Executive

Excerpt of the minutes of the meeting held on Wednesday 6 February 2019 at the Town Hall, Royal Leamington Spa, at 6.00 pm.

Present: Councillors Mobbs (Leader), Butler, Coker, Phillips, Rhead and Thompson.

Also present: Councillors; Boad (Liberal Democrat Group Observer), Quinney (Chair of Finance & Audit Scrutiny Committee); and Naimo (Labour Group Observer).

Apologies for absence were received from Councillors Mrs Falp, Grainger and Whiting.

133. **Declarations of Interest**

Minute 136 – Business Case for Extension of the Avon Navigation Scheme for Stratford (Alveston) to Warwick

Councillor Rhead declared an interest because he had a house that bordered River Avon and the matter of the Avon Canal was to be discussed, but he did not feel that was a prejudicial interest.

134. **Minutes**

The minutes of the meeting held on 9 January 2019 were taken as read and signed by the Chairman as a correct record.

Part 1
(Items upon which a decision by the Council was required)

142. **Treasury Management Strategy 2019//20**

The Executive considered a report from Finance detailing the strategy that the Council would follow in carrying out its treasury management activities in 2019/20.

The Council's treasury management operations were governed by various Treasury Management Practices (TMP's), the production of which was a requirement of the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management code and which had to be explicitly followed by officers engaged in treasury management. These had previously been reported to the Executive. There had been a few changes to various Treasury Management Practices (TMP's) as follows:

TMP 1 - Risk Management

- Paragraph 2.1(a,d,e) – changes in minimum sovereign country rating for counterparties residing outside the United Kingdom from "at least equal to the UK's" to "minimum sovereign rating of AA-".

This had been recommended by Link, the Council's treasury advisers, to help mitigate any potential adverse effects of Brexit in terms of a downgrade to the UK's sovereign credit rating on the Council's ability to invest its funds. Additional details were provided in paragraph 1.4 of Appendix B to the report.

- Paragraph 2.1(k,l) - redefinition of Constant Net Asset Value Money Market Funds to Government Debt Constant Net Asset Value Money Market Funds and introduction of Low Volatility Net Asset Value Money Market Funds following reform of European Money Market Funds.
- Paragraph 2.2 – increase in counterparty limits as outlined in paragraph 2.7 of Appendix B to the report.

TMP 4 - Approved Investments, Methods and Techniques

- Paragraph 2.1(j) – changed to reflect the new definition of Money Market Funds as per TMP 1 above.

TMP 11 - Use of External Service Providers

- Paragraph 1.3 (h) - changed to reflect the new definition of Money Market Funds as per TMP 1 above.
- Paragraph 2.1 – updated to reflect change of treasury advisers name from Capita – Treasury Solutions Ltd to Link Asset Services.

Finally, the various TMP's had been updated throughout to reflect:

- the new definition of a short term investment as outlined in the 2018 Investment Guidance issued by MHCLG i.e. one that was 365 days or less; and
- the change of name from Department of Communities and Local Government (DCLG) to Ministry of Housing, Communities and Local Government (MHCLG).

Under CIPFA's updated Treasury Management in Public Services Code of Practice, the Council continued to be required to have an approved Treasury Management Strategy, within which its Treasury Management operations could be carried out. The proposed Strategy for 2019/20 was included as Appendix A to the report.

This Council had regard to the Government's Guidance on Local Government Investments. The guidance stated that an Annual Investment Strategy had to be produced in advance of the year to which it related and had to be approved by full Council. The Strategy could be amended at any time and had to be made available to the public. The Annual Investment Strategy for 2019/20 was shown as Appendix B to the report. Increasing cash balances and the potential consequences of a disorderly Brexit made it necessary to consider increasing certain counterparty limits and amending the minimum country sovereign credit rating. It had increasingly become the case that UK branches of non UK domiciled banks were sending deposits raised in the UK back to their home countries, hence the recommendation to amend "UK Private Banks" to "Private

Banks” in order to avoid losing valuable counterparties. It was not considered that this posed any significant threat to the security of the Council’s investments in such banks.

The Council had to make provision for the repayment of its outstanding long term debt and other forms of long term borrowing such as Finance Leases. Statutory guidance issued by Communities and Local Government (CLG) required that a statement on the Council’s policy for its annual Minimum Revenue Provision (MRP) should be submitted to full Council for approval before the start of the financial year to which it related and this was contained in Appendix C to the report.

The Prudential Code for Capital Finance in Local Authorities which was last revised in 2018 introduced new requirements for the manner in which capital spending plans were to be considered and approved and, in conjunction with this, the development of an integrated treasury management strategy. The Prudential Code required the Council to set a number of Prudential Indicators and the report therefore incorporated within Appendix D to the report the indicators to which regard should be given when determining the Council’s treasury management strategy for the next three financial years.

An alternative to the strategy being proposed for 2019/20 would be not to alter the current counterparty limits, the minimum sovereign rating and to continue to restrict investments in non UK domiciled banks to UK branches where the funds were not transferred back to the banks’ home country. However, this would risk the Council running out of acceptably credit rated counterparties and possibly having to lower its minimum credit ratings below that which it felt comfortable with.

The Finance & Audit Scrutiny Committee supported the recommendations in the report.

The Executive, therefore,

Resolved that the changes to the various Treasury Management Practices as detailed in paragraph 3.1 of the report, be noted; and

Recommended to Council that

(1) the Treasury Management Strategy for 2019/20 as outlined in paragraph 3.2 of the report and contained in Appendix A to the report, be approved;

(2) the 2019/20 Annual Investment Strategy as outlined in paragraph 3.3 of the report and contained in Appendix B to the report be approved, including the following changes:

a. that as per paragraph 1.4 of Appendix B and Annex 2 to Appendix B, the minimum sovereign country rating in respect of investments in counterparties residing outside the United Kingdom be amended from "at least the equivalent of the UK" to a minimum of AA- and that no UK sovereign rating applies to UK domiciled counterparties; and

b. the current counterparty limits are increased to those shown in paragraph 2.7 of Appendix B and Annex 2 to Appendix B, and that the condition currently restricting investments in banks to those domiciled in the UK be removed for the reasons outlined in paragraph 2.8 of Appendix B to the report;

(3) the Minimum Revenue Provision Policy Statement as outlined in paragraph 3.4 of the report and contained in paragraphs 5.1 to 5.4 of Appendix C to the report be approved; and

(4) the Prudential Indicators as outlined paragraph 3.5 of the report and contained in Appendix D to the report be approved.

