



Cabinet

1 February 2017

Item
7(i)

Report of	Assistant Chief Executive	Author	Sean Plummer ☎ 282347
Title	2017/18 General Fund Revenue Budget, Capital Programme and Medium Term Financial Forecast		
Wards affected	n/a		

This report requests Cabinet to recommend to Council:

- **The 2017/18 General Fund Revenue Budget**
- **Colchester's element of the Council Tax for 2017/18**
- **The Medium Term Financial Forecast**
- **The Capital Programme**
- **The Prudential Indicators and Treasury Management Strategy and Annual Investment Strategy**

1. Decisions Required

- 1.1 To note that for the purpose of assessing the impact on balances the outturn for the current financial year is forecast to be an overspend of £240k. (paragraph 3.4.).
- 1.2 To note the provisional Finance Settlement figures set out in Section 4 showing a cut to the Settlement Funding Assessment of £980k.
- 1.3 To note the figures for the business rates retention scheme and the arrangements for completion of the required return of estimated business rates income as set out at paragraph 4.8.
- 1.4 To note the changes made to the New Homes Bonus scheme and that there is a grant reduction in 2017/18 of £931k as set out in section 4 with further reductions in the grant in later years.
- 1.5 To approve the cost pressures, growth items, proposed use of New Homes Bonus, savings and increased income options identified during the budget forecast process as set out at in section 5 and detailed in Appendices C, D and E.
- 1.6 To consider and recommend to Council the 2017/18 Revenue Budget requirement of £25,911k (paragraph 5.16) and the underlying detailed budgets set out in summary at Appendix F and Background Papers subject to the final proposal to be made in respect of Council Tax.
- 1.7 To recommend to Council, Colchester's element of the Council Tax for 2017/18 at £180.18 per Band D property, which represents an increase of £4.95 (2.8%) from the current rate noting that the formal resolution to Council will include Parish, Police, Fire and County Council precepts and any changes arising from the formal Finance Settlement announcement and final completion of the business rates NNDR 1. This will be prepared in consultation with the Leader of the Council.

- 1.8 To agree the Revenue Balances for the financial year 2017/18 as set out at Appendix J and agree that the:-
- the minimum level be set at a minimum of £1,900k
 - £499k of balances, including sums carried forward from 2016/17, be applied to finance items in the 2017/18 revenue budget
- 1.9. To note the updated position on earmarked reserves set out in section 8 and agree the release of:-
£20k from the S106 monitoring reserve
£489k from the business rates reserve.
£325k use of capital expenditure reserve for ICT strategy
£150k use of parking reserve
- 1.10. To agree to use £3.173m from a combination of General Fund balances and reserves to fund the one off pension fund payment and that provision be made within the budget in 2018/19 and 2019/20 to reinstate these balances as set out in section 8.
- 1.11. To agree and recommend to Council that £100k of Revenue Balances be earmarked for potential unplanned expenditure within the guidelines set out at paragraph 9.3.
- 1.12. To note the Medium Term Financial Forecast for the financial years 2017/18 to 2020/21 set out in section 11.
- 1.13. To note the position on the Capital Programme shown at section 12 and agree to recommend to Council the inclusion in the Capital Programme of:-
- £857k for changes to the waste service as agreed by Cabinet.
 - £500k to deliver new social housing funded from the HRA Right to Buy Reserve
- 1.14 To note the comments made on the robustness of budget estimates at section 13.
- 1.15. To approve and recommend to Council the 2017/18 Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy as set out in the background paper at Appendix N.
- 2. Background Information and Summary**
- 2.1 The 2017/18 Revenue Budget and the Capital Programme have been prepared in accordance with a process and timetable agreed at Cabinet and endorsed by the Scrutiny Panel (Appendix A).
- 2.2. The Revenue Budget for 2017/18 has been prepared against a background of meeting the Council's Strategic Plan objectives whilst continuing to face significant financial pressures from the reductions in core Government funding. Every effort has been made to produce a balanced budget that includes a deliverable level of savings and income and provides for investment in key services. This has been achieved through a budget strategy that has resulted in:-

- the delivery of savings through the service review process including delivering channel shift
- making efficiencies through specific budget reviews and business plans
- maximising new and existing income streams
- recognising cost pressures and making decisions on budget changes where necessary

- 2.3. The budget includes savings or additional income of almost £3m. This compares to £1.5m included within the 16/17 budget. A large proportion of savings are based on proposals to work more efficiently and to maximise opportunities to increase income. As part of this year's budget an "outturn review" was again carried out which reviewed spending and income compared to the 2016/17 budget. This helped to identify areas where spending regularly falls below current budget levels, including some 'contingency' areas.
- 2.4. Core Government funding for 2017/18 is being reduced by £1m which follows a reduction in 2016/17 of £1.2m. Further reductions have also been confirmed as part of the 4 year settlement. However, these cuts alone are not the only pressures the Council has needed to address in the budget. Costs from general inflation and pay assumptions, additional business rates costs as a result of the revaluation exercise and additional employer pension costs have also added to the budget pressures.
- 2.5. The methodology for the New Homes Bonus is changing in 2017/18 which has resulted in a cut in the grant of £0.9m (16%). The Council has been taking steps to reduce the level of New Homes Bonus which is used to support the base budget. This means that there is still £3.1m available to support new investment. Some proposals are included in this report and further allocations will be made later in the year.
- 2.6. The financial outlook set out within the Medium Term Financial Forecast (MTFF) shows that further reductions in core Government funding and cost pressures faced by the Council show a cumulative budget gap of £6.5m over the next three years. Planned savings, including a significant reduction in funding for new projects from the New Homes Bonus mean that this gap has reduced to £2.5m.
- 2.7. The 4 year Settlement figures show that Revenue Support Grant will end by 2019/20. The Government's spending power figures also illustrate that the importance of the Council's own income through Council Tax and business rates are expected to increase to help to mitigate this cut.
- 2.8. The Settlement confirms that legislation to allow 100% of business rates to be retained by local government will be delivered by the end of this parliament. This will not mean that Colchester will keep 100% of the business rates collected, however, it may provide the potential to keep a greater share of business rates, alongside possible changes in responsibilities and risks.
- 2.9. These changes mean that it is important for the Council to fully consider the budget and medium term plans in light of the new funding arrangements.
- 2.10. Further information on the budget is provided in the following paragraphs.

- 2.11. This report should be read and considered alongside the report in respect of the Housing Revenue Account and Housing Investment Programme to provide a full assessment of the Council's financial position and plans.

3. Current Year's Financial Position

- 3.1 In order to inform the 2017/18 budget process and forecast level of reserves it is useful to first review the current year's financial position. Revenue budgets are monitored on a monthly basis with regular reports to Senior Management Team and the Scrutiny Panel.
- 3.2. It was reported to Scrutiny Panel on 8 November that the current year's budget position showed a forecast net overspend £240k. This reflected some one off cost pressures and a number of positive and negative budget variances. There remain some outstanding risks and changes that are likely to be made to the forecast. For the purpose of considering the impact on balances it is considered prudent and appropriate to assume that the end of year position is in line with the last reported figure.
- 3.3 The position continues to be monitored, and Governance and Audit Committee will receive a report setting out a detailed position in March. As is common there are a number of budgeted costs that may not be fully spent in the financial year. The report to Scrutiny Panel will include details of any such changes, and this will be used when considering the end of year position.

- 3.4 **Cabinet is asked to note that the forecast outturn position for the current year is expected to be a net overspend of £240k and that this be used as part of the assessment of balances. The position will continue to be monitored.**

4 Finance Settlement (Government Funding)

- 4.1. The provisional Local Government Finance Settlement was announced in Parliament on 15 December 2016. The Settlement includes a number of funding arrangements, concepts and terminology introduced in 2013/14. This section of the budget report provides a summary of the key issues including:-
- Settlement Funding Assessment (SFA) including Revenue Support Grant (RSG)
 - Business Rates Baseline and tariffs and top-ups, levies and safety net
 - New Homes Bonus
 - Core Spending Power
- 4.2. The SFA which comprises our RSG and business rate baseline figure has been cut by **£0.98million (17%)**. This reduction is in line with the 4 year funding settlement which the Council applied for and which has been agreed by Government.

	16/17	17/18	Change	
	£'000	£'000	£'000	%
RSG	1,978	920	(1,058)	-53%
Business Rates Baseline	3,960	4,038	78	2%
Settlement Funding Assessment (SFA)	5,938	4,958	(980)	-17%

- 4.3. The split of the settlement funding is important. The Revenue Support Grant element is a non ring-fenced fixed grant. The baseline funding level is used as part of the retention of business rates scheme as explained below.

Business Rates Baseline and tariffs and top-ups

- 4.4. The SFA includes the Council’s baseline funding level for the Business Rates Retention scheme. This is based on our historic business rates collection, adjusted by a ‘tariff’ payment. A local authority must pay a tariff if its individual authority business rates baseline is greater than its baseline funding level. Conversely, a local authority will receive a top-up if its baseline funding level is greater than its individual authority business rates baseline.
- 4.5. The following table sets out a summary of the baseline position for Colchester for 2017/18 showing the *indicative* required tariff payment of £20.5m.

	£'000
Billing Authority Baseline	30,691
CBC Individual Baseline (80%)	24,553
Less Tariff	(20,515)
Baseline funding	4,038
Safety Net threshold (92.5%)	3,735

- 4.6. It should be noted that the above figures **do not** take into account any impact of the 2017 revaluation exercise on the Business Rates Retention scheme. The 2017 revaluation will impact average bills, the baseline figure, top up/tariff adjustments and the level of losses through appeals. However, it is currently projected that the impact on the 2017/18 budget will be broadly cost neutral. This final position will be updated in the final budget report to Full Council.
- 4.7. The business rate retention scheme includes a degree of protection against reduction in business rates collected (the Safety Net), which means that 92.5% of the baseline funding in year is guaranteed. It also includes a method for ensuring that any growth above the baseline is shared with Central Government, the County Council and Fire Authority (the Levy). The Council keeps 40% of any additional income.
- 4.8. The arrangements for business rate retention require the Council to agree an estimate of business rates income for the coming year (the NNDR 1) by 31 January. This return includes a number of key assumptions in respect of collection rates, growth and an allowance for the impact of revaluation appeals. Based on initial projections it is anticipated that the NNDR 1 will show additional income above the baseline funding level, of which the Council’s share is forecast to be in the region of £900k. This takes into account the estimated Section 31 grant due to the Council in relation to business rates relief provided to small businesses and retailers, which forms part of the Levy and Safety Net calculation. This will remain a risk and one which will be considered in the final paper for Full Council and within updates to the MTF, alongside any impact of the 2017 revaluation.

Business Rates Pooling

- 4.9. Under the business rates retention scheme local authorities are able to come together, on a voluntary basis to pool their business rates receipts and then agree collectively how these will be distributed between pool members.

- 4.10. Pooling provides the opportunity to keep a greater share of business rates within Essex that would otherwise be paid to Government as a 'Levy', providing that districts experience growth above their baselines. However the protection each authority receives under the safety net arrangements in the event of a shortfall is removed, with the 7.5% safety net only applying to the overall pool.
- 4.11. In 2016/17 Colchester is one of nine District Councils together with the County Council and Fire Authority in a pooling agreement. All authorities in the pool have agreed it will continue into 2017/18 in its current form.
- 4.12. It should be noted that the information set out in this report in respect of business rates reflects the arrangements for business rate retention as an individual authority and not in a pool. However, based on indicative forecasts it is projected that pooling in 2017/18 would be beneficial to the Council, and the final decision will be considered in future year's budget reports and updates to the MTFF.
- 4.13. The Settlement is provisional and subject to consultation which ended on 13 January 2017. Traditionally, there has been very little change between the provisional and actual Settlement. Any marginal change to the Council's entitlement will be reflected in the final budget recommendation to Council.
- 4.14. In addition to the Settlement funding figures other grants have been announced. The key grant for Colchester is the New Homes Bonus.

New Homes Bonus (NHB)

- 4.15. The 2017/18 grant has been announced and reflects changes to the methodology of the scheme. The Government published a consultation paper on changes to the New Homes Bonus: "New Homes Bonus: Sharpening the Incentive".
- 4.16. The final figure is a total grant for 2017/18 of £4.783m, a reduction of £931k. The detailed breakdown of the grant is set out at Appendix B and is summarised below:-

	2016/17	2017/18	Change
	£'000	£'000	£'000
<i>Basic NHB</i>	5,426	4,506	(920)
<i>Affordable homes bonus</i>	288	277	(11)
Total New Homes Bonus	5,714	4,783	(931)

- 4.17. There are two main changes made to the scheme in 2017/18:-
- From 17/18 payments are made over 5 years rather than 6. From 18/19 this will reduce further to payments being for 4 years.
 - In addition from 17/18 the scheme has introduced a national baseline of 0.4%. NHB is only paid above this level.
- 4.18. In total these changes to the NHB scheme have reduced the grant that this Council would otherwise have received in 17/18 by £1.16m. The following table sets out the forecasts for basic element of the New Homes Bonus for the next four years following the changes showing that this part of the grant is forecast to reduce from £5.4m this year to c£2m by 2020/21 :-

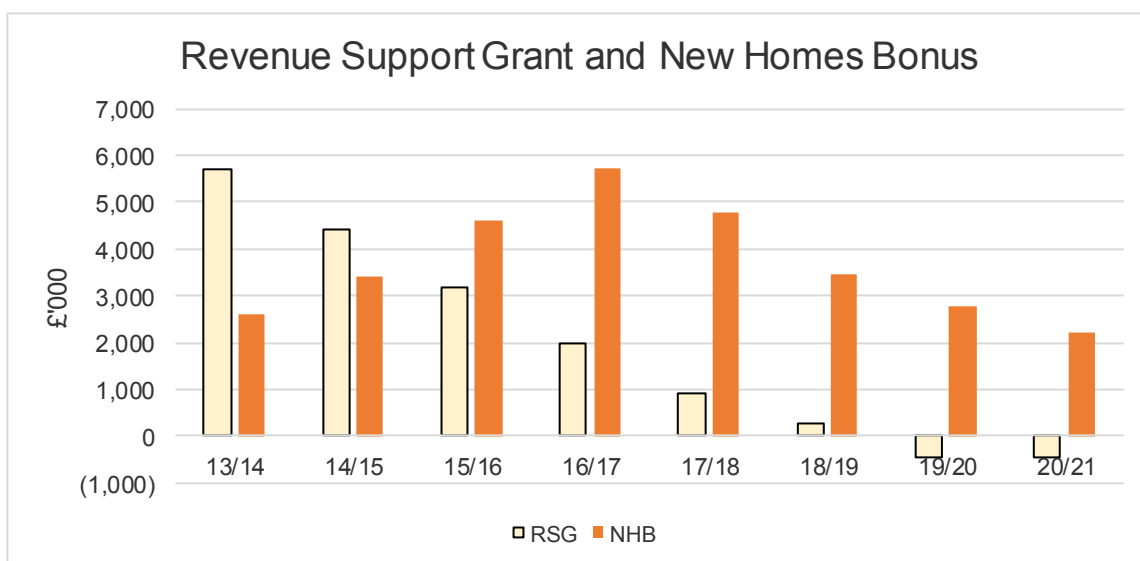
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000	£'000
Growth re 09/10	724	<i>nil</i>	<i>nil</i>	<i>nil</i>	<i>nil</i>	<i>nil</i>
Growth re 10/11	749	<i>nil</i>	<i>nil</i>	<i>nil</i>	<i>nil</i>	<i>nil</i>
Growth re 11/12	986	986	<i>nil</i>	<i>nil</i>	<i>nil</i>	<i>nil</i>
Growth re 12/13	757	757	<i>nil</i>	<i>nil</i>	<i>nil</i>	<i>nil</i>
Growth re 13/14	1,185	1,185	1,185	<i>nil</i>	<i>nil</i>	<i>nil</i>
Growth re 14/15	1,025	1,025	1,025	1,025	<i>nil</i>	<i>nil</i>
Growth re 15/16		553	553	553	553	<i>nil</i>
Growth re 16/17 (est)			500	500	500	500
Growth re 17/18 (est)				500	500	500
Growth re 18/19 (est)					500	500
Growth re 19/20 (est)						500
Total basic NHB	5,426	4,506	3,263	2,578	2,053	2,000

4.19. As stated earlier, the Settlement, including the New Homes Bonus proposals, is subject to consultation. The Council has responded to comment on the changes, principally in respect of the deadweight' baseline level of 0.4%. This level was not included in the original consultation and does not appear to form part of the responses made to the original consultation and could not have been predicted by authorities. The Government is asking if consideration should be given to implementing transitional measures to limit the impact of reforms to the New Homes Bonus and we have replied to say this should be looked at.

