

9.3 Consultation has been undertaken as part of the process to review spending plans given the impact of the Governments rent reduction announcement referred to within this report. A task and finish group was held with a number of tenants and leaseholders on the Asset Management investment plans of the Housing Futures Programme. One of the outcomes of this was that the views of tenants and leaseholders were generally in line with the proposed investment programme.

10. Financial Implications

10.1 Are set out in this report.

11. Equality, Diversity and Human Rights Implications

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

12. Community Safety Implications

12.1 This report has no significant community safety implications

13. Health and Safety Implications

13.1 This report has no significant Health and Safety implications

14. Risk Management Implications

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

Appendices

- Appendix A - Housing Revenue Account Estimates 2019/20
- 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

Appendix A

	COLCHESTER BOROUGH COUNCIL		
	Revenue Estimates 2019/20		
	Housing Revenue Account		
	Summary		
2017/18		**2018/19**	**2019/20**
Actuals	**Expenditure & Income Analysis**	**Revised**	**Original**
		Budget	**Budget**
£000's		**£000's**	**£000's**
	INCOME		
(26,355)	Dwelling Rents (Gross)	(25,736)	(26,176)
(912)	Non-Dwelling Rents (Gross)	(1,002)	(1,124)
(2,608)	Charges for Services and Facilities	(2,639)	(2,611)
(75)	Contributions towards Expenditure	(76)	(55)
(29,950)	**Total Income**	**(29,453)**	**(29,966)**
	EXPENDITURE		
4,727	Repairs and Maintenance	5,017	5,156
3,509	CB Homes Ltd Management Fee	3,453	3,509
6,145	Management Costs	5,577	5,993
190	Rents, Rates and Other Charges	193	192
(49)	Increased provision for Bad or Doubtful Debts	250	250
5,660	Interest Payable	5,667	5,884
(10,278)	Depreciation and Impairments of Fixed Assets	6,000	6,500
57	Amortisation of Deferred Charges	57	52
79	Debt Management Costs	63	64
10,040	**Gross Expenditure**	**26,277**	**27,600**
(19,910)	**Net Cost of Services**	**(3,176)**	**(2,366)**
18,882	Net HRA Income from the Asset Management Account	(57)	(52)
(1,802)	Disposal of Fixed Assets	-	-
(51)	HRA Investment Income (including mortgage interest and interest on Notional Cash Balances	(32)	(31)
(2,881)	**Net Operating Expenditure**	**(3,265)**	**(2,449)**
1,922	Revenue Contribution to Capital Expenditure	3,454	2,449
(959)	**Deficit/(Surplus) for the Year**	**189**	**-**
(2,946)	Deficit/(Surplus) at the Beginning of the Year	(3,905)	(3,716)
(959)	Deficit/(Surplus) for the Year	189	-
(3,905)	Deficit/(Surplus) at the End of the Year	(3,716)	(3,716)

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

	£'000
Balance as at 1 April 2018	**(3,905)**
Committed - Capital Spending in 2018/19 and onwards	2,116
Less budgeted deficit/use of balances in 2018/19	189
Plus Forecast underspend in 2018/19	-
Unallocated balance at 31st March 2019	**(1,600)**
Less Proposed Use of balances in 19/20 Budget	-
Estimated uncommitted balance at 31st March 2020	**(1,600)**
Recommended level of Balances	**(1,600)**
Forecast balances above prudent level at 31st March 2020	**-**

Note:

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

Appendix C

Housing Revenue Account – Medium Term Financial Forecast

Area	*Revised Budget 18/19*	*Budget 19/20*	*Budget 20/21*	*Budget 21/22*	*Budget 22/23*	*Budget 23/24*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Income						
Housing Rents	(25,736)	(26,176)	(26,884)	(28,234)	(29,333)	(30,307)
Other Income	(3,717)	(3,790)	(3,768)	(3,846)	(3,926)	(4,049)
	(29,453)	**(29,966)**	**(30,652)**	**(32,080)**	**(33,259)**	**(34,356)**
Expenditure						
Repairs & Maintenance	5,017	5,156	5,254	5,358	5,471	5,642
Running Costs	9,472	9,944	10,788	10,089	10,296	10,908
Interest Payable	5,667	5,884	5,395	6,146	6,662	6,860
Depreciation	6,000	6,500	6,796	6,989	7,146	7,360
Other Capital Financing	32	33	34	35	36	37
RCCO	3,454	2,449	2,385	3,463	3,648	3,549
Contribution to Balances	0	0	0	0	0	0
Other	0	0	0	0	0	0
	29,642	**29,966**	**30,652**	**32,080**	**33,259**	**34,356**
Budgeted (Surplus)/Deficit	**0**	**0**	**0**	**0**	**0**	**0**
Forecast 2018/19 underspend	0	0	0	0	0	0
Revised (Surplus)/Deficit	**189**	**0**	**0**	**0**	**0**	**0**

Opening Balance	**(3,905)**	**(1,600)**	**(1,600)**	**(1,600)**	**(1,600)**	**(1,600)**
Committed Balance	**2,116**	**-**	**-**	**-**	**-**	**-**
(Surplus)/Deficit	**189**	**-**	**-**	**-**	**-**	**-**
Uncommitted Closing Balance	**(1,600)**	**(1,600)**	**(1,600)**	**(1,600)**	**(1,600)**	**(1,600)**

* It should be noted that it is currently forecast the HRA will be underspent by £282k in 2018/19, which will be used to increase the RCCO in the year. Clearly, if this level of underspend is not achieved, then there will be a resultant impact upon the level of RCCO we are able to make, and thus a knock-on impact on the amount of any new borrowing required.

Review of Housing Revenue Account Balances 2019/20

Risk Management Assessment

Factor	Assessed Risk		
	High £'000	**Medium £'000**	**Low £'000**
Cash flow (1% of £53m)	530		
Interest Rate (1.5% on £62m)		930	
Inflation (Decrease of 1%)		250	
Emergencies		100	
Right To Buy Sales		200	
Litigation			50
Welfare Reform	300		
	830	1,480	50

	Minimum Provision £'000
High Risk – 100%	830
Medium – 50%	740
Low – 10%	5
Sub Total	**1,575**
Other - say	25
Recommended Prudent Level	**1,600**

Housing Revenue Account – 30 Year Financial Model

Appendix E

	Year 1 2019/20 £000's	Year 2 2020/21 £000's	Year 3 2021/22 £000's	Year 4 2022/23 £000's	Year 5 2023/24 £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	(29,966)	(30,652)	(32,080)	(33,259)	(34,356)		(187,446)	(215,569)	(248,069)	(285,460)	(327,824)
Expenditure	29,966	30,652	32,080	33,259	34,356		187,279	215,385	247,867	285,234	327,578
(Surplus)/Deficit	0	0	0	0	0		(167)	(184)	(202)	(226)	(246)
Opening HRA Balance (Surplus)	(1,600)	(1,600)	(1,600)	(1,600)	(1,600)		(1,600)	(1,767)	(1,951)	(2,153)	(2,379)
Closing HRA Balance (Surplus)	(1,600)	(1,600)	(1,600)	(1,600)	(1,600)		(1,767)	(1,951)	(2,153)	(2,379)	(2,625)
Capital Account											
Investment:											
Stock Investment Programme	8,785	9,004	8,383	9,115	11,215	46,502	68,578	70,053	89,895	92,657	146,288
Property Acquisitions	7,400	6,090	6,151	6,214	6,277	32,132	0	0	0	0	0
New Build	4,666	20,138	10,982	2,875	0	38,661	0	0	0	0	0
Total	**20,851**	**35,232**	**25,516**	**18,204**	**17,492**	**117,295**	**68,578**	**70,053**	**89,895**	**92,657**	**146,288**
Funded By (Resources):											
Depreciation	(8,163)	(6,796)	(6,989)	(7,146)	(7,360)	(36,454)	(40,043)	(46,006)	(52,892)	(60,803)	(70,015)
Revenue Contribution	(2,449)	(2,385)	(3,463)	(3,648)	(3,549)	(15,494)	(20,630)	(24,047)	(36,135)	(31,854)	(59,634)
Capital Receipts	(250)	(250)	(250)	0	0	(750)	0	0	0	0	0
HRA Reserves	(1,937)	(2,387)	(2,162)	(1,945)	(1,883)	(10,314)	0	0	0	0	0
New Borrowing	(8,052)	(23,414)	(12,652)	(5,465)	(4,700)	(54,283)	(7,905)	0	(868)	0	(16,640)
Total	**(20,851)**	**(35,232)**	**(25,516)**	**(18,204)**	**(17,492)**	**(117,295)**	**(68,578)**	**(70,053)**	**(89,895)**	**(92,657)**	**(146,288)**
Debt:											
HRA Debt at Year End	135,984	155,188	167,840	173,304	178,004		185,909	182,130	181,998	165,004	181,643

Appendix C

Cabinet

30th January 2019

Report of	**Assistant Director of Policy and Corporate**	**Authors**	**Darren Brown** **☏ 282891** **Geoff Beales** **☏ 506514**
Title	**Housing Investment Programme (HIP) 2019/20**		
Wards affected	All		

Item

1. Executive Summary

1.1 This report sets out a summary of the proposed allocation of **£20.851million** of new resources to the Housing Investment Programme for 2019/20, along with the sources of funding. It also includes at Appendix A an indication of the potential expenditure requirements and funding sources for the years 2020/21 to 2023/24.

2. Recommended Decision

2.1 To approve the Housing Investment Programme for 2019/20.

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

3. Reasons for Decision

3.1 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.

3.2 Members annually agree to accept a proposed 5 year Housing Investment Programme (HIP) in principle as the framework for procuring housing related planned works, improvements, responsive and void works and cyclical maintenance.

3.3 The proposed investment programme is linked to the Asset Management Strategy (AMS) and reviewed annually in the light of available resources and for each annual allocation to be brought to Cabinet for approval as part of the overall HIP report.

3.4 The Colchester Borough Homes (CBH) Board have considered the content of the Cabinet report submitted and is now seeking approval for the 2019/20 Capital programme.

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

4. Supporting Information

Key Issues for 2019/20

4.1 The main issue relating to the HIP budget for 2019/20 is the announcement by Government in November that the Housing Revenue Account (HRA) debt cap has been abolished. The debt cap, alongside the 1% rent reduction from 2016/17 for 4 years, were the factors which prevented the Council from continuing with its new build plans, significantly impinging on our capacity to deliver on the original AMS's objectives and undermined the viability of the HRA Business Plan. The abolition of the debt cap now means there is no limit on the amount of HRA debt the Council can hold, but as is the case with the General Fund, the debt must be affordable and managed in accordance with the prudential borrowing code. The Council is statutorily responsible for self-managing its long-term indebtedness.

4.2 This is the eighth year of HRA Self-Financing, and the continued investment in the housing stock and other projects is reflected in this report. A report elsewhere on the agenda sets outs proposals for new projects using HRA borrowing, such as re-commencing new build plans and increasing Council housing stock through acquisitions.

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

5. Funding the Housing Investment Programme

5.1 2019/20 is the eighth year of the HRA self-financing regime. This fundamentally changed the way in which Council Housing is financed, and as a consequence a financial model for the HRA has been developed, which forecasts the HRA and HIP for each of the next 30 years, using a range of assumptions on areas such as inflation, stock numbers, future expenditure & income levels etc. This is considered further in the 2019/20 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 2019/20 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

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

5.3 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 undertaken following the prudential borrowing code, which states that it must be affordable. 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.

6. 2019/20 Programme of Works

6.1 The requested budget allocation for the 2019/20 programme is £20.851million. A further breakdown of the areas of work that are planned to be undertaken is shown at paragraph 9.

6.2 As part of the management agreement which commenced in August 2013 between the Council and CBH, the management fee was expanded to reflect the wider range of services CBH now provides on behalf of the Council, so it incorporates the fee for managing the capital programme. Members are therefore asked to note that the requested budget allocation in paragraph 6.1, and the budget sums included in paragraph 9 and Appendix A all include the fee for managing the capital programme, which for 2019/20 totals £1,343,000. A further breakdown of the management fee is included in the HRA Revenue Estimates report elsewhere on the agenda.

6.3 Cabinet are also asked to note that a report elsewhere on the agenda sets outs proposals for new projects using HRA borrowing, such as re-commencing new build plans and increasing Council housing stock through acquisitions. These have been reflected in the Housing Investment Programme, with further information provided in the following paragraphs.

7. HRA Capital Medium Term Financial Forecast - 2019/20 to 2023/24

7.1 As previously stated, Cabinet agreed in principle to accept a proposed 5 year HIP subject to overall budget considerations. As a result, expenditure proposals have been included in the capital medium term financial forecast at Appendix A and updated to take account of previous years being completed and new updated year’s being introduced.

