

Executive

Excerpt of the Executive minutes of the meeting held on Wednesday 18 December 2019 at the Town Hall, Royal Leamington Spa, at 6.00pm.

Present: Councillors Cooke, Falp, Grainger, Hales, Matecki, Norris and Rhead.

Also present: Councillors: Nicholls (Chair of the Finance & Audit Scrutiny Committee); Davison (Chair of the Overview & Scrutiny Committee) and Boad (Liberal Democrat Group Observer).

88. **Declarations of Interest**

There were no declarations made in relationship to the items within this excerpt.

89. **Minutes**

The minutes of the meeting held on 13 November 2019 were taken as read and signed by the Chairman as a correct record.

Part 1

(Items for which a decision by the Council was required)

90. **Council Loans Policy**

The Executive considered a report from the Deputy Chief Executive (AJ) seeking Members' recommendation to Council for the approval of a Loans Policy against which applications from external bodies for financial resources could be judged.

Over the course of the last 24 months, Members had agreed a number of financial loans to various organisations on a case-by-case basis. Following an assignment in relation to this matter by the Council's Internal Audit service, the following recommendation was produced:

RECOMMENDATION	INITIAL MANAGEMENT RESPONSE incl. PLANNED IMPLEMENTATION DATE (PID)	CURRENT STATE OF IMPLEMENTATION PER MANAGER
Loans to External Organisations – 6 June 2019		

RECOMMENDATION	INITIAL MANAGEMENT RESPONSE incl. PLANNED IMPLEMENTATION DATE (PID)	CURRENT STATE OF IMPLEMENTATION PER MANAGER
<p>To prevent loans being allocated to selected applicants, an application process should be formed. This would allow a fair and equal opportunity for a wider audience to apply.</p>	<p><i>Corporate Management Team:</i> <i>We do not consider that a Loans Policy and application process should be developed. The Localism Act gives a broad remit for Councils to use what powers (tools) they consider necessary to deliver a specific objective. A loan may be the right solution for a specific case but we do not believe that in effect "a loan application scheme" should be established. We accept that a checklist should be established so that there is a consistency around process and procedure.</i> <i>PID: The checklist will be developed when we next consider that a loan is the appropriate tool to use.</i></p>	<p><u>Update 1</u> Having since consulted with the Chair of the Finance & Audit Scrutiny on this matter, it was now felt that a Loans Policy and application process would aid governance and therefore should be developed.</p> <p><u>Update 2</u> A fair amount of progress was being made in producing these items but had stalled of late due to other priorities. It was intended that the matter would be concluded by the end of November and that a report would be issued to Executive in December.</p>

Members were reminded that initially, the Corporate Management Team (CMT) considered that a Loans Policy approach was not necessary, however, following receipt of a subsequent loan enquiry and consequent discussions with Group Leaders, and specifically the Chair of Finance & Audit Committee, CMT accepted that in the interests of transparency, objectivity and equity, the Council should develop a written policy position on its approach to financial loans.

Members were therefore asked to consider the Loans Policy attached at Appendix A to the report and subject to any amendments it wished to make, recognising that these amendments needed to be legally compliant, to recommend the Policy to Council for adoption.

The Policy made reference to two management documents necessary for proper consideration of a loan application. These were an application form and a business plan template. It was recommended that the S151 Officer should be given delegated authority to produce these documents, should the Policy be adopted.

No alternative options were considered as following further consideration of Internal Audit's recommendation and the views of the Group Leaders and Chair of the Finance & Audit Scrutiny Committee, the development of a policy was considered the most prudent approach.

The Finance & Audit Scrutiny Committee suggested to the Executive that (1) it should amend the Policy so that Officers could refuse loan requests that did not meet the criteria; (2) the policy clearly stated it was for capital schemes only; and (3) there were some minor wording amendments that the Deputy Chief Executive would feedback to the Executive.

Councillor Hales, the Portfolio Holder for Finance, accepted the suggestions from the Finance and Audit Scrutiny Committee and asked officers to include these changes in the final draft of the proposal. He thanked Councillor Nicholls, Councillor Syson and officers for all their work on this project and proposed a report as laid out.

Recommended to Council that a Council Loans Policy as drafted at Appendix A to the report and minutes, be adopted, subject to the three amendments suggested by the Finance & Audit Scrutiny Committee: (1) the Policy be amended so that Officers can refuse loan requests that do not meet the criteria; (2) the policy clearly states it is for capital schemes only; and (3) there were some minor wording amendments to be made by officers in the final draft of the proposal that would be considered by Council; and

Resolved that authority be delegated to the S151 Officer to produce the application form and business plan documents necessary for a loan application to be made.

(The Portfolio Holder for this item was Councillor Hales)
Forward Plan Reference 1,081

91. **General Fund Base Budgets 2020/21**

The Executive considered a report from Finance setting out the latest projections for the General Fund revenue budgets in respect of 2019/20 and 2020/21 based on the current levels of service and previous decisions. There were further matters that would need to be reviewed in order to finalise the base position as part of the 2020/21 budget setting process as set out in paragraph 8.3 of the report. The 2019/20 latest budgets showed a forecast surplus of £469,400, and the proposed 2020/21 Base Budget forecasted a deficit of £460,600.