(The Portfolio Holder for this item was Councillor Whiting)
Forward Plan reference 972

143. **Housing Revenue Account (HRA) Budget 2019/20 and Housing Rents**

The Executive considered a report from Finance and Housing presenting to Members the latest Housing Revenue Account (HRA) budgets in respect of 2018/19 and 2019/20.

The information contained within the report made the recommendations to Council in respect of setting next year's budgets, the proposed changes to council tenant housing rents, garage rents and other charges for 2019/20.

In July 2015, the Government announced that with effect from April 2016, the rents charged for existing tenants by local authority housing landlords should be reduced by 1% per year, for four years. 2019/20 would be the final year of this reduction. The 1% rent reduction per annum also applied to supported housing, with 2019/20 being the final year of this reduction.

Specialised supporting housing would remain exempt from this policy for mutual / co-operatives, Alms houses and Community Land Trusts and refuges. However, this Council did not currently have any housing which met these criteria.

From April 2020, a new policy would come into effect, with Councils allowed to increase rents by Consumer Price Index (CPI) (at September) plus 1% per annum.

For new tenancies, landlords were permitted to set the base rent as the Target Social Rent (also known as Formula Rent). In Warwick District's case, this represented a small increase over the social rent charged for tenanted properties and was projected to increase rental income by around £6000 in 2019/20. These tenancies would then be subject to agreed rental policy to comply with the Welfare Reform and Work Bill 2016.

The only exception would be in respect of properties at Sayer Court, Royal Leamington Spa, where the Council had previously approved that tenancies within the new development would be let at Warwick Affordable Rent Levels. Whilst the 1% rent decrease would apply to existing tenants for the coming year, new tenancies established during 2019/20 would be charged at the full Warwick Affordable Rent Value.

Details of all current rents and those proposed as a result of these recommendations were set out in Appendix 1 to the report. A comparison of the Council's social rents with affordable and market rents was set out in Appendix 2 to the report.

The recommendations ensured that the Council was operating in compliance with national policy and guidance on the setting of rents for General Needs and Supported Housing properties.

With regards to Shared Ownership during 2015, the Council took ownership of 15 shared ownership dwellings at Great Field Drive in Southwest Warwick.

Shared owners were required to pay rent on the proportion of their home which they did not own. The shared ownership properties' rent increases were not governed by 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 2019.

Garage rent increases were not governed by national guidance. Any increase that reflected costs of the service, demand, market conditions and the potential for income generation could be considered. The HRA Business Plan base assumption was that garage rents would increase in line with inflation. However, the Council did not have a formal policy for the setting of rents for garages in place.

There were waiting lists for a number of garage sites, whilst other sites had far lower demand; where appropriate, these sites were being considered for future redevelopment as part of the overall garage strategy for the future.

Two different rent charges applied to garages, depending upon whether the renter was an existing Warwick District Council tenant or not. There were also parking spaces and cycle sheds which were charged for.

Market Research showed that in the private sector, garages were being marketed in the District for on average £80 per month (valuations last reviewed January 2016). The average monthly rent for a Council garage was currently £33.50.

Consideration had been made of the level of increase that could be applied to the garages. Unlike housing rents, there was no requirement to reduce garage rents and therefore the proposal was to increase rents to include inflation and a modest rent rise. Last year, Members approved a £4 rise in garage rents and it was proposed to adopt the same approach this year, with an increase of £4 per month being recommended across all chargeable areas.

The location of many of the garage sites and quality of the land, landscape and garage condition constrained the levels of rent that could reasonably be achieved. It was considered that many sites required investment to improve their condition, provide greater community benefits, extend the life or accommodate the development of additional affordable housing. The Housing Service had started a review of garage sites to determine their optimum potential as an asset of the HRA. Most sites would simply require some form of fairly modest improvement, such as to rooves or to the hardstanding. Others might require more significant work or might benefit from a more strategic redesign and realignment with contemporary expectations. In addition, the garages and external areas at key high rise sites such as at The Crest were in need of some redesign and modernisation. The proposal was to undertake a detailed redesign of the external environments at the high rise blocks and to detail the requirements for improving sites as they were discounted for their potential for new development. The recommendation of a budget of up to £100k would enable this work to be taken forward.

Any additional income generated for the service would help to alleviate the loss of rental income from dwellings and ensure the continuous viability of the Housing Revenue Account Business Plan.

Should Members approve the recommendation, projected income for 2019/20 would increase by a net £84,000 compared to 2018/19.

Alongside the rent increase, a review of garage voids had indicated that on average, 15% of the total garage stock was void throughout the year, worth £125,000 in potential income. The proposed work to review each site had the potential to reduce the level of voids and possibly to attract additional income.

For tenants, most garage rents would increase by 92p per week (£4 per month), from £7.99 to £8.91. Non-tenants also paid VAT on the charge, so it would increase by £1.10 per week, from £9.59 to £10.69.

With regards to the HRA budgets, the Council was required to set a budget for the HRA each year, approving the level of rents and other charges that were levied. The Executive made recommendations to Council that took into account the base budgets for the HRA and current Government guidance on national rent policy.

The dwelling rents had been adjusted to take account of the loss of rent resulting from actual and anticipated changes in property numbers for 2018/19 and 2019/20. This included additional rental income from the five new build properties at Cloister Way which were due to be purchased and subsequently let to tenants, and changes based on the number of Right-To-Buy sales in 2018/19, and those forecasted for 2019/20.

