21 November 2019

CABINET – 2 DECEMBER 2019

A meeting of Cabinet will be held at 6.00pm on Monday 2 December 2019 in the Council Chamber, Town Hall, Rugby.

Adam Norburn
Executive Director

A G E N D A

PART 1 – PUBLIC BUSINESS

1. Minutes.

   To confirm the minutes of the meeting held on 4 November 2019.

2. Apologies.

   To receive apologies for absence from the meeting.

3. Declarations of Interest.

   To receive declarations of –

   (a) non-pecuniary interests as defined by the Council's Code of Conduct for Councillors;

   (b) pecuniary interests as defined by the Council's Code of Conduct for Councillors; and

   (c) notice under Section 106 Local Government Finance Act 1992 – non-payment of Community Charge or Council Tax.

   Note: Members are reminded that they should declare the existence and nature of their interests at the commencement of the meeting (or as soon as the interest becomes apparent). If that interest is a prejudicial interest, the Member must withdraw from the room unless one of the exceptions applies.

   Membership of Warwickshire County Council or any Parish Council is classed as a non-pecuniary interest under the Code of Conduct. A Member does not need to declare this interest unless the Member chooses to speak on a matter relating to their membership. If the Member does not wish to speak on the matter, the Member may still vote on the matter without making a declaration.

4. Question Time.

Notice of questions from the public should be delivered in writing, by fax or e-mail to the Executive Director at least three clear working days prior to the meeting (no later than Tuesday 26 November 2019).

Growth and Investment Portfolio

Nothing to report to this meeting.

Corporate Resources Portfolio

5. Update on General Fund budget setting 2020/21.

6. Calendar of Meetings 2020/21.

Communities and Homes Portfolio

7. Draft Housing Revenue Account Capital & Revenue Budgets 2020/21 and Medium Term Financial Plan 2020-24.

Environment and Public Realm Portfolio

Nothing to report to this meeting.

The following item contains reports which are to be considered en bloc subject to any Portfolio Holder requesting discussion of an individual report

8. Treasury Management Report 2019/20 - Progress Report.

9. Motion to Exclude the Public under Section 100(A)(4) of the Local Government Act 1972.

To consider the following resolution:

"under Section 100(A)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of information defined in paragraph 1 of Schedule 12A of the Act."

PART 2 – EXEMPT INFORMATION

Growth and Investment Portfolio

Nothing to report to this meeting.

Corporate Resources Portfolio

Nothing to report to this meeting.

Communities and Homes Portfolio

1. Community Advice and Support Team Staffing Review.

Environment and Public Realm Portfolio

Nothing to report to this meeting.

The following item contains reports which are to be considered en bloc subject to any Portfolio Holder requesting discussion of an individual report

2. Write Offs.

Any additional papers for this meeting can be accessed via the website.

The Reports of Officers (Ref. CAB 2019/20 – 6) are attached.

Membership of Cabinet:

Councillors Lowe (Chairman), Mrs Crane, Poole, Roberts, Ms Robbins and Mrs Simpson-Vince.

CALL- IN PROCEDURES

Publication of the decisions made at this meeting will normally be within three working days of the decision. Each decision will come into force at the expiry of five working days after its publication. This does not apply to decisions made to take immediate effect. Call-in procedures are set out in detail in Standing Order 15 of Part 3c of the Constitution.

If you have any general queries with regard to this agenda please contact Claire Waleczek, Democratic Services Team Leader (01788 533524 or e-mail claire.waleczek@rugby.gov.uk). Any specific queries concerning reports should be directed to the listed contact officer.

If you wish to attend the meeting and have any special requirements for access please contact the Democratic Services Officer named above.

AGENDA MANAGEMENT SHEET

Report Title:	Update on General Fund budget setting 2020/21
Name of Committee:	Cabinet
Date of Meeting:	2 December 2019
Report Director:	Head of Corporate Resources and CFO
Portfolio:	Corporate Resources
Ward Relevance:	All Wards
Prior Consultation:	Cabinet 4 November 2019
Contact Officer:	Jon Illingworth – Financial Services Manager and Deputy Chief Finance Officer
Public or Private:	Public
Report Subject to Call-In:	Yes
Report En-Bloc:	No
Forward Plan:	Yes
Corporate Priorities: **(CR) Corporate Resources** **(CH) Communities and Homes** **(EPR) Environment and Public Realm** **(GI) Growth and Investment**	This report relates to the following priority(ies): ☒ To provide excellent, value for money services and sustainable growth ☒ Achieve financial self-sufficiency by 2020 ☒ Enable our residents to live healthy, independent lives ☒ Optimise income and identify new revenue opportunities (CR) ☒ Prioritise use of resources to meet changing customer needs and demands (CR) ☒ Ensure that the council works efficiently and effectively (CR) ☒ Ensure residents have a home that works for them and is affordable (CH) ☒ Deliver digitally-enabled services that residents can access (CH) ☒ Understand our communities and enable people to take an active part in them (CH) ☒ Enhance our local, open spaces to make them places where people want to be (EPR) ☒ Continue to improve the efficiency of our waste and recycling services (EPR)

☒ Protect the public (EPR)
☒ Promote sustainable growth and economic prosperity (GI)
☒ Promote and grow Rugby's visitor economy with our partners (GI)
☒ Encourage healthy and active lifestyles to improve wellbeing within the borough (GI)
☒ This report does not specifically relate to any Council priorities but

Statistical/Policy Background:

Statutory/Policy Background: Under the Local Government Finance Act 1992(as amended), an authority must set a council tax and balanced budget, giving 14 days' notice of the council tax level prior to the date of billing. The Council must set a budget before 11 March of each year.

Summary: This is the third Draft Budget Report to include Capital and Treasury commitments for 2020/21 through to 2023/24.

Financial Implications: As detailed in the main report.

Risk Management Implications: The Council has a statutory duty to set an annual General Fund Revenue budget that will enable it to determine the level of council tax.

Environmental Implications: There are no environmental implications arising from this report.

Legal Implications: Set out within the statutory/policy background.

Equality and Diversity: There are no Equality and Diversity implications arising from this report. It may be necessary later in the budget process to carry out Equality Impact Assessments of the implications of any service changes.

Recommendation:

(1) The updated draft General Fund Revenue position for 2020/21 be considered;

(2) Cabinet considers the key decisions identified to date and identifies other policy or service changes required for consideration to deliver a balanced budget for 2020/21; and

(3) Portfolio Holders work in conjunction with Heads of Service to identify other policy or service changes required for consideration to deliver a balanced budget for 2020/21

Reasons for Recommendation: This updated overview of the Council's General Fund revenue budget needs to be considered by Cabinet as part of the budget setting process for 2020.The report gives Cabinet an update on the progress made in delivering a balanced budget for the year.

Agenda No 5

Cabinet - 2 December 2019

Update on General Fund budget setting 2020/21

Public Report of the Head of Corporate Resources and CFO

Recommendation

(1) The updated draft General Fund Revenue position for 2020/21 be considered; and

(2) Cabinet considers the key decisions identified to date and identifies other policy or service changes required for consideration to deliver a balanced budget for 2020/21.

(3) Portfolio holders work in conjunction with Heads of Service to identify other policy or service changes required for consideration to deliver a balanced budget for 2020/21

1. Introduction

This is the third report from the Head of Corporate Resources in her capacity as the Council's Chief Financial Officer.

The previous budget reports presented to Cabinet provided an initial overview of the Council's financial position for 2020/21, taking into consideration the latest intelligence on the reform of the local government funding system and also provided an update on the progress that had been made in closing the medium-term budget gaps, since the 2019/20 budget was set in February 2019.

The purpose of this report is to present an update on financial position for delivering a balanced position for 2020/21 with updated key decisions to be considered

Cabinet will further consider more detailed updates on the draft revenue and capital General Fund budgets right through to final budget setting and Council Tax determination at Full Council on 25 February 2020.

2. Budget Context and Development

2.1 Overview and Context

The budget setting update report presented to Cabinet 4 November 2019 highlighted a shortfall of £0.617m in delivering a balanced budget for 2020/21.

Since November the services have continued to review proposals for the year and have identified key decisions. This has resulted in an updated deficit for 2020/21 of **£0.344m**. Table 1 provides the details of the main changes.

Main Changes - 2020/21	£000s
November 2019 deficit Including Key Decisions	617
Corporate adjustment	(100)
General fund saving due to mobile phone contract renegotiation	(15)
Commercialisation and replacing core funding with grant and other contributions	(250)
Total deficit including changes since November	252
Less Key Decisions	
Continuation of free town centre evening and weekend free parking	100
Cease funding member broadband and landlines	(8)
Revised Deficit Position December	344

Table 1 – Summary of budget changes November to December Budget Report

The items shown in the table above are based only on initial indicative estimates of the possible savings that could be realised and therefore at this stage are presented to Members primarily for their consideration for further development. Should Members wish not to continue to explore these options then other alternative savings will need to be identified in order to deliver a balanced budget.

The £0.250m relating to replacing core budget for alternative sources of funding is based analysis which is taking place to replace existing core funding which funding generated from other sources. The review will be broken down into several elements;

1) liaising with external grant funders and partners to lever additional contributions;
2) working in a more commercial way in order to increase a charged customer base for the services that we provide;
3) reviewing the direct costs of service provision with the aim of reducing the net cost.

The figure included in table 1 is based on a partial contribution to costs in 2020/21 appreciating that full cost recovery would be something that would be a phased process.

2.2. Key Decisions

Summary of key decisions considered for 2020/21	£000s
Growth Items	
Continuation of contribution to the Town Centre Improvement Budget into 2020/21 (November Cabinet session)	150
Continuation of free town centre evening and weekend free parking (table 1 above)	100
Savings	
Voluntary redundancy (November Cabinet session)	(50)
Cease funding member broadband and landlines (table 1 above)	(8)
Grand total	192

Table 2 – Summary of Key Decisions

The key decisions in the table above have all been factored into *Table 1 – Summary of budget changes November to December Budget Report above* and are included within revised budget deficit of £0.344m. Table 2 has been broken down into two sections

- **Growth items** –The inclusion of these items in the 2020/21 budget is contributing to the £0.344m budget deficit for 2020/21. If the decision is made not to pursue either scheme the deficit will be reduced appropriately.