New Build

7.2 The budget for 2019/20 includes a provision of £3.907million to commence works on Phase 2 of the re-development of garage sites, and undertake Phase 3 feasibility work. It also includes a provision of £0.459million to purchase properties developed by Colchester Amphora Homes for the Council, and £0.3million for planning, surveys and procurement costs for the Airspace project. It should be noted that a number of assumptions have to be made on the timing and cost of these projects, but the budgets will be monitored and revised as part of the annual budget setting and capital monitoring processes. Further estimated provision has been made in subsequent years for these schemes in the CMTFF.

Acquisitions

7.3 A provision of £2million has been made to continue the programme of buying back properties (up to 10) offered back to the Council through the Right to Buy legislation. A provision of £4million has been made to purchase up to 20 former Council properties via the open market. Further estimated provision has been made in subsequent years for these schemes in the CMTFF.

7.4 At its meeting of 21st November 2018, Cabinet agreed a proposal to enter into partnership with Heylo Housing to purchase 20 former Council properties sold under the statutory Right To Buy. Therefore, a provision of £1.4million has been included in the 19/20 budget.

7.5 A provision of £0.3million has been made to support the re-commencement of the sheltered housing refurbishment programme, which Members will recall was halted as a result of the Governments 1% rent reduction. Now that the debt cap has been abolished, it is possible to continue these plans. The budget is for initial feasibility studies, site surveys, design and planning fees.

7.6 The estimated RCCO in 2019/20 is £2.449million, which is broadly in-line with the assumptions in the business plan. In the years prior to HRA Self-Financing, the RCCO has been used to fund non-works programmes, such as Housing ICT and the capitalisation of costs associated with the Housing Client team. However, as indicated in the HIP report agreed by Cabinet on 25th January 2012, RCCO's have been required to support the works element of the capital programme for 2013/14 onwards. These increased contributions have been affordable as under HRA Self-Financing the Council retains all rental income. However, following the rent reduction announcement by the Government in July 2015, these resources have been much lower than indicated in previous year's budget reports, which has impacted on the level of capital investment in the housing stock.

7.7 Members will be aware that the Council entered into agreement with DCLG in 2012 to retain additional RTB receipts to deliver new affordable housing. As a reminder, retained receipts can only be used on delivering new additional units of accommodation, not on refurbishing existing schemes. The proposals already approved by Cabinet (e.g. the HEYLO scheme) and those shown in reports elsewhere on the agenda and included in the CMTFF should minimise the amount that has to be repaid to Government.

8. Priorities for the Council

8.1 To implement the Colchester Housing AMS, that has been updated to reflect the revised investment plan, as the basis for long term planning, provision and sustainability of Colchester Borough Council's housing assets.

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

8.3 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.

8.4 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.

9. Proposals

9.1 The report sets out below a summary of the proposed allocation of new resources for 2019/20 as defined by the AMS, aswell as those outlined in this report, with the following comments setting out the basis of the allocation.

9.2 ***Capital Investment Programme - £4.811million –*** 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.

9.3 ***Aids & Adaptations - £0.722million -*** 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.

9.4 ***Emergency Failures (statutory obligation) and Voids - £0.782million –*** 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.

9.5 ***Emergency failures structural works - £0.301million –*** 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.

9.6 ***Environmental Works - £0.421million -*** This allocation supports the AMS by continuing to address the improvements to the overall estate living environment. It will include door entry systems, boundary works and PVC installations to continue to reduce the revenue reliance on painting programmes.

9.7 ***Asbestos, Legionella, Fire Safety and Overall Contingency - £0.797million –*** 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

9.8 ***Garages - £0.511million*** – This investment in the garage stock is intended to secure additional revenue income that will support the business plan in future years. We have seen a return on the investment made in previous financial years by increased garage tenancies and fewer empty garages on the sites that have been refurbished.

9.9 ***Sheltered Accommodation Improvements - £0.300million*** – This allocation supports the continuation of the overall refurbishment programme, which is now possible as a result of the abolition of the debt cap. It will include feasibility studies, site surveys, design and planning fees.

9.10 ***Non-Works Programmes - £0.140million*** – This allocation is for capital costs linked to the further development of the Capita Housing system.

9.11 ***Acquisitions - £7.400million*** – As set out in the main body of the report, this allocation supports the potential to Buy Back properties offered back to the Council through the Right to Buy legislation, purchasing properties on the open market, and the HEYLO scheme. This allocation provides the opportunity to use funding through retained 1-4-1 Right To Buy receipts (up to 30% of total cost), with the balance of 70% coming from prudential borrowing.

9.12 ***New Build - £4.666million*** – As set out in the main body of the report, this allocation supports the plans to continue with Phase 2 of garage site redevelopment, the purchase of properties developed by Colchester Amphora Homes for the Council, and the pilot of the Airspace project.

10. Strategic Plan References

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

Growth

- Ensuring all residents benefit from the growth of the borough.
- Help make sure Colchester is a welcoming place for all residents and visitors.
- Ensure residents benefit from Colchester economic growth with skills, jobs and improving infrastructure.

Opportunity

- Promoting and improving Colchester and its environment
- Ensure a good supply of land available for new homes through our local plan.
- Promote initiatives to help residents live healthier lives.

Wellbeing

- Making Colchester an even better place to live and supporting those who need most help
- Encourage belonging, involvement and responsibility in all the boroughs communities.
- Create new social housing by building Council homes and supporting Registered Providers.
- Target support to the most disadvantaged residents and communities

11. Consultation

11.1 The Council conducted the bi-annual STAR survey through ARP Research in April 2018 with the specific aim of obtaining customer feedback through a survey of general needs tenants, all sheltered tenants and leaseholders. There was an increased response rate from tenants and leaseholders on previous surveys. Questions were centred on Colchester Borough Homes performance, tenant satisfaction with their homes, neighbourhood and services. The survey also attempted to identify tenants' priorities on where we focus the provision of non-statutory services.

11.2 Consultation has been undertaken as part of the process to review spending plans given the impact of the Governments rent reduction announcement referred to in paragraph 4.1.

11.3 In April 2018, the Council introduced a new Asset Management Strategy for the period 2018-22. Consultation with tenants and leaseholders took place around the priorities for this new strategy.

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

12. Publicity Considerations

12.1 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.

13. Financial implications

13.1 As set out in the report.

14. Equality, Diversity and Human Rights implications

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

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

15. Community Safety Implications

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

16. Health and Safety Implications

16.1 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.

17. Risk Management Implications

17.1 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 – 2019/20 to 2023/24

Appendix A

Expenditure	Notes	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Stock Investment Programme etc		7,623	8,131	7,521	8,246	10,346
Sheltered Accommodation Review		300	-	-	-	-
Adaptations		722	730	758	763	760
Stock Investment Sub - Total		**8,645**	**8,861**	**8,279**	**9,009**	**11,106**
New Build		4,666	20,138	10,982	2,875	-
Acquisitions		7,400	6,090	6,151	6,214	6,277
ICT		140	143	104	106	109
Other Works Sub - Total		**12,206**	**26,371**	**17,237**	**9,195**	**6,386**
Total Programme		**20,851**	**35,232**	**25,516**	**18,204**	**17,492**

Resources	Notes	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Major Repairs Reserve		8,163	6,796	6,989	7,146	7,360
Revenue Contribution to Capital		2,449	2,385	3,463	3,648	3,549
Capital Receipts	Stock Rationalisation	250	250	250	-	-
Retained RTB Receipts Reserve		1,937	2,387	2,162	1,945	1,883
New Borrowing		8,052	23,414	12,652	5,465	4,700
Total Funding		**20,851**	**35,232**	**25,516**	**18,204**	**17,492**

Scrutiny Panel			**Item 12**
29 January 2019			
Report of	**Assistant Director, Policy & Corporate**	**Author**	**Margaret Donaldson Interim Finance Manager** ☏ **282338**
Title	**Treasury Management Strategy 2019/20**		
Wards affected	Not Applicable		

1. Executive Summary

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 line with the Treasury Management Policy, which includes the Council's risk appetite for Treasury Management Investments.

1.2. The second main function of the treasury management service is the funding of the Council's capital plans, in line with the Council's Capital Investment Strategy. 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 investment 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. The Council's Treasury Management arrangements are guided by various statutory requirements and CIPFA guidance.

2. Action Required

2.1 The Panel is asked to review the 2019/20 Treasury Management Strategy Statement and associated Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy prior to it being considered by Cabinet and Full Council as part of the 2019/20 budget report.

3. Reason for Scrutiny

3.1. The Council agreed to adopt the revised CIPFA Treasury Management in the Public Services Code of Practice on 17 February 2017. The Code requires the Council to approve an annual Treasury Management Strategy Statement

(TMSS), 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.

3.2. Under the terms of the 2017 code, Full Council is required to adopt the TMSS annually, as part of the budget strategy reports and associated Medium Term Financial Plan.

4. Background

4.1 CIPFA defines treasury management as: “The management of the organisations borrowing, 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.”

4.2 The strategy for 2019/20 covers the following Capital and Treasury Management issues:

- the economic background and prospects for interest rates under which the Council’s Treasury Management Strategy is set;
- the current treasury position;
- the capital plans and the prudential indicators;
- treasury indicators which limit the treasury risk and activities of the Council;
- the borrowing strategy;
- the policy of borrowing in advance of need;
- debt rescheduling;
- the investment policy and strategy, and credit worthiness policy;
- The Minimum Revenue Provision Policy (MRP);
- reporting requirements;
- training requirements; and
- the policy on use of external service providers.

4.1 The CIPFA Code of Practice for Treasury Management in Public Services (the TM Code), the CIPFA Prudential Code 2017, statutory investment guidance 2018, and statutory MRP guidance 2018 and various associated guidance regulates the Council’s treasury activities.

5. Treasury Management Strategy Statement 2019/20

5.1 The Treasury Management Strategy Statement for 2019/20 is detailed in full at **Appendix A** and reflects the Council’s risk appetite for treasury management investments and borrowing. The Council’s risk appetite in relation to Non Treasury Management investments, such as investments in Local Authority Companies and Commercial property is included in the Capital Strategy.

5.2. The strategy sets out that the Council’s borrowing requirement over the coming years. The Council has agreed long term borrowing to support the Northern Gateway Sports scheme and purchase of waste vehicles. In addition separate reports on this agenda set out proposals relating to Council housing which include borrowing. The Council continues a policy of ‘internal borrowing’ to support the capital programme where it is possible. However, during the coming year it is likely that it will be necessary to borrow some funds externally.

Given some of this is expected to cover temporary borrowing it is expected that most new borrowing will be for short periods to take advantage of lower interest rates.

5.3 The key elements of the Strategy are as follows:

- The Council's current Treasury position is a net borrowing position, primarily as a result of the HRA primarily due to the Housing Revenue Account Subsidy reform in April 2012,
- The Strategy is informed by the Council' future capital investment plans, as detailed at **paragraph 4 of Appendix A**,
- The Council has a statutory duty to self-manage its external debt, ensuring borrowing is affordable in the long term. Therefore as required by CIPFA a set of Prudential Indicators and Minimum Revenue Provision policy is established and monitored throughout the year. These are detailed at **paragraphs 6 to 9 of Appendix A,**
- The Council's Investment strategy is included at **paragraph 10**; and includes the following changes to the policy:
    - o For Non Specified investments, the limit for 2019/20 has been reduced to £10m and 25% of the total portfolio to more fully represent the risk associated with such investments; and
    - o In preparation for a disorderly UK exit from the EU and the potential reduction in the UK's sovereignty rating, the minimum counterparty limit of AA- has been applied to all country counterparties.
- The required financial reporting arrangement are included in **paragraph 11 of Appendix A.**

6. Standard References

6.1. There are no particular references to the Strategic Plan; consultation or publicity, community safety, equality and health and safety.

7. Financial implications

7.1. The financial implications of the Strategy are included at **Appendix A**.

8. Risk Management Implications

8.1. The Council has identified a low risk appetite in managing its cash surpluses and follows the principal of ensuring that the principal investment is secure, with cash balances being available to finance operating and capital investment as required; before giving consideration to returns.

8.2 The day to day delivery of the TMSS is undertaken through a set of Treasury Management Practices which will be updated in February 2019.

Appendices

Appendix A – Treasury Management Strategy Statement 2019/20

Treasury Management Strategy Statement

Annual Investment Strategy, Borrowing Strategy and Minimum Revenue Provision Policy Statement 2019/20

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 line with the Treasury Management Policy, which includes the Council's risk appetite for treasury management investments.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans, in line with the Council's Capital Investment Strategy. 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 investment 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 organisations borrowing, 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."

1.4 The strategy for 2019/20 covers the following Capital and Treasury Management issues:

- the economic background and prospects for interest rates under which the Council's Treasury Management Strategy is set;
- the current treasury position;
- the capital plans and the prudential indicators;
- treasury indicators which limit the treasury risk and activities of the Council;
- the borrowing strategy;
- the policy of borrowing in advance of need;
- debt rescheduling;
- the investment policy and strategy, and credit worthiness policy;
- The Minimum Revenue Provision Policy (MRP);
- reporting requirements;
- training requirements; and
- the policy on use of external service providers.