Shared ownership property rents would increase by RPI + 0.5% in accordance with the terms of the lease. As at November 2018, RPI was 3.2%, therefore the income budget had been increased by £2,700.

The garages rental income budget had been increased by £33,100 to take into account the £4 per month increase in charges for 2019/20 and current level of voids.

Full details of the Budget would be included within the Budget Book which would be available to Members ahead of Budget / Rents Setting by Council, a summary of which was provided in Appendix 3 to the report.

The Housing Investment Programme was presented as part of the separate February 2019 report 'General Fund 2019/20 Budget and Council Tax' (Ref 969).

The recommendations would enable the proposed latest Housing Investment Programme to be carried out and contribute available resources to the HRA Capital Investment Reserve for future development whilst maintaining a minimum working balance on the HRA of at least £1.5m in line with Council policy.

In terms of alternative options for garage rents, the Council had discretion over the setting of garage rents. Each 1% change in garage rents resulted in an increase or decrease of potential income of around £6,900 per year.

It would be possible to set Garage rents higher than those proposed to maximise income. However, significantly higher rents might make garages harder to let and therefore reduce income. Similarly, rents could also be reduced, but this would reduce income to the HRA Budget when it was needed.

The Council did have the discretion to decrease dwellings rents for existing tenants by more than the 1% prescribed. However, this would reduce the level of income for the HRA, which in turn could impact upon the viability of future projects.

The Council did not have the discretion to change the rent schedule for existing shared ownership dwellings, which was determined by the existing terms of the lease.

The Finance & Audit Scrutiny Committee supported the recommendations in the report.

The Portfolio Holder, Councillor Phillips, proposed the report with a correction to Recommendation 2.1 to read "be reduced by 1% for 2019/20", not 2018/19.

The Executive, therefore,

Recommended to Council that

(1) rents for all tenanted dwellings (excluding shared ownership) be reduced by 1% for 2019/20;

(2) HRA dwelling rents for all new tenancies created in 2019/20 be set at Target Social (Formula) Rent, or at Warwick Affordable rent for Sayer Court properties;

(3) shared ownership rents are increased by RPI plus 0.5% in line with the lease agreement, be noted;

(4) garage rents for 2019/20 be increased by £4 per month;

(5) a budget of £100k be set aside to support the delivery of improvements to the HRA garage sites and to environmental improvements at the high rise schemes; and

(6) the latest 2018/19 and 2019/20 Housing Revenue Account (HRA) budgets as detailed in Appendix 3 to the report, be agreed.

(The Portfolio Holder for this item was Councillor Phillips)
Forward Plan reference 971

144. **Election of Chairman and Vice-Chairman of the Council 2019/20**

In accordance with Procedure Rules, Councillor Illingworth was recommended to be elected as the Chairman and Councillor Ashford was recommended to be elected as the Vice-Chairman of the Council for 2019/20.

The Executive, therefore,

Recommended to Council that

(1) Councillor Illingworth be elected as the Chairman of the Council for 2019/20; and

(2) Councillor Ashford be elected as the Vice-Chairman of the Council for 2019/20.

145. **2019/20 General Fund Budget and Council Tax**

The Executive considered a report from Finance informing Members of the Council's financial position, bringing together the latest and original Budgets for 2018/19 and 2019/20, and the Medium Term Forecasts until 2023/24. In doing so, it advised upon the net deficit from 2023/24 and the savings required to balance future years' budgets.

The report would be presented to Council, alongside a separate report recommending the overall Council Tax Charges 2019/20 for Warwick District Council.

Despite significant cuts in Government Funding, the Council had been able to set a balanced budget for 2019/20 without having to reduce the services it provided. This had been the case for many years as a result of the Fit for the Future Programme it had adopted. It had not had to rely on New Homes Bonus to support core revenue spending and had been able to allocate this funding to project work and replenish reserves. Alongside this, the Council had achieved a surplus on its 2018/19 budget. However, the Council's financial projections showed that further savings needed to be secured from 2020/21 onwards.

By law, the Council had to set a balanced budget before the beginning of the financial year. It had to levy a council tax from its local tax payers to meet the gap between expenditure and resources available.

It was prudent to consider the medium term rather than just the next financial year, taking into account the longer term implications of decisions in respect of 2019/20. Hence, Members received a five-year Financial Strategy, Capital Programme and Reserves Schedule.

The Local Government Act 2004, Section 3, stated that the Council had to set an authorised borrowing limit. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code for Capital Finance in Local Authorities stated the Council should annually approve Prudential Indicators.

The Chief Financial Officer was required to report on the robustness of the estimates made and the adequacy of the proposed financial reserves. This statement was attached at Appendix 1 to the report.

Within the Base Budget report considered by the Executive in January 2019, the 2018/19 Budget was showing a surplus of £3,800. These figures had now been updated, with the most notable changes being:

- reduction in interest on borrowing reduced to reflect use of internal borrowing to fund leisure centre project rather than use external borrowing. As a consequence of this, the Council was receiving reduced investment receipts. Net benefit to General Fund £125,000;

- the legal fees in respect of the Compulsory Purchase Order agreed by Executive in November 2018 of £30,000 had been included within the budget financed from the Contingency Budget;

- planning income was estimated to exceed the current estimate of £1.5m by £200,000. This would be offset by the allocation required to the Planning Investment Reserve in respect of the 20% fee increase (£31,700) and an additional £33,300 expenditure required on consultants as a consequence of the increase in applications (£33,300)

- street naming and numbering – income projected to be £22,000 below budget;

- homelessness disbursements – projected to be £30,000 over budget;

- valuation advice – extra £10,800.

The projected 2018/19 budget now showed a projected surplus of £138,000, the treatment of which was considered in Section 3.13 in the report.