- **Savings** – The inclusion of these items in the 2020/21 budget is contributing to the £0.344m budget deficit for 2020/21. If the decision is made not to pursue either scheme the deficit will be increased appropriately and further savings or income generation options will need to be pursued.

2.3. Continuation of contribution to the Town Centre Improvement Budget

At budget setting in 2017/18 it was announced as part of the Conservative Resolution that £0.150m generated through additional Business Rates from the Elliott’s Field would be used toward Town Centre Improvements. The continuation of the contribution has been an annual key decision and formed part of the 2019/20 Budget Resolution submitted for the Annual Council Tax meeting 26 February 2019.

2.4. Voluntary redundancy

As in previous budget setting process Cabinet has been asked to consider voluntary redundancies. As part of setting the 2020/21 budget a saving of £0.050m has been assumed. This value will be subject to HR and union support for any requests.

2.5. Member Broadband & Landlines Allowance

Within the 2019/20 budget there is £8,000 set aside to contribute to the cost incurred by Members for Broadband & Landlines. The recent Members Allowance review considered the option to not continue this commitment.

2.6. Car Parking

The Budget Resolution in February 2019 included the commitment to provide free weekend carparking in the town centre for the financial year 2019/20. The impact of this reduced income was financed through the town centre improvement budget to support the regeneration of the town centre through increased footfall. A report on the impact of the scheme will be presented to a future Cabinet meeting.

3. Risks and opportunities

As reported in previous Cabinet reports the Council continues to face significant risks through increased demand for services as the Council Tax base grows across the borough, alongside the impact of reduced funding.

Future reports will provide

- Updates as announcements are made during the budget setting process.
- Details of any future risk of emerging pressures seen in 2019/20, and
- The outcome of detailed work to deliver savings and generate income as detailed in table 1.

4. Provisional Settlement

The announcement of a General Election on 12 December 2019 has thrown local authorities' budgeting plans into some confusion. The government had said that they were "aiming to hold the provisional settlement in December".

For now, we do not know how the government will handle the settlement and there has been no announcement yet from MHCLG.

One scenario is that the government announces a provisional settlement before the Election, however "purdah" places restrictions on what they can do. A pre-Election settlement seems unlikely, not least because a settlement after 12 December would be in line with the timing of recent settlements (8 out of the last 9 settlements have been later than 12 December).

An alternative – and more likely – scenario is that the settlement is delayed until a new government is in place. Even if one party has a clear majority following the Election, it is not certain that a provisional settlement would be announced before Christmas. Recess dates have not yet been announced following the Queen's Speech earlier this month, so it is difficult to be certain exactly how much time would be available either before or after Christmas.

In either scenario, Parliament would have to vote on the final settlement in February.

We do, however, have clear indications of the shape of the 2020-21 settlement. The Technical Consultation has set out the principles that the current government intends to apply in the provisional settlement. Of course, a change in government might result in a different set of settlement principles.

5. PWLB interest rates

Throughout 2019/20 PWLB rates have been at historic lows, making the economic case for purchasing more compelling. However, on 9 October 2019, the Board notified Chief Financial Officers at every local authority in England and Wales that, with immediate effect:

HM Treasury is …restoring interest rates to levels available in 2018, by increasing the margin that applies to new loans from the PWLB by 100bps (one percentage point) on top of usual lending terms."

6. Medium Term Financial Plan 2019-2023

Below is a summary of the current Medium-Term Financial Plan (MTFP) which identifies the assumed financing for the next four years based on the current information that is known about future years.

The revised deficit for 2020/21 is now reported at £0.344m. However, it needs to be noted that this is dependent on a number of proposals currently being scoped by Officers to increase income either through extended commercialisation where possible alongside any potential to increase grants and sponsorship for services.

		Based on Full Business Rates Reset and Legacy only for New Homes Bones		
	2020/21 £000s	**2021/22 £000s**	**2022/23 £000s**	**2023/24 £000s**
BASE BUDGET bf including Corporate Adj.	**16,642**	**17,954**	**13,452**	**14,081**
Growth Requirements	824	610	619	619
Other Corporate Adjustments	228	(224)	(156)	(312)
Savings and Income	(755)	(345)	108	0
Key Decisions	192	0	0	0
Savings to be Found	***(344)***	***(1,412)***	***(508)***	***(531)***
Movement in Reserves	1,167	(3,131)	566	70
Revised Budget Requirement	**17,954**	**13,452**	**14,081**	**13,927**
Financed by;				
Government Funding	(2,638)	(1,310)	(968)	(299)
Council Tax	(8,384)	(8,763)	(9,167)	(9,612)
Business Rates including Damping	(6,932)	(3,379)	(3,946)	(4,016)
Collection Fund Surplus/Deficit	0	0	0	0
Transfer from BRR reserve	0	0	0	0
Total Funding Requirement	**(17,954)**	**(13,452)**	**(14,081)**	**(13,927)**
Net Variance	**0**	**0**	**0**	**0**

Table 3 – Summary of Medium-Term Financial Plan 2020-2024

As previously reported the impact of the Fair Funding and Baseline Reset Review is still not known for 2021/22. However, this does present significant risk for the future years of the plan, especially with the potential to lose NHB grant. Consequently, the current estimated reduction suggests a gap of £1.4m in 2021/22 and cumulative total of £2.5m across the medium term. This will continue to be updated as information becomes available.

7. Conclusion

Following the review and expansion of number of the key decisions for Member's consideration there continues to be a deficit of £0.344m presented for 2020/21.

Officers will continue to work with Heads of Service and Cabinet to analyse further options to reduce the deficit as well as produce action plans to achieve the savings as identified in the reports presented to date.

Name of Meeting: Cabinet

Date of Meeting: 2 December 2019

Subject Matter: Draft General Fund Revenue and Capital Budget 2020/21

Originating Department: Corporate Resources

DO ANY BACKGROUND PAPERS APPLY ☒ **YES** ☐ **NO**

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink
	Draft General Fund Revenue and Capital Budget 2020/21 – Cabinet 4 November 2019
	Update on the Draft Budget 2020/21 – Cabinet 7 October 2019

The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

☐ Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A

Agenda No 6

AGENDA MANAGEMENT SHEET

Report Title:	Calendar of Meetings 2020/21
Name of Committee:	Cabinet
Date of Meeting:	2 December 2019
Report Director:	Executive Director
Portfolio:	Corporate Resources
Ward Relevance:	All wards
Prior Consultation:	Senior Management Team and other council officers involved in meetings
Contact Officer:	Veronika Beckova, Democratic Services Officer 01788 533591 or veronika.beckova@rugby.gov.uk
Public or Private:	Public
Report Subject to Call-In:	Yes
Report En-Bloc:	No
Forward Plan:	Yes
Corporate Priorities: **(CR) Corporate Resources** **(CH) Communities and Homes** **(EPR) Environment and Public Realm** **(GI) Growth and Investment**	This report relates to the following priority(ies): ☐ To provide excellent, value for money services and sustainable growth ☐ Achieve financial self-sufficiency by 2020 ☐ Enable our residents to live healthy, independent lives ☐ Optimise income and identify new revenue opportunities (CR) ☐ Prioritise use of resources to meet changing customer needs and demands (CR) ☐ Ensure that the council works efficiently and effectively (CR) ☐ Ensure residents have a home that works for them and is affordable (CH) ☐ Deliver digitally-enabled services that residents can access (CH) ☐ Understand our communities and enable people to take an active part in them (CH) ☐ Enhance our local, open spaces to make them places where people want to be (EPR)

☐ Continue to improve the efficiency of our waste and recycling services (EPR)
☐ Protect the public (EPR)
☐ Promote sustainable growth and economic prosperity (GI)
☐ Promote and grow Rugby's visitor economy with our partners (GI)
☐ Encourage healthy and active lifestyles to improve wellbeing within the borough (GI)
☒ This report does not specifically relate to any Council priorities but should be considered by Cabinet for the following reasons: Cabinet is required, under the council's constitution, to fix the dates and times of Council, Cabinet and committee meetings.

Statutory/Policy Background:	None
Summary:	Cabinet is required, under the council's constitution, to fix the dates and times of Council, Cabinet and committee meetings.
Financial Implications:	There would be a saving in excess of £5,000 if meetings of Cabinet and committees commenced at 5.30pm and Council started at 6.00pm.
Risk Management Implications:	There are no risk management implications arising from this report.
Environmental Implications:	There are no environmental implications arising from this report.
Legal Implications:	There are no legal implications arising from this report.
Equality and Diversity:	No new or existing policy or procedure has been recommended.
Options:	The Calendar of Meetings for 2019/20 be approved. **Risks:** Breach of council's constitution. No democratic process without a calendar of meetings. **Benefits:** Compliance with the council's constitution

Recommendation:	(1) The Calendar of Meetings for 2020/21, as at Appendix 1 to the report, be approved; and (2) all Cabinet, committee meetings and task groups start at 5.30pm with effect from the 2020/21 municipal year.
Reasons for Recommendation:	In order to comply with the council's constitution.

Agenda No 6

Cabinet - 2 December 2019

Calendar of Meetings 2020/21

Public Report of the Executive Director

Recommendation
(1) The Calendar of Meetings for 2020/21, as at Appendix 1 to the report, be approved; and (2) all Cabinet, committee meetings and task groups start at 5.30pm with effect from the 2020/21 municipal year.

1. INTRODUCTION

Cabinet is required, under the council's constitution, to fix the dates and times of Council, Cabinet and committee meetings.

The appended timetable takes into account the following requirements:

a) 5 cycles of meetings per year
b) 5 ordinary meetings of Council
c) a meeting of Audit and Ethics Committee to be held in July 2020 to consider the approval of the Statement of Accounts including the Annual Governance Statement
d) a special meeting of Council to be held in February 2021 to consider the Budget Setting;
e) Planning Committee to meet on a 4-week cycle throughout the year; and
f) the annual meeting of Council to avoid the annual meeting of Warwickshire County Council.

Appeals Committee meets on an ad hoc basis.

1.1 Cabinet

For the past two years, a Cabinet meeting date was scheduled for early December to tie in with the Government's public spending announcements. It is assumed that this remains the preference for 2020/21.

1.2 Audit and Ethics Committee

Following the changes in statutory deadlines for the publication and approval of the council's draft and final accounts, meetings of Audit and Ethics Committee in June and July were aligned to meet the new requirements.

