Colchester

Cabinet

Item **9(i)**

31 January 2018

Report of	**Assistant Director – Policy and Corporate**	**Author**	**Sean Plummer** ☏ **282347**
Title	**2018/19 General Fund Revenue Budget, Capital Programme and Medium Term Financial Forecast**		
Wards affected	n/a		

This report requests Cabinet to recommend to Council:
- **The 2018/19 General Fund Revenue Budget**
- **Colchester's element of the Council Tax for 2018/19**
- **The Medium Term Financial Forecast**
- **The Capital Programme**
- **The Prudential Indicators and Treasury Management Strategy and Annual Investment Strategy**

1. Executive Summary

1.1. This report provides the Cabinet with the recommended 2018/19 revenue budget including all proposed savings and the Council's Council Tax Rate for 2018/19.

1.2. The report provides a summary of the local government finance settlement, which included a £645k reduction in Revenue Support Grant, and also Colchester's provisional New Homes Bonus grant for next year which is £1.34m less.

1.3. The report sets out the Council's Capital Programme and Treasury Management Strategy for the coming year.

1.4. Finally, the report sets out the updated Medium Term Financial Forecast (MTFF) for the period up to 2021/22. This includes an assessment of the Council's balances and reserves.

1.5. Specifically the report includes the following:-
- A proposal that Council's Council Tax rate for 2018/19 should be set at £185.13 per Band D property, which represents an increase of £4.95 (2.75%) from the current rate.
- Savings proposals totalling £2.8m including a reduction of £0.9m arising from the cut in New Homes Bonus.
- A proposed allocation of just over £2.2m to support investment in line with the Council's Strategic Plan including funding previously agreed for the Northern Gateway sports scheme.
- A continuing challenging financial positon over the next three year's showing a budget gap of £2.6m
- The Council's general fund balances remain close to our recommended level.
- Proposals for investment through the capital programme

2. Recommended Decisions

2.1. To note that for the purpose of assessing the impact on balances the outturn for the current financial year is assumed to be an overspend of £200k. (paragraph 6.4.).

2.2. To note the provisional Finance Settlement figures set out in Section 7 showing a cut to the Settlement Funding Assessment of £524k.

2.3. 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 7.8.

2.4. To note the reduction in the New Homes Bonus grant and that there further reductions in later years are expected as set out in section 7.

2.5. To approve the cost pressures, proposed use of New Homes Bonus, savings and increased income options identified during the budget forecast process as set out at in section 8 and detailed in Appendices C and D.

2.6. To consider and recommend to Council the 2018/19 Revenue Budget requirement of £19,695k (paragraph 8.13) and the underlying detailed budgets set out in summary at Appendix E and Background Papers subject to the final proposal to be made in respect of Council Tax.

2.7. To recommend to Council, Colchester's element of the Council Tax for 2018/19 at £185.13 per Band D property, which represents an increase of £4.95 (2.75%) 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.

2.8. To agree the Revenue Balances for the financial year 2018/19 as set out at Appendix I and agree that the:-

- the minimum level be set at a minimum of £1,900k
- £136k of balances, including sums carried forward from 2017/18, be applied to finance items in the 2018/19 revenue budget

2.9. To note the updated position on earmarked reserves set out in section 11 and agree the following:-

- Release of £300k use of capital expenditure reserve for ICT strategy
- Release of £185k use of parking reserve
- Contribution to the business rates reserve of £600k

2.10. To note the reinstatement of balances in respect of the pensions deficit payment made in 2017/18 as set out in section 8.12

2.11. To agree and recommend to Council that £100k of Revenue Balances be earmarked for potential unplanned expenditure within the guidelines set out at paragraph 12.3.

2.12. To note the Medium Term Financial Forecast for the financial years 2018/19 to 2021/22 set out in section 14.

2.13. To note the position on the Capital Programme, including forecast underspend shown at section 12 and agree to recommend to Council the inclusion in the Capital Programme of:-

- The proposed lending to the Council's company to support housing development as set out in the CCHL Business Plan.
- The inclusion of £2.9m in respect of the acquisition of properties for use as temporary accommodation.
- The proposed allocation in respect of the Council's waste fleet.
- The proposed transfer of resources from the DFG budget to Discretionary Financial Assistance Programme

2.14 To note the comments made on the robustness of budget estimates at section 13.

2.15. To approve and recommend to Council the 2018/19 Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy as set out in the background paper at Appendix M.

3. Reason for Recommended Decision

3.1. The Council is required to approve an annual budget.

3.2. This report sets out supporting information and also statutory commentary about the robustness of the budget and the level of balances.

4. Alternative Options

4.1 There are different options that could be considered as part of the budget within the constraints set out in this report

5. Background Information

5.1. The timetable for the 2018/19 budget process (see Appendix A) was agreed at Cabinet on 12 July 2017.

5.2. The Revenue Budget for 2018/19 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

5.3. The budget includes savings or additional income of almost £2.8m. This compares to £3m included within the 17/18 budget. A large proportion of savings continue to be based on proposals to work more efficiently and to maximise opportunities to increase income. This also includes a reduction made to the level of funds available for investment which is proposed to mitigate the reduction in the New Homes Bonus grant.

5.4. Core Government funding for 2018/19 is being reduced by £0.5m which follows a reduction in 2017/18 of £1m. 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, reductions in some income targets and various other pressures have all added to the budget gap.

5.5. The methodology for the New Homes Bonus changed in 2017/18 and this continues to impact on the grant we receive. For example the change to only pay NHB above a 0.4% threshold has reduced the grant we received by £0.4m in respect of last year's housing growth. 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 £2.2m available to support new investment. Some proposals are included in this report and further allocations will be made later in the year.

5.6. 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 £3.9m over the next three years. Planned savings, including a reduction in funding for new projects from the New Homes Bonus mean that this gap has reduced to £2.6m.

5.7. The 4 year Settlement figures show that Revenue Support Grant will end by 2019/20. The Government's spending power figures also illustrate the importance of the Council's own income from Council Tax and business rates and that these are expected to increase to help to mitigate this cut.

5.8. The provisional settlement also included a formal consultation on a review of relative needs and resources with the aim of implementing a funding system in 2020/21. Alongside this, the latest phase of the business rates retention programme was announced, with an aim for councils to retain 75 per cent of business rates from 2020/21.

5.9. 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.

5.10. Further information on the budget is provided in the following paragraphs.

5.11. 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.

6. Current Year's Financial Position

6.1. In order to inform the 2018/19 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.

6.2. It was reported to Scrutiny Panel on 7 November that the current year's budget position showed a forecast net overspend £490k. This reflected some forecast income shortfalls and cost pressures. A review at the end of December has identified some changes to this forecast and action has been taken to mitigate the overspend. Based on this, the forecast outturn is now expected to be closer to an 'on budget' position. However, it is prudent to assume that there remains a potential call on balances of c£0.2m

6.3 The position continues to be monitored, and the 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 Governance and Audit Committee will include details of any such changes, and this will be used when considering the end of year position.

6.4 **Cabinet is asked to note that the forecast outturn position for the current year may result in a potential call on balances of £0.2m and that this is used as part of the assessment of balances. The position will continue to be monitored.**

7 Finance Settlement (Government Funding)

7.1. The provisional Local Government Finance Settlement was announced in Parliament on 19 December 2017. 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

7.2. The SFA which comprises our RSG and business rate baseline figure has been cut by **£0.524million (11%).** This reduction is in line with the 4 year funding settlement which the Council applied for and which was agreed by Government.

	2017/18	**2018/19**	**Change**	
	£'000	**£'000**	**£'000**	**%**
Revenue Support Grant (RSG)	920	275	645	70%
Business Rates Baseline	4,041	4,162	-121	-3%
Settlement Funding Assessment (SFA)	*4,961*	*4,437*	*524*	*11%*

7.3. The split of the settlement funding is important. The RSG 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

7.4. 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.

7.5. The following table sets out a summary of the baseline position for Colchester for 2018/19 showing the *indicative* required tariff payment of £19m.

	£'000
Billing Authority Baseline	28,925
CBC Individual Baseline (80%)	23,140
Less Tariff	(18,978)
Baseline funding	**4,162**
Safety Net threshold (92.5%)	3,850

7.6. It should be noted that the above tariff figure has been reduced by £320k. This is an 'adjustment' representing the difference between the tariff that was set out in the 2017/18 local government finance settlement, and a revised 2017/18 tariff that reflects the impact of the 2017 revaluation exercise on the Business Rates Retention scheme.

7.7. 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.

7.8. 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 £1.1m. This takes into account of the tariff changes referred to earlier and 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 MTFF.

Business Rates Pooling

7.9. 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. 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. In 2017/18 Colchester is one of nine District Councils together with the County Council and Fire Authority in a pooling agreement.

7.10. It was reported to Cabinet last year that on 1st September the Government published an invitation to local authorities to pilot 100% business rate retention in 2018/19. Following an assessment of what a pilot might mean for Colchester and discussions between all Essex authorities a bid was submitted to be a pilot. The bid was made by all Essex authorities except Thurrock. It was reported that if the bid was not accepted then the same authorities had agreed to form a revised Essex business rates pool.

7.11. Alongside, the Settlement it was reported that the Essex bid to be a pilot had not been accepted. As reported, it is therefore proposed that the existing pool is disbanded at the end of 2017/18, and replaced by a new pool to include all Essex Authorities (with the exception of Thurrock). The new pool will be based on the existing methodology, and is forecast to generate additional income for Colchester based on current business rates forecasts.

7.12. 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 2018/19 would be beneficial to the Council.

7.13. In October, Cabinet considered how to use the gains from business rates pooling to try to support the base budget. It was agreed to allocate £200k from the gain received to support the 18/19 budget. Given that a gain of at least £200k is currently expected in this financial year it is proposed that a similar arrangement can be made to support the 19/20 budget. This proposed approach will need to be reviewed based on any future pooling arrangements.

7.14. The Settlement is provisional and subject to consultation which ended on 16 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. 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)

7.15 The 2018/19 grant has been announced and reflects the continuation of the changes to the methodology of the scheme introduced in 2017/18. These included:-

- From 17/18 the scheme has introduced a national baseline of 0.4%. NHB is only paid above this level.
- From 17/18 payments were made over 5 years rather than 6 and now, from 18/19, payments are only made over 4 years.