The February 2020 budget report would include proposed items of growth to be added to the budgets within the report. The Council would then be in a position to confirm the final Budget for 2020/21 and the Council's

element of the Council Tax. The Council was required to determine its budget requirements in order to set the Council Tax for 2020/21.

The Council was required to determine its budget requirements in order to set the Council Tax for 2020/21.

The proposed Base Budgets for 2012/21 and the Latest Budgets for 2019/20 were shown below. The figures included all financing charges, which were dealt with in paragraph 3.5 of the report. Paragraph 3.3 of the report considered the 2020/21 Base Budget, and paragraph 3.4 of the report looked at the latest 2019/20 budget figures.

	Base Budget 2019/20 £000	Latest Budget 2019/20 £000	Base Budget 2020/21 £000
Net Expenditure for District Purposes	18,059	19,241	14,631

The above figures fluctuated year on year, mainly to reflect changes to the use of reserves (often due to project slippage), and changes in external support, notably retained Business Rates and New Homes Bonus (£3.3m NHB included in 2019/20, not included in 2020/21).

In preparing the 2020/21 Base Budget, the over-riding principle was to budget for the continuation of services at the existing level. The following adjustments needed to be made to the 2019/20 Original Budget:

- removal of any one-off and temporary items;
- addition of inflation;
- addition of previously agreed Growth items;
- addition of unavoidable Growth items; and
- inclusion of any identified savings.

The table below summarised how the 2020/21 base budget had been calculated, supported by Appendix A to the report.

	£	£	£
NET EXPENDITURE FOR DISTRICT PURPOSES 2019/20 ORIGINAL			18,058,607
Less Inflation			(77,800)
Staffing			(227,100)
Plus Committed Growth:			
- Increases in expenditure	571,500		
- Reduced income	230,300	801,800	
	<hr/>		
Less Savings:			
- Reduced expenditure	(1,066,200)		
- Increases in income	(937,700)	(2,003,900)	
	<hr/>	<hr/>	
CHANGES IN SERVICE INCOME and EXPENDITURE			(1,202,100)
Changes in Interest			(272,800)
Changes in Capital financing charges			1,750,300
Changes in Revenue contributions to Capital			(2,028,700)
Changes in non-service specific contributions to reserves			(915,597)
Changes in IAS19 adjustments reversed			(655,000)
Changes in Contributions to / from General Fund			201,393
			<hr/>
NET EXPENDITURE FOR DISTRICT PURPOSES 2020/21 ORIGINAL			14,631,203
			<hr/> <hr/>

Inflation of 2% had been applied to general budgets, of which 1.6% had been used for most major contracts, with the exception of the cleaning contract (2.6%). 2.4% had been used for Business Rates.

Staff costs would increase in 2020/21. The main changes to funding were:

- agreed 2% pay award (+£300,900);
- Spa Centre / Pump Rooms casual staff funded from increased income (+£40,000); and
- auto enrolment (+£31,900).

Only previously committed growth and unavoidable changes were included in the Base Budget. This totalled £801,800, of which £571,500 related to increased expenditure and £230,300 related to reduced income. Appendix A to the report listed the main items, the largest of which were:

- increase in contract cleaning costs (+£219,300);
- Car Park costs funded by additional income (+£100,000);
- waste collection contract increases (+£59,000); and
- waste management – new properties (+£44,000).

Various savings and increased income were allowed for within the Budget. These totalled £2,003,900, which comprised of £1,006,200 reductions in expenditure and £937,700 increases in income. Appendix A to the report listed the main items, the largest of which were:

- leisure concession fees from contractor (-£287,100);
- removal of contingency budget (-£237,000);

- increase in recharges (-£135,700);
- additional car parking income (-£132,300); and
- increased Crematorium income (-£108,800).

Taking the above figures into account, there was a forecast reduction of £1,202,100 in net service expenditure, which was mainly the falling out of one-off and reserve funded items. There was no overall change in the level of service provision budgeted for, other than any previously agreed changes.

There were various general financing adjustments required to arrive at the demand for Council Tax. Taking all these items into account produced a forecast deficit of £460,600.

However, as outlined in section 8 of the report, the final Government Finance Settlement and other unforeseen events meant the final position would not be confirmed until early 2020.

The budget report considered by the Executive at its 21 August 2019 meeting reported a forecast deficit for 2020/21 of £309,000. The difference between this figure and the deficit shown in Section 3.3.8 of the report was mainly due to the anticipated increase in the cost of the cleaning contract (£218,000) and revenue savings from the new CCTV investment (£51,000).

Appendix B to the report was broken down into two parts – Appendix B1 and Appendix B2. Both appendices provided details of service expenditure and income in portfolio order. Appendix B1 to the report was a summarised version of Appendix B2. The analysis in Appendix B2 was divided into two sections – expenditure and income under the direct control of the budget manager, such as salaries, fees and charges income, and those items for which they had little or no control over, such as support service allocations and capital financing charges. Explanations were provided where significant variations had been identified. Appendix B2 to the report was solely provided electronically.

