

# AGENDA



- Committee - **GOVERNANCE AND AUDIT COMMITTEE  
(SPECIAL MEETING)**
- Date & Time - Thursday, 21 January 2016 at 6.30 pm
- Venue - Meeting Room 1, Council Offices, Priory Road,  
Spalding

**Membership of the Governance and Audit Committee:**

Councillors: G R Aley (Chairman), C J T H Brewis, T A Carter, P C Foyster, A Harrison (Vice-Chairman), C N Johnson and M J Pullen

**Revised quorum 3.**

Persons attending the meeting are  
requested to turn off mobile telephones

Democratic Services  
Council Offices, Priory Road  
Spalding, Lincs PE11 2XE

Date: 13 January 2016

## AGENDA

### **PLEASE NOTE TIMINGS ARE APPROXIMATE**

#### **TIME**

- |         |    |  |                    |
|---------|----|--|--------------------|
| 6.30 pm | 1. | Apologies for absence.   |                    |
| 6.31 pm | 2. | Declaration of Interests - (Councillors are reminded that under the Code of Conduct they are not to participate in the whole of an agenda item to which they have a Disclosable Pecuniary Interest. In the interests of transparency, councillors may also wish to declare any other interests that they have, in relation to an agenda item, that supports the Nolan principles detailed within the Code of Conduct). |                    |
| 6.32 pm | 3. | Financial Forecast Outturn Q2 2015/16 (abridged HRA only) - To provide information on the draft year end financial position of the HRA, as at 30 September 2015 (report of the Executive Director Commercialisation (S151 Officer) enclosed).  | (Pages<br>1 - 8)   |
| 6.50 pm | 4. | HRA - Draft Budget, Medium Term Plan and Capital Strategy - To consider the draft capital and revenue budget estimates, the medium term financial plan and the capital strategy (report of the Executive Director Commercialisation (S151 Officer) enclosed)   | (Pages<br>9 - 26)  |
| 7.05 pm | 5. | Weekly Collection Support Scheme - To provide information on the funding provided to support weekly waste collections over a five year period (report of the Executive Director Commercialisation (S151 Officer) enclosed).  | (Pages<br>27 - 30) |
| 7.20 pm | 6. | Specifics of the Treasury Management Strategy - The Committee will receive an update on specifics of the Treasury Management Strategy. The update will be in the form of a presentation from the Interim Chief Accountant.   |                    |

The update follows on from the report entitled 'Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2016/17', considered at the last Governance and Audit Committee meeting held on 3 December 2015.

## SOUTH HOLLAND DISTRICT COUNCIL

**Report of:** Executive Director Commercialisation (S151 Officer)  
**To:** Governance & Audit Committee – 21 January 2016  
**Author:** Ken Trotter - Interim Chief Accountant (Deputy S151 Officer)  
**Subject:** Financial Forecast Outturn Quarter Two 2015-16 (Abridged – HRA only)  
**Purpose:** This report provides information on the draft year end financial position of the HRA, as at 30 September 2015.

### **Recommendation:**

That consideration be given to the report and Appendix 1, and any areas of concern to be identified and reported to the Cabinet.

### **1.0 BACKGROUND**

1.1 This report contains information on the projected full year financial performance of the HRA which was included in the Financial Forecast Outturn Quarter Two 2015-16 presented to Cabinet on 8 December 2015.

### **2.0 OPTIONS**

2.1 To note the report

2.2 Provide comments to Cabinet on any areas of concern.

2.3 To do nothing.

### **3.0 REASONS FOR RECOMMENDATION**

3.1 To provide timely information to Members on the overall finances of the Council and to make the best use of resources available.

### **4.0 EXPECTED BENEFITS**

4.1 To ensure that members are updated regularly on the overall Council financial position and to act on any budget amendments required to reflect the latest position of spend and income.

### **5.0 IMPLICATIONS**

#### **5.1 Financial**

5.1.1 The report is of a financial nature and financial details are included within the appendix.

5.1.2 Replacement of dwelling components is based on the premise that only assets that have failed will be replaced. Useful life criteria adopted in 2012 has been examined and changes are proposed in line with actual experience over the last 4 years. These changes will be

introduced into the new asset management system during installation and will also facilitate component accounting when it is introduced to Local Government. Table 7 of Appendix 1 to this report identifies the required changes.

## 5.2 Risk Management

5.2.1 Risks are highlighted within the appendix.

## 6.0 WARDS/COMMUNITIES AFFECTED

6.1 Budget implications affect all wards.

## 7.0 ACRONYMS

HRA – Housing Revenue Account  
MRA – Major Repairs Allowance  
RCCO – Revenue Contribution to Capital Outlay  
MRR – Major Repairs Reserve  
RTB – Right to Buy

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Background papers:- None

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### Lead Contact Officer

Name and Post: Julie Kennealy Executive Director Commercialisation (Section151 Officer)  
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[ktrotter@sholland.gov.uk](mailto:ktrotter@sholland.gov.uk) (Interim Chief Accountant (Deputy S151 Officer))

### Director / Officer who will be attending the Meeting:

Ken Trotter – Interim Chief Accountant (Deputy Section151 Officer)  
Telephone: 01775 764684

**Key Decision:** No

**Exempt Decision:** No

**This report refers to both Mandatory Service and Discretionary Services**

### Appendices attached to this report:

Appendix 1                    HRA Financial Report for the quarter ending 30 September 2015

## South Holland District Council

### Financial Report for the quarter ending September 2015

#### Housing Revenue Account

#### Revenue Budget

Total Budget requirement for the year is £391,000, £147,000 as approved by Council on 20<sup>th</sup> February 2015 and £244,000 of capital expenditure carried forward from the 2014/15 programme approved by council on 24<sup>th</sup> June 2015.