7.16 The final figure is a total grant for 2018/19 of £3.443m, a reduction of £1.34m The detailed breakdown of the grant is set out at Appendix B and is summarised below:-

	2017/18	**2018/19**	**Change**
	£'000	**£'000**	**£'000**
Basic NHB	4,506	3,296	(1,210)
Affordable homes bonus	277	147	(130)
Total New Homes Bonus	**4,783**	**3,443**	**(1,340)**

7.17. Changes to the NHB scheme have reduced the grant that this Council would otherwise have received in 18/19. The following table sets out the forecasts for the New Homes Bonus for the next four years following the changes showing the current year's grant will have been halved by 2020/21 :-

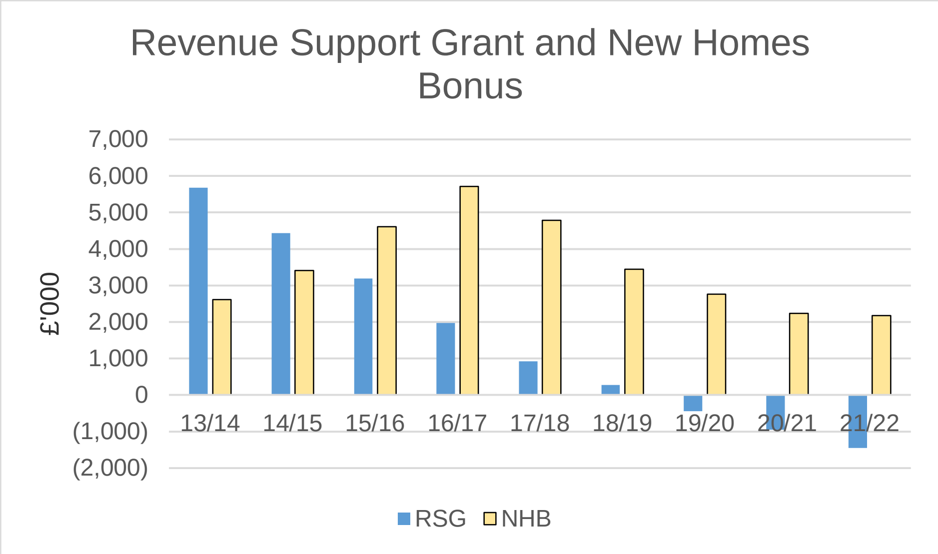
	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**
	£'000	£'000	£'000	£'000	£'000
Growth re 11/12	986	*nil*	*nil*	*nil*	*nil*
Growth re 12/13	757	*nil*	*nil*	*nil*	*nil*
Growth re 13/14	1,185	1,185	*nil*	*nil*	*nil*
Growth re 14/15	1,025	1,025	1,025	*nil*	*nil*
Growth re 15/16	553	553	553	553	*nil*
Growth re 16/17		533	533	533	533
Growth re 17/18 (est)			500	500	500
Growth re 18/19 (est)				500	500
Growth re 19/20 (est)					500
Total basic NHB	**4,506**	**3,296**	**2,611**	**2,086**	**2,033**
Affordable Homes Bonus	277	147	147	147	147
Estimated NHB	**4,783**	**3,443**	**2,758**	**2,233**	**2,180**

7.18. The Council has recognised the risk that the New Homes Bonus would change and has been reducing how much of the grant is used to support the base. Given the scale of reduction in grant and the continuing uncertainty about this funding source it is proposed that from 2018/19 the use of NHB to support the base budget be reduced by £400k pa over the life of the MTFF. In 2018/19 this would mean that £1.233m will be used to support the base budget.

7.19. Cabinet has already agreed to allocate £750k from next year's New Homes Bonus towards the Northern Gateway Sports Project and it is proposed that the annual contribution of £250k to the RIF (Revolving Investment Fund) is maintained and that the bonus received in respect of affordable housing continues to be earmarked for housing purposes. Based on this it would mean that there could be a further c£1m available to support new 2018/19 budget decisions.

	£'000	
Contribution to RIF	250	7%
Affordable housing allocation	147	4%
Allocation to CNG Sports Project	750	22%
Support for one-off schemes	1,063	31%
Base Budget	1,233	36%
Total Grant	**3,443**	**100%**

7.20. The 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 2021/22.



Core Spending Power

7.21 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.

7.22. For 2018/19 the change in the spending power as per Government figures is shown as a reduction of £1.3m or 6% as shown below.

7.23. 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%.

	2017/18	2018/19	Change	
	£'000	£'000	£'000	%
SFA	4,961	4,437	(524)	-11%
NHB	4,783	3,443	(1,340)	-28%
Other grants	149	87	(63)	-42%
Government grants	*9,893*	*7,967*	*(1,926)*	*-19%*
Council Tax (Gov't assessed figure)	11,015	11,635	620	6%
Core Spending Power	**20,908**	**19,602**	**(1,306)**	**-6%**

Government Grants (as above)	9,893	7,967	(1,926)	-19%
Council Tax (based on actual taxbase and rate)	11,015	11,471	456	4%
Core Spending Power *(actual)*	**20,908**	**19,438**	**(1,470)**	**-7%**

8 2018/19 Budget Changes

Revenue Cost Pressures

8.1. Appendix C sets out revenue cost pressures of £1.9m, over the 2017/18 base, which have been identified during the budget process. This includes an inflation allowance and some specific service cost pressures.

8.2. Many of the cost pressures have been considered by Cabinet. However there are a number of changes to assumptions and details are set out.

8.3. Also shown at Appendix C the budget includes proposals in respect of carry forward items. The main items relates to costs of the ICT strategy and some other smaller cost of resources and project funding carried forward between years. This is reflected in the use of balances and reserves set out later in this report.

8.4. **Cabinet is asked to approve inclusion within the 2018/19 Revenue Budget of the cost pressures set out at Appendix C.**

Growth Items

8.5. The budget includes no new revenue growth items. However, the approach taken to reduce the level of New Homes Bonus grant supporting the base budget has helped to preserve a level of funding to support new projects. Of the total grant of £3.443m, £1.233m is used to support the base budget, leaving £2.21m for projects.

	£'000
Contribution to RIF	250
Affordable housing allocation	147
Allocation to CNG Sports Project	750
Support for one-off schemes	1,063
Total Grant	**2,210**

8.6. As shown in the MTFF in this report income from the New Homes Bonus is expected to reduce in future years. 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 £1.063m in the 2018/19 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 garden communities
- borrowing costs for RIF schemes (it should be noted that in the last RIF update there are *potential* borrowing costs of £91k next year).
- 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.

8.7. **Cabinet is asked to approve inclusion within the 2018/19 Revenue Budget of the use of the New Homes Bonus for new projects as set out at paragraph 8.5 and 8.6.**

Revenue Saving / Increased Income / Technical Items

8.8. Appendix D sets out budget reductions, savings and increased income totalling £2.761m.

8.9. 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.

8.10. **Cabinet is asked to approve inclusion of the savings / increased income items set out at Appendix D within the 2018/19 Revenue Budget.**

Pension Fund Contributions

8.11. As part of the 2017/18 budget it was agreed to make the required pensions deficit contribution in respect of the period 2017/18 to 2019/20 in a one-off payment. We were required to show this full payment in the 2017/18 budget.

8.12 To facilitate this arrangement, and to reflect the equivalent annual costs in the budget, required a use of balances / reserves in 2017/18 of £3.2m. Given this change in approach the 2018/19 budget shows a reduction in the base budget of £1.6m which is replaced by a contribution to balances of £1.6m. This is reflected in the summary budget requirement and the contribution to balances.

Summary Total Expenditure Requirement

8.13. Should Cabinet approve the items detailed above, the total expenditure requirement for 2018/19 is as follows:

	2018/19	Note
	£'000	
Base Budget	25,911	
One-off items	(3,789)	(includes one-off pension cost)
Cost Pressures	1,920	Para 8.4.
Savings	(1,821)	Para 8.10
Change in use of NHB for one off investment	(940)	Para 8.10
Pensions Contribution	(1,586)	Para 8.12
Forecast Base Budget	**19,695**	

Notes:-

A summary of the 2018/19 budget is set out at Appendix E.

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

Further detailed service group expenditure is available.

8.14 **Cabinet is asked to agree and recommend to Council the net revenue expenditure requirement for 2018/19 and the underlying detailed budgets set out in Appendix E.**

9. Council Tax, Collection Fund and Business Rates

Council Tax Rate.

9.1. 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.

9.2. In 2018/19 the Secretary of State has proposed that district councils such as Colchester can increase their Council Tax by the higher of £5 or 3%. This is an increase on the previous limit of 2% (or £5) and means that the Council can increase Council Tax by up to 3%.

9.3. The 2018/19 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 £185.13, an increase of £4.95 (2.75%). Based on the taxbase for next year this results in estimated Council Tax income for the Council of £11.471m, an increase of £461k on the current year.

9.4. 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

9.5. 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 2016/17 forecast and actual outturn position.

9.6. The budgeted Council Tax surplus of £9k 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 2016/17, together with further expected growth during the current year.

9.7. 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.

9.8. The budgeted surplus of £600k 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.

9.9. 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 - Business Rates Reserve	**£'000**
NNDR reserve – @ 1st April 17	**1,753**
Forecast 17/18 movement (estimate)	-900
Forecast balance on reserve @ 31 March 18	**853**
Contribution to reserve in 18/19	600
Forecast balance on reserve	**1,453**

10 Revenue Balances

10.1 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 16 address this requirement.

Minimum level of balances

10.2. Each year the assessment of the recommended level of balances is reviewed. The assessment for 2018/19 is summarised at Appendix I and shows that the recommended level continues to be set at £1.9m. Whilst the risk assessment remains unchanged there are two issues that should be highlighted.

- *Commercial company arrangements*

The Council has agreed to transfer certain services and functions to new commercial companies owned by the Council. Whilst this transfers some of the budget risk to the company no changes have been made to the Council's recommended balances level. This should be reviewed as part of the 2019/20 budget.

- *VAT Partial exemption*

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. However, potential changes to VAT treatment, such as those relating to sport and leisure services, means this is an increasing area of concern. Whilst no increase in balances is proposed this should be kept under review in the current year.

10.3. In considering the level at which Revenue Balances should be set for 2018/19, Cabinet should note the financial position the Council is likely to face in the medium term.

10.4. 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. A separate reserve is also maintained to mitigate any pressures.

10.5. 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 2019/20 and the level of balances can be reviewed at that time.

Level and use of balances

10.6. 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.

10.7. There are a number of proposals to use balances to support the 2018/19 budget as follows:-

	£'000
Use of balances for c/f items	93
Use of balances for one-off items	43
Total use of balances	**136**

10.8. The forecast position in respect of Revenue Balances is set out at Appendix I and shows balances at c£2.15m, £0.25m 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£2.14m is considered appropriate.

10.9. Following the 2017/18 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 19/209 budget strategy and updated MTFF.

10.10 **Cabinet is recommended to approve Revenue Balances for the financial year 2018/19 be set at a *minimum* of £1.9m and to approve the use of £136k support the revenue budget.**

11 Reserves and Provisions

11.1. 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.)

11.2. Cabinet considered the Council’s earmarked reserves at its meeting on 22 November 2017. As part of the budget process a review was undertaken into the level and appropriateness of earmarked reserves and provisions for 2018/19. 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.

11.3. Appendix J 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 2018, the split between General Fund and HRA and how much is 'committed'.

	Committed / allocated		Uncommitted / unallocated		Total
	£'000	(%)	£'000	(%)	£'000
Reserves:-					
General Fund	8,921	85%	1,547	15%	10,468
HRA	10,515	100%	-	0%	10,515
Total Reserves	**19,436**	**93%**	**1,547**	**7%**	**20,983**
Provision	3,109		-		3,109

11.4. 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. This is required to be held and may be required to be used to fund pressures relating to the business rates retention scheme.

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

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

11.6. The building maintenance programme has been based on in-depth condition surveys of all Council building assets. The 2018/19 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.

NNDR Reserve – contribution of reserve of £600k

11.7. As set out in section 9.9.there is an estimated surplus on the collection fund for business rates. It is recommended that this is transferred to the business rate reserve to reinstate the sum held. Business rates remains an area which is subject to risk and variability and as such maintaining the reserve provides some protection against a number of changes.

Capital Expenditure Reserve – release of £300k for ICT Strategy

11.8. The ICT strategy was agreed by Cabinet and was funded through the capital programme and New Homes Bonus. As the detailed project costs became clearer it was 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. This is the last year of this arrangement.

Parking Reserve – release of £185k

11.9. As ECC no longer provide a contribution towards TRO work, the NEPP (North Essex Parking Partnership) agreed to use earmarked parking reserves to mitigate this pressure. This is the second year of this arrangement and it is proposed that £185k be used for this purpose.

11.20 **Cabinet is recommended to agree the:**

- **Release of £300k from the Capital Expenditure Reserve in respect of the ICT strategy**
- **Release of £185k from the parking reserve.**
- **£600k be transferred to reinstate the business rates reserve.**

Funding one-off pensions payment

11.21 As part of the 2017/18 budget it was agreed 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 were required to show this full payment in the 2017/18 budget.

11.22 To facilitate this arrangement and to reflect the equivalent annual costs in the budget required a use of balances / reserves in 2017/18 of £3.2m. It was agreed that this would 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.

11.23 **Cabinet is recommended to agree to reinstate balances and earmarked reserves of £1.6m in 2018/19 and to include the same sum in 19/20 budget strategy to reinstate balances.**

12. Contingency Provision

12.1 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.