Under the current Budget Review process, amendments to budgets were presented to Members for approval on a regular basis. Consequently, many changes had already been reported and approved by Members. The report continued that process and provided details of the latest budgets for the current year. Appendices B1 and B2 to the report provided detailed analysis of net expenditure by service in Portfolio groupings.

The Latest Budgets totalled £19,241,190, which was an increase of £1,182,583 compared with the originally approved budget for 2019/20 of £18,058,607.

The main reasons responsible for the decrease in service income and expenditure were included within Appendix B, which was summarised as follows:

	£	£	£
NET EXPENDITURE FOR DISTRICT PURPOSES 2019/20 ORIGINAL			18,058,607
Staffing			549,300
Plus Committed Growth:			
- Increases in expenditure	14,230,300		
- Reduced income	534,100	14,764,400	
Less Savings:			
- Reduced expenditure	(2,028,500)		
- Increases in income	(764,600)	(2,793,100)	
CHANGES IN SERVICE INCOME and EXPENDITURE			11,971,300
Changes in Interest			(439,800)
Changes in Capital financing charges			(9,216,900)
Changes in Revenue contributions to Capital			(344,000)
Changes in non-service specific contributions to reserves			(523,917)
Changes in IAS19 adjustments reversed			(641,000)
Changes in Contributions to / from General Fund			(172,400)
NET EXPENDITURE FOR DISTRICT PURPOSES 2019/20 LATEST			19,241,190

The first part of the table above showed that the total net expenditure on services had increased by £11,971,300. This was mostly due to increases in capital charges in respect of the HIF Grant for Kenilworth School. The swing from the Original Net Expenditure of £18.1m to £19.2m also reflected the increased contribution to the Business Rates Retention Volatility Reserve of £1.6m, as the level of rates expected to be received this year had increased as detailed in paragraph 3.6.3 of the report.

The 2019/20 budget was reviewed in order to set the 2020/21 base budget. This was to be reviewed again in February.

The Quarter 2 budget review to the Executive on 13 November 2019 reported a budget surplus of £163,700. Following this review, the net amount of interest received was recalculated and was expected to be £142,300 higher. Salary reductions of £45,000, a £33,800 grant and further expenditure reductions of £84,600 had resulted in the revised surplus of £469,400. This surplus could be seen within the General Fund Summary in Appendix B1 to the report.

The comments made above concerning the content of Appendix B were equally applicable to the information provided in respect of the Latest Budgets for 2019/20.

As part of the earmarked reserve process at the year end, £44,100 was transferred to revenue for the Kenilworth leisure project. It was decided that this work was of a capital nature, and subsequently, £44,100 was added to the capital budget. This would now be shown as a contribution to capital in the revenue accounts.

In order to arrive at the position for the Council's overall net expenditure, it was necessary to take account of the effects of the Council's capital financing arrangements and any transfers to and from reserves. These were summarised in Section 3.5.1 in the report and further details were included within Appendix C to the report.

Most of the changes to the Capital Financing and Reserves figures reflected changes in specific items within the cost of General Fund service expenditure, whereby many increases in service expenditure were met by a contribution from a specific reserve which were included here.

These figures were still being updated to reflect the latest Capital Programme and use of reserves. Any further changes were to be detailed in the February 2020 Budget report.

In terms of depreciation, intangible assets and capital financing charges in Service Budget, these were non-cash charges to services that did not impact on the Council's overall external funding requirement (primarily council tax, retained business rates and Government grant). By including these charges, the full cost of the respective services provision was apparent. Variations between years occurred, which reflected new schemes and slippage between years of schemes as reflected within the Council's capital programmes.

There was a decrease in 2019/20 of £242,300 to do with loan repayments, revenue contributions and interest paid. This was due to a decrease in interest payments of £203,700, and the Minimum Revenue Provision (MRP) was reduced by £38,600. There was a decrease in 2020/21 of £137,000. Interest payments were reduced by £104,300 and the MRP by £32,700.

Concerning the revenue contributions to Capital, there was a reduction to the budget of £344,000 for 2019/20. The budget for 2020/21 was reduced by £2,029,000. This was because no schemes funded by the New Homes Bonus were included in 2020/21 budgets as this had not been confirmed.

There was a reduction in contributions to and from reserves of £916,000 when compared to the 2019/20 original budget. The 2019/20 latest budget showed a decrease in contributions to and from reserves of £524,000. The changes were categorised as follows:

	Base Budget 2019/20 £000	Latest Budget 2019/20 £000	Base Budget 2020/21 £000
<u>Contributions to / (from) reserves:</u>			
Contribution to / (from) Business Rates			
Retention Volability Reserve	736	2,358	587
Use of New Homes Bonus	2,301	2,301	(150)
Homelessness Prevention Grant	-	-	-
Use of Community Projects Reserve	365	516	(70)
Use of Leisure Options Reserve	-	(23)	-
Services, etc.	(1,699)	(3,973)	420
	<hr/>		
Contributions to / (from) reserves	1,703	1,179	787
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Change:

Contribution to / (from) Business Rates			
Retention Volability Reserve		1,622	(149)
Use of New Homes Bonus		-	(2,451)
Homelessness Prevention Grant		-	-
Use of Community Projects Reserve		151	(435)
Use of Leisure Options Reserve		(23)	-
Services, etc.		(2,274)	2,119
		<hr/>	
Contributions to / (from) reserves		(524)	(916)
		<hr/> <hr/>	

The revised net budget for 2019/20 showed an increase of £198,000 and £136,000 for 2020/21. These figures were to be updated in the February Budget Setting report.