Forecast out turn for 2015/16 is nil and main variances are analysed in Table 1

**Table 1: HRA Major Variances**

	Expenditure £'000	Income £'001	Total £'002	Comments
Approved HRA net expenditure	147		147	
C/F of capital budgets from 14-15	244		244	Capital programme 14-15 c/f into 15-16 (approved Q4)
<b>Revised budget</b>	<b>391</b>		<b>391</b>	
Service Charges	52	747	799	Recharges deleted
Supervision & Management	150		150	Revised Central services costs
Revised Corporate & Democratic Core costs	75		75	in line with management & members changes since 2011/12.
Contribution to Members Budgets	19		19	Contribution to area wide improvements
Debt Management	75		75	Treasury Activity including investments
Supervision & Management	(37)		(37)	Vacancy management
Property maintenance	(973)		(973)	Revised Position in line with 2014/15 Out turn and informed by a mid year review of all work streams
Bad debt provision	(273)		(273)	Revised provision in line with 2014/15 Out turn and informed by a mid year review of collection performance
Revenue contributions to Capital Expenditure	(166)		(166)	Revised capital programme & Future investment
London Consortium share		(75)	(75)	Framework agreement for Capital Expenditure
Financing Charges	(52)	(9)	(61)	HRA share of additional investment income & Revised Borrowing costs
Rent Income - Non Dwellings		(24)	(24)	Improved usage of assets
Rent Income - Dwellings		100	100	Impact of increased RTB sales in 2014/15 & 2015/16 (20 units per year).
			0	
<b>Forecast Outturn</b>	<b>(739)</b>	<b>739</b>	<b>0</b>	
<b>Forecast Variance to revised budget</b>	<b>(1,130)</b>	<b>739</b>	<b>(391)</b>	

Treatment of expenditure and income in the HRA are prescribed by statute and the annual statement of accounts is compiled on the basis that each item is identified separately. No amalgamation of items or netting off is permissible and the management accounts have been compiled on this basis for consistency

The annual budget was compiled using the 30 year business plan as a reference. However some planning assumptions whilst valid over a 30 year period are not valid on an annual basis. Several areas of the budget were set this way and the forecast resets the position back to normal operating parameters.

Property maintenance costs in the budget include costs of services provided to clients other than the HRA. Priory road offices responsive repairs are an example. The use of recharges in the Budget has led to confusion and this position has now been regulated.

The statutory accounts presentation is shown in Table 2 to clarify the position in respect of individual costs & incomes. Repairs & Maintenance costs for example are £973k below budget but are £363k higher than the 2014/15 actual cost. Asbestos management costs (£373k) have been included in the 2015/16 forecast but were shown as capital expenditure in the 2014/15 accounts giving an overall reduction in 2015/16 costs of £10k when compared to previous actual costs.

**Table 2: HRA Statutory Accounts Comparison**

	2014-15	2015-16		
	Actual	Budget	Forecast	Variance
	£ 000's	£ 000's	£ 000's	£ 000's
Rent Income - Dwellings	(15,490)	(15,562)	(15,462)	100
Rent Income - Non Dwellings	(156)	(132)	(156)	(24)
Charges for Services & Facilities	(1,085)	(1,204)	(934)	270
Contributions to Expenditure	(149)	(569)	(89)	480
Other income	(25)	0	(78)	(78)
<b>Total Income</b>	<b>(16,905)</b>	<b>(17,467)</b>	<b>(16,719)</b>	<b>748</b>
Repairs & Maintenance	2,670	4,006	3,033	(973)
Supervision & Management	2,492	2,542	2,824	282
Service charge costs	1,343	1,173	1,225	52
Depreciation (MRA)	1,595	1,596	1,595	(1)
Provision for Doubtful Debts	106	393	120	(273)
<b>Total Expenditure</b>	<b>8,206</b>	<b>9,710</b>	<b>8,797</b>	<b>(913)</b>
<b>Contribution from Operations</b>	<b>(8,699)</b>	<b>(7,757)</b>	<b>(7,922)</b>	<b>(165)</b>
Financing charges	2,298	2,370	2,310	(60)
Revenue Contributions (RCCO)	4,268	5,778	5,612	(166)
<b>Net operating (Surplus) / Deficit</b>	<b>(2,133)</b>	<b>391</b>	<b>0</b>	<b>(391)</b>

Rent income Dwellings reduction of £100k is due to the cumulative effect of additional right to buy sales since the regulations were reinvigorated in 2012 and discounts offered to tenants increased.

Charges for services variance to 2014/15 is a reduction of £151k which reflects the life-line service being transferred to Community Development.

The Contributions to Expenditure budget includes recharges in respect of property maintenance as explained above and charges in respect of life-line services (£64k) to private residents that has been transferred to Community Development.

Other income includes a surplus distribution from the London Consortium framework agreement which regulates the contracts for capital expenditure. This is a medium term settlement for 2014/15 and prior years and is not expected to be repeated in the near future.

### **Housing Revenue Account (HRA) Service Review (£319,000)**

A review of all services provided to the HRA has been completed as part of the Medium Term Financial Plan for 2016-17 to 2019-20

Compass Point Business Services activities in respect of: Rent income; rent accounting; responsive repairs & maintenance and Capital Programme accounting were examined as additional management activity is present in all these areas. Apportionment of costs was further examined as our partner Authority (East Lindsey District Council) no longer has an active HRA. Additional costs of approximately £150k were identified and the cost allocation model adjusted accordingly.

Treasury management, including debt management is an integral part of the function of the HRA. This was identified separately under the Housing Subsidy Regime but was omitted from the budget and Business plan approved under self financing regulations. Cost of £75k including treasury advisory service has been identified (£43k in 2011 before additional borrowing of £67m) and this is now being correctly charged to the HRA.

Corporate & Democratic core costs have not been reviewed since the inception of self-financing and have been charged at £335k without adjustment. Corporate management budgets and Members activities & costs have been reorganised during this time and an additional £75k approx. is to be charged to the HRA based on an officer assessment of management & member time required for strategic management of the service.

Member's budgets for Area wide improvements are currently funded entirely from the General fund and a £19k contribution from the HRA based on good Landlord practise has been identified.

Landlord services within the HRA are also being examined in respect of core / non-core activities. Life-line alarms are classified as non-core and therefore management of the function is to be transferred to Community Development. As part of this transfer £65k of income from services to private residents has been identified which will be subject to commercialisation in the future and accordingly will be accounted for in the Community Development Budget. Other potential community assets are currently being examined for inclusion in future commercialisation projects including garages / car parking spaces for rent.

Service charge costs in 2014/15 included £488k in respect of sewage treatment management costs and the 2015/16 forecast is set at £490k. However the Budget was set at £152k due to confusion in respect of recharges which has been resolved for the revised Medium Term Financial Plan. The total overspend in this budget area is £52k reflecting sewage treatment costs offset by reductions in Life-line costs due to the transfer of the function to Community Development.