1.3 Licensing and Safety Committee

As part of the annual review and subsequent discussions with the Head of Environment and Public Realm, the Regulatory Services Manager, the Principal Licensing Officer and the Chair of Licensing and Safety Committee, a decision was made to reduce the number of meetings for 2020/21 from four to three.

The decision was made on evidence gathered from past years and the number of meetings that were cancelled due to lack of business. Following on from conversations with officers, it was highlighted that the majority of work is carried out by sub-committees. Full committee meetings are required for consideration of new policies, review of existing policies, government consultations, etc.

If more than three meetings are needed, the Chair may call a special meeting.

The decision will be reassessed as part of the annual review when informing the 2021/22 calendar of meetings.

1.4 Political Parties' Conferences

Every effort has been made to avoid scheduling meetings during the dates of the political parties' conferences in 2020. However, due to the volume of meetings to be incorporated in the calendar, it has not been possible to avoid these dates entirely.

1.5 School Holidays in Warwickshire

In the interests of business continuity, meetings may need to be scheduled during school holidays for Warwickshire. A meeting of Cabinet has been scheduled for 3 August 2020 and it is proposed that Planning Committee meets on 19 August 2020.

1.6 Start times of meetings

Since the change from 5.30pm to 6.00pm start times for meetings, there has been an additional cost to the Council of in excess of £5,000 per year, which includes staffing costs and overheads such as lighting and heating costs.

Group Leaders have been consulted and it is recommended that all Cabinet, committee and task group meetings commence at 5.30pm with effect from May 2020. Full Council meetings will continue to start at 7.00pm.

Name of Meeting: Cabinet

Date of Meeting: 2 December 2019

Subject Matter: Calendar of Meetings 2020/21

Originating Department: Executive Director

DO ANY BACKGROUND PAPERS APPLY ☐ **YES** ☒ **NO**

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink

The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

☐ Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A

Calendar of Meetings 2020/21

Appendix 1

Mon	**May**	25	**Bank Holiday**	**Aug**	10		**Oct**	26		**Jan**	11		**Mar**	29	Cabinet
Tue		26			11			27			12			30	Audit and Ethics
Wed		27	Planning		12			28			13			31	Planning
Thu		28			13			29			14		**Apr**	1	
Mon	**June**	1	Cabinet		17		**Nov**	2			18	Environment and Growth OSC		5	**Bank Holiday**
Tue		2			18			3			19			6	
Wed		3			19	Planning		4			20			7	
Thu		4			20			5			21			8	
Mon		8			24			9	Cabinet		25	Joint OSC		12	
Tue		9	Audit and Ethics		25			10			26	Audit and Ethics		13	
Wed		10			26			11	Planning		27			14	
Thu		11			27			12			28			15	
Mon		15			31	**Bank Holiday**		16	Environment and Growth OSC	**Feb**	1	Cabinet		19	
Tue		16		**Sep**	1			17	*Council*		2	*Special Council*		20	*Council*
Wed		17			2			18			3	Planning		21	
Thu		18			3			19			4			22	
Mon		22			7	Cabinet		23			8	Communities and Resources OSC		26	
Tue		23	Licensing		8			24			9	Licensing		27	
Wed		24	Planning		9			25			10			28	Planning
Thu		25			10	Communities and Resources OSC		26			11			29	
Mon		29			14	Environment and Growth OSC		30			15				**Warwickshire County Elections** 6 May 2021
Tue		30			15		**Dec**	1			16				
Wed	**July**	1			16	Planning		2			17				
Thu		2			17			3			18				
Mon		6	Cabinet	**L**	21			7	Cabinet		22				**Annual Meeting** 20 May 2021
Tue		7		**L**	22			8			23	*Council*			
Wed		8		**L**	23			9	Planning		24				
Thu		9	Communities and Resources OSC		24	*Council*		10			25				
Mon		13	Environment and Growth OSC	**LD**	28			14	Communities and Resources OSC	**Mar**	1	Cabinet			
Tue		14		**LD**	29			15	*Council*		2				
Wed		15			30			16			3	Planning			
Thu		16		**Oct**	1			17			4				
Mon		20		**C**	5			21			8				
Tue		21	*Council*	**C**	6			22			9				
Wed		22	Planning	**C**	7			23			10				
Thu		23			8			24			11				
Mon		27			12	Cabinet		28	**Substitute Day**		15	Environment and Growth OSC			
Tue		28			13	Licensing		29			16				
Wed		29			14	Planning		30			17				
Thu		30	Audit and Ethics		15			31			18				
Mon	**Aug**	3	Cabinet		19		**Jan**	4	Cabinet		22	Communities and Resources OSC			
Tue		4			20	Audit and Ethics		5			23				
Wed		5			21			6	Planning		24				
Thu		6			22			7			25				

NOTE:

Meetings of the Council commence at 7pm.

Meetings of Cabinet and Committees commence at 6pm.

Audit and Ethics Committee on 30 July 2020 – Approval of Accounts

OSC – Overview and Scrutiny Committee

C = Conservative Party Conference:
04/10/20 – 07/10/20
L = Labour Party Conference:
19/09/20 – 23/09/20
LD = Liberal Democrat Party Conference:
26/09/20 – 29/09/20

school holidays Warwickshire

Agenda No 7

AGENDA MANAGEMENT SHEET

Report Title:	Draft Housing Revenue Account Capital & Revenue Budgets 2020/21 and Medium Term Financial Plan 2020-24
Name of Committee:	Cabinet
Date of Meeting:	2 December 2019
Report Director:	Head of Corporate Resources and CFO
Portfolio:	Communities and Homes
Ward Relevance:	ALL
Prior Consultation:	Housing Revenue Account Capital & Revenue Budgets 2019/20 and Medium Term Financial Plan 2019-23
Contact Officer:	Mannie Ketley, Head of Corporate Resources and Chief Financial Officer 01788 533416 Raj Chand, Head of Communities and Homes 01788 533737
Public or Private:	Public
Report Subject to Call-In:	Yes
Report En-Bloc:	No
Forward Plan:	Yes
Corporate Priorities: **(CR) Corporate Resources** **(CH) Communities and Homes** **(EPR) Environment and Public Realm** **(GI) Growth and Investment**	This report relates to the following priority(ies): ☒ To provide excellent, value for money services and sustainable growth ☐ Achieve financial self-sufficiency by 2020 ☒ Enable our residents to live healthy, independent lives ☒ Optimise income and identify new revenue opportunities (CR) ☒ Prioritise use of resources to meet changing customer needs and demands (CR) ☒ Ensure that the council works efficiently and effectively (CR) ☒ Ensure residents have a home that works for them and is affordable (CH) ☒ Deliver digitally-enabled services that residents can access (CH)

☒ Understand our communities and enable people to take an active part in them (CH)
☐ Enhance our local, open spaces to make them places where people want to be (EPR)
☐ Continue to improve the efficiency of our waste and recycling services (EPR)
☐ Protect the public (EPR)
☐ Promote sustainable growth and economic prosperity (GI)
☐ Promote and grow Rugby's visitor economy with our partners (GI)
☐ Encourage healthy and active lifestyles to improve wellbeing within the borough (GI)
☐ This report does not specifically relate to any Council priorities but

Statutory/Policy Background:	The Council has a statutory duty to set an annual Housing Revenue Account (HRA) revenue budget that will enable it to determine the level of council house rents.
Summary:	The primary purpose of this report is to present a summary draft HRA revenue position (see Appendix A) and a capital position (see Appendix B) for 2020/21 based on initial budget submissions, plus a HRA Medium Term Financial Plan (MTFP) (see Appendix C).
Financial Implications:	As detailed within the report and appendices.
Risk Management Implications:	There are no risk management implications arising from this report.
Environmental Implications:	There are no environmental implications arising from this report.
Legal Implications:	Set out within the body of this report
Equality and Diversity:	A full Equality Impact Assessment will be presented with the final budget report at Council on 4th February 2020.
Options:	Not applicable
Recommendation:	The draft revenue and capital budgets at Appendices A and B for 2020/21 be noted.

Reasons for Recommendation: To give Cabinet an initial view of the Housing Revenue Account revenue and capital budgets for 2020/21 onwards and to ensure that the Council has earmarked balances to continue demolition, design and rebuild costs at Biart Place and Rounds Gardens (notwithstanding central Government financial support.)

Agenda No 7

Cabinet - 2 December 2019

Draft Housing Revenue Account Capital & Revenue Budgets 2020/21 and Medium Term Financial Plan 2020-24

Public Report of the Head of Corporate Resources and CFO

RECOMMENDATION
The draft revenue and capital budgets at Appendices A and B for 2020/21 be noted.

1. INTRODUCTION

The Council is required by the Local Government and Housing Act 1989 (section 74) to keep a Housing Revenue Account (HRA) which records all revenue expenditure and income relating to the provision of council dwellings and related services. The use of this account is heavily prescribed by statute and the Council is not allowed to fund any expenditure for non-housing related services from this account. In addition, the Act ensures that the HRA does not fall into a deficit position.

In accordance with the constitution, the Council is required to carry out an annual review of rents and notify tenants not less than 28 days prior to the proposed date of change.

The Council has a retained housing stock of nearly 3,600 homes currently available to let and manages an additional 60 leasehold properties with an annual rent roll of c.£16m.

The primary purpose of this report is to present a summary draft HRA revenue position (see Appendix A) and a capital position (see Appendix B) for 2020/21 based on initial budget submissions, plus a HRA Medium Term Financial Plan (MTFP) (see Appendix C).

Cabinet will consider a further detailed update on the draft revenue and capital HRA budgets in January 2020 prior to final budget and rent setting at Full Council on 4th February 2020.

2. BUDGET AND POLICY FRAMEWORK

Green Paper: A New Deal for Social Housing

The Ministry of Housing, Communities and Local Government (MHCLG) released *A New Deal For Social Housing* to Parliament in August 2018. The consultation paper can be found here:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/733605/A_new_deal_for_social_housing_web_accessible.pdf

The Green Paper lists five principles which will underpin 'a new, fairer deal for social housing residents':

- a safe and decent home which is fundamental to a sense of security and our ability to get on in life;
- improving and speeding up how complaints are resolved;
- empowering residents and ensuring their voices are heard so that landlords are held to account;
- tackling stigma and celebrating thriving communities, challenging the stereotypes that exist about residents and their communities; and
- building the social homes that we need and ensuring that those homes can act as a springboard to home ownership.