The Base Budget report showed that the 2019/20 Budget had an estimated surplus of £19,100. The following notable changes had subsequently been made to this base budget:

- additional Planning fees income, net of the 20% increase due to go to the Planning Investment Reserve £116,600;
- Community Infrastructure Levy administration "top slice", £60,000 income, to be included within 2019/20 S123 list;
- advertising income – an additional £100,000 was previously included in the budget. More detailed scrutiny of the potential sites suggested this should more realistically be reduced to £15,000 for 2019/20 and £27,000 in subsequent years, so impacting upon the Medium Term Financial Strategy;
- the savings from the proposed local lottery of £30,000 had been removed from the 2019/20 Budget and were forecasted to start from 2020/21. This would be subject to a future Executive report;
- Performance Management – following the recent Peer Challenge, £30,000 had been provided as support to CMT;
- Pay Award and auto enrolment – The 2019/20 pay award had been agreed. This provided for an overall increase of 2% and extra enhancements for lower grades due to the impact of the National Living Wage. This was coming in below the sum previously allowed for, so enabling £98,000 to be released back to the General Fund. In addition, the impact of the Auto Enrolment was costing less, £31,900;

- the borrowing for the recent leisure centre improvements was now assumed to take place mid 2019/20. The net impact on the debt cost and investment interest was estimated to be £134,000; and
- increased postage costs £10,500.

The projected Collection Fund Balance as at 31 March 2019 had been calculated to be a surplus of £1,320,500. This reflected the increased growth in new domestic properties in the District and the resultant increased tax base. Warwickshire County Council and the Warwickshire Police and Crime Commissioner were duly notified of their shares on 15 January 2019. This Council's share was £143,000 which had been factored into the 2019/20 Budget as a one-off item.

Taking into account all known changes, the 2019/20 budget showed a surplus of £99,000. As previously mentioned, the treatment of this was considered in section 3.13 of the report.

The Government announced the provisional 2019/20 Finance Settlement in December. The Final settlement was expected to be confirmed soon, ahead of the Council being due to agree its 2019/20 Budget and Council Tax in February. No changes were expected to the Final Settlement, but Members would be duly informed if necessary.

As previously announced as part of the four-year Spending Settlement (2016/17 to 2019/20), this Council would not be receiving any Revenue Support Grant for 2019/20.

Members were reminded that earlier Government figures for 2019/20 included "Tariff Adjustments", which would reduce the Council's element of retained Business Rates. These adjustments were widely seen as being "Negative Revenue Support Grant" (Negative RSG). For Warwick District Council, the adjustment was to amount to a further reduction in funding for 2019/20 of £237k. Nationally, the Tariff Adjustments came to £153m. As expected, as part of the provisional settlement, the Government had announced additional funding to remove the Negative RSG. The Council's financial projections had already allowed for this change. With Revenue Support Grant no longer existing from 2020/21, this adjustment was expected to be subsumed within the 2020/21 Settlement figures for Business Rate Retention, as detailed in Section 3.5 of the report.

The Provisional Settlement also included an additional £180 million for local authorities which was funded from the surplus on the Business Rate Retention levy/safety net account. This authority's share was £52,000, which represented a one-off increase to the Council's resources for 2019/20. In line with other changes in business rate income, this would be allocated initially to the Business Rate Retention Volatility Reserve.

Projecting the Council's element of Business Rate Retention continued to present difficulties. The problems involved in forecasting this were detailed in Section 3.5 of the report.

Appeals – there were still many appeals awaiting determination by the Valuation Office. An assessment of the success of these needed to be made and suitable provision had been allowed for within the estimated figures. Whilst it was hoped that this figure was suitably prudent, given the size and nature of some of the appeals, there remained a risk. April 2017 saw the introduction of the new "Check, Challenge, Appeal" regime seeking to expedite appeals and deter speculative appeals. Following previous revaluations, backdated appeals continued to be lodged for several years. The number of new appeals coming forward since April 2017 was minimal. However, it was still expected that a significant number of appeals would come forward in subsequent years that would be backdated to 2017. It was necessary for an estimate of these future appeals to be allowed for in the 2018/19 and 2019/20 Estimates.

From 2020/21, the existing Baselines within the Business Rate Retention would be re-set. This would reflect the spending needs of individual local authorities (as to be determined by the Fair Funding Review currently on-going, for which consultation responses were sought by February 2019). The review would also reflect the updated business rate bases of local authorities. It remained to be seen what growth in the local business rate base since 2013/14 would be allowed to be retained by local authorities.

75% Business Rates Retention – The original intention was to move to a 100% scheme from 2019/20. Due to limited Government time to consider this matter, it was now proposed that a scheme based around 75% retention would be brought in in 2020/21, using existing Regulations, without the need to introduce new legislation. A Government consultation document had been issued, for which responses were requested by February 2019.

As with all local authorities, 2020/21 represented a significant risk to the Council's finances with the intended changes to Business Rate Retention. If the Council's share of Business Rates returned to the Baseline, this would represent a potential reduction of over £1m in funding. The Medium Term Financial Strategy (MTFS) allowed for a reduction in funding back to the Baseline. However, this was being mitigated by the use of approximately £600k from the Business Rate Retention Volatility Reserve from 2020/21. The use of the reserve at this level would not be sustainable indefinitely based on current assumptions.

Whilst the estimates from 2020/21 were very uncertain, many local authorities would be severely impacted, potentially many far greater than Warwick District Council, due to the significant growth in their Business Rates base since 2013/14. With potentially substantial swings in local government funding, it was likely that some sort of safety net would need to be allowed for so as to give authorities time to manage large swings in their funding. The future information and figures from the Government would continue to be monitored, with the impact included in the Council's MTFS.

Volatility - Largely due to the regulations governing the accounting arrangements for business rates retention, there could be substantial volatility between years in the amount of retained business rates credited to the General Fund. Consequently, it was necessary to maintain a Volatility Reserve to "smooth" the year on year sums received.