Recovery of Sewage Treatment costs is approx. 58% due to limitations on charges present in Right to buy sales conveyancing documents from the 1980's and early 1990's. Various alternatives are being examined to find a solution to this annual shortfall of £205k which is charged to the HRA.

Provision for doubtful debts in the budget is based on 2.5% of total income including recharges. As this income has been adjusted the provision forecast of £120k is based on current collection rates (0.72% of £16,719k).

Revenue contributions to Capital Outlay are based on financing the annual Capital programme after applying any usable capital receipts and any balance in the Major Repairs Reserve (MRR). In 2015/16 it is likely that the transfer from the MRR will not fully extinguish the balance and it is estimated £2,409k will remain at year end. This will be notionally assigned to the proposed revised Affordable Housing programme which will need additional funds for financing purposes due to the medium term nature of the activity. Specifically 1 for 1 replacement funds applied at 30% of the build cost can only be used on completion of the unit (or completion of purchase).. Dwellings in progress at each year end will then need to be financed and the balance in the MRR will be used. These funds will also allow flexibility between purchases of units and new build to mitigate potential repayment of the 1 for 1 fund to central government.

Due to increased Right to buy sales of dwellings to 20 from 7 assumed in the HRA Business plan a portion of the receipts from these sales is available for capital expenditure in the Authority in respect of affordable housing or any other purpose as defined in s11 of the Local Government Act 2003 (as amended). It is recommended that the policy of the council be confirmed in accordance with the provisions of the act i.e. useable capital receipts can be applied to any legitimate capital purpose.

## Balance Sheet

### HRA Reserve Balances

The HRA General reserve can be used for revenue or capital purposes and the MRR can be used for capital purposes including repayment of debt.

The current projection of balances in reserve as at 31<sup>st</sup> March 2016 is shown in Table 9

**Table 3: Projection of Reserve Balances**

Housing Revenue Account Reserves	Total £000's
Cumulative Working Balance	8,968
Budget 2015-16	(147)
Rollover of capital programme from 2014-15 approved	(244)
<b>Forecast outturn variance</b>	<b>391</b>
<b>Forecast balance on the HRA at 31.3.16</b>	<b>8,968</b>
Insurance Reserve	200
Major Repairs Reserve	2,409
<b>Total HRA reserves at 31.3.16</b>	<b>11,577</b>

### Housing Rent Collection (HRA)

At the end of September 2015 the collection rate was 97.2% against a collectable debit of £10.1m.

**Table 4: Rent collection performance**

Key performance Indicator	Collection performance 2014-15 Week26	Collection performance 2015-16 Week 26
<b>% of income collected</b>	99.08%	97.2%
<b>Bad Debt write off</b>	£7,160	£11,291



Average collection in the first half of the year over the last 4 years is 97.5%. 2014/15 performance was improved by a 53rd week in the rent system which was carried over from 2013/14.

## HRA Capital Programme

All works to stock activities have been examined and accounting treatment between revenue and capital redefined in line with component accounting regulations.

Planned maintenance is funded directly from revenue and includes items such as External Painting & Gas Servicing. Asbestos management was previously classified as capital expenditure but as no asset creation is present this has been re-classified as planned maintenance.

The Decent Homes replacement activities are based on information from the HRA Codeman asset management system. The system includes representative useful asset life assumptions and this in turn generates a forecast for replacement. The system has become unstable due to lack of support and a new system is currently being installed.

The current budget is based on this forecast data but the actual management system includes a further step which is to determine condition of the component.

In order to ensure that only assets that require replacement due to failure are actioned in the programme a change in useful life criteria is proposed. This will extend the replacement time for existing records which will allow individual component condition to be determined before replacement action is considered. The change will also reflect actual experience of asset life since the inception of self-financing to the HRA.

The projection shown in table 13 is after examining all existing Codeman forecast records in respect of condition to ensure that only assets that require replacement based on this criteria are in the programme.

**Table 5: Projected out Turn 2015/16**

	2015/16		
	Budget	Forecast	Variance
	£ 000's	£ 000's	£ 000's
<b>Planned Maintenance</b>	<b>1,673</b>	<b>1,265</b>	<b>(408)</b>
Decent Homes - Component Replacements	5,190	3,837	(1,353)
Major Area Works	358	358	0
IT / System Works	113	103	(10)
Aids & Adaptations	466	450	(16)
<b>Total Improvement Programme</b>	<b>6,127</b>	<b>4,748</b>	<b>(1,379)</b>
Affordable Housing	900	50	(850)
<b>Total Capital Programme</b>	<b>7,027</b>	<b>4,798</b>	<b>(2,229)</b>

**Table 6: Capital Funding**

Major Repairs Reserve	(1,596)	(1,595)	1
Capital Receipts - 1 for 1 fund	(126)	0	126
RCCO	(5,061)	(3,203)	1,858
Use of Reserves	(244)		244
<b>Total Capital Programme</b>	<b>(7,027)</b>	<b>(4,798)</b>	<b>2,229</b>
Revenue Budget	(1,673)	(1,265)	408
<b>Total Works to Stock</b>	<b>(8,700)</b>	<b>(6,063)</b>	<b>2,637</b>

Useful Life data for all Dwelling components was approved by Council in 2012 and it is recommended that the changes identified in Table 14 are adopted for all future programme replacements.

**Table 7: Useful life Criteria – HRA Dwelling components**

<b>Component</b>	<b>Existing Useful Life</b>	<b>Proposed Useful Life</b>	<b>Comments</b>
Roof	60	<b>72</b>	Concrete tiles
Kitchen	20	<b>25</b>	As near neighbours
Bathroom	25	<b>30</b>	As near neighbours

Further changes to life cycles may be necessary due to changes in technology in respect of Central Heating systems which are currently being examined.

## SOUTH HOLLAND DISTRICT COUNCIL

**Report of:** Executive Director Commercialisation (S151 Officer)

**To:** Governance & Audit Committee – 21 January 2016

**Author:** Ken Trotter-Interim Chief Accountant (Deputy S151 Officer)

**Subject:** HRA - Draft Budget, Medium Term Plan and Capital Strategy

**Purpose:** To consider the draft capital & revenue budget estimates, the medium term financial plan and the capital strategy.