Among the consultation questions within the Green Paper the following have particular financial implications to the Housing Revenue Account moving forward:

- Are there any changes to what constitutes a Decent Home that we should consider?
- Do we need additional measures to make sure social homes are safe and decent?
- Views on whether the Government's current arrangements strike the right balance between providing grant funding for housing associations and HRA borrowing for local authorities; and
- What level of additional affordable housing, over existing investment plans, could be delivered by social housing providers if they were given longer term certainty over funding?

The Green Paper states that "to deliver the social homes we need we will support local authorities:

- To build by allowing them to borrow;
- Explore flexibilities over how they spend Right to Buy receipts; and
- Not require them to make a payment in respect of their vacant higher value council homes."

The Council responded to the consultation prior to the deadline and is awaiting the release of a white paper of final proposals.

Use of receipts from Right to Buy Sales

In conjunction with the Social Housing Green Paper, the Government also consulted on changing the rules on how local authorities can use the money raised from Right to Buy sales to make it easier for them to build more homes. Consultation suggestions included:

- Extending the time limit for spending RTB receipts from 3 to 5 years for existing receipts – but, keeping the 3-year limit for future receipts;
- Allowing flexibility on the 30% cap on expenditure per replacement unit in certain circumstances;

- Restricting the use of receipts for the acquisition of existing properties;
- Allowing local authorities flexibility to use receipts for shared ownership as well as for affordable and social rent; and
- Allowing local authorities to gift land from the General Fund to the HRA at zero cost.

The consultation closed on 9th October 2018. At the time of writing this report the sector is still awaiting formal proposals from MHCLG.

Rents for Social Housing from 2020/21

On 4th October 2017, the former Department for Communities and Local Government (DCLG) announced that social landlords will be allowed to increase social housing rents "limited to the Consumer Price Index (CPI) plus 1% for 5 years from 2020."

In September 2018 government released a consultation paper on the implementation of this change, which can be found via the hyperlink below.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740299/180912_Rents_for_social_housing_from_2020_to_2021_consultation_document.pdf

Of note is the proposal to direct the Regulator of Social Housing to apply its rent standard to local authority registered providers in line with private registered providers. Rent regulation caps the amount of rent that registered providers may charge, and by extension limits the amount of Housing Benefit or Universal Credit that recipient tenants need to meet the cost of their rents.

For financial year 2020/21, CPI as at September 2019 was 1.7% meaning that the indicative rise in rents for current tenants will be 2.7% (1.7% plus 1%)

For the purposes of financial planning within the Medium-Term Financial Plan (2020-2024) rent uplifts are estimated at 3% (Bank of England CPI target of 2% + 1%).

Biart Place and Rounds Gardens – potential refurbishment or regeneration

Council received several reports in 2018/19 concerning the condition and potential options for both Rounds Gardens and Biart Place. In summary, approval was given to:

- Proceed with the Biart Place redevelopment design and procurement;
- Install additional fire alarms at Rounds Gardens based on recommendations by the fire risk assessor and Warwickshire Fire and Rescue Service and commence decanting the blocks with a deadline of 31st March 2022: and
- Proceed with the Rounds Gardens redevelopment, design and procurement.

The structural findings in respect of the blocks at both sites, which account for almost 10% in total of the Council's HRA stock, were unanticipated. The measures required to respond to these findings will have an extraordinary impact on the HRA's financial resources, which will impact on its ability to meet to both current and emerging housing needs. This will, in turn, have a potential impact on the General Fund, as unmet housing need must be increasingly met via temporary accommodation. It will therefore be necessary for the Council to approach central Government to establish what financial support they are able to provide to respond to these issues.

To ensure that the Council has continuing earmarked balances to commence demolition and rebuild costs (notwithstanding central Government financial support) in 2020/21, it is proposed that £3.879m that would otherwise have been set aside for the repayment of debt as part of the HRA Medium Term Financial Plan will be utilised as Revenue Contributions to Capital Expenditure.

The updated HRA Medium Term Financial Plan (Appendix C) also contains continuing Revenue Contributions to Capital Expenditure in place of voluntary debt repayments. Adjustments have also been made for temporary rent loss and additional interest on debt where timelines can be estimated.

Future Limits on Borrowing ("the debt cap")

The Prime Minister announced on 3rd October 2018 that the government would be "*scrapping that cap*" in reference to the authorised limit for indebtedness for the HRA. A consultation paper was issued shortly after the announcement and the borrowing cap formally lifted as part of the Budget proposals on 29th October 2018.

In the absence of a regulated debt cap officers examined alternative measures to ensure the Council complies with the Prudential Code for Capital Finance in Local Authorities. The Code advocates a principles-based approach which allows each local authority to determine its own prerequisites, whilst taking account of any statutory requirements. To mirror our nearest peer group within the registered social housing provider sector, housing associations, future borrowing limits will be set with regard to the ***interest cover*** metric. This examines the level of net rent generated by the organisation in comparison to its forecast debt costs. Typically, a ratio of 2:1, that is, net rent at double the level of debt costs is considered prudent to mitigate risks. Rugby Borough Council's current HRA interest cover level is 7:1, that is net rent is seven times more than its debt costs. Using the approach taken by housing association funders therefore the Council has the capacity to sustain borrowing for investment purposes at the following levels:

Average financing costs – interest rate	Converted debt cap £m
3.10%	173
3.20%	167
3.30%	162
3.40%	157
3.50%	152
3.60%	147
3.70%	142

For reference interest on the current HRA debt pool is 1.99%.

However, on 9th October 2019, Chief Finance Officers across the country were informed that, with immediate effect, "**HM Treasury is …restoring interest rates to levels available in 2018, by increasing the margin that applies to new loans from the PWLB by 100bps (one percentage point) on top of usual lending terms."**

The Council's treasury advisors, Link Asset Services latest central forecast for long-term PWLB borrowing rates over the period of the medium-term financial plan following the change in PWLB interest rate criteria are as follows:

%	Dec 19	Mar 20	Jun 20	Sep 20	Dec 20	Mar 21	Jun 21	Sep 21
25yr PWLB Rate	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.90
50yr PWLB Rate	3.20	3.30	3.40	3.50	3.60	3.70	3.70	3.80

Forecasts and rates remain subject to volatility because of the ongoing uncertainty regarding the outcome of the UK's withdrawal from the European Union. Given the range of outcomes, a local level on indebtedness is therefore recommended at **£152m** in 2020/21 (£110m 2019/20) to provide:

- Capacity to increase the Council's HRA Capital Financing Requirement to meet refurbishment costs at the multi-storey flat sites subject to Government support or Homes England grant; and
- Subject to support for the schemes above, capacity to increase the stock base via bids on developer affordable housing projects and/or RBC projects.

The level of indebtedness will be reviewed again prior to rent setting as part of the Council's capital financing and treasury management estimates process. In addition, as part of the appraisal process for all significant HRA capital investment schemes, the potential impact upon the level of indebtedness will be published in conjunction with recommendations to Council.

3. REVIEW OF HRA BALANCES

The HRA draft budget for 2020/21 (Appendix A) takes into account the end of regulation imposing a 1% rent reduction year-on-year since 2016/17. The 30-year HRA financial plan has also been updated to reflect changes, including high-rise site redevelopment, where the impact can be forecast.

HRA Revenue Balance

The level of the HRA Revenue balance was re-assessed prior to rent setting in 2018/19 considering potential risks arising from the Council's capacity to manage in-year budget pressures and the wider reform and regulatory environment. Further recommendations were made during 2018 and 2019 as part of reports to Council concerning high-rise sites.

After assessing for the above, the estimated HRA Revenue balance at 31st March 2020 will be **£5.459m**. This level is considered prudent to meet further revenue costs arising from decisions on the future of the high-rise sites and other potential risks moving forward over the term of the HRA Medium Term Financial Plan.

Major Repairs Reserve

The Major Repairs Reserve (MRR) reflects the need to replace major components as they wear out. This funding, together with previous allocations of supported borrowing and revenue contributions, has enabled the Council to maintain the housing stock in a good condition. As the housing Green Paper draws specific reference to "what constitutes a decent home" balances will require reviewing in light of any regulatory changes in future years. A major upgrade to the Council's asset management system is currently in development which will utilise digital technology to better inform officers about stock condition, including energy efficiency. In turn this will allow for more accurate forecasting of component (bathrooms, kitchens, central heating, etc) replacement programmes.

The forecast MRR balances will rise over the period of the medium-term financial plan to replenish funds utilised in the Window Replacement programme 2015-2018 as follows:

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Balance b/fwd	**2,559**	**2,507**	**2,769**	**3,428**
Depreciation/Appropriations from HRA Revenue	2,137	2,201	2,256	2,313
Interest Received	15	15	15	15
Capital Financing	(2,204)	(1,954)	(1,612)	(1,652)
Balance c/fwd	**2,507**	**2,769**	**3,428**	**4,103**

Housing Repairs Account

The Housing Repairs Account is an earmarked reserve used to mitigate the risks associated with cyclical and responsive repairs over time. The forecast balance over the period of the medium-term financial plan is **£1.020m.**

Housing Capital Investment Balances

In addition to the above, the Council has also made revenue contributions set aside for capital investment in prior years to fund new build, estate regeneration and other works, for example, upgrades to the Housing Management System software. Capital investment balances will be utilised to fund redevelopment costs at Biart Place and Rounds Gardens over the period of the HRA Medium Term Financial Plan subject to availability of financial support from Central Government or grant aid from Homes England. Costs in excess of available balances will be met via additional borrowing. Where Right-to-Buy (RTB) receipts are utilised to fund replacement homes, only 30% of the total cost may currently be funded from this source. The forecast balances over the period of the medium-term financial plan are as follows:

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Balance b/fwd	**10,425**	**4,124**	**3,115**	**2,073**
Contributions from HRA	3,879	2,564	2,638	2,663
Capital Financing for New Build / Acquisitions / Other Projects	(10,180)	(3,573)	(3,680)	(1,680)
Balance c/fwd	**4,124**	**3,115**	**2,073**	**3,056**

Right-to-Buy (RTB) Capital Receipts

The Council entered a 1-4-1 retention agreement with MHCLG in 2012 allowing it to retain a greater proportion of receipts upon the condition that they are utilised in provision of replacement housing within 3 years. Receipts under the 1-4-1 retention agreement that are not utilised must be returned to Her Majesty's Treasury (HMT) and incur an interest charge of Bank of England Base Rate plus 4%. Only 30% of the expenditure incurred on replacement housing may be financed from RTB receipts. As noted in section 2, MHCLG consulted on changes to the use of Right-to-Buy receipts in October 2018 and the sector is still awaiting a formal response from government to its suggestions.