4.20. The Council has recognised the risk that the New Homes Bonus was likely to reduce in 2017/18 and also in future years. As such the budget strategy has assumed that the level of New Homes Bonus supporting the base budget will reduce and the budget proposes a reduction of £150k. The following table sets out a summary of how the total 2017/18 New Homes Bonus is being used showing that now just over one third is supporting the base budget.

	£'000	%
Contribution to RIF	250	5%
Affordable housing allocation	277	6%
Support for one-off schemes	2,623	55%
Base Budget	1,633	34%
Total Grant	4,783	100%

4.21. The announced changes to the New Homes Bonus and the 4 year funding settlement have provided a degree of certainty over the extent of cuts to our future Government grant funding. The following graph sets out the changes to Revenue Support Grant and New Homes Bonus since 2013/14 including projections up to 2020/21.



Core Spending Power

4.22 This term relates to the Government's assessment of the "expected" available revenue for local government spending through to 2019/20. It includes the announced SFA and New Homes Bonus and an assumed level of income from Council Tax. This takes account of an *assumed* increase in the taxbase and a Council Tax rate increase of £5 on the Band D tax rate.

4.23 For 2017/18 the change in the spending power as per Government figures is shown as a reduction of £1.3m or 6% as shown below.

4.24. It is important to stress that spending power figures include the Government's assumption in respect of an increase in Council Tax income and the taxbase. The following sets out the Government's spending power assessment along with the Council's actual Council Tax income, showing a reduction in spending power of 7%.

	16/17	17/18	Change	
	£'000	£'000	£'000	%
SFA	5,938	4,958	(980)	-17%
NHB	5,714	4,783	(931)	-16%
Transition grant	88	88	0	0%
Government grants	11,740	9,829	(1,911)	-16%
Council Tax (Gov't assumed £5 tax rate increase and 3.1% taxbase increase)	10,601	11,237	636	6%
Core Spending Power	22,341	21,066	(1,275)	-6%

Government grants (as above)	11,740	9,829	(1,911)	-16%
Council Tax (actual £4.95 tax rate increase and 1.1% taxbase increase)	10,601	11,015	414	4%
Core Spending Power	22,341	20,844	(1,497)	-7%

5. 2017/18 Budget Changes

Revenue Cost Pressures

- 5.1. Appendix C sets out revenue cost pressures of £1.7m, over the 2016/17 base, which have been identified during the budget process. This includes an inflation allowance and some specific service cost pressures.
- 5.2. Many of the cost pressures have been considered by Cabinet. However there are a number of changes to assumptions and details are set out.
- 5.3. Whilst not shown within the list of specific cost pressures the budget includes proposals totalling £402k in respect of carry forward items. The main items relates to costs of the ICT strategy and some other smaller cost of resources in Professional Services and project funding carried forward between years. This is reflected in the use of balances and reserves set out later in this report.

Pension Fund deficit

- 5.4. The budget strategy had included an allowance for an increase in pensions contributions including and the pension fund deficit following the actuarial review. The cost pressures include the additional cost of £206k in respect of employer contributions rising from 13.7% to 15.1%. The separate budget issue is the pension fund deficit. The revised figures provided for this based on the actuarial review show a reduced annual cost of £144k.
- 5.5. Currently, the Council make one annual payment to the Essex Pension Fund to provide for the agreed deficit repayment plan. An option exists to make one payment to cover 3 years (2017/18 to 2019/20) which covers the period until the next actuarial review. The table below shows the figures provided by the Essex Pension Fund for this option compared to the current arrangement showing a cash saving of £283k over three years:-

	17/18 Cost	Cost over 3 years
	£'000	£'000
Option - Annual payment	1,937	5,811
Option - One payment for 3 years	5,528	5,528
Cost / (saving)	3,591	(283)

- 5.6. Making a one off payment in 2017/18 will have a cashflow impact, however, given current and forecast low interest rates the cost in terms of reduced interest earned will still mean there is a saving from agree the one off payment option and therefore this approach has been assumed in this report. A proportion of the deficit payment is charged to the Housing Revenue Account (HRA) and therefore the increased cost in year to the General Fund is estimated at £2.9m

- 5.7. **Cabinet is asked to approve inclusion within the 2017/18 Revenue Budget of the cost pressures set out at Appendix C.**

Growth Items

- 5.8. Appendix D sets out revenue growth items totalling £362k which are recommended for inclusion in the budget. This includes an allocation of £110k in the base budget to provide investment to support delivery of strategic plan priorities.
- 5.9. As shown earlier the New Homes Bonus grant has been cut in 2017/18. The Council uses a large part of the grant to provide one-off investment into both capital and revenue projects. In 2017/18 £2.6m is being invested and as shown in the table below decisions have already been made amounting to £587k meaning that £2.036m remains uncommitted:-

	£'000
Total funds available	2,623
<i>Allocated to:-</i>	
Mercury Theatre	500
Waste Review	87
Balance available	2,036

- 5.10. The consultation process on the New Homes Bonus closed in March 2016. There were a number of potential changes suggested and therefore until details of the new scheme was announced it was not clear how much the Council would have to invest in new projects until the announcement in December. Therefore, there has been little time to formulate detailed plans to use this grant.
- 5.11. There is now a clear expectation that income from the New Homes Bonus will reduce in future years with an estimate that the grant will drop by a further £2.6m by 2020/21. It is therefore essential that the Council carefully considers how this grant might be used in the coming year as well as future years including whether the opportunity exists to consider using some of the New Homes Bonus to support future borrowing costs. It is therefore proposed to allocate £2.036m in the 2017/18 budget to help deliver projects which support strategic plan priorities and also those which can deliver income to assist with managing future budget pressures. This will include:-
- reviewing resources required to deliver a number of strategic projects such as the creation of a housing company and other key schemes currently within the RIF including infrastructure.
 - consideration of how funding might be used to invest in assets
 - an assessment of opportunities to provide one-off investment in services to help deliver cost reductions or new income
 - continuing to consider projects that support communities. For example, the Council has already allocated £200k in year to support to support a campaign to reduce the inequalities which exist in some of our communities.

- 5.12. **Cabinet is asked to approve inclusion within the 2017/18 Revenue Budget of the growth items shown at Appendix D and the use of the New Homes Bonus for new projects as set out at paragraph 5.9 and 5.11.**

Revenue Saving / Increased Income / Technical Items

- 5.13. Appendix E sets out budget reductions, savings and increased income totalling £2.968m.
- 5.14. All proposals are set out within the appendix, the majority of which were reported and in some specific cases agreed at the last Cabinet meeting. The savings include the reduced one-off investment arising from the cut in the New Homes Bonus.
- 5.15. **Cabinet is asked to approve inclusion of the savings / increased income items set out at Appendix E within the 2017/18 Revenue Budget.**

Summary Total Expenditure Requirement

- 5.16. Should Cabinet approve the items detailed above, the total expenditure requirement for 2017/18 is as follows:

	2017/18	Note / para
	£'000	
Base Budget	24,047	
15/16 One-off items	(563)	
Cost Pressures	1,696	Appendix C
Pensions one off increase	2,935	
Growth Items	362	Appendix D
Savings	(2,968)	Appendix E
Budget c/f items	402	Para 5.3.
Forecast Base Budget	25,911	

Notes:-

A summary of the 2017/18 budget is set out at Appendix F.

A more detailed summary of service group expenditure is attached at Appendix G with a graph showing net expenditure by service at Appendix H.

Further detailed service group expenditure is available.

- 5.17. **Cabinet is asked to agree and recommend to Council the net revenue expenditure requirement for 2017/18 and the underlying detailed budgets set out in Appendix F.**

6. Council Tax, Collection Fund and Business Rates

Council Tax Rate.

- 6.1. The Localism Act introduced a power for the Secretary of State for Communities and Local Government to issue principles that define what should be considered as excessive Council Tax, including proposed limits. From 2013 onwards, any council that wishes to raise its Council Tax above the limits that apply to them will have to hold a referendum. The result of the referendum will be binding.
- 6.2. In 2016/17 and for the coming year the Secretary of State has proposed that district councils such as Colchester can increase their Council Tax by the higher of £5 or 2%. For Colchester the limit is therefore £5.

- 6.3. The 2017/18 budget forecast and MTFF has reflected the planning assumption of an increase in Band D Council Tax and the proposal within this report is for a Band D Council Tax Rate of £180.18, an increase of £4.95 (2.8%).
- 6.4. The Local Government Act 2003 gave local billing authorities the ability to vary the discounts on second and empty homes. More recently local authorities were also given the opportunity to use new powers within the Finance Bill to reduce the level of discounts currently granted in respect of second homes and some classes for empty properties. No changes are proposed to the existing arrangements and it is recommended to Council that the Council Tax setting report includes these discounts.

Collection Fund

- 6.5. As part of the formal budget setting process, the Council is required to estimate each year the estimated surplus or deficit arising from Council Tax and Business Rates collection. These Collection Fund calculations include an assessment of the forecast surplus / deficit position for the current year, together with the variance between the 2015/16 forecast and actual outturn position.
- 6.6. The budgeted Council Tax surplus of £48k has arisen as a result of the combined impact of higher growth in the number of properties in the borough than had been forecast in 2015/16, together with further expected growth during the current year.
- 6.7. The Business Rates retention arrangements have brought a number of new risks, with perhaps the most significant of these arising from changes to the rateable value of properties following appeals. In addition to this, there are complex accounting arrangements, which mean that many of the outturn figures reflect the NNDR1 estimates that are made prior to the financial year commencing.
- 6.8. The budgeted deficit of £537k has occurred largely as a result of the requirement to make a significant increase to the Business Rates appeals provision at the end of 2015/16, and reflects the difference between the NNDR1 estimate and actual outturn. This is mitigated by surpluses in 2014/15 and 2015/16 resulting from differences between the outturn and the baseline position, which have been added to the Council's Business Rates earmarked reserve.
- 6.9. The movement on the Business Rates reserve as a result of the net 2017/18 budget pressure is summarised in the following table and reflected in budget proposals within this report:

Collection Fund (C'Tax & NNDR)	£'000
Council Tax – surplus	(48)
NNDR deficit	537
Net budget pressure in 17/18	489
NNDR reserve – @ 1 st April 16	3,290
Forecast 16/17 movement (estimate)	(1,537)
Forecast balance on reserve @ 31 March 17	1,753
Use of reserve in 17/18 (see above)	(489)
Forecast balance on reserve	1,264

7 Revenue Balances

7.1 The Local Government Act 2003 places a specific duty on the Chief Financial Officer to report on the adequacy of the proposed financial reserves of an Authority when the budget is being considered. This section and section 13 address this requirement.

Minimum level of balances

7.2. Each year the assessment of the recommended level of balances is reviewed. The assessment for 2017/18 is summarised at Appendix I and shows that the recommended level continues to be set at £1.9m.

7.3. In considering the level at which Revenue Balances should be set for 2017/18, Cabinet should note the financial position the Council is likely to face in the medium term.

7.4. The analysis of the business rates retention scheme and specifically the operation of a safety net shows that there is a risk to the Council's budget. The Council is including forecast additional income from the retention of business rates which means that the budget risk is not only limited to the level of the safety net arrangement in place. This remains an area of budget risk considered in the assessment of balances.

7.5. Based on the assumptions built into the budget, it is proposed to hold balances at a minimum of £1.9m. The ongoing impact of the various local government reforms will be assessed as part of the budget strategy for 2017/18 and the level of balances can be reviewed at that time.

Level and use of balances

7.7. The use of balances to support the budget can be considered where there is scope and it is prudent to do so. Our normal approach is to consider the use of balances to fund one-off items, however, funding one-off costs through the normal budget resources does ease budget pressures in future years.

7.8. There are a number of proposals to use balances to support the 2017/18 budget as follows:-

	£'000
Use of balances for c/f items	77
General use of balances	98
Use for waste review (one off)	72
Use agreed in previous years (one off)	252
	499

7.9. The forecast position in respect of Revenue Balances is set out at Appendix J and shows balances at c£2.2m, £0.3m above the recommended minimum balance as set out in the risk analysis. The level at which balances are held above the recommended minimum level is a matter for Cabinet and Council to consider. It should be noted that the Council will continue to face significant budget pressures over the coming years and that it may be necessary to use balances to support future budgets especially to fund any one-off costs. With future budget gaps, increasing risk and uncertainty and a requirement to deliver already stretching

savings targets maintaining uncommitted or allocated balances at c£2.3m is considered appropriate.

7.10. Consideration has been given to a number of existing allocations held within balances and future calls on funds. These are reflected in the figures shown at Appendix J and include changes to certain allocations including the removal of sums against risks in respect of land charges and taxi licensing which are no longer required and an increase in the allocation in respect of housing benefit risks.

7.11. Following the 2016/17 accounts closure it will be necessary to review all balances and the risk assessment to ensure allocations remain appropriate. This will be done as part of the 18/19 budget strategy and updated MTF.

7.12. **Cabinet is recommended to approve Revenue Balances for the financial year 2017/18 be set at a *minimum* of £1.9m and to approve the use of £499k to support the revenue budget.**

8. Reserves and Provisions

8.1. In addition to General Fund balances, the Council holds a number of earmarked reserves. These are held for specific purposes or against specific risks and may be held to:-

- manage costs that do not fall evenly across financial years (such as renewal and repair costs)
- where the timing of any payments is not certain. (such as insurance reserve)
- as a result of statutory accounting arrangements / changes (such as the revenue grants and right to buy reserves.)

8.2. Cabinet at its meeting on 30 November 2016 considered the Council's earmarked reserves. As part of the budget process a review was undertaken into the level and appropriateness of earmarked reserves and provisions for 2017/18. The review concluded that the reserves and provisions detailed were broadly appropriate and at an adequate level, however, it was stated that a further review would be done as part of this final report.

8.3. Appendix K sets out an updated position on these earmarked reserves and provisions. The table below summarises the total position showing the forecast level of the reserves at the end of March 2017, the split between General Fund and HRA and how much is 'committed'.

	Committed / allocated		Uncommitted / unallocated		£'000
	£'000	(%)	£'000	(%)	
<i>Reserves:-</i>					
General Fund	10,226	85%	1,781	15%	12,007
HRA	7,692	100%	-	0%	7,692
Total Reserves	17,918	91%	1,781	9%	19,699
Provision	4,349		-		4,349

8.4. The earmarked reserves figures uncommitted / unallocated simply means that whilst the reserve is required there are no specific spending plans for the coming year. The main item uncommitted relates to the business rates reserve of £1.3m. As shown at paragraph 8.8 this is required to be held and may be required to be used to fund similar pressures relating to business rates retention scheme.