### **Recommendations:**

- 1. That the HRA draft capital and revenue budget estimates, the medium term financial plan and the capital strategy are reviewed and comments forwarded to Cabinet as appropriate**
- 2. To review the details of the proposed National Rent Policy and recommend to Council adoption of this policy or any alternative proposed by the committee**
- 3. To review asset management criteria particularly in respect of useful life changes proposed for current and future use and recommend to Council adoption of the revisions to the Asset Management Plan.**

### **1.0 BACKGROUND**

- 1.1 The appendices to this report outline the 2016-17 revenue and capital estimates for the HRA, the outline position to 2019-20, the medium term financial plan and the capital strategy. The medium term financial plan sets out the framework within which the budget is to be set to ensure that it enables the Council to achieve its own corporate objectives. The capital strategy sets out the framework for the capital budget setting.
- 1.2 During recent years, the Council, alongside many public sector service providers has experienced financial pressures in various combinations; public sector funding cuts, all time low returns on cash deposits and a national economic downturn affecting jobs, housing and business growth. During this same period the basis on which the public sector is funded has undergone unprecedented reform, radical changes that affect the Council's funding financial position both directly and indirectly include National Welfare Reform, Localisation of Council Tax Relief, Business Rates Retention, New Homes Bonus and of course reduction and in some cases removal of a range of grant funding sources. Each change bringing elements of uncertainty in terms of impact.
- 1.3 Since the inception of self-financing, central government changes have had a major impact on the 30 year Business Plan of the HRA. The increase in discounts available to tenants has led to increased sales of units, national rent policy has changed twice in the last two years, pay to stay regulations are coming through and charges for higher value property in respect of forced sale on void are also coming through Parliament.
- 1.4 Despite these challenges, and as a result of the Council's prudent financial management, the HRA has been positioned to secure a sustainable financial future across the medium term with no dependency on reserves. This position is enabling the Council time to further develop the financial strategy and to identify and deliver a clear replacement programme in

line with the 1 for 1 replacement agreement entered into with Central Government.

- 1.5 This change has already started with the formation of the Housing Growth Group and some changes have been delivered early, with accelerated savings, in respect of the proposed changes in the asset replacement policy
- 1.6 Further changes are being considered including the formation of a property services function for the authority which would include asset management and have responsibility for the capital programme including the proposed affordable housing projects. Planned maintenance, works on void properties and responsive repairs.

## 2.0 **OPTIONS**

- 2.1 That the draft capital and revenue budget estimates, the medium term financial plan and the capital strategy are released for consultation.
- 2.2 There are no alternative options presented, however amendments may be made before comments are reported to Cabinet.
- 2.3 To do nothing.

## 3.0 **REASONS FOR RECOMMENDATIONS**

- 3.1 To comply with the budgetary and policy framework

## 4.0 **EXPECTED BENEFITS**

- 4.1 To set an affordable and balanced budget for 2016-17 which delivers on the Council's priorities

## 5.0 **IMPLICATIONS**

### 5.1 **Financial**

- 5.1.1 The report is of a financial nature and financial details are included within the appendix.
- 5.1.2 The 2015/16 Medium Term Financial Plan identified a deficit on the HRA of £147,000 which was increased to £391,000 with approval to carry forward capital programme delayed expenditure in June 2015.
- 5.1.3 This deficit was examined in the current budget setting cycle and the revised position after 2015/16 initiatives & service adjustments has now been reversed and a balanced account is projected for 2015/16.
- 5.1.4 Details are available in the 2015/16 Financial Forecast OutTurn Quarter 2 report and relevant HRA sections of this report have been submitted to the committee for background information.
- 5.1.5 A further report to Council is anticipated in respect of a change of use of garages and car parking spaces for rent which are currently managed within the HRA. Recommendations in respect of re-designating these as Community Assets and appropriating them to the general fund are in progress.
- 5.1.6 HRA general balance is projected at £8,968,000 (Section 7, Page 6 in Appendix A of this report) with £2,000,000 considered to be a reasonable level consistent with the risks on the

service. The MTFP therefore includes a balanced budget for the period which includes approx. £11,783,000 for a proposed Affordable Housing programme to replace lost rent from Right to Buy sales and changes planned in the National Rent policy. In addition £2,409,000 has been proposed to be transferred to the major repairs reserve in 2015/16 to support this programme in respect of timing differences on funding and potential acceleration of the programme by purchasing rather than building units.

## 5.2 Risk Management

5.2.1 Risks are highlighted within the appendix.

## 6.0 WARDS/COMMUNITIES AFFECTED

6.1 Budget implications affect all wards.

## 7.0 ACRONYMS

HRA – Housing Revenue Account  
MTFP – Medium Term Financial Plan  
RCCO – Revenue Contribution to Capital Outlay  
MRR – Major Repairs Reserve  
RTB – Right to Buy  
MRA – Major Repairs Allowance

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Background papers:- None

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### Lead Contact Officer

Name and Post: Julie Kennealy Executive Director Commercialisation (Section 151 Officer)  
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Email: [Julie.Kennealy@breckland-sholland.gov.uk](mailto:Julie.Kennealy@breckland-sholland.gov.uk) or alternatively  
ktrotter@sholland.gov.uk (Interim Chief Accountant (Deputy S151 Officer))

### Director / Officer who will be attending the Meeting:

Ken Trotter- Interim Chief Accountant (Deputy Section 151 Officer)  
Telephone: 01775 764684

**Key Decision:** No

**Exempt Decision:** No

**This report refers to both Mandatory Service and Discretionary Services**

### Appendices attached to this report:

Appendix A – HRA Budget estimates and medium term financial plan  
Appendix B – HRA Budget Summary 2016/17  
Appendix E – Capital estimates

### Other supporting documents

Financial Forecast Outturn Quarter Two 2015-16 (Abridged – HRA only)

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## Budget 2016-17 and Medium Term Financial Plan 2016-17 to 2019-20.

