AUDIT COMMITTEE

Minutes of a meeting of the Audit Committee of the Bolsover District Council held in Chamber Suites 1 & 2, The Arc, Clowne, on Monday 19th January 2015 at 1400 hours.

PRESENT:-

Members: - Councillors, J.A. Clifton, S.W. Fritchley, D. McGregor. K. Reid and A.F. Tomlinson.

Cooptee Member: - J. Yates.

Officers: - B. Mason (Executive Director - Operations), J. Williams (Interim Head of Internal Audit Consortium) and A. Bluff (Governance Officer).

J. Yates in the Chair

0714. APOLOGIES

Apologies for absence were received from Councillor E. Watts, S. Sunderland (Audit Team Lead, KPMG), K. Meats (Audit Manager, KPMG).

0715. URGENT ITEMS OF BUSINESS

There were no urgent items of business to consider.

0716. DECLARATIONS OF INTEREST

There were no declarations of interest.

0717. MINUTES – 15th DECEMBER 2015

Moved by Councillor J.A. Clifton, seconded by Councillor D. McGregor
RESOLVED that the minutes of an Audit Committee meeting held on 15th December 2014 be approved as a correct record.

0718. REPORTS OF THE EXECUTIVE DIRECTOR – OPERATIONS MEDIUM TERM FINANCIAL PLAN 2015/16 TO 2017/18

Members considered a report of the Executive Director – Operations in relation to the Medium Term Financial Plan (MTFP) 2015/16 to 2017/18.

The report provided information covering budgets and financial plans for the General Fund Revenue Account, Housing Revenue Account (HRA), and Capital Programme.

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The report would be presented to Budget Scrutiny Committee on 22nd January and Executive on 2nd February. Once the Executive had considered the position as set out in the report, any recommendations made by them would be referred to Council on 4th February in order to secure agreement to the Council's budget in respect of the 2015/16 financial year.

The main issue for Audit Committee was the financial governance of the Council and in particular on ensuring that the Council's budget and financial planning process was robust.

Under the provisions of the Local Government Act 2003 the Council's Section 151 Officer (the Executive Director Operations) was required to comment on the robustness of the estimates made and also on the adequacy of the proposed financial reserves. The Council's S151 Officer was satisfied that the methodology adopted to calculate the estimates was robust and provided Members with reliable information on which to base their decisions. Likewise, the S151 Officer was satisfied that the proposed level of reserves, which although at a relatively low level, were adequate to cover the issues and potential risks which faced the Council. The adequacy of the current level of reserves was considered in Appendix 1 to the report in relation to the General Fund, Appendix 2 in relation to the HRA, and Appendix 3 in relation to the Capital Programme.

In arriving at the assessment that the methodology adopted was robust the Chief Financial Officer was satisfied that the policies upon which the estimates were based were reasonable and that the policies had been applied consistently across the Council's activities.

The forecast position for the last two years of the proposed Medium Term Financial Plan effectively projected or rolled forward the figures in respect of 2015/16.

Covering the General fund shortfall of £350k for 2015/16 was achievable. Over previous financial years the savings process had been managed so that service cuts had been minimised. The Council had rationalised and tackled problems as opportunities had arisen with crises measures avoided. The 2016/17 forecast position was less robust as the Council would not know what monies it would receive from the Government until the Autumn Statement of November 2015.

A table in the report summarised the savings options that were proposed in order to address the 2015/16 position together with their impact on 2016/17 and 2017/18. Given the importance of securing the savings to the financial stability of the Council, progress would be reported on a regular basis to Executive and Audit Committee. It was also proposed that the Council should approve that actual budgets were amended to take account of identified savings as soon as those savings were formally approved. This would help to ensure that cost centre managers were fully aware of the budgets that they were working to and that those savings which were identified were fully achieved during the initial year.

In developing the financial projections in respect of 2015/16 to 2017/18, which were included in Appendix 1 to the report, officers had made a number of assumptions. The major assumptions which had been made were as follows;

- Pay increases of 2% in respect of 2015/16 with 1.5% in respect of both 2016/17 and 2017/18.

- No changes to employer superannuation contributions or to the lump sum deficit recovery.
- No allowance had been made in respect of general inflation although specific budget heads such as energy costs and business rates had been increased to reflect anticipated price increases. (The Executive should note that allowance had been made within the draft budget for an increase in recycling costs which reflected the fact that payments for recycled materials had significantly reduced). Likewise, budget increases of some £18k for the role out of Firmstep (2015/16 only) £12k for the cost of maintaining cash machines and £10k for improvements to the HR systems (2015/16 only) have also been proposed.
- A Council Tax increase of 1% or Council Tax Freeze Grant at 1% in respect of 2015/16, with Council Tax or Freeze Grant at 1.9% in respect of both 2016/17 and 2017/18.
- Government Grant reductions of £1.039m in 2016/17 and £0.882m in 2017/18. (It was anticipated that the level of Government grant and other funding would be established for both 2016/17 and 2017/18 by the Chancellors Autumn Statement towards the end of the 2015 calendar year). In the absence of any information to the contrary it was assumed that both the Non Domestic rating system and the New Homes Bonus funding would continue to operate along existing lines.
- Fees and Charges – service specific increases as agreed by Members.

As Members were aware, in respect of 2015/16, a ‘pool’ of authorities across Derbyshire had been established in respect of Non Domestic Rate Income. Membership of a Derbyshire Wide pool was agreed by Council at its meeting held on 22nd October 2014 in recognition of the fact that those authorities which were members of a pool would in most cases benefit from retaining a higher level of locally generated non domestic rating income. Within the budget was an assumption that the Council would benefit by some £0.2m in respect of the 2015/16 financial year. Given the uncertainty concerning the availability of such income in respect of 2016/17 or future years, no assumptions concerning income in respect of these years had been made. Whilst it was reasonable to assume that the income of £0.2m would be secured in respect of 2015/16, it needed to be recognised that there may be a requirement to contribute to the Derbyshire Combined Authorities or other regional growth initiatives which may require a call on this funding out of any additional pooling income.

