Agenda Item No:	11	
Committee:	Council	
Date:	23 February 2021	
Report Title:	General Fund Budget Estimates 2021/22 and Medium Term Financial Strategy (MTFS) 2021/22 to 2025/26; Capital Programme 2021 - 2024	

Cover sheet:

1 Purpose / Summary

To consider the Cabinet recommendations in relation to:

- the General Fund Budget Estimates 2021/22 and the Medium Term Financial Strategy 2021/22 to 2025/26;
- the Council Tax levels for 2021/22;
- the Capital Programme 2021-2024;
- the Treasury Management Strategy Statement, Capital Strategy and Annual Treasury Investment Strategy for 2021/22.

2 Key issues

- The Final Local Government Finance Settlement was announced on 4 February 2021 and there are no changes to the provisional settlement figures. Business Rates Baseline Funding (Settlement Funding Assessment) Levels will be frozen in 2021-22 due to the business rate multiplier being frozen in 2021-22.
- In accordance with the motion adopted by Council in July 2019, a 0% Council Tax increase has been included in the MTFS for 2021/22 and over the medium term.
- Council Tax Referendum limits for 2021/22 have been set at an increase of 2% or £5 whichever is the higher.
- Projections for 2020/21 are currently forecasting a shortfall of £221k at the end of the financial year, after taking into account all government Covid-19 support packages expected to be received for this financial year.
- Current forecasts for 2021/22 show a shortfall of £842k based on the assumptions detailed in Appendix C. It is proposed that a contribution of £842k from the General Fund Balance be made to achieve a balanced budget. This shortfall increases year on year, reaching £1.670m in 2025/26.
- The forecasts for 2021/22 and over the MTFS include a number of additional resource opportunities (as detailed in paragraph 8.13 of the report).
- An updated Capital Programme for 2020/21 and for the medium term 2021-24 is proposed. This includes the previously agreed £25m for the Commercial and Investment Strategy.
- Given the scale of the challenges and uncertainties faced by the Council, the financial forecasts represent a significant achievement, demonstrating the focus from Members and Officers throughout the Council in delivering the required savings.

- The Council continues to focus on delivering quality services and to minimise the impact on front-line services.

3 Recommendations

- **It is recommended by Cabinet that:**
  - (i) the General Fund revenue budget for 2021/22 as set out in Section 8 and Appendix A be approved;
  - (ii) the Medium Term Financial Strategy as outlined in this report and Appendix B be adopted;
  - (iii) the Capital Programme and funding statement as set out in Appendix D be approved;
  - (iv) the adoption of any additional Business Rates Relief measures announced in the budget on 3rd March 2021 as detailed in paragraphs 5.7 – 5.9 be approved;
  - (v) the expenses detailed in Section 11 be approved to be treated as general expenses for 2021/22;
  - (vi) the Port Health levy for 2021/22 be set as shown in Section 12;
  - (vii) the amendment to the Long Term Empty Property Premium policy detailed in Section 13 be approved;
  - (viii) the Treasury Management Strategy Statement, Minimum Revenue Provision, Treasury Investment Strategy, Prudential and Treasury Indicators for 2021/22 and Capital Strategy 2021/22 as set out in Section 15 and Appendix E be approved;
  - (ix) the Band D Council Tax level for Fenland District Council Services for 2021/22 be set at £260.46, no increase on the current year.

Wards Affected	All
Portfolio Holder(s)	Cllr Chris Boden, Leader and Portfolio Holder, Finance
Report Originator(s)	Peter Catchpole, Corporate Director and Chief Finance Officer (S.151 Officer) Mark Saunders, Chief Accountant
Contact Officer(s)	Paul Medd, Chief Executive Peter Catchpole, Corporate Director and Chief Finance Officer (S.151 Officer) Mark Saunders, Chief Accountant
Background Paper(s)	Final Finance settlement – Ministry for Housing, Communities and Local Government (MHCLG). Spending Round 2020 (HM Treasury) Medium Term Financial Strategy working papers. Government announcements since February 2020.

This report contains the following Appendices:

Appendices

A.	(i) General Fund Revenue Estimates - Summary
	(ii) General Fund Revenue Estimates – Individual Services
B.	Medium Term Financial Strategy (MTFS)
C.	Assumptions built into Budget and Medium Term Strategy
D.	Capital Programme
E.	Treasury Management Strategy Statement, Minimum Revenue Provision Strategy, Annual Treasury Investment Strategy and Prudential Indicators
E. Annex A	Capital Strategy
F.	Parish Precepts
G.	Earmarked Reserves

Report:

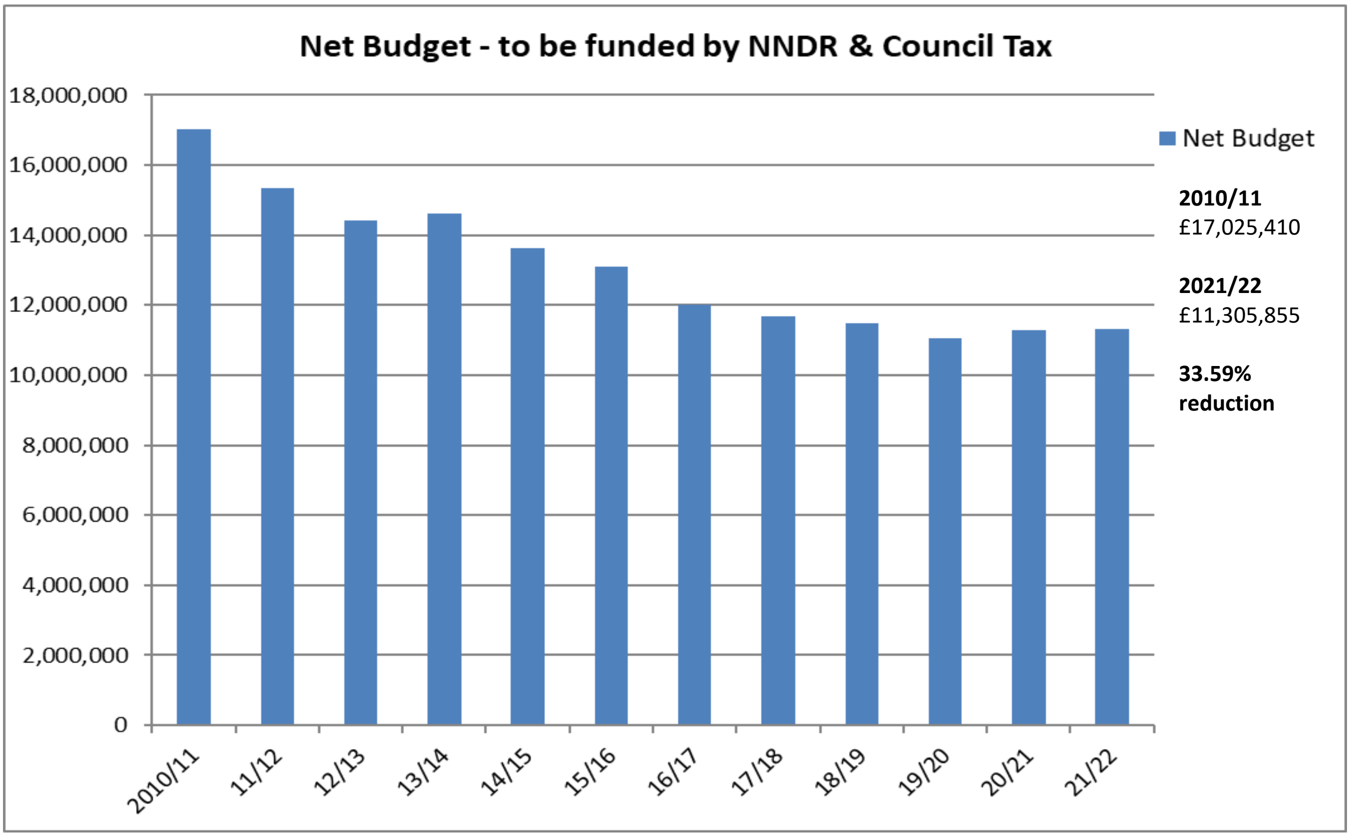
1 INTRODUCTION

1.1 This report sets out the financial implications of the council's priorities described in the draft Business Plan 2021/22. The Revenue budget estimates and the Capital Programme are final at this stage for approval. The draft Business Plan 2021/22 and draft Budget Estimates 2021/22 considered by Cabinet on 14th December 2020 together were subject to a public and stakeholder consultation from 5th January to 2nd February 2021, prior to final budget and council tax setting for 2021/22 on 23rd February 2021. The results from the consultation are published on the Council's website.

The Overview and Scrutiny Panel considered the Draft Budget 2021/22 and MTFS on 11 January 2021 and made its comments to the Cabinet. Members asked questions, made comments and received responses from Officers and Portfolio Holders. The Chairman thanked officers for their contribution and said that members were satisfied with the advice and information received.

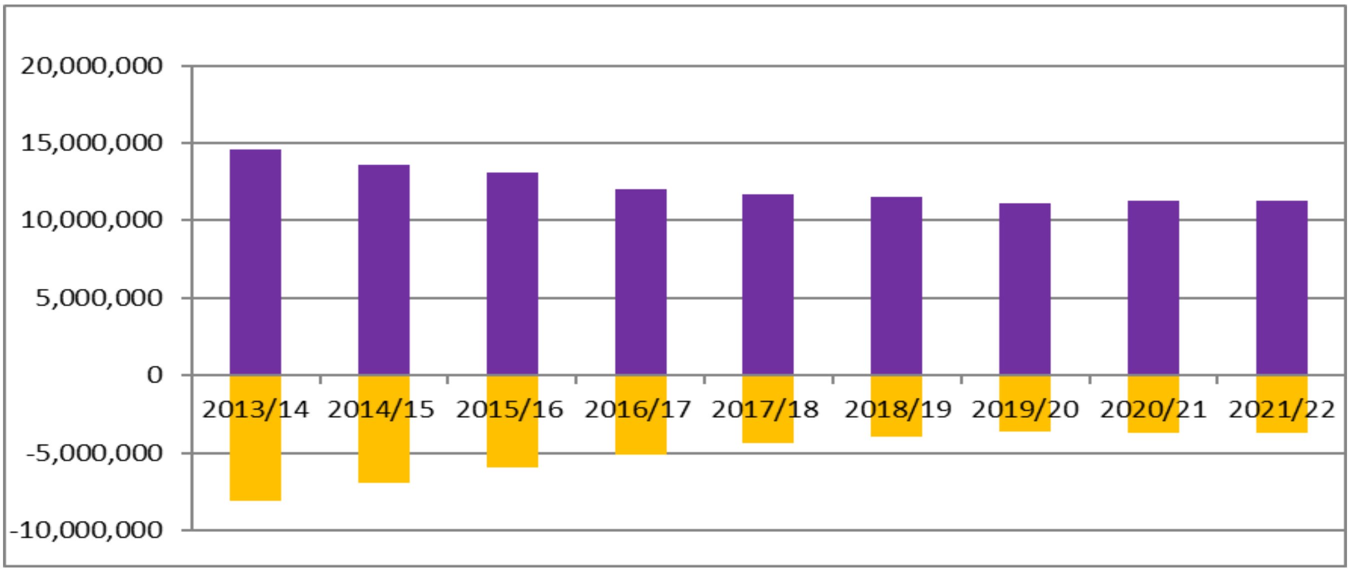
1.2 Much of the financial information is necessarily based on a number of assumptions which are wholly or partly influenced by external factors. However, where final and known actual costs and revenue is known then they are included for example the Final Local Government Finance Settlement for 2021/22 was announced on 4 February 2021. Equally, some additional costs and income discussed later in this report became known since the Draft Budget Estimates were prepared; for example allocations of various specific government grant announcements which were summarised in the Overview & Scrutiny Panel report on 11 January 2021 are now included.