	Base Budget 2019/20 £000	Latest Budget 2019/20 £000	Base Budget 2020/21 £000
Interest receivable	(1,075)	(1,071)	(1,027)
Deferred capital receipt	(21)	(21)	(18)
HRA Share	624	422	437
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Total GF Interest Receivable	(472)	(670)	(608)
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Change:

Interest receivable		4	48
Deferred capital receipt		-	3
HRA Share		(202)	(187)
		<hr/>	
Change in GF Interest Receivable		(198)	(136)
		<hr/> <hr/>	

The Housing Revenue Account balances formed part of the Council's investment portfolio and as a result of the factors described above, the investment interest to be credited to the Housing Revenue Account was expected to decrease in 2019/20 by £202,000 and by £187,000 in 2020/21.

IAS 19 required an authority to recognise the cost of retirement benefits in the net cost of services when they were earned by employees, rather than when the benefits were eventually paid as pensions. However, the charge that was required to be made against council tax was based on the cash payable in the year, so the real cost of retirement benefits was reversed out. The figures included in the budgets were based on the latest figures from the Pension Fund actuary.

In line with the decisions made at the February 2019 Executive meeting, as part of the 2019/20 Council Tax Setting, £201,400 was transferred from 2018/19 to 2019/20 via the General Fund balance. The latest budget showed an increase to this of £172,400, more details of which were provided in Appendix C to the report.

In order to complete the picture, the general grants position also needed to be considered.

The Revenue Support Grant reduced to zero for 2019/20, based upon the four-year settlement confirmed in January 2016.

Gross Business Rates income figures showed an increase of £1.65m in 2019/20, and was estimated to reduce by £0.75m in 2020/21 from 2019/20. The income for 2019/20 was higher, due to primarily one-off adjustments in respect of the appeals provision. This movement in Business Rates income was to be matched by changed contributions to the Volatility Reserve in order to smooth the net income to the General Fund. Movements in business rates were as follows:

	Actual 2018/19 £000	Original 2019/20 £000	Latest 2019/20 £000	Original 2020/21 £000
Gross Business Rates Income	7,781	5,268	6,920	4,522
Contribution from (to) Business Rate Retention Volatility Reserve	(3,646)	(736)	(2,358)	(587)
Net Business Rate Income credited to General Fund	4,135	4,532	4,562	3,935

At this stage, no New Homes Bonus had been included in respect of 2020/21. However, £150,000 had been included (by way of expenditure and anticipated New Homes Bonus) in respect of the Commonwealth Games.

The Council Tax element of the Collection Fund was to be calculated in January 2020, with the Major Preceptors being notified of their share of

any surplus or deficit, and was to be included within the February 2020 Budget report with any balance to be distributed / recovered in 2020/21.

The Council Tax Base for 2020/21 was calculated to increase by 274.20 from 55,577.17 to 55,851.37. This change resulted in an increased Council Tax yield of £45,700. Increasing the Council Tax Band D charge by the previously agreed £5 produced a further yield of £279,000.

The net result of all these movements was shown below:

	BASE BUDGET 2019/20 £'000	LATEST BUDGET 2019/20 £'000	BASE BUDGET 2020/21 £'000
TOTAL ESTIMATED NET EXPENDITURE	18,059	19,241	14,631
Less: Revenue Support Grant	-	-	-
Less: Business Rates Income	(5,267)	(6,919)	(4,521)
Less: General Grants:			
- New Homes Bonus	(3,359)	(3,359)	(150)
- New Homes Bonus Returned Funding	-	-	-
- Homelessness Prevention Grant	-	-	-
- Self & Custom Build New Burdens Grant	(15)	(15)	-
Collection Fund (Surplus) / Deficit	(143)	(143)	100
Council Tax	(9,274)	(9,274)	(9,599)
	<u>1</u>	<u>(469)</u>	<u>461</u>
(Surplus) / Deficit	<u>1</u>	<u>(469)</u>	<u>461</u>

This showed that there was a forecast surplus of £469,417 in 2019/20 and a deficit of £460,587 in 2020/21.

The latest Housing Investment Programme (HIP) was shown at Appendix E to the report.

In prior years, the Housing Investment Programme was included in the February Budget Setting Report, but the 2020/21 programme was brought forward to be considered in the December budget report, in order to facilitate a greater time period for the procurement of contractors to enable works to commence early in the new financial year.

Similarly, a revised HIP would be presented to Members as part of the February Budget Report where any variations from the 2019/20 programme were included. This also included any new schemes approved during 2019/20, changes to the current schemes and slippage from 2019/20 into 2020/21.

A Housing Restructure, which was pending approval from Employment Committee in December, had been excluded as it had not yet been approved; the HIP was to be revised to factor in the impact of this change on the HRA Capital Investment Reserve included within the estimated HIP Resources at Appendix F to the report. The HRA 2020/21 Estimates also

needed to be updated as part of the Rent Setting Report considered in February 2020.