1.5 The CIPFA Code of Practice for Treasury Management in Public Services (the TM Code), the CIPFA Prudential Code 2017, statutory Investment guidance 2018, and statutory MRP guidance 2018 and various associated guidance regulates the Council's treasury activities.

2 *External Context*

Economic Background

2.1 The UK's progress negotiating its exit from the EU together with future trading arrangements will continue to be a major influence on the Council's Treasury Management Strategy for 2019/20. The markets are assuming that a deal will be struck and some agreement will be reached on transition and future trading arrangements before the UK leaves the EU. There is however still the possibility of a 'no deal' Brexit hanging over economic activity. The risk to the interest rate forecast are considered to be to the downside.

2.2 A full economic outlook as provided by the Council's treasury advisor is detailed at **Appendix A (1**), with the forecast for interest rates included at **Appendix A(2)** A recent Fitch creditworthiness outlook for 2019 is summarised as follows:

i) Global growth is expected to remain positive, however peak growth has clearly passed

ii) Main Global Risks:
- Global trade – persistent risks due to changing US trade policy
- Global financial tightening – higher interest rates and an end to Quantative Easing.
- Government debt levels – remain high in developed markets, growing fast in emerging markets.
- Geopolitics – populism, Italy, Brexit, elections in key emerging markets (Argentina, Nigeria, S.Africa), Korean peninsula, Middle East.

iii) 2018 stood out as a year where sovereign upgrades outnumbered downgrades, Fitch does not expect this to continue in 2019.

3. Treasury Position

The following table summarise the Council's current Treasury position:

£'000	31 March 2018 Actual	Dec 2018 Position
Investment		
Managed In House		
Call Accounts - Money Market Funds	13,331	12,330
Notice Accounts	10,030	7,500
Temporary Fixed Deposits - Non Local Authorities	11,529	32,000
Temporary Fixed Deposits - Local Authorities	13,010	7,500
Long Term Investment	6	6
Total Investments	**47,906**	**59,336**
Borrowing		
Short Term Borrowing	5,500	5,500
Long Term Borrowing - PWLB	104,594	104,594
Long Term Borrowing - Market Loans	31,000	31,000
Total Borrowing	**141,094**	**141,094**
Net Investment/(Borrowing)	**-93,188**	**-81,758**

3.1 The table shows the position at the start of the financial year and the position as at 31 December 2018. Investment balances increased by £11.4m, primarily due to the reduction in the need to finance capital schemes; this has resulted in the net borrowing reducing by £11.4m since March 2018.

4 Capital Expenditure and Funding

4.1 In order to inform the Council's investment and borrowing strategy, consideration needs to be given to the Council's future capital investment plans. The table below highlights the current approved programme and new bids submitted as part of the capital programme budget included in the budget strategy for 2019/20. The table is split into General Fund and Housing Revenue Account (HRA) capital expenditure.

Capital Expenditure £'000	**2017/18 Actual**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
General Fund	9,038	29,982	56,684	9,994	300	0	0
HRA	7,967	12,808	26,118	29,860	25,516	18,204	17,492
Total	**17,005**	**42,790**	**82,802**	**39,854**	**25,816**	**18,204**	**17,492**

Capital Expenditure £'000	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
Total Expenditure	**17,005**	**42,790**	**82,802**	**39,854**	**25,816**	**18,204**	**17,492**
Financed by:							
Capital receipts	2,768	9,405	11,053	4,028	250	0	0
Capital grants	2,928	3,667	14,291	1,106	300	0	0
Reserves	7,865	10,606	12,416	9,183	9,151	9,091	9,244
Revenue	1,923	5,570	2,449	2,288	3,463	3,648	3,549
Finance leases	230	0	0	0	0	0	0
Net financing need	**1,291**	**13,542**	**42,593**	**23,249**	**12,652**	**5,465**	**4,699**

4.2 The funding of the capital programme is in line with the Council's funding principles included in the proposed capital strategy, reported earlier in the agenda.

5 Borrowing Strategy

5.1 The Council has a statutory requirement to self-manage its external borrowing, ensuring that in the long term borrowing is sustainable and affordable, this has become more important with the abolition of the HRA debt cap.

5.2 CFR is lower than the external debt, as cash supporting the Councils reserves, balances and cash flow has been used as a funding temporary measure. This strategy is prudent when there are low returns on investment and counterparty risk is still a material risk.

5.3 Under these circumstances, and the risks within the economic forecast; caution will be adopted for the 2019/20 treasury operations. The S151 Officer will monitor interest rates and adopt a pragmatic approach to changing circumstances:

- If it was felt that there was a significant risk of a sharp fall in long term and short term rates, then long term borrowing would be postponed, and potential rescheduling form fixed funding into short term funding will be considered.
- If it was felt that there was a significant risk of a sharp rise in interest rates in the long and short term, the portfolio position will be reappraised.
- Any decisions will be reported to Cabinet at the next available meeting.

5.4 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of need, purely to profit from the investment of extra sums borrowed. Any decision to borrow in advance of need will be considered carefully to ensure that the associated risks can be managed, the proposal complies with the Council's Capital Strategy value for money can be obtained and the security of such funds can be maintained in the long term.

5.5 Debt Rescheduling

Where short term borrowing rates are considerably cheaper than long term fixed interest rates, there will be a potential opportunity to generate savings on interest costs by restructuring the Council's debt. Such savings will need to be considered in light of:

- the cost of repaying the debt early, and
- the potential for running down investment balances to repay debt, as interest income on investments are likely to be lower than the rates for current debt.

5.6 All rescheduling will be reported to Cabinet at the earliest opportunity.

6 Capital Financing Requirement (CFR)

6.1 The CFR represents what the Council has previously borrowed to finance capital expenditure and its ongoing need to borrow for capital purposes The CFR does not increase indefinitely, as the minimum revenue provision (MRP), a statutory annual revenue charge for borrowing over each assets life reduces the CFR. The CFR includes other long term liabilities such as finance leases. For financial management purposes the CFR is split between the General Fund and the HRA.

6.2 The composition of the CFR is detailed below for the 2017/18 Actual and forecast period to 2023/24:

£'000	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
CFR – general fund	26,255	39,797	69,071	74,181	74,181	74,181	74,181
CFR - housing	127,933	127,933	141,252	155,179	167,831	173,296	177,995
Total CFR	**154,188**	**167,730**	**210,323**	**229,360**	**242,012**	**247,477**	**252,176**
Movement in CFR	(409)	13,542	42,593	19,037	12,652	5,465	4,699
Movement in CFR represented by:							
Net financing need	1,290	15,521	44,583	21,030	14,645	7,458	6,692
Assets acquired under finance leases	(445)	(234)	0	0	0	0	0
Less MRP	1,254	1,745	1,990	1,993	1,993	1,993	1,993
Movement in CFR	**(409)**	**13,542**	**42,593**	**19,037**	**12,652**	**5,465**	**4,699**

6.3 As detailed in the HRA budget report, the HRA will repay maturing debt of £17.6m in 2020/21; with an estimated £4.212m being funded from the debt repayment reserve; with the estimated balance of £13.388m being refinanced through new debt in 2020/21.

6.4 The table below compares the projections for the Council's outstanding debt to the CFR forecast for the planning horizon. For the majority of the reporting period the Council's will be sustaining an under borrowed position in delivering the current capital programme forecast.

£'000	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
External debt at 1 Apr	136,094	142,500	158,194	202,994	224,241	239,103	246,778
New borrowing	5,000	15,521	44,583	21,030	14,645	7,458	6,692
Other long-term liabilities	1,406	173	217	217	217	217	217
Gross debt at 31 Mar	**142,500**	**158,194**	**202,994**	**224,241**	**239,103**	**246,778**	**253,687**
CFR	154,188	167,730	210,323	229,360	242,012	247,477	252,176
Under / (over) borrowing	**11,688**	**9,536**	**7,329**	**5,119**	**2,909**	**699**	**(1,511)**

6.5 The Council will be required to approve the CFR projections above.

7 Limits on Borrowing Activity

7.1 *Operational Boundary*

The Operational Boundary is the limit beyond which external debt is not expected to exceed. The limit may be higher or lower depending on the levels of actual debt and the ability to borrow from other cash resources.

Operational boundary £'000	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Debt	148,494	161,788	206,415	227,445	242,090	249,548	256,240
Other long term liabilities	2,074	173	217	217	217	217	0
Total	**150,568**	**161,961**	**206,632**	**227,662**	**242,307**	**249,765**	**256,240**

7.2 Authorised Limit for External Debt

This is a key treasury management indictor and represents a control on the maximum level of borrowing. This is a legal limit, beyond which external debt cannot be breached. The limit needs to be set and revised by full Council. The limit is the level of debt which could be afforded in the short term; but not sustainable in the long term.

Authorised limit £'000	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Debt	168,660	176,788	221,415	242,445	257,090	264,548	271,240
Other long term liabilities	2,074	173	217	217	217	217	0
Total	**170,734**	**176,961**	**221,632**	**242,662**	**257,307**	**264,765**	**271,240**

7.3 HRA Local Indicator – Interest Cover Ratio

In line with Treasury Management Guidance, a local indicator has considered for the HRA as it is a statutory account. Registered Housing Providers use an interest cover ratio to identify the organisations ability to meet interest costs from the net operating surplus. The ratio for the HRA over the period to 2023/24 is between 1.50 to 1.66, as detailed below:

2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
1.54	1.66	1.5	1.51	1.64	1.62	1.59

8 Maturity Structure of borrowing

8.1 Theses 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. The proposed limits for 2019/20 are unchanged from the 2018/19 strategy limits as follows:

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

9 Minimum Revenue Provision – Policy Statement

9.1 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.

9.2 Government regulations 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:

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

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

9.4 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.

9.5 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.

10 Investment Strategy

10.1 The Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA, through the Treasury Management Code of Practice; have extended the meaning of 'investments 'to include non-treasury investments. The Treasury Management Strategy covers treasury investments only, non-treasury management investments are covered in the Capital Strategy**.**

10.2 The Council's Investment Strategy and supporting practices are required to be compliant with:

- Guidance for Central Government on Local Government Investments, and
- CIPFA Treasury Management in the Public Sector Code of Practice and Cross Sectoral Guidance notes 2017 (the TM code).

10.3 The Council's investment priorities will be security of investment first, portfolio liquidity second and then yield (investment returns).

10.4 This risk appetite will be delivered through the following key investment principles:

- All investments will be in Sterling;
- Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. Risk is also managed through diversification of investment. Short term and long term ratings are used to monitor counterparties;
- Counterparties are also monitored through the use of other information, such as the opinion of the markets and information received through its treasury advisors, financial press, etc.;
- The Council applies the credit worthiness service provided by Link Asset Services, which is based on all three credit rating agencies(Fitch, Moody's and Standard & Poor's) and overlaid with credit watches and credit outlooks from credit agencies, CDS spreads and sovereign ratings; the result being that colour code bands are used by the council to determine the duration of the investment with organisations;

10.5 The types of investment instrument which the treasury management team are authorised to use are detailed at **Appendix A(3),** comprising 'specified' and 'non-specified investments;

    - *Specified Investments* are high level credit quality and subject to a maturity limit of less than 365 days.
    - *Non Specified Investments* are less highly credit quality, may be for periods in excess of 365 days and are more complex instruments, requiring greater consideration by officers and members. A limit of £10m or 25% of the investment portfolio will be set for such investments in 2019/20.

- A limit of £5m will be set for principal investments over 365 days;
- Each counterparty will be set a lending limit, through the use of a matrix table as detailed at **Appendix A(3),** these limits will apply to groups of companies;
- In addition, each type of investment will be set a transaction limit to support diversification;
- Investments will only be placed with counterparties from countries with a minimum sovereign rating of AA-(Fitch) based on the lowest available credit rating, this includes UK counterparties; **Appendix A (4)**
- No more than £15m will be placed with any non UK country at any time;
- Credit ratings will be monitored on a monthly basis, with extreme market movements resulting in the downgrade of the institution or removal from the Council's lending list;
- A bench mark return for 2019/20 of 1.00% is proposed for investments with a maturity of up to three months, this is based on a Bank Rate forecast of 1.25% as at March 2020.

- The Council will consider the implications of investment instruments which could result in an adverse movement in the principal investment amount, which will result in a charge to the General Fund; and
- All credit limits will be continuously monitored for appropriateness.

10.6 The following changes have been made to the credit criteria for 2019/20 compared to 2018/19:

- the Non Specified limit has been reduced to a maximum of £10m and 25% of the investment portfolio, to reflect more fully the risk associated with such investments,
- in preparation for a disorderly Brexit and the possible reduced UK sovereignty rating, the minimum sovereignty rating has been applied to all counterparties, including those in the UK.

11 Reporting requirements

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

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

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

The report includes the forecast for the impact of the capital programme on treasury management over the following five forecasting years.