New Homes Bonus was included in the 2015/16 base budget at £1.049m and by the end of 2017/18 was anticipated to reach £1.5m. Every new home built, or empty property brought back into use, (offset by demolitions and those properties falling out of use), would provide the Authority with an increased income of £1,000 p.a. for 6 years for a Band A property. This reward, which was top sliced from the overall Government Grant pot, was intended to reward those authorities who allowed and facilitated additional housing in their areas. With effect from 2017/18, the first year of New Homes Bonus, (2011/12), would no longer be counted because at that stage it would have been paid for the full six years for which it was due to be paid. Whilst the Council would at that time be receiving approximately £1.5m per annum from the six years of New Homes Bonus to maintain the income at that level, the Council would need to secure an additional 250 homes per annum. The majority of these additional homes would need to come from new build properties.

In reaching a decision regarding the appropriate level of Council Tax for 2015/16, Members needed to consider the Council's financial position in respect of both 2015/16 and the remainder of the period covered by the MTFP. In summary, officers were currently forecasting that over the period April 2015 to March 2018 expenditure reductions (or increased income) of £2.273m would be necessary.

A lengthy discussion took place.

Members agreed that 'growth' was a key issue in considering the Council's future finances.

In considering the position in respect of the level of financial balances, it was proposed to utilise some £2m of the Transformation Reserve on the development of the enhanced Leisure facility at Clowne. There was also a clear intention that the remaining balance in the Transformation Reserve of £1.158m would be utilised to progress the Transformation and the Growth Agenda. On the basis of current projections, the Council should achieve a surplus of some £0.9m at the end of the current financial year. Given the intention to fully utilise the Transformation Reserve it would be appropriate to give consideration to increasing the level of General Fund balances to £2m which would require a contribution of some £0.218m at the year end; that would leave the remainder of any surplus to be directed into the Transformation Reserve to fund 'Invest to Save' activities in future years. At a level of some £2m, General Fund balances would be some 40% above the estimated level of risk faced by the Council. Crucially, should the Council fail to achieve its savings target then the availability of General Fund balances of £2m would enable a period of time in which to make any necessary adjustments and to minimise the impact on local residents.

Housing Revenue Account (HRA)

The Estimated Outturn figures provided in the report were in line with those previously reported to Executive in December 2014 and showed no significant variation from the original budget.

To summarise the overall position for the HRA; in 2014/15 the overall shortfall on the HRA remained at £20,000 which was the same as the original budget agreed in February 2014. In order to retain HRA balances at a level of £1.881m it was proposed that the budgeted contribution to the Development Reserve be reduced by £0.2m.

A key issue for 2015/16 was that the average rent increase required to comply with Government rent guidelines for social housing was 2.2% which resulted in the average rent for a Council house of £85.28 per week. It was also recommended that all new tenants should be required to pay target rent.

In addition to being required by Government guidance, (although such guidance was not compulsory), it needed to be recognised that rent increases in line with inflation were necessary if the Council was to be able to repay its HRA debt, provide housing services and maintain its houses to a good standard in line with the expectations of tenants. It should also be recognised that rental levels for council housing were and would continue to be significantly below those in the private rented sector.

Forecasts 2016/17 and 2017/18;
The forecast position for the last two years of the proposed Medium Term Financial Plan effectively projected or rolled forward the figures in respect of 2015/16. These figures

demonstrated that despite the range of recent changes to the HRA, which had reduced the future rental stream and made the loss of stock under Right to Buy more likely, the HRA remained financially sustainable. This position was supported by the HRA Business Plan which covered a full 30 year period. The Government had discontinued the rent convergence policy which for Bolsover substantially impacted on the financial model which underpinned the localism of the HRA. Bolsover District Council was allocated a debt of £94.3m to repay on the basis of the level of income arising from based on rent convergence. This was one of a number of changes which all served to reduce the longer term rental income of the HRA adding a further impetus to the ongoing work to secure efficiencies and improvements in the delivery of the Housing service.

Members asked questions and a discussion took place.

Councillor Clifton left the meeting at this point.

Capital Programme;
With regard to the Capital Programme, the majority of expenditure would continue to be in respect of the HRA Programme, which was funded by capital resources ring fenced to the Council's HRA. The financial provision to fund the ongoing programme of housing refurbishment work was planned to continue at a level of some £4m per annum over the period of the proposed MTFP. After 2017/18, it would be necessary to increase the rate of spend as key elements of the housing stock such as roofs, kitchens and bathrooms would need replacement. Since the introduction of HRA reform in 2012, the Council had already built some 66 new houses and this programme was set to continue. The new homes at New Houghton would be completed by the end of the current financial year and proposals were well under way to deliver 7 homes on a former garage site at Rogers Avenue, Creswell. The major scheme at New Bolsover was also commencing within the period of the current MTFP.

With respect to General Fund assets Officers were currently working on projects concerning the replacement of the contact centre at Shirebrook and continuing to explore options to secure the long term sustainability of Pleasley Vale Mills. Additional reports on these issues would be presented to Members appropriately during the course of the year.

Treasury Management Strategy;
Members were asked to note that a separate report would be presented to Council on 4th February 2015, regarding the Treasury Management Strategy. The report would include consideration of issues concerning leasing and borrowing which constituted the capital financing to enable the proposed capital budgets outlined within this report to proceed.

Moved by Councillor S.W. Fritchley and seconded by Councillor K. Reid
RESOLVED that the report be received.

The meeting concluded at 1500 hours.