



BUDGET SCRUTINY PANEL

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To: Councillors Hadji-Nikolaou (Chair), Bolton, Draycott, Hamilton, C. Harris, Parsons, Seaton
Mr Angell (Co-opted member)
(For attention)

All other members of the Council
(For information)

You are requested to attend the meeting of the Budget Scrutiny Panel to be held in Virtual Meeting - Zoom on Tuesday, 1st December 2020 at 3.00 pm for the following business.

Chief Executive

Southfields
Loughborough

23rd November 2020

AGENDA

1. APOLOGIES
2. MINUTES OF THE PREVIOUS MEETING 4 - 11

The Panel is asked to confirm as a correct record the minutes of the meeting held on 29th September 2020.

3. DISCLOSURES OF PECUNIARY AND PERSONAL INTERESTS

4. DECLARATIONS - THE PARTY WHIP
5. QUESTIONS UNDER SCRUTINY COMMITTEE PROCEDURE 11.17

No questions were submitted.
6. DRAFT BUDGET 2021-22

A report of the Head of Financial Services regarding the draft Budget 2021-22.

To follow.
7. GENERAL FUND AND HRA REVENUE OUTTURN 2019-20 12 - 24

A report of the Head of Financial Services, the General Fund and HRA Revenue Outturn 2019-20 as submitted to the Cabinet on 9th July 2020, provided to support the Panel in its scrutiny of the draft 2021-22 budget.
8. COMMERCIAL PROPERTY ACQUISITIONS - PROCESS 25 - 27

A report of the Strategic Director, Commercial Development, Asset and Leisure regarding the process for acquiring commercial properties, including an explanation of the rationale behind the allocation of increased funding (Commercial Property, Enterprise Zone and Town Deal).
9. ENTERPRISE ZONE AND TOWN DEAL - PROCESS

Information providing a breakdown of the benefits, assessment of profit, risks and liabilities and its impact on council tax rates in relation to the Enterprise Zone and Town Deal.

To follow.
10. ENVIRONMENTAL SERVICES FLEET - OPTIONS

Information regarding financial proposals for funding the Environmental Services Fleet, including an analysis of other options considered and the benefits of proposed approach.

To follow.
11. PROPOSED RECOMMENDATIONS REVIEW

To consider any recommendations the Panel may wish to propose for inclusion in the draft report to be considered at its next meeting;

or to agree a process by which recommendations will be proposed for inclusion in the draft report before the next meeting.

BUDGET SCRUTINY PANEL 29TH SEPTEMBER 2020

PRESENT: The Chair (Councillor Hadji-Nikolaou)

Councillors Bolton, Draycott, Hamilton, C. Harris,
Parsons, and Seaton.

Co-opted member Mr Angell

Strategic Director; Commercial Development,
Assets and Leisure
Strategic Director; Environmental and Corporate
Services
Head of Financial Services
Democratic Services Officer (NC)

APOLOGIES: none

The Chair stated that the meeting would be livestreamed and the sound recording subsequently made available via the Council's website. He also advised that, under the Openness of Local Government Bodies Regulations 2014, other people may film, record, tweet or blog from this meeting, and the use of any such images or sound recordings was not under the Council's control.

1. DISCLOSURES OF PECUNIARY AND PERSONAL INTERESTS

No disclosures were made.

2. DECLARATIONS - THE PARTY WHIP

No declarations were made.

3. QUESTIONS UNDER SCRUTINY COMMITTEE PROCEDURE 11.17

No questions had been submitted.

4. REVISED BUDGET 2020-21 (DRAFT)

The Strategic Director of Environmental and Corporate Services presented a Finance Update setting out the details of the revised 2020/21 budget, the updated MTFS 2020-2023, the revised Capital Plan 2020-2023 and the Capital Strategy 2020-21.

Assisting with the consideration of the presentation: The Cabinet Lead Member for Finance and Property Services, the Strategic Director of Environmental and Corporate Services, the Strategic Director for Commercial Development, Asset and Leisure and the Head of Finance Services.

Summary, key points of discussion:

- revenue contributions to capital of 213K for 2019/20 - this was an indicator of the Council's capital purchases and contributions from the revenue budget. It was not proposed to budget for this in 2020/21.
- less interest on balances - money earned by the Council through investment in money markets was used as a balance to support returns, earn interest and undertake commercialisation.
- changes from the original budget to revised budget highlighted - DCLG COVID income loss claim and DCLG COVID emergency grant approx. £3mill difference. The Council had received £2.1mill to cover additional COVID costs and anticipated a further £1.2mill from the Government. This was based on estimates of the predicted total claim by the end of the year. Three claims would be made (September, December and April) and with this support the budget position was more favourable. With the Government grant, balances had not depleted significantly in the first half of the year, but interest received had reduced to £300K in comparison to previously stated £500K.
- in-year cost savings – it was indicated that the Town Hall was expected to be closed for the remainder of this year and that the Panto for 2020 had been cancelled; this had been budgeted for.
- salary savings of £700K – this did not impact service delivery. This had been calculated after a thorough exercise reviewing vacancy provision. The Council usually budgeted for a 100% filled vacancy factor but over time as certain positions reduced in hours or were not filled, extra money had been carried over. This has resulted in a history of underspend by the Council although the money had also been allocated towards agency costs. The monitoring exercise completed in period 4 had resulted in the salary savings and would be taken forward into the following year's budget.
- Minimum Revenue Provision (MRP) would be paid to replenish borrowing. This was perceived as beneficial and it was noted that it related to a policy change whereby there would not be an MRP charge until a year after the asset had been acquired.
- interest on General Account – the previous year had resulted in good interest gains. It was noted that the 'interest marketplace' was volatile, would be monitored on a quarterly basis and that figures reflected a lower amount than previously conjectured. Currently the Council had not seen a reduction in its cash holdings although interest rates had not risen as much as anticipated. The Council had benefited from investments in the portfolio receiving a good rate of interest from before the pandemic and the decrease in national interest rates.
- potential depletion in Council Tax - the collection rate at present had diminished to 0.9% of its target. The situation would be monitored, and it was likely that the end of the furlough scheme in the new year could impact this.
- recruitment process – there was not an embargo on recruitment, but the process had been adjusted to allow the Senior Leadership Team oversight of all recruitment requests to approve/reject as required. It was not discounted that there may be a need to reduce headcount in the future.
- supported living (Housing benefit) - an explanation of how this affected the Borough was given. It was noted that due to the introduction of Universal Credit the Council was unable to re-claim housing benefit unless the housing provider was a registered provider. It was important to state that this was a