It is assumed that 20 homes will be sold under the Right-to-Buy per year over the period of the medium-term financial plan producing an average receipt of £85,000 per property (prior to pooling). Forecast balances over the period are as follows:

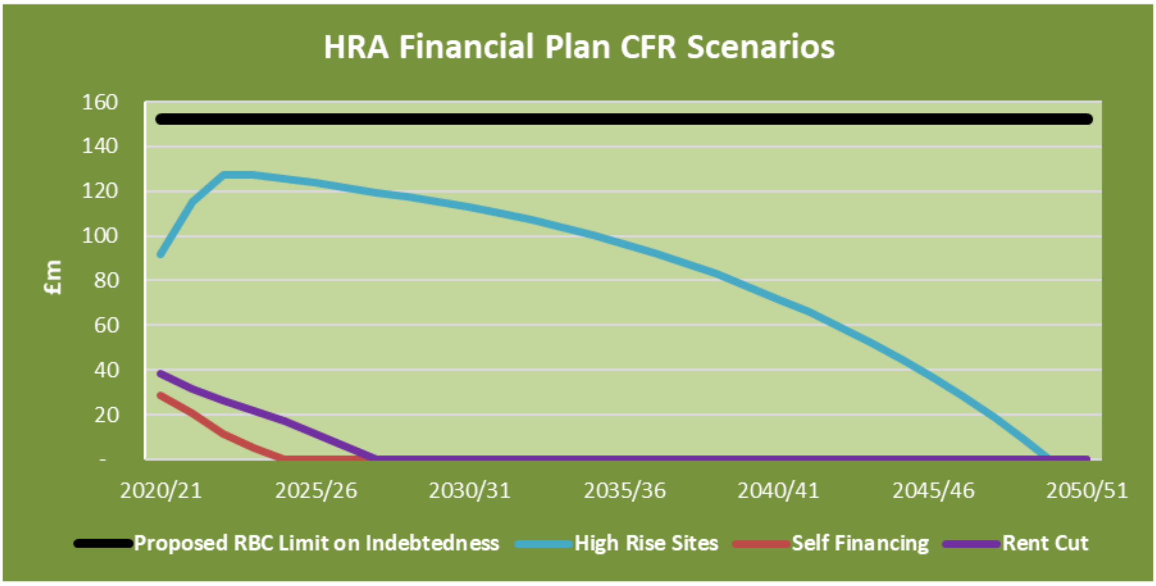
	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Balance b/fwd	**4,744**	**3,644**	**3,544**	**3,944**
Net Pooling Contribution	900	900	900	900
Capital Financing for New Build / Acquisitions	(2,000)	(1,000)	(500)	(500)
Balance c/fwd	**3,644**	**3,544**	**3,944**	**4,344**

4. MEDIUM TERM FUNDING OPTIONS

The financial impact of the 1% rent cut on the Council's capacity to meet its HRA self-financing debt repayment schedule was outlined to Cabinet in January 2016. Subsequently a revised schedule of debt repayment was approved as part of rent setting in 2017/18 and refreshed in 2018/19.

As noted in sections 2 and 3, sums set aside for the voluntary repayment of debt will be diverted to balances during the period of the HRA Medium Term Financial Plan to fund redevelopment costs at the high-rise sites. In the absence of significant Central Government financial support or grant from Homes England, the revised debt repayment schedule will now extend to **2049/50**, subject to sensitivity around project timelines and cost estimates.

The chart below compares the original debt repayment schedule (*self-financing*), the revised schedule following the 1% rent cut (*rent cut*), and the updated schedule in light of the current redevelopment estimates (*high-rise sites*). The level of the proposed "debt cap" is also included for reference.



Reducing the level and extending the timeline of debt repayments to 2049/50 will increase the net interest payable by the HRA during this period. All debt rescheduling and increases to the HRA debt pool will be undertaken in conjunction with the principles set out in the Council's Treasury Management Strategy.

An updated HRA medium term financial plan reflecting the above position is included at Appendix C.

The remainder of the report concentrates on proposals for 2020/21 including:

- Rent
- Service Charges
- Performance management – voids and debt collection
- Expenditure assumptions
- Housing repairs and capital programme
- Capital financing

5. RENT

Background

The Welfare Reform and Work Bill 2015 introduced a requirement for local authorities and other registered providers to reduce rents by 1% a year for four years beginning 2016/17. In 2019/20 this would have produced a rent increase of 3.40% (September 2018 CPI + 1%). The Council implemented the rent change in 2016/17, with an estimated cumulative rent differential over the 4-year period of **£5.107m**.

Following scrutiny of the bill in the House of Lords, exemption from the policy was granted for one year for sheltered accommodation in 2016/17. Special Council on 1st March 2016 therefore recommended that rents for properties in this group were frozen and the subsequent difference in rent charged set aside to an earmarked reserve. The impact in 2020/21 is £48,280.

On 4th October 2017, the Department for Communities and Local Government (DCLG) announced that social landlords will be allowed to increase social housing rents "limited to the Consumer Price Index (CPI) plus 1% for 5 years from 2020." This represents a return to the previous rent settlement, which was meant to run from 2015 to 2025 but was replaced with a 4-year reduction by 1% annually from 2016.

Properties below target rent (the equivalent rent in the Housing Association sector) are still allowed to have rents uplifted to that rate at the point of vacancy and subsequent relet, with rents subsequently increased using the standard CPI + 1%. It is estimated that 150 homes below target rent will be relet during 2020/21 based on historic trends and stock availability following the decant of Biart Place.

Rent estimates for 2020/21 assume a stock level of c.3,590 available to let HRA properties at the start of April 2020. It is estimated that stock will fall by an estimated 20 Right-to-Buy sales in year. A further estimated 70 homes will fall vacant as part of the Rounds Gardens decant process. The fall in numbers will be mitigated by the acquisition of c.50 open market homes (including purchases from developers as part of S106 provisions). A void rate of 1.00% (excluding any decant properties) is estimated for 2020/21 (see page 13 for details).

Rent Calculation

The calculations for rents are based on average rents over the entire year, i.e. without any free weeks. The percentages applied to this may not be the same as the ones applicable when considering a 48 or 49-week rent year. 2020/21 is a 48-week rent year and therefore rents will be charged accordingly.

The following calculations are based on stock numbers as at October 2018.

	2019/20 £'s	2020/21 £'s	Average % Increase	Average £ Increase
Average Weekly Rent (52-week basis)	82.90	85.14	2.70	2.24

Since 2020/21 is a 48-week rent year the rents will be charged accordingly and therefore the figures shown here are for illustrative purposes. Estimated rental income from dwellings of £15.743m for 2020/21 has been included within the draft HRA revenue budgets as shown in Appendix A. The estimate is based on the central business case of:

- An average 1% void rate across the stock;
- Decant of c.70 homes at Rounds Gardens (cumulative c.140 homes by March 2021)
- 20 Right-to-Buy sales in 2020/21;
- Acquisition of new build properties at Rugby Gateway; and
- 150 re-lets where rent is uplifted to target rent

For each 1% change in the void rate the HRA rent loss is equivalent to £156,050. Each additional RTB sale produces an average rent loss of £4,100 in a full year. The average target rent in 2020/21 (52-week basis) will be £91.60 as compared to the average current rent of £85.14 (see above.)

6. SERVICE CHARGES

In line with government guidance, the Council carried out an exercise of depooling rent and service charges in 2006/07. This enabled tenants to see the estimated amount spent on services that had previously been included within the rent. Income from service charges is estimated at £1.066m in 2020/21 (including a void allowance of 1.00%).

The average weekly impact upon utilities and cleaning service charges arising from the estimates of costs associated with that service in 2020/21 (on a 52-week basis) is as follows:

Charge Type	Average Charge p/w (52 wk basis) £	Average Change p/w £
Communal Lighting - Electricity (Rebateable – eligible for Housing Benefit)	1.02	0.00
Communal Heating - Gas (Rebateable – eligible for Housing Benefit)	2.88	0.00
Communal Cleaning (Rebateable – eligible for Housing Benefit)	2.65	0.01
Communal Heating – Gas (Non-Rebateable – Very Sheltered Housing only – not eligible for Housing Benefit)	6.84	0.01

Independent Living Co-ordinator, Concierge and Estate Officer charges are currently under review in light of the redevelopment projects at Biart Place and Rounds Garden. Details of the updated cost composition and apportionment of charges will be included in the report to Cabinet in January 2020.

7. PERFORMANCE MANAGEMENT

The financial management of the HRA is directly linked to key performance in several operational areas – void management, rent collection and arrears recovery.

Void Management

There is a direct relationship between the time a property remains void and the rent foregone. Consequently, ensuring that homes are relet in the most efficient manner is a key priority for housing and property repairs service staff.

For 2020/21 the target for void property rent and service charge loss will be set at 1.00%, equating to £157,430. Most recent performance data shows void loss, excluding properties at the multi-storey flats' sites, running at 1.74%. Where rechargeable works are identified at the point of tenancy termination, tenants are offered the opportunity to make good, or will be billed for the costs. Void rechargeable repairs (the works identified through this process) year to date are £28,000.

Rent Collection/Bad Debt Provision

The collection rate for rent and service charges and the performance in managing rent debt is critical to the financial position of the HRA and has a direct impact on the amount of bad debt provision that must be set aside.

Government had originally intended to introduce Universal Credit on a phased basis from October 2013. However, full Borough-wide implementation for new claimants was not introduced until October 2015 and the transition for existing claimants is scheduled for completion in 2023/24.

Arrears greater than 4 weeks amounted to £1.147m as at 5th November 2019. The level of rent arrears has been reviewed in year and will be monitored until final budget setting in February. The HRA's contribution to bad debt provision is currently estimated at £61,250 in 2020/21 reflecting the above circumstances.

8. EXPENDITURE – ASSUMPTIONS

Employee costs

The HRA budgets are based on the current staffing establishment and an increase in pay of 2.5% for 2020/21 based on the National Joint Council agreement. Progression through pay scales and increased employer contributions to the Local Government Pension Scheme have also been included in the base budget.