12.2 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.

12.3 **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.

13. Summary of Position

13.1 Summary of the Revenue Budget position is as follows:

	£'000	Note / para
Revenue expenditure requirement for 2018/19	19,695	Para. 8.13
Collection fund surplus	(609)	Section 9
New Homes Bonus	(3,443)	Para 7.16.
Contribution to balances / Reserves:-		
Contribution to balances / reserves for pensions payment	1,586	Para. 8.13
Contribution to reserves	600	Para 9.9.
Use of Balances / reserves		
Use of Business Rates Pooling gain	(200)	Para 7.13
Use of balances	(136)	Para. 10.7.
Release of earmarked reserves	(485)	Para. 11.8 and 11.9
Budget Requirement	**17,008**	
Funded by:		
Revenue Support Grant	(275)	Para 7.2.
Business Rates Baseline Funding	(4,162)	Para 7.2.
Business Rates Improvement	(1,100)	Para 7.8.
Council Tax Payers requirement (before Parish element) see below*	(11,471)	Para 9.3 and table below
Total Funding	**(17,008)**	

Council Tax*	
Council Tax Payers requirement (before Parish element)	11,471,000
Council Tax Base – Band D Properties	61,960
Council Tax at Band D	**£185.13**

13.2 **Cabinet is asked to agree and recommend to Council Colchester's element of the Council Tax for 2018/19 at £185.13 per Band D property, which represents an increase of £4.95 (2.75%) 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 NNDR 1.**

14. Medium Term Financial Forecast – 2018/19 to 2021/22

14.1. 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

14.2. The Medium Term Financial Forecast (MTFF) is attached at Appendix K showing that the Council faces a continuing budget gap over the next three years from April 2019. The following table summarises the position showing a cumulative gap over the period from 2019/20 to 2021/22 of c£2.6m.

	2018/19	*2019/20*	*2020/21*	*2021/22*	See para
	£'000	*£'000*	*£'000*	*£'000*	
Net Budget	19,695	19,655	19,647	20,412	
SFA	(4,437)	(3,844)	(3,344)	(2,844)	14.4
NNDR Growth (incl. pooling gain)	(1,300)	(1,300)	(1,300)	(1,300)	14.11
New Homes Bonus	(3,443)	(2,758)	(2,233)	(2,180)	14.7
Council Tax	(11,471)	(11,929)	(12,407)	(12,907)	14.19
Reserves / Collection Fund	956	1,401	1,401	1,401	14.13
Cumulative Gap	**0**	**1,225**	**1,764**	**2,582**	
Annual increase		1,225	539	818	

14.3. 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

14.4. The SFA which comprises our RSG and baseline NNDR figure has been cut by **£0.5million (11%) in 18/19.** 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. A planning assumption of a further reduction of £0.5m is shown for 2020/21 and 2021/22.

	4 year settlement					**Assumption**	
	Actual		**Provisional**				
	16/17	**17/18**	**18/19**	**19/20**		**20/21**	**21/22**
	£'000	**£'000**	**£'000**	**£'000**		**£'000**	**£'000**
Revenue Support Grant	1,978	920	275	-446		-946	-1,446
Business Rates Baseline	3,960	4,041	4,162	4,290		4,290	4,290
Settlement Funding Assessment (SFA)	*5,938*	*4,961*	*4,437*	*3,844*		*3,344*	*2,844*
Reduction (£'000)		-977	-524	-593	-2,094	-500	-500
Reduction (%)		-16.5%	-10.6%	-13.4%	-35.3%	-13.0%	-15.0%

14.5. 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.

14.6. As set out within this report the New Homes Bonus is a key element of the financial support for local authorities and the Government announced changes to the scheme that reduced the grant in 2017/18 with a further reduction in 2018/19 and later years

14.7. 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 by £400k 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.

	2018/19	**2019/20**	**2020/21**	**2021/22**
	£'000	**£'000**	**£'000**	**£'000**
New Homes Bonus	**3,443**	**2,758**	**2,233**	**2,180**
Allocated to:-				
Contribution to RIF	250	250	250	250
Affordable housing allocation	147	147	147	147
Base Budget	1,233	833	433	33
Allocation to CNG Sports Project	750	500		
Support for one-off schemes	1,063	1,028	1,403	1,750
Total allocation	**3,443**	**2,758**	**2,233**	**2,180**

14.8. The table shows that the level of NHB grant the Council receives is expected to continue to be cut over the life of the MTFF. The Government has said it will consult on further possible changes to the NHB which could result in further reductions in grants.

14.9. As has been reported earlier the Essex bid to be a pilot for 100% business rates retention was not successful. Ten further retention pilots were agreed which it is intended will enable aspects of the retention system to be tested. At the same time, discussions are expected to continue between Government officials, the LGA and councils on the introduction of further business rates retention for all in 2020/21. The Government has also confirmed that the Fair Funding Review will be completed in time for implementation in April 2020.

14.10. The issue of further business rates retention and the Fair Funding Review, including assessing the impact of business rates appeals on local authorities in time for the implementation of further business rates retention in 2020/21 will continue to be an area of uncertainty for the Council's future funding assumptions.

14.11. At this stage the MTFF assumes a steady level of income from business rates. Assumptions for 2019/20 and beyond will be reviewed in the current year as part of the budget strategy. The MTFF assumes that £200k of the gain through pooling will be used to support the base budget in the way set out at para 7.13.

Pay, Inflation and costs

14.12. The 2018/19 budget includes an allowance for a pay award. For 2018/19 and beyond a sum is included for planning purposes to cover this and other inflationary pressures.

14.13. 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. On the assumption that the Council again pays the 3 year deficit in one payment it will be necessary to show the use of reserves in that year with the subsequent repayment over the next two years. For ease and planning purposes the MTFF simply shows an annual cost / contribution to reserve as a 'marker'. An allowance for the full year impact of pensions 'auto enrolment' has been included in the 2018/19 budget.

Forecast savings

14.14. The MTFF includes forecast savings for 2019/20 and beyond. These include:-

- The anticipated savings and income from the ongoing sport and leisure review
- The second year savings from the agreed Customers Futures 2 review.
- The revised projections for the Council commercial business plans, mostly relating to events.
- The forecast income arising from assets included within the RIF.
- The agreed second year savings from reduced arts grants.

14.15. 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

14.16. 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

14.17. The MTFF reflects that the government grant being used to support the costs of food waste collection will run out in 19/20. In addition an allowance is included for the potential full year impact of a change in the stadium rent and the inclusion of the revenue implication of the ICT strategy.

14.18. 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
- borrowing costs for projects within the RIF
- 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

14.19. In 2018/19 the Secretary of State has proposed that district councils such as Colchester can increase their Council Tax by the higher of £5 or 3% (for Colchester the higher figure is 3%) 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

14.20. A realistic approach has been taken to the MTFF and it is evident that it will be necessary to review and revise a number of the assumptions set out. The funding changes to local government will continue with further grant reductions, the changes to business rates retention arrangements and any impact of the Government's wider review of local government funding.

14.21. In the 2018/19 budget savings and reductions of £2.8m have been identified which, when looked at alongside almost £15m 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 contribution to reducing future budget gaps, further budget changes will be necessary.

14.22. The budget group has considered some savings area beyond 2018/19 and a programme of service reviews are planned to help to identify savings to close the budget gap for 2019/20 and beyond. 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.

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

15 Capital Programme

15.1 The current capital programme is detailed in Appendix L. 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.

15.2 The latest monitoring report highlights that there is a small net underspend on the Capital Programme of £0.255m against completed schemes and it is proposed that these funds are reallocated.

Scheme	Over/ (Under) £'000	
General Fund position		
Waste Collection Strategy	(268)	The primary reason for the under-spend was that the cost of the wheeled bins came in under expectations due to the price obtained from the winning contractor. It was also possible to swap two vehicles on the fleet through our contractor for wheeled bin collections rather than modify others which resulted in a saving.
Oak Tree Community Centre Roof	13	Tenders have been returned and some unforeseen works will potentially exceed funding available, so project may overspend budget by £13k.
Subtotal	**(255)**	

15.3. 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 2017/18. This shows a surplus that is available to support potential schemes in subsequent years.

Detail	**£'000**
Deficit brought forward	230
Capital receipts projection for 2017/18	(1,000)
New schemes	0
Balance available	**(770)**

15.4. There are a number of items to report for inclusion in the capital programme:

CCHL Business Plan

15.5 The Colchester Commercial Holdings Ltd (CCHL) Business Plan is subject to a separate item on this agenda. This shows a total estimated borrowing requirement of £28.8m for Colchester Amphora Homes Ltd (CAHL), to be drawn down between 2018 and 2024. This will be financed by prudential borrowing by the Council and charged to CAHL at a commercial rate in accordance with State Aid requirements. It is proposed that this cost is added to the CBC Capital Programme. The Council's Prudential Indicators from 2018/19 to 2020/21 reflects this proposed drawdown of funds. The borrowing requirement of £2.5m for Colchester Amphora Energy Ltd (CAEL) is already reflected in the Capital programme.

Purchase of properties for use as temporary accommodation – £2.9m.

15.6. The separate report on this agenda details the proposal to purchase up to 16 homes to be used as temporary accommodation for homeless households up to a value of £2.9 m. If agreed, this will be added to the capital programme and funded as set out within the separate report. `

Waste Fleet - £4m

15.6 The Council intends to purchase a new waste fleet once the current leasing arrangements expire from the beginning of 2019/20. An options appraisal exercise found that external borrowing from the Public Works Loan Board was the most competitive funding option. It is likely that part-payment for the first tranche of vehicles will be required by the end of 2018/19, so it is proposed that an indicative figure of £4m is added to the Capital Programme, subject to approval of the officer report and completion of a competitive tender exercise.

Discretionary Financial Assistance Program and Disabled Facilities Grant

15.7. The Better Care Fund Allocation, which funds the Disabled Facilities Grant (DFG) program, has doubled in the last two years. This increased allocation is sufficient to meet the demand for DFGs without the need for CBC to make any contribution to the allocation. This means that capital resources previously allocated by CBC to support the DFG program will no longer be required.

15.8. The discretionary financial assistance program has received no funding for at least 5 years. The provision of discretionary grants and loans to home owners plays an important role in improving serious defects to the homes of vulnerable households who would otherwise be unable to afford essential works. No government grant is received to support this work, and the current budget allocation is fully committed with a number of other cases already in the pipeline. It is anticipated that the demand for discretionary assistance will increase with more targeted activity. Funding is also required to pay for the housing stock modelling project and health impact assessment currently being commissioned, which will provide us with the information required to target our activity.

15.9. It is therefore proposed that a capital virement of £250,000 be made from the DFG budget to the discretionary program budget, which will allow the discretionary program to continue for a further 2 years. The majority of the discretionary assistance paid is in the form of a repayable loan. These loans are recovered when the property is sold.

15.10 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.

	2017/18 £'000	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**
GENERAL FUND					
Shortfall / (Surplus) B/Fwd	230	(770)	(970)	(1,170)	(1,370)
New schemes	0	0	0	0	0
Capital receipts	(1,000)	(200)	(200)	(200)	(200)
Shortfall / (Surplus) C/Fwd	(770)	(970)	(1,170)	(1,370)	(1,570)
REVOLVING INVESTMENT FUND					
Shortfall / (Surplus) B/Fwd	2,010	(491)	6,320	2,033	764
New schemes	6,541	17,348	17,456	0	0
Capital receipts	(9,043)	(10,537)	(21,743)	(1,269)	(269)
Shortfall / (Surplus) C/Fwd	(491)	6,320	2,033	764	495
Overall Shortfall / (Surplus) C/Fwd	**(1,261)**	**5,350**	**863**	**(606)**	**(1,075)**

16. Robustness of Estimates

16.1 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.

16.2 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.