- national issue and the Council fully supported the provision of supported living, but the burden was applied unevenly across local authorities and added £0.4mill pressure on top of budgeted cost of £0.5mill to the Council's finances.
- concerns were raised for people being affected by homelessness or ejections from rented accommodation – a budget had been allocated for additional spending this year, the MTFs projections included this. It was currently unknown what additional Government support would be available and if the regulations would change.
 - the confidence of the Council in obtaining government funding for COVID losses – the bulk of the losses had been incurred in the first 4 months and the Council considered it reasonable to claim £700K in September. The Council would claim for less if its income improved with lockdown restrictions lessening, but the revised budget reflected income reductions for the whole year.
 - whether costs for a second wave of coronavirus had been included in the budget - a reasonable estimate of costs had been included going forward beyond 31st March, although it was noted it was a challenge to determine an accurate figure.
 - MTFs projections 2020-23 (Service Pressures, Planning) – the Planning service pressure of £332K was based on reduced fees and reduced numbers of applications. There were no plans currently to reduce staff numbers but the ongoing service review and the recent changes to planning procedure indicated in the Planning White Paper could affect this. Budgetary structural changes could be required, and the data provided by the Heads of Service would be challenged robustly before submission of a final draft MTFs projection.
 - substantial overspend – in previous years it had been challenging to make savings. It was planned to continue to build cost savings going forward. A Service Review programme was underway and a review of major contracts, asset procurement and the Council's commercial approach would be progressed.
 - that the working balance was showing a negative position and that it would be beneficial in the meeting scheduled in December to look in more detail at savings proposals.
 - the draft revised budget presented was considered challenging and it was noted that not all issues highlighted were as a result of the pandemic.

Councillor Harris left the meeting.

The Lead Member for Finance and Property Services noted that the budget was an honest appraisal of the current circumstances, reducing costs where possible, but acknowledged that there were many uncertainties and challenges to face. The Cabinet was aware that the Council was moving into a high-risk environment and noted that although a report from the recent Audit Committee meeting had not been drafted to submit to Cabinet, Cabinet members were particularly aware of the situation.

The Director of Environmental and Corporate Services stated that the information presented to the Panel at this meeting of the revised budget for 2020-21 was to provide background information and aid the Panel in scrutinising the 2021-22 budget at its next meeting.

Cllr Bolton had issues with her connection and left the meeting partway through this item.

RESOLVED

1. that the impact of Supported Living (housing benefit) on the Council's finances is highlighted to members, and that an explanation of the process by which this had an impact is included, if appropriate, in the Council Tax Member training scheduled for November;
2. that the Panel wished to acknowledge the work carried out by officers to draft the revised budget for 2020-21 and to express their full understanding of the seriousness of the decisions that had been made and would be required in the future for the Council regarding its finances.

Reasons

1. Members wished to highlight this aspect of the Council's finances and considered that all councillors would benefit from further awareness of the supported living financial position.
2. Members of the Panel were mindful of the difficult financial decisions to be made by the Council in the near future and wished to acknowledge this.

5. REVISED CAPITAL PLAN 2020-23 (DRAFT)

Considered a report of the Head of Financial Services setting out details of the revised Capital Plan 2020-23 (item 6 on the agenda filed with these minutes). It was noted that details in this report had been partially covered during item 5.

Assisting with consideration of the report: the Cabinet Lead Member for Finance and Property Services, Strategic Director of Environmental and Corporate Services, the Strategic Director for Commercial Development, Asset and Leisure and Head of Financial Services.

Summary, key points of discussion:

- the Environmental Services fleet would be partially funded using reserves earmarked for capital expenditure, allowing the reduction in MRP to create savings of £350K per year. Previously the Council had stated the funding would be through prudential borrowing, but this was now being applied to other projects. If the fleet had been funded through prudential borrowing the costs would have depended on the interest rate but could have cost up to £700K a year rather than the proposed £350K costs.
- the deferral or postponement of pre-existing capital schemes was disappointing as they appeared to relate to local or neighbourhood schemes. As these projects were the responsibility of the Council, local groups did not require notifying and Heads of Service had reviewed carefully which capital schemes could be deferred. Schemes under S106 agreements or by Parish councils would not be impacted.

- the proposed increase of investment in commercial property acquisitions from £10mill to £25mill appeared high risk, particularly as Government rules were likely to change. The Council would cease operations if regulations required but powers given under 1972 legislation entitled the Council to make commercial property acquisitions. Issues seen at other local authorities in purchasing commercial property had related to the types of assets acquired and level of due diligence performed. The Council would mitigate risk by completing due diligence on the property, the tenant and the economic viability before acquisition. A member briefing would be arranged to inform members on the process and explain further the rationale behind the expansion of funding for commercial property.
- concerns were raised in relation to recommendation 6 of the Budget Scrutiny Panel 2019-20 report. 'Random' amounts of money were being committed for general as yet unspecified revenue generation and this appeared to be an inappropriate way of proceeding. It was acknowledged that it was challenging to provide the rationale, risk profiles and detailed strategy for increased funding for the Town Deal, the Enterprise Zone and commercial property acquisition as individual projects had not yet been identified and it would be based on conjecture. Any commercial investment by the Council would require a minimum 3.5% net income target to be met. All potential commercial property purchases would be subject to a robust due diligence process and be available for scrutiny.
- an explanation regarding the allocation of £15mill to the Town Deal was given. Although funding was provided nationally by the Government for Town Deals, some projects identified could require match funding or additional funds to be viable commercially. The Council wished to be ready to take advantage of these opportunities, but submission of a robust business case with risk assessments would be required prior to investment.
- the 2.4mill deficit was anticipated to be reduced by Service Reviews and commercial investment. With the appointment of an experienced Strategic Director for commercial development, the Council had the required skills to move forward.