This appendix is the combined budget estimates and Medium Term Financial Plan (MTFP) 2016-20. The Medium Term Plan is the link between the Corporate Plan, which sets out the aims and ambitions agreed with our partners, and the Medium Term Financial Plan which sets out the current and forecast future costs of the services the Council is currently providing. The plan also establishes a set of financial policies and principles which provide a sound basis for maintaining the financial integrity of the Council over the medium term. The Housing Revenue Account Budget and MTFP are included in the annual budget report to Council having previously been subject to a separate report, following scrutiny, to Governance and Audit Committee.

### 1. Revenue Summary

#### Housing Revenue Account

Description	2014-15 £'000	2015-16 £'000	2016-17 £'000
Income	(16,905)	(16,719)	(16,261)
Expenditure	8,206	8,797	9,265
<b>Contribution from Operations</b>	<b>(8,699)</b>	<b>(7,922)</b>	<b>(6,997)</b>
Financing	2,298	2,310	2,285
Capital Contribution	4,268	5,612	4,712
<b>(Surplus / Deficit)</b>	<b>(2,133)</b>	<b>0</b>	<b>0</b>

NB: 2014/15 included 53 weeks of Rent which occurs every 7 years

### 2. 2016-17 Estimates

#### Housing Revenue Account

The Budget for 2016/17 and the medium term financial plan is shown in Appendix B. This is currently under a major review by the Housing Growth group and savings / cost reductions have been forecast in the current year, being of benefit to both the General Fund and Housing Revenue Account. Strategic Organisational Design is being examined on a service by service basis but no potential financial impact has been included in this report.

	2015-16	2016-17	
	Forecast	Forecast	Variance
	£ 000's	£ 000's	£ 000's
Rent Income - Dwellings	(15,462)	(15,232)	230
Rent Income - Non Dwellings	(156)	0	156
Charges for Services & Facilities	(934)	(948)	(14)
Contributions to Expenditure	(89)	(68)	21
Other income	(78)	(13)	65
<b>Total Income</b>	<b>(16,719)</b>	<b>(16,261)</b>	<b>458</b>
Repairs & Maintenance	3,033	2,726	(307)
Supervision & Management	2,824	3,586	762
Service charge costs	1,225	1,237	12
Depreciation (MRA)	1,595	1,595	0
Provision for Doubtful Debts	120	120	0
<b>Total Expenditure</b>	<b>8,797</b>	<b>9,264</b>	<b>467</b>
<b>Contribution from Operations</b>	<b>(7,922)</b>	<b>(6,997)</b>	<b>925</b>
Financing charges	2,310	2,285	(25)
Revenue Contributions (RCCO)	5,612	4,712	(900)
Housing Subsidy			
<b>Net operating (Surplus) / Deficit</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Income

### Dwelling Rents

No Details have been received in respect of the revised national rent policy from central government. Assumptions in the MTFP are based on the headlines from the summer budget statement only. It should be noted that this policy is not currently mandatory and rent increases can be applied at a local level. However there is a limit rent that is applied for Housing Benefit Subsidy purposes and any increase would be partly negated by this limit rent when Rent Rebate limitation (Actual average rent is compared to limit rent ) is applied by the Department for Works and pensions in the Benefits (Ben 1) Grant Claim. Rent models are being examined to determine likely impact over the period of the MTFP. This potential additional income stream would be difficult to administer and there would be risks of additional penalties being applied in subsequent years or the increase simply being ignored for universal credit purposes when it is introduced. However it would fit with the planned introduction of Pay to Stay (Near market rent based on household income) and affordable rents (80% of market rent maximum) which essentially inject a segment rent approach into the business plan going forward. Currently 70% of Rent is satisfied by housing benefit so every £1 of rent increase would yield on average 30p. A 1% increase on rents equates to £154k (also the negative impact of national rent policy) which could yield £46k in additional income on average. Subject to central government intervention this could return £29m of lost rent over the 30 year business plan (£96m \*30%).



- 1% rent reduction from 16-17 to 19-20 and nil inflation imposed by the Government, so in effect a 3% reduction compared to the Government guidelines for 16-17 at 15-16 budget setting. This equates to a 6.2% reduction over the period of the MTFP when lost rent from Right to buy sales is added.
- The impact of the imposed rent reduction and re-invigorated right to buy regulations for SHDC is a £96m loss of rent over the 30 year period of the business plan.
- No additional rent from units has been included in the MTFP as other government policies seem likely to reduce rent levels further (possible shared ownership sales / Void sales of high value properties).

Non Dwelling Rent is being examined currently and it is likely that all assets in the area will be designated community assets which will be appropriated to the general fund in 2015/16. Estimates have been prepared on this basis.

Further details in respect of the 2015/16 are available in the Financial out turn report presented to cabinet on 8<sup>th</sup> December 2015

Internal recharges were included in the business plan but they are excluded from income in the annual statement of accounts. Consistency of approach has been applied and recharges have been deleted from the Budget.

### **Repairs & Maintenance**

All work carried out in void properties is being reviewed to ensure value for money is present and turn around times are reduced.

### **Supervision & Management**

A transformation fund of £750k has been set in the 2016/17 budget to assist in integrating Landlord services and General fund services and the creation of a property services function for the authority which will incorporate the Construction Services Unit (CSU)..

### **Pay Awards**

- Each 1% change in SHDC gross pay = £18k increase in employee costs

Salary vacancy factor

- 3.5% vacancy factor in SHDC gross pay = £42k decrease in employee costs which has not previously been applied

### **Revenue Contributions to the Capital Programme**

All replacement programmes are being examined and revised operating criteria has been recommended as part of the Financial out turn forecast presented to Cabinet 8<sup>th</sup> December 2015.

Contributions include £1,423k in respect of Affordable Housing for a planned programme of £2.3m in 2016/17.

### **3. Principles of Budget Preparation**

The following principles have been used in the budget preparation process in order to:

- Provide a consistent and authorised approach to the preparation of revenue and capital estimates.
- Ensure estimates are prepared in line with available resources.
- Ensure that estimates are prepared to reflect corporate priorities.