11.3 *Mid-Year Treasury Management Report* – This will update members with the progress on the capital position, amending prudential indicators as necessary, and whether any policies require revision. The report in addition to reviewing progress in the current financial year, will include the impact on the following three years forecast.

11.4 *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 and the impact in future years.

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

12 Treasury Management Consultants

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

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

13 Training

13.1 The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management or scrutiny receive adequate training in treasury management. This especially applies to members responsible for scrutiny. 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.

ECONOMIC BACKGROUND

- **GLOBAL OUTLOOK. World growth** has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China and the eurozone, overall world growth is likely to weaken.

Inflation has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to a marked acceleration of wage inflation. The US Fed has therefore increased rates nine times and the Bank of England twice. However, the ECB is unlikely to start raising rates until late in 2019 at the earliest.

KEY RISKS - central bank monetary policy measures
Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as quantitative easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation, is coming towards its close. A new period is well advanced in the US, and started more recently in the UK, of reversing those measures i.e. by raising central rates and, (for the US), reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of a reduction in spare capacity in the economy and of unemployment falling to such low levels, that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This meant that both asset categories were exposed to the risk of a sharp downward correction and we have indeed, seen a sharp fall in equity values in the last quarter of 2018. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery, by taking too rapid and too strong action, or, conversely, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.** At the time of writing, (early January 2019), financial markets are very concerned that the Fed is being too aggressive with its policy for raising interest rates and was likely to cause a recession in the US economy.

The world economy also needs to adjust to a sharp change in **liquidity creation** over the last five years where the US has moved from boosting liquidity by QE purchases, to reducing its holdings of debt, (currently about $50bn per month). In addition, the European Central Bank ended its QE purchases in December 2018.

- **UK.** The flow of positive economic statistics since the end of the first quarter of 2018 has shown that pessimism was overdone about the poor growth in quarter 1 when adverse weather caused a temporary downward blip. Quarter 1 at 0.1% growth in GDP was followed by a return to 0.4% in quarter 2 and by a strong performance in quarter 3 of +0.6%. However, growth in quarter 4 is expected to weaken significantly.

- At their November quarterly Inflation Report meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years time, but declined to give a medium term forecast. However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also *raise* Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor could potentially provide fiscal stimulus to support economic growth, though at the cost of increasing the budget deficit above currently projected levels.
- It is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Getting parliamentary approval for a Brexit agreement on both sides of the Channel will take well into spring 2019. However, in view of the hawkish stance of the MPC at their November meeting, the next increase in Bank Rate is now forecast to be in May 2019, (on the assumption that a Brexit deal is agreed by both the UK and the EU). The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.
- **Inflation.** The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.3% in November. In the November Bank of England quarterly Inflation Report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate. This inflation forecast is likely to be amended upwards due to the Bank's report being produced prior to the Chancellor's announcement of a significant fiscal stimulus in the Budget; this is likely to add 0.3% to GDP growth at a time when there is little spare capacity left in the economy, particularly of labour.
- As for the **labour market** figures in October**,** unemployment at 4.1% was marginally above a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 3.3%, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates less CPI inflation), earnings are currently growing by about 1.0%, the highest level since 2009. This increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.
- In the **political arena**, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.
- **USA.** President Trump's massive easing of fiscal policy is fuelling a, (temporary), boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. The strong growth in employment numbers and the reduction in the unemployment rate to 3.9%, near to a recent 49 year low, has fed through to an upturn in wage inflation which hit 3.2% in November, However, CPI inflation overall fell to 2.2% in November and looks to be on a falling trend to drop below the Fed's target of 2% during 2019. The Fed has continued on its series of increases in interest rates with another 0.25% increase in December to between 2.25% and 2.50%, this being the fifth increase in 2018 and the ninth in this cycle. However, they did also reduce their forecast for further increases from three to two. This latest increase compounded investor fears that the Fed is over doing the rate and level of increases in rates and that it is going to cause a US recession as a result. There is also much evidence in previous monetary policy cycles, of the Fed's series of increases doing exactly that. Consequently, we have seen stock markets around the world

plunging under the weight of fears around the Fed's actions, the trade war between the US and China, an expectation that world growth will slow, Brexit etc.

- The tariff war between the US and China has been generating a lot of heat during 2018, but it is not expected that the current level of actual action would have much in the way of a significant effect on US or world growth. However, there is a risk of escalation if an agreement is not reached soon between the US and China.
- **Eurozone.** Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this was probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of nearly 2% for 2018, the horizon is less clear than it seemed just a short while ago. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank ended all further purchases in December 2018. The ECB is forecasting inflation to be a little below its 2% top limit through the next three years so it may find it difficult to warrant a start on raising rates by the end of 2019 if the growth rate of the EU economy is on a weakening trend.
- **China.** Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. Progress has been made in reducing the rate of credit creation, particularly from the shadow banking sector, which is feeding through into lower economic growth. There are concerns that official economic statistics are inflating the published rate of growth.
- **Japan** - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It is likely that loose monetary policy will endure for some years yet to try to stimulate growth and modest inflation.
- **Emerging countries.** Argentina and Turkey are currently experiencing major headwinds
- and are facing challenges in external financing requirements well in excess of their reserves of foreign exchange. However, these countries are small in terms of the overall world economy, (around 1% each), so the fallout from the expected recessions in these countries will be minimal.
- **INTEREST RATE FORECASTS**
- The interest rate forecasts provided by Link Asset Services in paragraph 3.2 are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall. If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.
- **The balance of risks to the UK**
    - The overall balance of risks to economic growth in the UK is probably neutral.
    - The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.
- One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for ten years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

- **Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:**
  - **Brexit –** if it were to cause significant economic disruption and a major downturn in the rate of growth.
  - **Bank of England monetary policy** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
  - A resurgence of the **eurozone sovereign debt crisis**, possibly in **Italy**, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. The EU rejected the initial proposed Italian budget and demanded cuts in government spending which the Italian government initially refused. However, a fudge was subsequently agreed, but only by *delaying* the planned increases in expenditure to a later year. This can has therefore only been kicked down the road to a later time. The rating agencies have started on downgrading Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold it. Unsurprisingly, investors are becoming increasingly concerned by the words and actions of the Italian government and consequently, Italian bond yields have risen – at a time when the government faces having to refinance large amounts of debt maturing in 2019.
  - Weak capitalisation of some **European banks**. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.
  - **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD is reviewing whether it can continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018, (a new party leader has now been elected). However, this makes little practical difference as she is still expected to aim to continue for now as the Chancellor. However, there are five more state elections coming up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of electoral support for both the CDU and SPD which could also undermine her leadership.
  - **Other minority eurozone governments.** Spain, Portugal, Ireland, the Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile. Sweden is also struggling to form a government due to the anti-immigration party holding the balance of power, and which no other party is willing to form a coalition with. The Belgian coalition collapsed in December 2018 but a minority caretaker government has been appointed until the May EU wide general elections.
  - **Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU while **Italy,** in 2018, also elected a strongly anti-immigration government. Elections to the EU parliament are due in May/June 2019.
  - Further increases in interest rates in the US could spark a **sudden flight of investment funds** from more risky assets e.g. shares, into bonds yielding a much improved yield. Throughout the last quarter of 2018, we saw sharp falls in equity markets interspersed with occasional partial rallies. Emerging countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to this risk of an investor flight to safe havens e.g. UK gilts.
  - There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now

rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
  - **Geopolitical risks,** especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- **Upside risks to current forecasts for UK gilt yields and PWLB rates**
  - **Brexit –** if both sides were to agree a compromise that removed all threats of economic and political disruption.
  - **The Fed causing a sudden shock in financial markets** through misjudging the pace and strength of increases in its Fed Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
  - The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
  - **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Interest Rate Forecasts 2019 – 2022

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

Link Asset Services Interest Rate View	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
Bank Rate													
Link Asset Services	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
Capital Economics	0.75%	1.00%	1.25%	1.50%	1.70%	1.75%	2.00%	2.00%	-	-	-	-	-
5yr PWLB Rate													
Link Asset Services	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
Capital Economics	2.03%	2.15%	2.40%	2.65%	2.70%	2.75%	2.80%	2.85%	-	-	-	-	-
10yr PWLB Rate													
Link Asset Services	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
Capital Economics	2.43%	2.55%	2.80%	3.05%	3.05%	3.05%	3.05%	3.05%	-	-	-	-	-
25yr PWLB Rate													
Link Asset Services	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.96%	3.08%	3.33%	3.58%	3.53%	3.48%	3.43%	3.38%	-	-	-	-	-
50yr PWLB Rate													
Link Asset Services	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
Capital Economics	2.78%	2.90%	3.15%	3.40%	3.40%	3.40%	3.40%	3.40%	-	-	-	-	-

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

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

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

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

Notes:

- Non U.K. country limit of £15m
- Limit in all Building Societies of £10m

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

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

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

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

Updated as at 9.1.2019

Scrutiny Panel		**Item 13**
29 January 2019		

Report of	**Assistant Director (Policy and Corporate)**	**Author**	**Dan Gascoyne ☏ 282577**
Title	**Corporate Key Performance Indicator Targets for 2019-2020**		
Wards affected	Not applicable		

1. Executive Summary

1.1 The Panel is invited consider the Corporate Key Performance Indicator (KPI) Targets for 2019-2020.

2. Action Required

2.1 To consider KPI Targets for 2019-2020.

2.2 To note the dates contained in the Reporting Timetable covering 2019-2020.

3. Reason for Scrutiny

3.1 To agree KPI targets for 2019-2020; ahead of Cabinet on 13 March 2019.

4. Background Information

4.1 Proposed KPIs for 2019-2020 will be taken to Cabinet on 13 March, for consideration based on third quarter data.

4.2 The report on KPIs now features an improved graphical presentation of year-to-date performance and previous year performance against target.

4.3 The overall position for April – December 2018 can be found at Appendice A.

4.4 Housing Key Indicators delivered by Colchester Borough Homes (CBH) have been agreed by Portfolio Holder for Housing and Communities and detailed in Colchester Borough Homes new Medium Term Delivery Plan.

5. Equality, Diversity and Human Rights implications

5.1 Where required, specific Equality Impact Assessments will exist for policies and activities rather than for individual performance indicators.

6. Strategic Plan References

6.1 There are no particular references to the 2018-2021 Strategic Plan.

7. Consultation

7.1 There are not any direct implications with regard to consultation.

8. Publicity Considerations

8.1 The performance report contains measures for our key performance. Many of these are used to monitor the performance of our services, and as such these may be of public interest. The performance report and related information is published on the Performance section of the Council's website.

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9. Financial implications

9.1 The financial implications to deliver the indicators form part of the budget setting process rather than for individual performance indicators.

10. Health, Wellbeing and Community Safety Implications

10.1 There are performance measures and actions within the Strategic Plan Action Plan which aim to improve community safety rather than for individual performance indicators.

11. Health and Safety Implications

11.1 This report has no direct implications with regard to Health and Safety.

12. Risk Management Implications

12.1 We aim to deliver against performance indicators as a key part of our performance framework.

Appendices

A. KPI Report covering April - December 2018.
B. Reporting Timetable covering 2019-2020.
C. Draft Cabinet Report.

Background Papers

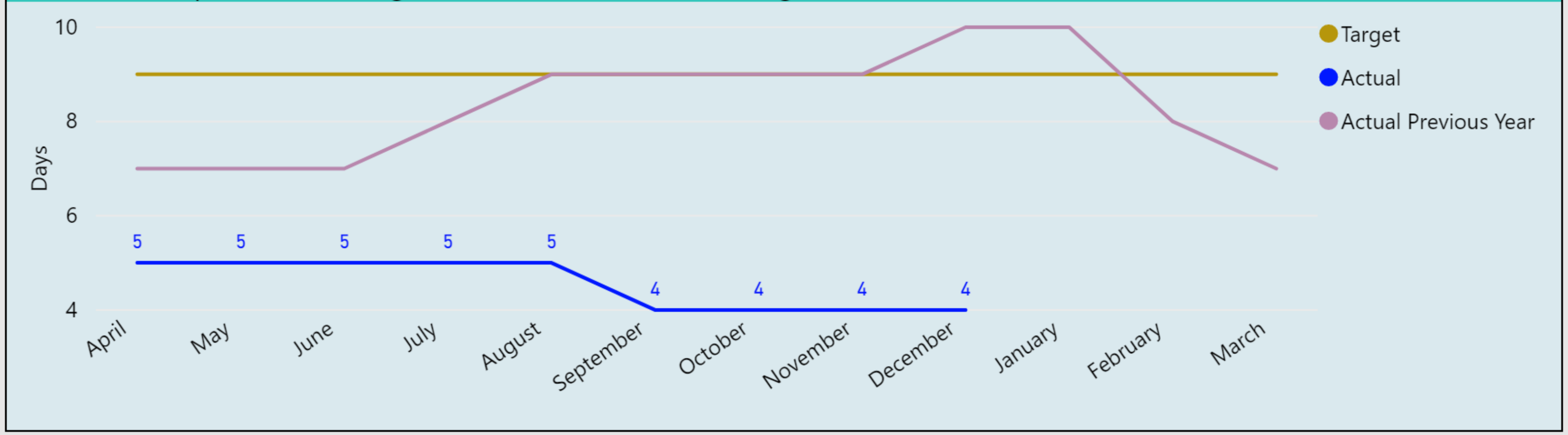
Not applicable.