Councillor Parsons momentarily lost his internet connection.

- it was strongly questioned whether appropriate governance procedures were in place. The increase of borrowing up to £57mill over three years should be scrutinised effectively, to provide confidence of proper use of public funds. Before a commercial property was acquired, the Chair of Scrutiny Commission would be requested to approve the exemption from call-in; this was a statutory requirement of the Local Government Act 1972 (schedule 12a, paragraph 3/5) due to commercial sensitivity. The Chair and other invited councillors could choose not to approve the exemption if wished.
- it was important to have a quick robust process as commercial property transactions usually completed within 15 days, unlike domestic property purchases. Legal assessments and scrutiny by the executive would be undertaken during the 15 days. It was not possible to fit within usual committee timeframes due to the limited time available, but all delegated decisions would be reported to the next available ordinary Council meeting and the exemption

- from call-in would no longer apply at this point. It was noted that the Capital Plan and Strategy could be amended within a financial year.
- the increase of borrowing from £10mill to £25mill was not linked to the risk appetite of the Council. Although guidance was lacking, the figure had been calculated by assessing its proportionality to the size of the Council and was considered an appropriately sized fund for the Council's size, concerns would be raised by the Treasury and CIPFA if the Council were to invest more than was proportionate. If the Council achieved an average return of 4% from its commercial property portfolio this would generate £1mill towards the general fund.

It was noted that it could be beneficial to provide further information regarding the process undertaken to assess the commercial viability of the first commercial property acquisition with Audit Committee Members at its meeting scheduled in December.

RESOLVED

1. that the following information be submitted to the Panel at its next meeting:
 - a. a breakdown of the benefits, assessment of profit, risks and liabilities, and its impact on council tax rates in relation to the Enterprise Zone and the Town Deal;
 - b. the criteria for assessing the suitability of properties, how it is determined that a net income of 3.5% will be achieved, the checks and balances that will be done and its impact on council tax rates in relation to commercial property acquisitions;
 - c. an explanation of the rationale behind increased funding that has been allocated for Commercial property acquisition, Enterprise Zone and Town Deal.
2. that a draft of the proposed Commercial Development training to be scheduled for councillors is submitted to the Panel at its next meeting**

Reasons

1. The Panel was strongly concerned about the level of prudential borrowing and wished to receive further detailed information to scrutinise the Council's approach.
2. The Panel wished to clarify the process for commercial property acquisitions to support its scrutiny of budgetary matters.

*** Post meeting note – the proposed commercial development training has been arranged before the next meeting of the Budget Scrutiny Panel (2nd November).*

6. BUDGET SCRUTINY PANEL REPORT 2019-20

Considered a report of the Head of Strategic Support setting out details of the Budget Scrutiny Panel 2019-20 recommendations (item 7 on the agenda filed with these minutes).

The Panel had no questions.

RESOLVED to note the report.

Reason

Members acknowledged that circumstances had altered significantly since the Budget Scrutiny Panel of 2019-20 had made its recommendations.

Items for the next meeting

Members considered items to be submitted to its next meeting and discussed the benefits of scrutinising the Outturn Accounts for 2019-20 to aid its scrutiny of the 2021-22 Budget. After consulting with the Lead Member of Finance and Property Services and the Director of Environmental and Corporate Services it was suggested scrutinising the Outturn Accounts for 2019-20 would not add value as circumstances had since changed dramatically and it was the Panel's remit to scrutinise the draft Budget for 2021-22.

RESOLVED that the following items and other requests for information as agreed during this meeting be submitted to the Budget Scrutiny Panel meeting scheduled for 1st December 2020:

1. Reflection on 2019-20 outturn accounts to inform its scrutiny of draft 2021-22 budget;
2. Draft Budget for 2021-22 – to include proposed areas for savings and pressures;
3. Further information regarding the Environmental Services Fleet clarifying why it has been proposed to finance with reserves, an analysis of other options that were considered and the benefits of proposed approach.

Reasons

- 1-3. to support the Panel's scrutiny of the finances of the Council.

NOTES:

1. No reference may be made to these minutes at the Council meeting on 9th November 2020 unless notice to that effect is given to the Democratic Services Manager by five members of the Council by noon on the fifth working day following publication of these minutes.

2. These minutes are subject to confirmation as a correct record at the next meeting of the Budget Scrutiny Panel.

CABINET – 9TH JULY 2020

Report of the Head of Finance & Property Services Lead Member: Councillor Barkley

Part A

ITEM REVENUE OUTTURN 2019/20 AND CARRY FORWARD OF BUDGET

Purpose of Report

This report is to inform Cabinet of the Revenue Outturn position of the General Fund and Housing Revenue Account (HRA) for 2019/20 compared with the Original budgets and request budget carry forwards of £5.6k for the General Fund.

Recommendations

1. That the Revenue Outturn positions of the General Fund and Housing Revenue Account for 2019/20 be noted.
2. That carry forwards of budgets amounting to £5.6k for Unit 4 upgrades, Making Tax Digital/GDPR Financial System upgrades that are still to be finalised in 2020, this is be funded from the General Fund working balance.

Reasons

1. To enable the information to be used when considering future budgets and the Medium Term Financial Strategy.
2. To enable the budgets to be carried forward to cover costs of committed services in 2020-21

Policy Justification and Previous Decisions

Financial resources are required to carry out all the aims and strategies of the Council.

Implementation Timetable including Future Decisions and Scrutiny

The budget amounts to be carried forward, if approved and subject to there being no call-in, will be added to the 2020/21 budget.

The Scrutiny Commission will have the opportunity to consider this report for pre-decision scrutiny on 6th July 2020.

Report Implications

The following implications have been identified for this report.