**Budget principles:**

- Detailed working sheets are maintained for all budget headings and these are prepared by the budget manager, with the exception of central items.
- Central items are calculated by the CPBS accountancy team. The central items include items such as: salaries, insurance, support service recharges, capital accounting entries, interest paid and received, pensions, National Insurance (NI), special expenses, mobiles phones and postage.
- The full effect of known pay awards is incorporated into the estimates and a provision made for future years, based on national guidance (taking into account any Central Government policies).
- Staffing estimates are prepared on the basis of approved staffing levels as provided by Human Resources and have been signed off by budget managers. These estimates include an allowance for employers NI, superannuation contributions and lump sum amounts.
- Budget Managers have signed off the salary allocations, so expenditure occurs where officer time is spent, within in each service area;
- Controllable expenditure is defined as expenditure on employees, premises (excluding business rates), transport, supplies and services, but excluding internal recharges.
- There will be no allowance for inflation, unless contractual or related to salaries.
- We should seek additional scrutiny and challenge for accessing capital resources and ensure that the programme only reflects schemes that are sufficiently scoped to allow delivery.
- A review of fees and charges to ensure optimisation of income where consistent with policy.
- Some service areas of high or unpredictable spend in previous years have been considered in detail others remain largely viable budgets and have not been zero based
- Working papers have been prepared by budget managers for each controllable budget. This will assist future challenge.
- To set a balanced budget with no long term dependency on General Balances.
- To work towards a zero balance on the collection fund.
- Only the 2016-17 budget will be formally approved, future years are indicative only for both revenue and capital but form an important picture of our financial sustainability.

**4. Other Budget Assumptions**

The budget estimates and Medium Term Plan cover the period 2016-17 to 2019-20. Over this timescale it is important that we make realistic assumptions as to how costs rise or fall. This section details the key assumptions made.

The key assumptions used are:

- Revenue budgets will be used to deliver services during the year for which they are approved.

- There will be allowance for unavoidable growth on services (i.e. new statutory obligations and contractual inflation) but will not allow for any increase for general inflation.
- Estimates are prepared on the understanding that appropriate service budgets were produced for the previous year (2015-16) which will then be adjusted to reflect the changing financial circumstances that the public sector is required to prepare for.

The key assumptions made for the setting of these budget estimates, which influence the four year financial plan are as follows:

	2015-16	2016-17	2017/18	2018/19	2019/20
RPI	2.9%	<b>2.2%</b>	3%	3.2%	3.2%
National pay increase	1%	1%	1%	1%	1%
Staffing Salary Level	98%	96.5%	96.5%	96.5%	96.5%
Pension contribution rate (excluding lump sum)	17.5%	17.5%	17.5%	17.5%	17.5%

## **5. Strategy, Aspirations and Forward Projections**

The Council's Medium Term Financial Strategy is shown below:

- To manage a budget process that will make progress in re-directing and focusing the budget on corporate priorities and in so doing, recognise the intrinsic link between this strategy, the Capital Strategy, and the Treasury Management Strategy.
- Adopt a corporate approach to budget preparation and continue to provide strong timely budget control.
- Use sound modern financial systems procedures and principles and promote electronic record keeping and approval processes. Ensure financial performance reporting remains integrated with financial reporting and business planning.
- Ensure there is a rigorous scrutiny of the financial planning process and work towards a more effective consultation process to engage the public and stakeholders.
- Maintain balances and reserves that will provide for known risks and liabilities and provide capacity for managing peaks in expenditure.
- Operate strategies on capital and external funding that supports the Council's corporate objectives.
- Undertake a risk assessment of material items of income and expenditure and report the risks to Members as part of the budget setting process
- Manage and use our resources to deliver value for money and better sustainable outcomes and efficiencies for local people.
- Set realistic targets for trading accounts and if services fail to achieve these they will be subject to a more fundamental review.
- Aim for a minimum balance on the Collection Fund.
- Prepare robust and realistic income and resource requirement plans for the next five years.
- Promote take up of benefits and reliefs.

- Maximise income collection.
- Recognise our role in the community throughout and beyond the period of economic hardship by providing assistance to individuals, groups and businesses.

## **6. Budget Requirement and Forward Estimates**

Outline estimates through to 2019-20 are shown in **Appendix B**. In compiling these figures we have followed the assumptions shown in sections 3 and 4 of this report and made specific adjustments to service budgets as and where budget holders have advised of a change over the medium term.

Work has been carried out to challenge budget costs in order to reduce both in-year and on-going base budgets without impacting on core service levels.

A number of potential schemes to generate savings and increased income have been explored at officer level. However these ideas and others will be examined further during budget consultation and beyond to determine Council's appetite to introduce such changes. Areas to consider which currently have a high level of spend or will require a greater review to reduce costs and provide services differently

- Alternative management models for key assets
- Further shared service opportunities
- Growth opportunities including generating income streams from asset ownership
- Housing Growth Company

## **7. Reserves and Balances**

In order to comply with the requirements of the Local Government Act 2003, the Council undertakes a review of the level of reserves as part of the annual budget preparation. It is therefore a target of our medium term plan that a review of reserves is carried out and reported to Cabinet for consideration. The review includes analysis of current and future risk assessments, including an assessment of risk registers, pressures upon services, inflation and interest rates and any underwriting arrangements.

**Appendix D** outlines the position statement on reserve balances. The proposed budget does not require any long term support from reserve balances.

### **HRA**

Summary of Reserves is shown below

<b>Housing Revenue Account Reserves</b>	<b>Total £000's</b>
Cumulative Working Balance	8,968
Budget 2015-16	(147)
Rollover of capital programme from 2014-15 approved	(244)
<b>Forecast outturn variance</b>	<b>391</b>
<b>Forecast balance on the HRA at 31.3.16</b>	<b>8,968</b>
Insurance Reserve	200
Major Repairs Reserve	2,409

The £2,409k balance shown in the Major Repairs Reserve is in respect of the Affordable Housing Programme.

**8. Risk, Key Issues, Sensitivity and Monitoring**

The Council must set a budget which is a realistic statement of its estimated income and expenditure for the coming year, based upon information currently available. The Council has a duty to take into account the demand for its services and the effect on council tax payers of meeting those demands at varying levels of services. Given the good management practices and sound financial and performance monitoring delivered in the past, the Council has the platform and expertise to deliver a balanced budget.

The following table details the key risks and issues identified and how we intend to treat them.