16.3. This latest review of the budget for this financial year, 2017/18, has shown that there are a number of budget pressures across the Council. Outturn reviews in previous years have been undertaken to ensure that budgets reflect best estimates and do not contain "contingencies". This has meant that services have less scope to absorb unforeseen budget pressures and any requests for new spending that may arise in-year.

16.4. Through the 2018/19 budget process steps have been taken to revise certain income targets. These include reductions in budgeted income:-

- Planning income – reduced by £90k
- Helpline income – reduced by £100k
- Broadband income – reduced by £75k

16.5. The budget includes significant new or increased savings and income targets across the Council totalling £1.8m. Most of these items have been identified through budget reviews and assumptions have been checked to ensure that there are reasonable and achievable. They comprise a mix of spending reductions and additional income.

16.6. All Assistant Directors have reviewed their detailed budgets and various changes have been incorporated into their individual budgets.

16.7. 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, income levels in particular in respect of sport and leisure, planning, car parks and trading services.
- Delivery in the year of certain agreed savings such as the Customers Futures 2 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.
- Asset rental income assumptions.
- Assumptions within the Council's commercial company arrangements, including borrowing levels.
- Impact of Council borrowing on interest costs / income.

16.8. The budget risks will be managed during 2018/19 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.

16.9. The External Auditor has commented that *"the Council has a strong history of delivering savings targets……and taking effective steps to address future budget gaps".* As part of the in year budget monitoring action has been taken to mitigate pressures and as commented earlier, adjustments have been made in respect of the 2018/19 budget proposals.

16.10. 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.

16.11. 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.

16.12 **Cabinet is asked to note the comments on the robustness of budget estimates.**

17. Treasury Management and Prudential Code Indicators

17.1. The proposed Treasury Management Strategy Statement (TMSS) for 2018/19, including the Minimum Revenue Provision Policy Statement and Annual Investment Strategy, is included at **Appendix M**. The following paragraphs contain a summary of the strategy for 2018/19, which covers the following issues:

- the capital plans and the prudential indicators;
- the Minimum Revenue Provision (MRP) Policy;
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- the economic background and prospects for interest rates;
- the borrowing strategy;
- the policy of borrowing in advance of need;
- debt rescheduling;
- the investment policy and strategy, and credit worthiness policy;
- the policy on use of external service providers.

17.2. The Council's Prudential and Treasury Indicators for 2018/19 through to 2020/21 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.

17.3. The Minimum Revenue Provision (MRP) Policy Statement for 2018/19 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.

17.4. The UK bank rate was increased from 0.25% to 0.50% in November 2017. This reversed the emergency cut in August 2016 after the EU referendum. The current view from the Council’s treasury advisers, Link Asset Services, is that the Bank Rate is now expected to remain unchanged until quarter 4 of 2018, and not to rise above 1.25% by quarter 1 of 2021. *Appendix A to the TMSS* draws together a number of current forecasts for short term and longer term interest rates.

17.5. 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.

17.6. The TMSS and Prudential and Treasury Indicators take into account the requirements for new borrowing summarised in the table below. The decision regarding when to borrow will be taken in view of the borrowing strategy, the interest rates forecast, and the target rates for borrowing advised by Link Asset Services.

New Borrowing £'000	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
CNGN Sports Hub	0	0	1,380	0
Sheepen Road Phase 2	0	1,500	0	0
Waste Fleet	0	4,340	1,275	205
Tackling Homelessness	0	916	0	0
HRA - Housing Investment Programme	2,251	0	0	0
Energy Company	282	0	2,300	0
Housing Company	0	3,507	7,707	11,301
Total	**2,533**	**10,263**	**12,662**	**11,506**

17.7. Investment instruments identified for use in 2018/19 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. The monetary limits for Banks and Building Societies have each been increased by £2.5m to take into account possible fluctuations in the Council’s cash flow arising from the new borrowing requirements detailed above as well as the creation of the new commercial companies.

17.8. 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 Link 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 0.60%.

17.9 **Cabinet is asked to agree and recommend to Council the 2018/19 Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy as set out in the paper at Appendix M**

18. Strategic Plan References

18.1. The 2018/19 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.

18.2. Appendix N provides an assessment of the links between the Strategic Plan and budget strategy.

19. Financial Implications

19.1 As set out in the report.

20. Publicity Considerations

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

21 Human Rights Implications

21.1. None

22. Equality and Diversity

22.1. 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 polices and procedures including production of Equality Impact Assessments where appropriate.

23. Community Safety Implications

23.1 None

24. Health and Safety Implications

24.1 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.

25. Risk Management Implications

25.1 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.

26. Consultation

26.1. The budget will be scrutinised by Scrutiny Panel on 30th January 2018. The statutory consultation with NNDR ratepayers takes place in early February 2018 and notes of the meeting will be provided in due course.

Background Papers
Budget reports to Cabinet – 22 November 2017

APPENDIX A

2018/19 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 – 12 July 17	• Review 16/17 outturn • Report on updated budget strategy / MTFF • Timetable approved
Scrutiny Panel – 18 July 17	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 – 6 September 17 and /or 11 October 17	• Budget Update • Review of capital resources / programme
Cabinet – 22 November 17	• Budget update • Reserves and balances • Agree fees and charges / budget changes • Government Finance settlement (if available) • Review in year budget position
Scrutiny Panel – 30 January 18	Budget position (Detailed proposals)
Cabinet – 31 January 18	Revenue and Capital budgets recommended to Council
Council – 21 February 18	Budget agreed / capital programme agreed / Council Tax set

Appendix B

2018/19 New Homes Bonus

	Actual							Provisional
	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Basic NHB								
Growth re 09/10	724	724	724	724	724	724	nil	nil
Growth re 10/11		749	749	749	749	749	nil	nil
Growth re 11/12			986	986	986	986	986	nil
Growth re 12/13				757	757	757	757	nil
Growth re 13/14					1,185	1,185	1,185	1,185
Growth re 14/15						1,025	1,025	1,025
Growth re 15/16							553	553
Growth re 16/17								533
Total basic NHB	***724***	***1,473***	***2,459***	***3,216***	***4,401***	***5,426***	***4,506***	***3,296***
Affordable Housing element								
re 10/11 delivery		52	52	52	52	52	nil	nil
re 11/12 delivery			105	105	105	105	105	nil
re 12/13 delivery				37	37	37	37	nil
re 13/14 delivery					20	20	20	20
re 14/15 delivery						74	74	74
re 15/16 delivery							41	41
re 16/17 delivery								12
Total affordable homes bonus	*0*	*52*	*157*	*194*	*214*	*288*	*277*	*147*
Total New Homes Bonus	**724**	**1,525**	**2,616**	**3,410**	**4,615**	**5,714**	**4,783**	**3,443**

APPENDIX C

2018/19 Revenue Cost pressures

Assistant Director / 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 22nd November 2017 are highlighted in the updated allowance column.

	Current allowance	**Updated Allowance**	
	£'000	**£'000**	**Comment**
Cost Pressures			
General Inflation	540	533	Allowance includes pay assumptions, energy increases, business rate increase and some specific contract prices changes.
Food Waste (net impact of loss of grant)	304	304	The Council has used the Government grant over a number of years and will be all used during next year leaving a cost pressure
Elections	105	177	There were no Borough elections in 2017/18 and therefore it is necessary to reinstate the budget for these for 2018/19. Increased costs relate to the administration and staffing of an election across all wards for the first time since the boundary review. There hasn't been a 'stand alone' Borough election since 2012, where cost are meet solely by the Council. Staff costs have increased to meet the Living Wage, and whilst action has been taken to reduce print and post costs as far as practicable within the parameters of legislation these remain high for the election service.

	Current allowance	Updated Allowance	
	£'000	**£'000**	**Comment**
Pensions - auto enrolment	150	65	This allowance is for the recurring costs of increased pension costs as a result of auto enrolment. The number of staff deciding to join the pension scheme has been lower than expected and therefore the cost pressure is less.
Stadium rent	128	128	The Community Stadium fixed rent period ends during 2018/19 and an allowance is made in the budget for a potential reduction.
Various Service pressures	43	43	There were a number of service budget pressures included in the 17/18 budget, such as additional accommodation service charges, and this allowance is for the full year impact of these items
Planning income		90	The number of applications received has levelled off in recent times and the resulting fee income is unlikely to meet the increased target set for 17/18. The reduction for 2018/19 reflects this position.
Broadband income reduction		75	The income anticipated from this project has not met targets. It is now felt prudent to revise the target to a more realistic level.
Local Development Framework		30	The new Local Plan will be subject to examination in 2018/19 and the additional funds will pay for the Planning Inspector and consultants to represent the Council. It is a one off cost.
Procurement hub rebates		27	We have been a member of the Essex Procurement Hub for a number of years. The cost of membership has been offset over this period by a rebate we received from Framework Agreements let by the Hub. We have been notified by the Hub that due to a drop in the number of Frameworks Agreement let and competition from others in the market, the projected rebate probably will not cover the annual

	Current allowance	Updated Allowance	
	£'000	**£'000**	**Comment**
			contribution and we are being requested (along with all other Hub members) to make a contribution of £52,375 for 2018/19. It has been agreed that we can pay this over two financial years with £25,000 being paid in 2017/18 and £27,375 in 2018/19.
NEPP - extra use of reserve		35	Essex County Council stopped providing an annual contribution of £150k towards TRO (Traffic Regulation Order) work. In 2017/18 £150k from the earmarked parking reserves was used and it is now proposed to increase this by a further £35k.
Misc. items		20	There are various net pressures across mostly corporate or technical budgets.
Items c/f in balances:-			
ICT strategy	300	300	This relates to use the incremental costs of the ICT strategy.
PSU post	18	18	This relates to the last year of funding set aside to cover additional systems staff resources.
Startwell Post		30	£30k to be used to match fund the Public Health Improvement Coordinator post. The Council receives £20k from ECC to match fund the post and £26k in Public Health Grant funding aligned to the role to improve health and wellbeing at a local level and to optimise CBCs public health capabilities.
Additional communications and marketing post		45	It is proposed that part of the agreed budget for the setup and initial cost of the Council's commercial company arrangements is carried forward and used to provide additional marketing support to services within or managed by the Council's companies.
Total cost pressures	**1,588**	**1,920**	

Appendix D

Savings and Income – 2018/19

Opportunity		**Comments**
	£'000	
Efficiencies, Income and Service Reviews		
Sport & Leisure	148	Savings and additional income from sport and leisure business case.
Assets	264	Estimated increased income from commercial asset strategy including full year impact of Amphora Place (Phase 1).
Senior Management Restructuring & Commercial Company assumptions	139	Figures have been updated to reflect revised income projections for next year and other issues reflected in the proposed management fee for CCHL.
Digital Challenge - Service Savings	70	Various savings across service in line with digital challenge programme. These have been reduced to remove assumed additional income growth.
Service savings	30	Full year impact of service savings identified in 17/18 budget.
Digital Challenge / ICT strategy - implementation	70	End of funding for implementation.
Customer Futures 2	292	Review agreed by Cabinet in November.
Zones	90	Efficiencies will be delivered through a more focussed approach to activities and enforcement and a review of resources required based on demand. We will also review management resources.
Museums	100	Colchester Museums service will deliver additional income opportunities in light of 2017 investment into marketing. The service will also review back office functions given recent improvements to online information and introduce an assumed vacancy saving in line with historic average staff turnover.

Opportunity		**Comments**
	£'000	
ICT Review	50	These are savings following a major review of the ICT service earlier in the year.
Roundabout sponsorship	20	This is income from the sale of roundabout sponsorships that is in excess of the budget. To date this excess has been used to support the corporate marketing budget.
Off-Street parking	100	This saving will be found through a change in the Off Street governance which will mean that each authority will have a direct SLA with Colchester. Each authority will be responsible for the cost of its service and any risk. The outcome of these changes is that Colchester's contribution towards the cost of the NEPP Off Street arrangements will be reduced.
Waste Service	240	The waste service has been subject to massive change this year and it was identified that once the service settled down it would be possible to make savings. All the routes have been re-balanced as part of the changes. Additional capacity was retained in the service to support the higher works loads as the changes were implemented. Savings have been identified through waste rounds being reduced from 23 to 21. Savings will be a result of having two fewer vehicles and the associated crews and fuel costs. There are also two Yard Staff vacancies. These savings are in addition to the assumptions made for the second year of the new waste service. Combined, these savings have helped to mitigate a budget pressure resulting from lower income from the sale of recyclables.