Financial Implications

The financial implication of this report is that, if the carry forward requests are approved, there will be an additional use of funding in 2020/21 of £5.6k General Fund and none for HRA. There are sufficient reserves to cover this request from within the overall General Fund revenue budget

Risk Management

There are no specific risks associated with the decisions requested.

Key Decision: Yes

Background Papers: None

Officer to Contact: Lesley Tansey
Head of Finance & Property Services
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Part B

Background - Outturn for General Fund and HRA

1. The General Fund Revenue Outturn for 2019/20, as summarised in Appendix 1, shows Net Service Expenditure of £19,176k against an Original Budget of £18,138k producing an adverse variance of £1,038K, 5.7% of the Original Budget.
2. Main variances between budget and outturn in terms of the total borough expenditure are as follows:
 - Net Service Expenditure –. The Net Service Expenditure overspent £1,038K as per Appendices 1 and 2. Major variances within this figure are explained in paragraphs 6 to 15 of this report.
 - Revenue Contribution to Capital ('RCCO') - £213K relates to planned capital costs approved by Cabinet and were funded from Capital Plan Reserve.
 - Interest Received on Balances - £172k received higher than budget due to higher cash balances available for investments due to underspend on Capital Programme, timing differences on Council Tax and NDR receipts. Higher returns from investments in Property Funds and higher interest rates gains on internal investments.
 - Interest Paid - £13k small underspend due to brokergage fees lower than the budget set.
3. The General Fund Reserve Balances at 31st March 2020 are £8,620k, being the working reserve balance of £4,498k, Reinvestment Reserve £883k, Capital Plan Reserve £1,980k, the Growth Fund £101k and Earmarked Reserves £1,158k. These balances are £2,157k higher than the budget set due to higher brought forward balances from 2018/19 outturn and additional earmarked reserves not spent in year.
4. The Housing Revenue Account outturn for 2019/20 (Appendix 4) shows a surplus of £171k compared with a budgeted surplus of £128k. The HRA general balances at the end of the year were £610k following a transfer of £174k to the HRA Financing Fund. This gave the HRA Financing Fund a balance at the end of the year of £8,235k.
5. The General Fund and Housing Revenue Account are both provisional as the Statement of Accounts are currently in production and will need to be audited before being finalised and signed off.

Outturn – General Fund

Directorate Controllable Costs Outturn (Appendix 2)

6. Appendix 2 shows an overspend of £1,231K for the General Fund controllable current budgets at Service level. Controllable costs are those that budget officers have direct responsibility for managing and these exclude year-end recharges. Paragraphs 7 to 15 below explains the major General fund variances within this figure.
7. Head of Private Sector Housing – underspends of £43k (5% of budget) include additional B&B accommodation income £23K, Housing Renewal Salaries budget for empty homes enforcement costs not required £29K, Private Sector Leasing Accommodation £13k and Tenant Finder £13k offset by an additional contribution to bad debt provision for B&B charges of £35k.
8. Head of Landlord Services – underspend of £31k (16%) due to a higher level of income for lifeline units than anticipated.
9. Head of Planning & Regeneration – overspends of £413k (40% of budget). This is due to a shortfall of £90K in Building Control fees (£100K 2018/19) , and a shortfall in Planning fees £298k, (£363k 2018/19) and additional appeal and enforcement costs £30K.
10. Head of Waste, Engineering & Open Spaces – underspend of £56k (1% of budget) the controllable budgets are overspend the main items being a shortfall of Garden Bin income £67K, additional repair costs at Derby road sports ground, Nanpantan sports ground, Loughborough sports ground £39k, shortfalls of income and additional costs Cemetery and Crematoria £30K, these are offset by £102k S106 income received in the year to cover costs in Loughborough, plus additional Bulky Waste income £22k.
11. Head of Leisure and Culture – overspend of £234k (43% of budget) a bad debt provision has been made for the Fusion contract for Qtr3 and Qtr4 £165k to cover any potential losses the Council may incur, £61K relates to shortfall of Market Income and staffing fees and £8k loss of toilet income.
12. Head of Finance & Property Services – Overspend of £128k (9% of budget) £100K of this relates to the Non Specific Saving target, the budget was set at £300k, £23K of NDR savings were used and £177k salary savings have part offset this. £28k net overspends relates to various Income shortfalls at the Oak and Meadlow lane industrial units and small building repair work.
13. Head of Customer Experience – Overspend of £458k (11% of budget) £588k for Supported Living housing benefits costs above the DWP Subsidy allowance. This budget issue is being reviewed further by Head of Customer Experience, with other Local authorities and DWP, this is partly offset by Council Tax Court costs recovered being higher than budget £68K and Capita inflation contract costs £71K.

14. Head of Strategic Support – Overspend of £140k (5% of budget) this relates to a shortfall in Land charges fees £49K, (£13K 2018/19) other additional costs being Election costs £56k, Legal costs £25k, and website costs £17k.
15. A managed vacancy salary savings budget of £257k was approved as part of the 2019-20 budget. As part of the budget Monitoring process vacant salary budgets were transferred to this budget each month from services, the total managed saving budget has been achieved this year.

Contributions from/to Reserves (Appendix 1)

16. The net contribution from working balance reserves in the year is £2,373K, leaving a balance of £4,498k as at March 2020. This is above the approved minimum level of required reserves held of £2m.
17. The Reinvestment Reserve has been used in accordance with the Council's financial procedures to help achieve corporate aims through service improvements. £809K was brought forward from 2018/19, plus an additional £170k was transferred in the year to cover approved reinvestment costs offset by £96k expenditure in the year, with a balance of £883k which is within the approved £500K minimum level for this reserve.
18. The Other Revenue Reserve balances are Capital Plan Reserves £1,980 which can be used to fund either Capital or Revenue costs. Earmarked Reserves retained for specific purpose being growth fund £101k and £1,158 various other reserves.