1.3 Local Government has been at the forefront of the austerity measures introduced by the government to reduce the national deficit following the General Election in 2010. This Council has had to reduce its Net Budget significantly since 2010 and by the end of 2021/22 it will have reduced by 33.59%. This is exemplified in the graph below:

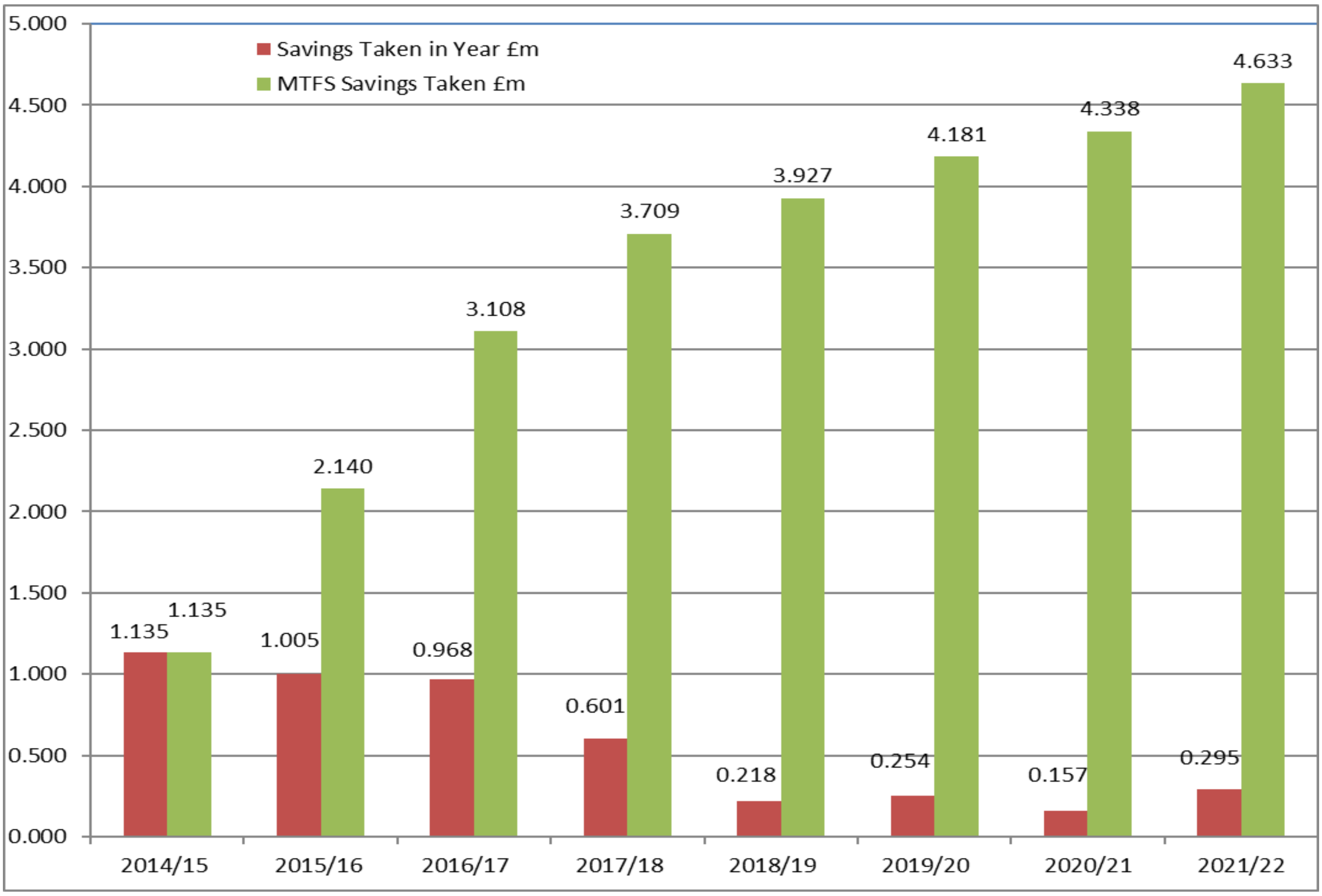


1.4 Since 2013/14 government support has reduced by around 54% and the Council's net budget by around 23% as illustrated in the following tables. In addition, Council Tax referendum principles have restricted increases in Council Tax.

	2013/14	2021/22	Reduction	%
Government Grant/Business Rates Baseline	£8,094,919	£3,701,878	£4,393,041	54.27
Net Budget	£14,604,750	£11,305,855	£3,298,895	22.59



1.5 The following graph illustrates how successful the Council has been in delivering savings over the last 8 years, enabling it to achieve balanced budgets each year.



During these years, Members have been very clear, that where possible, front line services should be protected. The Council's strategy of identifying savings at least 12 months in advance of the financial year has led to the successful delivery of the required savings targets and means the Council are in a good position to meet the challenges of 2021/22 and beyond. These savings have been achieved through a number of ways, such as Management and Service reviews, shared services, procurement and income generation.

2 2020 SPENDING ROUND AND LOCAL GOVERNMENT FINANCE SETTLEMENT TECHNICAL CONSULTATION

2.1 On 25 November 2020, the Government outlined its' spending plans for 2021/22 by setting budgets for each central government department.

2.2 The relevant points for this Council from these announcements are as follows:

- Local Government's business rate baseline funding levels will remain the same as 2020/21 as a result of freezing the business rates multiplier in 2021/22 (normally this would increase in line with inflation as determined by the CPI rate as at September 2020, ie. 0.5%). Local authorities will be fully compensated for this decision. There were no plans at that time to extend the business rates reliefs given in 202/21 into 2021/22, although this was to be kept under review. We have recently been advised by MHCLG to delay, where possible, billing for business rates for 2021/22 until after the Chancellor's budget statement on 3rd March 2021. This is a clear indication that there will be additional business rates reliefs for 2021/22 and again, local authorities will be fully compensated for these;
- A proposed Council Tax referendum limit of 2% or £5 (together with an additional 3% increase for Adult Social Care). Police and Crime Commissioners can increase their precept by £15;
- Public Sector pay freeze. Pay frozen ('paused') for public sector workers earning £24,000 and above. Those earning below this will receive a minimum of £250. Although Local Government pay is negotiated separately, it is expected that this will form the basis of the pay award for 2021/22;
- Additional funding to reduce rough sleeping and homelessness;
- The Government is undertaking a fundamental review of the Business Rates system and are due to report on this in Spring 2021.
- The Fair Funding Review previously expected in April 2021 has been delayed with no information about when this will happen in the future;
- Continuation of the New Homes Bonus for 2021/22 with no new legacy payments (ie. the payment for 2020/21 will not be rolled forward) and potential changes to the scheme design and allocations in future years;
- Additional £3bn COVID funding for local authorities in 2021/22 including:
    - additional un-ringfenced grant for spending pressures expected to emerge in the first few months of 2021/22;
    - compensation scheme to fund 75% of irrecoverable losses in council tax and business rates in 2020/21;
    - further support for residents claiming Council Tax Support;
    - the Sales, Fees and Charges income compensation scheme will be extended into the first 3 months of 2021/22;

2.3 Details of how this will be converted into specific funding allocations for individual local authorities were announced as part of the final local government finance settlement on 4 February 2021.

2.4 It is anticipated that a 3 year Spending Review will be undertaken by the government in Autumn 2021 covering the period 2022/23 – 2024/25.

3 LOCAL GOVERNMENT FINANCE SETTLEMENT

3.1 The Final Finance Settlement for 2021/22 was announced on 4 February 2021. The government confirmed the settlement for the Council as was set out provisionally on 17 December 2020.

3.2 The Council's Settlement Funding Assessment for 2021/22 is made up entirely of its Business Rates Baseline Funding (Revenue Support Grant was phased out in 2019/20) and is detailed below.

Table 1 – Final Settlement Funding Assessment (Core Funding)

	Actual 2020/21 £000	Actual 2021/22 £000	2021/22 % Increase
Settlement Funding Assessment (Business Rates Baseline Funding only)	**3,702**	**3,702**	**0.00%**

3.3 There has been no change to the Settlement Funding Assessment as a result of the government freezing the business rate multiplier. Local authorities will be fully compensated for this decision by way of additional S31 Grant.

3.4 Core Spending Power (CSP) for local government has increased by 4.6% overall. Our increase in CSP is 1.9%. CSP is a measure of the revenue funding available for local authority services. This includes council tax; business rates; Revenue Support Grant; New Homes Bonus; adult social care grants and other grants. Assumed Council Tax increases (up to 5% for social care authorities) make up 87% of the increase in CSP. The increased reliance on increasing council tax has been a feature of the finance settlements and CSP over the past few years.

3.5 The settlement only provides detail of figures for 2021/22 with future funding announcements dependent on the outcome of the 3 year spending review expected to be undertaken in Autumn 2021. The Medium Term forecasts detailed in Appendix B have assumed a continuation of the current policy of increasing business rates baselines by CPI inflation based on current Treasury forecasts over the medium term.

Fair Funding Review

3.6 The government announced earlier last year that the Fair Funding Review which was expected to be implemented from April 2021 has been delayed. As detailed in Section 2 above, no announcement has been made regarding when this review is likely to be completed and implemented.

3.7 The outcome of this review and the reform of the Business Rates Retention System (also from April 2022) will have a potentially significant impact on the future allocation of resource and represents major risks to the Council's medium term forecasts. It is considered that future funding of local government will be based mainly on the Business Rates Retention system including the new formula based Fair Funding distribution system, Council Tax and locally raised fees and charges. Thus, locally raised revenue will be the prominent element in the amount of resources a local authority will have each year to support its revenue funding compared to what it receives from the government in the form of redistributed Business Rates. Furthermore, this Council does not have adult social care and children's services responsibilities which are the areas where the greatest budget and spending pressures are being experienced by those authorities that have those responsibilities and which are unlikely to be fully funded in the near to medium term.

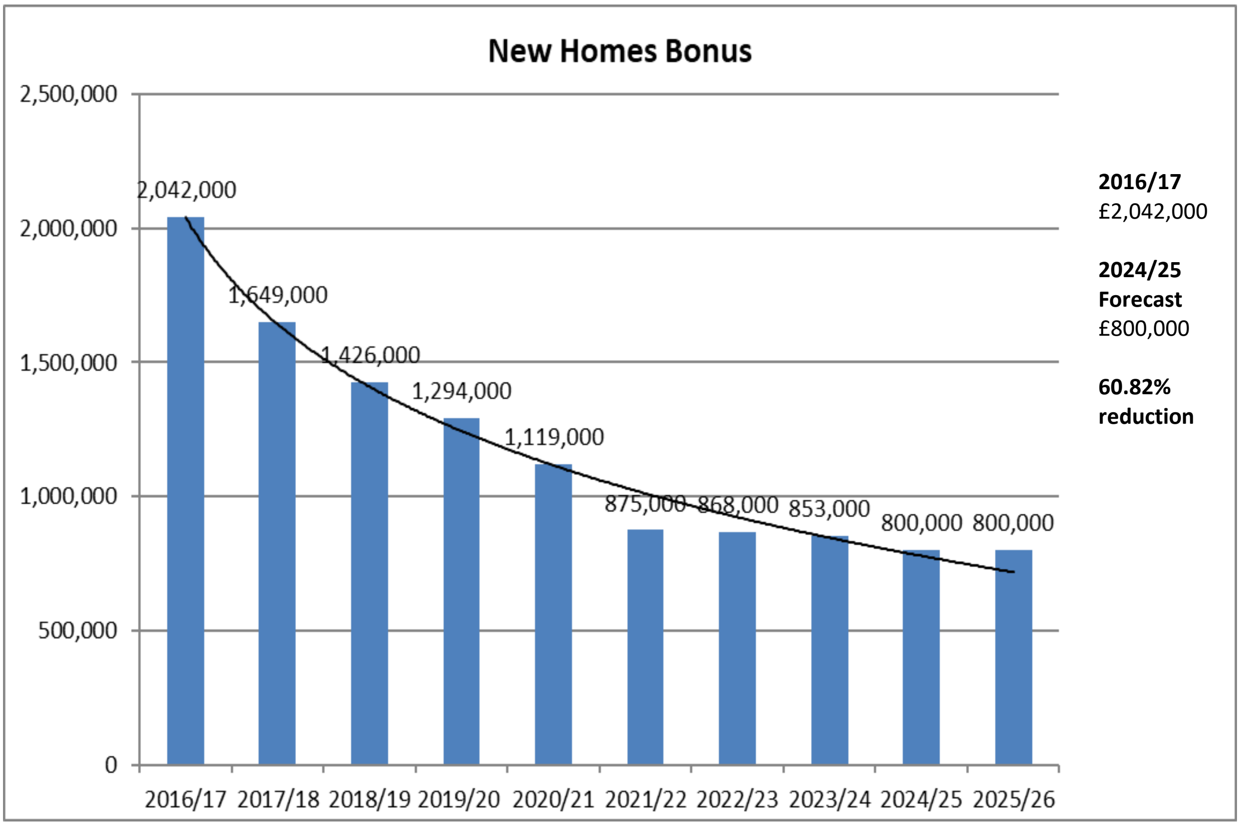
4 NEW HOMES BONUS

4.1 In 2017/18, reforms to the allocation methodology of the New Homes Bonus (NHB) were made which significantly reduced the total amount available for distribution which consequently reduced this Council's allocation.