Appendix F to the report showed the funding of the HIP and the forecast balances at year end until 31 March 2024 after the HIP had been financed. The capital receipts primarily related to Right to Buy sales. The Council had freedom on how the Right to Buy any purpose receipts were utilised, and was able to fund General Fund and Housing capital schemes.

1-4-1 RTB receipts had to be utilised in replacing housing stock that had been purchased from the Council by existing tenants through the RTB scheme. This could be through new build properties (such as Sayer Court), the purchase of existing properties (such as Cloister Way) or buy back of existing Council properties previously sold through RTB. However, they could only be used to fund up to 30% of the replacement cost as per RTB regulations. If the funding was not used within a three-year period from the date of receipt, the funding would be repayable to the Government, along with interest. It was envisaged that there was no requirement to repay any 1-4-1 receipts to the Government as they would be utilised to finance current or potential schemes within the Housing Investment Programme. Within the current Housing Investment Programme, there were schemes for the acquisition of properties during 2020/21, as agreed by Members. This fully utilised the 1-4-1 funding that the Council currently held and would receive in 2020/21, and it was projected to have a zero 1-4-1 balance as it did at 31 March 2020. The projections after this date showed the balance beginning to increase again, starting with approximately £1.4m generated in 2021/22, which would be available thereafter for further schemes, with this funding having to be used within the three-year timescale.

The HRA Capital Investment Reserve was funded by the surpluses generated on the Housing Revenue Account. The HRA Business Plan assumed that this funding was used for the provision of new HRA stock, and to allow debt repayments on the £136.2m loan taken out to purchase the HRA housing stock to commence from 2052/53.

The Major Repairs Reserve was used to fund capital repairs of the HRA stock. The contributions to this reserve were based on depreciation calculations.

Section 106 were payments received from developers in lieu of them providing new on site affordable homes, enabling the Council to increase the HRA stock or assisting housing associations to provide new dwellings. These S106 payments usually had a time limit attached to them, by which time they needed to be utilised or they may have needed to be repaid to the developers.

The Right to Buy Capital Receipts were shown within the sources of housing Investment Programme funding. As considered previously by Members, these capital receipts were not ring-fenced and could be used for any capital projects. The Prudential Indicators for 2019/20 were presented to the Executive on 6 February 2019 and ratified by the Council

on 20 February 2019. This was a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it could afford to borrow each financial year.

In order to provide sufficient flexibility to the Council's future long-term borrowing and future-proof the Council's Prudential Indicators against any change in practice relating to internal borrowing, it was recommended that the indicator below should be revised, increasing the limit for longer-terms loan (i.e. 10 years and above) to 100%:

Period	Upper		Lower
	Current	Revised	Current
Under 12 months	4%	20%	0%
12 months and within 24 months	20%	20%	0%
24 months and within 5 years	20%	20%	0%
5 years and within 10 years	20%	20%	0%
10 years and above	96%	100%	0%

This would enable any future loans, in addition to the £136 million HRA loans from 2011/12 and the £12 million taken in September 2019 for the General Fund, to take advantage of an interest rate yield curve that might have favoured longer-term loans, which matched the pool of underlying new assets.

Increasing the 'Under 12 months' limit to 20% would allow for circa £32 million of internal borrowing. Although the Prudential Code did not specifically identify internal borrowing, it was considered good practice to allow for this position in the Council's indicators, in order to reflect this element of borrowing.

This proposed change was supported by Finance and Audit Scrutiny Committee on 12 November 2019 as part of its consideration of the Treasury Management half year report.

One of the projects forming part of the St Mary's Lands Scheme was the implementation of a Multi-Use Games Area (MUGA). This had been funded by way of a grant and a loan to Racing Club Warwick who operated the facility. The project was completed but two issues arose that required resolution. Firstly, the flood lights installation required additional works above and beyond what had been provided for, as a consequence of planning requirements. This extra cost amounted to £9,400. Additionally, the ground works for the MUGA required further strengthening to provide extra endurance at an additional cost of £20,000.

The extra £29,400 could not be afforded by Racing Club Warwick. This sum was funded from other projects budget for St Mary's Lands which included an element of contingency. The budgets for these other projects amounted to £500,800 in 2019/20. There was the potential for this to be recouped, along with the grant which had already been agreed, from Section 106 Agreements.

In terms of alternatives, the purpose of the report was to produce budgets as determined under the requirements of the Financial Strategy, in line with current Council policies. Any alternative strategies would be the subject of separate reports.

The Finance & Audit Scrutiny Committee noted the report and the addendum with regard to Shakespeare England. Councillor Nicholls, the Chairman of Finance and Audit Scrutiny Committee, advised Members that the addendum had been withdrawn prior to the meeting and should not have been considered by the Finance & Audit Scrutiny Committee.

Councillor Hales, the Portfolio Holder for Finance, proposed the report as laid out.