Loughborough Special Expenses (Appendix 3)

19. The actual Loughborough Special Expense costs were £1,378k; against an original budget of £1,368k, being £10K overspent (0.73% of the budget). The main overspends £42.6K are Parks Loughborough, Derby Road Playing fields, Nanpantan Sports Ground essential repair and maintenance works £17.8k, Queens Park and Southfields park overspent budget due to essential playground repair works £12.3K and Loughborough Cemetery being a shortfall of income and purchase of muslim burial crates £12.5k offset by underspends Festive Decorations £10k, CCTV £8k, Fair £7k and Town Centre Management £5k, with other smaller variances making up the balance.

20. The overspend will be carried forward within the Loughborough Special Expense Account and reflected in future year's Loughborough Special Levy.
21. It may be noted that an interim budget for 2020/21 is considered necessary due to the deterioration of the Council's financial position created by COVID19. It is envisaged that reports will be presented to Cabinet and Council in autumn 2020.

Housing Revenue Account Outturn

22. The provisional Housing Revenue Account outturn for 2019/20 is a surplus of £171k compared with a budgeted surplus of £128k, an increase of £43k. This gives HRA general balances at the end of the year of £610k following a transfer of £174k to the HRA Financing Fund. This transfer gives the HRA Financing Fund a balance at the end of the year of £8,235k. The Council's preferred minimum level of balances is £110 per property.
23. The HRA Balances at 31st March 2020, are overall £12,209k, the HRA made a contribution to the Major Repairs Reserve of £3,249k. This reserve has a balance at 31 March 2020 of £3,364k compared with £3,926k at 31 March 2019. This balance is the unspent amount carried forward to 2020/21 after the 2019/20 capital financing entries. This reserve finances capital expenditure and the repayment of debt, in accordance with the HRA Business Plan.
24. The Housing Financing Fund balance at 31 March 2020 was £8,235k. The HRA owes £79m in loans following the self-financing settlement in 2012 and, as well as paying the interest due, the principal amounts borrowed will either, in time, need to be refinanced or paid back. The first loan to be paid back following the self-financing settlement is in 2024. The money required to pay back the principal will be from HRA Reserves – principally those from the HRA Financing Fund. The total HRA Balances at 31st March 2020 are £12,209k
25. Supervision and Management (excluding recharges – Appendix 5) £360k underspend (9.6%). This includes underspending on salaries of £126k rent Software £55k, Bank Charges £26k, Sheltered Accommodation furniture £23k External software development £22k, Printing £19k, Housing Strategy £14k There's been additional income in Lifeline charges of £13k, Legal income £13k and other reimbursements £13k. Other underspends include Electricity £13k, Cleaning £14k, and £22k in grants for underoccupied/assisted transfers. There was an overspend of £13k on equipment in sheltered accommodation.
26. Repairs and Maintenance (excluding recharges – Appendix 5) £369k underspend (5.9%) This includes underspending on salaries of £189K, and £212k on non-salaries £68k Fire Risk Assessments, Gas Servicing £77k and £59k, Asbestos Surveys and Gas Repairs £42k. These were offset by Door Entry overspend of £34k.
27. Net Recharges to the HRA were £86k (7%) greater than the budget. These exclude Pension recharges totalling £556k which do not impact on the bottom-

line of the HRA. The Depreciation of £3,249k was credited into the Major Repairs Reserve to and the capital programme. Revaluations were reversed out and do not affect the HRA outturn position.

28. The 2019/20 rent income for dwellings was 1% lower than 2018/19 due to Government policy. Void loss was 2.6% against a budget of 2.2%. Dwelling Rent income was a £65k adverse variance (0.3%). Right to buy sales were budgeted at 40 sales, compared with 44 actual sales. An additional 21 properties were added into the HRA, through acquisition and the utilisation of 1-4-1 receipts.
29. As at 31 March 2020 rent arrears were £1,078k compared with £965k at 31 March 2019. Court costs were £107k at 31 March 2020 compared with £104k at 31 March 2019. These are a combined increase of £116k.
30. As a percentage of dwelling rents the total arrears including court costs is 5.63% compared with 5.05% in 2018/19.
31. The amount of HRA debt written off in the year was £184k compared to £197k in 2018/19. This includes rent and court costs write-offs totalling £132k in 2019/20 compared with £148k in 2018/19.
32. Rent arrears increased by £113k between the end of March 2019 and the end of March 2020. Former tenant arrears reduced by £2k over the same period. Former tenant arrears cash collected over the year was £4k. Rent collection for the year (including arrears brought forward) was 96.29% compared with 96.75% at the end of the previous year.
33. The numbers of tenants receiving universal credit (UC) continues to rise and during the year almost doubled to over a thousand at the end of March 2020. As expected, and in line with the experience of other landlords, rent arrears have increased although the average debt of a tenant receiving universal credit at the end of the year was almost unchanged compared to the same point the previous year. UC is paid to the claimant as a single monthly payment in arrears. It takes at least five weeks for the Department for Work and Pensions to assess a claim and for tenants to receive their first payment of the benefit. A rent debt is often accrued as a result. In some instances, on receipt of the benefit tenants do not pay the rent to the council. Advice and support is offered to all tenants moving to universal credit by the landlord services financial inclusion and tenancy support teams. Where tenants have vulnerabilities and/or owe eight or more weeks' rent our universal credit officer makes applications to the DWP to switch payment of the housing element of UC from the tenant to the council. Rent recovery action is taken where necessary.
34. Appendix 5 details the controllable cost outturn for the HRA as at 31 March 2020. This shows the controllable budgets and actuals as they were presented within the monitoring reports during the year. The descriptions of Employee related expenditure include all employee related costs, not just salaries. Some costs such as insurance costs and business rates must be shown in Rents,

Rates and Other Charges, within the Income and Expenditure account of the Statement of Accounts.

35. General Fund Carry Forward Requests

£5.6K Unit 4 various upgrades, Making Tax Digital/GDPR – Head of Finance & Property

£5.6K Total General Fund

There are no HRA Carry Forward Requests in 2019/20.