8.5. The proposed budget includes some changes to releases from reserves from those reported previously.

Renewals and Repairs (R&R) Fund / Building Mtce. Programme

8.6. The building maintenance programme has been based on in-depth condition surveys of all Council building assets. The 2017/18 budget includes the proposal to continue to add £150k to support the cost of future repairs. New releases are possible for next year and will be reported to Cabinet as required.

S106 Monitoring Reserve – release of £20k

8.7. This reserve was set up to provide funds to support the future monitoring of Section 106 agreements. It is proposed to continue to use £20k from this reserve.

NNDR Reserve – release of £489k

8.8. As set out in section 6 there is an estimated deficit on the combined collection fund for Council Tax and NNDR. As explained earlier this is mainly as a result of the need to provide for business rates appeals as part of the 2015/16 closure of accounts. It is proposed to fund this from the business rates reserve. As reported earlier, this will leave an estimated balance on the reserve of over £1.3m.

Capital Expenditure Reserve – release of £325k for ICT Strategy

8.9. The ICT strategy was agreed by Cabinet last year and was funded through the capital programme and New Homes Bonus. As the detailed project costs become clearer it is considered that the majority of costs should be charged to the revenue budget. The proposal to use the revenue backed capital expenditure reserve provides a mechanism to ensure that the ICT costs can be funded from revenue reserves whilst not impacting on the capital programme.

Parking Reserve – release of £150k

8.10. As set out in the budget there is a budget pressure within the parking account as ECC no longer provide a contribution towards TRO work. In 2017/18 it is proposed that this is mitigated by using reserves.

8.11. **Cabinet is recommended to agree the:**

- **release of £20k from S106 monitoring reserve towards the costs of carrying out this function**
- **release from the NNDR reserve of £489k towards the deficit on the collection fund.**
- **Release of £325k from the Capital Expenditure Reserve in respect ICT strategy**
- **Release of £150k from the parking reserve.**

Funding one-off pensions payment

- 8.12 As outlined earlier it is proposed to make the required pensions deficit contribution in respect of the period 2017/18 to 2019/20 in a one-off payment in 2017/18. We are required to show this full payment in our 2017/18 budget and has therefore been shown in the cost pressures.
- 8.13 To facilitate this arrangement and to reflect the equivalent annual costs in the budget requires a use of balances / reserves in 2017/18 of £3.2m. This will then be paid back over each of the next two years. As such the use of balances / reserves is only temporary and required to manage the accounting requirements for this transaction.
- 8.14. There remain a number of sufficient allocations within general fund balances and earmarked reserves which will enable this to be achieved. For example, sums in the Capital Expenditure Reserve are committed to projects which will span the next years. Also, in any year there are always a significant level of budget carry forwards which means that balances contain sums which are not spent until the next financial year. It should be noted that in April 2018 we will therefore pay back half the use of balances (£1.6m).
- 8.15. Several Essex councils already pay the pension payment in one amount and adopt a similar approach to using balances / reserves to 'smooth' the annual impact.
- 8.16. **Cabinet is recommended to agree to use balances and earmarked reserves of £3.173m in 2017/18 and to include in the budget strategy for each of the next two years a contribution to reinstate balances.**

9. Contingency Provision

- 9.1 The Council's Constitution requires that any spending from Revenue Balances not specifically approved at the time the annual budget is set, must be considered and approved by full Council. This procedure could prove restrictive particularly if additional spending is urgent.
- 9.2 It is recommended that £100k of Revenue Balances be specifically earmarked for potential items of unplanned expenditure. It should be noted that based on current estimates if this sum was used during the year it would not take revenue balances below the recommended level of £1,900k, although if this were to be the case the Council would need to consider steps to reinstate balances at a later date.
- 9.3 **Cabinet is asked to agree and recommend to Council that £100k of Revenue Balances be specifically earmarked for potential items of unplanned expenditure which are:**
- The result of new statutory requirements or**
 - An opportunity purchase which meets an objective of the Strategic Plan or**
 - Is considered urgent, cannot await the next budget cycle and cannot be funded from existing budgets**
- Authorisation being delegated to the Leader of the Council.**

10. Summary of Position

10.1 Summary of the Revenue Budget position is as follows:

	£'000	Note / para
Revenue expenditure requirement for 2017/18	25,911	Para. 5.16
Collection fund deficit	489	Para 6.9.
New Homes Bonus	(4,783)	Para 4.16.
Transition grant	(88)	Second year of grant
Use of balances	(499)	Para. 7.8.
Use of balances / reserves for pensions payment	(3,173)	Para. 8.13
Release of earmarked reserves	(984)	Para . 8.11
Budget Requirement	16,873	
Funded by:		
Revenue Support Grant	(920)	Para. 4.2
NNDR Baseline Funding	(4,038)	Para. 4.2.
NNDR Improvement	(900)	Para. 4.8
Council Tax Payers requirement (before Parish element) see below*	(11,015)	Para. 6.3.
Total Funding	(16,873)	

Council Tax*	
Council Tax Payers requirement (before Parish element)	11,015,000
Council Tax Base – Band D Properties	61,132.2
Council Tax at Band D	£180.18

10.2 **Cabinet is asked to agree and recommend to Council Colchester's element of the Council Tax for 2017/18 at £180.18 per Band D property, which represents an increase of £4.95 (2.8%) from the current rate noting that the formal resolution to Council will include Parish, Police, Fire and County Council precepts and any changes arising from the formal Finance Settlement announcement and final completion of the business rates NNDR 1.**

11. Medium Term Financial Forecast – 2017/18 to 2020/21

11.1. This Council, in common with most other local authorities, faces an ongoing difficult position in the medium term due to a range of pressures including providing statutory services, ongoing pressures caused by maintaining several sources of fees and charges and potential revenue implications of strategic priorities. However, the most significant factor that will impact on the budget will be the level of Government funding support including the ongoing uncertainty in respect of changes to financing arrangements

11.2. The Medium Term Financial Forecast (MTFF) is attached at Appendix L showing that the Council faces a continuing budget gap over the next three years from April

2018. The following table summarises the position showing a cumulative gap over the period from 2018/19 to 2020/21 of c£2.5m

	2017/18	2018/19	2019/20	2020/21	See para
	£'000	£'000	£'000	£'000	
Net Budget	25,911	21,621	21,620	21,885	
SFA	(4,958)	(4,432)	(3,844)	(3,844)	11.4
NNDR Growth	(900)	(1,000)	(1,000)	(1,000)	11.14
New Homes Bonus	(4,783)	(3,438)	(2,753)	(2,228)	11.7
Transition Grant	(88)				
Council Tax	(11,015)	(11,434)	(11,860)	(12,293)	11.22
Reserves / Collection Fund	(4,167)	(120)	(20)	(20)	
Cumulative Gap	0	1,197	2,143	2,500	
Annual increase	0	1,197	946	357	

11.3. To formulate the MTFF it is necessary to make a number of assumptions. Generally, these do not represent decisions but are designed to show the impact of a set of options for planning purposes. The key assumptions and savings required are set out in the Appendix and summarised below:-

Government Funding and Business Rates

11.4. The SFA which comprises our RSG and baseline NNDR figure has been cut by **£0.98million in 17/18**. The reduction in RSG is in line with the 4 year funding settlement which the Council applied for and which has been agreed by Government. The following table sets out the remaining figures in the 4 year settlement which ends in 2019/20 and a planning assumption of a standstill position in 20/21. These show reduction in grant of showing a total reduction of £2.1million (35%) and specifically for the MTFF a further reduction in funding from April 2018 of £1.1m.

	Actual	4 year settlement				
	2016/17	2017/18	2018/19	2019/20	2020/21	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue Support Grant	(1,978)	(920)	(275)	446	446	
Business Rates Baseline	(3,960)	(4,038)	(4,157)	(4,290)	(4,290)	
<i>Settlement Funding</i> Assessment (SFA)	(5,938)	(4,958)	(4,432)	(3,844)	(3,844)	
Reduction (£'000)		980	526	588	0	2,094
Reduction (%)		-17%	-11%	-13%	0%	-35%

11.5. As has been previously reported the Government proposes to allocate funding on the basis of the core resources available to local authorities, taking into account councils' business rates and council tax, as well as their Revenue Support Grant. It follows that some councils with less Revenue Support Grant in later years will need to **contribute** funding from the other elements of their settlement core funding in order to meet the overall reductions to local government funding set in the Spending Review. Where this is the case, the Government proposes to adjust the relevant

councils' tariff or top up under the business rates retention scheme. The table shows that by 2019/20 there will be no more RSG and that a contribution of almost £446k will be required to be made.

11.6. As set out within this report the New Homes Bonus is a key element of the financial support for local authorities and the Government has announced changes to the scheme that will reduce the grant in 2017/18 with further reductions in later years

11.7. The MTFF includes projections based on the changes proposed for the New Homes Bonus and is based on an 'average' level of growth for future years. The MTFF assumes that the New Homes Bonus will continue to be used to support the base budget, however, this will be reduced year on year to limit the risk of future changes to this grant. It is also assumed that the annual contribution of £250k to the RIF will continue and that the bonus paid for affordable housing will continue to be earmarked for housing. These assumptions are set out in the following table.

	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000
New Homes Bonus	4,783	3,438	2,753	2,228
<i>Allocated to:-</i>				
Contribution to RIF	250	250	250	250
Affordable housing allocation	277	175	175	175
Base Budget	1,633	1,483	1,333	1,183
Support for one-off schemes	2,623	1,530	995	620
Total allocation	4,783	3,438	2,753	2,228

11.8. The table shows that the level of NHB grant the Council receives is expected to be cut by £2.5m by 2020/21 on top of the cut of £0.9 million in 17/18. The Government has said it will consult on further possible changes to the NHB which could result in further reductions in grants.

11.9. Further changes in Government funding over the course of the MTFF are likely with potential reductions in grants for benefit administration for example. These are not yet factored in to the MTFF and will be considered alongside other grant changes.

Business Rates – 100% retention

11.10. The Department for Communities and Local Government's consultation on 'Self-sufficient local government: 100% Business Rates Retention', was published in July. Alongside this consultation a discussion paper on 'Fair Funding Review: Call for evidence on Needs and Redistribution' was published. Both documents are available here: <https://www.gov.uk/government/consultations/self-sufficient-local-government-100-business-rates-retention>.

11.11. The proposals in the consultation set out that by the end of this Parliament, local government will retain 100 per cent of taxes raised locally. In order to ensure that the reforms are fiscally neutral, councils will gain new responsibilities, and some Whitehall grants will be phased out.

11.12. To achieve such radical reform, the Government wants councils, business and people to take the initiative and shape the design of the new system. The consultation was reported to Cabinet in September and a response was provided.

The Government has not yet set out detailed plans for how the changes will be implemented.

11.13. The MTFF makes no allowance for any changes arising from the reforms and as more detailed announcements are made we will update forecasts.

11.14. The 2017/18 budget includes the assumption that we will achieve an increase above the business rates baseline of £900k. In the MTFF it has been assumed that this will continue and an increase of a further £100k for the following year is shown. This assumption will need to be reviewed in future updates of the MTFF and will be revised to reflect the emerging detail of the changes to the retention of business rates.

Pay, Inflation and costs

11.15. The 2017/18 budget includes an allowance for a pay award. For 2017/18 and beyond a sum is included for planning purposes to cover this and other inflationary pressures.

11.16. The next actuarial review of the pension fund will take place in 2019. No allowance has been included for any impact from this review, however, this will be considered in future updates. An allowance for the full year impact of pensions 'auto enrolment' which is due in 2017 is included. This assumption will be reviewed later in the year when the impact can be assessed.

Forecast savings

11.17. The MTFF includes forecast savings for 2018/19 and beyond. These include:-

- The anticipated savings and income from the ongoing sport and leisure review
- The revised projections for commercial services, including the events business case
- The forecast income arising from assets included within the RIF
- The ongoing digital challenge programme.

11.18. It will be necessary to closely track the delivery of these projects during the life of the MTFF and to account for any changes.

Fees and charges income

11.19. It is evident that there has been a fluctuation in some income budgets over recent years and a number of budgets have been changed to reflect these revised assumptions. On this basis the MTFF assumes a broadly neutral position over the next three years, other than additional income assumed within business cases, and this will need to be reviewed annually to ensure income targets are reasonable.

Specific Cost Pressures

11.20. The MTFF reflects that the government grant being used to support the costs of food waste collection will run out in the next two years. In addition an allowance is included for the potential change in the stadium rent and the inclusion of the revenue implication of the ICT strategy.

11.21. There remain a number of potential risks and pressures for which no allowance is currently made. These include:-

- an increase in interest costs which are currently being minimised through internal borrowing

- demands on services including those arising from growth in the Borough.
- an assessment of the potential revenue and capital impact of major projects such as Garden Communities and Northern Gateway.

Council Tax

11.22. The Government's Spending Power forecasts assume an annual increase in Council Tax of £5 for Band D properties. The MTFF has been updated to reflect this assumption, however, this does not represent a proposal. An allowance for an increase in Council Tax income through growth in the tax base of 1% pa is also included.

Summary

11.23. A realistic approach has been taken to the MTFF and it is evident that it will be necessary to revise a number of the assumptions set out. The funding changes to local government will continue with further grant reductions the move to 100% business rates retention and the Council needs to be able to respond to the impact of these changes.

11.24. In the 2017/18 budget savings and reductions of £3m have been identified which, when looked at alongside almost £12m plus identified in the budgets since 2011/12, represents a significant level of budget savings found. The MTFF shows that whilst anticipated savings from the current plans will make a significant contribution to reducing future budget gaps, further budget changes will be necessary. Whilst we will continue to look for other areas of savings and efficiencies it will be increasingly hard to balance budgets without considering variations to current services.

11.25 **Cabinet is asked to note the medium term financial forecast for the Council.**

12. Capital Programme

12.1. The current capital programme is detailed in Appendix M. It should be noted that this shows only those schemes that are currently in the approved capital programme, and as such excludes the proposals within this report and potential future schemes that have been included in the medium term capital forecast.

12.2. The latest monitoring report highlights that there is a small net underspend on the Capital Programme of £0.6k against completed schemes and it is proposed that these funds are reallocated.

12.3. A review of resources available to support the Capital Programme in the medium term has been carried out, and the following table provides a summary of the projected position for 2016/17. This shows a surplus that is available to support potential schemes in subsequent years.

Detail	£'000
Surplus brought forward	(576)
Capital receipts projection for 2016/17	(450)
New schemes	242
Balance available	(784)

12.4. There are two new items recommended for inclusion in the capital programme:

Waste Collection Strategy - £857k

12.5 Cabinet of 20 December 2016 agreed as part of the final budget report the recommendation to Council of the inclusion of this scheme in the Capital Programme. The capital expenditure requirements of the Strategy will include the costs of vehicle adaptation, the purchase of bins and green boxes and routing software. It is estimated that this will require capital expenditure of £857k based on eight rounds.

12.6 The medium term forecast of projected capital receipts and spending plans is shown in the table below reflecting the proposals within this report. This separately identifies the forecast position for the General Fund Capital Programme as well as the Revolving Investment Fund (RIF) Committee. It can be seen that the overall programme is in balance.