<b>Risk</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Action</b>
Reduced public sector funding from Central Government	High	High	Keep up to date with developments and make prudent budget assumptions.
Low income levels from fees and charges	Medium	Medium	Revise spending plans
Continuation of low interest rates	High	High	Market advice and forecasting. Mitigation by diversification
Business rates retention proposals leave Council exposed to economic fluctuations and rating appeals	Medium	High	Monitor developments & set aside appropriate reserves and provisions to help with potential initial pressures and fluctuations
Pension fund deficit	Medium	Medium	Close links with LCC pension fund Increased contributions following triennial review
Additional bad debts as a result of economic circumstances	Medium	Medium	Pro-active debt management and pre-pay fee policies
Increased maintenance costs of ageing physical assets	Medium	Medium	Asset management plan. Pro-active rather than reactive maintenance programme
Inflation rises by more than budgeted projections	Medium	Medium	Budget assumptions kept up to date with most recent projections
Diminishing capital resources will mean that borrowing will be required at some point in the future	High	High	Continue to closely monitor and prioritise the Council's Capital Financing Requirement. A radical review of the capital programme and wish list will be undertaken to inform the final budget. Utilise S106 funding and revenue reserves where appropriate
Compass Point Business Services may be unable to deliver an effective service within the agreed reduced contract price.	Low	Medium	Reviewing Service Level Agreements, activity levels and service priorities
Recycling credit income	High	High	Recycling credit income has

			ceased. This has not been estimated in the base budget for 2016-17
Garden Waste	High	High	A new one year pilot has been introduced in 16-17. A report will go to Cabinet in Oct 2016 to determine if the scheme will continue
Waste Supplementary Services			Lincolnshire County Council may not provide the service and therefore it has not been included in the 2016-17 base budget
Court Income	High	Low	Court income projections are considerably increased following welfare reforms. However the budget has not been increased due to concerns over collectability of this income. A year-end review will be undertaken to inform future year's budgets.
Housing Benefit Overpayments	High	High	The level of Housing Benefit Overpayments and their recoverability needs to be monitored closely through the year in order to ensure budget levels are appropriate.
Universal Credit	High	Medium	The implementation of the Universal credit may impact on the General Fund both in terms of running costs for the Benefits service and additional demand on other council services. This will be closely monitored.
Increased risk that liability insurance premiums will increase	Medium	Low	Prepare to go to the market again if premiums exceed market trends.

## **9. Consultation, Timetable and Links to Other Strategies**

The budget will be put out to consultation on the website and commentary invited from council tax payers, business rate payers and key stakeholders

It is important to have clear and agreed timetables for the budget process so that statutory requirements are met. Each year a timetable will be agreed with Corporate Management Team prior to the start of the process (i.e. around July each year).

The Council has adopted a corporate risk management strategy and financial risk management is integrated into the Council's overall management and decision making processes. This ensures a robust and well integrated risk management programme, which will help the Council to identify and manage key strategic risks facing it, in pursuit of its corporate objectives.

A Performance Framework has been developed to manage delivery of the new priorities described in the Council's Corporate Plan. The annual business planning process will run alongside the budget setting process to ensure an integrated approach of performance and finance.

## **10. Capital Strategy**

The HRA summary programme is shown in Appendix F and detailed programmes are in progress. Estimates may change when this work is complete.

The programme includes Affordable Housing new Build and Purchase in order to replace lost rent from increase right to buy sales. £2.3m in 2016/17 and £11.8m during the period of the MTFP

## **11. Treasury Management Policy and Investment Strategy**

The Treasury Management Policy and Investment Strategy (Appendix G-to follow further in the process) pulls together the decisions of capital investment, use of reserves, our cash flow and revenue budgets.

The Treasury Management Strategy covers two main areas:

- Capital plans and associated Capital Prudential Indicators
- Treasury management issues including borrowing and investment strategies and associated Treasury Prudential Indicators.

No major changes are proposed to the Treasury Management Policy. The investment strategy may be updated in the light of the low returns on investments and the opportunities that may arise as a result of the proposed new housing development company. It is proposed that the temporary delegation for the property investment fund is absorbed as an integral element of the budget framework.

Investment income will continue to be generated from cash balances but also from commercial loans to Welland Homes and any potential receipts of RSG not included in the base budget and assigned to a growth fund.

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Housing Revenue Account	2016-17	2017-18	2018-19	2019-20
	Estimate	Estimate	Estimate	Estimate
	£ 000's	£ 000's	£ 000's	£ 000's
Rent Income - Dwellings	(15,233)	(15,008)	(14,786)	(14,566)
Rent Income - Non Dwellings	0	0	0	0
Charges for Services & Facilities	(948)	(962)	(976)	(991)
Contributions to Expenditure	(68)	(68)	(68)	(68)
Other income	(13)	(8)	(8)	(8)
<b>Total Income</b>	<b>(16,261)</b>	<b>(16,046)</b>	<b>(15,838)</b>	<b>(15,633)</b>
Repairs & Maintenance	2,726	2,738	2,665	2,635
Supervision & Management	3,586	3,153	3,028	2,809
Service charge costs	1,237	1,250	1,262	1,275
Depreciation (MRA)	1,595	1,595	1,595	1,595
Provision for Doubtful Debts	120	119	124	99
<b>Total Expenditure</b>	<b>9,265</b>	<b>8,855</b>	<b>8,675</b>	<b>8,412</b>
<b>Contribution from Operations</b>	<b>(6,997)</b>	<b>(7,191)</b>	<b>(7,163)</b>	<b>(7,221)</b>
Financing charges	2,285	2,235	2,185	2,135
Revenue Contributions (RCCO)	4,712	4,957	4,978	5,086
Housing Subsidy				
<b>Net operating (Surplus) / Deficit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(0)</b>
<b>Reserves</b>				
Balance - Brought Forward	(8,968)	(8,968)	(8,968)	(8,968)
<b>Balance - Carried Forward</b>	<b>(8,968)</b>	<b>(8,968)</b>	<b>(8,968)</b>	<b>(8,968)</b>

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## APPENDIX E

Housing Revenue Account	2016/17	2017/18	2018/19	2019/20
	Estimate	Estimate	Estimate	Estimate
	£ 000's	£ 000's	£ 000's	£ 000's
<b>Planned Maintenance</b>	<b>1,246</b>	<b>1,276</b>	<b>1,222</b>	<b>1,208</b>
Decent Homes - Component Replacement	4,046	3,957	3,950	3,921
Major Area Works	290	230	230	230
IT / System Works	98	50	50	50
Aids & Adaptations	450	400	400	375
<b>Total Improvement Programme</b>	<b>4,884</b>	<b>4,637</b>	<b>4,630</b>	<b>4,576</b>
Affordable Housing	2,295	3,048	3,105	3,335
<b>Total Capital Programme</b>	<b>7,179</b>	<b>7,684</b>	<b>7,735</b>	<b>7,911</b>