Appendices

Appendix 1 – General Fund Outturn 2019/20

Appendix 2 – General Fund Controllable Outturn 2019/20

Appendix 3 – Loughborough Special Expenses Outturn 2019/20

Appendix 4 – HRA Outturn 2019/20

Appendix 5 – HRA Controllable Outturn 2019/20

GENERAL FUND OUTTURN 2019-20				
Actual 2018/19 £000		Actual £000	Original Budget £000	Variance £000
17,844	Net Service Expenditure	19,176	18,138	(1,038)
29	Council Tax Support to Parishes	0	0	0
752	Revenue Contribution to Capital	213	0	(213)
356	Interest Paid	227	240	13
(447)	Less: Interest on Balances	(562)	(390)	172
18,534	Total Borough Expenditure	19,053	17,988	(1,065)
214	Contribution to (from) Reinvestment Reserve	74	0	(74)
48	Contribution to/(from) Working Balance	(2,200)	(798)	1,402
(234)	Contribution to/(from) Working Balance Collection Fund	(173)	(173)	0
(13)	Contribution to (from) Growth Support Fund	0	0	0
(51)	Contribution to/(from) Other Revenue Reserves	395	(63)	(458)
(451)	Contribution to/(from) Capital Plan Reserve	(213)	0	213
18,047	Precept Requirement	16,937	16,954	17
745	Revenue Support Grant	0	0	0
4,957	NNDR	5,290	5,290	0
6,502	Council Tax Receipts	6,893	6,893	0
1,194	Loughborough Special Levy	1,213	1,213	0
(234)	Collection Fund Surplus/(Deficit)	(173)	(173)	0
3,620	New Homes Bonus	3,731	3,731	0
1,263	Government Grants & NDR Adjustments	(17)	0	(17)
18,047	Precept Income	16,937	16,954	(17)
£000	<u>2019/20</u>	£000	£000	£000
7,057	<u>Working Balance 1st April</u>	6,871	4,990	1,881
(186)	Transfer from General Fund	(2,373)	(971)	(1,402)
6,871	Balance at 31 March	4,498	4,019	479
595	<u>Reinvestment Reserve 1st April</u>	809	608	201
214	Transfers From General Fund	74	0	74
809	Balance at 31 March	883	608	275
2,644	<u>Capital Plan Reserve 1st April</u>	2,193	1,711	482
(451)	Funding of Capital Expenditure	(213)	(618)	405
2,193	Balance at 31 March	1,980	1,093	887
114	<u>Growth Support Fund 1st April</u>	101	0	101
(13)	Funding of Capital Expenditure	0	0	0
101	Balance at 31 March	101	0	101
813	<u>Other Revenue Reserves 1st April</u>	763	805	(42)
(50)	Transferred from General Fund	395	(63)	458
763	Balance at 31 March	1,158	742	416
10,737	TOTAL BALANCES	8,620	6,462	2,157

Appendix 2

Charnwood Borough Council		2019-20		
		Actual	Current Budget	Variance Underspend/ (Overspend)
Controllable Service Costs		£000's	£000's	£000's
Housing, Planning, Regeneration & Regulatory Directorate				
	Housing, Planning and Regeneration Director	115	116	1
	Head of Strategic and Private Sector Housing	823	866	43
	Head of Landlord Services	(225)	(194)	31
	Head of Planning and Regeneration	1,454	1,041	(413)
	Head of Regulatory Services	779	786	7
		2,946	2,615	(331)
Neighbourhoods & Community Wellbeing Directorate				
	Head of Waste, Engineering and Open Spaces	5,891	5,946	56
	Neighbourhoods and Community Wellbeing Director	183	183	(0)
	Head of Leisure and Culture	778	545	(234)
	Head of Neighbourhood Services	1,533	1,564	30
		8,386	8,237	(148)
Corporate Services Directorate				
	Corporate Services Director	116	116	0
	Chief Executive's Team	355	329	(26)
	Head of Finance and Property Services	1,490	1,362	(128)
	Head of Customer Experience	4,669	4,211	(458)
	Head of Strategic Support	3,011	2,871	(140)
		9,640	8,888	(752)
	Grand Total	20,971	19,741	(1,231)
Note: Reconciliation to Appendix 1				
	Grand Total as above	20,971	19,741	(1,231)
	Adjustment for Non-Controllable Recharges to HRA	(1,795)	(1,755)	40
	Budget changes since Original Budget	0	153	153
	Other	0	0	0
	Net Service Expenditure per Appendix 1	19,176	18,138	(1,038)

Loughborough Special Expenses 2019/20

Appendix 3

Actual 2018/19	Service	Original Budget 2019/20	Actual 2019/20	Variance 2019/20	% Variance
£		£	£	£	
61,566	Loughborough CCTV	67,800	59,845	7,955	11.7%
78,965	Community Grants - General / Fearon Hall / Gorse Covert	81,800	78,196	3,604	4.4%
38,951	Marios Tinenti Centre / Altogether Place / Community Hubs	44,900	38,760	6,140	13.7%
6,403	Charnwood Water Toilets	9,600	8,567	1,033	10.8%
33,259	Voluntary & Community Sector Dev Officer post (75% LSX)	34,500	44,476	(9,976)	-28.9%
4,202	Biggin Street Toilet - Friday Opening	4,400	4,447	(47)	-1.1%
118,998	Contribution to Loughborough Open Spaces Grounds Maintenance	120,000	120,046	(46)	0.0%
(1,539)	November Fair	(5,100)	(12,009)	6,909	-135.5%
	<u>Parks:</u>				
390,558	Loughborough - including Loughborough in Bloom	404,700	417,381	(12,681)	-3.1%
65,748	Gorse Covert and Booth Wood	68,200	66,108	2,092	3.1%
	<u>Sports Grounds:</u>				
94,583	Derby Road	112,700	122,297	(9,597)	-8.5%
40,841	Lodge Farm	43,700	41,515	2,185	5.0%
94,339	Nanpantan	72,900	79,583	(6,683)	-9.2%
18,681	Park Road	20,200	21,604	(1,404)	-7.0%
27,377	Shelthorpe Golf Course	21,400	21,798	(398)	-1.9%
47,120	Loughborough Cemetery	45,100	57,651	(12,551)	-27.8%
54,597	Allotments - Loughborough	52,000	52,396	(396)	-0.8%
28,255	Carillon Tower	15,600	16,648	(1,048)	-6.7%
56,025	Festive Decorations and Illuminations	51,200	41,678	9,522	18.6%
90,981	Town Centre Management	102,500	97,252	5,248	5.1%
1,349,908		1,368,100	1,378,241	(10,141)	-0.7%