Recommended to Council that

- (1) the base budget for the General Fund services in respect of 2020/21 as outlined in Appendix B to the report, be agreed;
- (2) the updated budget for the General Fund services in respect of 2019/20 as outlined in Appendix B to the report, be agreed;
- (3) the 2020/21 Housing Capital Investment Programme as outlined in Appendix F to the report, be agreed;
- (4) the changes to the Prudential Indicators for 2019/20, as discussed in section 3.8 of the report, be agreed; and
- (5) the addition of £29,400 grant to the St Mary's Lands capital budget as discussed in section 3.9 of the report, be agreed.

(The Portfolio Holder for this item was Councillor Hales)
Forward Plan Reference 1,086

92. Housing Revenue Account Base Budgets 2020/21

The Executive considered a report from Finance presenting the latest projections for the Housing Revenue Account (HRA) in respect of 2019/20 and 2020/21 based on current levels of service and previously agreed Executive decisions. There were further matters that needed to be reviewed in order to finalise the base position as part of the 2020/21 budget setting process, to be reported to Executive in February 2020, as set out in paragraph 3.6 of the report.

The 2019/20 latest budgets showed a forecast reduction in the transfer to the HRA Capital Investment Reserve (HRA CIR) of £394,100. The

proposed 2020/21 Base Budget forecasted a reduction in the transfer to the HRA CIR of £482,400. Appendix A to the report summarised the adjustments from 2019/20 base budgets to the 2019/20 latest budgets and 2020/21 base budgets.

The report considered the current year's budget, and included details of proposed updates to the 2019/20 Budget. The report also recommended the base budget requirements that would be used in the setting of the HRA budgets for 2020/21. These figures reflected the costs of delivering an agreed level of service, and any unavoidable changes in expenditure (for example, where the Council was contractually or statutorily committed to incur additional expenditure).

Any recent changes needing to be resolved that had not been included in the budgets at this stage would be fed into the February report. In February the Council would be in a position to agree the 2020/21 Budget for the year part of the HRA rent setting report, following confirmation of the housing rents and communal utility recharges.

In agreeing the latest 2019/20 budgetary position, managers reviewed their current and forecast financial requirements. Some changes had already been reported to Members as part of the Quarterly Budget Review Report in August, with further amendments to be identified during the budget setting process to determine next year's base position.

A review of the 2019/20 budget had been carried out in order to establish the latest budget for the current year. This informed the base position for 2020/21.

The following table summarised how the latest 2019/20 HRA budget had been calculated:

	£
Original Approved Net HRA Surplus 2019/20	(29,400)
Increase in Expenditure	470,700
Increase in Income	(76,600)
Reduction in contributions to reserve	(394,100)
LATEST NET HRA SURPLUS 2019/20	<u>(29,400)</u>

Key drivers of the increase in Expenditure budgets included:

- completion of the external decoration programme – budget carried forward from 2018/19 £197,000;
- increase in Supervision & Management £190,500, due to consultant fees for new housing development projects, increase in the cleaning contract and the increase in support service charges recharged to the HRA; and
- business rates of £34,900 following the acquisition of 1 Warwick Street.

Key drivers of the increase in Income budgets included a rents increase of £16,000 relating to 1 Warwick Street and an increase of £63,600 in expected interest receipts.

Appendix A to the report provided a more detailed breakdown of key variances.

As a result of the above variations to the 2019/20 HRA budgets, the forecast contribution to the HRA Capital Investment Reserve for the year would be £3.2m, a reduction of £394,100 from the original budget.

The Housing Investment Programme was presented as part of the separate December 2019 report 'General Fund Base Budgets 2020/21'.

In determining the 2019/20 Base Budget, the over-riding principle was to budget for the continuation of services at the agreed level. The following adjustments were to be made to the 2018/19 Original Budgets:

- removal of any one-off and temporary items;
- addition of inflation (contractual services and pay only);
- addition of previously agreed growth items;
- addition of unavoidable growth items; and
- inclusion of any identified savings.

The table below summarises how the 2019/20 HRA base budget had been calculated.

	£
Original Approved Net HRA Surplus 2019/20	(29,400)
Increase in Expenditure	616,700
Increase in Income	(135,100)
Reduction in contributions to reserve	(482,400)
LATEST NET HRA SURPLUS 2020/21	<u>(30,200)</u>

Key drivers of the change in Expenditure budgets included:

- Sheltered Schemes Fire Safety £767,000;
- external painting programme £495,000; and
- decrease in depreciation charge of (£750,000).

Key drivers of the change in Income budgets included increase of Other rents reallocated due to miscoding (£33,700) and increase in expected interest receipts (£90,900).

Appendix A to the report provided a more detailed breakdown of key variances.

Due to time constraints, the figures in the report did not include the impact of the Housing Services redesign which was approved at the Executive meeting on 13 November 2019. This would be included in the

February budget report and would reduce the contribution to reserves. It was estimated that this reduction would be around £500,000.

A number of assumptions had been made in setting the budgets for 2020/21.

Inflation of 2% had been applied to general budgets. 1.6% had been used for most major contracts, with the exception of the cleaning contract (2.6%). 2.4% had been used for Business rates. 2% pay award had been applied to salaries.

The base rent budget in the report was a baseline calculated from the rental assumptions presented in the 2017 HRA Business Plan.

The actual rents to be charged in 2020/21 and the Council's rent policy were to be decided by Council in February 2020, and budgets would be updated to reflect those decisions. The latest version of the HRA Business Plan was also to be presented to the Executive alongside this in February 2020, incorporating this change alongside other key policy decisions.