Opportunity		Comments
	£'000	
Environment - various	39	Includes various savings across service including:- • £18k in respect of environmental health services. • £15k within licensing.
Policy and Corporate - various	65	This includes various net savings across the service in particular:- • Some changes to assumed costs and income relating to the commercial investment portfolio. • Small saving on cleaning costs
Welfare Reform – use of Government grants	42	Cabinet agreed to the formation of a cross service team in order to support residents and preserve operational services within a challenging framework of welfare reform. It was reported to Cabinet a number of Government grants provided to support local authorities with welfare reforms and other related issues were available and therefore these are now be used to fund the cross service team instead of the previous CBC funding.
Total income & efficiencies	**1,803**	
Budget Reductions		
Arts grants	50	A new two year funding settlement has been agreed with The Mercury; firstsite and Arts Centre which takes into account the challenging financial climate, compares well with neighbouring authority awards and continues to demonstrate our commitment and investment; especially when considered alongside capital commitments and positive partnership working.
Parish Grants re: LCTS scheme	7	Reduction in grants as approved by Cabinet.
Total reductions	**57**	

Opportunity		Comments
	£'000	
Budget Savings and income	**1,821**	
Change in Use of NHB for one off investment		
Reduction in investment funded from New Homes Bonus	810	
Reduction in affordable homes investment funded from New Homes Bonus	130	
Total change	**940**	
Total Savings, Income and Budget Reductions	**2,761**	

Appendix E

Summary Budget 2018/19

	Adjusted Base Budget	*One-Off Items*	*Cost Pressures*	*Technical Items*	*Total Savings*	*Detailed 18/19 Budgets*
		£'000	*£'000*	*£'000*	*£'000*	*£'000*
Corporate & Democratic Core	(496)	0	0		(7)	(503)
Executive Management Team	623	0	9		54	686
Community	5,595	(33)	205		(249)	5,519
Customers	3,440	(127)	111		(323)	3,100
Environmental (excl NEPP)	2,526	(20)	725		(535)	2,696
Policy & Corporate	8,009	(325)	932		(715)	7,901
Total General Fund Services	**19,697**	**(505)**	**1,982**	**0**	**(1,775)**	**19,399**
Technical Items						
Corporate Items / sums to be allocated to services						
Procurement Savings	(15)		15		0	0
Investment Allowance funded by NHB	2,872	0	0	0	(810)	2,062
NNDR Revaluation / Inflation Index	15		(25)		0	(10)
Apprenticeship Levy	30		(30)		0	0
Waste Review	72	(72)	0		0	0
Comms / Marketing post for CCHL	0		45		0	45
Strategic Plan 17/18	100	(100)	0		0	0
Digital Challenge	70		0		(70)	0
Grounds Maintenance Savings	11		(11)		0	0
Digital Challenge - Post & Print	(5)		5		0	0

	Adjusted Base Budget	*One-Off Items*	*Cost Pressures*	*Technical Items*	*Total Savings*	*Detailed 18/19 Budgets*
		£'000	*£'000*	*£'000*	*£'000*	*£'000*
PV Panels / LACM (Carbon Management)	(20)		0		0	(20)
Non-Service Budgets						
CLIA (net interest)	538		1		(106)	433
R&R Contribution	150		0			150
Min Revenue Provision	560		0		0	560
Pensions	5,108	(3,112)	(44)	(1,586)		366
Heritage Reserve & Gosbecks Reserve	3		(3)			0
GF/HRA/NEPP Adjustment	(3,275)		(15)		0	(3,290)
Total Below the Line	6,214	(3,284)	(62)	(1,586)	(986)	296
Total incl Below the line	**25,911**	**(3,789)**	**1,920**	**(1,586)**	**(2,761)**	**19,695**
Funded by:-						
Use of balances: re carry forwards	(77)	77	0	(63)		(63)
Use of balances	(422)	422	0	(73)		(73)
Contribution to balances	0	0	0	2,186		2,186
Use of balances for one-off Pension costs funding	(3,173)	3,173	0	0		0
Use of other Earmarked Reserves	(475)	475	0	(485)		(485)
Use of NNDR reserve	(489)	489	0	0		0
use of S.106 reserve	(20)	20	0			0
Revenue Support Grant	(920)		645			(275)
Business Rates Baseline	(4,038)		(124)			(4,162)
Transition Grant	(88)	88	0			0
NNDR Growth above Baseline	(900)		0	(200)		(1,100)

	Adjusted Base Budget	*One-Off Items*	*Cost Pressures*	*Technical Items*	*Total Savings*	*Detailed 18/19 Budgets*
		£'000	*£'000*	*£'000*	*£'000*	*£'000*
Business Rates Pooling	0		0	(200)		(200)
Council Tax	(11,015)		0	(456)		(11,471)
Collection fund Transfer	(48)	48	0	(609)		(609)
New Homes Bonus	(4,783)		0	1,340		(3,443)
NNDR Deficit / (Surplus)	537	(537)	0	0		0
Total	**(25,911)**	**4,255**	**521**	**1,441**	**0**	**(19,695)**

Appendix F

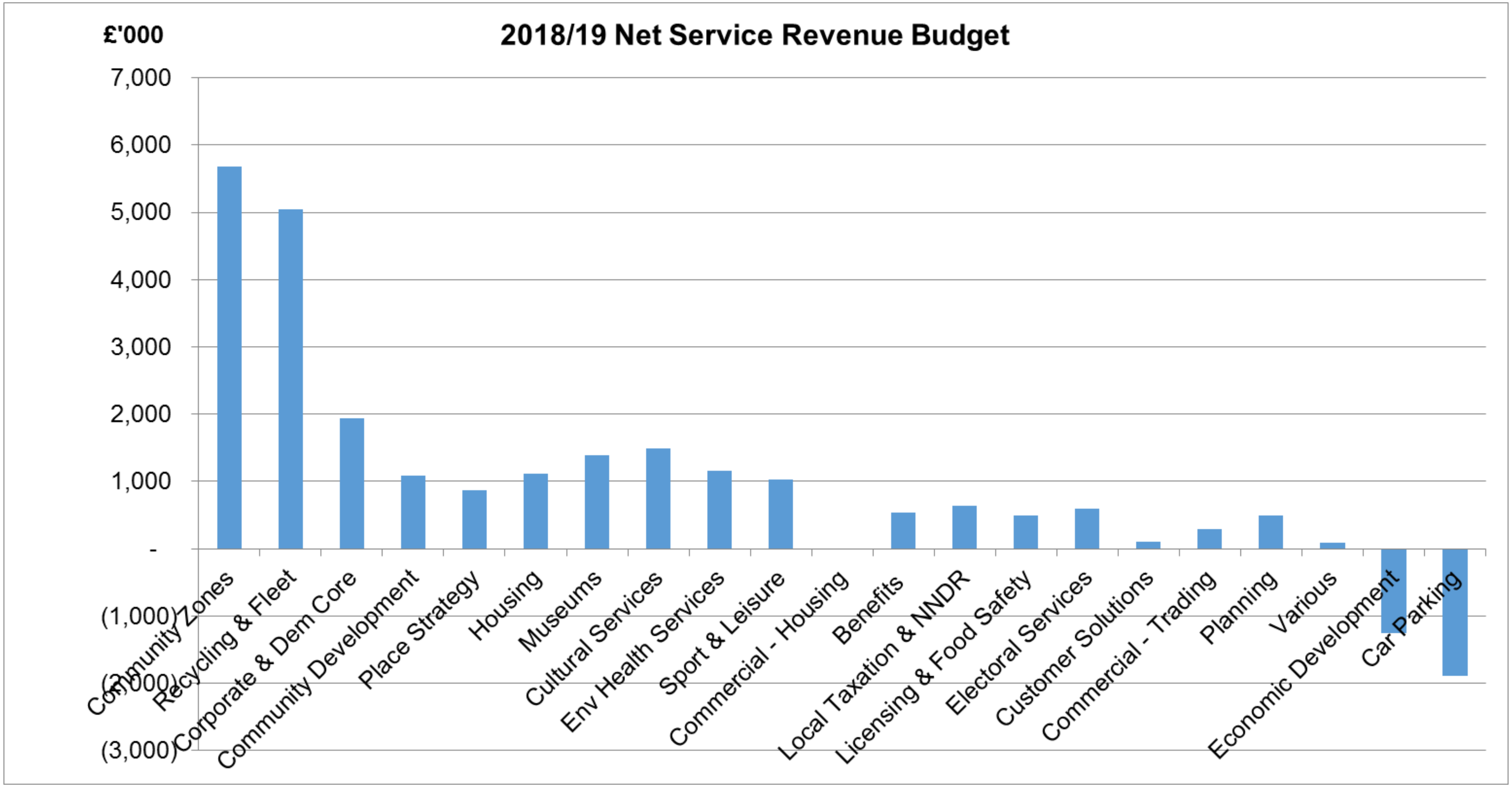
Detailed General Fund Service Budgets 2018/19

	Direct Budgets				*Non-Direct Budgets*	
Area	**Spend**	**Income**	**Net**		***Net***	**Total**
	£'000	**£'000**	**£'000**		***£'000***	**£'000**
Corporate & Democratic Core	297	(800)	(503)		*2,441*	1,938
Total	**297**	**(800)**	**(503)**		***2,441***	**1,938**
Executive Management Team						
EMT	686	-	686		*(686)*	-
Total	**686**	**-**	**686**		***(686)***	**-**
Community						
Assistant Director	138	-	138		*(138)*	-
Cultural Services	646	(116)	530		*957*	1,487
Community Zones	5,786	(2,284)	3,502		*2,183*	5,685
Community Development	787	(51)	736		*348*	1,084
Colchester Museums	66	(479)	(413)		*5*	(408)
Subtotal	**7,423**	**(2,930)**	**4,493**		***3,355***	**7,848**
Colchester & Ipswich Museums	2,081	(1,055)	1,026		*775*	1,801
Total	**9,504**	**(3,985)**	**5,519**		***4,130***	**9,649**
Customer						
Assistant Director	145	-	145		*(145)*	-
Customer Operations	1,753	(9)	1,744		*(1,744)*	-
Prof Support Units	833	(82)	751		*(751)*	-
Customer Demand & Research	856	(24)	832		*(832)*	-
Customer Solutions	1,125	(612)	513		*(414)*	99
Local Taxation & NNDR	477	(635)	(158)		*792*	634
Subtotal	**5,189**	**(1,362)**	**3,827**		***(3,094)***	**733**
Benefits - Payments & Subsidy	52,256	(52,983)	(727)		*1,261*	534
Total	**57,445**	**(54,345)**	**3,100**		***(1,833)***	**1,267**
Environment						
Assistant Director	140	-	140		*(140)*	-
Recycling & Fleet	6,694	(2,436)	4,258		*782*	5,040
Car Parking	1,046	(3,968)	(2,922)		*1,026*	(1,896)
Licensing & Food Safety	544	(475)	69		*421*	490
Environmental Health Services	844	(102)	742		*414*	1,156
Electoral Services	431	-	431		*169*	600
Land Charges	137	(344)	(207)		*87*	(120)
Building Control	395	(395)	-		*164*	164
Subtotal	**10,231**	**(7,720)**	**2,511**		***2,923***	**5,434**