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000	£'000
GENERAL FUND						
Shortfall / (Surplus) B/Fwd	(576)	(784)	(984)	(1,184)	(1,384)	(1,584)
New schemes	242	0	0	0	0	0
Capital receipts	(450)	(200)	(200)	(200)	(200)	(200)
Shortfall / (Surplus) C/Fwd	(784)	(984)	(1,184)	(1,384)	(1,584)	(1,784)
REVOLVING INVESTMENT FUND						
Shortfall / (Surplus) B/Fwd	(2,401)	2,491	2,548	10,487	5,850	3,081
New schemes	8,523	6,333	17,032	1,632	0	0
Capital receipts	(3,631)	(6,276)	(9,093)	(6,269)	(2,769)	(2,519)
Shortfall / (Surplus) C/Fwd	2,491	2,548	10,487	5,850	3,081	562
Overall Shortfall / (Surplus) C/Fwd	1,707	1,564	9,303	4,466	1,497	(1,222)

Use of 1-4-1 Right To Buy Receipts - £500k

12.7 In June 2012, the Council entered into a retention agreement with DCLG for the use of "1-4-1" Right To Buy receipts to part fund new housing for affordable or social rent. Under the terms of the agreement, any receipts not used within three years from the quarter of their generation will need to be repaid with interest. As a reminder, a proportion of these receipts were used to part-fund the building of 34 new Council House dwellings on former garage sites, funded through the Housing Revenue Account.

12.8 Opportunities are now arising where Registered Providers (RP) are approaching the Council to access this funding to help them deliver new social housing, which we would provide to them in the form of a grant. In return, the Council would receive nomination rights to the new accommodation.

12.9 Therefore, to enable these opportunities to progress, a budget needs to be included in the Capital Programme from which the grant payments can be made. A provisional sum of £500k has been included within this report, with a corresponding amount of resource to fund it, which is from the earmarked 1-4-1 receipts reserve. There is therefore no net cost to the Council.

13. Robustness of Estimates

13.1 The Local Government Act 2003 placed a specific duty on the Chief Financial Officer to report on the robustness of estimates in the budget proposals of an

Authority when the budget is being considered. This section addresses this requirement.

- 13.2 As set out in this paper a rigorous process and timetable has been followed throughout the budget setting activity this year involving the Cabinet, Leadership Team, Scrutiny Panel, Senior Management Team, the Budget Group and budget holders. All key assumptions used have been reviewed and scrutinised as part of this process. The result of this process has been a budget which is, in my view, challenging but deliverable.
- 13.3. This latest review of the budget for this financial year, 2016/17, has shown that broadly speaking most budgets have been achieved, although some one off pressures in year and also some budget variances have contributed to a forecast overspend for the year. Steps have been taken over recent years and also in 2017/18 to revise some expenditure and income budgets and in general budget targets are felt to be realistic. We have continued to see variations in some key income budgets, both positive and negative, and the monitoring of these is important to ensuring that budget variations are identified and any necessary action taken.
- 13.4. The savings and new income proposed in the budget have all been risk assessed. It should be noted that some of the savings shown for 2017/18 are additional savings or income following budget decisions taken already. These savings include areas identified through the outturn review and include increasing some income targets and making the assumptions that further general savings will be identified by services in year. It is reasonable to say that these and other changes have continued to reduce 'contingencies' within budgets and to take a slightly more optimistic view in certain areas. As such I believe service budgets are achievable but include less scope to deal with unexpected items and as such the level of balances and any corporate risk allocations remains important.
- 13.5. All Heads of Service have completed an exercise to identify the key assumptions and risks to their budgets and these have been reviewed as part of the balances assessment.
- 13.6. Whilst I consider that reasonable assumptions have been made to account for the pressures being faced there remains a degree of risk with the key areas being:-
- Meeting ongoing, and in some cases increasing, income levels in particular in respect of sport and leisure, planning, car parks and commercial services.
 - Delivery in the year of certain corporate savings such as those that form part of the digital challenge and also some areas through the outturn review.
 - Collection rates of Council Tax and changes in demand levels following the implementation of the LCTS scheme and other Council Tax changes
 - Collection rates and level of business rates (including the impact of appeals)
 - Impact on budgets relating to homelessness and other demand pressures.
- 13.7. The budget risks will be managed during 2017/18 by regular targeted monitoring and review at Senior Management Team and Scrutiny Panel. The Revenue Balance Risk Analysis considered these areas in establishing a minimum level of required balance of £1.9m.

- 13.8. The External Auditor has commented that the Council has a good track record of delivering budget targets and responding to budget pressures.
- 13.9 Delivery of the budget will continue to require financial discipline led by SMT in terms of a number of budget reviews and by budget holders, ensuring expenditure is not incurred without adequate available budget and that income targets are achieved. Budget managers will continue to be supported through training and advice to enable them to do this.
- 13.10. Regular updates on forecast expenditure will also be important to ensure the budget is managed within the expenditure constraints set out and the Council continues to develop systems to provide better financial information through greater use of our commitments system and focused monitoring of key risk areas.
- 13.11 **Cabinet is asked to note the comments on the robustness of budget estimates.**

14. Treasury Management and Prudential Code Indicators

- 14.1. The proposed Treasury Management Strategy Statement (TMSS) including the Minimum Revenue Provision Policy Statement and Annual Investment Strategy is included at **Appendix N**. The follow paragraphs contain a summary of the strategy for 2017/18, which covers the following issues:
- the capital plans and the prudential and treasury indicators;
 - the Minimum Revenue Provision (MRP) Policy;
 - the current treasury position;
 - the economic background and prospects for interest rates;
 - the borrowing strategy;
 - the investment policy and strategy, and credit worthiness policy; and
 - the policy on use of external service providers.
- 14.2. The Council's Prudential and Treasury Indicators for 2017/18 through to 2019/20 have been produced to support capital expenditure and treasury management decision making, and are designed to inform whether planned borrowing and the resultant revenue costs are affordable and within sustainable limits. The indicators take into account all the economic forecasts and proposed borrowing and investment activity detailed in the report, as well as the latest medium term revenue and capital forecasts.
- 14.3. The Minimum Revenue Provision (MRP) Policy Statement for 2017/18 states that the historic debt liability will continue to be repaid on an equal instalment basis over a period of 50 years, with the charge for more recent capital expenditure being based on the useful life of the asset and charged using the equal annual instalment method.
- 14.4. The UK bank rate was cut from 0.50% to 0.25% in August 2016, having been at the previous historical low since March 2009. The current view from the Council's treasury advisers is that the Bank Rate is now expected to remain unchanged until quarter 2 of 2019. **Appendix A to the TMSS** draws together a number of current forecasts for short term and longer term interest rates.
- 14.5. The Council is currently maintaining an under-borrowed position. The borrowing strategy is to reduce the difference between gross and net debt by continuing to

'borrow internally', which is primarily due to investment rates on offer being lower than long term borrowing rates. This has the advantages of maximising short-term savings and reducing the Council's exposure to interest rate and credit risk. However, against this, the long term saving resulting from borrowing at very low rates should be considered. Consequently this approach will be kept under review during the year.

- 14.6. Investment instruments identified for use in 2017/18 are detailed in **Appendix B to the TMSS**. It should be noted that whilst this table includes a wide range of investment instruments, it is likely that a number of these will not be used. However, their inclusion enables the required credit controls to be stated if their use is to be considered.
- 14.7. The investment policy reflects the Council's low appetite for risk, emphasising the priorities of security and liquidity over that of yield. The main features of the policy are as follows:
- The Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties, which also enables diversification and avoidance of concentration risk.
 - The Council applies the creditworthiness service provided by Capita Asset Services, which combines ratings and other data from credit rating agencies with credit default swaps and sovereign ratings.
 - The Council will only use approved counterparties from countries with a minimum credit rating of 'AA-', based on the lowest available rating (**Appendix C to the TMSS**). However, this policy excludes UK counterparties.
 - The suggested budgeted return on investments placed for periods up to 100 days during the year is 0.25%.

- 14.8. **Cabinet is asked to agree and recommend to Council the 2017/18 Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy as set out in the paper at Appendix N**

15. Strategic Plan References

- 15.1. The 2017/18 budget and the Medium Term Financial Forecast is underpinned by the Strategic Plan priorities and will seek to preserve and shift resources where needed to these priorities.
- 15.2. Appendix O provides an assessment of the links between the Strategic Plan and budget strategy.

16. Financial Implications

- 16.1 As set out in the report.

17. Publicity Considerations

- 17.1 Arrangements will be made to publish the approved tax levels in the local press in accordance with the legal requirements.

18 Human Rights Implications

18.1. None

19. Equality and Diversity

19.1. Consideration has been given to equality and diversity issues in respect of budget changes proposed as part of the budget process. This has been done in line with agreed policies and procedures including production of Equality Impact Assessments where appropriate.

20. Community Safety Implications

20.1 None

21. Health and Safety Implications

21.1 There are possible implications with removal of resources and some of the proposed savings, but each case has been reviewed and dealt with individually to mitigate or ensure risk is minimised.

22. Risk Management Implications

22.1 Risk management has been used throughout the budget process and specific consideration has been given to the Council's current risk profile when allocating resources. This is reflected in the corporate risk register.

23. Consultation

23.1. The budget will be scrutinised by Scrutiny Panel on 31st January 2017. The statutory consultation with NNDR ratepayers takes place in early February 2017 and notes of the meeting will be provided in due course.

Background Papers

Budget reports to Cabinet – 30 November 2016

2017/18 Budget Timetable	
Budget Strategy	
March – June (SMT and Budget Group)	Budget Group Meetings Agreed Update MTFF /Budget Strategy Review potential cost pressures, growth and risks Consider approach to budget Initial budget reviews started
Cabinet – 13 July 16	<ul style="list-style-type: none"> • Review 15/16 outturn • Report on updated budget strategy / MTFF • Timetable approved
Scrutiny Panel – 19 July 16	Review Cabinet report
Detailed Budget preparation and Budget Setting Consultation	
Budget Group / Leadership Team regular sessions on progress / budget options now - December	Review budget tasks Consider delivery of existing budget savings Complete outturn review
Cabinet – 7 September 16 and /or 12 October 16	<ul style="list-style-type: none"> • Budget Update • Consider “4 year settlement” • Review of capital resources / programme
Cabinet – 30 November 16	<ul style="list-style-type: none"> • Budget update • Reserves and balances • Agree fees and charges / budget changes • Government Finance settlement (if available) • Review in year budget position
Scrutiny Panel – 31 January 17	Budget position (Detailed proposals)
Cabinet – 1 February 17	Revenue and Capital budgets recommended to Council
Council – 22 February 17	Budget agreed / capital programme agreed / Council Tax set

2017/18 New Homes Bonus

	Actual						Provisional
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Basic NHB							
Growth re 09/10	724	724	724	724	724	724	nil
Growth re 10/11		749	749	749	749	749	nil
Growth re 11/12			986	986	986	986	986
Growth re 12/13				757	757	757	757
Growth re 13/14					1,185	1,185	1,185
Growth re 14/15						1,025	1,025
Growth re 15/16							553
Total basic NHB	724	1,473	2,459	3,216	4,401	5,426	4,506
Affordable Housing element							
re 10/11 delivery		52	52	52	52	52	nil
re 11/12 delivery			105	105	105	105	105
re 12/13 delivery				37	37	37	37
re 13/14 delivery					20	20	20
re 14/15 delivery						74	74
re 15/16 delivery							41
<i>Total affordable homes bonus</i>	<i>0</i>	<i>52</i>	<i>157</i>	<i>194</i>	<i>214</i>	<i>288</i>	<i>277</i>
Total New Homes Bonus	724	1,525	2,616	3,410	4,615	5,714	4,783

APPENDIX C

2017/18 Revenue Cost pressures

Heads of Service / Portfolio Holders have been asked to contain cost pressures within existing budget allocations wherever possible. The following are specific areas where budget allocations have been increased. Changes since the report to Cabinet on 30th November 2016 are highlighted in the updated allowance column.

	Current allowance	Updated Allowance	
	£'000	£'000	Comment
General Inflation	640	389	The revised inflation allowance reflects the latest assumption in respect of pay and prices. The allowance is less in part due to some specific cost pressures being identified separately.
Pensions – actuarial review impact	250	206	The cost pressure shown relates an increase in the employer contribution rate set as part of the actuarial review. The issue of the deficit position is considered separately within the report.
Pensions auto-enrolment	200	50	The allowance for the impact of pensions ‘auto enrolment’ which is due in 2017 has been reduced. At this stage there is no certainty as to the extent to which more employees will decide to stay in the scheme after auto enrolment. Therefore, it is proposed to reduce the provision for this in the budget and to consider the implication of the actual cost when it is known in the Autumn.
Welfare reform	26	26	Incremental cost for additional resources agreed by Cabinet in November 2015. Funding in part from allocation from balances.
Benefit payments		85	There is a forecast net pressure of £85k of benefit costs in respect of assumptions in respect of additional benefit costs relating to homelessness offset by other benefit subsidy changes.

	Current allowance	Updated Allowance	
	£'000	£'000	Comment
Net interest		120	It has been highlighted during the year that interest earned would be lower following reductions in interest rates. This also includes an allowance for the cashflow impact of the one off pensions payment.
Business rates revaluation		100	The revaluation has resulted in a net increase in business rates paid by the Council. The main increases relate to Council car parks, with some reductions including Colchester Leisure world.
Apprenticeship levy		120	The Apprenticeship Levy starts from April 2017 and requires employers operating in the UK with a pay bill over £3 million each year to invest in apprenticeships via an apprenticeship levy charged at a rate of 0.5% of the annual pay bill. For CBC, this means we will be required to set aside £120k in the first year which CBC will be able to draw down to pay for apprenticeship training only. The levy cannot be used to pay for the salaries, however it can also be used to train and develop existing CBC staff who do not have a degree. CBC will lose the levy if it is not spent within a year.
Staff costs		188	As part of the detailed budget exercise there are a number of pressure from temporary roles that are continuing and require funding. These include positions linked to income, such as resources to maximise business rate income and to deliver the business broadband project. In addition, there is the continuation of resources to support the delivery of the northern gateway project. It is proposed to use some balances to support these roles.
Other service pressures		177	There are a number of cost pressures within Commercial Services. These include increased rent and service charge costs for Rowan House (£62k), Town Hall car park costs and loss of income (£51k) and other costs and income pressures within Estates and facilities management.

	Current allowance	Updated Allowance	
	£'000	£'000	Comment
Waste Review - one off costs		72	One off costs of waste review implementation (excl. costs met from grant).
NEPP - removal of funding from ECC		150	Essex County County are no longer providing an annual contribution of £150k towards TRO (Traffic Regulation Order) work. This will be absorbed within NEPP budgets from 18/19 but it is proposed that earmarked parking reserves in 17/18 are used to provide transitional funding.
Technical items		13	There are a number of miscellaneous net cost pressures arising from changes in charges between the General Fund, HRA and the NEPP.
Total	1,116	1,696	

APPENDIX D

2017/18 Growth Items

The following are growth items included in budget proposals. Changes since the report to Cabinet on 30th November 2016 are highlighted.