The base 2020/21 budgets presented in the report had not been adjusted for inflation, as this was yet to be approved in February's rent setting report. This would allow for housing rents to be increased by CPI + 1% on the rent charged in 2019/20, as allowed by legislation. This would follow a period of four years of 1% reductions. In the case of void properties, the base rent would be:

the assumed rent rate which should be what the previous tenant paid if that was already above Target Social Rent (Formula Rent) then increased by CPI + 1% in the first relevant year and again by CPI + 1% for each successive year,

or

the formula rent for 2019/20, plus CPI + 1% in 2020/21 rent year and so on.

Rent budgets included the projected effect of void homes being moved to Target Social Rent (Formula Rent) when re-let. 2019/20 was the final year of the rent reduction policy, following the announcement that providers would be permitted to increase their rents by up to CPI+1% each year, for a period of at least five years.

Shared ownership properties were not governed by the national Policy. The Council adopted the Homes and Communities Agency (HCA) template lease agreement which included a schedule on rent review. Schedule 4 of the lease agreement determined that the rent would be increased by RPI + 0.5% from April each year. At October 2019, the increase had been forecast at 2.6%.

Unavoidable and previously committed growth had been included in the Base Budget. Any HRA surplus above that required to maintain the appropriate HRA working balance was transferred into the HRA Capital Investment Reserve to be used on future HRA capital projects. The 2020/21 Base Budget allowed for a £3.1m contribution to the reserve.

Notional interest had been charged to the HRA within the Capital Charges. This represented the cost of tying up resources in the asset. This had been charged against HRA garages and shops at their Existing Use Value (EUUV). HRA housing had not been included in this calculation due to the assured nature of tenancies, restricting the Council's ability to sell occupied housing assets.

In terms of alternatives, the purpose of the report was to produce budgets as determined under the requirements of the Financial Strategy. Any alternative strategies would be the subject of separate reports.

The Finance & Audit Scrutiny Committee noted the report and that paragraph 8.2.2 was included in error and should not be considered.

Councillor Matecki proposed the report as laid out, subject to the removal of paragraph 8.2.2 in the report.

Recommended to Council that

- (1) the latest revenue budget for Housing Revenue Account Services in respect of 2019/20 as outlined in Appendix A to the report, be granted; and
- (2) the base budget for Housing Revenue Account Services in respect of 2020/21 as outlined in Appendix A to the report, be granted.

(The Portfolio Holder for this item was Councillor Matecki)
Forward Plan Reference 1,086

(The meeting ended at 6.40pm)

CHAIRMAN
12 February 2020

Council Loans Policy

Contents

- 1. Introduction**
- 2. Considering a loan request**
- 3. Loan agreement**
- 4. Approval process**

1. Introduction

- 1.1 Section 12 of the Local Government Act 2003 gives local authorities certain powers to invest. This is supplemented by Section 1 of the Localism Act which gives local authorities a general power of competence to do “anything that individuals generally may do”. Thus, under this provision, local authorities can loan to organisations for legitimate purposes.
- 1.2 The Council does not provide loans routinely to external organisations, and requests for loan finance will only be considered in the context of the Council’s wider commercial and strategic and objectives together with its corporate policies. As such, each proposal for loan finance needs to be judged on its own merit, which includes consideration of:
 - a. the purpose of the loan and its contribution to the achievement of the Council’s strategic objectives
 - b. the extent to which loans will, in the medium term at least, benefit the local economy
 - c. the financial stability and viability of the organisation to which the loan is made
 - d. the nature / level of security an organisation can provide to support the loan amount
 - e. the Council’s commercial objectives.

The loan must be in relation to capital expenditure projects; that is, the Council will not provide loans to support revenue expenditure.

- 1.3 Loans made to external organisations under this policy do not form part of the Council’s investment or treasury management strategy. Decisions regarding the granting of loans are based on a wider concept of the commercial and strategic benefit of each proposal, together with alignment with the Council’s corporate policies, rather than the narrower treasury management investment criteria which is driven by consideration of the security and liquidity of funds as well as financial yield. As such, decisions on the different levels of risk and financial return involved in each loan agreement may vary depending on the nature / purpose of the loan and its wider strategic impact. Factors that may affect the level of risk involved in a particular proposal include:

- a. Whether the Council already has an interest in the asset / project (for example, owns the land / buildings to which the loan finance relates)
 - b. Whether loans are offered under Government-sponsored schemes (for example, loans financed from the Regional Growth Fund); and
 - c. The type of organisation that the funding is provided to (for example, a private company, a not for profit organisation or other public body). It should be noted that this policy does not apply to loans to private individuals.
- 1.4 This policy applies to all new loan approvals (including variations to existing loan agreements) with effect from its date of approval.