4.2 The key focus of the reforms was to reduce the payments from 6 years to 5 years in 2017/18 and to 4 years from 2018/19. In addition, from 2017/18, a national baseline for housing growth of 0.4% was introduced, below which New Homes Bonus is not paid, reflecting a percentage of housing that would have been built anyway.

4.3 Actual NHB received in 2020/21 is £1.119m. Following the announcement in the spending review, a further payment based on the current methodology (based on additional homes delivered from October 2019 – October 2020) will be made in 2021/22 although no new legacy payment will be made. The actual New Homes Bonus payment in 2021/22 is £875k (a reduction of £173k on original forecasts) with the forecast NHB reducing to £800k by 2024/25.

4.4 The graph below shows how the amount received from NHB has significantly changed over the past five years together with forecasts over the medium term.



4.5 The New Homes Bonus scheme design and allocation methodology will be subject to review as part of the government's next spending review due in Autumn 2021. To this end, a consultation document on The Future of the New Homes Bonus was published on 10 February 2021 with a deadline for responses by 7 April 2021. Although it is hard to argue against reform of the NHB, the impact on this Council's funding could be significant. We have included £868k of NHB funding in the MTFS for 2022/23 reducing year on year to £800k in 2024/25 and 2025/26. These will be replaced by allocations we receive from whatever the new Housing Incentive system will look like following the consultation exercise. For example, under the current system, a 0.1% increase in the growth threshold would result in the loss of around £50,000 per annum in NHB, leading to a reduction in NHB of around £200,000 compared to the current MTFS forecasts.

4.6 In addition, the national total to be allocated by way of NHB (£622m in 2021/22) will be determined by the outcome of the government's 3 year spending review during Autumn 2021. **This is a significant risk to the MTFS**.

5 BUSINESS RATES

5.1 Members will be aware that the Business Rates Retention system was introduced in April 2013. Under this system, authorities would benefit if their actual Business Rates income collected in a year was higher than the baseline funding determined by government.

5.2 There has been real business rates growth in Fenland over the last six years, however how this impacts on the resources available to this Council is complex, due to the rules and the operation of the current 50% Business Rates Retention system. The complexity of the system has been exacerbated by the business rates reliefs support given by the government as a result of Covid-19.

Business Rates Pooling Arrangement – 2020/21 and 2021/22

5.3 The Council has joined with the County Council, Peterborough City Council, Fire Authority, East Cambridgeshire and South Cambridgeshire to become part of a pooling arrangement for business rates for 2020/21. Unlike the Business Rates Pilot schemes, this is not a bidding process against other pools but is part of the existing system whereby authorities can choose to apply to become a pool with the agreement of the constituent authorities.

5.4 The benefit of being in a pool is that authorities will not be liable to levy payments on their business rates growth, which is then shared amongst the pooled authorities by a mutually agreed method. This will be based on where the growth has originated from with an appropriate share allocated to the County Council and Fire Authority.

5.5 Depending on actual business rates received in 2020/21, the net effect of the pooling arrangement could be considerable for the authorities in the pool. Current forecasts indicate that this Council could receive up to £280k additional income according to the sharing methodology agreed between the pooled authorities. This is however £90k lower than originally estimated due to lower business rates income as a result of changes in rateable values and refunds given.

5.6 The members of the current pooling arrangement have notified MHCLG of their intention to remain as a pool for 2021/22 as there is still expected to be a net benefit to each authority. For the purposes of the 2021/22 estimates, an amount of £300k has been provisionally included as this Council's share of the potential benefit. We are still awaiting final estimated figures as all authorities in the pool will now have completed the annual statutory business rates estimate, the NNDR1 form and returned this to MHCLG by the deadline of 31 January 2021.

Additional Business Rates Relief Measures 2021/22

5.7 Although no announcement has yet been made regarding additional business rates relief measures for 2021/22, we have recently been contacted by MHCLG who have requested that billing for business rates be delayed until after the Chancellor's budget statement on 3rd March 2021. This is clearly an indication that additional business rates relief measures will be announced in the budget.

5.8 The Government have issued guidelines on the operation of these reliefs and State Aid rules will apply in the usual way. Local Authorities are expected to use their discretionary relief powers (section 47 of the Local Government Act 1988, as amended) to grant these reliefs in line with the relevant eligibility criteria set out in the guidelines. However, the full cost of granting this relief will be compensated through a section 31 grant from Government.

5.9 In order for any reliefs which are announced as part of the budget on 3rd March 2021 to be awarded with effect from 1st April 2021, Council is recommended to adopt any reliefs announced as part of the budget on 3rd March 2021.

Business Rates Reform – 2022/23 onwards

5.10 Earlier last year, the government announced that it would delay the move to 75% Business Rate Retention. In order to provide further stability to the sector, the government has decided not to proceed with a reset of business rates baselines in 2021/22.

5.11 The government is currently carrying out a fundamental review of the Business Rates System and a final report setting out the full conclusions of the review is expected to be published in Spring 2021. This will determine the parameters of any changes to the Rate Retention System and is likely to be implemented from April 2022.

5.12 As the content and character of any new system and its effect on Fenland District Council are unknown at this stage, no adjustments have been made to the business rates funding within the MTFS and it has been assumed that from 2022/23, retained business rates will increase by CPI based on current Treasury forecasts.

5.13 Nationally, the implementation of any new scheme is meant to be fiscally neutral overall, however any redistribution will create losers and winners and the extent of that is an unquantifiable risk for the Council currently.

5.14 Although the forecasts in the MTFS has assumed a ‘neutral’ funding position regarding retained business rates, previous consultation papers on the proposed 75% Business Rates Retention System identified a range of options which would mean this Council will almost certainly ‘lose’ some of the business rates growth it’s seen since the current system started in April 2013.

5.15 In the estimate for 2021/22 and the medium term forecasts from 2022/23, around £1m of business rates above the Council's Baseline Funding Level is being retained. From 2022/23 onwards, the Baseline Funding Level of all Councils will be reset with all 'growth' income being taken into account nationally and redistributed in the new system. This means initially the additional £1m business rates income would be removed and redistributed. What remains unclear, is how much of this £1m will be returned to the Council as part of its recalculated Baseline Funding Level.

5.16 In theory therefore, the Council could lose all of this additional £1m in the absolute worst case scenario. However, this is unlikely and would create significant volatility within future funding allocations nationally, which the government does not wish to see. There will also undoubtedly be some kind of transitional arrangements which would also limit the extent of any gains and losses in funding arising from the new system. The national total to be distributed to local authorities will also be dependent on the next government spending review.

5.17 Although it is extremely difficult to exemplify the impact of this redistribution, in broad terms, if the Council were to lose 50% of its growth income then this would add a further £500k per annum from 2022/23 to the current forecast MTFS shortfalls. A 20% loss of growth income would add a further £200k per annum to the current shortfalls.

5.18 At the time of writing, the Fair Funding Review, the implementation of Business Rates Reform and the changes to the New Homes Bonus are all major risk areas for this Council over the medium term.

6 FENLAND COMPREHENSIVE SPENDING REVIEW

6.1 The estimated total net savings generated from the FDC-CSR proposals agreed previously at £1.667m will now amount to £1.8m by the end of 2020/21. During this year several proposals have been implemented together with the full-year benefit of proposals implemented in 2018/19 and 2019/20. These include the following:

- Relocation of March and Wisbech Shops
- CCTV – alternative service delivery with Peterborough City Council

together with the full-year benefit in 2019/20 and 2020/21 of the following:

- Staffing Review of Customer Services, Human Resources, Accountancy and Vehicle Workshop
- Leisure Centre management options (contract commenced 4 December 2018)
- Leisure and Open Spaces Management Review
- Community House closure

6.2 All the above initiatives have been fully implemented and the savings generated from these and other CSR proposals are included within the Medium Term Financial Strategy detailed at Appendix B and have significantly contributed to the required savings target over the medium term.

7 FORECAST OUTTURN 2020/21

7.1 The impact of COVID-19 on the Council's delivery of services and finances in 2020/21 have been and continue to be, significant and challenging. Members will be aware of the Council's response to COVID-19 and reports have been considered by Overview and Scrutiny Panel (on 8 June 2020 and 13 July 2020) on the actions taken by the council to date and also on the future implications and opportunities of the COVID-19 pandemic in relation to service delivery by Fenland District Council.

7.2 In addition, at the Council meeting of 6 August 2020, Members received a detailed report on the additional spending pressures and income reduction pressures the Council was facing this year, together with details of the government support for Covid-19 pressures.

7.3 The total Covid-19 direct grant support received, aimed at addressing the expenditure pressures, since March 2020 is £1,859,459 (£65,197 in 2019/20 and £1,794,262 in 2020/21).

7.4 In addition, the Council has received other grant funding relating to the administration of Business Grants amounting to £188,500, the administration of the Test and Trace Support Payments (isolation payments) of £27,068 and the Next Steps Accommodation Programme (NSAP) for delivering short-term Rough Sleepers interim accommodation and support of £198,000 for 2020/21. Further funding from the NSAP of £622,650 (Revenue funding of £178,250 and Capital funding of £444,120) for move-on funding has also been secured for the period 2020/21 – 2023/24. This will be delivered in partnership with Clarion Housing Association.

7.5 In the December draft budget report, it was estimated that the compensation payment due from the governments co-payment mechanism for irrecoverable Sales, Fees and Charges income, whereby the government covered 75% of losses beyond 5% of planned income, would be around £718k. The current projection is for an income compensation of around £613k. Current projections for income are higher than previously forecast and therefore, although we will receive less in compensation, this is made up by receiving higher actual income.

7.6 An updated projection for 2020/21, taking into account the latest estimate of spending and income reduction pressures and additional government support, was included in the draft budget report presented to Cabinet on 14 December 2020. At that time, a shortfall of £485k was being projected for 2020/21.

7.7 The latest projected outturn for 2020/21 are set out at Appendix A and show the likelihood of a shortfall in the region of £221k by the end of this financial year.

7.8 The main reason the shortfall has reduced is due to the expectation that the Council will receive at least its' notional allocation of £210k from the £100m government fund set up to support leisure centres most in need in 2020/21. The Council has bid for £221k and this is currently being considered by the Department for Digital, Culture, Media and Sport (DCMS). We are expecting to be notified of the outcome of our bid by the end of February 2021. There is no certainty that the Council will receive more than its' notional allocation and consequently only this amount (£210k) is included in the projected figures for 2020/21.

7.9 One of the measures to assist local authorities in 2020/21, announced as part of the SR2020 in November 2020 was the **Tax Income Guarantee Scheme (£790m)**. This will fund 75% of irrecoverable losses in council tax and business rates. This scheme will run in parallel to the requirement for billing authorities to spread the 2020/21 collection fund deficit over 3 years. We are still working through the details of this scheme but currently it is not possible to estimate any potential benefit to this Council in 2020/21.

7.10 There are still many uncertainties around the potential shortfall for 2020/21 and there is no requirement to formally approve an amount to be funded from reserves. At the present time, Corporate Management Team, Senior Managers and the Accountancy Team are managing and monitoring the position carefully and will continue to review spending levels to ensure where possible, the amount to be funded from reserves at the year-end is minimised.

7.11 Use of reserves to fund any potential shortfall in 2020/21 will have a consequential impact on the Council's ability to fund the shortfall in 2021/22 from reserves. Details of the Council's reserves are at Section 16 and Appendix E.

8 DRAFT BUDGET ESTIMATES 2021/22 AND MTFS

8.1 The Council's MTFS ensures that the commitments made in the Business Plan are funded not only in the year for which formal approval of the budget is required (2021/22) but for forecast years as well, within a reasonable level of tolerance.

8.2 The impact of Covid-19 on the Council finances in 2020/21 will to a certain extent continue into 2021/22 and the medium term, particularly regarding spend pressures relating to homelessness, rough sleepers and leisure contract, forecast income levels and the impact on future Council Tax and Business Rates income. The government has recognised this ongoing impact and announced a package of measures in SR2020, as detailed in Section 2 above, to support local authorities in 2021/22.