Appendix 4

2018/19 Actual	Housing Revenue Account	2019/20 Original Budget	2019/20 Outturn
£000		£000	£000
	Expenditure		
4,901	Supervision and Management	5,118	5,220
6,289	Repairs and Maintenance	6,461	6,718
130	Rents, Rates and other charges	139	191
335	Provision for Bad and Other Charges	383	270
3,025	Depreciation	3,057	3,249
(13,072)	Net Revaluation increase of non-current assets	0	(17,892)
19	Debt Management Expenses	10	18
1,627	Expenditure Sub-total	15,168	(2,226)
	Income		
(20,698)	Dwelling Rent Income	(20,548)	(20,483)
(365)	Shops, Land and Garages Rent	(373)	(366)
(55)	Warden Service Charges	(55)	(55)
(293)	Central Heating, Communal and Cleaning Charges	(322)	(355)
(226)	Leasehold Flat and Shop Service Charges	(156)	(143)
(26)	Hostel Service Charges	(24)	(26)
(11)	Council Tax recharged	(11)	(11)
(21,674)	Income Sub-total	(21,489)	(21,439)
(20,047)	Net (income)/Cost of service	(6,321)	(23,665)
(82)	Transfer from General Fund - Grounds Maintenance	(84)	(85)
2,743	Interest Payable	2,706	2,709
(93)	Investment Income and Mortgage Interest	(88)	(124)
(17,479)	Net Operating Expenditure/(Income)	(3,787)	(21,165)
3,716	Revenue Contribution to Capital	3,659	3,659
(389)	Pension Adjustment	0	(556)
5	Accumulated Absence Adjustment	0	(1)
13,072	Reversal of Gain on Revaluation	0	17,892
16,404	Appropriations	3,659	20,994
(1,075)	(Surplus)/Deficit for the year	(128)	(171)

2018/19 Actual	Housing Revenue Account	2019/20 Original Budget	2019/20 Outturn
HRA Balances:			
(617)	HRA Balance at beginning of year	(613)	(613)
(1,075)	(Surplus)/Deficit for the year	(128)	(171)
1,079	Transfer to/from Reserves	131	174
(613)	HRA Balance at end of year	(610)	(610)
(6,982)	HRA Financing Fund at beginning of year	(8,061)	(8,061)
(1,079)	Transfer to/from Reserves	(131)	(174)
(8,061)	HRA Financing Fund at end of year	(8,192)	(8,235)
(3,926)	Major Repairs Reserve at end of year	(2,324)	(3,364)
(12,600)	Overall HRA balances at end of the year	(11,126)	(12,209)

Appendix 5

Charnwood Borough Council HRA Revenue Monitoring Report as at April 2019 Period (201913) Based on Original Budget	Period			Year-to-Date (YTD)			YTD Variance as % of YTD Budget	Full Year Budget
	Amount	Current Budget	Variance Under/ (Over)	Amount	Current Budget	Variance Under/ (Over)		
	£000's	£000's	£000's	£000's	£000's	£000's		
General Management								
Repairs & Maintenance								
Employee Related Costs	38	0	(38)	2,462	2,651	189	7.1%	2,651
All Other Controllable Costs	836	0	(836)	3,510	3,722	212	5.7%	3,722
Controllable Income	0	0	0	(45)	(78)	(33)	41.9%	(78)
Total Repairs & Maintenance	874	0	(874)	5,927	6,296	369	5.9%	6,296
Allocations & Lettings								
Employee Related Costs	(14)	0	14	665	651	(14)	-2.2%	651
All Other Controllable Costs	(5)	0	5	37	22	(15)	-67.7%	22
Controllable Income	(37)	0	37	(32)	(35)	(3)	9.3%	(35)
Total Allocations & Lettings	(56)	0	56	670	638	(33)	-5.1%	638
Housing Strategy								
Employee Related Costs	1	0	(1)	76	107	31	29.0%	107
All Other Controllable Costs	1	0	(1)	5	22	17	78.3%	22
Total Housing Strategy	2	0	(2)	81	129	48	37.3%	129
Supervision & Management								
Employee Related Costs	11	0	(11)	2,284	2,410	126	5.2%	2,410
All Other Controllable Costs	62	0	(62)	1,335	1,576	241	15.3%	1,576
Controllable Income	1	0	(1)	(230)	(237)	(7)	3.0%	(237)
Total Supervision & Management	73	0	(73)	3,389	3,749	360	9.6%	3,749
Total General Management	893	0	(893)	10,067	10,811	745	6.9%	10,811
Rents, Rates and Other Charges								
Rents, Rates and Other Charges								
All Other Controllable Costs	0	0	(0)	191	139	(52)	-37.1%	139
Total Rents, Rates and Other Charges	0	0	(0)	191	139	(52)	-37.1%	139
Total Rents, Rates and Other Charges	0	0	(0)	191	139	(52)	-37.1%	139
Grand Total	893	0	(893)	10,257	10,950	693	6.3%	10,950

Income								
Dwelling Rent Income - Gross	288	0	(288)	(21,050)	(21,011)	39	-0.2%	(21,011)
Dwelling Rent Void loss	(8)	0	8	566	462	(104)	-22.5%	462
Net Dwelling Rent Income	280	0	(280)	(20,484)	(20,548)	(65)	0.3%	(20,548)
Non-Dwelling Rent								
Non-Dwelling Rent	7	0	(7)	(492)	(486)	6	-1.2%	(486)
Non-Dwelling Rent Void Loss	(2)	0	2	126	114	(12)	-10.7%	114
Net Non Dwelling Rent Income	5	0	(5)	(366)	(373)	(6)	1.7%	(373)
Charges for Services & Facilities - Charge								
Charges for Services & Facilities - Charge	(136)	0	136	(691)	(666)	9	-1.4%	(666)
Charges for Services & Facilities - Void Loss	(1)	0	1	102	96	(6)	-6.5%	96
Net Charges for Services and Facilities	(137)	0	137	(589)	(570)	3	-0.5%	(570)
Total Income	148	0	(148)	(21,439)	(21,491)	(68)	0.3%	(21,491)