For 2019/20, the net Business Rates Retention to the General Fund (the Council's share of Business Rates, +/- contribution from/to the Business Rates Retention Volatility Reserve) had been increased to £4.532m. This was believed to still be a prudent estimate. The NNDR1 form, which estimated the business rates for 2019/20, was still being finalised. This would produce some of the final figures that fed into the Business Rates Retention income for the Council for the year. It was not expected that there would be any great variation in the NNDR1 and what had been allowed in the proposed Budget. However, should there be any variation, this would be accommodated within the Business Rate Volatility Reserve.

The Executive agreed in the Autumn that the Council would apply to be part of the proposed Warwickshire 75% Business Rates Retention Pooling Pilot for 2019/20. It was understood that there were many applications to be Pilot Pools, of which 15 were accepted. The Warwickshire application was not successful. Therefore, the Council should continue to be a member of the Coventry and Warwickshire Pool for 2019/20 under the current 50% Business Rate Retention scheme.

The Business Rates Retention figures within the MTFS were believed to be reasonably prudent, taking into account all the above factors. These figures would continue to be reviewed and Members would be informed of changes as the MTFS was presented in future reports.

As announced within the Provisional Local Government Finance Settlement, District Councils could increase their share of the Council Tax by the greater of up to 3% and £5 without triggering a referendum. This was in line with the 2018/19 limits.

The national average council tax for district councils was £180.67, and £223.48 including parish/town council precepts. This Council's council tax charge for 2018/19 was £161.86 (excluding parish and town council precepts). This Council's charge was in the second lowest quartile and when Town and Parish Precepts were included, it fell within the lowest quartile.

The Council Tax Base was calculated in November of last year, with the Council's preceptors being notified accordingly. As reported to Members in November 2018 within the Q2 Budget Review Report, the Tax Base for 2019/20 was £55,577.17 Band D Equivalents. This was an increase of over 1,000 properties to the figures previously factored into the Financial Strategy for 2019/20. The increased forecast growth in the tax base had been factored into the MTFS. This clearly impacted upon the Council's estimated council tax income.

The Council's element of the Council Tax was calculated by taking its total budget requirement, subtracting the total funding from Central Government in respect of Revenue Support Grant (RSG), now zero, and

Retained Business Rates (details of which were included in Sections 3.4 and 3.5 of the report). This figure was divided by the 2019/20 tax base to derive the District Council Band D Council Tax Charge.

The recommendations within the report produced a Band D Council Tax for Warwick District (excluding parish/town council precepts) for 2019/20 of £166.86, this being a £5 increase on that of 2018/19. Based on this increase, the District's element of the Council Tax for each of the respective bands would be:

	£
Band A	111.24
Band B	129.78
Band C	148.32
Band D	166.86
Band E	203.94
Band F	241.02
Band G	278.10
Band H	333.72

A £5 increase in council tax would generate an additional £278,000 in 2019/20. Maintaining increases of this magnitude up to 2023/24 would generate an additional £1.5m. This had been included within the projections in the Medium Term Financial Strategy (Section 3.8 of the report). It was important that the Council continued to maintain this income base into future years. Costs would continue to face inflationary increases. In addition, there remained threats to the Council's other income streams, most notably its share of Business Rate Retention.

Parish and town councils throughout the district were asked to submit their precepts for 2019/20 when informed of their Tax Bases. At the time of writing the report, not all precepts had been confirmed. It was estimated that the precepts would total just over £1,500,000 based on prior years.

In the Provisional Finance Settlement, the Government had announced it would continue to defer the setting of referendum principles for town and parish councils, on the conditions that:

- the sector continued to take all available steps to mitigate the need for council tax increases, including the use of reserves where they were not already earmarked for other uses or for "invest to save" projects which would lower ongoing costs; and

- the Government seeing clear evidence of restraint in the increases set by the sector.

The Government said it would keep this area under active review.

The Council Tax was set by aggregating the council tax levels calculated by the major precepting authorities (the County Council and the Police and Crime Commissioner) and the parish/town councils for their purposes with those for this Council. The report to the Council Meeting on 20 February 2019 would provide all the required details. This would be e-mailed to all Members as soon as possible following the Police and Crime Commissioner and Warwickshire County Council meetings, which were both due to be held on 6 February. At the time of writing the report, it was assumed that all the Town/Parish Precepts would have been returned. The Council would then be in a position to:

(a) consider the recommendations from the Executive as to the Council Tax for district purposes; and
(b) formally set the amount of the council tax for each Parish/Town, and within those areas for each tax band, under Section 30 of the 1992 Local Government Finance Act.

Members were reminded of their fiduciary duty to the Council Taxpayers of Warwick District Council. Members had a duty to seek to ensure that the Council acted lawfully. They were under an obligation to produce a balanced budget and should not knowingly budget for a deficit. Members should not come to a decision that no reasonable authority could come to, balancing the nature, quality and level of services that they considered should be provided, against the costs of providing such services.

Should Members wish to propose additions or reductions to the budget, on which no information was given in the report, they had to present sufficient information on the justification for and consequences of their proposals to enable the Executive (or the Council) to arrive at a reasonable decision. The report set out relevant considerations for Members to bear in mind during their deliberations, including the statement at Appendix 1 to the report from the Chief Financial Officer.

Section 106 of the Local Government Finance Act 1992 stated that any Member who had not paid their Council Tax or any instalment for at least two months after it became due and which remained unpaid at the time of the meeting, had to declare that at the meeting and not vote on any matter relating to setting the budget or making of the Council Tax and related calculations.

This Council’s New Homes Bonus (NHB) for 2019/20 was £3,359k. This was an increase from the £2,482k awarded for 2018/19.

The NHB calculations were still based on the following parameters:

- since 2018/19 funding was based on four years (this previously being six years);

- the baseline of 0.4% had continued for 2019/20. New Homes Bonus was only awarded on growth above this level. There was the possibility that the baseline was to be increased, this remained a risk for the future. For Warwick District Council, for 2019/20 the 0.4% baseline represented 253 dwellings. With the total growth of 1,157 Band D properties, the 2019/20 allocation was based on 904 properties. The baseline was reducing the New Homes Bonus 2019/20 allocation by £423,000.