Appendix A

Scrutiny Panel 29 January 2019

Proposed Targets 2019-2020

K1B1 Time to process Housing Benefit new claims and changes



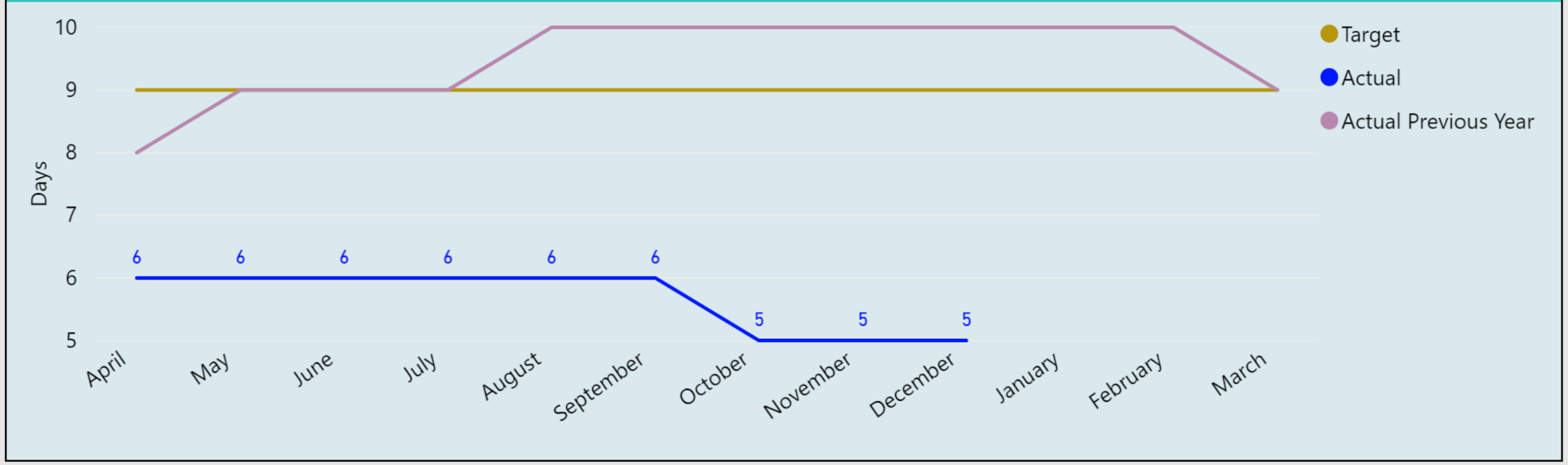
Supporting Narrative

Target to remain at 9 days

The introduction of Universal Credit brings uncertainty to the year ahead. Although current performance is good, this performance may not be sustainable due to Universal Credit roll out, reduced resources and the need to deal with increasingly complex claims

Target 2017-2018	Target 2018-2019	Target 2019-2020
12	9	9

K1B1 LCTS



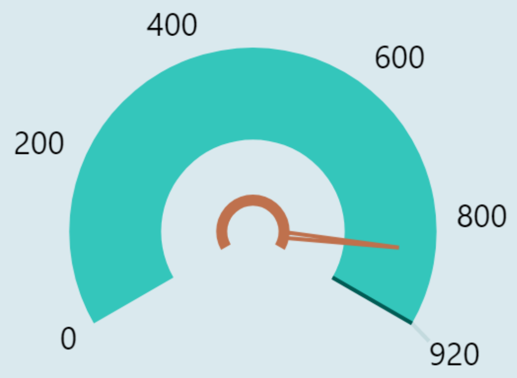
Supporting Narrative

Target to remain at 9 days – see above.

Target 2017-2018	Target 2018-2019	Target 2019-2020
16	9	9

2017-2018 | 2018-2019
April | May | June | July | August | September | October | November | December | January | February | March

K1H1 Net Additional Homes Provided



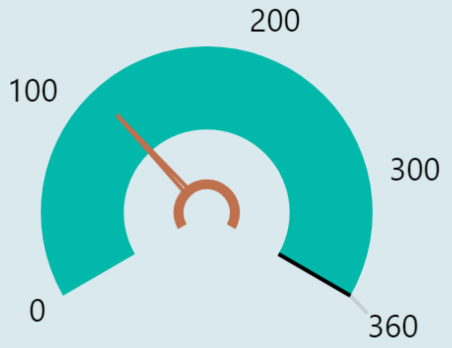
829

Supporting Narrative

Target to remain at 920.

Target 2017-2018	Target 2018-2019	Target 2019-2020
830	920	920

K1H2 Affordable Homes Delivered over Three Years



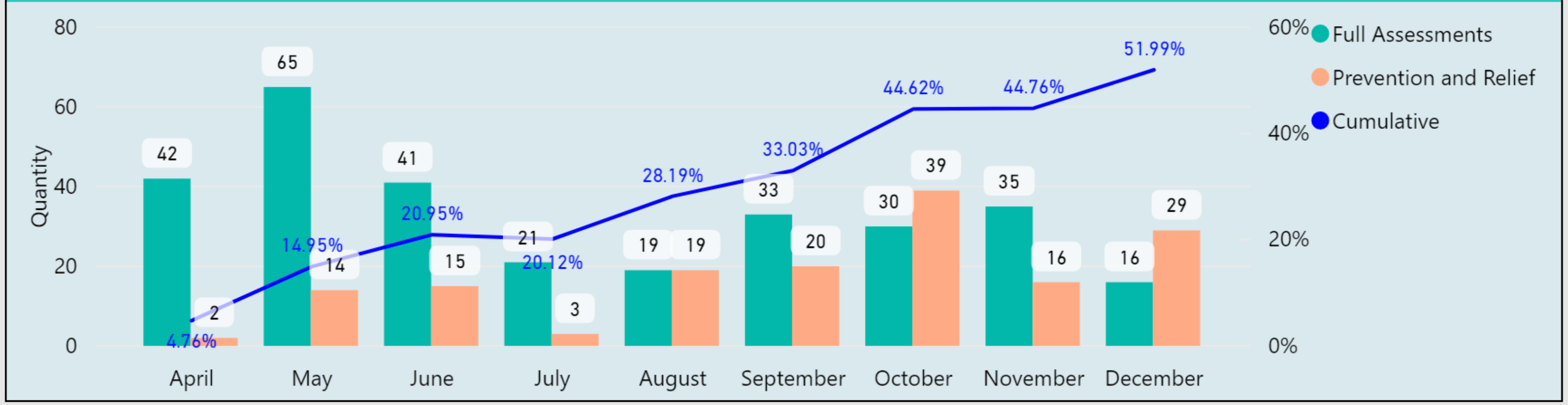
116

Supporting Narrative

This target is in-line with the 2018-2021 Strategic Plan Action Plan and should remain as is. Target to be reviewed during 2019/20 based on an analysis of the development pipeline and the Council's proposals for further HRA borrowing to build and purchase more affordable homes.

SPAP Target 2015-2018	Year One Target 2018-2019	Year Two Target 2019-2020	Year Three Target 2020-2021
255	120	240	360

K1H3 Homelessness Cases Prevented

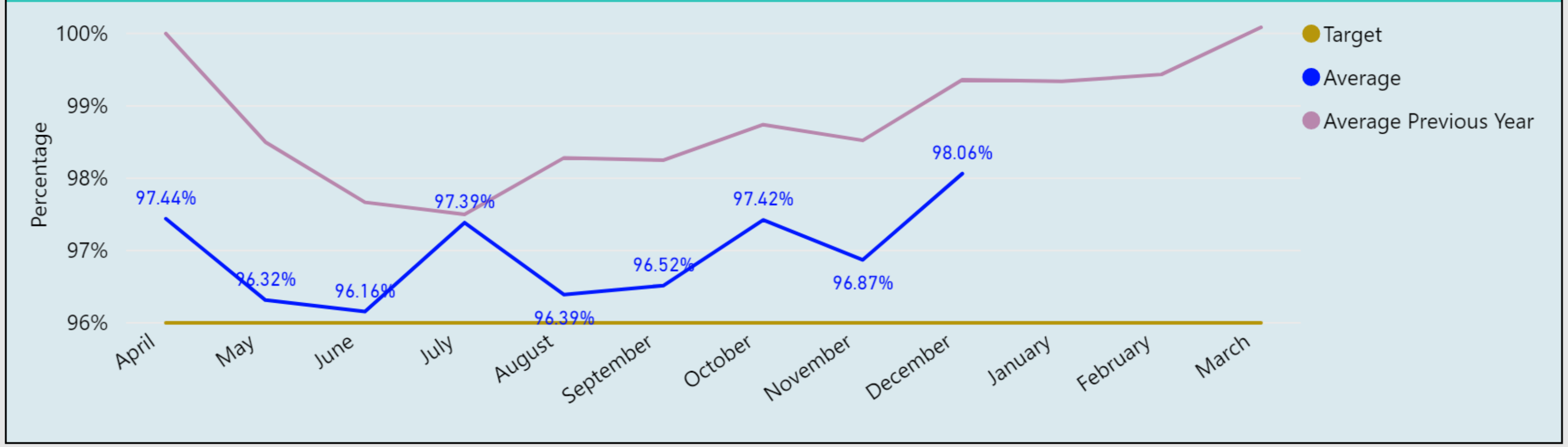


Supporting Narrative

The new Homeless Reduction Act came into effect from April 2018. Data is only available for the year to date so cannot yet be compared year on year. We are awaiting further guidance from MHCLG on how they wish to measure and record this figure and the CBH Board will consider any target as part of the Medium Term Delivery Plan.

Target 2017-2018	Target 2018-2019	Target 2019-2020
45.00%	50.00%	50.00%

K1H4 Rent Collected



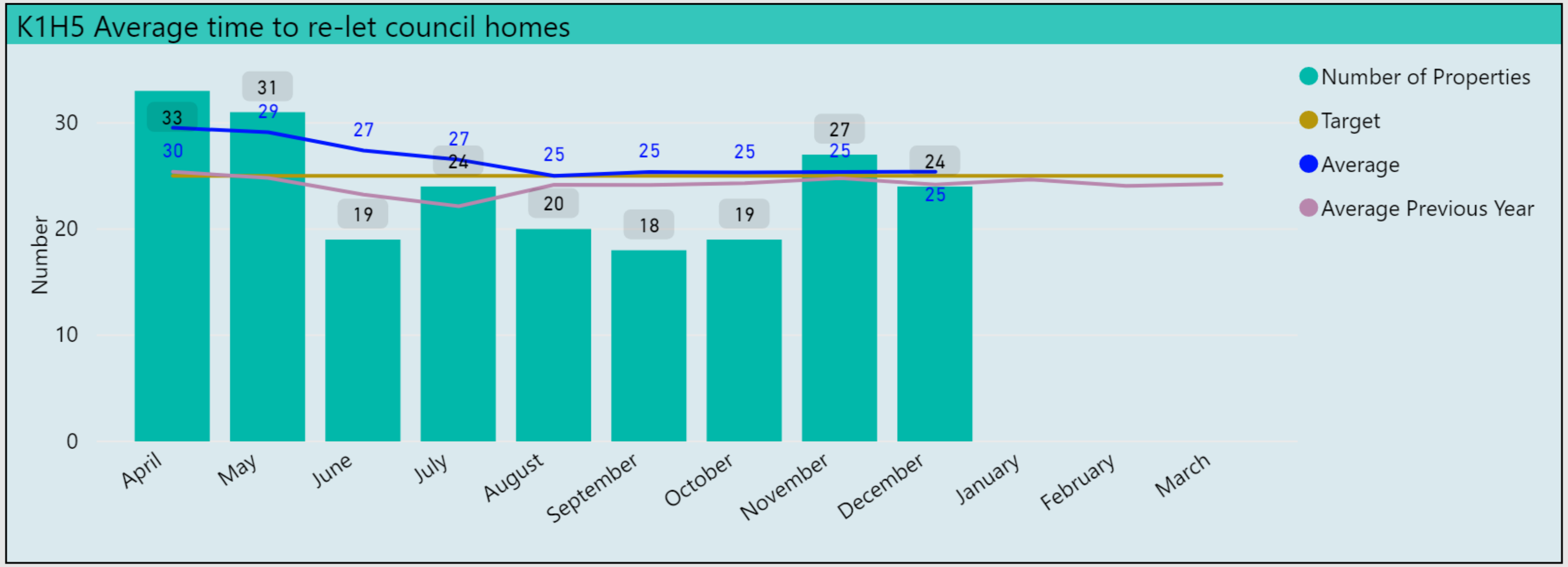
Supporting Narrative

This target is pre-set and agreed by CBC and CBH via the Medium Term Delivery plan as approved by the PFH.