Major Repairs Reserve	(1,595)	(1,595)	(1,595)	(1,595)
Capital Receipts - 1 for 1 fund	(873)	(1,133)	(1,162)	(1,231)
RCCO	(4,712)	(4,957)	(4,978)	(5,086)
Use of Reserves				
<b>Total Capital Programme</b>	<b>(7,179)</b>	<b>(7,684)</b>	<b>(7,735)</b>	<b>(7,911)</b>
Revenue Budget	(1,246)	(1,276)	(1,222)	(1,208)
<b>Total Works to Stock</b>	<b>(8,425)</b>	<b>(8,961)</b>	<b>(8,956)</b>	<b>(9,119)</b>

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## SOUTH HOLLAND DISTRICT COUNCIL

**Report of:** Executive Director Commercialisation (S151 Officer)  
**To:** Governance & Audit Committee – 21 January 2016  
**Author:** Ken Trotter - Interim Chief Accountant (Deputy S151 Officer)  
**Subject:** Weekly Collection Support Scheme  
**Purpose:** This report provides information on the funding provided to support weekly waste collections over a five year period.

### **Recommendations:**

1. That the report be noted and information contained therein examined.
2. To consider whether the scheme conditions have been fulfilled and monies have been expended in line with these conditions.
3. To consider whether the remaining balance of funds should be released from Reserves in the 2015/16 financial year.
4. That following consideration of the above recommendations, the outcomes be reported back to Cabinet.

### **1.0 BACKGROUND**

- 1.1 In January 2009 a survey of residents was conducted and 67.5% made it clear they would not be in favour of changing to fortnightly waste collections.
- 1.2 On the 22 of November 2012 the Department for Communities and Local Government confirmed that a bid from South Holland District Council for Weekly collections support had been successful.
- 1.3 £1,768,050 was granted over three years commencing in the 2012/13 financial year
  - £355,462 for 2012/13
  - £585,514 for 2013/14
  - £827,074 for 2014/15
- 1.4 The funding was conditional on the satisfactory and timely provision of evidence that the scheme has the full support of the council.
- 1.5 A further condition was that weekly waste collections would continue for a minimum of 5 years and that promotion of the scheme to residents would be carried out.

### **2.0 OPTIONS**

- 2.1 To note the report
- 2.2 Provide comments to Cabinet on any areas of concern.

2.3 To do nothing.

### 3.0 REASONS FOR RECOMMENDATIONS

3.1 To provide timely information to members on the overall finances of the Council and to inform decisions in respect of available resources in the current financial year.

### 4.0 EXPECTED BENEFITS

4.1 To ensure that members are updated on the position in respect of this government grant and to act on any budget amendments required to reflect the latest position of spend and income.

### 5.0 IMPLICATIONS

#### 5.1 Financial

5.1.1 The annual grant was analysed in the bid as follows

Area	2012/13	2013/14	2014/15	Total
	£	£	£	£
Resident education	161,012	120,514	122,074	403,600
Procurement	10,000			10,000
Black Residual Waste sacks	105,000	105,000	105,000	315,000
<b>Revenue funding</b>	<b>276,012</b>	<b>225,514</b>	<b>227,074</b>	<b>728,600</b>
Low emission Vehicles		360,000	600,000	960,000
Efficiency software	79,450			79,450
<b>Capital Funding</b>	<b>79,450</b>	<b>360,000</b>	<b>600,000</b>	<b>1,039,450</b>
<b>Total Weekly collections support</b>	<b>355,462</b>	<b>585,514</b>	<b>827,074</b>	<b>1,768,050</b>

5.1.2 Resident education included behavioural change and a reward programme and the project commenced in 2012/13. A project team was set up in June 2013 and the programme was completed in June 2015 at a direct cost of £229,719.

5.1.3 Procurement activities were completed in 2013 at a cost of £10,000

5.1.4 Black waste sack costs were funded from the grant in 2013/14, 2014/15 & 2015/16 at a cost of £105,000 per annum in line with the grant submission.

5.1.5 The project is now complete and the grant condition in respect of promotion of the scheme to residents has been satisfied. Direct costs of £554,719 have been incurred together with indirect costs of £173,881 (management & support staff) over three years. Indirect costs have not been charged to the grant in previous years and this will be done in 2015/16. Total revenue expenditure incurred and financed from the grant is £728,600.

5.1.6 Waste efficiency collection software was purchased in 2012/13 at a cost of £75,900.

5.1.7 8 low emissions vehicles (Euro 6) were included in the bid at an average cost of £120,000.

- 5.1.8 Capital expenditure (£385,305) in 2013/14 included 3 vehicles (Olympus 21W) at an average cost of £128,435.
- 5.1.9 Capital expenditure (£578,219) in 2014/15 included 4.5 vehicles (Olympus 21W) at an average cost of £128,435
- 5.1.10 Total capital expenditure incurred and financed from the grant is £1,039,424 leaving a balance of £26 to be applied in 2015/16.
- 5.1.11 Total expenditure is in line with the grant submission and the commitment to a minimum 5 year period for weekly collections is included in the 2016/17 Medium Term Financial plan.
- 5.1.12 The Council is committed to maintaining weekly collections until at least December 2017 and the current Medium Term Financial plan has this service continuing, without change, until 31 March 2020.

## 6.0 **WARDS/COMMUNITIES AFFECTED**

6.1 Budget implications affect all wards.

## 7.0 **ACRONYMS**

7.1 None.

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Background papers:- None

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### **Lead Contact Officer**

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ktrotter@sholland.gov.uk (Interim Chief Accountant (Deputy S151 Officer))

### **Director / Officer who will be attending the Meeting:**

Ken Trotter – Interim Chief Accountant (Deputy Section151 Officer)  
Telephone: 01775 764684

**Key Decision:** No

**Exempt Decision:** No

**This report refers to both Mandatory Service and Discretionary Services**

### **Appendices attached to this report:**

None

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