2. Considering a loan proposal

- 2.1 Applications for loans should be completed by the applicant on the Council's Loans Application form.
- 2.2 When considering proposals for loan finance, the following factors should be taken into account:
- a. Applications will only be considered to support projects / initiatives within the Warwick District Council area.
 - b. There will be an assessment of the degree of correlation of the loan purpose with the Council's corporate priorities.
 - c. The Council will consider whether it is appropriate to analyse total support given to an organisation or a single project. For example, the Council may determine that it is inappropriate to lend monies where a grant from the Council has been agreed for the same project or where they have received any type of grant or loan from any state body.
 - d. The relevant organisation requesting a loan must be able to demonstrate that it has sought funding from other sources and that loans from such sources are not available.
 - e. A financial appraisal will be required to be carried out by the Council on receipt of any loan request that meets the specified threshold for evaluating applications. This appraisal will also consider the financial standing of the relevant organisation (especially their ability to repay the prospective loan) and will provide due diligence over the business case of the project / initiative. The following information will be required to be made available to the Council alongside the request for a loan:
 - i. Copy of the latest approved annual accounts (audited where applicable), plus the previous two years' financial annual accounts including, where relevant, an assessment of company structures and governance arrangement. Additional Management Accounts and supporting information may be required.
 - ii. Copy of the last six months' bank statements.

- iii. The business case for the project / initiative including project / initiative risks and deliverability. This should be completed on the Council's standard business plan template.
 - iv. Information on proposed security to support the loan, including evidence of security of tenure of land / buildings and nature of other calls upon the assets (for example, other secured bank loans).
 - v. Adequacy of the relevant organisation's insurance arrangements, including insurance of assets offered as security.
 - vi. Details of how the project / initiative will be funded including details of all other loans / grants / support sought or given (including reasons for any refusal of funding).
 - vii. Confirmation from the potential lending sources (e.g. bank) that it will not provide the finance.
- f. The Council may seek third party advice and support in assessing an application and, where this is the case, the applicant's permission to share information will be sought.
 - g. An assessment of any state aid implications will be carried out by the Council on receipt of any loan request. If a loan application includes the features of state aid then the loan is prohibited unless it is covered by an exemption under state aid rules.
 - h. An assessment of the applicant's overall cash flow position, spending requirements and overall prudential controls will be carried out by the Council on receipt of any loan application. The Council must ensure that the issuing of any loan does not have any negative impact on its own cash flow and spending requirements. The loan will need to be able to be afforded within the Council's Capital funding and Medium Term Financial Strategy.
 - i. An interest rate will be applied on the loan to ensure an acceptable return on capital employed. An arrangement fee determined by the Council's Section 151 Officer will also be payable dependent on the complexity of the application.
 - j. Applications should not be considered from new businesses unless the circumstances are exceptional (e.g. a joint venture project formed for the purposes of a particular project).
 - k. Loan applications recommended for approval by the appropriate Council officers will ultimately be determined by the Council's Executive. Depending on the funding of the loan, however, Council authority may be required. Loan applications not approved by Council officers will be reported to Executive.

3. Loan agreement

- 3.1 The granting of a loan will be subject to a written contractual loan agreement in a form approved by the Council's Section 151 Officer and the Council's lawyers, and entered into by the relevant organisation and the Council. The loan agreement will include details of the agreed terms upon which the loan is granted, including:
- a. conditions of loan
 - b. loan duration and repayment details, including repayment of principal, interest and other costs (as appropriate)
 - c. loan security, including fixed and floating legal charges and guarantees
 - d. insurance requirements
 - e. recovery and enforcement arrangements in case of default of loan terms and conditions
 - f. provision for recovery of any fees incurred for items including, but not limited to, validation of financials, legal advice on loan security arrangements, and so on.
- 3.2 The period of the loan should be consistent with the loan purpose and other factors relevant to repayment term, e.g. the asset life subject to a maximum period of 20 years.
- 3.3 Interest will be charged on loans and apply until the principal of the loan is fully discharged. The rate of interest to be charged should reflect the nature of the project / initiative for which loan finance is sought and the outcome of the business case (including ability of the project / initiative to generate financial return). Consideration of the loan interest rate will take into account, and not necessarily limited to, the following factors:
- Prevailing and forecast market interest rates
 - The Council's cost of funding (including interest and Minimum Revenue Provision)
 - State Aid requirements
 - Principal repayment provisions
 - The financial strength of the organisation
 - The collateral offered as loan security
 - A suitable contribution to cover the perceived risk of the loan
 - A contribution to the Council's on-going costs of administering the loan
- The Council may offer either a fixed or variable rate facility, as determined by the Council having taken into account the advice of the Council's Section 151 Officer.
- 3.4 Loans should be secured via a fixed or floating charge over assets. Ideally loans should be secured via a fixed charge on substantive assets such as freehold land and buildings, but where this is not possible, a floating charge relating to a group of assets may also be considered.

4. Approval process

- 4.1 All loan applications will be subject to approval by Executive Committee or Council. The report accompanying each application will include an officer recommendation in respect of acceptance or rejection of the loan application. Any resolution for the approval of a loan should also include an acknowledgement of any exceptional risks (for example, approval in spite of inadequate security) and also include clear written reasons for any approval given in spite of such risks associated with the proposed loan.
- 4.2 Requests from relevant organisations to change materially the terms of Loan Agreements (including applications for top up loans or repayment holidays) should be considered by the Section 151 Officer in consultation with the Portfolio Holder for Finance, taking legal advice as necessary.