	Direct Budgets				*Non-Direct Budgets*	
Area	**Spend**	**Income**	**Net**		***Net***	**Total**
	£'000	**£'000**	**£'000**		***£'000***	**£'000**
Parking Partnership (NEPP)	3,166	(3,051)	115		*119*	234
Total	**13,397**	**(10,771)**	**2,626**		***3,042***	**5,668**
Policy & Corporate						
Assistant Director	123	-	123		*(158)*	(35)
Finance	835	(100)	735		*(735)*	-
ICT and Communications	2,507	(382)	2,125		*(2,125)*	-
People and Performance	781	(183)	598		*(653)*	(55)
Governance	2,951	(334)	2,617		*(2,570)*	47
Place Strategy	925	(37)	888		*(17)*	871
Economic Development	233	-	233		*885*	1,118
Planning	1,145	(1,167)	(22)		*519*	497
Housing	2,037	(747)	1,290		*(169)*	1,121
Subtotal	**11,537**	**(2,950)**	**8,587**		***(5,023)***	**3,564**
Company Related:-						
Client - CCHL	1,535	-	1,535		*(1,535)*	-
Commercial - Trading	-	-	-		*296*	296
Corporate Asset Management	2,133	(216)	1,917		*(1,835)*	82
Commercial & Investment Properties	239	(3,726)	(3,487)		*1,115*	(2,372)
Sport & Leisure	4,471	(5,122)	(651)		*1,672*	1,021
Total	**19,915**	**(12,014)**	**7,901**		***(5,310)***	**2,591**
Adjustment for NEPP use of balances	-	**185**	185		-	185
Total (excl. NEPP)	**98,078**	**(78,679)**	**19,399**		***1,665***	**21,064**

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

Appendix G



£'000
2018/19 Net Service Revenue Budget
7,000
6,000
5,000
4,000
3,000
2,000
1,000
-
(1,000)
(2,000)
(3,000)
Community Zones
Recycling & Fleet
Corporate & Dem Core
Community Development
Place Strategy
Housing
Museums
Cultural Services
Env Health Services
Sport & Leisure
Commercial - Housing
Benefits
Local Taxation & NNDR
Licensing & Food Safety
Electoral Services
Customer Solutions
Commercial - Trading
Planning
Various
Economic Development
Car Parking

Appendix H

General Fund Balances – Risk Assessment

A risk assessment has been undertaken to determine the prudent level of general fund balances as part of the 2018/19 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.

	Assessed Risk			**Comment**
Factor	**High**	**Med**	**Low**	
	£'000	**£'000**	**£'000**	
Cash Flow	1,000			No change to current level
Inflation		100		
Investment Income	75			
Trading Activities and fees and charges		200		No change made for new company arrangements.
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 16/17 by £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.

Appendix I

General Fund Balances Position

	Allocated	Risk allocations	Unallocated	Total		Note
	£'000	£'000	£'000	£'000		
Opening balance 1/4/17	**(6,203)**	**(844)**	**(2,334)**	**(9,381)**		per 16/17 accounts
Reallocations	7	(200)	193	0		
Revised opening position	**(6,196)**	**(1,044)**	**(2,141)**	**(9,381)**		
Budget Carry Forwards and sums held in balances:-						
16/17 Service Budget (inc NHB) c/f	2,074			2,074		As reported to Scrutiny Panel June 17
16/17 Business rates pooling c/f	716			716		As reported to Scrutiny Panel June 17
Carry forwards held in balances	640			640		Agreed budget sums, such as New Homes Bonus and BIFA which have not yet been moved to service budgets.
Allocations in previous years c/f	400			400		Allocations against specific projects.
Colchester & Ipswich Museum Service (CIMS)	84			84		Use of balances subject to decisions made by joint Committees.
North Essex Parking Partnership (NEPP)	242			242		
Redundancy costs	603			603		Some costs will be incurred in 2017/18 with the balance c/f.
Council Tax Sharing agreement	271			271		Includes carry forward sum from previous years
Right to challenge - Gov't funding	46			46		

	Allocated	Risk allocations	Unallocated	Total		Note
	£'000	£'000	£'000	£'000		
Startwell	180			180		Agreed by Cabinet 12 October 2016. £20k of this assumed to be used to support staff resource in 17/18 budget and a further £30k in 18/19.
Total carry forwards and allocations	**5,256**	**0**	**0**	**5,256**		
Agreed use in 17/18 budget						
Support for digital challenge in 17/18	150			150		
Use for waste review	72			72		
General budget support	98			98		
Carry forwards (from 16/17)	77			77		
Total agreed use in 17/18	**397**	**0**	**0**	**397**		
In year changes						
Carry forwards proposed in budget setting	(93)			(93)		
Potential in year overspend		200		200		See para 6.4.
	(93)	**200**	**0**	**107**		
Forecast position at March 18	**5,560**	**200**	**0**	**5,760**		
Proposed Use in 18/19						
Funding LDF	43			43		
Funding c/f	93			93		See above
Community Stadium - rent adjustment	500			500		Provision for one-off reduction in rent
	636	**0**	**0**	**636**		

	Allocated	Risk allocations	Unallocated	Total	Note
	£'000	£'000	£'000	£'000	
Use of balances in later years or risk allocations					
NNDR / Welfare reform		172		172	Provision for impact arising from reforms.
Planning appeals, legal, HR etc- risk allocation		222		222	Some of this will be spent in 17/18/
Housing benefit - risk allocation		300		300	Agreed in 15/16 budget and increased by £170k to reflect increased risk relating to benefits.
Collection Fund - risk allocation		150		150	Agreed in 15/16 budget
Total later years allocations	**0**	**844**	**0**	**844**	
Uncommitted / unallocated Balance	**0**	**0**	**(2,141)**	**(2,141)**	
Recommended level			(1,900)	(1,900)	Proposed level
Surplus above recommended level	**0**	**0**	**(241)**	**(241)**	

Appendix J

Earmarked Reserves and Provisions

Reserve	Amount at 31/03/17	Transfers - In	Transfers - Out	Estimate at 31/03/18	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.	1,907	550	(410)	2,047	2,047	-
Insurance: To cover the self-insurance of selected properties.	429	110	(5)	534	-	534
Capital Expenditure: Revenue provision to fund the capital programme. The reserve is fully committed to funding the current capital programme.	2,813	650	(690)	2,773	2,773	-
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.	112	-	(44)	68	-	68
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.	204	1	(22)	183	183	-

Reserve	Amount at 31/03/17	Transfers - In	Transfers - Out	Estimate at 31/03/18	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.	88	4	-	92	-	92
Section 106 Monitoring: Required for future monitoring of Section 106 agreements.	15	10	(20)	5	5	-
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.	2,893	494	(2,279)	1,108	1,108	-

Reserve	Amount at 31/03/17	Transfers - In	Transfers - Out	Estimate at 31/03/18	Allocated / Committed	Unallocated
	£'000	£'000	£'000	£'000	£'000	£'000
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	977	-	(150)	827	827	-
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.	-	-	-	-	-	-
Heritage Mersea Mount: Funding received from English Heritage towards costs relating to Mersea Mount.	11	-	-	11	11	-

Reserve	Amount at 31/03/17	Transfers - In	Transfers - Out	Estimate at 31/03/18	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.	59	25	(11)	73	73	-
Business Rates Reserve: Maintained to cover the risk of any residual issues resulting from the introduction of the Local Business rates Retention scheme.	1,753		(900)	853		853
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.	1,095	1,000	(201)	1,894	1,894	-
Total General Fund	**12,356**	**2,844**	**(4,732)**	**10,468**	**8,921**	**1,547**

Reserve	Amount at 31/03/17	Transfers - In	Transfers - Out	Estimate at 31/03/18	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.	3,818	1,400	-	5,218	5,218	-
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.	4,047	2,250	(1,000)	5,297	5,297	-
Total HRA	**7,865**	**3,650**	**(1,000)**	**10,515**	**10,515**	**-**
Total	**20,221**	**6,494**	**(5,732)**	**20,983**	**19,436**	**1,547**

Provision	Amount at 31/03/17	Transfers - In	Transfers - Out	Estimate at 31/03/18	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.	397	-	(86)	311	311	-
NNDR 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.	1,798	1,000	-	2,798	2,798	-
Total	**2,195**	**1,000**	**(86)**	**3,109**	**3,109**	**-**

APPENDIX K

Medium Term Financial Forecast 2018/19 to 2021/22				
	2018/19	**2019/20**	**2020/21**	**2021/22**
	£'000	**£'000**	**£'000**	**£'000**
Base Budget	25,911	19,690	19,655	19,647
One-off items	(3,789)	(500)	0	0
Cost Pressures	1,915	1,266	640	640
Growth Items	0	0	0	0
Savings	(1,821)	(516)	(523)	(222)
Change in use of NHB for one off investment	(940)	(285)	(125)	347
Pensions contribution	(1,586)			
Forecast Base Budget	**19,690**	**19,655**	**19,647**	**20,412**
Funded By:				
Revenue Support Grant	(275)	446	946	1,446
Business Rates Baseline	(4,157)	(4,290)	(4,290)	(4,290)
SFA	*(4,432)*	*(3,844)*	*(3,344)*	*(2,844)*
Increase in NNDR / taxbase above baseline	(1,100)	(1,100)	(1,100)	(1,100)
Business Rates Pooling	(200)	(200)	(200)	(200)
New Homes Bonus	(3,443)	(2,758)	(2,233)	(2,180)
Transition Grant				
Total Gov't grants & business rates	***(9,175)***	***(7,902)***	***(6,877)***	***(6,324)***
Council Tax	(11,471)	(11,929)	(12,407)	(12,907)
Collection Fund Deficit / (Surplus)	(9)	0	0	0
Business Rates Deficit / (surplus)	(960)	0	0	0
Contribution to / (Use of Reserves)	1,925	1,401	1,401	1,401
Total Funding	**(19,690)**	**(18,430)**	**(17,883)**	**(17,830)**
Budget (surplus) / gap before changes (cumulative)	**0**	**1,225**	**1,764**	**2,582**
Annual increase	**0**	**1,225**	**539**	**818**

	2018/19	2019/20	2020/21	2021/22
	£'000	**£'000**	**£'000**	**£'000**
Cost Pressures				
Inflation and specific cost pressures:-				
General Inflation	533	640	640	640
Food Waste (net impact of loss of grant)	304	204		
Elections	177			
Pensions - auto enrolment	65			
Stadium rent	128	22		
Council office costs (full year effect)	43			
LDF	30			
Misc	15			
Reduced Income:-				
Planning income	90			
Broadband income reduction	75			
Procurement hub rebates	27			
NEPP - extra use of reserve	35			
Items c/f in balances:-				
ICT strategy	300			
PSU post	18			
Startwell Post	30			
Additional comms and marketing	45			
IT costs		150		
Council Tax Sharing Agreement		250		
Total cost pressures	**1,915**	**1,266**	**640**	**640**
One-off adjustments:-				
Pensions actuarial review - impact of one off payment	(3,112)			
Budget Carry forwards	(403)	(392)		
Strategic Plan growth	(100)			
NEPP - reduction in income from ECC for TROs				
Waste Review -one-off	(72)			
Welfare reform	(102)			
LDF		(30)		
CBH Inflation (for General Fund costs)		(13)		
Wiring costs		(20)		
Additional comms and marketing		(45)		
One-off adjustments	**(3,789)**	**(500)**	**0**	**0**
Total	**(1,874)**	**766**	**640**	**640**

	2018/19	2019/20	2020/21	2021/22
	£'000	**£'000**	**£'000**	**£'000**

Savings (incl. one off adjustments)				
Efficiencies, income and service reviews				
Sport & leisure	(148)	(50)	(58)	
Assets	(264)		(150)	(92)
Senior Management Restructuring & Commercial Company assumptions	(139)	(107)	(135)	(130)
Digital challenge - service savings	(70)			
Ongoing service savings agreed in 17/18	(30)			
Digital Challenge / ICT strategy - implementation	(70)			
Customer Futures 2	(292)	(228)		
Zones	(90)			
Museums	(100)			
ICT Review	(50)			
Roundabout income	(20)			
Cost of NEPP 'off street' parking	(100)			
Waste Review (net savings)	(240)			
Various savings within Environment service	(39)			
Various savings / income within Policy and Corporate	(70)			
Welfare Reform - use of Gov't grants	(42)			
Assumed incremental lending to CCHL margin		(74)	(180)	
Budget reductions				
Arts Grant	(50)	(50)		
LCTS grant to parishes	(7)	(7)		
Total	**(1,821)**	**(516)**	**(523)**	**(222)**