Several members of staff spend their time on both HRA and General Fund activities and as a result staff costs are split based on percentages of time relevant to services.

Utility Costs

Gas and electricity costs have been estimated to attract the following inflation in 2020/21 as per ESPO Energy Briefing:

	Inflation Rate
Gas	5%
Electricity	15%

The level of utility costs is subject to variation as further information about future energy inflation and current consumption is refined prior to rent setting.

Central Recharges

These costs are currently estimated at £2.404m in 2020/21 and include the HRA's proportion of Corporate Property, ICT, Legal, Human Resources, Payroll and other costs.

Charges for Capital

MHCLG and the Chartered Institute of Public Finance and Accountancy (CIPFA) have produced guidelines regarding council dwelling depreciation and impairment to coincide with the introduction of 'self-financing'. Depreciation is used to provide a measure of the cost of the economic benefits embodied in an asset that have been consumed during the year. Estimates for 2020/21 charges are based around this guidance and there is a decrease of £0.062m on financial year 2019/20. If the final depreciation charge for 2020/21 is less or more than the estimate (£2.134m), the excess or deficit is transferred to the Major Repairs Reserve to ensure the smoothing of costs for major works over the medium term.

Amounts set aside for the repayment of debt/ Revenue Contributions to Capital Expenditure

The HRA business plan initiated at the point of self-financing assumed that all in-year surpluses would be utilised in the repayment of debt, subject to the maintenance of a prudent HRA working balance. Prior to the introduction of the 1% rent cut and the redevelopment projects at high rise sites, estimates were that the HRA self-financing debt allocation of £72.949m would be repaid in 2024 (12 years following the settlement). As noted in sections 2 and 3, sums set aside for the voluntary repayment of debt will be diverted to balances during the period of the HRA Medium Term Financial Plan to fund redevelopment costs at the high-rise sites. In the absence of significant government financial support or grant funding from Homes England, the revised debt repayment schedule will now extend to 2049/50, subject to sensitivity around project timelines and cost estimates.

Unlike the General Fund, there is no statutory requirement to set aside money from revenue for debt repayment within the HRA allowing flexibility to adjust debt repayment considering HRA business planning needs in future years.

9. HOUSING REPAIRS & MAJOR WORKS

Housing Repairs

Housing repairs expenditure covers both planned and responsive maintenance, some of which is capital funded. The funding is split between:

- the Housing Repairs Account for revenue expenditure such as boiler servicing, electrical inspections, etc.; and
- the Major Repairs Reserve (MRR) for capital works including the replacement of significant components (kitchens, bathrooms, central heating, etc.)

The transfer to the Housing Repairs Account in 2020/21 is estimated at £3.904m (£3.894m 2019/20). Works within this total include:

- Gas servicing and maintenance works – (£0.420m);
- Responsive repairs and voids (£2.390m);
- Repainting schemes - (£0.250m); and
- Electrical inspections and maintenance (£0.280m).

Major Works

The Council is required to produce a capital programme which takes account of at least the next three financial years. The full programme is included at Appendix B. Material items within the programme include:

Heating Upgrades (£0.870m)

The proposals for 2019/20 to 2023/24 include a heating upgrade/replacement programme of approximately 1500 properties (300 per annum) as part of the lifecycle replacements funded via the Major Repairs Reserve.

Bathrooms (£0.360m)

The proposals for 2020/21 include a bathroom replacement programme of approximately 140 properties to ensure continuing compliance with Decent Homes standards. A further 540 replacements will be undertaken in the period 2020/21 to 2024/25. Funding is via the Major Repairs Reserve.

Acquisitions (£3.024m)

To maintain compliance with its retained Right-to-Buy 1-4-1 Agreement with MHCLG, and to access homes made available via S106 agreement with developers the Council will acquire approximately 22 properties in 2020/21. The average cost of acquisition is estimated at £140,000 of which a maximum 30% (£42,000) is currently funded via Right-to-Buy sales receipts. The balance (70%) is funded via Housing Capital Investment balances. Where larger new build or acquisition schemes are envisaged, such as those outlined in section 2, reports will be brought to Council outlining operational and financing recommendations.

10. CONCLUSION

The estimates contained within this report represent the most up-to-date information and sensitivity analysis available in preparing the HRA revenue budget for 2020/21 and the HRA medium term financial plan 2020-24. Further changes may arise from the following operational and policy areas:

- Revisions to cost estimates, project timelines, and external funding in relation to Biart Place and Rounds Gardens redevelopment/refurbishment schemes;
- Staffing and other changes arising from a review of costs associated with CCTV and Concierge service charges
- Revisions to inflation estimates impacting construction industry materials and labour costs; and
- Direct and indirect impact of efficiency measures arising from:
    - Digitalisation measures
    - Structure and delivery mechanisms of support service recharges

Any changes made to any of the recommendations will potentially affect the content of the subsequent appendices. If any changes to the rent setting levels are proposed, it is important to be clear about the effects of the change and to build these in during the consideration of each recommendation.

Name of Meeting: Cabinet

Date of Meeting: 3 December 2018

Subject Matter: Draft Housing Revenue Account Capital & Revenue Budgets 2019/20 and Medium Term Financial Plan 2019-23

Originating Department: Corporate Resources

DO ANY BACKGROUND PAPERS APPLY ☐ **YES** ☒ **NO**

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink

The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

☐ Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A

Appendix A

DRAFT REVENUE BUDGETS 2020/21 SUMMARY

HOUSING REVENUE ACCOUNT

	2019/20 Original Budget £	2019/20 Revised Budget £	2020/21 Draft Budget £	Notes
INCOME :-				
Rent Income From Dwellings	-15,547,050	-15,547,050	-15,743,310	1
Rent Income From Non - Dwellings	-137,600	-137,600	-132,600	2
Charges For Services	-1,047,300	-1,047,300	-1,066,060	3
Contributions Towards Expenditure	-215,570	-215,570	-214,380	
Total Income	-16,947,520	-16,947,520	-17,156,350	
EXPENDITURE :-				
Transfer To Housing Repairs Account	3,769,410	3,894,410	3,903,600	
Supervision & Management	5,774,800	5,774,800	5,382,640	4
Rents, Rates, Taxes & Other Charges	5,000	5,000	5,000	
Depreciation and Impairment	2,075,000	2,075,000	2,137,000	5
Debt Management Cost	23,810	23,810	23,810	
Provision For Bad or Doubtful Debt	61,250	61,250	61,250	
Amounts set aside for the repayment of debt	0	0	0	6
Total Expenditure	11,709,270	11,834,270	11,513,300	
HRA Share of Corporate & Democratic Core Costs	224,160	224,160	236,660	
NET COST OF HRA SERVICES	-5,014,090	-4,889,090	-5,406,390	
HRA SHARE OF OPERATING INCOME & EXPENDITURE INCLUDED IN THE WHOLE AUTHORITY INCOME & EXPENDITURE ACCOUNT				
Interest Payable & Similar Charges	1,532,000	1,532,000	1,532,000	
Interest & Investment Income	-171,410	-171,410	-231,130	
NET OPERATING EXPENDITURE	-3,653,500	-3,528,500	-4,105,520	
Revenue Contributions to Capital Expenditure	3,601,450	3,601,450	4,057,240	6
Contributions to (+) / from (-) Reserves	52,050	52,050	48,280	
Surplus(-)/Deficit for year	0	125,000	0	

Notes

1 Rent estimates based on rent increase of 2.7% and estimated 20 RTB sales in year.

2 Garage rents have been increased in line with national guidance but this has been offset by an increase in the number of void/empty properties.

3 The net change in service charge income reflects any inflationary rises noted within the report and includes a void allowance of 1.00%.

4 The main adjustments from the supervision & management revised budget for 2019/20 are:

	£
Internal Recharges	-80,580
Reduction in CCTV costs following renegotiation of contract	-26,000
Security for Multi-Storey flats reduced now that Biart Place has been fully	-275,390
Other net changes less than £10,000	-10,190
Total change in Supervision & Management budget	-392,160

5 MHCLG and CIPFA have produced guidelines regarding council dwelling depreciation to co-incide with the introduction of HRA self-financing. Estimates for 2020/21 have been prepared on this basis.

6 Sums set aside for the voluntary repayment of debt will be diverted to balances during the period of the HRA Medium Term Financial Plan to fund redevelopment costs at the multi-storey sites.

Proposed Housing Revenue Account (HRA) Capital Programme 2020/21 and onwards

	Revised 2019/20 Capital Programme	Anticipated 2019/20 slippage into 2020/21	Proposed 2020/21 Capital Programme	Proposed 2021/22 Capital Programme	Proposed 2022/23 Capital Programme
	£	£	£	£	£
Improvements & Capitalised Repairs					
Bathrooms	357,990	0	357,990	357,990	357,990
Fire Risk Prevention Works	68,170	0	70,000	70,000	70,000
Heating Upgrades	868,910	0	868,910	868,910	868,910
Kitchen Improvements	109,000	0	52,000	52,000	52,000
Patterdale Sheltered Scheme	70,000	0	0	0	0
Energy Efficiency Long Lawford External Cladding Phase 2	900,000	0	0	0	0
CCTV Upgrades	45,130	45,130	0	0	0
Soffit / Gutter Improvements	57,000	0	57,000	57,000	57,000
Replacement Footpaths	20,000	0	100,000	0	0
External Walls	50,000	0	50,000	50,000	0
Housing Window Replacement	59,800	0	0	0	0
Fire Alarms - Rounds Gardens	178,870	0	0	0	0
Roof Refurbishment - Lesley Souter House	70,000	0	0	0	0
Entrance Doors / Door Entry Systems	292,390	0	292,390	292,390	0
Electrical Upgrades - Community Rooms	36,070	0	150,000	0	0
Boiler Works - Tanser Court	104,890	104,890	0	0	0
LED Lighting	36,980	0	0	0	0
Housing Management System	404,460	0	60,000	60,000	60,000
Solar PV	12,210	0	0	0	0
Disabled Adaptations	278,210	0	205,770	205,770	205,770
Lifeline Renewal Programme	67,320	0	30,000	30,000	30,000
Property Repairs Vehicle Replacement	300,000	0	0	0	0
Purchase of Council Homes	1,959,940	0	3,024,000	1,685,000	1,685,000
Cawston Meadows Houses	1,756,210	0	0	0	0
Rugby Gateway Houses - CALA Homes	434,000	434,000	0	0	0
Rugby Gateway Houses - Bloor Homes	675,000	3,000	0	0	0
Rounds Gardens Capital	3,384,690	1,155,000	0	0	0
Biart Place	1,533,340	0	0	0	0
HRA Garage Sites	1,300,000	0	0	0	0
Bell House Redevelopment	1,377,290	0	0	0	0
TOTAL	16,807,870	1,742,020	5,318,060	3,729,060	3,386,670
Draft Financing: -					
Revenue Contributions / RTB Receipts	13,249,590	1,637,130	3,114,000	1,775,000	1,775,000
Major Repairs Reserve	3,558,280	104,890	2,204,060	1,954,060	1,611,670
TOTAL	16,807,870	1,742,020	5,318,060	3,729,060	3,386,670