	Current allowance	Updated Allowance	
	£'000	£'000	Comment
Locality budgets	102	102	An allowance has been built into the budget forecast to continue the locality budgets of £2,000 for Ward Councillors in 2017/18.
Reduced use of NHB in base budget	150	150	It is proposed that the Council continue to reduce the level of New Homes Bonus supporting the base budget.
Allocation for recurring investment in Strategic Plan priorities		110	As part of the budget, proposals have been made to deliver savings in order to reallocate resources to invest in strategic plan priorities. Specific decisions will be made in future reports.
	252	362	

Savings and Income – 2017/18

Service	Opportunity	2017/18	Comments
		£'000	
Efficiencies, Income and Service Reviews			
All Services	Outturn Review / income	580	A review of last year's outturn position and earlier years alongside progress to date this year has identified the potential to revise certain budgets assumptions. These relate to savings in employee budgets through increasing the 'vacancy factor' and changes to the car park and planning income budgets.
Operational Services	Sport & Leisure Business Case	94	First year savings as shown in report to Cabinet. A further £50k saving is shown within the reduced allocation for inflation.
Commercial Services	Commercial income	113	Updated forecast to reflect assumed additional income and savings within commercial trading services.
Commercial Services	Assets	154	Additional income arising from activities agreed from the Revolving Investment Fund (RIF).
Operational Services	Waste review	38	Cabinet has agreed the waste review which identified net savings in 17/18 or £38k (excluding one off costs which are considered separately in this report).
Various Services	LACM	50	Cost reductions are expected through various carbon management savings identified in the Local Authority Carbon Management (LACM) Plan.
Operational Services	Butt Road car park	42	The current budget includes provision for the rent for the Butt Road car park, however, following negotiations a 'peppercorn rent' has now been agreed resulting in a budget saving.

Service	Opportunity	2017/18 £'000	Comments
All Services	Digital Challenge	570	Forecast savings and income arising from activities included in the digital challenge programme. This includes:- <ul style="list-style-type: none"> £320k of savings within service budgets such as income through the agreed ultra high speed broadband project. £250k of corporate savings through identification of savings through 'smarter working' and also through reduced costs of postage and printing.
Corporate & Financial Management	Reduced implementation resources	80	Following consideration of resources to deliver the changes set out in the digital challenge it is considered possible to reduce the allowance previously allocated from £150k to £70k.
Commercial Services	Reduced resources within Commercial Services	35	Resources were originally allocated as part of Universal Customer Contact FSR to support reviews of commercial / trading services. It is now considered to be the right time to review and reduce these resources to deliver a saving.
Professional Services	Reduced resources within Land Charges as part of restructure following retirement of staff.	10	Reduced resources are not expected to impact on service or income target.
Community Services	Restructure of some specific roles within Zone team.	15	Consideration has been given to absorbing certain duties within the zone teams.
Total income & efficiencies		1,781	60%
Budget Reductions			
Corporate & Financial Management	Parish Grants re: LCTS scheme	13	Reduction in grants as approved by Cabinet.
Total reductions		13	0%

Service	Opportunity	2017/18	Comments
		£'000	
Corporate / technical items			
Technical	Minimum Revenue Provision (MRP)	93	Reduced cost following change in policy agreed by Cabinet in September 2016 in respect of MRP on capital expenditure incurred before April 2008.
Technical	Council Tax Sharing Agreement	150	Income from the agreement with ECC, Essex Police and Crime Commissioner and Essex Fire Authority has exceeded the budget in the last two years and therefore it is proposed to increase the 2017/18 budget. There is a risk to this target, however, we have been carrying forward surplus income in the last two years which therefore provides a degree of comfort that this income will be achieved.
Various Services	Reduction in investment funded from New Homes Bonus	921	As set out in this report the New Homes Bonus methodology has been reviewed and has resulted in a cut to the grant which means that the funding allocated for one off projects has been reduced.
Commercial Services	Reduction in affordable homes investment funded from New Homes Bonus	10	As above, but specifically in respect of the bonus paid for delivering affordable homes.
Total corporate / technical items		1,174	40%
Total		2,968	

Summary Budget 20017/18

	Adjusted Base Budget	One-Off Items	Cost Pressures	Growth Items	Technical Items	Total Savings	Detailed 17/18 Budgets
		£'000	£'000	£'000	£'000	£'000	£'000
Corporate & Democratic Core	227						227
Corporate & Financial Management	6,202	(19)	445			(67)	6,561
Executive Management Team	605		17				622
Community Services	6,191	(147)	179	102		(150)	6,175
Commercial Services	1,665	(50)	420			(422)	1,613
Customer Services	2,375	(70)	263			(78)	2,490
Operational Services (excl. NEPP)	1,166		260			(352)	1,074
Professional Services	2,250	(142)	156			(244)	2,020
Total General Fund Services	20,681	(428)	1,740	102	0	(1,313)	20,782
Technical Items							
<i>Corporate Items / sums to be allocated to services</i>							
Procurement Savings	(15)						(15)
Investment Allowance funded by New Homes Bonus	3,573	70		150		(921)	2,872
Business Rates revaluation	0		100				100
Apprenticeship Levy	0		120				120
Waste Review	0		56			(38)	18
Strategic Plan (funded by 15/16 NHB)	205	(205)					0

	Adjusted Base Budget	One-Off Items	Cost Pressures	Growth Items	Technical Items	Total Savings	Detailed 17/18 Budgets
		£'000	£'000	£'000	£'000	£'000	£'000
Allocation to support Strategic Plan	0			110			110
Digital Challenge implementation	150					(80)	70
Smarter Working	0					(200)	(200)
Digital Challenge - Post & Print	(50)					(50)	(100)
Inflation Reduction	0		(100)				(100)
Additional Service Savings	0					(60)	(60)
LACM	0					(50)	(50)
<i>Non-Service Budgets</i>							
Parish Council Grants / LCTS	91					(13)	78
Net interest Budget	418		120				538
Repair & Renewals Contribution	150						150
Minimum Revenue Provision (MRP)	653					(93)	560
Pensions	2,136		2,985				5,121
Council Tax Sharing Agreement	(650)					(150)	(800)
Heritage Reserve & Gosbecks Reserve	3						3
GF/HRA/NEPP Adjustment	(3,298)		12				(3,286)
Total Below the Line	3,366	(135)	3,293	260	0	(1,655)	5,129
Total incl. Below the line	24,047	(563)	5,033	362	0	(2,968)	25,911
Funded by:-							
Use of balances: re carry forwards	(426)	426			(77)		(77)
General use of balances	(462)	462			(422)		(422)

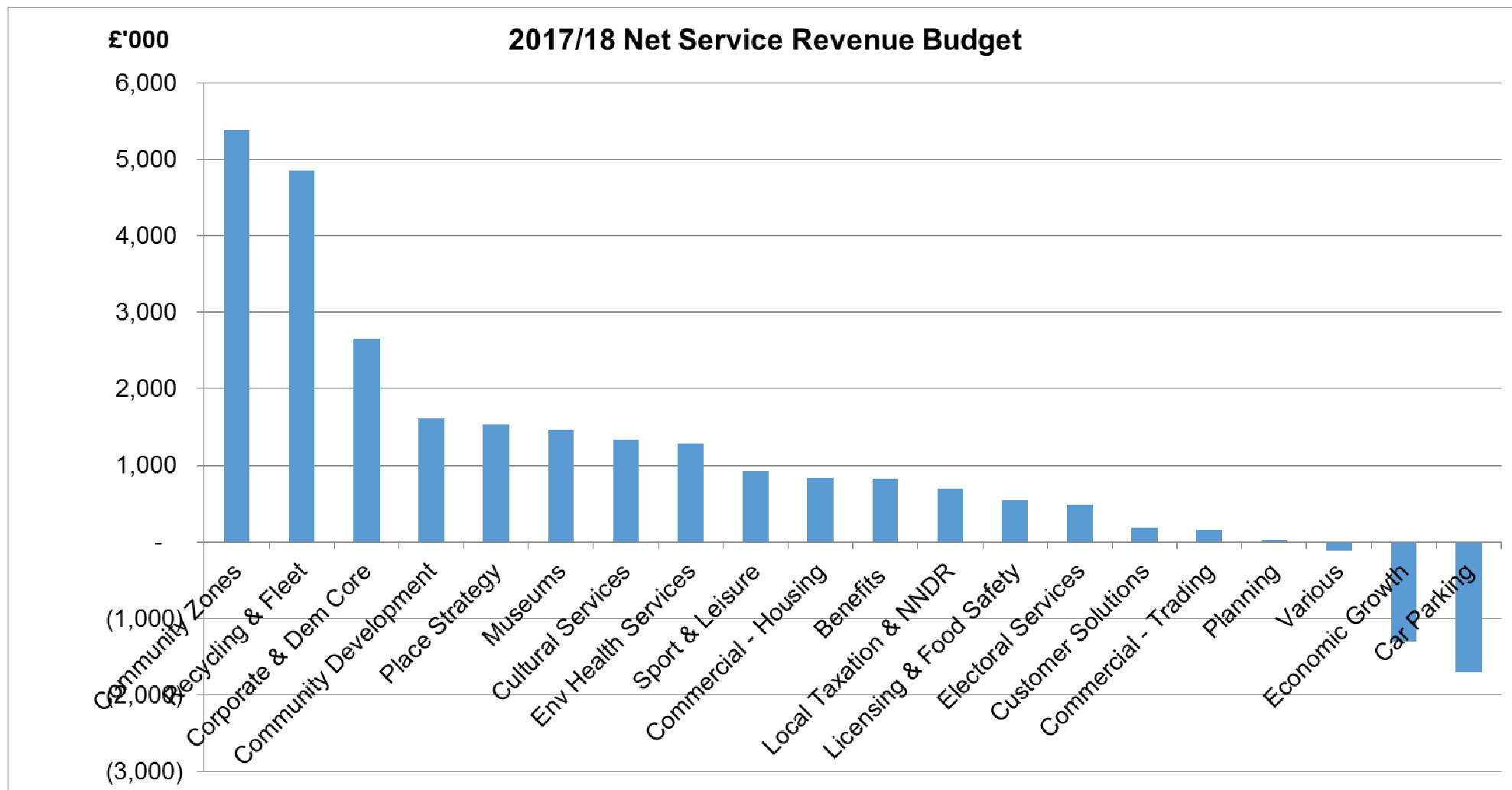
	Adjusted Base Budget	One-Off Items	Cost Pressures	Growth Items	Technical Items	Total Savings	Detailed 17/18 Budgets
		£'000	£'000	£'000	£'000	£'000	£'000
Use of balances for one-off Pension costs funding	0				(3,173)		(3,173)
Use of other Earmarked Reserves	0				(475)		(475)
Use of Business Rates Reserve	(1,537)	1,537			(489)		(489)
Use of S.106 Reserve	(20)						(20)
Revenue Support Grant	(1,978)		1,058				(920)
Business Rates Baseline	(3,960)		(78)				(4,038)
Transition Grant	(88)						(88)
NNDR Growth above Baseline	(800)				(100)		(900)
Council Tax	(10,599)				(416)		(11,015)
Collection fund Transfer	(353)	353			(48)		(48)
New Homes Bonus	(5,714)				931		(4,783)
NNDR Deficit / (Surplus)	1,890	(1,890)			537		537
Total	(24,047)	888	980	0	(3,732)	0	(25,911)

Detailed General Fund Service Budgets 2017/18

Area	Direct Budgets			Non-Direct Budgets	Total
	Spend	Income	Net	Net	
	£'000	£'000	£'000	£'000	£'000
Corporate & Democratic Core	227	-	227	2,430	2,657
Total	227	-	227	2,430	2,657
Corporate & Financial Management					
Assistant Chief Executive	156	-	156	(156)	-
Finance	805	(17)	788	(788)	-
ICT and Communications	2,606	(186)	2,420	(2,420)	-
People and Performance	536	(14)	522	(522)	-
Governance	2,937	(262)	2,675	(2,624)	51
Total	7,040	(479)	6,561	(6,510)	51
Executive Management Team					
EMT	622	-	622	(622)	-
Partner Projects	-	-	-	-	-
Total	622	-	622	(622)	-
Community Services					
Head of Community Services	136	-	136	(136)	-
Cultural Services	709	(122)	587	753	1,340
Community Zones	4,518	(804)	3,714	1,663	5,377
Community Development	1,214	(156)	1,058	556	1,614
Colchester Museums	51	(449)	(398)	3	(395)
Subtotal	6,628	(1,531)	5,097	2,839	7,936
Colchester & Ipswich Museums	2,098	(1,020)	1,078	781	1,859
Total	8,726	(2,551)	6,175	3,620	9,795
Commercial Services					
Head of Commercial Services	28	-	28	(28)	-
Place Strategy	1,599	(138)	1,461	83	1,544
Economic Growth	1,447	(3,563)	(2,116)	811	(1,305)
Corporate Asset Management	2,022	(99)	1,923	(1,884)	39
Commercial - Trading	2,682	(3,350)	(668)	821	153
Commercial - Housing	1,914	(929)	985	(151)	834
Total	9,692	(8,079)	1,613	(348)	1,265
Customer Services					
Head of Customer Services	43	-	43	(43)	-
Customer Operations	1,679	-	1,679	(1,679)	-

Area	Direct Budgets			Non-Direct Budgets	
	Spend	Income	Net	Net	Total
Customer Demands & Research	522	(25)	497	(497)	-
Customer Solutions	1,343	(452)	891	(708)	183
Local Taxation & NNDR	459	(635)	(176)	874	698
Subtotal	4,046	(1,112)	2,934	(2,053)	881
Benefits - Payments & Subsidy	56,602	(57,046)	(444)	1,262	818
Total	60,648	(58,158)	2,490	(791)	1,699
Operational Services					
Head of Operational Services	28	-	28	(28)	-
Sport & Leisure	4,457	(4,930)	(473)	1,400	927
Recycling & Fleet	6,988	(2,661)	4,327	528	4,855
Car Parking	880	(3,838)	(2,958)	1,251	(1,707)
Subtotal	12,353	(11,429)	924	3,151	4,075
Parking Partnership (NEPP)	3,071	(2,871)	200	(31)	169
Total	15,424	(14,300)	1,124	3,120	4,244
Professional Services					
Head of Professional Services	38	-	38	(38)	-
Licensing & Food Safety	560	(468)	92	451	543
Environmental Health Services	863	(105)	758	526	1,284
Electoral Services	279	(29)	250	235	485
Prof Support Units	1,842	(214)	1,628	(1,678)	(50)
Land Charges	149	(349)	(200)	49	(151)
Planning	609	(1,155)	(546)	575	29
Total	4,340	(2,320)	2,020	120	2,140
Adjustment for NEPP use of balances	-	150	150	-	150
Total (excl. NEPP)	103,648	(82,866)	20,782	1,050	21,832

*Non-direct budgets reflect recharges between service areas and technical accounting charges. These are shown to present the full cost of services.



General Fund Balances – Risk Assessment

A risk assessment has been undertaken to determine the prudent level of general fund balances as part of the 2017/18 budget process. This has been carried out with reference to specific risk allocation sums held within balances

Historically we have maintained a strong level of balances and these have been used to:-

- Support the annual budget - particularly to fund one off items.
- Fund new initiatives identified during the year.
- Provide cover for cashflow and emergency situations.
- Provide flexibility and a resource for change management.

Risk Assessment

The results of the current assessment are summarised below.

Factor	Assessed Risk			Comment
	High	Med	Low	
	£'000	£'000	£'000	
Cash Flow	1,000			
Inflation		100		
Investment Income	75			
Trading Activities and fees and charges		200		
Benefits		200		Separate allocation also held in balances
New legal commitments			100	
Litigation		150		
Partnerships			100	
VAT Exemption Limit			450	Increased to £450k in 16/17 representing current impact.
Budget Process		150		Increased in 16/17by £50k to reflect removal of contingency sums
Revenue impact of capital schemes			150	
Impact of Local Government Finance reforms	300			Maintained, given funds held in earmarked reserve and balances
	1,375	800	800	

	Risk	%	Minimum provision
High Risks	1,375	100	1,375
Medium Risks	800	50	400
Low risks	800	10	80
Sub total			1,855
Unforeseen factors			45
Recommended level			1,900

This shows the minimum level of balances be maintained at £1.9 million. It is then a matter of judgement whether it would be desirable to hold any further level of balances beyond this, or to seek to rebuild balances above this level to provide for future flexibility.