8.3 Details regarding these measures and their impact on this Council have been finalised as part of the Final Local Government Finance Settlement announced on 4 February 2021.

8.4 In summary, these are follows:

- **Lower Tier Services Grant (£111m)** is a new grant and has been funded from the NHB returned surplus. Allocations are based on the share of the 'lower-tier' element of the settlement funding assessment and topped-up to ensure no district council sees its CSP reduce in 2021-22 (mainly as a result in changes to NHB payments). Our allocation of this new grant is **£157,697.**

- **COVID funding (£1.55bn**), tranche 5 allocations have been announced and our allocation is **£634,010**. The allocations are based on the COVID relative needs formula (RNF) which formed part of the allocation methodology used in tranches 3 and 4. The government has stated that they consider this funding sufficient for

spending pressures in 2021-22 and are assuming there will be no further funding for next year. The funding is to cover the continuing spending pressures faced by local authorities focussed on a similar set of priority pressures as previously set out for the 2020-21 Covid funding.
For this Council, the most significant additional spend pressures are those relating to Homelessness (£100k); Rough Sleepers (£250k) and Leisure Contract support (£155k for first quarter 2021/22 plus £200k contingency for July 2021 onwards) and these additional amounts have been included in the 2021-22 budget.

- **Local Council Tax Support Grant (£670m)** is another new grant for 2021-22 and its primary purpose is to compensate authorities for the expected additional cost of Local Council Tax Support (LCTS) schemes in 2021-22 as a result of an expected increase in working age claimants. It is also intended that it should 'enable councils to continue reducing council tax bills for those least able to pay, including households financially hard-hit by the pandemic'. The grant is not ring-fenced, which will give billing authorities flexibility about how it is used. This Council's allocation is £194k. Each of the major preceptors, County Council (£854k), Police (£146k) and Fire Authority (£45k), will receive their grant payment directly. We are currently assuming that there will be no net benefit/cost to the revenue account as a result of this grant.
- **Sales, Fees and Charges (SFC) compensation scheme** will continue into the first quarter of 2021-22. The scheme remains unchanged and the 2020-21 budgeted income will remain the baseline against which income losses will be measured. We have included income losses of £142k (mainly from loss of Leisure Management Fee and Conference income at business centres), off-set by £100k from the SFC compensation scheme leaving a net budgeted cost of £42k. This has been included for the first quarter of 2021-22 only and further losses from July 2021 onwards are possible.

8.5 With all of the above measures included, the Council's medium term forecasts are shown at Appendix B and summarised in Table 2 below. The table includes a 0% Council Tax increase in 2021/22 and the medium term.

Table 2 - MTFS - 0% increase in 2021/22 onwards

	Estimate	Forecast	Forecast	Forecast	Forecast
	2021/22	2022/23	2023/24	2024/25	2025/26
	£000	£000	£000	£000	£000
Expenditure					
Net Service Expenditure	12,840	13,284	13,569	13,957	14,347
Corporate Items	916	805	847	997	1,025
Renewable Energy Rates Retained	-362	-366	-372	-378	-385
Retained Business Rates (Growth)	-947	-1,013	-1,034	-1,056	-1,081
Business Rates Pool - share of benefit	-300	0	0	0	0
Contribution from Business Rates Reserve	-3,417				
Net Expenditure (before use of balances)	**8,730**	**12,710**	**13,010**	**13,520**	**13,906**
Funding					
Business Rates Baseline	-3,702	-3,746	-3,806	-3,871	-3,944
Business Rates Collection Fund Deficit	3,621	184	184	0	0
Council Tax Collection Fund Surplus(-)/Deficit	44	47	47	-50	-50
Council Tax *(increases of 0% in 21/22 onwards)*	-7,851	-7,949	-8,046	-8,144	-8,242
Total Funding	**-7,888**	**-11,464**	**-11,621**	**-12,065**	**-12,236**
Shortfall(+) before use of balances	**+842**	**+1,246**	**+1,389**	**+1,455**	**+1,670**
Contribution from General Fund Balance	-842	0	0	0	0
Shortfall(+) after use of balances	**0**	**+1,246**	**+1,389**	**+1,455**	**+1,670**

8.6 Government support for 2021/22 was announced as part of the final finance settlement. This Council will only be receiving retained business rates from the finance settlement. The projections for 2022/23 onwards are based on the best estimates and information available and are consistent with the announcements on business rates in the Spending Round 2020. However, subject to further clarity on the detailed implementation of the announcements, there remains a degree of uncertainty in these projections.

8.7 The figures in Table 2 incorporates the assumptions detailed at Appendix C. With the final funding assumptions and a 0% increase in Council Tax, a shortfall of £842k is forecast. Due to the considerable uncertainties in next years forecast, particularly with regard to any further government support, it is proposed that a contribution of £842k from the General Fund Balance be made at this time to achieve a balanced budget for 2021/22. The net budget requirement for 2021/22 is currently estimated at **£7.888m** (£8.730m less £0.842m use of balances) after all identified savings, contingencies and reserve transfers are included.

8.8 The forecasts include all proposed savings from the Phases 1 and 2 of the My Fenland transformation initiative over the next two years and the medium-term, together with assumptions regarding receipts from Council Tax and Business Rates.

8.9 The development of the Commercial and Investment Strategy has the potential to generate significant returns over the MTFS. It is difficult to forecast the extent of such returns as much will depend on the type and timing of investment opportunities. Consequently, no allowance for these potential returns have been included in the MTFS at the current time.

8.10 In addition, it is not unreasonable to assume that should the impact of Covid-19 continue beyond the first quarter of 2021/22, through additional spend and income pressures arising from for example, Homelessness, Rough Sleepers and Leisure Contract Support, then there would be additional government support available to partly off-set these pressures. However, for the purposes of the 2021/22 budget, we have only included the level of government support already announced.

8.11 Taking into account the proposals in the Table 2 above, the estimated net budget requirement in 2021/22 is detailed in Appendix A. The level of forecast resources available to the Council and the estimated levels of expenditure over the medium term are set out in detail in Appendix B. These show a funding gap of £1.670m by the end of 2025/26.

8.12 The forecasts for the years 2022/23 – 2025/26 are provisional at this stage and should be considered with extreme caution. Future announcements and consultation outcomes will also determine government policy and therefore the funding in the future years. In addition, the forecasts are dependent on permanently maintaining the savings identified through the FDC-CSR proposals and the MTFS ‘Opportunities’ detailed below.

MTFS ‘Opportunities’

8.13 There are a number of additional resource opportunities including potential one-off benefits and also medium term annual benefits, which it is forecast will not only contribute to a balanced budget in 2021/22 (as detailed above and Appendix A) but also make a significant contribution to the shortfalls over the medium term. These are detailed below:

- As detailed in paragraphs 5.3 – 5.6 above, there is a potential benefit of being part of a Business Rates Pooling arrangement in 2021/22 with other Cambridgeshire Districts, County Council and Peterborough City Council. This is expected to realise around £300k of additional income in 2021/22. Future year’s benefit will be dependent on the implementation of Business Rates reform from 2022/23 onwards and consequently no benefit from this is included after 2021/22;
- This Council is due to receive its’ share of the distribution of Cambridgeshire Horizons funds back to constituent authorities. This is a one-off benefit and could

amount to between £2.25m - £3.3m subject to finalising all the Horizon's statutory liabilities. For the purposes of the budget proposals for 2021/22, no allowance has been made as we are unsure of the exact amount and timing of this receipt;

- Officers are currently evaluating the impact of investing 'surplus cash' in Property Funds with potential for additional annual investment income from 2020/21 onwards, commensurate with the Council's risk appetite. Based on an initial investment of £5m, current projections are that around £250k of additional investment income could be generated per annum from 2022/23 with an additional £150k, net of costs being realised in 2021/22;
- Development of the Commercial and Investment Strategy has the potential to generate significant returns over the MTFS. It is difficult to forecast the extent of such returns as much will depend on the type and timing of investment opportunities;
- Members will be aware that the Council is developing the Council for the Future (CFF) transformation plans which could see further savings/additional income being generated over the MTFS. Included within the MTFS are the potential benefits of the 'My Fenland' transformation project. Phase 2 is expected to generate savings of around £295k in 2021/22 and £366k per annum from 2022/23 onwards and are included in the forecasts. Phase 3 of the project is currently being developed with potential further savings over the medium term.

Significant Risks to MTFS

8.14 As detailed earlier in this report, Business Rates Retention Reform, Fair Funding Review and changes to the New Homes Bonus could have a significant impact on the Council's forecast resources over the term of the MTFS. Further to the risks associated with these externally determined funding streams the Council should also ensure that income budgets are achieved and new income streams considered and implemented for medium to long term sustainability in combination with any operational and transformational benefits that the Council realises. The use of general reserves to support revenue expenditure adds to the overall risks to the Council as such reserves can only be used once but the cumulative impact of such use will continue to be felt into the future.

<u>Other Risks</u>

Capital Programme – Future Funding

8.15 The Council is increasingly relying on borrowing (Internal and Prudential) to fund its future programme as the amount of capital receipts and the level of reserves available to fund the capital programme are reducing considerably over the next two years. Consequently, any new capital schemes (which do not generate a return to repay borrowing costs) will have to be funded through borrowing which will result in revenue costs and therefore will impact on the MTFS and future shortfalls.

8.16 For example, a £1m scheme with a 20 year life, funded by prudential borrowing, would result in around an additional £70,000 per annum in interest (2%) and repayment costs.

Potential Impact of Major Risks

8.17 To exemplify the effect on the MTFS of potential additional costs arising from the above risks, Table 3 below details a scenario whereby the Council loses 50% of its business rates growth income following the reforms in 2022/23.

Table 3: MTFS Potential Impact of Major Risks – for illustrative purposes only

	Estimate	Forecast	Forecast	Forecast	Forecast
	2021/22	2022/23	2022/23	2024/25	2025/26
	£000	£000	£000	£000	£000
MTFS Shortfall - Appendix B	**0**	**1,246**	**1,389**	**1,455**	**1,670**
(0% CT increase in 2021/22 onwards)					
50% loss of NNDR growth income		500	500	500	500
Increasing NHB threshold by 0.1%		50	100	150	200
Revised Shortfall	**0**	**1,796**	**1,989**	**2,105**	**2,370**

8.18 As stated earlier, it is important to note that the figures detailed in the above table are purely illustrative as no decisions have yet been made regarding changes to these funding streams and the potential impact on this Council.

9 PARISH PRECEPTS

9.1 The levels of parish precepts set throughout Fenland are provided for information at Appendix F. These will be reported to Council as part of the Council Tax setting process.

10 FEES AND CHARGES

10.1 The Overview and Scrutiny Panel reviewed fees and charges for 2021/22 at its meeting on 11 January 2021 and these were subsequently considered by Cabinet on 25 January 2021. All of the recommendations from these meetings have been included in the financial forecasts.

11 SPECIAL AND GENERAL EXPENSES

11.1 For the purposes of Section 35 of the Local Government Finance Act 1992, the Council needs to pass appropriate resolutions for each financial year to determine how expenses which could legally be regarded as special should be treated.

11.2 If expenses are treated as special expenses, then they must be charged against the parts of the Council's area to which they relate.

11.3 Parish precepts are special expenses and cannot be treated as general expenses.

11.4 Drainage Board and Port Health levies which affect only part of the Council's area are treated as general expenses unless the Council resolves otherwise. These are currently treated as general expenses and it is recommended that this position continues for 2020/21.

11.5 Expenses incurred by the Council in performing, in part of its area, a function performed elsewhere by a parish council are special expenses unless the Council determines otherwise. Currently, these are treated as general expenses. To maintain this position, it is recommended that the Council determines that such expenses should not be treated as special expenses for the financial year 2021/22.

12 PORT HEALTH

12.1 The Port Health levy for 2021/22, based on expected expenditure, is recommended as shown in Table 4 below for Council to approve.

Table 4: Port Health Levy 2021/22

	Description	**£**
a)	Port Health anticipated expenditure	16,209
b)	Port Levy	
	Fenland District Council	14,345
	South Holland District Council	1,135
	King's Lynn and West Norfolk Borough Council	729
	Total	16,209

13 COUNCIL TAX – LONG TERM EMPTY PROPERTY PREMIUM

13.1 Since April 2019 and in accordance with legislation passed at that time, the Council charges the following premiums on long term empty properties;

- From 1 April 2019 an additional premium of 100% Council Tax will be charged from a date two years after the properties first became empty;
- From 1 April 2020 an additional premium of 200% Council Tax will be charged from a date five years after the properties first became empty;
- From 1 April 2021 an additional premium of 300% Council Tax will be charged from a date ten years after the properties first became empty.