Change in use of New Homes Bonus for one off investment				
Reduction due to falling grant	(1,210)	(718)	(525)	0
Increase due to change in use for base budget	400	400	400	400
Total saving	**(810)**	**(318)**	**(125)**	**400**
Reduced investment from NHB - affordable homes	(130)			
Total reduced one off investment funded by NHB	**(940)**	**(318)**	**(125)**	**400**

	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000

Use of / contribution to Reserves				
One offs	43			
Use of balances - pensions	(1,586)	(1,586)	(1,586)	(1,586)
Use of NEPP reserve	185	185	185	185
Funding budget carry forwards (incl use of CER)	393			
Business Rates Reserve	(960)			
Total	**(1,925)**	**(1,401)**	**(1,401)**	**(1,401)**

New Homes Bonus Grant				
Basic NHB	(3,296)	(2,611)	(2,086)	(2,033)
Affordable Homes Bonus	(147)	(147)	(147)	(147)
Total Grant	**(3,443)**	**(2,758)**	**(2,233)**	**(2,180)**

Addressing the Budget Gap
The MTFF shows a budget gap of circa £2.6m over the three years from 2019/20. 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.	At this early stage any impact from the "leave" decision is unclear. However, the uncertainty and risks include:- • 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
Government Funding / Business Rate Retention Scheme	The MTFF includes the reduction in the 'SFA' for 2018/19 with a further reduction for the year after in line with figures included in the 4 year settlement. For the remaining two years a reduction of £500k pa has been assumed for planning purposes. 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. The budget includes an assumption that in 2018/19 we will retain an extra £1,100k of NNDR income above our baseline figure. The business rates revaluation took effect in 2017/18 and the risk and impact of business rate appeals remains an area of concern. With the planned changes to business rates retention still uncertain this remains a risk area for the Council's budget.
Welfare Reform (including Local Council Tax Support - LCTS)	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.
Government grants and partnership funding	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. Provision has been made in the 2018/19 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.
Pensions	In the 17/18 budget an allowance was built in for an increase in pensions costs based on the results of the actuarial review. In

Risk / Area of uncertainty	
	addition the budget allowed for the payment of the deficit for the next three years in one payment. This was partly funded from reserves which are being repaid in 18/19 and 19/20. In 20/21 it will be necessary to reflect the deficit costs resulting from the next actuarial review. The assumption in the MTFF is that this is again funded in the same way as it has been in 17/18. An allowance was made for the impact of ‘auto enrolment’ in 17/18 and the 18/19 budget reflects the cost pressure arising from this.
Fees and charges and other income	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 2018/19 and beyond it is difficult to estimate how income levels may continue to be affected. Some targets have been reduced in 2018/19 to reflect lower current income levels. The MTFF does include some additional income forecast from agreed business plans.
Inflation	An allowance for general inflation including pay has been built into the 18/19 forecast and MTFF. 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.
Use of reserves	The budget position for 2018/19 includes proposals to use certain reserves mostly for one off items. The MTFF includes some proposals to use reserves in future years.
Legislation	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.
Property review	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 2018/19 budget forecast maintains the additional allocation of £150k in respect of planned repairs.
Impact of growth in the Borough and demand for services	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, however, it will be necessary to ensure that future budgets allow for any cost pressures.
Delivery of budget savings	The 2018/19 budget includes c£2.8m of savings, increased income or budget reductions. The savings and income forecasts 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 / Area of uncertainty	
	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 19/20 budget.
Net Interest earnings and investments	The budget is influenced by a number of factors including interest rates and cashflow movements. The treasury management strategy for 2018/19 highlights that the current view from the Council's treasury advisers is that the Bank Rate is now expected to remain unchanged until quarter 4 of 2018, and not to rise above 1.25% by quarter 1 of 2021 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.

Appendix L

Capital Programme

Service / Scheme	Total Programme £'000	Projected Expenditure 2017/18 £'000	2018/19 £'000	2019/20 £'000	(Surplus) / Shortfall £'000
SUMMARY					
Communities	3,487.9	2,601.0	900.0	0.0	13.1
Environment	4,089.0	2,320.0	800.0	701.0	(268.0)
Policy & Corporate	740.4	704.4	36.0	0.0	0.0
Commercial	1,631.6	1,631.6	0.0	0.0	0.0
Revolving Investment Fund (RIF)	40,802.0	6,393.0	16,953.0	17,456.0	0.0
Completed Schemes	724.4	724.4	0.0	0.0	0.0
Capitalised Maintenance Schemes	85.0	85.0	0.0	0.0	0.0
Total (General Fund)	**51,560.3**	**14,459.4**	**18,689.0**	**18,157.0**	**(254.9)**
Housing Revenue Account	12,603.5	12,603.5	0.0	0.0	0.0
Total Capital Programme	**64,163.8**	**27,062.9**	**18,689.0**	**18,157.0**	**(254.9)**
COMMUNITIES					
Oak Tree Community Centre Roof	50.0	63.1	0.0	0.0	13.1
Lion Walk Activity Centre	40.0	40.0	0.0	0.0	0.0
Garrison Gym Rebuild	609.7	609.7	0.0	0.0	0.0
Cook's Shipyard Playsite Wivenhoe S106	9.2	9.2	0.0	0.0	0.0
Old Heath Recreation Ground Improvements	37.1	37.1	0.0	0.0	0.0
Wivenhoe Adult Gym	6.0	6.0	0.0	0.0	0.0
Castle Park Cricket Pavilion Extension S106	125.0	125.0	0.0	0.0	0.0

Service / Scheme	Projected Expenditure Total Programme £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	(Surplus) / Shortfall £'000
Castle Park Improvements	200.0	200.0	0.0	0.0	0.0
Tiptree P C - Store & WCs S106	83.0	83.0	0.0	0.0	0.0
King George V Play Area S106	10.0	10.0	0.0	0.0	0.0
St Luke's Church Hall Tiptree	52.9	52.9	0.0	0.0	0.0
Walls - new merged scheme	299.6	299.6	0.0	0.0	0.0
Mercury Theatre Redevelopment Phase 1	207.8	207.8	0.0	0.0	0.0
Mercury Theatre Redevelopment Phase 2	1,000.0	100.0	900.0	0.0	0.0
Relocation of Museum Resource Centre	683.6	683.6	0.0	0.0	0.0
Cemetery Extension	38.6	38.6	0.0	0.0	0.0
Cemetery Exterior Lighting	30.6	30.6	0.0	0.0	0.0
Replacement of Cremators	4.8	4.8	0.0	0.0	0.0
TOTAL - Communities	**3,487.9**	**2,601.0**	**900.0**	**0.0**	**13.1**
ENVIRONMENT					
Shrub End Depot	840.5	840.5	0.0	0.0	0.0
Waste Collection Strategy	856.5	588.5	0.0	0.0	(268.0)
St Johns Car Park	8.6	8.6	0.0	0.0	0.0
Mandatory Disabled Facilities Grants	2,301.0	800.0	800.0	701.0	0.0
Private Sector Renewals - Loans and Grants	82.4	82.4	0.0	0.0	0.0
TOTAL - Environment	**4,089.0**	**2,320.0**	**800.0**	**701.0**	**(268.0)**

Service / Scheme	Total Programme £'000	Projected Expenditure 2017/18 £'000	2018/19 £'000	2019/20 £'000	(Surplus) / Shortfall £'000
POLICY & CORPORATE					
Assistance to Registered Housing Providers	36.0	0.0	36.0	0.0	0.0
Use of 1-4-1 Right to Buy Receipts	555.9	555.9	0.0	0.0	0.0
Purchase of properties for temporary accommodation	0.0	0.0	0.0	0.0	0.0
High Street Alleyways	0.0	0.0	0.0	0.0	0.0
Local Authority Carbon Management (LACM)	148.5	148.5	0.0	0.0	0.0
TOTAL - Policy & Corporate	**740.4**	**704.4**	**36.0**	**0.0**	**0.0**
COMMERCIAL					
CCTV Monitoring	111.1	111.1	0.0	0.0	0.0
Open Space Provision	100.0	100.0	0.0	0.0	0.0
Events - chairs	33.0	33.0	0.0	0.0	0.0
Charter Hall - improvements	115.0	115.0	0.0	0.0	0.0
LWC - Health & Fitness Extension	953.7	953.7	0.0	0.0	0.0
LWC - Aqua Springs Refurbishment	95.1	95.1	0.0	0.0	0.0
LWC - Leisure Pool Refurbishment	2.8	2.8	0.0	0.0	0.0
LWC - Coffee Shop Extension	30.9	30.9	0.0	0.0	0.0
Tiptree Sports Centre - new pitch	190.0	190.0	0.0	0.0	0.0
TOTAL - Commercial	**1,631.6**	**1,631.6**	**0.0**	**0.0**	**0.0**

Service / Scheme	Total Programme £'000	Projected Expenditure 2017/18 £'000	2018/19 £'000	2019/20 £'000	(Surplus) / Shortfall £'000
REVOLVING INVESTMENT FUND					
Northern Gateway North	141.3	141.3	0.0	0.0	0.0
CNGN - Mile End Cricket	200.0	200.0	0.0	0.0	0.0
CNGN - Sports Hub	24,100.0	1,182.0	7,762.0	15,156.0	0.0
Northern Gateway South	1,094.9	1,094.9	0.0	0.0	0.0
Town Centre	5,262.7	471.7	4,791.0	0.0	0.0
Jacks - St Nicholas St	445.1	445.1	0.0	0.0	0.0
Amphora Place	490.9	490.9	0.0	0.0	0.0
Amphora Place - Phase 2	2,200.0	200.0	2,000.0	0.0	0.0
District Heating Project North	208.2	208.2	0.0	0.0	0.0
District Heating Project East	0.0	0.0	0.0	0.0	0.0
Colchester Northern Gateway Heat Network	5,900.0	1,200.0	2,400.0	2,300.0	0.0
East Colchester Enabling Fund	220.0	220.0	0.0	0.0	0.0
Breakers Park	69.0	69.0	0.0	0.0	0.0
Surface Water Flooding - Distillery Lane/Haven Road	73.4	73.4	0.0	0.0	0.0
Site Disposal Costs	4.8	4.8	0.0	0.0	0.0
Moler Works Site	40.7	40.7	0.0	0.0	0.0
CMP Phase 3 - PV Systems	95.4	95.4	0.0	0.0	0.0
Business Broadband	20.6	20.6	0.0	0.0	0.0
Land Acquisition	0.0	0.0	0.0	0.0	0.0
New Feasibility / Enabling Schemes	235.0	235.0	0.0	0.0	0.0
TOTAL - RIF	**40,802.0**	**6,393.0**	**16,953.0**	**17,456.0**	**0.0**

Service / Scheme	Total Programme £'000	Projected Expenditure 2017/18 £'000	2018/19 £'000	2019/20 £'000	(Surplus) / Shortfall £'000
COMPLETED SCHEMES (OR WHERE RETENTION ONLY OUTSTANDING)					
Abberton Community Fund S106	100.0	100.0	0.0	0.0	0.0
Colchester Leisure World - Dryside Changing Rooms	3.2	3.2	0.0	0.0	0.0
Tiptree Memorial Garden S106	42.0	42.0	0.0	0.0	0.0
Stanway Village Hall	539.1	539.1	0.0	0.0	0.0
Castle Park Sensory Garden S106	17.6	17.6	0.0	0.0	0.0
Industrial Vacuum Cleaner	17.9	17.9	0.0	0.0	0.0
Creative Business Centre	4.6	4.6	0.0	0.0	0.0
TOTAL - Completed Schemes	**724.4**	**724.4**	**0.0**	**0.0**	**0.0**
CAPITALISED MAINTENANCE					
Colchester Business Centre	40.0	40.0	0.0	0.0	0.0
St John's Car Park Surface Repairs	45.0	45.0	0.0	0.0	0.0
TOTAL - CAPITALISED MAINTENANCE	**85.0**	**85.0**	**0.0**	**0.0**	**0.0**
HOUSING REVENUE ACCOUNT					
Housing Improvement Programme	9,338.0	9,338.0	0.0	0.0	0.0
Adaptations to Housing Stock	600.0	600.0	0.0	0.0	0.0
Sheltered Accommodation Review	1,112.0	1,112.0	0.0	0.0	0.0
Housing ICT Development	413.5	413.5	0.0	0.0	0.0
Higher Value Assets Levy	1,140.0	1,140.0	0.0	0.0	0.0
TOTAL - Housing Revenue Account	**12,603.5**	**12,603.5**	**0.0**	**0.0**	**0.0**

Appendix M

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and
Annual Investment Strategy
2018/19

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 currently required to produce three main reports each year, which incorporate a variety of polices, 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 Governance and Audit Committee.