The main issues to mention concerning the assessment are: -

- The key reason for proposing to increase balances in 2013/14 was the new risks associated with major Local Government reforms such as the creation of a Local Council Tax Support Scheme and the local retention of business rates. This remains a key risk area.
- While the possible requirement to meet capital spending from revenue resources a potential risk it is no longer shown in the assessment as it is classed as "nil" because of the current level of funds held in the capital expenditure reserve and the introduction of the Prudential Code.
- Net investment income has been identified as a risk area. In last year's risk assessment this was classified as a "high risk" and due to the continuing uncertainty in the world economy this has been maintained.
- The assessment includes the risk that the VAT exemption limit will be exceeded with a consequent loss of recoverable VAT. Regular monitoring and active management of new schemes minimises this risk.

Implications

The risk assessment will be carried out at least annually as part of the budget process. While the current assessment indicates a minimum level it is important to recognise that there are implications of operating at this level. As noted above we have traditionally had a level of balances that have provided flexibility and enabled new initiatives to be considered outside the annual budget process. Operating at the minimum level requires an approach and a discipline to: -

- Ensure all spending aspirations for the coming year are assessed as part of the annual budget process. The continued development of the Medium Term Financial Forecast will assist in this.
- Recognise that it will not be possible to draw on balances to fund new discretionary initiatives identified in the year, however desirable they may be; an alternative source of funding would need to be identified.
- Realise future assessments could identify a need to rebuild balances
- Accept that the potential for interest earnings on balances will change depending on the level of balances held. (This will be reflected in the budget accordingly).
- Acknowledge that any balances desired for future flexibility/change management will need to be built up over and above the prudent level identified.

In addition it is acknowledged that it may be necessary for balances to fall below the recommended level. Balances are provided to mitigate unbudgeted cost pressures and as such at times they may be used to provide temporary support to the Council's budget.

General Fund Balances Position

Balances	Allocated	Risk allocations	Unallocated	Total	Note
	£'000	£'000	£'000	£'000	
Opening balance 1/4/16	(6,985)	(863)	(2,514)	(10,362)	per 15/16 accounts
Budget Carry Forwards:-					
Service Budget c/fs	1,475			1,475	
New Homes Bonus	1,008			1,008	
New allocations agreed Cabinet	128			128	Agreed by Cabinet – November 2015
Colchester & Ipswich Museum Service (CIMS)	188			188	Use of balances subject to decisions made by joint Committees.
North Essex Parking Partnership (NEPP)	179			179	
Council Tax Sharing agreement	271			271	Includes carry forward sum from previous years.
Funding allocation for Borough Investment For All	143			143	Agreed by Cabinet in 15/16, some funding c/f and some reallocated.
Funding allocations held in balances					
Allocations in previous years c/f	350			350	Allocations against specific projects. This has been reviewed as part of the final budget report and certain allocations are no longer required.
Redundancy costs	473			473	Includes pension strain costs. Cost more likely in later years.
Right to challenge - Gov't funding	46			46	

Balances					
	Allocated	Risk allocations	Unallocated	Total	Note
	£'000	£'000	£'000	£'000	
Agreed use of balances in 16/17:-					
Use of earmarked balances for welfare reform	76			76	Agreed by Cabinet November 15
Use of balances to support budget	386			386	Agreed by Cabinet November 15
Funding budget carry forwards	426			426	Agreed by Cabinet November 15
Funding previously held for Street Lights	185			185	Agreed by Cabinet March 16
Garden communities	250			250	Agreed by Cabinet in July 2016
Building Control	101			101	Agreed by Cabinet in July 2016, however, as project is now not going ahead this may not all be required, but held at this stage.
Use of allocation for planning appeals	170			170	Spend in year from risk allocation.
Underspends in year to be c/f	(32)			(32)	
Change in use of grants in previous years	(48)			(48)	
Potential use of balances in year			240	240	Based on last reported outturn forecast.
Total use in 16/17	5,775	0	240	6,015	
Proposed use in 17/18					
NNDR / Welfare reform	102			102	Use of balances agreed arising from reforms.
Support for digital challenge in 17/18	150			150	
Use for waste review	72			72	Balance of funding for one off costs.
General budget support	98			98	As set out in this report
Carry forwards	77			77	
Total proposed use in 17/18	499	0	0	499	

Balances					
	Allocated	Risk allocations	Unallocated	Total	Note
	£'000	£'000	£'000	£'000	
<i>Use of balances in later years or risk allocations</i>					
Community Stadium - rent adjustment	500			500	Provision for one-off reduction in rent
NNDR / Welfare reform	50	172		222	Provision for impact arising from reforms.
Support for 18/19 budget	50			50	
Planning appeals, legal, HR etc- risk allocation		241		241	£170k spent in 16/17. Balance held against other risks.
Housing benefit - risk allocation		300		300	Agreed in 15/16 budget and proposed to be increased by £170k to reflect increased risk relating to benefits.
Collection Fund - risk allocation		150		150	Agreed in 15/16 budget
Think Global, Act Local	180			180	Agreed by Cabinet 12 October 2016. Some costs may be incurred in 16/17. £20k of this assumed to be used to support staff resource in 17/18 budget
Total later years allocations	780	863	0	1,643	
Uncommitted / unallocated Balance	69	0	(2,274)	(2,205)	
Recommended level			(1,900)	(1,900)	Proposed level
Surplus above recommended level	69	0	(374)	(305)	

Earmarked Reserves and Provisions

Reserve	Amount at 31/03/16	Transfers - In	Transfers - Out	Estimate at 31/03/17	Allocated / Committed	Unallocated
	£'000	£'000	£'000	£'000	£'000	£'000
Renewals and Repairs (incl Building Maintenance Programme): Maintained for the replacement of plant and equipment and the maintenance of premises.	1,791	500	(400)	1,891	1,891	-
Insurance: To cover the self-insurance of selected properties.	384	25	(10)	399	-	399
Capital Expenditure: Revenue provision to fund the capital programme. The reserve is fully committed to funding the current capital programme.	1,851	3,200	(700)	4,351	4,351	-
Asset Replacement Reserve: A reserve for the future replacement of vehicles and plant. The vehicle replacement policy has been reviewed. Revenue contributions to this reserve have now ceased and the funding is now sourced from the Council's Capital Programme.	104	-	-	104	-	104
Gosbecks Reserve: Maintained to provide for the development of the Archaeological Park. The main source of funding was a 'dowry' agreed on the transfer of land.	225	2	(26)	201	201	-

Reserve	Amount at 31/03/16	Transfers - In	Transfers - Out	Estimate at 31/03/17	Allocated / Committed	Unallocated
	£'000	£'000	£'000	£'000	£'000	£'000
Heritage Reserve: This represents balance held of museums donations and as such represents a small element of the Council's support to heritage schemes.	11	5	(2)	14	-	14
Hollies Bequest: Provision for the upkeep of open space.	2	-	(2)	-	-	-
Section 106 Monitoring: Required for future monitoring of Section 106 agreements. From 2015/16 it was set at £20k per year.	35	20	(20)	35	35	-
Revenue Grants Unapplied: Under new accounting rules any grant received where there are no clear conditions that the grant is repayable if not spent now have to be transferred to this reserve. For all these grants proposals for use of the money exist and the funds are held in the reserve until the money is spent.	2,217	-	(600)	1,617	1,617	-

Reserve	Amount at 31/03/16	Transfers - In	Transfers - Out	Estimate at 31/03/17	Allocated / Committed	Unallocated
	£'000	£'000	£'000	£'000	£'000	£'000
<p>Parking Reserve: As part of the existing 'on street' parking arrangements there is requirement to keep any surplus funds separate from the General Fund. With the North Essex Parking Partnership (NEPP) there is also a requirement to hold separately funds provided to support TRO (Traffic Regulation Order) work and also initial funding provided by Essex County Council</p>	694	-	-	694	694	-
<p>Building Control: The Building (Local Authority Charges) Regulations came into force on 1 April 2010. The new charges allow Building Control to more accurately reflect the cost of chargeable services. In any year there is therefore the likelihood of a balance on this account that must be assessed as part of ongoing charges.</p>	-	-	-	-	-	-
<p>Heritage Mersea Mount: Funding received from English Heritage towards costs relating to Mersea Mount.</p>	11	-	-	11	11	-

Reserve	Amount at 31/03/16	Transfers - In	Transfers - Out	Estimate at 31/03/17	Allocated / Committed	Unallocated
	£'000	£'000	£'000	£'000	£'000	£'000
Mercury Theatre: Provision for the building's long term structural upkeep. Accumulated funds have been used to support roof repairs to the Mercury Theatre.	46	25	(10)	61	61	-
Business Rates Reserve: Maintained to cover the risk of any residual issues resulting from the introduction of the Local Business rates Retention scheme.	3,290		(1,537)	1,753	489	1,264
Revolving Investment Fund Reserve: Maintained as a way to deliver income-producing development schemes and regeneration/economic growth projects. The three main sources of funding into the RIF are existing capital programme allocations, capital receipts and revenue funding. Revenue funding will be held in this reserve until it is required for future capital schemes or revenue expenditure as necessary.	1,026	250	(400)	876	876	-
Total General Fund	11,687	4,027	(3,707)	12,007	10,226	1,781

Reserve	Amount at 31/03/16	Transfers - In	Transfers - Out	Estimate at 31/03/17	Allocated / Committed	Unallocated
	£'000	£'000	£'000	£'000	£'000	£'000
HRA Retained Right To Buy (RTB) Receipts - Debt: Reserve following Government changes to the RTB scheme. From 2012/13 the Council can retain a proportion of RTB receipts to offset debt taken on by the HRA Self-Financing settlement. The reserve must be used for HRA purposes.	2,492	1,400	-	3,892	3,892	-
HRA Retained Right To Buy (RTB) Receipts - Replacement: Reserve following Government changes to the RTB scheme. From 2012/13 the Council can retain a proportion of RTB receipts to fund affordable housing development. Receipts held within the reserve must be used within 3 years for this purpose; otherwise they must be repaid to the Government.	1,750	2,250	(200)	3,800	3,800	-
Total HRA	4,242	3,650	(200)	7,692	7,692	-
Total	15,929	7,677	(3,907)	19,699	17,918	1,781

Provision	Amount at 31/03/16	Transfers - In	Transfers - Out	Estimate at 31/03/17	Allocated / Committed	Unallocated
	£'000	£'000	£'000	£'000	£'000	£'000
Insurance: This element of the fund is specifically set aside as a provision to meet the cost of identified claims including subsidence. It also includes a contingency for liable costs if a previous insurer, which has gone into administration, is unable to remain solvent.	438	60	-	498	498	-
NDR Appeals: The Council has created a provision to meet the financial impact of successful appeals made against rateable values as defined by the Valuation Office as part of the Business Rates Retention scheme introduced from 1 April 2013.	2,989	862		3,851	3,851	-
Total	3,427	922	-	4,349	4,349	-

APPENDIX L

Medium Term Financial Forecast				
2017/18 to 2020/21				
	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000
Base Budget	24,047	25,911	21,621	21,620
15/16 One-off items	(452)			
Cost Pressures	5,033	(2,395)	812	640
Growth Items	362	454	354	150
Savings	(2,968)	(2,349)	(1,167)	(525)
Carry forward items	(111)			
Forecast Base Budget	25,911	21,621	21,620	21,885
<i>Funded By:</i>				
Revenue Support Grant	(920)	(275)	446	446
Business Rates Baseline	(4,038)	(4,157)	(4,290)	(4,290)
SFA	(4,958)	(4,432)	(3,844)	(3,844)
Increase in NNDR / taxbase above baseline	(900)	(1,000)	(1,000)	(1,000)
New Homes Bonus	(4,783)	(3,438)	(2,753)	(2,228)
Transition Grant	(88)			
Total Gov't grants	(10,729)	(8,870)	(7,597)	(7,072)
Council Tax	(11,015)	(11,434)	(11,860)	(12,293)
Collection Fund Deficit / (Surplus)	(48)	0	0	0
Business Rates Deficit / (surplus)	537	0	0	0
Use of Reserves	(4,656)	(120)	(20)	(20)
Total Funding	(25,911)	(20,424)	(19,477)	(19,385)
Budget (surplus) / gap before changes (cumulative)	0	1,197	2,143	2,500
Annual increase	0	1,197	946	357

	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000
Cost Pressures				
General Inflation	389	640	640	640
Pensions actuarial review	206			
Pensions actuarial review - impact of one off payment	2,935	(2,935)		
Elections		105		
Pensions - auto enrolment	50	150		
Budget Carry forwards	402	(402)		
NEPP - reduction in income from ECC for TROs	150			
ICT strategy - ongoing cost			200	
Stadium rent		128	22	
Benefit payments	85			
Interest	120			
Business rates revaluation	100			
Apprenticeship levy	120			
Staff resources	188			
Various Service pressures	177	43		
Waste Review -one-off (excl. transition grant)	72	(72)		
Various technical items	13			
Welfare reform	26	(52)	(50)	
Total	5,033	(2,395)	812	640
Growth Items				
Food Waste (net impact of loss of grant)		304	204	
Locality budgets	102			
Reduced use of NHB in base budget	150	150	150	150
Strategic Plan growth	110			
Total	362	454	354	150

Savings (incl. one off adjustments)				
Council Tax sharing agreement	(150)	250		
LCTS grant to parishes	(13)	(7)	(7)	
LACM	(50)			
Butt Road car park	(42)			
Minimum Revenue Provision (MRP)	(93)			
Waste Review	(38)	(59)		
Outturn review	(580)			
Sport & leisure	(94)	(198)	(50)	
Assets	(154)	(395)	(200)	

	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000
Commercial Income	(113)	(190)	(150)	
Digital Challenge				
Corporate Savings	(250)	(50)		
Service Savings	(320)	(255)	(75)	
New service savings	(60)	(30)		
Reduced investment from NHB - affordable homes	(10)	(102)		
Reduced investment from NHB	(921)	(1,243)	(685)	(525)
Digital Challenge / ICT strategy - implementation	(80)	(70)		
Total	(2,968)	(2,349)	(1,167)	(525)

Use of / contribution to Reserves				
Funding c/f				
S106 monitoring reserve	20	20	20	20
Use of balances for welfare reform and digital challenge	252	50		
Use of balances (incl. supporting staff resources)	98	50		
Waste review one off	72			
Use of balances - pensions	3,173			
Use of Capital Expenditure Reserve - ICT Strategy	325			
Use of NEPP reserve	150			
Funding budget carry forwards	77			
NNDR Reserve	489			
Total	4,656	120	20	20

New Homes Bonus Grant				
Basic NHB	(4,506)	(3,263)	(2,578)	(2,053)
Affordable Homes Bonus	(277)	(175)	(175)	(175)
Total Grant	(4,783)	(3,438)	(2,753)	(2,228)

Addressing the Budget Gap

The MTFF shows a budget gap of circa £2.5m over the three years from 2018/19. This should also be seen in the context of the risks and variables set out below and also in terms of reduced budgets and more efficient services resulting in savings that will be increasingly hard to deliver.