13.2 The main objective of this policy was to bring long term empty properties in Fenland back into use as soon as possible and to incentivise this by adding penalties through the additional Council Tax premium charged.

13.3 Through the work of the Empty Homes Officer over the past year, it is clear that the above policy has had some unintended consequences with the premium being particularly onerous on owners of listed buildings, inherited buildings and those renovating or trying to sell.

13.4 For owners genuinely renovating or trying to sell where repeated sales have fallen through, the increased rates are causing financial hardship and the premiums are removing valuable funds from renovation projects.

13.5 To incentivise owners who are actively taking steps to bring properties back into use, it is proposed that the premium be suspended for an initial period of 6 months from a 'new transfer of title'. The 'normal' Council Tax rate would still be payable. Owners would need to apply for the suspension and provides details of their plans for the property to be occupied within a 6 month period. If the plans are assessed as feasible and approved, the Empty Homes Officer would provide ongoing monitoring of progress. If the property is not brought back into use within 6 months, then the original premium charge will become payable from the date of suspension. However, if good progress has been made but not completed at 6 months, then at the Council's discretion and in exceptional circumstances, a further extension may be granted.

14 FENLAND DISTRICT COUNCIL - COUNCIL TAX 2021/22

14.1 As part of the 2021/22 Final Local Government Finance Settlement announcement, the government is again proposing that local authorities will be required to seek the approval of their local electorate in a referendum if they set council tax increases in 2021/22 that exceed the government set limit. This limit has been set at 2% or £5, whichever is higher for 2021/22 for District Councils. A 2% increase on the Band D Council Tax equates to £5.13 per annum (a 1.97% increase due to roundings).

14.2 Council at its meeting on 18 July 2019, agreed to re-position the MTFS to show 0% Council Tax increases through to 2023/24. This report extends the MTFS period and 0% increases to 2025/26. The motion agreed by Council emphasised that 0% increases in Council Tax throughout the MTFS period is an ambition and it was recognised that the Council continues to face significant financial challenges and uncertainties that may not allow this ambition to be met. These challenges and uncertainties have been exacerbated by Covid-19.

14.3 The motion also stated that Members of the Council need to act responsibly each year when setting the precept to balance the ambition of achieving a 0% Council Tax rise with the legal need to balance the budget. It was agreed that raising Council Tax in any of the next four years will be a last resort in order to minimise the financial effects of Council Tax on all of Fenland's households.

14.4 For information, an additional 1% increase in Council Tax in 2021/22 would generate in the region of £78,500 of revenue per annum to the Council. Even with this additional revenue included, the estimates for future years show a significant and increasing shortfall (see Table 2 in paragraph 8.5 above and Appendix B).

14.5 After the estimates of expenditure and income have been prepared, and the Final Settlement has been received, the next step is to set the council tax for 2021/22 for Fenland District Council.

14.6 In line with the motion agreed by Council on 18 July 2019, assumed Council Tax increases of 0% have been included for 2021/22 and over the period of the MTFS.

14.7 At this level of Council Tax there is a requirement for a significant contribution from the General Fund Balance of £842k to ensure a balanced budget for 2021/22. There are also forecast further significant and increasing deficits over the period of the MTFS. Consequently, the Council will need to continually consider its strategy to meet the estimated shortfalls shown at Table 2 and in Appendix B.

14.8 The implications of not increasing Council Tax over the MTFS is that the Council would be reducing its financial base permanently as it would not be able to recover potential revenue foregone due to the cumulative year on year impact. The consequences of continually setting zero Council Tax levels and not achieving the necessary savings/additional income have been clearly demonstrated by the events at other Councils. The ability to achieve significant year on year savings (without increasing existing and introducing new revenue streams together with transformational change) to balance the budget becomes progressively difficult without eventually impacting on front-line services and delivery.

14.9 Council can of course agree to a higher increase (up to the referendum limit of 2%) and a 1% increase in Council Tax raises around £78,500 revenue per annum. Table 5 shows the implications of increasing the Council Tax in 2021/22 by 1.97% per annum and thereafter compared to freezing the Council Tax in 2021/22 and throughout the MTFS period.

Table 5: MTFS Deficits at Differing Council Tax increases in 2021/22 onwards

Deficits based on different % increases	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**	**2025/26 £'000**
Deficits at 0% increase *(as shown in Table 2/Appendix B)*	+842	+1,246	+1,389	+1,455	+1,670
Additional CT with 1.97% increase p.a. from 2021/22	-157	-319	-488	-665	-849
Required Contribution from General Fund Balance	-685				
Deficits at 1.97% increase	0	+927	+901	+790	+821

14.10 Table 6 shows the Band D Council Tax for spending at the level proposed, together with Council Tax levels from the major preceptors and Parishes.

Table 6: Band D Council Tax Levels 2021/22

COUNCIL TAX BASE	**2021/22** *30,143*		**2020/21** *29,815*	
	£	**Band D £**	**£**	**Band D £**
Fenland District Council Precept (Appendix A)	7,851,042		7,765,610	
Fenland District Band D Council Tax	***0.00%***	**260.46**	***0.00%***	**260.46**
MAJOR PRECEPTORS				
County Council	*(2.99%)*	1,399.77	*(4.98%)*	1,359.18
Police & Crime Commissioner	*(6.42%)*	247.59	*(12.05%)*	232.65
Fire Authority	*(2.00%)*	73.53	*(2.88%)*	72.09
Sub Total BAND D TAX		1,981.35		1,924.38
Parish Councils-average (Appendix F)	*(-0.84%)*	48.05	*(-1.19%)*	48.46
Total average Band D Tax		**2,029.40**		**1,972.84**
Total average increase over 2020/21	**£56.56 (2.87%)**			

14.11 The County Council increase for 2021/22 includes 1% for the Adult Social Care precept (£13.59) and 1.99% on the general council tax (£27.00), giving a total increase of 2.99% (£40.59). For 2021/22, the Police and Crime Commissioner is allowed to increase council tax by up to £15.00 on a Band D property. The actual increase is £14.94 (6.42%).

15 TREASURY MANAGEMENT STATEMENT, ANNUAL TREASURY INVESTMENT STRATEGY AND CAPITAL STRATEGY 2021/22

15.1 Full details of the proposed Treasury Management, Annual Investment Strategy and Capital Strategy for 2021/22 are contained in Appendix E. The proposed Treasury Management and Annual Investment strategies were presented to and endorsed by Audit and Risk Management Committee on 1 February 2021.

15.2 The key issues relating to the strategies and their impact on the MTFS are as follows:

- The prudential and treasury indicators detailed in paragraphs 2-12 of Appendix E, show that the Council's capital investment plans are affordable, prudent and sustainable.
- The Capital Strategy, detailed at Annex A of Appendix E, sets out the context in which capital expenditure and investment decisions are made and establishes that the Council has arrangements in place to ensure it gives due consideration to risk, reward, and impact on the achievement of priority outcomes.
- The MRP policy sets out how the Council will make prudent provision for the repayment of borrowing needs over the medium term forecast.
- The Treasury Management Strategy has been organised so that the Council will have sufficient cash resources to meet capital expenditure plans and operational cash flows.
- Due to the Council's long term PWLB debt portfolio (£4.5m at 31/03/20) currently attracting excessive premiums; it is not financially advantageous for the Council to comply with the gross borrowing and capital financing prudential indicator.

- Total external interest which includes finance lease interest payments; revised estimate for 2020/21 is £496,710 and the estimate for 2021/22 is £530,500. Additionally, if the authority were to immediately borrow the full £25M to fund schemes taken forward as part of the Commercial and Investment Strategy this would attract annual interest payments of £287,000.
- Bank rate is expected to remain unchanged at 0.10% throughout the next three years.
- The current Medium Term Financial Strategy assumes that some external borrowing will be required, to fund the Council's Capital Programme, over the four-year period to 31 March 2024.
- The aim of the Council's annual treasury investment strategy is to provide security of investments whilst managing risk appropriately; investment returns are commensurate with the Council's historic low risk appetite although we are in the process of transition as a Council from a low risk policy to an appropriately managed risk policy. The Council achieves these objectives through differentiating between "specified" and "non-specified" investments and through the application of a creditworthiness policy.
- Total investment income is an estimated £55,000 for 2020/21 and £40,000 for 2021/2022. The Council is anticipating that if market conditions improve as expected it should be possible for the Council to invest in property funds during the 2021/22 financial year. The Medium Term Financial Strategy incorporates an estimate that such an investment would yield a return of £150,000 in 2021/22 rising to £250,000 per year in subsequent years.

16 REVIEW OF GENERAL FUND BALANCE AND EARMARKED RESERVES

16.1 An important part of any budget strategy is the review and consideration of reserves. Earmarked Reserves are typically held and used in a planned way to deal with issues where it is foreseen that resources need to be set aside to meet a specific need but the exact amount and timing is not known. General Reserves are held to cushion the impact of an event or events that cannot be foreseen whilst maintaining these resources at a consistent and reasonable level over the medium term.

16.2 Sufficient levels of reserves are necessary to provide for various contingent and unplanned items that could include:-

- significant increased costs of providing statutory services
- significant increased contractual costs
- an unexpected and/or significant event or disaster, e.g. civil emergency
- an unexpected major liability in law
- the need to make significant payments in relation to prior year adjustments under the direction of the external auditor

16.3 The Council's current uncommitted General Fund Balance is £2m. As part of the budget proposals for 2021/22 detailed in this report a contribution of £842k is required to set a balanced budget.

16.4 It is good practice to keep the balance on this reserve under review alongside ensuring that the purposes for which other earmarked reserves were allocated remain consistent with and relevant to the Council's Medium Term Financial Strategy. In light of the proposed use of the General Fund Balance in 2021/22, it will be necessary to re-assess the appropriate level of this balance over the period of the MTFS. It is proposed that this is carried out during 2021/22 taking into account actual use of this balance and updated MTFS forecasts.

16.5 The Budget Equalisation Reserve was established in 2019/20 to provide a smoothing mechanism between financial years which could provide resources to help achieve balanced budgets in future years. The current balance on this reserve is £315k and is available to meet potential budget shortfalls.

16.6 The analysis of reserves at Appendix G details the projected General Fund and earmarked reserves position as at 31 March 2021 and 31 March 2022 taking account of the proposals detailed in this report.

17 CAPITAL PROGRAMME

17.1 Capital Expenditure and Income plans have been prepared through the Council's service and financial planning cycle. The Council's capital resources are dependent on government funding, external grants or through the ongoing disposal of assets.

17.2 A fully updated Capital Programme for 2021-24 is presented at Appendix D for approval. The programme has been updated to ensure it adequately reflects the cost and anticipated timing of schemes previously approved.

17.3 In June 2019 Members approved a series of recommendations relating to the disposal of surplus assets. These recommendations have been taken forward by officers and the summary of resources available to finance the current capital programme takes account of disposal proceeds the Council expects to generate over the life of the current programme. Whilst it is difficult to determine with certainty the returns the Council might be able to generate such returns are important in the context of the Council's Medium Term Financial Strategy as where capital expenditure can be financed through the application of capital receipts it does not need to be financed from borrowing.

17.4 The Council has continued to deliver the schemes set out in its capital programme. The pandemic has impacted on the supply chain and this resulted in some schemes needing to be re-profiled. The impact of these profiling adjustments is not, however, considered to be significant and there are no specific financial implications. The updated capital programme is set out in Appendix D to this report.

17.5 The capital programme takes account of two recent government announcements concerning major grant-funded capital schemes. The first relates to the installation of technologies to improve energy efficiency in social housing in Wisbech and the second concerns major infrastructure improvements to March High Street.

17.6 On 12 January 2021 Cabinet authorised officers to enter into an agreement with the Department of Business, Energy and Industrial Strategy (BEIS) to enable the Council to participate in a project which forms part of a national Social Housing Decarbonisation initiative. The project will be delivered by Clarion and its partners by 31 March 2022. Clarion is providing match-funding for 50% of the total projects costs and the Council will pass on to Clarion funding for the remaining 50% of project costs by applying the grant provided by government in accordance with the terms of a funding agreement between Clarion and the Council.