MEDIUM TERM FINANCIAL PLAN - HOUSING REVENUE ACCOUNT (HRA): 2020/21 - 2023/24

	2020/21 £000's	2021/22 £000's	2022/23 £000's	2023/24 £000's
EXPENDITURE				
Supervision & Management	5,383	5,517	5,655	5,797
Repairs & Maintenance	3,904	4,001	4,101	4,204
Rents, Rates, Taxes	5	5	5	5
Charges for Capital	2,137	2,201	2,267	2,335
Debt Management	24	15	16	16
Provision for Bad Debts	61	64	68	71
HRA Share of Corporate & Democratic Core Costs	237	219	225	230
Revenue Contributions to Capital Expenditure	4,057	2,564	2,638	2,663
Net Interest Payments	1,301	2,590	3,031	3,181
Contribution to/from(-) reserves	48	48	48	48
Total	**17,156**	**17,226**	**18,054**	**18,551**

INCOME				
Dwelling Rent	-15,743	-15,776	-16,568	-17,027
Non Dwelling Rent	-133	-136	-139	-143
Service Charges	-1,066	-1,093	-1,120	-1,148
Contributions towards expenditure	-214	-221	-227	-233
TOTAL	**-17,156**	**-17,226**	**-18,054**	**-18,551**

Impact on Average Rent (52 week basis):	**£'s**	**£'s**	**£'s**	**£'s**
Prior Year	82.90	85.14	87.69	90.32
Current Year	85.14	87.69	90.32	93.03
Increase £'s	2.24	2.55	2.63	2.71
Increase %	2.70	3.00	3.00	3.00

Agenda No 8

AGENDA MANAGEMENT SHEET

Report Title:	Treasury Management Report 2019/20 - Progress Report
Name of Committee:	Cabinet
Date of Meeting:	2 December 2019
Report Director:	Head of Corporate Resources and CFO
Portfolio:	Corporate Resources
Ward Relevance:	ALL
Prior Consultation:	Treasury Management Strategy 2019/20 – 2021/22 Cabinet February 2019
Contact Officer:	Mannie Ketley, Head of Corporate Resources and Chief Financial Officer, Tel: 01788 533416
Public or Private:	Public
Report Subject to Call-In:	Yes
Report En-Bloc:	Yes
Forward Plan:	Yes
Corporate Priorities: **(CR) Corporate Resources** **(CH) Communities and Homes** **(EPR) Environment and Public Realm** **(GI) Growth and Investment**	This report relates to the following priority(ies): ☒ To provide excellent, value for money services and sustainable growth ☒ Achieve financial self-sufficiency by 2020 ☒ Enable our residents to live healthy, independent lives ☒ Optimise income and identify new revenue opportunities (CR) ☐ Prioritise use of resources to meet changing customer needs and demands (CR) ☒ Ensure that the council works efficiently and effectively (CR) ☐ Ensure residents have a home that works for them and is affordable (CH) ☐ Deliver digitally-enabled services that residents can access (CH) ☐ Understand our communities and enable people to take an active part in them (CH) ☐ Enhance our local, open spaces to make them places where people want to be (EPR)

☐ Continue to improve the efficiency of our waste and recycling services (EPR)
☐ Protect the public (EPR)
☐ Promote sustainable growth and economic prosperity (GI)
☐ Promote and grow Rugby's visitor economy with our partners (GI)
☐ Encourage healthy and active lifestyles to improve wellbeing within the borough (GI)
☐ This report does not specifically relate to any Council priorities but

Statutory/Policy Background:	The Council's Treasury Management activities are strictly regulated by the Local Government Act 2003 and the CIPFA Code of Practice on Treasury Management.
Summary:	The report sets out the Treasury Management activities for the first half of 2019/20.
Financial Implications:	The report ensures that the Council is aware of the current Treasury Management position.
Risk Management Implications:	There are no risk management implications arising from this report.
Environmental Implications:	There are no environmental implications arising from this report.
Legal Implications:	There are no legal implications arising from this report.
Equality and Diversity:	There are no equality and diversity implications arising from this report.
Recommendation:	(1) The report be noted; (2) the monitoring and review of the Treasury Management indicators be agreed; and (3) IT BE RECOMMENDED TO COUNCIL THAT - (a) the amended Approved Counterparties Investment List (Appendix A) be approved; and (b) the amended Treasury Management Indicator for Principal sums invested for periods longer than 364 days be approved.
Reasons for Recommendation:	To comply with the Code of Practice

Agenda No 8

Cabinet - 2 December 2019

Treasury Management Report 2019/20 - Progress Report

Public Report of the Head of Corporate Resources and CFO

Recommendation:

(1) The report be noted;

(2) the monitoring and review of the Treasury Management indicators be agreed; and

(3) IT BE RECOMMENDED TO COUNCIL THAT -

(a) the amended Approved Counterparties Investment List (Appendix A) be approved; and

(b) the amended Treasury Management Indicator for Principal sums invested for periods longer than 364 days be approved.

1.1 INTRODUCTION

On 26 February 2019, in accordance with the *CIPFA Code of Practice for Treasury Management in the Public Sector*, Council approved the Treasury Management Strategy for 2019/20 – 2021/22. The Code requires the Council to approve a treasury management strategy before the start of each financial year, a mid-year report, and an annual report after the end of each financial year.

This is a report on the Treasury Management activities for the first half of 2019/20 (the mid-year report). Treasury Management is defined as:

"The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".
(CIPFA Code of Practice for Treasury Management in the Public Sector)

In addition to its own resources (General Fund and Housing Revenue Account (HRA) balances, capital receipts, etc.) the Council also collects council tax on behalf of Warwickshire County Council, the Office of the Police and Crime Commissioner for Warwickshire, and Parish Councils. This means that at given points of time during the financial year, the Council has significant cash holdings which require management prior to scheduled payment dates to the preceptors. A summary of transactions, and the levels of investments and borrowings held, is contained within this report.

The Head of Corporate Resources and Chief Financial Officer is pleased to report that all treasury management activity undertaken during the period complied with the approved strategy, the *CIPFA Code of Practice*, and the relevant legislative provisions.

1.2 ECONOMIC REVIEW APRIL – SEPTEMBER 2019

UK. This first half year has been a time of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on or 31 October, with or without a deal. However, in September, his proroguing of Parliament was overturned by the Supreme Court and Parliament carried a bill to delay Brexit until 31 January 2020 if there is no deal by 31 October. MPs also voted down holding a general election before 31 October, though one is likely before the end of 2019. So far, there has been no majority of MPs for any one option to move forward on enabling Brexit to be implemented. At the time of writing the whole Brexit situation is highly fluid and could change radically by the day. Given these circumstances and the likelihood of an imminent general election, any interest rate forecasts are subject to material change as the situation evolves. If the UK does soon achieve a deal on Brexit agreed with the EU then it is possible that growth could recover relatively quickly. The MPC could then need to address the issue of whether to raise Bank Rate at some point in the coming year when there is little slack left in the labour market; this could cause wage inflation to accelerate which would then feed through into general inflation. On the other hand, if there was a no deal Brexit and there was a significant level of disruption to the economy, then growth could weaken even further than currently and the MPC would be likely to cut Bank Rate in order to support growth. However, with Bank Rate still only at 0.75%, it has relatively little room to make a big impact and the MPC would probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy.

The first half of 2019/20 has seen UK **economic growth** fall as Brexit uncertainty took a toll. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The MPC meeting of 19 September reemphasised their concern about the downturn in world growth and also expressed concern that prolonged Brexit uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth. This mirrored investor concerns around the world which are now expecting a significant downturn or possibly even a recession in some major developed economies. It was therefore no surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit. However, it is also worth noting that the new Prime Minister is making some significant promises on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and, conversely, take some pressure off the MPC to cut Bank Rate to support growth.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019 but fell to 1.7% in August. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

With regard to the **labour market**, despite the contraction in quarterly GDP growth of -0.2% q/q, (+1.3% y/y), in quarter 2, employment continued to rise, but at only a muted rate of 31,000 in the three months to July after having risen by no less than 115,000 in quarter 2 itself: the latter figure, in particular, suggests that firms are preparing to expand output and suggests there could be a return to positive growth in quarter 3. Unemployment continued at a 44 year low of 3.8% on the Independent Labour Organisation measure in July and the participation rate of 76.1% achieved a new all-time high. Job vacancies fell for a seventh consecutive month after having previously hit record levels. However, with unemployment continuing to fall, this month by 11,000, employers will still be having difficulty filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to a high point of 3.9% in June before easing back slightly to 3.8% in July, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%. As the UK economy is very much services sector driven, an 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. The latest GDP statistics also included a revision of the savings ratio from 4.1% to 6.4% which provides reassurance that consumers' balance sheets are not over stretched and so will be able to support growth going forward. This would then mean that the MPC will need to consider carefully at what point to take action to raise Bank Rate if there is an agreed Brexit deal, as the recent pick-up in wage costs is consistent with a rise in core services inflation to more than 4% in 2020.

In the **political arena**, the imminent general election may result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up although, conversely, a weak international backdrop could provide further support for low yielding government bonds and gilts.

1.3 OUTLOOK FOR INTEREST RATES

The Council's treasury advisor, Link Asset Services, has provided the following forecast.

(This forecast includes the increase in margin over gilt yields of 100bps introduced on 9.10.19.)