Risk Areas / Comments

The key risk areas to the forecast are:-

Risk / Area of uncertainty	
Impact of EU referendum 'leave' result.	<p>At this early stage any impact from the "leave" decision is unclear. However, the uncertainty and risks include:-</p> <ul style="list-style-type: none"> • Any changes to the announced public sector funding levels including NHB • Any impact on the Council's business rates 'taxbase' • Any impact on the Council's treasury management costs arising from interest rate changes. • Any impact of economic climate on Public Sector funding
<i>Government Funding / Business Rate Retention Scheme</i>	<p>The MTFF includes the reduction in the 'SFA' for 2017/18 of 17% with further reductions thereafter in line with figures included in the 4 year settlement.</p> <p>From 2013/14 a proportion of the Council's core income that used to be provided by Government grant is now funded by the Council keeping a share of business rates income. This poses a new risk as well as a potential reward.</p> <p>The budget includes an assumption that in 2017/18 we will retain an extra £900k of NNDR income above our baseline figure, with some increases in later years. The business rates revaluation takes effect in 2017/18 and the risk and impact of business rate appeals remains an area of concern. With the planned move to 100% business rates retention this remains a risk area for the Council's budget.</p>
<i>Welfare Reform (including Local Council Tax Support - LCTS)</i>	<p>Budget papers have previously set out some of the key risks associated with the implications of the Council having approved the LCTS scheme. The combined impact of the Government's welfare reforms and demands on Council services will need to be considered during the period of the MTFF.</p> <p>Resources have been released to provide additional staffing to support residents with funding provided from balances.</p>
<i>Government grants and partnership funding</i>	<p>The Council's budget has changed over recent years with a greater emphasis on funding from both partner organisations and Government bodies. These funding streams can rarely be guaranteed and can therefore add to our cost pressures.</p> <p>Provision has been made in the 2017/18 budget for the New Homes Bonus based on the notified grant. Thereafter the MTFF assumes the grant will reduce based on proposals made by the Government. These grant reductions will reduce the funds available for one-off investment and this is assumed within the MTFF.</p>

Risk / Area of uncertainty	
<i>Pensions</i>	<p>In the 17/18 budget an allowance has been built in for an increase in pensions costs based on the results of the actuarial review. In addition the budget assumes we will pay the deficit payment for the next three years.</p> <p>An allowance has been made for the impact of 'auto enrolment' in 17/18 and 18/19. This may need to be revised depending on actual numbers joining the pension scheme.</p>
<i>Fees and charges and other income</i>	<p>As has been seen in the past few years we have experienced a number of pressures arising from changes in income levels. Looking ahead to 2017/18 and beyond it is difficult to estimate how income levels may continue to be affected. Some targets have been increased to reflect performance in recent years and there is also additional income forecast from agreed business plans.</p>
<i>Inflation</i>	<p>An allowance for general inflation including pay has been built into the 17/18 forecast and MTFF.</p> <p>Council's cost inflation is in general not directly linked to RPI and therefore we will continue to monitor the impact of inflation on all Council costs. Some of the main risk areas include energy, fuel costs and pay assumptions.</p>
<i>Use of reserves</i>	<p>The budget position for 2017/18 includes proposals to use certain reserves included some general use of balances to support the budget.</p> <p>The MTFF includes some proposals to use reserves in future years.</p>
<i>Legislation</i>	<p>There are likely to be several items of new legislation over the life of the MTFF for which any available funding may not cover costs or which may impact significantly on the Council e.g. Universal Credit.</p>
<i>Impact of regeneration programme e.g. staff resources</i>	<p>The 2017/18 budget included continuing additional resources to support work in the Northern Gateway.</p> <p>Furthermore, the recently established Revolving Investment Fund (RIF) provides a framework for managing potential pressures.</p>
<i>Property review</i>	<p>A review of our assets was carried out and a 5-year Building Repairs and Maintenance Plan produced. There will continue to be financial implications arising from this for both the revenue budget and capital programme and these will be considered in detail and included in the on-going updates of the MTFF. The 2017/18 budget forecast maintains the additional allocation of £150k in respect of planned repairs.</p>
<i>Impact of growth in the Borough and demand for services</i>	<p>A number of Local Authority services are directly impacted by the increase of population in the Borough, such as waste services, planning, benefits etc. As part of future budgets it will be necessary to consider whether there is a need for additional resources in these or other areas in order to maintain levels of service. A financial assumption has been made that the Council's programme of service reviews will assist in identifying efficiencies to cope with changes in demand.</p>

Risk / Area of uncertainty	
<i>Delivery of budget savings</i>	The 2017/18 budget includes c£3m of savings or increased income. These items have been risk assessed and all are considered deliverable, however, the budget report considers the risk to delivering some of the income targets and if these cannot be achieved there is the risk in the MTFF of the ongoing impact. The MTFF includes further savings from the ongoing budget and service reviews and whilst these are currently considered to be on track to be delivered these will be reviewed as part of the 18/19 budget.
<i>Net Interest earnings and investments</i>	The budget is influenced by a number of factors including interest rates and cashflow movements. The treasury management strategy for 2017/18 highlights the outlook for interest rates in the medium-term which points to continuation of unprecedented low levels into 2017/18. The Council's strategy of internal borrowing has helped minimise our interest cost, however, it is recognised that this is not a long term approach and therefore there may be future cost pressures from any need to borrow externally. This is currently not reflected in the MTFF but will be considered as part of future budget updates.

All these issues will remain as risks to be managed over the course of the MTFF.

Capital Programme

Service / Scheme	Total Programme £'000	Projected Expenditure				(Surplus) / Shortfall £'000
		2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	
SUMMARY						
Operational Services	3,082.8	2,115.8	967.0	0.0	0.0	0.0
Professional Services	2,166.0	980.0	912.5	273.5	0.0	0.0
Commercial Services (excluding RIF)	502.0	305.1	196.9	0.0	0.0	0.0
Community Services	3,045.6	1,805.5	1,240.1	0.0	0.0	0.0
Revolving Investment Fund (RIF)	33,239.7	8,548.2	6,128.1	16,931.4	1,632.0	0.0
Completed Schemes	348.6	348.0	0.0	0.0	0.0	(0.6)
Capitalised Maintenance Schemes	236.4	236.4	0.0	0.0	0.0	0.0
Total (General Fund)	42,621.1	14,339.0	9,444.6	17,204.9	1,632.0	(0.6)
Housing Revenue Account	12,460.4	12,374.9	85.5	0.0	0.0	0.0
Total Capital Programme	55,081.5	26,713.9	9,530.1	17,204.9	1,632.0	(0.6)
OPERATIONAL SERVICES						
Shrub End Depot - new baler and shed	840.5	840.5	0.0	0.0	0.0	0.0
Priory Street Car Park	534.4	534.4	0.0	0.0	0.0	0.0
LWC - Health & Fitness Extension	994.0	27.0	967.0	0.0	0.0	0.0
LWC - Aqua Springs Refurbishment	250.0	250.0	0.0	0.0	0.0	0.0
LWC - Leisure Pool Refurbishment	270.0	270.0	0.0	0.0	0.0	0.0
LWC - Coffee Shop Extension	80.0	80.0	0.0	0.0	0.0	0.0
St Johns Car Park	90.0	90.0	0.0	0.0	0.0	0.0
Shrub End Pitch Replacement	23.9	23.9	0.0	0.0	0.0	0.0

			Projected Expenditure				
		Total Programme	2016/17	2017/18	2018/19	2019/20	(Surplus) / Shortfall
	Service / Scheme	£'000	£'000	£'000	£'000	£'000	£'000
	TOTAL - Operational Services	3,082.8	2,115.8	967.0	0.0	0.0	0.0
	PROFESSIONAL SERVICES						
	Mandatory Disabled Facilities Grants	1,973.5	900.0	800.0	273.5	0.0	0.0
	Private Sector Renewals - Loans and Grants	192.5	80.0	112.5	0.0	0.0	0.0
	TOTAL - Professional Services	2,166.0	980.0	912.5	273.5	0.0	0.0
	COMMERCIAL SERVICES						
	Assistance to Registered Housing Providers	91.9	0.0	91.9	0.0	0.0	0.0
	CCTV Monitoring	115.0	100.0	15.0	0.0	0.0	0.0
	Local Authority Carbon Management (LACM)	190.0	100.0	90.0	0.0	0.0	0.0
	Cemetery Extension	43.7	43.7	0.0	0.0	0.0	0.0
	Cemetery Exterior Lighting	50.0	50.0	0.0	0.0	0.0	0.0
	Replacement of Cremators	11.4	11.4	0.0	0.0	0.0	0.0
	TOTAL - Commercial Services	502.0	305.1	196.9	0.0	0.0	0.0
	COMMUNITY SERVICES						
	Improving Life Opportunities	38.3	0.0	38.3	0.0	0.0	0.0
	Oak Tree Community Centre Roof	50.0	0.0	50.0	0.0	0.0	0.0
	Lion Walk Activity Centre	40.0	0.0	40.0	0.0	0.0	0.0
	Garrison Gym Rebuild	88.2	88.2	0.0	0.0	0.0	0.0
	Mersea Pontoon	10.6	10.6	0.0	0.0	0.0	0.0
	Castle Park Sensory Garden S106	60.6	60.6	0.0	0.0	0.0	0.0
	Cook's Shipyard Playsite Wivenhoe S106	11.6	11.6	0.0	0.0	0.0	0.0

		Projected Expenditure					
		Total Programme	2016/17	2017/18	2018/19	2019/20	(Surplus) / Shortfall
Service / Scheme		£'000	£'000	£'000	£'000	£'000	£'000
	Old Heath Recreation Ground Improvements	132.1	132.1	0.0	0.0	0.0	0.0
	Wivenhoe Adult Gym	21.0	21.0	0.0	0.0	0.0	0.0
	Market Development	2.7	2.7	0.0	0.0	0.0	0.0
	Mile End Rec Playground	40.0	40.0	0.0	0.0	0.0	0.0
	Tiptree P C - Store & WCs	83.0	83.0	0.0	0.0	0.0	0.0
	Walls - new merged scheme	521.8	410.0	111.8	0.0	0.0	0.0
	Mercury Theatre Redevelopment	1,430.7	430.7	1,000.0	0.0	0.0	0.0
	Relocation of Museum Resource Centre	515.0	515.0	0.0	0.0	0.0	0.0
	TOTAL - Community Services	3,045.6	1,805.5	1,240.1	0.0	0.0	0.0
	REVOLVING INVESTMENT FUND						
	Northern Gateway North	445.2	445.2	0.0	0.0	0.0	0.0
	CNGN - Mile End Cricket	200.0	0.0	200.0	0.0	0.0	0.0
	CNGN - Sports Hub	17,078.0	0.0	3,559.0	11,887.0	1,632.0	0.0
	Northern Gateway South	493.2	118.2	375.0	0.0	0.0	0.0
	Town Centre	6,547.6	1,466.6	240.0	4,841.0	0.0	0.0
	Creative Business Centre	1,286.5	1,286.5	0.0	0.0	0.0	0.0
	Jacks - St Nicholas St	1,015.6	100.0	915.6	0.0	0.0	0.0
	Sheepen Road	3,492.3	3,292.3	200.0	0.0	0.0	0.0
	District Heating Project North	26.8	26.8	0.0	0.0	0.0	0.0
	District Heating Project East	10.0	10.0	0.0	0.0	0.0	0.0
	East Colchester Enabling Fund	285.0	50.0	235.0	0.0	0.0	0.0
	Breakers Park	75.0	25.0	50.0	0.0	0.0	0.0
	Surface Water Flooding - Distillery Lane/Haven Road	77.4	10.0	67.4	0.0	0.0	0.0
	Site Disposal Costs	4.8	4.8	0.0	0.0	0.0	0.0
	Moler Works Site	40.7	0.0	40.7	0.0	0.0	0.0

Treasury Management Strategy Statement
Minimum Revenue Provision Policy Statement and
Annual Investment Strategy
2017/18

1 Introduction

Background

- 1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3 CIPFA defines treasury management as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

Reporting requirements

- 1.4 The Council is required to produce three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are all required to be scrutinised and reviewed. This role is undertaken by the Council's Scrutiny Panel and Governance and Audit Committee.
- 1.5 **Prudential and Treasury Indicators and Treasury Strategy** (This report) – The first, and most important report is recommended to Full Council following consideration by the Scrutiny Panel. It covers:
- the capital plans (including prudential indicators);
 - a Minimum Revenue Provision (MRP) Policy (how residual capital expenditure is charged to revenue over time);
 - the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
 - an investment strategy (the parameters on how investments are to be managed).
- 1.6 **Mid-Year Treasury Management Report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

1.7 **Annual Treasury Report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.8 Members will also be kept informed of any other significant matters that may occur as part of the quarterly Capital Monitoring reports to Scrutiny Panel and Audit and Governance Committee.

Training

1.9 The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management or scrutiny receive adequate training in treasury management. Training has previously been undertaken by members and further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

Treasury Management Strategy for 2017/18

1.10 The strategy for 2017/18 covers the following Capital and Treasury Management issues:

- the capital plans and the prudential and treasury indicators;
- the Minimum Revenue Provision (MRP) Policy;
- the current treasury position;
- the economic background and prospects for interest rates;
- the borrowing strategy;
- the investment policy and strategy, and credit worthiness policy;
- the policy on use of external service providers.

1.11 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

Treasury management consultants

1.12 The Council uses Capita Asset Services Treasury Solutions as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

1.13 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 The Capital Prudential Indicators 2017/18 – 2019/20

2.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

Capital Expenditure

2.2 This prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital Expenditure £'000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
General Fund	6,401	14,417	10,974	18,520	1,632
HRA	13,663	11,199	11,288	11,860	10,898
Total	20,064	25,616	22,262	30,380	12,530

2.3 The table below summarises how the above capital expenditure plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing).

Capital Expenditure £'000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Total Expenditure	20,064	25,616	22,262	30,380	12,530
Financed by:					
Capital receipts	1,318	9,782	7,786	17,787	2,132
Capital grants	3,238	3,068	1,399	1,137	0
Reserves	11,172	7,750	7,239	5,381	5,305
Revenue	646	3,902	3,814	3,433	2,527
Finance leases	877	78	0	0	0
Net financing need	2,813	1,036	2,024	2,642	2,566

The Capital Financing Requirement

2.4 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

2.5 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

2.6 The CFR includes any other long term liabilities (e.g. finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council had £3.3m of such schemes within the CFR as at 31 March 2016. The Council is asked to approve the CFR projections below:

£'000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
CFR – general fund	25,630	24,520	23,342	23,415	22,251
CFR - housing	127,933	128,969	130,993	132,320	134,886
Total CFR	153,563	153,489	154,335	155,735	157,137
Movement in CFR	2,395	(74)	846	1,400	1,402
Movement in CFR represented by:					
Net financing need	2,813	1,036	2,024	2,642	2,566
Assets acquired under finance leases	877	78	0	0	0
Less MRP	1,295	1,188	1,178	1,242	1,164
Movement in CFR	2,395	(74)	846	1,400	1,402

Minimum revenue provision (MRP) Policy Statement

- 2.7 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments (VRP) if required.
- 2.8 CLG Regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:
- 2.9 For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will allow for the borrowing need (CFR) to be repaid on an equal instalment basis over a period of 50 years with effect from the 2016/17 financial year. This has the benefits of reducing the amount payable for the first 17 years, introducing a consistent level of charge, and ensuring that this element of MRP is eventually completely repaid.
- 2.10 From 1 April 2008 for all unsupported borrowing (including finance leases) the MRP policy will be the Asset Life Method (option 3) – MRP will be based on the estimated life of the assets, in accordance with the regulations. This provides for a reduction in the borrowing need over approximately the asset's life. Repayments included in finance leases are applied as MRP.
- 2.11 There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.
- 2.12 The Accountancy team will keep the Council's MRP Policy under review to ensure that it remains fit for purpose in relation to its borrowing requirements.