17.7 On 26 December 2020 it was announced that the Council had been successful in securing funds from MHCLG to deliver a scheme of major improvements to March High Street in line with a bid which had been submitted to the government's Future High Streets Fund. The scheme will be funded from a combination of a grant from MHCLG and an agreed contribution of £2M from the Cambridgeshire and Peterborough Combined Authority (CPCA). A report providing more details relating to this scheme is scheduled to be reported to a future meeting of Cabinet. The scheme is included in the programme based on the value of funding approved and the expected profile of the associated expenditure.

17.8 Cabinet was informed on 14 December 2020 that the capital programme had been updated to take account of the final value of the grant awarded to the owners of 13-17 High Street, Wisbech which is one of the properties which forms part of the Wisbech High

Street project which is funded from grant received from the National Lottery Heritage Fund (NHLF). Proposals for redevelopment at 11-12 High Street and 24 High Street are still being finalised and the capital programme will be updated once decisions relating to these schemes have been reached and approval has been obtained from the NHLF.

17.9 In February 2020 Council approved the allocation of £25M to take forward the development of schemes identified as part of the approved Commercial and Investment Strategy. During the 2020-21 financial year both the Council's Investment Board and the Council's Local Authority Trading Company, Fenland Future, have met to consider potential opportunities for investment and the associated governance arrangements. An indicative profile of likely spend is included in the capital programme although it should be noted that the facility exists for the allocation to be spent at any time over the period covered by the programme.

17.10 Should resources from external funding and/or capital receipts not generate the level of receipts forecast, or there is a delay in disposal of assets, then the capital programme will need re-visiting to ensure funding is sufficient to meet proposed expenditure including through borrowing. Reviews of the programme and resources available are carried out regularly during the year.

17.11 The Council's Borrowing Strategy which is incorporated into the Council's Treasury Management Strategy Statement, recognises that some prudential borrowing may be required over the life of the capital programme. The projected additional annual revenue costs for the Council are reflected in the MTFS.

18 RISK ASSESSMENT

18.1 There is an element of risk inherent in any process that looks into the future to make forecasts, particularly in the current economic climate and other national and international events now or in the future that may impact on the Council either directly or indirectly. The Council has a strong track record in good financial management as recognised in the recent Annual Audit Letter. This risk is further minimised by adopting the following methodology when preparing the estimates:-

- Service managers and the Accountancy Team working together to define likely service income/expenditure patterns matched with service delivery plans;
- Maintaining "earmarked" reserves for expenditure that it is known will occur but the exact amount and timing of the expenditure is not known;
- Maintaining an adequate level of general reserves to meet sudden and or unforeseen expenditure;
- Adopting clear guidelines and control systems (robust revenue and capital budget management and monitoring procedures, Financial Regulations and Contract Procedure Rules etc.) to alert service managers, and members before variances reach tolerance levels;
- Using professional and expert advice and economic forecasts where these are available, e.g. treasury management, interest rates;
- Maintaining a rolling review of forecast estimates beyond the current year.

18.2 These assumptions are made with all available information but are necessarily calculated based on broad assumptions. In the current economic climate, some of these assumptions are particularly volatile. The MTFS will be prepared annually on a rolling basis so that as information becomes more certain the figures will be updated and early consideration can be given to any action or changes in direction that may be required.

19 REPORT OF THE CHIEF FINANCE (SECTION 151) OFFICER UNDER SECTION 25 OF THE LOCAL GOVERNMENT FINANCE ACT 2003.

19.1 Under Section 25 of the Local Government Act 2003 and CIPFA Code of Practice, the Council's Chief Finance Officer (Section 151 Officer) is required to report on the robustness of the estimates made for the purpose of the budget calculations and the adequacy of the proposed reserves.

Cabinet and Council are required under the 2003 Act to consider and give due regard to the Chief Finance Officer's report as part of the budget approval and council tax setting process.

19.2 The proposed budget is set against the context of significant economic uncertainty in a post-Covid-19 world together with considerable uncertainty regarding government funding over the MTFS. In 2022/23 the Government intends to make fundamental changes to the funding system for Local Government through the introduction of a new needs based fairer funding formula and the introduction of business rates reforms and a new system of distributing the New Homes Bonus. The cumulative impact of these changes and lack of visibility on any transition or damping arrangements means that financial planning for 2022/23 is very uncertain.

19.3 The Corporate Director and Chief Finance Officer (Section 151 Officer) makes the following statement:

The robustness of the Budget estimates and the adequacy of the reserves are largely dependent on the levels of risk and uncertainty. There is an element of judgement as budget estimates of spending and income are made at a point in time and may change as circumstances change, particularly given the economic uncertainty in a post-Covid-19 world.

This statement on the robustness of estimates cannot give a 100% guarantee about the budget but should give the Council reasonable assurance that the budget has been based on the best information and assumptions available at the time.

The estimates that support this budget have used all the data and supporting information that the Council has at its disposal at this point in time. The principal financial assumptions made in the Budget are noted in this report and attached at Appendix C. Budget monitoring throughout the year will be an important tool in identifying, at an early stage, potential issues so appropriate action can be taken.

To date, the additional costs/reduced income arising from Covid-19 have largely been funded by additional financial support from the Government. It is therefore not an unreasonable assumption that any additional costs in 2021/22 will also be funded through additional grant over and above that already announced.

The delivery of the planned savings and major business projects **is critical** to the successful delivery of the Council's budget strategy. Current activity provides adequate assurance as to the deliverability of the 2021/22 budget with future year projections representing realistic planning assumptions which will be subject to review as part of the annual budget setting process. The MTFS is currently forecasting a significant financial shortfall for the financial year 2022/23.

The Budget has been prepared reflecting known service pressures and following thorough review by Service Managers of planned savings.

In light of the proposed use of the General Fund Balance in 2021/22, it will be necessary to re-assess the appropriate level of this balance over the period of the MTFS. It is proposed that this is carried out during 2021/22 taking into account actual use of this balance and updated MTFS forecasts.

Given the uncertainties detailed in this report, it is imperative that the Council maintains sufficient resources to cover any in-year unforeseen expenditure. A risk based approach to the consideration of the level of reserves is a component of the Council's overall risk management framework. Operational risks should be managed within Services' bottom line budgets and thus will not normally result in any further call on the Council's General Balances, as detailed in Section 16 above.

My assessment of the process that has been undertaken is that the calculations used in the preparation of the estimates for the Budget for 2021/22 are fair and robust and that reserves are adequate to reflect known circumstances and to be able to manage the stated uncertainties and risks that could realistically be anticipated at this point. All earmarked reserves are held for the purpose for which they are set up and are considered to be adequate to meet the requirements of those purposes when called upon based on the best information available as at the time of writing.

APPENDIX A(i)

FENLAND DISTRICT COUNCIL

Summary of Revenue Estimates

Service Summary *As detailed in Appendix A(ii)*	**Current Approved Estimate 2020/21 £**	**Projected Outturn 2020/21 £**	**Estimate 2021/22 £**
Growth & Infrastructure	1,826,850	1,847,290	1,561,380
Communities, Environment, Leisure & Planning	6,208,120	5,956,000	4,692,890
Resources & Customer Services	7,149,542	6,890,572	7,220,110
NET COST OF GENERAL FUND SERVICES	**15,184,512**	**14,693,862**	**13,474,380**
Corporate Items			
Contributions to/ (from) Earmarked Reserves	-568,164	-419,062	16,472
Contributions to Business Rates Reserve	3,419,600	3,417,430	-3,417,430
RTB/VAT Sharing Income	-20,000	-20,000	-20,000
Drainage Board Levies	1,499,520	1,499,520	1,539,950
Financing Charges - *Interest/Minimum Revenue Provision*	844,745	844,745	936,065
Investment Income and Property Funds Income	-55,000	-55,000	-190,000
New Homes Bonus	-1,118,635	-1,118,635	-874,916
A14 Contribution	32,000	32,000	32,000
Vacancy Factor (1.5%)	0	0	-170,000
Business Rates - net additional income above baseline *(government grants for reimbursement of reliefs, growth less levy payment)*	-1,382,611	-1,410,251	-1,309,135
Business Rates - reimbursement of additional Covid-19 reliefs	-3,301,480	-3,271,670	0
Business Rates Pool - FDC Share of Benefit	-252,191	-280,000	-300,000
Government Grant - Covid-19 General Grants for spending pressures	-1,794,262	-1,794,262	-634,010
Government Income Compensation Scheme Grant	-718,196	-613,244	-100,000
Lower Tier Services Grant	0	0	-157,697
Leisure Contract Support - Contingency	0	0	200,000
Corporate Adjustments	**-3,414,674**	**-3,188,429**	**-4,448,701**
Net Expenditure before CFF savings	**11,769,838**	**11,505,433**	**9,025,679**
CFF Transformation Savings identified not yet implemented	***0***	***0***	***-295,000***
Net Expenditure after CFF savings	**11,769,838**	**11,505,433**	**8,730,679**
Contribution from General Fund Balance	**0**	**0**	**-842,254**
NET EXPENDITURE after use of balances	**11,769,838**	**11,505,433**	**7,888,425**
Core Funding			
Business Rates Baseline Funding	**-3,701,878**	**-3,701,878**	**-3,701,878**
Business Rates Collection Fund Deficit(+)	**311,349**	**311,349**	**3,620,772**
Council Tax Collection Fund Deficit(+)/Surplus(-)	**-128,264**	**-128,264**	**43,723**
Council Tax	**-7,765,610**	**-7,765,610**	**-7,851,042**
Surplus(-)/Shortfall(+)	**485,435**	**221,030**	**0**

APPENDIX A(ii)

GROWTH AND INFRASTRUCTURE			
Service	**2020/21 Current Approved Estimate £**	**2020/21 Projected Outturn £**	**2021/22 Original Estimate £**
Direct Services			
Marine Services	99,350	62,200	105,750
Drainage (District)	6,000	6,000	3,000
Highways	296,300	294,790	128,200
Car Parks	177,100	182,700	184,200
Sewage Treatment Works	47,150	78,850	70,300
Parish Council Concurrent Functions	55,900	55,900	66,800
Miscellaneous (Clocks, Monuments)	7,750	6,750	3,750
Economic Estates	29,600	103,650	-12,550
Transport Development	87,500	64,600	96,100
Economic Development	166,100	145,900	170,550
Regeneration	53,200	54,700	0
HLF- High St Wisbech	36,800	36,800	30,980
Total Direct Services	1,062,750	1,092,840	847,080
Support Services			
Asset & Project Services	362,600	353,250	343,000
Fenland Hall	358,900	359,500	327,500
The Base	122,600	126,700	123,800
Total Support Services	844,100	839,450	794,300
Net Cost of Services	**1,906,850**	**1,932,290**	**1,641,380**
Less Support Services Recharges to Capital Schemes	-80,000	-85,000	-80,000
TOTAL GROWTH AND INFRASTRUCTURE	**1,826,850**	**1,847,290**	**1,561,380**

General Notes for Appendix A(ii):

1. Within all the Service Estimates detailed in Appendix A(ii), Support Services costs have not been reallocated with the exception of recharges to Capital Schemes.

2. Similarly, Capital Charges have not been reallocated as these 'costs' are reversed out within the Corporate Items section of the estimates, thereby having no impact on the Budget Requirement and Council Tax.

3. Estimates for 2021/22 include the assumptions on pay, expenditure and income detailed at Appendix C In addition, staff cost allocations to services have been reviewed for 2021/22 and have resulted in costs being re-allocated to better reflect time spent on providing those services.