Capital Strategy

1.9 In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities will be required to prepare an additional report, a Capital Strategy report, which is intended to provide the following:

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

1.10 The aim of this report is to ensure that all elected members on the Full Council fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy.

1.11 The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

Training

1.12 The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management or scrutiny receive adequate training in treasury management. This especially applies to members responsible for scrutiny. 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 2018/19

1.13 The strategy for 2018/19 covers the following Capital and Treasury Management issues:

- the capital plans and the prudential indicators;
- the Minimum Revenue Provision (MRP) Policy;
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- the economic background and prospects for interest rates;
- the borrowing strategy;
- the policy of borrowing in advance of need;
- debt rescheduling;
- the investment policy and strategy, and credit worthiness policy;
- the policy on use of external service providers.

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

Treasury management consultants

1.15 The Council uses Link 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.

1.16 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 2018/19 – 2020/21*

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	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
General Fund	11,390	14,674	29,416	27,139	11,506
HRA	10,705	11,630	9,188	8,934	9,131
Total	**22,095**	**26,304**	**38,604**	**36,073**	**20,637**

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	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Total Expenditure	**22,095**	**26,304**	**38,604**	**36,073**	**20,637**
Financed by:					
Capital receipts	4,947	7,326	15,818	9,508	250
Capital grants	2,278	1,728	3,436	3,401	0
Reserves	8,542	6,898	3,634	7,096	6,403
Revenue	3,970	7,585	5,454	3,406	2,478
Finance leases	848	234	0	0	0
Net financing need	**1,510**	**2,533**	**10,263**	**12,662**	**11,506**

The Council's borrowing need

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, and so charges the economic consumption of capital assets as they are used.

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 by the lease provider, 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 2017. The Council is asked to approve the CFR projections below:

£'000	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
CFR – general fund	26,664	25,250	33,768	44,440	53,953
CFR - housing	127,933	130,184	130,184	130,184	130,184
Total CFR	**154,597**	**155,434**	**163,952**	**174,624**	**184,137**
Movement in CFR	1,034	837	8,518	10,672	9,513
Movement in CFR represented by:					
Net financing need	1,510	2,533	10,263	12,662	11,506
Assets acquired under finance leases	848	234	0	0	0
Less MRP	1,325	1,930	1,745	1,990	1,993
Movement in CFR	**1,034**	**837**	**8,518**	**10,672**	**9,513**

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 Government regulations 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 indicator:

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.

%	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
General Fund	8.02%	11.12%	12.26%	15.48%	16.98%
HRA	18.19%	18.86%	19.32%	19.35%	19.26%

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

3 Economic Outlook

3.1 The Council has appointed Link 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 Link Asset Services central view:

	Bank Rate	PWLB Borrowing Rates			
		5 year	10 year	25 year	50 year
Dec-17	0.50%	1.50%	2.10%	2.80%	2.50%
Mar-18	0.50%	1.60%	2.20%	2.90%	2.60%
Jun-18	0.50%	1.60%	2.30%	3.00%	2.70%
Sep-18	0.50%	1.70%	2.40%	3.00%	2.80%
Dec-18	0.75%	1.80%	2.40%	3.10%	2.90%
Mar-19	0.75%	1.80%	2.50%	3.10%	2.90%
Jun-19	0.75%	1.90%	2.60%	3.20%	3.00%
Sep-19	0.75%	1.90%	2.60%	3.20%	3.00%
Dec-19	1.00%	2.00%	2.70%	3.30%	3.10%
Mar-20	1.00%	2.10%	2.70%	3.40%	3.20%
Jun-20	1.00%	2.10%	2.80%	3.50%	3.30%
Sep-20	1.25%	2.20%	2.90%	3.50%	3.30%
Dec-20	1.25%	2.30%	2.90%	3.60%	3.40%
Mar-21	1.25%	2.30%	3.00%	3.60%	3.40%

3.2 As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its November meeting. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%.

3.3 The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. From time to time, gilt yields - and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

3.4 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) 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.

3.5 The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

Investment and borrowing rates

3.6 Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.

3.7 Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases.

Since then, borrowing rates have eased back again. Apart from that, there has been little general trend in rates during the current financial year.

3.8 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 the future when the Council may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

3.9 There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost - the difference between borrowing costs and investment returns.

4 Borrowing

4.1 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 and the Council's capital strategy. 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.

Current portfolio position

4.2 The Council's treasury portfolio position at 31 March 2017, 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	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
External debt at 1 Apr	136,094	136,094	143,627	153,890	166,552
New borrowing	0	7,533	10,263	12,662	11,506
Other long-term liabilities	2,700	2,074	1,383	770	447
Gross debt at 31 Mar	**138,794**	**145,701**	**155,273**	**167,322**	**178,505**
CFR	154,597	155,434	163,952	174,624	184,137
Under / (over) borrowing	**15,803**	**9,733**	**8,679**	**7,302**	**5,632**
Investments at 31 Mar	45,184	42,651	32,388	19,726	8,220
Net Debt	**93,610**	**103,050**	**122,885**	**147,596**	**170,285**

4.3 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 2018/19 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 or speculative purposes.

4.4 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

4.5 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 and the ability to fund under-borrowing by other cash resources.

Operational boundary £'000	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Debt	148,494	158,230	170,203	180,874
Other long term liabilities	2,074	1,383	770	447
Total	**150,568**	**159,613**	**170,973**	**181,321**

4.6 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.

4.7 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	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
Debt	168,660	178,869	191,254	202,090
Other long term liabilities	2,074	1,383	770	447
Total	**170,734**	**180,252**	**192,024**	**202,537**

4.8 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	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
HRA debt cap	140,275	140,275	140,275	140,275
HRA CFR	130,184	130,184	130,184	130,184
HRA headroom	10,091	10,091	10,091	10,091

Borrowing Strategy

4.9 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.

4.10 At 31 March 2017 the Council's Capital Financing Requirement was £154.6m and, net of finance lease liabilities, the underlying borrowing requirement was £151.3m. The Council's external borrowing totalled £136.1m, which meant under-borrowing totalled £15.2m.

4.11 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.

4.12 Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 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.

4.13 Any decisions will be reported to the Scrutiny Panel or Governance and Audit Committee at the next available opportunity.

Treasury Management Limits on Activity

4.14 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.

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

Interest rate Exposures £'000	**2018/19**	**2019/20**	**2020/21**
Upper limit on fixed interest rates based on net debt	122,900	147,600	170,300
Upper limit on variable interest rates based on net debt	61,400	73,800	85,100

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

4.16 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

4.17 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).

4.18 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.

4.19 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

4.20 It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes 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

4.21 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.

4.22 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.

5 *Annual Investment Strategy*

Investment Policy

5.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017("the CIPFA TM Code"). The Council's investment priorities will be security first, portfolio liquidity second and then return.

5.2 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.

5.3 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 achieve this the Council will engage with its advisors to maintain a monitor on market pricing such as 'Credit Default Swaps' (CDS) and overlay that information on top of the credit ratings.

5.4 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.

5.5 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.

5.6 Specified Investments are sterling denominated investments of not more than one-year maturity, meeting the minimum 'high' criteria where applicable. 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

5.7 The Council applies the creditworthiness service provided by Link 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.

5.8 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 its equivalent, and money market funds)
- Dark Pink — 5 years Ultra-short Dated Bond Funds (1.25 credit score)
- Light Pink — 5 years Ultra-short Dated Bond 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

5.9 The creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

5.10 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.

5.11 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.
- 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 Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

5.12 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

5.13 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.

5.14 In addition:

- no more than £15m will be placed with any non-UK country at any time;
- the limits will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

Investment strategy

5.15 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).

5.16 The Bank Rate is forecast to remain at 0.50% until quarter 4 of 2018, and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

5.17 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:

- 2017/18 0.40%
- 2018/19 0.60%
- 2019/20 0.90%
- 2020/21 1.25%
- 2021/22 1.50%
- 2022/23 1.75%
- 2023/24 2.00%
- Later years 2.75%

5.18 The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

5.19 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

5.20 The limit for the total principal funds invested for greater than 365 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	**2018/19**	**2019/20**	**2020/21**
Max. principal sums invested > 365 days	5,000	5,000	5,000

End of year investment report

5.21 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 - 2021 **APPENDIX A**

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

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services Interest Rate View														
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
3 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.60%	0.60%	0.60%	0.70%	0.90%	0.90%	1.00%	1.20%	1.20%	1.20%
6 Month LIBID	0.50%	0.50%	0.50%	0.60%	0.80%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%
12 Month LIBID	0.70%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.60%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB Rate	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
Bank Rate														
Link Asset Services	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
Capital Economics	0.50%	0.50%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%	-	-	-	-
5yr PWLB Rate														
Link Asset Services	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
Capital Economics	1.50%	1.70%	1.90%	2.10%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	-	-	-	-
10yr PWLB Rate														
Link Asset Services	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
Capital Economics	2.00%	2.20%	2.40%	2.60%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	-	-	-	-
25yr PWLB Rate														
Link Asset Services	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.50%	2.60%	2.90%	3.10%	3.30%	3.30%	3.30%	3.33%	3.33%	3.33%	-	-	-	-
50yr PWLB Rate														
Link Asset Services	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
Capital Economics	2.30%	2.50%	2.70%	2.90%	2.90%	2.90%	3.03%	3.03%	3.15%	3.15%	-	-	-	-

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	£10m	5 years
	Purple	£10m	2 years
	Orange	£10m	1 year
	Blue	£10m	1 year
	Red	£7.5m	6 months
	Green	£5.0m	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
Ultra-Short Dated Bond 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 £15m
- 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 Link 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
	U.K.
AA-	Belgium
	Qatar

Appendix N

Impact of Budget Strategy 201819

The budget for 2018/19 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 Revenue Support Grant and New Homes Bonus of £2m.

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 2018/19 budget the amount of New Homes Bonus being used to support the 'base budget' has been reduced to £1.2m and is around a third of the total grant being received next year. There is £2.21m being invested in projects or programmes. These include:-

- Allocating the affordable housing part of NHB to support housing projects.
- An allocation of £250k to support the RIF
- A contribution of £750k towards the cost of the ambitious Northern Gateway Sports Project.
- £1.2m to invest in projects that support Strategic Plan objectives and / or help deliver income to close future budget gaps.

The capital programme proposals include up to £2.9m to purchase properties to use as temporary accommodation. The programme also includes proposed lending to support the Council's commercial company arrangements, specifically, in respect of housing development and energy.

The Revolving Investment Fund (RIF) continues to set out a number of funding allocations to support major projects such as Northern Gateway as well as funding within the Town Centre and East Colchester.

Savings continue to be made where possible through service reviews which focus on how the service is delivered and not just how savings can be made.