Target 2017-2018	Target 2018-2019	Target 2019-2020
98.00%	96.00%	96.00%

2017-2018
2018-2019
April | June | August | October | December | February
May | July | September | November | January | March

2017-2018	April	June	August	October	December	February
2018-2019	May	July	September	November	January	March



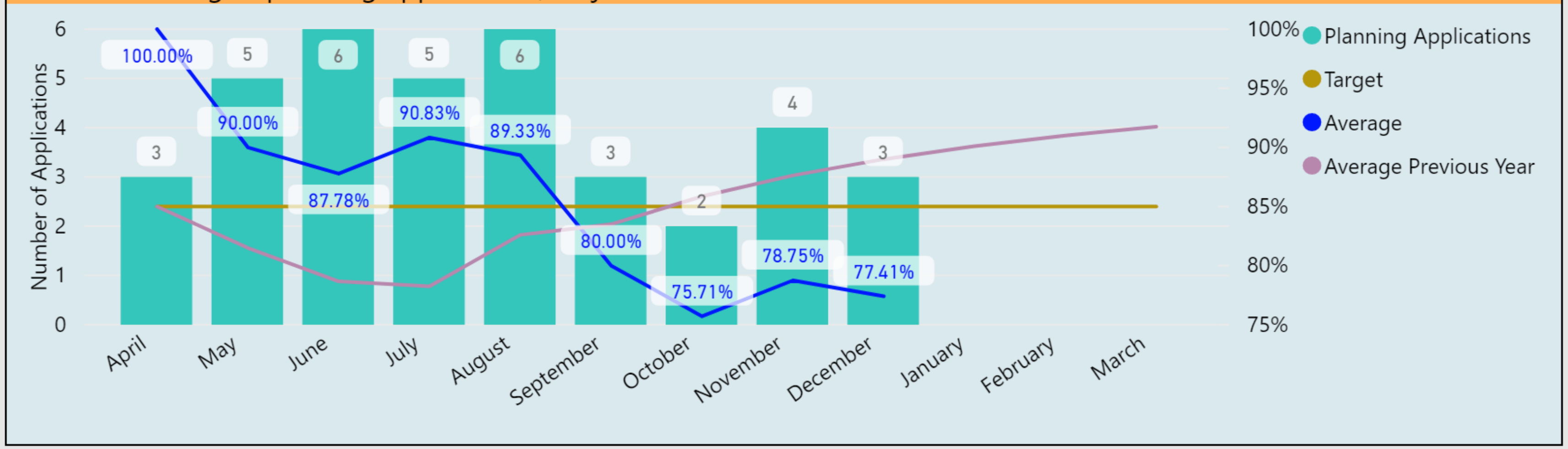
Supporting Narrative
This target is pre-set and agreed by CBC and CBH via the Medium Term Delivery plan as approved by the PFH.

Target 2017-2018	Target 2018-2019	Target 2019-2020
25	25	25

2017-2018 | 2018-2019

April | June | August | October | December | February
May | July | September | November | January | March

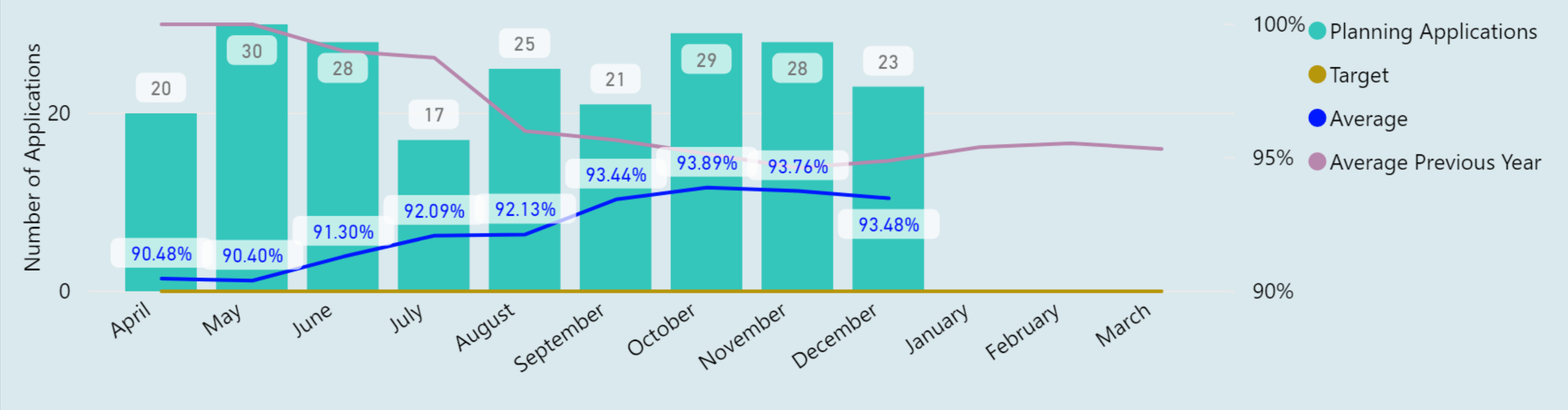
K1P1 Processing of planning applications, Majors



Supporting Narrative
Low numbers of Planning Applications for Majors makes the current target extremely challenging due to the volatility of the data.

Target 2017-2018	Target 2018-2019	Target 2019-2020
85.00%	85.00%	80.00%

K1P1 Processing of planning applications, Minors



Supporting Narrative
Planning Applications for Minors and Others should remain extant.

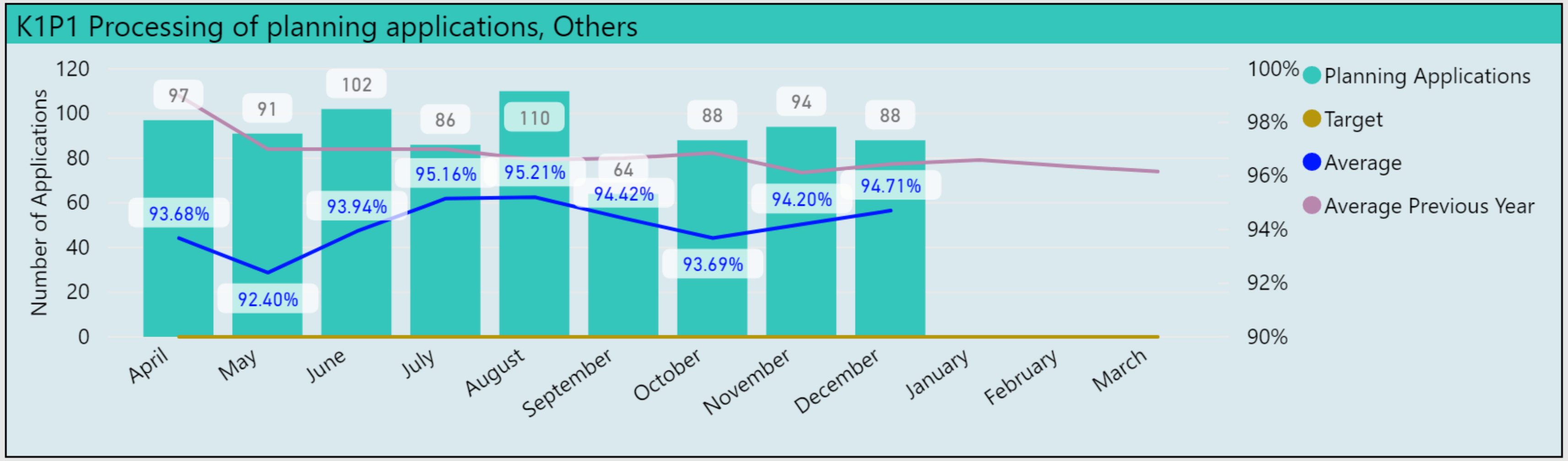
Target 2017-2018	Target 2018-2019	Target 2019-2020
88.00%	90.00%	90.00%

2017-2018 | 2018-2019

April | June | August | October | December | February
May | July | September | November | January | March

2017-2018	2018-2019

April	June	August	October	December	February
May	July	September	November	January	March



Supporting Narrative

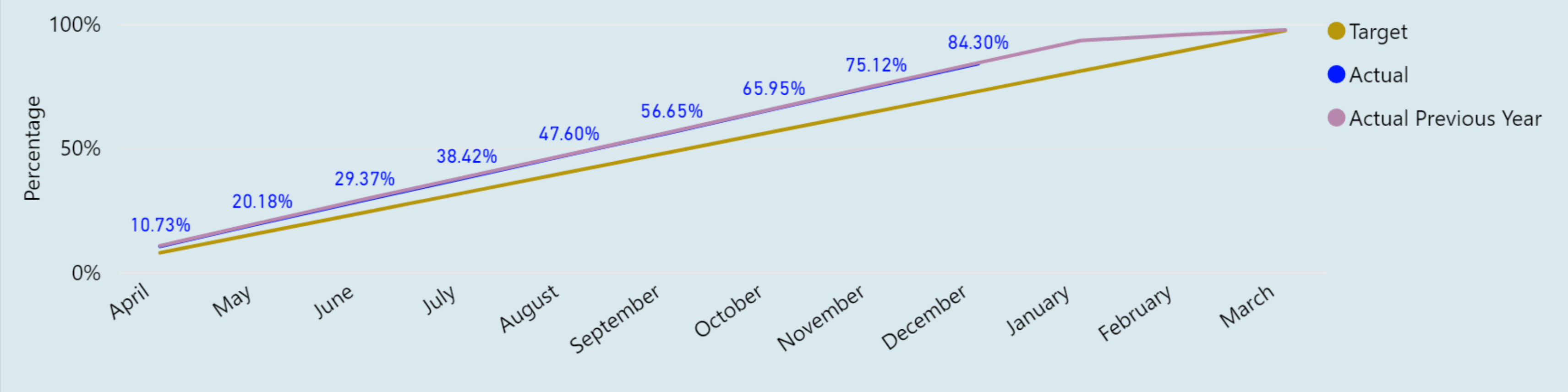
Planning Applications for Minors and Others should remain extant.

Target 2017-2018	Target 2018-2019	Target 2019-2020
91.00%	90.00%	90.00%

2017-2018 | 2018-2019

April | May | June | July | August | September | October | November | December | January | February | March

K1R1 Council Tax Collected

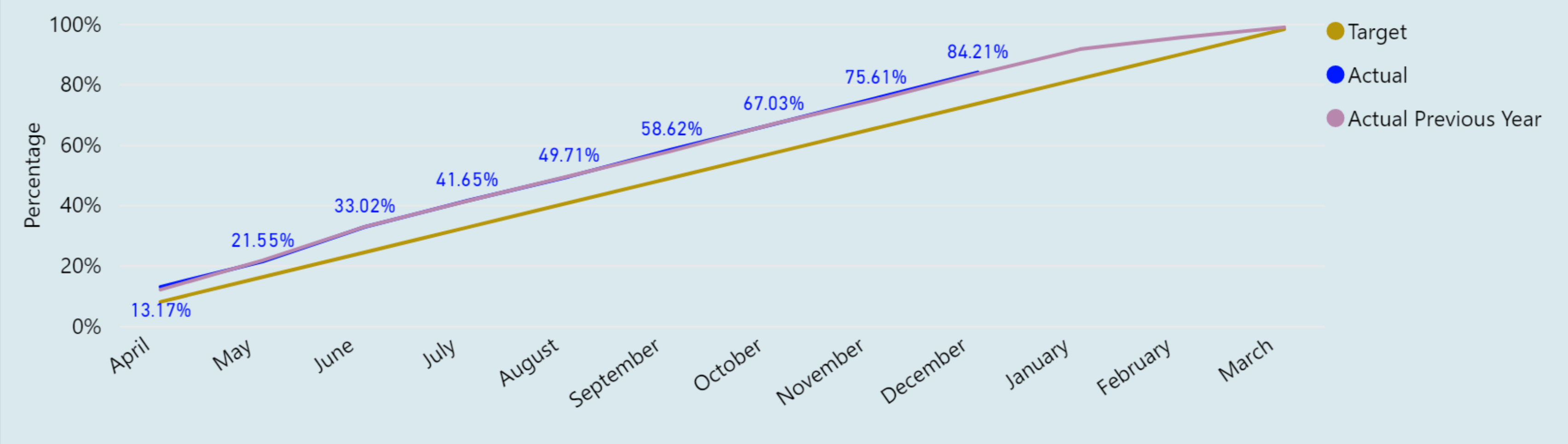


Supporting Narrative

Although currently 'Green' the current target is extremely challenging and should remain as is.

Target 2017-2018	Target 2018-2019	Target 2019-2020
97.50%	97.50%	97.50%

K1R2 Business Rates (NNDR) Collected



Supporting Narrative

Although currently 'Green' the current target is extremely challenging and should remain as is.