Affordability Prudential Indicators

- 2.13 The previous paragraphs cover the overall capital, and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:
- 2.14 **Ratio of financing costs to net revenue stream.** This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
%					
General Fund	8.06%	7.46%	7.85%	8.74%	8.84%
HRA	18.06%	18.58%	18.88%	19.24%	19.21%

2.15 The estimates of financing costs include current commitments and the proposals in this report.

2.16 **Incremental impact of capital investment decisions on council tax.** This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
£			
Council Tax - Band D	0	0	0

2.17 **Incremental impact of capital investment decisions on housing rent levels.** Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels. This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
£			
Weekly housing rents	0	0	0

3 Treasury Management Strategy

3.1 The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.2 The Council's treasury portfolio position at 31 March 2016, with forward projections are summarised below. The table shows the actual external debt against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£'000	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
External debt at 1 Apr	136,094	136,094	137,130	139,154	141,796
New borrowing	0	1,036	2,024	2,642	2,566
Other long-term liabilities	2,700	2,074	1,383	770	447
Gross debt at 31 Mar	138,794	139,204	140,537	142,566	144,809
CFR	153,563	153,489	154,335	155,735	157,137
Under / (over) borrowing	14,769	14,285	13,798	13,169	12,328
Investments at 31 Mar	37,406	36,370	34,346	31,704	29,138
Net Debt	101,388	102,834	106,191	110,862	115,671

3.3 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

3.4 The Chief Finance Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this report.

Treasury Indicators: Limits to Borrowing Activity

3.5 The **Operational Boundary** is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary £'000	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Debt	137,130	139,154	141,796	144,362
Other long term liabilities	2,074	1,383	770	447
Total	139,204	140,537	142,566	144,809

- 3.6 The **Authorised Limit** for external debt represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.
- 3.7 This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised. The Council is asked to approve the following Authorised Limit:

Authorised limit £'000	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Debt	166,515	168,252	170,465	172,390
Other long term liabilities	2,074	1,383	770	447
Total	168,589	169,635	171,235	172,837

- 3.8 Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

HRA Debt Limit £'000	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
HRA debt cap	140,275	140,275	140,275	140,275
HRA CFR	128,969	130,993	132,320	134,886
HRA headroom	11,306	9,282	7,955	5,389

HRA Debt Ratios £'000	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
HRA debt	128,969	130,993	132,320	134,886
HRA revenues	30,181	29,807	29,355	29,534
Ratio of debt to revenues	4	4	5	5
Number of HRA dwellings	6,002	5,952	5,912	5,872
Debt per dwelling (£'000)	21	22	22	23

4 Economic Outlook

- 4.1 The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. **Appendix A** draws together current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Capita Asset Services central view:

	Bank Rate	PWLB Borrowing Rates			
		5 year	10 year	25 year	50 year
Mar-17	0.25%	1.60%	2.30%	2.90%	2.70%
Jun-17	0.25%	1.60%	2.30%	2.90%	2.70%
Sep-17	0.25%	1.60%	2.30%	2.90%	2.70%
Dec-17	0.25%	1.60%	2.30%	3.00%	2.80%
Mar-18	0.25%	1.70%	2.30%	3.00%	2.80%
Jun-18	0.25%	1.70%	2.40%	3.00%	2.80%
Sep-18	0.25%	1.70%	2.40%	3.10%	2.90%
Dec-18	0.25%	1.80%	2.40%	3.10%	2.90%
Mar-19	0.25%	1.80%	2.50%	3.20%	3.00%
Jun-19	0.50%	1.90%	2.50%	3.20%	3.00%
Sep-19	0.50%	1.90%	2.60%	3.30%	3.10%
Dec-19	0.75%	2.00%	2.60%	3.30%	3.10%
Mar-20	0.75%	2.00%	2.70%	3.40%	3.20%

- 4.2 The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip in economic growth. During the two-year period when the UK is negotiating the terms for withdrawal from the EU, it is unlikely that the MPC will do anything to dampen growth prospects, which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in until quarter 2 2019, after those negotiations are expected to have been concluded. However, if strong domestically generated inflation were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.
- 4.3 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments. The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

- 4.4 PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future. The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently.
- 4.5 Borrowing interest rates were on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically low levels after the referendum and then even further after the MPC meeting of 4th August, when a new package of quantitative easing purchasing of gilts was announced. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times when the Council may not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt.

5 Borrowing Strategy

- 5.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.
- 5.2 At 31 March 2016 the Council's Capital Financing Requirement was £153.5m and, net of finance lease liabilities, the underlying borrowing requirement was £150.3m. The Council's external borrowing totalled £136.1m, which meant under-borrowing totalled £14.2m.
- 5.3 There would be a cost of carry to any new long-term borrowing that causes an increase in cash balances, as this position will incur a revenue loss between borrowing costs and investment returns. However, against this, the long term saving resulting from borrowing at very low rates should be considered. Assuming current rates increase in accordance with the above forecast, if borrowing were delayed for two years it would lead to the cost of borrowing being significantly higher over the life of a 50 year loan.
- 5.4 Against this background and the risks within the economic forecast, caution will be adopted with the 2017/18 treasury operations. The Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:
- if it was felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowing will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
 - if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.
- 5.5 Any decisions will be reported to the Scrutiny Panel or Governance and Audit Committee at the next available opportunity.

Treasury Management Limits on Activity

- 5.6 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:
- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
 - Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

5.7 The Council is asked to approve the following treasury indicators and limits:

Interest rate Exposures £'000	2017/18	2018/19	2019/20
Upper limit on fixed interest rates based on net debt	106,200	110,900	115,700
Upper limit on variable interest rates based on net debt	53,100	55,400	57,800

Maturity Structure of fixed interest rate borrowing	Lower	Upper
Under 12 months	0%	15%
12 months to 2 years	0%	15%
2 years to 5 years	0%	15%
5 years to 10 years	0%	15%
10 years to 20 years	0%	30%
20 years to 30 years	0%	30%
30 years to 40 years	0%	40%
40 years to 50 years	0%	40%
Over 50 years	0%	10%

Policy on Borrowing in Advance of Need

5.8 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt Rescheduling

5.9 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred). The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

5.10 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

5.11 Any rescheduling will be reported to the Scrutiny Panel or the Governance and Audit Committee at the earliest meeting following its action.

Municipal Bond Agency

- 5.12 It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). The Council will consider making use of this new source of borrowing as and when appropriate.

HRA borrowing

- 5.13 As part of the HRA reform arrangements in April 2012, the Council decided to follow the 'two pool' approach to allocating existing debt, taking into account those loans that were originally raised for a specific purpose. This assumed that the HRA would be 'fully borrowed', however the HRA is now in a position where it may need to borrow to fund the Housing Investment Programme.
- 5.14 As the Council is maintaining an under-borrowed position, the HRA will be recharged for the cost of any new borrowing requirement based on the average balance of unfinanced HRA borrowing during the year, using the PWLB variable rate as at 31 March of the previous year. In an environment of low investment returns and relatively stable borrowing rates, this provides a recharge that is beneficial to both the HRA and General Fund, and can be reasonably forecast from early on in the financial year. This approach will be reviewed annually in conjunction with the TMSS and projected investment returns.

6 Annual Investment Strategy

Investment Policy

- 6.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second and then return.
- 6.2 In accordance with the above guidance, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.
- 6.3 Ratings will not be the sole determinant of the quality of an institution, and it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as 'credit default swaps' and overlay that information on top of the credit ratings.
- 6.4 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- 6.5 Investment instruments identified for use in the financial year are listed in **Appendix B**, which includes Counterparty, time and monetary limits. These will cover both 'Specified' and 'Non-Specified' Investments.
- 6.6 Specified Investments are sterling denominated investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. Non-Specified Investments are those that do not meet the specified investment criteria. A limit of £20m will be applied to the use of Non-Specified investments (this will partially be driven by the long term investment limits).

Creditworthiness policy

- 6.7 The Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:
- credit watches and credit outlooks from credit rating agencies;
 - CDS spreads to give early warning of likely changes in credit ratings;
 - sovereign ratings to select counterparties from only the most creditworthy countries.
- 6.8 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system, which is then combined with an overlay of CDS

spreads for which the end product is a series of colour coded bands that indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years (UK Government debt or equivalent)
- Dark Pink 5 years Enhanced money market funds (1.25 credit score)
- Light Pink 5 years Enhanced money market funds (1.5 credit score)
- Purple 2 years
- Blue 1 year (nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No Colour not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

- 6.9 The creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.
- 6.10 Typically the minimum credit ratings criteria the Council uses will be a Short Term rating (Fitch or equivalents) of F1, and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.
- 6.11 All credit ratings will be monitored on a monthly basis. The Council is alerted to changes to ratings of all three agencies through its use of the creditworthiness service. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.
- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
 - a negative rating watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.
 - in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Capita Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.
- 6.12 Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, and information on any external support for banks to help support its decision making process.

Country limits

- 6.13 The Council will only use approved counterparties from countries with a minimum sovereign credit rating of AA-, based on the lowest available rating. However this policy excludes UK counterparties. The list of countries that qualify using this credit criteria as at the date of this report are shown in **Appendix C**. This list will be amended by officers should ratings change in accordance with this policy.
- 6.14 In addition no more than £10m will be placed with any non-UK country at any time.

Investment strategy

- 6.15 The Council will manage all of its investments in-house. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).
- 6.16 The Bank Rate is forecast to remain at 0.25% before starting to rise from quarter 2 of 2019, and not to rise above 0.75% by quarter 1 2020. Investment rates are likely to remain low during this period. The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows:
- 2016/17 0.25%
 - 2017/18 0.25%
 - 2018/19 0.25%
 - 2019/20 0.50%
 - 2020/21 0.75%
 - 2021/22 1.00%
 - 2022/23 1.50%
 - 2023/24 1.75%
 - Later years 2.75%
- 6.17 The overall balance of risks to these forecasts is currently slightly to the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. On the other hand, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace.
- 6.18 For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

Investment treasury indicator and limit

- 6.19 The limit for the total principal funds invested for greater than 364 days is set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end. The Council is asked to approve the treasury indicator and limit.

£'000	2017/18	2018/19	2019/20
Max. principal sums invested > 364 days	5,000	5,000	5,000

End of year investment report

- 6.20 At the end of the financial year, the Council will report on its investment activity to the Governance & Audit Committee as part of its Annual Treasury Report.

Interest rate forecasts 2017 - 2020

APPENDIX A

PWLB rates and forecast shown below take into account the 20 basis point certainty rate reduction effective as of 1 November 2012.

Capita Asset Services Interest Rate View													
	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank Rate View	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
3 Month LIBID	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%
6 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%	1.00%
12 Month LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%
5yr PWLB Rate	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB Rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB Rate	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB Rate	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Bank Rate													
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%
5yr PWLB Rate													
Capita Asset Services	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
Capital Economics	1.60%	1.70%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.70%	2.80%	2.90%	3.00%
10yr PWLB Rate													
Capita Asset Services	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
Capital Economics	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	3.10%	3.20%	3.30%	3.40%
25yr PWLB Rate													
Capita Asset Services	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
Capital Economics	2.95%	3.05%	3.05%	3.15%	3.25%	3.25%	3.35%	3.45%	3.55%	3.65%	3.75%	3.95%	4.05%
50yr PWLB Rate													
Capita Asset Services	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Capital Economics	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.60%	3.70%	3.80%	3.90%

Appendix B

Specified Investments – All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum ‘high’ quality criteria where applicable.

Non-Specified Investments – These are investments that do not meet the specified investment criteria. A limit of the lesser of £20m or 50% of the portfolio will be held in aggregate in non-specified investments.

A variety of investment instruments may be used that will fall into one of the above categories, subject to the credit quality of the institution. The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

Organisation	Min. Credit Criteria	Money Limit	Maturity Limit
Banks and Building Societies (including term deposits, CDs or corporate bonds)	Yellow	£7.5m	5 years
	Purple	£7.5m	2 years
	Orange	£7.5m	1 year
	Blue	£7.5m	1 year
	Red	£5.0m	6 months
	Green	£2.5m	100 days
	No colour	Not to be used	
UK Government Gilts	UK sovereign rating	£10m	1 year
UK Government Treasury Bills	UK sovereign rating	£10m	1 year
UK Local & Police Authorities	N/A	Unlimited	1 year
Debt Management Agency Deposit Facility	AAA	Unlimited	6 months
Money Market Funds	AAA	£10m	Liquid
Enhanced Money Market Funds	Dark Pink / Light Pink / AAA	£10m	Liquid
Bonds issued by Multilateral Development Banks	AAA	£3m	6 months
Property Funds	AAA	£5m	

Notes:

- Non U.K. country limit of £10m
- Limit in all Building Societies of £10m

The use of property funds can be deemed capital expenditure, and as such will be an application of capital resources. The Council will seek guidance on the status of any fund it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken.

The criteria in this appendix are intended to be the operational criteria in normal times. At times of heightened volatility, risk and concern in financial markets, this strategy may be amended by temporary operational criteria further limiting investments to counterparties of a higher creditworthiness and / or restricted time limits.

This list is based on those countries that have sovereign ratings of AA- or higher and also have banks operating in sterling markets, which have credit ratings of green or above in the Capita Asset Services credit worthiness service.

AAA Australia
 Canada
 Denmark
 Germany
 Luxembourg
 Netherlands
 Norway
 Singapore
 Sweden
 Switzerland

AA+ Finland
 Hong Kong
 U.S.A.

AA Abu Dhabi (UAE)
 France
 Qatar
 U.K.

AA- Belgium

Impact of Budget Strategy 2017/18

The budget for 2017/18 has been prepared in continuing difficult financial conditions. This is alongside the bedding in of changing local government financial arrangements.

There continue to be reductions in the amount of money we receive with a cut in combined funding of £1m (17%). In addition the changes to the New Homes Bonus has been cut by £0.9m.

Our programme of service reviews and development of an increase in commercial efficiencies and income continues to identify resources to meet our cost pressures. In addition a review of previous years spending and income has helped to identify areas where both expenditure and income budget can be reviewed to deliver a saving.

These various approaches and reductions to the budgets available for investment from the New Homes Bonus have helped to identify almost £3m of savings, extra income and budget reductions. This strategic approach to delivering savings minimises the need to ask services to deliver percentage reductions which may impact on service delivery or any significant budget reductions

In broad terms the savings identified and prudent use of balances has enabled the Council to address the cost pressures faced without the need for cuts to services.

The “base budget” includes an allowance of £110k for investment to assist in the delivery of the Strategic Plan. Proposals for using this will be made in future reports.

The New Homes Bonus remains one of the main ways in which the Council is able to identify funds for investment to support the delivery of the Strategic Plan. In the 2017/18 budget the amount of New Homes Bonus being used to support the ‘base budget’ has been reduced to under £1.6m and is a third of the total grant being received next year. There is £3.1m being invested in projects or programmes. These include:-

- Providing funding to support ambitious plans for development of the Mercury Theatre
- Allocating funds to support affordable housing
- An allocation of £250k to support the RIF
- Just over £2m to invest in projects that support Strategic Plan objectives and / or help deliver income to close future budget gaps.