Reconciliation to HRA Income and Expenditure Account	£000	Reconciliation to HRA Outturn appendix	£000
General Management (above)	10,565	General Management (above)	10,067
Add Support Service Recharges (costs)	2,932	Add Support Service Recharges (costs)	2,931
Minus Support Service Recharges (income)	(1,183)	Add Corporate and Democratic Core	123
	<u>12,314</u>	Minus Support Service Recharges (income)	(1,183)
			<u>11,938</u>
I & E Supervision and Management	5,733		
I&E Repairs and Maintenance	6,024	Supervision and Management (outturn)	5,220
Rents Rates and Other charges	557	Repairs and Maintenance (outturn)	6,718
Total expenditure on Income and Expenditure Account	<u>12,314</u>		<u>11,938</u>
Controllable Income	(21,439)		
Repairs and Maintenance income	(45)		
Allocation and lettings agency income	(31)		
Supervision and mangement income	(230)		
Grounds Maintenance Income (not included above)	(85)		
Total income on Income and Expenditure account	<u>(21,831)</u>		

BUDGET SCRUTINY PANEL

1ST DECEMBER 2020

Report of the Strategic Director, Commercial Development, Assets and Leisure

ITEM 8 Commercial Property Acquisitions - Process

On 29th October 2020, the Budget Scrutiny Panel requested further information regarding Commercial Property and the related elements of the Capital Strategy 20/21:

- the criteria for assessing the suitability of properties, how it is determined that a net income of 3.5% will be achieved, the checks and balances that will be done and its impact on council tax rates in relation to commercial property acquisition
- an explanation of the rationale behind increased funding that has been allocated for Commercial property acquisition, Enterprise Zone and Town Deal.

A training session on Commercial Property was conducted for Members on 2nd November 2020, and Democratic Services have circulated the materials presented in that training. These materials cover these topics extensively and will assist Panel Members with understanding.

Furthermore, The Capital Strategy 2020/21 and Capital Plan 2020-23 were approved at a meeting of full Council on 9th November 2020 and are also useful as reference to the additional information requested.

1. Assessing suitability

The process guiding the investment activity is well established and successfully used at other Local Authorities. Consisting of seven distinct steps, these provide a framework to guide transactions in a controlled fashion and to ensure risks are identified, understood and managed. Those steps are:

1. Identification
2. Tenant covenant analysis, financial modelling, lease and title analysis
3. Business case
4. Approval and Bid
5. Further legal due diligence
6. Surveys
7. Completion

Each step requires satisfaction of key criteria before progressing to the next.

The main criteria used to identify a potentially suitable investment are:

- Is the property single-let (i.e. one tenant in occupation) or let to a small number of tenants only? (a small number of multiple tenants may be acceptable in the case of, say, an attractive office block opportunity)
- Is the tenant financially robust and stable as determined by an independent market assessor, such as Dun & Bradstreet?
- Is the lease for the property full repairing and insuring, with clear and distinct obligations on the part of the tenant?
- Does the financial model and cashflow appraisal of the investment meet the net return target within 0.5% less at a minimum? (With a net return target of 3.5%, this would be 3.0%). If not, what is the benefit (risk management)?

2. Due diligence

An extensive range of due diligence is undertaken:

- Modelling of the financial performance of assets is undertaken in two forms – A strict asset model and a financial performance model. Examples of these are contained in exempt appendices to reports submitted to the Scrutiny Commission for a meeting on 16 November 2020 and are available via the Council's Mod.gov site.
- A suite of due diligence is undertaken by lawyers representing the Council, including a legal review of all lease and title documents, replies to CPSE enquiries, reports on lease and title, etc.
- The subject property is visually inspected, and a suite of surveys are commissioned, including building inspection reports, measured surveys, environmental surveys and other specialist surveys, if required.
- Tenant covenant analysis is undertaken to ensure that the tenant is financially viable, able to meet the obligations of the lease, and likely to remain in the property.

3. Impact on Council Tax rates

This investment activity has no direct correlation to Council Tax rates or the setting thereof.

4. Rationale of increased limits – commercial property

Given the current financial strain facing the Council's Medium Term Financial Strategy and the requirement to address shortfalls in funding, the Council must use a mix of cost reduction strategies and income generation strategies to meet the challenge.

The investment activity delivers net surplus (income) to the Council's General Fund Revenue account and reduces the pressure on the Budget. Without income generation, the only options open to Members would be service reduction and/or service elimination.

With the increase of investment levels in the Capital Plan 2020-23, more income can be generated. However, there is a question of proportionality that must be addressed, i.e. what is the appropriate level of investment given the Council's financial size and situation? This is analogous to obtaining a mortgage on a house – given a person's income, how large a mortgage can that person afford? There is no distinct formula or method to determine what this should be. However, there is Statutory Guidance and Code that applies to Local authorities that assist officers and members in managing the Council's Capital Plan and capital spending.

Some well-known councils have invested very large sums that have raised questions and concern. Charnwood's current level of planned investment is far, far below these levels.

5. Rationale of increased limits – Town Deal and Enterprise Zone

The Town Deal and Enterprise Zones provide exciting opportunities for job-creation and regeneration in Charnwood. Most of the projects that may come forward will be private sector led, and any project must be based on a business case.

At times, these business cases will not “stack up” or be financially viable. In these instances, additional funding will be required to create the financial outcomes required.

In cases such as this, Charnwood will, with the increased spending limits in the Capital Plan, be able to evaluate and assist some of these projects. Any money provided would not be invested on a grant basis; a positive net return to the Council will be required, although the level of that return can be modulated by the delivery of social value.

Without having an approved spending level set out in the Capital Plan, the Council would find it procedurally impossible to invest in these types of projects.

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