4. In addition, the estimates for 2021/22 include the implementation of the My Fenland transformation project which has moved costs from various services and consolidated them in Customer Services

COMMUNITIES, ENVIRONMENT, LEISURE & PLANNING			
Service	**2020/21 Current Approved Estimate £**	**2020/21 Projected Outturn £**	**2021/22 Original Estimate £**
Direct Services			
Housing Strategy	145,800	145,800	147,150
Private Sector Renewals	120,720	120,720	121,110
Housing Standards	10,700	10,700	32,400
Care & Repair	29,440	29,440	29,440
CCTV	50,230	40,230	49,660
Safer Fenland	73,590	73,590	80,500
Licensing	-17,390	-22,590	-13,280
Housing Options	688,670	638,740	579,620
Controlling Migration	266,110	209,690	0
Community Development	136,870	159,650	139,610
Travellers Services	-49,750	-34,750	-68,370
Pollution Reduction	164,360	171,040	98,900
Public Health	212,390	206,920	233,390
Food Safety	127,820	112,260	148,780
Health and Safety	64,450	63,280	71,310
Refuse Collection - Domestic	1,297,670	1,307,570	1,339,930
Garden Waste	-64,440	-58,670	-176,690
Refuse Collection - Trade Waste	-45,430	-57,630	-140,460
Street Cleansing	833,400	834,930	830,410
Streetscene	196,500	191,560	206,430
Public Conveniences	23,180	22,980	14,910
Arts Development & Culture	4,090	4,090	12,000
Planning Policy	207,800	207,800	94,600
Development Management	-33,900	-36,500	-115,700
Building Control	54,000	54,000	54,000
Conservation	39,900	39,900	38,800
Planning Compliance	90,600	90,600	93,250
Technical Support	189,750	189,150	194,100
Leisure Centres	803,270	587,990	-34,700
Sports Development	68,480	104,260	83,630
Parks and Open Spaces	442,590	466,330	493,170
Cemeteries	-16,350	-11,800	-34,800
Markets and Fairs	8,740	10,090	-6,440
Community Events	53,710	48,080	76,490
Vehicle Workshop	30,550	36,550	19,740
TOTAL COMMUNITIES, ENVIRONMENT, LEISURE & PLANNING	**6,208,120**	**5,956,000**	**4,692,890**

RESOURCES AND CUSTOMER SERVICES			
Service	**2020/21 Current Approved Estimate £**	**2020/21 Projected Outturn £**	**2021/22 Original Estimate £**
Direct Services			
Miscellaneous Central Services	157,050	157,050	157,040
Unfunded Pension Costs/Apprenticeship Levy	916,000	916,000	999,000
Corporate Management	924,682	868,992	916,090
Council Tax Cost of Collection	380,900	316,880	209,320
Business Rates Cost of Collection	8,080	9,320	-3,950
Housing Benefits	479,060	477,110	220,870
ICT Direct Service Costs	749,190	703,790	711,150
Policy	241,800	240,900	248,600
Land Charges	-45,000	-50,200	-52,000
Elections & Electoral Registration	181,150	172,200	195,250
Democratic Services	491,750	472,000	530,050
Emergency Planning	118,840	119,450	71,060
Total Direct Services	4,603,502	4,403,492	4,202,480
Support Services			
Accountancy	546,730	550,740	552,370
Information & Communication Technology	444,200	418,700	529,570
Customer Services	785,350	761,230	1,109,990
Post & Reprographics	180,800	180,800	134,350
Internal Audit	60,900	58,200	109,200
Legal Services	258,750	248,050	265,650
Corporate Health & Safety	600	580	1,210
Human Resources	268,710	268,780	315,290
Total Support Services	2,546,040	2,487,080	3,017,630
TOTAL RESOURCES AND CUSTOMER SERVICES	**7,149,542**	**6,890,572**	**7,220,110**

APPENDIX B
(0% Council Tax increase)

Medium Term Financial Strategy	Projected 2020/21 £000	Estimate 2021/22 £000	Forecast 2022/23 £000	Forecast 2023/24 £000	Forecast 2024/25 £000	Forecast 2025/26 £000
Expenditure						
Service Expenditure/Income						
Gross Service Expenditure	24,378	22,329	21,835	22,201	22,660	23,128
Fees and Charges	-5,130	-5,994	-6,252	-6,336	-6,417	-6,498
Grants and Contributions	-5,405	-2,456	-1,252	-1,239	-1,219	-1,206
Recycling Credits	-943	-1,039	-1,047	-1,057	-1,067	-1,077
Total Net Service Expenditure	***12,900***	***12,840***	***13,284***	***13,569***	***13,957***	***14,347***
Corporate Items						
Corporate Expenditure/Savings						
Drainage Board Levies	1,500	1,540	1,571	1,602	1,634	1,667
Financing Charges - Interest on External Borrowing	496	531	565	565	565	565
Financing Charges - Current Capital Programme - MRP	349	405	513	513	513	513
Vacancy Factor (1.5%)	0	-170	-174	-178	-183	-188
A14 Upgrade - contribution	32	32	32	32	32	32
Leisure Contract Support - Contingency	0	200	0	0	0	0
CFF Transformation Savings identified not yet implemented	0	-295	-366	-366	-366	-366
	2,377	*2,243*	*2,141*	*2,168*	*2,195*	*2,223*
Corporate Income Items						
Contribution to(+)/from(-) Earmarked Reserves	-419	16	0	0	90	90
Contribution to Business Rates Reserve	3,417	-3,417	0	0	0	0
RTB/VAT Sharing Income	-20	-20	-20	-20	-20	-20
Investment and Property Fund Income	-55	-190	-290	-290	-310	-310
New Homes Bonus	-1,119	-875	-868	-853	-800	-800
Business Rates - net additional income above baseline	-1,410	-1,309	-1,379	-1,406	-1,434	-1,466
Business Rates - reimbursement of additional Covid-19 reliefs	-3,272	0	0	0	0	0
Business Rates Pool - FDC Share of Benefit	-280	-300	0	0	0	0
Government Income Compensation Scheme	-613	-100	0	0	0	0
Lower Tier Services Grant	0	-158	-158	-158	-158	-158
Contribution from General Fund Balance	0	-842	0	0	0	0
	-3,771	*-7,195*	*-2,715*	*-2,727*	*-2,632*	*-2,664*
Total Corporate Items	***-1,394***	***-4,952***	***-574***	***-559***	***-437***	***-441***
Gross Service/Corporate Expenditure	**26,755**	**24,572**	**23,976**	**24,369**	**24,855**	**25,351**
Gross Service/Corporate Income	**-15,249**	**-16,684**	**-11,266**	**-11,359**	**-11,335**	**-11,445**
Net Budget Requirement	**11,506**	**7,888**	**12,710**	**13,010**	**13,520**	**13,906**
Funding - NNDR/CT						
Business Rates Baseline Funding	-3,702	-3,702	-3,746	-3,806	-3,871	-3,944
Business Rates Collection Fund Deficit	311	3,621	184	184	0	0
Council Tax Collection Fund Surplus(-)/Deficit	-128	44	47	47	-50	-50
Council Tax *(increases of 0% in 20/21 onwards)*	-7,766	-7,851	-7,949	-8,046	-8,144	-8,242
Total Funding - NNDR/CT	**-11,285**	**-7,888**	**-11,464**	**-11,621**	**-12,065**	**-12,236**
Surplus(-)/Shortfall(+)	**+221**	**0**	**+1,246**	**+1,389**	**+1,455**	**+1,670**

Summary						
Total Gross Expenditure	**26,755**	**24,572**	**23,976**	**24,369**	**24,855**	**25,351**
Funded by:						
Fees and Charges	-5,130	-5,994	-6,252	-6,336	-6,417	-6,498
Grants and Contributions	-5,405	-2,456	-1,252	-1,239	-1,219	-1,206
Recycling Credits	-943	-1,039	-1,047	-1,057	-1,067	-1,077
New Homes Bonus	-1,119	-875	-868	-853	-800	-800
Investment Income, VAT/RTB	-75	-210	-310	-310	-330	-330
Contribution to(+)/from(-) Earmarked Reserves	2,998	-3,401	0	0	90	90
Income Compensation Scheme	-613	-100	0	0	0	0
Lower Tier Services Grant	0	-158	-158	-158	-158	-158
Contribution from General Fund Balance	0	-842	0	0	0	0
Retained Business Rates	-8,353	-1,690	-4,941	-5,028	-5,305	-5,410
Council Tax	-7,894	-7,807	-7,902	-7,999	-8,194	-8,292
Total Funding	**-26,534**	**-24,572**	**-22,730**	**-22,980**	**-23,400**	**-23,681**
Surplus(-)/Shortfall(+)	**+221**	**0**	**+1,246**	**+1,389**	**+1,455**	**+1,670**

APPENDIX C

Assumptions built into Budget and Medium Term Financial Strategy (MTFS)

Within the forecasts are a number of assumptions which are necessary to produce the overall budget strategy. However, there is an element of risk associated with this process although the aim is to mitigate these risks as detailed in section 18 of the main report.

The main assumptions are as follows:

- 0% Council Tax increase for 2020/21 and thereafter (1% increase generates around £78k of resources and 1.97% around £154k of resources);
- 1.10% increase in Council Tax base in 2021/2022 (Tax-base 30,143) and 1.20% thereafter (increase of 375 Band D equivalent properties per annum);
- Inflation (CPI) increases in Retained Business Rates income (0% for 2021/22, and in line with Treasury assumptions for 2022/23 onwards, 1.2% for 2022/23 rising to 2% for 2025/26);
- Inclusion of this Council's share (£300k) of the potential benefit arising from the continuation of the Cambridgeshire Business Rates Pool in 2021/22 only. Potential benefit from the Pool in future years will be dependent on the scheme design of the new Business Rates Retention System expected to be implemented from 1 April 2022.
- 0% pay award for 2020/21 with the exception of a minimum of £250 increase for those earning less £24,000. 2% increase in 2022/23 (£230k cost) and thereafter together with an allowance for pay increments of around 1% p.a. (£115k cost) reflecting the continuing impact of the pay grades re-modelling following the national pay award agreement effective from April 2019;
- Employer's Pension Contributions – following the triennial valuation as at 31.03.2019, the rate for 2021/22 is to remain the same as 2020/21 (17.4% of salary with additional past deficit lump sum payment of £896k). For 2022/23 the contribution rate remains at 17.4% with a lump sum payment of £978k, representing an overall increase of 1% p.a. in total contributions. For 2023/24 onwards, following the next triennial valuation, further increases have been assumed in line with the current triennial valuation;
- Inclusion of a vacancy factor for 2021/22 onwards, equivalent to a reduction in staff costs of 1.5% (£170,000 in 2021/22);
- 0% general inflation for the period of the MTFS;
- Specific allowance for inflation where required eg: business rates, external contracts, energy and water, drainage board levies;
- Investment interest rates to stay at current rates until first quarter of 2024 when market rates are forecast to begin rising slowly;
- Investment income includes an assumed £5m investment in property funds during 2021/22 (additional £150k income net of costs) with the full year impact from 2022/23 onwards (additional £250k income per annum);
- Assumptions regarding forecast income levels from fees and charges have been included. The base position for 2021/22 has been initially set at pre-Covid-19 levels. In addition, fee increases (where applicable) together with a review of activity levels have determined the current estimates;
- The New Homes Bonus for 2021/22 onwards has been included as detailed in paragraph 4.3 of the report.

- For 2021/22, additional support for the Leisure Management contract has been included. This consists of no Management Fee being received for April-June 2021 (£114k) off-set by the appropriate recovery from the Income Compensation Scheme (-£81k) which the government has announced will continue into the first quarter of 2021/22. In addition, a sum of £155k has been included for additional cash support for April-June 2021 with a contingency of £200k included for the period July 2021 onwards.
- In addition, for 2021/22, additional provision has been included for a continuation of the high demand for bed and breakfast (£100k) and temporary accommodation (£250k) for the homelessness and rough sleeper's service.
- For 2021/22 onwards, an amount of £50k has been included as a recharge to Fenland Future Limited to reflect the use of FDC officer time on the company's behalf. This amount could vary depending on the amount of time and types of activities being carried out for the company.