To date, this Council had used the money to fund various schemes and initiatives and replenish some of its Reserves, and unlike many local authorities, had not used NHB to support core services. It continued to be the Council's policy to exclude NHB in projecting future funding.

As in previous years, Waterloo Housing would receive part of this allocation from their agreement with the Council to deliver affordable Housing in the District. £146,166 was due to be paid to Waterloo Housing in 2019/20. Section 3.13 of the report detailed how it was proposed to allocate the Residual Balance for 2019/20.

When Members approved the 2018/19 Budget in February 2018, the Medium Term Financial Strategy showed that the Council would be in deficit by some £699,000 by 2022/23, as depicted below.

	2019/20 £'000	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**
Deficit-Savings Required(+)/Surplus(-) future years	607	81	929	699
Change on previous year	607	-526	848	-230

Since then, Members had received later projections in the quarterly Budget Review Reports in August and November of this year. These Reports had highlighted any major changes.

One of the most significant changes between the forecasts presented to Members in February of each year was always the impact of rolling the forecasts forward a further year. Whilst there was additional income from an increased Taxbase and the Band D charge, alongside the growth in the Leisure Concessions Contract, this was more than offset by inflation and other unavoidable commitments such as pensions. By adding 2023/24 to the prediction in the table above, the savings required increased by some £0.5 million before adding any new developments.

There had been many changes to staffing budgets during the year which had already been reported to Members, the most significant of these being restructure of the Assets Team, £81,000, Finance changes, £88,000, making the Car Parks Project Manager permanent, £49,000 and changes within the Bereavement Service, £40,000.

Income to the Council would increase more than that forecast in February 2018. The most notable sources of this were £224,000 from the growth in the Tax Base in 2019/20 and £145,000 Fees and Charges Income above the 2% factored in. In addition, the increase in planning fees, discussed in paragraph 3.3.1 of the report, £116,600 had also been included as a recurring item into future years.

As part of the 2019/20 Budget Setting Process, it was established that two budgets were inadequate to fund unavoidable Costs. The Repairs and Maintenance Programme had been increased by £96,000 and the net cost of Housing Benefit Subsidy by £97,000.

The following savings had been re-profiled to reflect more likely timeframes:

- Office Relocation £300,000 saving forecast to start January 2022 (nine-month delay);
- Town Hall saving £85,000 saving forecast to start April 2022 (nine-month delay); and
- Local Lottery £30,000 saving forecast to start April 2020 (as detailed in paragraph 3.3.1 of the report).

Taking into account the above changes, the savings to be found within the Medium Term Financial Strategy were:

	2020/21	**2021/22**	**2022/23**	**2023/24**
	£'000	**£'000**	**£'000**	**£'000**
Deficit-Savings Required(+)/Surplus(-) future years	330	1,025	456	574
Change on previous year	330	695	-569	118

Appendix 5 to the report showed the summary pages from the MTFS. The further detailed pages were intended to be available ahead of this report being considered by Members, and would be included in the Budget Book which would be available before the 20 February 2019 Council meeting.

The profile of the increased savings included the anticipated increased costs when some of the contracts were re-let to commence April 2021. From 2022/23 the savings to be found reduced as the savings relating to the office re-location, Town Hall and Senior Management review were due to commence.

A Fit For the Future report was due to be brought to the Executive in July 2019 which would detail progress on savings and other projects currently being worked upon. In addition, it would include proposals for further savings or income generation.

As discussed in section 3.5 of the report, the level of savings to be made was very much dependant on the income that the Council received from Business Rate Retention. From 2020/21, prudent assumptions had been made as to what the level of this income would be. The financial projections would be updated as more information was available about the likely level of future business rate income.

Members agreed that £1.5m should be the minimum level for the core General Fund Balance. This balance supported the Council for future unforeseen demands upon its resources. In order to consider a reasonable level of general reserves, a risk assessment had been done and was contained at Appendix 4 to the report. This showed the requirement for the General Fund balance of over £1.5 million against the risks identified.

The General Fund had many specific Earmarked Reserves. These were attached at Appendix 5 to the report, showing the actual and projected balances from April 2018, along with the purposes for which each reserve was held. Finance and Audit Scrutiny Committee was especially asked to scrutinise this element and pass comment to Executive.

Those reserves which showed a significant change in the overall balance in the period 1 April 2018 to 31 March 2023 were detailed in Section 3.9.3 of the report and also shown in Appendix 5 to the report. They included: Business Rates Volatility Reserve, Car Parking Repairs and Maintenance Reserve, Community Projects Reserve, Corporate Asset Reserve, ICT Replacement Reserve, Equipment Renewal, Homelessness Reserve etc.

There were various small reserves which, for one reason or another, it was appropriate to close at the end of 2018/19 and transfer the balances to other reserves. The proposed closures together with reasons and which reserve the balances were being transferred to were:

- Art Fund Reserve – transfer balance of £75k to the Art Gallery Gift Reserve in order to rationalise the number of Art Gallery Reserves;

- Energy Management Reserve – transfer balance of £112k to the Corporate Assets Reserve as the Energy Management Reserve was effectively redundant and to reduce duplication;

- Rent Bond Reserve – transfer balance of £22k balance to Homelessness Reserve in order to reduce duplication as both reserves deal with the homeless; and

- Right to Bid and Right to Challenge Reserves – transfer balances of £20k and £26k respectively to the Community Projects Reserve as both reserves had never been used and any subsequent expenditure could be met from the Contingency budget.