Target 2017-2018	Target 2018-2019	Target 2019-2020
97.80%	98.50%	98.50%

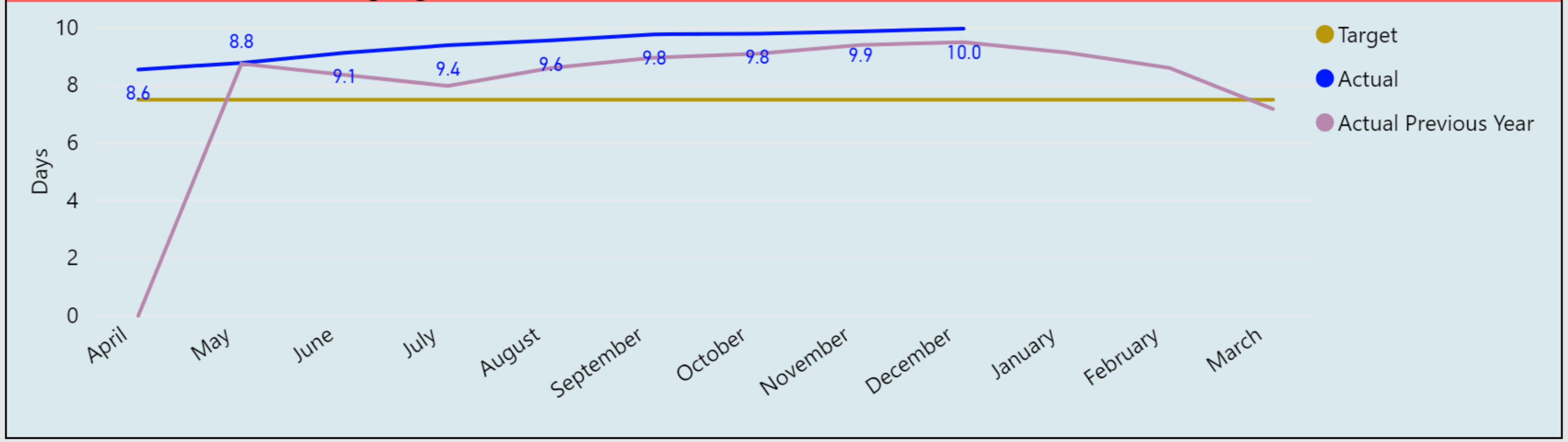
2017-2018 | 2018-2019

April | May | June | July | August | September | October | November | December | January | February | March

2017-2018	2018-2019

April	June	August	October	December	February
May	July	September	November	January	March

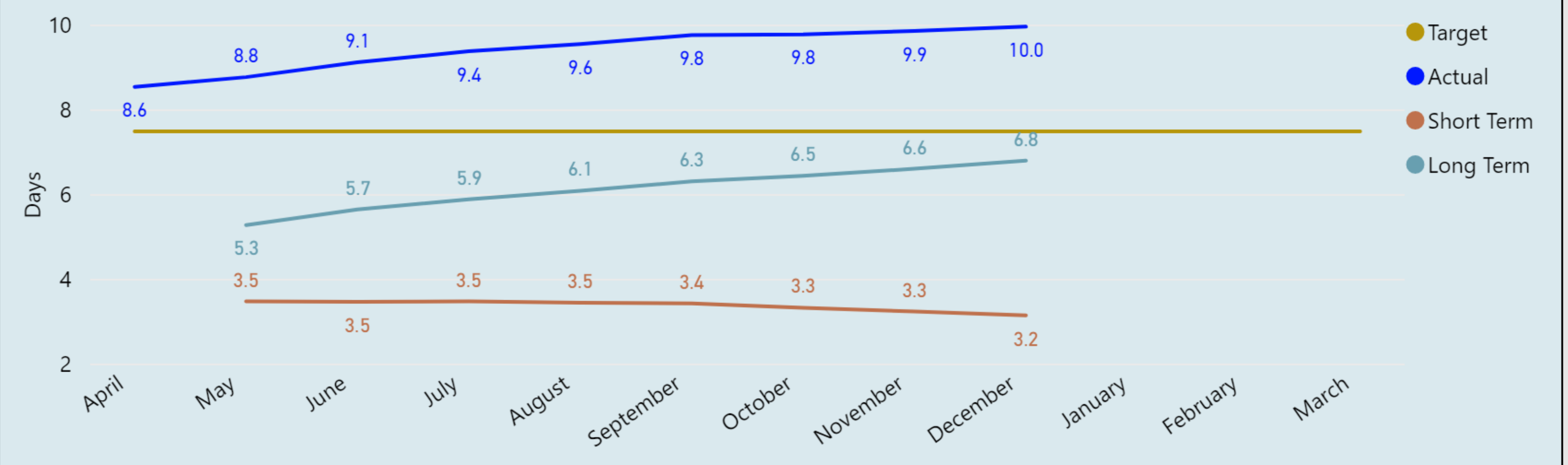
K1R3 Sickness Rates (Rolling Figures)



Supporting Narrative

This performance is of corporate concern and driven by long term sickness (short term sickness rates are falling). Regular case conferences are being held in all cases of long term sickness to support staff. The data reported is based on a 12 month rolling average which takes time for management actions to influence. It is proposed that 7.5 days becomes a three year target and annual targets are set incrementally to achieve this figure: 19/20 9 days; 20/21 8 days; 21/22 7.5 days

Supporting Data Long Term and Short Term Sickness Rates (Rolling Figures)



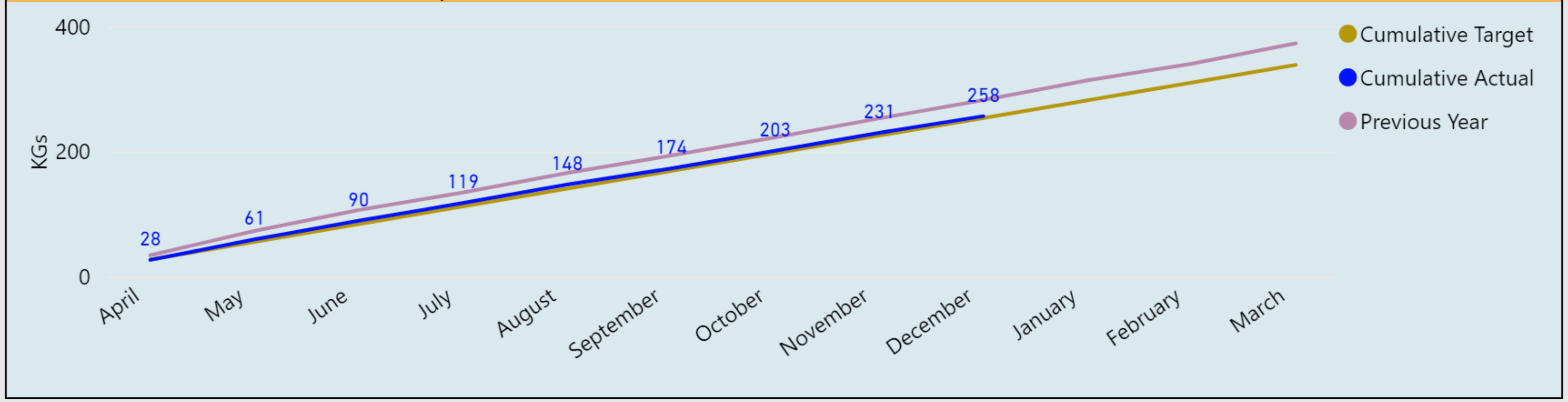
Target 2017-2018	Target 2018-2019	Target 2019-2020
7.50	7.50	9.00

Actual	Long Term	Short Term
9.97	6.81	3.16

2017-2018 | 2018-2019

April | May | June | July | August | September | October | November | December | January | February | March

K1W1 Residual household waste per household

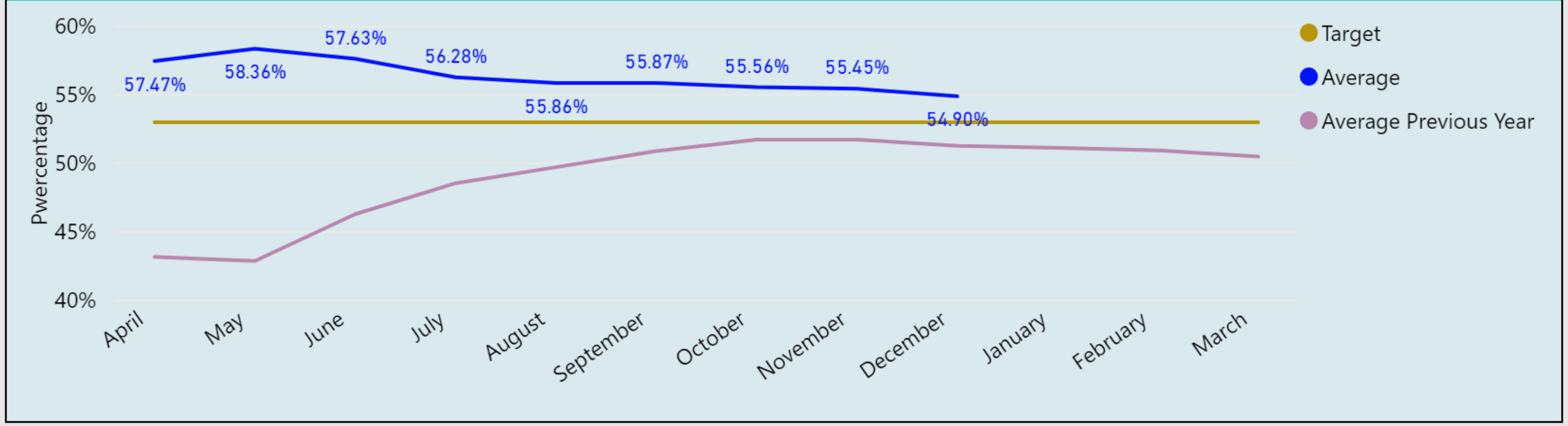


Supporting Narrative

2017/18 performance was 374.5 kg. It is proposed that this target be increased slightly from 340kg to 346 kg in line with improved data available now that the new service model has been operational for over 12 months.

Target 2017-2018	Target 2018-2019	Target 2019-2020
374.50	340	346

K1W2 Household waste reused, recycled and composted



Supporting Narrative

Colchester has achieved the third largest increase nationally in household recycling rates last year following the introduction of a new service in 2017 and it is proposed that this target remains at 53%.

Target 2017-2018	Target 2018-2019	Target 2019-2020
49.00%	53.00%	53.00%

2017-2018 | 2018-2019

April | May | June | July | August | September | October | November | December | January | February | March

2017-2018	April	June	August	October	December	February
2018-2019	May	July	September	November	January	March

K1W3 Number of weekly missed collections

Supporting Narrative

This challenging target has only been achieved for P9 (December) therefore should remain unchanged for 2019-2020.

Weekly Target 2017-2018	Weekly Target 2018-2019	2018-2019 Target % Missed	2018-2019 Actual % Missed	Weekly Target 2019-2020
95	150	0.06%	0.04%	150

Performance Reporting Timetable 2019 – 2020 **Appendix B**

The deadlines for the monthly performance reports are shown here along with the meetings this data will be reported to:

Monthly Performance Statistics – Quarter One April - June 2019			
Data Deadline to People & Performance (P&P)	16 May 2019 P1 (April statistics)	13 June 2019 P2 (May statistics)	18 July 2019 P3 (June statistics)
SMT Chat (Mondays)	20 May 2019	17 June 2019	22 July 2019

Monthly Performance Statistics – Quarter Two July - September 2019			
Data Deadline to People & Performance (P&P)	15 August 2019 P4 (July statistics)	19 September 2019 P5 (August statistics)	17 October 2019 P6 (September statistics)
SMT Chat (Mondays)	19 August 2019	23 September 2019	21 October 2019

Half Year Performance Report April – September 2019 Strategic Plan Action Plan, Monthly Performance Statistics and Award and Accreditations				
P&C	**PMB (less KPIs)**	**Leadership**	**Scrutiny Panel**	**Cabinet**
17 October 2019	October 2019	November 2019	December 2019	January 2020

Monthly Performance Statistics – Quarter Three October - December 2019			
Data Deadline to People & Performance (P&P)	14 November 2019 P7 (October statistics)	12 December 2019 P8 (November statistics)	16 January 2020 P9 (December statistics)
SMT Chat (Mondays)	18 November 2019	16 December 2019	20 January 2020

Monthly Performance Statistics – Quarter Four January - March 2020			
Data Deadline to People & Performance (P&P)	13 February 2020 P10 (January statistics)	19 March 2020 P11 (February statistics)	16 April 2020 P12 (March statistics)
SMT Chat (Mondays)	17 February 2020	23 March 2020	20 April 2020

Proposed KPI Targets for April 2020 – March 2021				
P&C	**PMB**	**Leadership**	**Scrutiny Panel**	**Cabinet**
12 December 2019	December 2019	January 2020	January 2020	March 2020

Year End Performance Report April 2019 – March 2020 Strategic Plan Action Plan, Monthly Performance Statistics and Award and Accreditations				
P&C	**PMB**	**Leadership**	**Scrutiny Panel**	**Cabinet**
16 April 2020	May 2020	May/June 2020	June 2020	July 2020

Note: Single Data List Indicators – Services to continue reporting direct to the relevant Government Department

Appendix C **Cabinet** **13 March 2019**		**Item**

Report of	**Assistant Director (Policy and Corporate)**	**Author**	**Dan Gascoyne** ☏ **282577**
Title	**Corporate Key Performance Indicator Targets for 2019-2020**		
Wards affected	Not applicable		

1. Executive Summary

1.1 Cabinet is invited to set the Corporate Key Performance Indicator (KPI) Targets for 2019-2020.

2. Recommended Decision

2.1 To set Corporate KPI Targets for 2019-2020.

2.2 To note the dates contained in the Reporting Timetable covering 2019-2020.

3. Reason for Recommended Decision

3.1 To confirm the Corporate KPI Targets for 2019-2020.

4. Alternative Options

4.1 No alternative options have been presented to Cabinet.

Page break after Section 4.