Link Asset Services Interest Rate View	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	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	2.30	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.60	2.80	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40
25yr PWLB Rate	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00
50yr PWLB Rate	3.20	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90

1.4 TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY UPDATE

The Treasury Management Strategy Statement, (TMSS), for 2019/20 was approved by this Council on 26 February 2019.

An updated list for investment criteria is included at Appendix A. The principal change is an increase in investment limits for local authorities from £10m to £20m and for registered providers (housing associations) from £5m to £10m. The time limit for investments remains unchanged at 10 years. The Council is confident that as a sector local authorities are secure investments in the context of support from Central Government and the legal surcharging framework that guarantees debts will be paid. However, for any investment over one year the financial resilience of the relevant council will be assessed. Registered Providers of Social Housing formerly known as Housing Associations are bodies tightly regulated by Homes England and, as providers of public services, retain a strong likelihood of receiving government support if needed.

In addition to the above, treasury management indicator setting the limit on principal sums invested for more than 365 days be amended as follows:

	2019/20	2020/21	2021/22
Current Limit on principal invested beyond 365 days	£20.00m	£20.00m	£20.00m
Proposed Limit on principal invested beyond 365 days	£30.00m	£30.00m	£30.00m

The revision reflects the increasing cash flows impacting upon the Council's investment portfolio over time. It also facilitates matching cash inflows associated with major proposed schemes such as the redevelopment of the multi-storey flats sites and cash outflows to mitigate cost of carry on long term borrowing.

1.5 INTERIM INVESTMENT REPORT AND SUMMARY OF TRANSACTIONS

Interest earned on investments is an important source of income to the Council, and, like fees and charges, provides funding which would otherwise have to be met from increased council tax.

The average investment balance held between April and September 2019 was £88.818m and the average rate of return was 1.28%, 0.48% above the local authority benchmark of 0.80%. This generated investment income of £0.568m. The investment income received exceeded the budgeted to date figure by approximately £0.271m. Investment income is apportioned between General Fund, HRA, and other reserves (Section 106, Major Repairs Reserve, etc.) based on average balances and cash-flows during the course of the financial year.

The average debt balance held between April and September 2019 (General Fund and Housing Revenue Account) was £101.521m and the average rate paid was 2.12%, generating interest payable of £1.076m. Interest payable was slightly lower than the budgeted to date figure by approximately £0.022m.

The latest year end position for 2019/20 for the General Fund net cost of borrowing (interest paid less interest received) is to be £0.175m under budget[1]. This is based on the forecast for investment balances to fall during the next six months; for market interest rates to remain static or rise only slightly; and utilising the investment products prescribed in the revised 2019/20 – 2021/22 investment strategy.

The following table summarises the treasury management transactions undertaken during the first half of this financial year:

		Principal Amount £m	Interest Rate %
Investments	- as at 31st March 2019	69.629	1.34%
	- matured in period		
	- arranged in period		
	- as at 30th Sept 2019	**129.291**	1.22%
Debt	- as at 31st March 2019	93.509	2.40%
	- matured/repaid in period		
	- arranged in period		
	- as at 30th Sept 2019	**124.521**	2.25%
Net Investments at 31st March 2019		**-23.880**	
Net Investments at 30th September 2019		**4.770**	

No debt restructuring took place during the period 1st April 2019 to 30th September 2019.

1 Does not include interest received from non-investment sources – i.e. car loans

1.6 DEBT MANAGEMENT STRATEGY

The borrowing strategy approved (in February) did not identify a specific need for the Council to borrow this financial year to support the capital programme but highlighted the diminishing level of capital receipts available to finance the General Fund 'standard' capital programme from 2019/20 onwards. The Council will look to match financing with asset life where appropriate and has the option to utilise the Public Works Loan Board (PWLB), other authorities, financial institutions, or 'internal borrowing', that is cash supporting the Council's reserves, balances and cash flow as a temporary measure. The Council continues to monitor the progress of the UK Municipal Bonds Agency (UKMBA), created by the Local Government Association with local authority shareholders.

The outlook for interest rates (see section 1.4) shows a rise in PWLB rates of up to 0.60% over the medium term. The Council has used flexibility to borrow funds this year from the PWLB (prior to the overnight rate change on 9th October 2019) and other local authorities for use in future years, subject to capital financing requirements. The Housing Revenue Account (HRA) Capital and Revenue estimates for 2020/21 and HRA medium term financial plan contained elsewhere on this agenda indicate that amounts previously set aside for the repayment of debt will now be utilised as revenue contributions to capital expenditure considering the redevelopment/refurbishment costs of the multi-storey flats highlighted to Council previously. Officers will continue to review the HRA borrowing pool in light of this requirement and look to match any refinancing with the cash flow expectations contained within the revised HRA 30-year business plan.

In addition to borrowing from external sources the Council has the option of 'intra-fund' borrowing – that is, loans between the General Fund and Housing Revenue Account (HRA). In consultation with its treasury management advisors the Council will continue to look at this facility over the term of the General Fund Medium Term Financial Plan and the HRA Business Plan to ensure opportunities are maximised.

1.7 TREASURY MANAGEMENT INDICATORS

The Council measures its exposures to treasury management risks using the following indicators. Council is asked to note the following indicators as at 30th September 2019.

Security: average credit rating

To measure the security of its portfolio, the Council compares the historic risk of default of its investments against a maximum target rate.

As an example, based on historic data, a AAA (least risk) rated investment has 0% chance of default within 1 year and a 0.05% chance of default within 3 years. A BBB+ (most risk) rated investment has a 0.22% chance of default within 1 year and a 1.21% chance of default within 3 years. There have been no default events associated with any counterparties the Council has utilised within its investment portfolio since 2009 at the time of the Icelandic banking collapse. All funds and accrued interest held at that time were subsequently reclaimed via the administration process.

Using the criteria above, the Council's overall portfolio at 30th September 2019 had a 0.015% risk of default, equating to an estimated loss (weighted by length of investment of) of £19,076 in the event of default.

	Limit	Actual	Met?
Historic risk of default	0.25% (max)	0.015%	✓

Maturity structure of borrowing
This indicator is set to control the Council's exposure to refinancing risk – that all borrowing falls due for repayment at the same time. The repayment structure of fixed rate borrowing (loans of 12 months or longer) was:

	Upper Limit	Lower Limit	Actual	Met?
Under 12 months	50%	0%	41%	✓
12 months and within 24 months	50%	0%	9%	✓
24 months and within five years	60%	0%	17%	✓
Five years and within 10 years	60%	0%	11%	✓
10 years to 20 years	75%	0%	1%	✓
20 years to 30 years	75%	0%	5%	✓
30 years +	75%	0%	16%	✓

The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than 364 days
The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. It is used in conjunction with the liquidity indicator to ensure sufficient cash resources are available without penalty during the short to medium term. The total principal sums invested to final maturities beyond the year end were:

	2019/20	2020/21	2021/22
Limit on principal invested beyond year end	£20.00m	£20.00m	£20.00m
Actual principal invested beyond year end	£14.88m	£7.88m	£1.94m
Within limit?	✓	✓	✓

Name of Meeting: Cabinet

Date of Meeting: 2 December 2019

Subject Matter: Treasury Management Report 2018/19 - Progress Report

Originating Department: Corporate Resources

DO ANY BACKGROUND PAPERS APPLY ☐ **YES** ☒ **NO**

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink

The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

☐ Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A

14 **Approved counterparties**: The Council may invest with any of the counterparty types in the table below; subject to the cash limits (per counterparty) and the time limits shown:

Credit Rating	Banks Unsecured	Banks Secured	Government (non-UK)	Corporate	Registered Providers
AAA	£5m 5 years	£10m 20 years	£10m 50 years	£5m 10 years	£10m 20 years
AA+	£5m 5 years	£10m 10 years	£10m 25 years	£5m 7 years	£10m 10 years
AA	£5m 4 years	£10m 5 years	£10m 15 years	£5m 5 years	£10m 10 years
AA-	£5m 3 years	£10m 4 years	£10m 10 years	£5m 5 years	£10m 10 years
A+	£5m 2 years	£10m 3 years	£5m 5 years	£5m 5 years	£10m 5 years
A	£5m 13 months	£10m 2 years	£5m 5 years	£5m 5 years	£10m 5 years
A-	£5m 6 months	£10m 13 months	£5m 5years	£5m 5 years	£10m 5 years
None	£3m 6 months	n/a	n/a	£5m 5 years	£10m 3 year
UK Govt	Central government: £unlimited 50 years UK Local Authority: £20m 10 years				
Pooled Funds and real estate investment trusts			£5m per Fund or Trust		

This table must be read in conjunction with the notes below.

15 **Credit Rating**: Investment limits are set with reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used,

otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

16 **Banks Unsecured**: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

17 **Banks Secured**: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

18 **Building Societies**: Although the regulation of building societies is no longer any different to that of banks the Council takes additional comfort from building societies' business model. The Council will therefore consider investing with unrated building societies where independent credit analysis shows them to be suitably creditworthy. A minimum asset size of £250m applies and limits of £3m per Society apply for unrated societies.

19 **Government**: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years and with a UK local government body up to £20m for up to 10 years. The Council is confident that as a sector local authorities are secure investments in the context of support from Central Government and the legal surcharging framework that guarantees debts will be paid. However, for any investment over one year the financial resilience of the relevant council will be assessed.

20 **Corporates**: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are exposed to the risk of the company going insolvent. Investments in these institutions and asset classes will only be undertaken following a review of risk/reward in consultation with the Council's treasury advisors. Specific consideration will be given to factors including: collateralisation, alternate asset classes, minimum term obligations, and potential impact of movement in asset valuations on Council balances. Where appropriate, criteria will be established to convene selection panels prior to the engagement of fund managers.

21 **Registered Providers**: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes England and, as providers of public services; they retain the likelihood of receiving government support if needed.

22 **Pooled Funds**: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

23 Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly. These types of funds were introduced in 2013/14 and have provided increased yield although their capital value has shown some volatility requiring continued monitoring. This class of pooled funds are subject to their own specific limits and in view of the possible level of investments in the longer term they have been increased to give the Council reasonable investment options.

24 **Real estate investment trusts (REITs)**: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. This is a new category that sits alongside Pooled Funds. The Council will carry out detail appraisal and take advice before any possible investment. As these trusts are subject to volatility and are new instrument to the Council a limit of £1m is set for them.