Drawing down funding from some of the reserves could result in excessive administration and delay, especially where formal Executive approval was required. To assist in this, it was proposed to amend the delegations to the relevant Head of Service, in consultation with the Portfolio Holder and Head of Finance. Any such allocations would be subsequently reported within a future report. The reserves where it was proposed to amend the delegations were:

Reserve	**Delegated to**
Planning Reserve	Head of Development Services
Building Control Reserve	Head of Development Services
Service Transformation Reserve	Chief Executive

In accordance with the Council's Code of Financial Practice, all new and future capital schemes had to be in line with the Council's corporate priorities, including its capital strategy (detailed in Appendix 11 to the report) and a full business case would be required as part of reports to the Executive for approval. This case would identify the means of funding and, where appropriate, an options appraisal exercise would be carried out. Should there be any additional revenue costs arising from the project, the proposed means of financing such must also be included in the Report and Business Plan.

The Capital Programme had been updated throughout the year as new, and changes to, projects had been approved. In addition to the changes throughout the year, it was proposed to add several new schemes to the Capital Programme as detailed in Section 3.10.2 and Appendix 8 to the report.

Minute 139 concerning the St Mary's Lands Masterplan included schemes which impacted on the Capital Programme. These had been incorporated in the Capital Programme, as detailed in Section 3.10.3 of the report.

In addition to the new projects incorporated in Sections 3.10.2 and 3.10.3 of the report, investment in replacement multi storey car parks, Office relocation and Europa Way Community Stadium capital projects were expected to come forward over the next few years.

Slippage to 2019/20 in the General Fund Programme had been incorporated as reported during the year. In addition, a table included in Section 3.10.6 of the report showed the additional changes to current schemes that were required to be reported to Members. The full details were included within Appendix 8 to the report.

Appendix 9 to the report, Part 5, showed the General Fund unallocated capital resources. These totalled £1.789.4m. The Capital Investment Reserve represented the largest share of this at £1.13m, for which the Council had agreed the minimum balance should be £1m. Whilst the Council did hold other reserves to fund capital projects, it would be noted that these were limited and had been reserved for specific purposes. In addition to the resources shown here, within the Housing Investment Resources, the Right to Buy "Any Purposes Capital Receipts" projected at £7.63m (Appendix 9 to the report, Part 4) were available to fund non Housing schemes.

The latest Housing Investment Programme (HIP) was shown at Appendix 9 to the report, Part 2.

Appendix 8 to the report detailed variations to the HIP from the programme approved as part of the February 2018 budget report. This included new schemes approved during 2018/19, changes to current schemes, and slippage from 2017/18.

Appendix 9 to the report, Part 4, showed the funding of the HIP and the forecast balances at year end until 31 March 2023 after the HIP had been financed.

The Capital receipts primarily related to Right to Buy (RTB) sales. The Council had freedom on how the purpose receipts were utilised, being 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 buying 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 would be 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 2019/20, as agreed by Members. This would fully utilise the 1-4-1 funding that the Council currently held and would receive in 2019/20, with it projected to have a zero 1-4-1 balance as at 31 March 2020. The projections showed that a further £1.4m per annum 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 would be 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 might need 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 Council was required to determine an authorised borrowing limit in accordance with The Local Government Act 2004, Section 3, and to agree prudential indicators in accordance with the CIPFA Code for Capital Finance in Local Authorities.

The Indicators were shown at Appendix 12 to the report. Further indicators were included within the Treasury Management Strategy Report, Minute Number 142.

From 2019/20, the CIPFA revised Prudential and Treasury Management Codes required all local authorities to prepare a capital strategy, which would provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contributed to the provision of services;
- an overview of how the associated risk was managed; and
- the implications for future financial sustainability.

The aim of this capital strategy was to ensure that all elected Members on the Council fully understood the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. The requirement for a Capital Strategy from CIPFA was as a result of many local authorities investing large sums in non-treasury assets, often to secure a financial return, or for other purposes.

This capital strategy was reported separately from the Treasury Management Strategy Statement; non-treasury investments such as acquisition of Investment Properties or Loans to Third parties would be reported through the Capital Strategy. This ensured the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy endeavoured to show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (Minimum Revenue Policy policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

Where a physical asset was being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information would be disclosed, including the ability to sell the asset and realise the investment cash.

Where the Council had borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required.
The proposed Capital Strategy was included as Appendix 11 to the report. This would be subject to further review during 2019/20, notably in respect of the implications coming out of the Asset Management Strategy that was being produced in forthcoming months. The intention was that the Capital Strategy was a corporate document that supported the whole of the Council’s capital expenditure and funding.

The 2018/19 Revenue Budget showed a surplus of £138,000, with 2019/20 showing £99,000. It was proposed that these balances were used to create a Contingency Budget for 2019/20 of £237,000.

New Homes Bonus remained the major source of additional funding over which the Council had discretion as to how it was used, as discussed in section 3.7 of the report.

It was proposed to use the New Homes Bonus as below:

Waterloo Housing Association	£146,200
Leisure Options Phase 2, as discussed in January Executive report	£550,000
CCTV – as discussed in July 2018 Executive report, subject to further report post tenders	£1,000,000
Commonwealth Games Reserve – as discussed in March 2019 Executive report. Allocation to include funding of Commonwealth Officer. Future years contributions form NHB planned.	£100,000
Public Amenity Reserve – to fund green space and play area works, to be supplemented with use of Public Open Spaces Planning Gain Reserve	£101,000
St Marys Land – subject to separate Executive report *	£260,000
Sea Scouts HQ – as discussed in July 2018 Executive report *	£150,000
Norton Lindsay Village Hall – as discussed in October 2018 Executive report *	£190,000
Community Projects Reserve	£499,800
Service Transformation Reserve	£362,000
* These allocations will be carried forward in the Community Projects Reserve on 31 March 2020 if not fully utilised by	

that date.	