5. Background Information

5.1 The report on KPIs now features an improved graphical presentation of year-to-date performance and previous year performance against target.

5.3 The overall position for April – December 2018 can be found at Appendice A.

5.4 Housing Key Indicators delivered by Colchester Borough Homes (CBH) have been agreed by Portfolio Holder for Housing and Communities and detailed in Colchester Borough Homes new Medium Term Delivery Plan.

.

6. Equality, Diversity and Human Rights implications

6.1 Where required, specific Equality Impact Assessments will exist for policies and activities rather than for individual performance indicators.

7. Standard References

7.1 There are no particular references to consultation or publicity considerations or financial; community safety; health and safety or risk management implications.

7. Strategic Plan References

7.1 There are no particular references to the 2018 – 2021 Strategic Plan.

8. Consultation

8.1 There are not any direct implications with regard to consultation.

9. Publicity Considerations

9.1 The performance report contains measures for our key performance. Many of these are used to monitor the performance of our services, and as such these may be of public interest. The performance report and related information is published on the Performance section of the Council's website.

10. Financial implications

10.1 The financial implications to deliver the indicators form part of the budget setting process rather than for individual performance indicators.

11. Health, Wellbeing and Community Safety Implications

11.1 There are performance measures and actions within the Strategic Plan Action Plan which aim to improve community safety rather than for individual performance indicators.

12. Health and Safety Implications

12.1 This report has no direct implications with regard to Health and Safety.

13. Risk Management Implications

13.1 We aim to deliver against performance indicators as a key part of our performance framework.

Appendices

A. KPI Year End Report covering April - December 2018.
B Reporting Timetable covering 2019-2020.

Background Papers

Not applicable.

	Scrutiny Panel		**Item 14**
	29 January 2019		
Report of	**Assistant Director of Policy and Corporate**	**Author**	**Richard Clifford ☏ 507832**
Title	**Work Programme 2018-19**		
Wards affected	Not applicable		

1. Executive Summary

1.1 This report sets out the current Work Programme 2018-2019 for the Scrutiny Panel. This provides details of the reports that are scheduled for each meeting during the municipal year.

2. Action Required

2.1 The Panel is asked to consider and note the contents of Work Programme for 2018-19.

3. Background Information

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

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

3.3 It was suggested at the Panel's meeting on 11 December 2019 that items relating to Colchester market and the North Essex Health and Social Care Alliance be added to the work programme for 2019-20. The Scrutiny Panel will need to agree a new work programme for 2019-20 at the start of the new municipal year, and further consideration to the scheduling of these items can be given at this point.

4. Standard References

4.1 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.

5. Strategic Plan References

5.1 Governance is integral to the delivery of the Strategic Plan's priorities and direction for the Borough as set out under the four themes of growth, responsibility, opportunity and wellbeing.

5.2 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.

Appendices

Appendix A – Forward Plan of Key Decisions – 1 February 2019 – 31 May 2019

Work Programme for 2018/19

Scrutiny Panel meeting **- 12 June 2018**
Scrutiny Panel Chairman's briefing **– 7 June 2018**
1. Financial Monitoring Report End of Year – 2017/18 2. Capital Expenditure Monitor 2017/18
Scrutiny Panel meeting **- 17 July 2018**
Scrutiny Panel Chairman's briefing **– 12 July 2018**
1. 2019/20 Budget Strategy, Medium Term Financial Forecast and Budget Timetable 2. Treasury Management – Annual Report 3. Environment and Communities Futures Business Case 4. Implementation Plan to Plastic Recycling Collection from Flats 5. Annual Scrutiny Report
Scrutiny Panel meeting **-21 August 2018**
Scrutiny Panel Chairman's briefing – **13 August 2018**
1. Update on Implementation of Plastic Recycling Collections to Flats 2. Locality Budgets 3. Year End 2017/18 Performance Report including the Strategic Plan Action Plan 2018-21 4. Strategic Plan Spending Priorities 5. Bus Review Letter – Further Questions to Bus Companies
Scrutiny Panel (Crime and Disorder Committee) - **11 September 2018**
Scrutiny Panel Chairman's briefing – **10 September 2018**
1. Safer Colchester Partnership (Crime and Disorder Committee)
Scrutiny Panel – **16 October 2018**
Scrutiny Panel Chairman's Briefing **– 9 October 2018**
1. Colchester Borough Homes Performance 2017-18 2. Homelessness and Rough Sleepers 3. Local Council Tax Support – Year 18/19
Scrutiny Panel meeting **- 27 November 2018**
Scrutiny Panel Chairman's briefing – **20 November 2018**
1. Strategic Plan Spending Priorities 2. 2018-19 Revenue Monitor, period April – September 3. 2018-19 Capital Monitor, period April – September
Scrutiny Panel meeting **- 11 December 2018**
Scrutiny Panel Chairman's briefing – **5 December 2018**

1. Central Support Futures Review 2. Half Year 2018 - 2019 Performance Report including progress on Strategic Plan Action Plan
Scrutiny Panel meeting **- 29 January 2019**
Scrutiny Panel Chairman's briefing – **24 January 2019**
1. 2019-20 Revenue Budget, Capital Programme, Medium Term Financial Forecast, Housing Revenue Accounts Estimate and Housing Investment Programme (Pre-scrutiny of Cabinet Decision) 2. Treasury Management Investment Strategy 3. Waste and Zones Futures Review 4. Proposed Key Performance Indicator Targets 2019-20
Scrutiny Panel meeting **- 19 March 2019** (to be held at the Mercury Theatre)
Scrutiny Panel Chairman's briefing – **18 March 2019**
1. Arts Organisations 2. North Essex Garden Communities

COLCHESTER BOROUGH COUNCIL

FORWARD PLAN OF KEY DECISIONS 1 February 2019 – 31 May 2019

During the period from 1 February 2019 – 31 May 2019* Colchester Borough Council intends to take 'Key Decisions' on the issues set out in the following pages. Key Decisions relate to those executive decisions which are likely to either:

- result in the Council spending or saving money in excess of £500,000; or

- have a significant impact on communities living or working in an area comprising two or more wards within the Borough of Colchester.

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

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

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

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

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

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

*The Forward Plan also shows decisions which fall before the period covered by the Plan but which have not been taken at the time of the publication of the Plan.

KEY DECISION REQUIRED	DOES DECISION INCLUDE EXEMPT INFORMATION (or information defined by the Government as Confidential)	DATE OF DECISION or PERIOD DECISION TO BE TAKEN	DECISION MAKER (title and name, including Cabinet, portfolio holders and officers)	DOCUMENTS SUBMITTED OR TO BE SUBMITTED TO DECISION TAKER TO CONSIDER (and from where they are available)	CONTACT DETAILS FROM WHICH DOCUMENTS CAN BE OBTAINED (name of the authors of the reports)
Award of contract for the installation of heating systems To approve a new contract for heating systems following delegation from Cabinet in March 2018.	Yes	January 2019	Portfolio Holder for Housing and Communities, Councillor Tina Bourne Please contact via Democratic Services (01206) 507832 email: democratic.services @colchester.gov.uk	Portfolio Holder report	Andrew Tyrrell Client and Business Manager Andrew.tyrrell@colchester.gov.uk 01206 282390
Financial Review of the Revolving Investment Fund	Yes	16 January 2019	Revolving Investment Fund Committee (Cllrs Barlow, Cory, King, T. Young) Please contact via Democratic Services (01206) 507832 email: democratic.services @colchester.gov.uk	Revolving Investment Fund Committee report and supporting papers	Sean Plummer Strategic Finance Manager Sean.plummer@colchester.gov.uk (01206) 282347

KEY DECISION REQUIRED	DOES DECISION INCLUDE EXEMPT INFORMATION (or information defined by the Government as Confidential)	DATE OF DECISION or PERIOD DECISION TO BE TAKEN	DECISION MAKER (title and name, including Cabinet, portfolio holders and officers)	DOCUMENTS SUBMITTED OR TO BE SUBMITTED TO DECISION TAKER TO CONSIDER (and from where they are available)	CONTACT DETAILS FROM WHICH DOCUMENTS CAN BE OBTAINED (name of the authors of the reports)
Changes to the financial delivery structure and asset ownership of the Northern Gateway Heat Network	Yes	30 January 2019	Cabinet (Cllrs Barlow, Bourne, Cory, Goss, King, Lilley, B. Oxford, T. Young) Please contact via Democratic Services (01206) 507832 email: democratic.services @colchester.gov.uk	Cabinet report	Andrew Tyrrell Client and Business Manager Andrew.tyrrell@colchester.gov.uk 01206 282390
2019-20 General Fund Revenue Budget, Council Tax, Capital Programme and Medium Term Financial Forecast To recommend to Council the 2019-20 General Revenue Budget, Colchester Borough Council's element for Coucil Tax for 2019-20 and the Capital Programme.	No	30 January 2019	Cabinet (Cllrs Barlow, Bourne, Cory, Goss, King, Lilley, B. Oxford, T. Young) Please contact via Democratic Services (01206) 507832 email: democratic.services @colchester.gov.uk	Cabinet report	Sean Plummer Strategic Finance Manager Sean.plummer@colchester.gov.uk (01206) 282347

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Housing Investment Programme (HIP) 2019/20 To approve the Housing Investment Programme for 2019/20.	No	30 January 2019	Cabinet (Cllrs Barlow, Bourne, Cory, Goss, King, Lilley, B. Oxford, T. Young) Please contact via Democratic Services (01206) 507832 email: democratic.services @colchester.gov.uk	Cabinet report	Darren Brown Finance Manager (Business Partners) Darren.brown@colchester.gov.uk (01206) 282891
Housing Revenue Account Estimates 2019/20 To approve the HRA Estimates 2019/20	No	30 January 2019	Cabinet (Cllrs Barlow, Bourne, Cory, Goss, King, Lilley, B. Oxford, T. Young) Please contact via Democratic Services (01206) 507832 email: democratic.services @colchester.gov.uk	Cabinet report	Darren Brown Finance Manager (Business Partners) Darren.brown@colchester.gov.uk (01206) 282891

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The Future Ownership of the New Affordable Housing Delivered on the Phase 1 Colchester Amphora Housing Ltd Developments	Yes	30 January 2019	Cabinet (Cllrs Barlow, Bourne, Cory, Goss, King, Lilley, B. Oxford, T. Young) Please contact via Democratic Services (01206) 507832 email: democratic.services @colchester.gov.uk	Cabinet report	Andrew Tyrrell Client and Business Manager Andrew.tyrrell@colchester.gov.uk 01206 282390
Opportunities to Develop Council Owned Sites Through Housing Revenue Account (HRA) Borrowing	Yes	30 January 2019	Cabinet (Cllrs Barlow, Bourne, Cory, Goss, King, Lilley, B. Oxford, T. Young) Please contact via Democratic Services (01206) 507832 email: democratic.services @colchester.gov.uk	Cabinet report	Andrew Tyrrell Client and Business Manager Andrew.tyrrell@colchester.gov.uk 01206 282390

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The award of the Voids and Insurance works contract	Yes	February/March 2019	Portfolio Holder for Housing and Communities Tina Bourne Please contact via Democratic Services (01206) 507832 email: democratic.services @colchester.gov.uk	Portfolio Holder report	Andrew Tyrrell Client and Business Manager Andrew.tyrrell@colchester.gov.uk 01206 282390
Delegation of responsibility for agreeing the Corporate Office, Sheltered Housing and Homelessness cleaning contract to the Portfolio Holder for Resources and Housing and Communities	Yes	13 March 2019	Cabinet (Cllrs Barlow, Bourne, Cory, Goss, King, Lilley, B. Oxford, T. Young) Please contact via Democratic Services (01206) 507832 email: democratic.services @colchester.gov.uk	Cabinet report	Geoff Beales Client Services Manager Geoff.beales@colchester.gov.uk 01206 506514

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