With regards to the Retail Discount (Non Domestic Rates), the Government announced in the Budget on 29 October 2018 that it would provide a business rates Retail Discount scheme for occupied retail properties with a rateable value of less than £51,000 in each of the years 2019-20 and 2020-21. The value of discount should be one third of the bill, and had to be applied after mandatory reliefs and other discretionary reliefs funded by section 31 grants had been applied. The Government was not changing the legislation around the reliefs available to properties. Instead, the Government would reimburse local authorities that used their discretionary relief powers, introduced by the Localism Act (under section 47 of the Local Government Finance Act 1988, as amended) to grant relief. It would be for individual local billing authorities to adopt a local scheme and determine in each individual case when, having regard to this guidance, to grant relief under section 47. Central government would fully reimburse local authorities for the local share of the discretionary relief (using a grant under section 31 of the Local Government Act 2003).

Since 2013, local authorities in England had had the discretion to charge a premium of up to 50% on 'long-term empty dwellings' – meaning homes that had been unoccupied and substantially unfurnished for at least two years. This Council adopted this discretion on the basis that it would be an incentive for owners to bring empty properties into use. The premium was in addition to the usual council tax charge that applied to the property. A Bill was laid in order to allow Councils to increase these empty property premiums and this received Royal Assent on 1 November 2018 and was now law.

This new law gave Councils the option to charge the following premiums for long term empty dwellings and thus strengthened the incentive for owners to bring empty properties back into use:

Financial Year 2019/20
– Maximum of 100% premium (previously 50%)
Financial Year 2020/21
– Maximum of 100% premium – empty less than five years
– Maximum of 200% premium – empty at least five years
Financial Year 2021 onwards
– Maximum of 100% premium – empty less than five years
– Maximum of 200% premium – empty at least five years but less than ten years
– Maximum of 300% premium – empty at least ten years.

In terms of alternative options, the Council did not have an alternative to setting a Budget for the forthcoming year. Members could, however, decide to amend the way in which the budget was broken down or not to revise the current year's Budget. However, the proposed latest 2018/19 and 2019/20 budgets were based upon the most up to date information. Any changes to the proposed budgets would need to be fully considered to ensure all implications (financial or otherwise) were addressed.

The Finance & Audit Scrutiny Committee supported the recommendations in the report but raised a number of concerns about the strategic overview of Reserves and the manner in which they were reported to Members.

In the absence of Councillor Whiting, Portfolio Holder for Finance, the report was proposed by Councillor Mobbs, with an amendment to recommendation 2.4 to read "with a surplus of £99,000", not £88,000.

The Executive, therefore,

Recommended to Council that

(1) the proposed changes to 2018/19 Budgets detailed in Section 3.2 of the report, be approved;

(2) the Revised 2018/19 Budget of Net Expenditure of £19,432,400 as set out in Appendix 2 to the report after allocating a surplus of £138,000, as detailed in paragraph 3.2.2 of the report, be approved;

(3) the proposed changes to 2019/20 Base Budgets detailed in Section 3.3 of the report, be approved;

(4) the proposed Budget for 2019/20 with Net Expenditure of £18,058,600 taking into account the changes detailed in section 3.3 of the report, with a surplus of £99,000, and which is summarised in Appendix 2 to the report, be approved;

(5) the Council Tax charges for Warwick District Council for 2019/20 before the addition of Parish/Town Councils, Warwickshire County Council and Warwickshire Police and Crime Commissioner precepts, for each band be agreed by Council as follows and as detailed in Section 3.6.7 of the report:

	£
Band A	111.24
Band B	129.78
Band C	148.32

Band D	166.86
Band E	203.94
Band F	241.02
Band G	278.10
Band H	333.72

(6) the Medium Term Financial Strategy and the future savings still to be made, which will be considered within the Fit For the Future July Executive report, as detailed in paragraph 3.8 of the report, be noted;

(7) the ICT Replacement and Equipment Renewal Schedules as shown in Section 3.9.3 of the report, be approved;

(8) the use of the Corporate Asset Reserve to complete the works required to stop unauthorised access to Council sites as detailed in Section 3.9.3 of the report and the transfers between General Fund reserves and changes in delegations as detailed in Sections 3.9.4 and 3.9.5 of the report, be approved;

(9) the General Fund Capital and Housing Investment Programmes as detailed in Appendices 9 parts 1 and 2 to the report, together with the funding of both programmes as detailed in Appendices 9 parts 3 and 4 and the changes described in the tables in paragraph 3.10 and Appendix 8 to the report, be approved;

(10) the Prudential indicators as described in paragraph 3.11 and Appendix 12 to the report, be approved;

(11) the Capital Strategy as detailed in paragraph 3.12 and Appendix 11 to the report, be approved;

(12) the Financial Strategy as set out in paragraph 4.2 and Appendix 10 to the report, be approved;

(13) the 2018/19 and 2019/20 budgeted surpluses be allocated to form a Contingency Budget of

£237,000 for 2019/20 (paragraph 3.13.1 of the report);

(14) the 2019/20 proposed New Homes Bonus of £3,359,000 be allocated as follows, as detailed in paragraph 3.13.3 of the report:

New Homes Bonus – 2019/20 Allocation	**£**
Waterloo Housing Association	146,200
St. Mary's Lands	260,000
Commonwealth Games Reserve	100,000
Service Transformation Reserve	499,800
Community Projects Reserve	362,000
Sea Scout’s Headquarters	150,000
CCTV	1,000,000
Green Space / Play Areas	101,000
Norton Lindsey Village Hall	190,000
Leisure Developments Phase 2 - Kenilworth	550,000
Total Allocated	**3,359,000**

Resolved that

(1) the Business Rate Relief as specified in paragraph 3.14.1 of the report and in the guidance issued by the Ministry of Housing, Communities & Local Government following the Budget announcement on 29 October 2018, be agreed by the Executive, using its discretionary powers; and

(2) the new Council premiums for long term empty and unfurnished dwellings on the levels as prescribed in the report and as per the Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Act 2018 (paragraph 3.14.2), be adopted.

(The Portfolio Holder for this item was Councillor Whiting)
Forward Plan reference 969