APPENDIX D

CAPITAL PROGRAMME AND FUNDING 2020 - 2024

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Capital Programme (excluding Commercial and Investment Strategy Schemes)	4,519	17,970	6,306	1,635
Commercial and Investment Strategy Schemes	0	10,000	10,000	5,000
CURRENT FORECAST EXPENDITURE	**4,519**	**27,970**	**16,306**	**6,635**
FORECAST RESOURCES AVAILABLE				
Capital Grants	2,619	14,449	5,443	950
Usable Capital Receipts - In Year	60	265	100	100
Reserves used in year to fund Capital	353	508	100	0
Section 106s and Other Contributions	207	108	12	0
Borrowing (Internal and Prudential)	1,280	12,640	10,651	5,585
Total Forecast Resources	**4,519**	**27,970**	**16,306**	**6,635**

CAPITAL PROGRAMME SUMMARY 2020/21 - 2023/24

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total Cost £000	FDC Funding £000	External Funding £000	External Funders and FDC Reserves/S106
Leisure Centres								
1 Condition Survey Improvements	95	365	75	75	**610**	610		£172k R&M Reserve
Regeneration Programmes								
2 Fenland Renaissance and Place Shaping	16				**16**	16		
3 Heritage Lottery Fund - Non-FDC Properties	269	369			**638**	81	557	£557k HLF Grant. £63K S106
4 Heritage Lottery Fund - 24 High Street, Wisbech	31				**31**	31		
5 Railway Station Master-Planning	748	3,834			**4,582**	82	4,500	£4,500k CPCA Grant, £82k S106
6 Whittlesey Flood Warning Signs	66				**66**		66	CPCA £58k, Whittlesey Town Council £8k
7 Future High Street Fund, March		3,954	4,493		**8,447**		8,447	£2,000k CPCA, £6,447k MHCLG Future High Streets
Cemeteries								
8 Manea Chuchyard		15			**15**	15		
9 Remedial Works in Closed Cemeteries		53	25		**78**	78		
Highways								
10 Category 2 Street Lights - FDC Lights	200	120			**320**	320		£13k Invest to Save Reserve
11 Street Name Plates/District Facilities Signage	30				**30**	30		
12 Street Light Improvements - Parishes (Contribution to Cat 2 Replacements)	38				**38**	38		£38k Capital Contribution Reserve
Car Parks								
13 Church Lane, Chatteris	20				**20**	20		
Office Accommodation								
14 Fenland Hall - Repairs and Renewals	120	100	100	100	**420**	420		
Environment								
15 Replacement Littter Bins	88	83			**171**	171		
Port								
16 Boat/Vessels - Replacement Deck, Hull and Engines	54	30			**84**	84		
17 Yacht Harbour Improvements	17				**17**	17		
18 Wisbech Port Structural Works	265				**265**	265		
19 Wisbech Port Fender Piles	100				**100**	100		
Sub Total	**2,157**	**8,923**	**4,693**	**175**	**15,948**	**2,378**	**13,570**	

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total Cost £000	FDC Funding £000	External Funding £000	External Funders and FDC Reserves/S106
Brought Forward	**2,157**	**8,923**	**4,693**	**175**	**15,948**	**2,378**	**13,570**	
Parks and Open Spaces								
20 West End Park, March - Replace Skate Ramps	21				**21**	21		
21 West End Park, March - Park Improvements	50	35			**85**	8	77	£75k Cambs CC, £2K March TC
22 Parks, Play Areas and Open Space - Chatteris		60	40		**100**	100		£6k S106 money
23 Parks, Play Areas and Open Space - Doddington		45			**45**	45		£21k S106 money
24 Parks, Play Areas and Open Space - Parson Drove		30			**30**	30		£30k S106 money
25 Parks, Play Areas and Open Space - Whittlesey	136				**136**	92	44	£92k S106 money £44k FCC Grant
26 Parks, Play Areas and Open Space - Wisbech		20	20		**40**	40		£32k S106 money
Vehicles and Plant								
27 Vehicles	203	337	141	260	**941**	941		
ICT System Replacement Programme & Upgrades								
28 Replacement & Upgrade Programme	269	550	250	100	**1,169**	1,169		£700k Management of Change Reserve
Improvement of Assets								
29 Sewage Treatment Works Refurbishment	70	520	200	150	**940**	940		
30 Birch Fen Silt Removal and Outfall Maintenance		25			**25**	25		
31 March Moorings Renewals		12	12		**24**	24		
32 Hostel Roof Renewal		28			**28**	28		
33 Lattersley Nature Reserve - Capping Layer		40			**40**	40		
34 Energy Efficiency Improvenents to Clarion Properties	125	4,368			**4,493**		4,493	£4493k BEIS Decarbonisation Fund Grant
Economic Estates								
35 Replacement of AV Equipment at Business Centres		50			**50**	50		
36 South Fens Business Park Expansion	20	1,977			**1,997**	1,000	997	£997k CPCA 'Business Space' Funding
Community Safety								
37 Camera Replacements	38				**38**	38		£38k CCTV Reserve
Private Sector Housing Support								
38 Private Sector Renewal Grants	50	40	40	40	**170**		170	£170k Govt Grant
39 Disabled Facilities Grants	1,380	910	910	910	**4,110**		4,110	£4110k Govt Grant
Total - Approved Programme	**4,519**	**17,970**	**6,306**	**1,635**	**30,430**	**6,969**	**23,461**	

ANNEX A

FENLAND DISTRICT COUNCIL

CAPITAL STRATEGY 2021/22-2023/24

1. OVERVIEW AND CONTEXT

1.1 The Council has established statutory and regulatory responsibilities for the management of its financial affairs. These responsibilities encompass revenue and capital expenditure. The specific responsibilities of full Council, the Cabinet, the Investment Board, Corporate Management Team (CMT) and the Council's appointed Section 151 Officer are defined within the Council's constitution.

1.2 The Council regularly updates its Medium Term Financial Strategy (MTFS). The MTFS provides a framework for setting the Council's annual revenue budget and updating the Council's three-year capital programme. The MTFS sets outs the primary assumptions underpinning the assessment of the resources available to the Council and anticipated service budgets over the coming five financial years.

1.3 Whilst local authorities are required to set a balanced revenue budget, legislation permits local authorities to obtain credit and therefore fund their capital programmes from borrowing. Individual authorities are required to have regard for the Prudential Code published by the Chartered Institute of Public Finance and Accountancy. The Prudential Code requires authorities to ensure:

- all capital expenditure and investment plans are affordable;
- all external borrowing and long-term liabilities are within prudent and sustainable levels;
- treasury management and other investment decisions are taken in accordance with professional good practice; and
- authorities can demonstrate themselves to be accountable by providing a clear and transparent framework.

1.4 Historically, this Council has discharged its responsibilities under the Prudential Code by ensuring that the Treasury Management Strategy, which is approved annually by full Council, is prepared with reference to the latest capital programme. The Capital Programme is itself developed with explicit consideration of the extent to which proposed capital investment is affordable, prudent and sustainable given the resources available to the Council as set out in the MTFS.

1.5 Following an update to the Prudential Code in December 2017, local authorities are now required to have a Capital Strategy. The introduction of this requirement acknowledges that individual authorities will each have their own approach to assessing priorities for capital investment, the amount the Authority can afford to borrow and the Authority's appetite to risk.

1.6 This strategy sets out in a single document the long term context in which capital expenditure and investment decisions are made and establishes that the Council has arrangements in place to ensure it gives due consideration to risk, reward, and impact on the achievement of priority outcomes. The Strategy is updated annually and reviewed by the Council's Corporate Governance Committee prior to being approved by Full Council alongside the annual budget.

2. CAPITAL EXPENDITURE

2.1 Capital expenditure incorporates a range of different types of financial transaction which the Council might enter into. What these transactions have in common is that they relate to investments decisions which impact on the Council and its stakeholders over a period which extends beyond the financial year in which the transaction is entered into. The Council's appointed S151 Officer ultimately has responsibility for determining whether expenditure is capital in nature in accordance with relevant regulation and statute.

Role and Purpose of the Asset Management Plan

2.2 The Council has developed an Asset Management Plan in accordance with acknowledged best practice. This document provides a strategic framework for managing the Council's current portfolio of land and buildings ensuring that officers and elected members can have confidence, in the long-term, that the Council has the land and property needed to fulfil the pledges set out in the Council's Business Plan.

2.3 The Asset Management Plan incorporates oversight of operational and non-operational property owned by the Council. Operational assets are those assets held by the Council to enable the Council, or its partners, to deliver those services which are either statutory in nature or provided on a discretionary basis to the extent that providing those services is consistent with the strategic objectives of the Council. Non-operational assets are those assets which are not directly used for the purposes of service delivery but are held to either provide the Council with a return on investment, either through rental income, appreciation in the value of the asset or the potential contribution that holding the asset makes to the Council's wider corporate objectives, e.g. taking forward opportunities to regenerate and develop the local economy.

2.4 Responsibility for the Asset Management Plan rests with the Council's Assets and Projects team which reports to the Council's Corporate Director (Growth and Infrastructure). The Assets and Projects team regularly appraise the condition of the Council's property portfolio to determine the revenue and capital resources required to ensure the portfolio continues to meet the needs of Service Managers. When the needs of services managers change the Assets and Projects team will assist in determining the impact on the property portfolio, including the resources required to meet those needs. The Assets and Projects team recognise that the Council's property needs are unlikely to remain static and the past cost of maintaining a Council asset is not necessarily a reliable indicator of future costs. Forward projections regarding the resources to be allocated to asset management recognise the interaction between revenue and capital expenditure in determining the Council's cost base.

2.5 The capital resources required to meet investment needs identified as part of the Asset Management Plan are routinely assessed and anticipated capital expenditure is profiled over the financial years when it is expected to be incurred. On at least an annual basis capital schemes identified as part of the Asset Management Plan are presented to a meeting of the Council's Corporate Asset Team to determine when and if they should be incorporated into the Council's Capital Programme.

Investment in Vehicles, Plant, Equipment and IT

2.8 The Council has nominated service managers who are responsible for the vehicles, plant and information technology assets in use within the Council. These assets all have an expected useful economic life informed by an assessment by the nominated manager. The need to allocate capital resources to fund the replacement of these assets at the end of their useful life is assessed annually by the Council's Corporate Asset Team. There is also an annual appraisal of business cases relating to proposals to invest in additional equipment not reflected in the programme of rolling replacements.

Role and Function of the Corporate Asset Team

2.9 The Corporate Asset Team is an officer-led group which meets bi-monthly under the Chairmanship of the relevant Corporate Director. On behalf of the Council's Corporate Management Team, the Corporate Asset Team assumes responsibility for providing a strategic oversight in respect of all matters pertaining to asset management.

2.10 All proposed changes to the Council's three-year capital programme are subject to review by the Corporate Asset Team prior to being considered by Corporate Management Team, the Cabinet and Full Council. Any scheme which is not already incorporated into the Council's Asset Management Plan will only be considered for inclusion in the Capital Programme if the Officer proposing the scheme can demonstrate, with appropriate evidence, one or more of the following:

- there is a statutory obligation for the Council to incur the capital expenditure proposed;
- the proposed capital expenditure relates to works deemed necessary on the grounds of health and safety;
- capital expenditure is proposed to protect a Council asset and reduce the risk of excessive revenue expenditure being incurred in upcoming financial years;

- the proposed capital expenditure will generate income, either of a revenue or capital nature, in excess of the capital expenditure which is expected to be incurred including any financing costs; and/or
- the proposed capital expenditure will (after including financing costs) reduce revenue expenditure incurred by one or more of services in future financial years.

2.11 The capital financing regulations permit the Council to treat as capital expenditure certain types of transaction which do not result in the acquisition of a physical asset by the Council. These transactions can be high-volume, small value transactions such as the awarding of Disabled Facilities Grants which are currently funded from monies received as part of Cambridgeshire County Council's Better Care Fund allocation. Such transactions do not require specific approval providing the nature and purpose of the expenditure has been approved as part of the Capital Programme.

2.12 Any proposals to incur capital expenditure which do not lead to the recognition of a physical asset where the expenditure proposed exceeds £10,000 but does not fall within the scope of the Council's Commercial and Investment Strategy will be considered at a meeting of CMT. If approved by Cabinet, approval will be sought at a meeting of Cabinet before being considered at full Council if necessary. Possible examples include, but are not restricted to:

- granting loans to third parties (for reasons not linked to the objectives of the Commercial and Investment Strategy);

- providing grant-funding to a third party which enables that third party to undertake expenditure which would have been capital in nature had it been undertaken by the Council.

<u>Role and Function of the Investment Board</u>

2.13 During the 2019-20 financial year the Council initiated the development of a Commercial and Investment Strategy for the Council. The current version of the Strategy was approved by full Council on 9 January 2020.

2.14 The Commercial and Investment Strategy was developed in recognition of the investment opportunities available to the Council acknowledging that utilising the Council's powers to invest could bring substantial benefits not only to the Council but also to the wider District and its residents. The Capital Strategy has been updated to take account of the changes in the Council's arrangements for determining its capital priorities which arise from the implementation of the Commercial and Investment Strategy. This is explained in more detail in section four of this document.

2.15 Following the approval of the Commercial and Investment Strategy Cabinet approved the establishment of a sub-committee known as the Investment Board. The Investment Board has initially been allocated a maximum budget of £25M to take forward capital schemes which facilitate the achievement of the objectives set out in the Strategy.

2.16 The Investment Board undertakes its own appraisals of proposed capital schemes. The appraisal of such schemes will be separate from and in addition to the proposals for new capital schemes considered at meetings of Corporate Asset Team which follow the process outlined in paragraph 2.10 of this strategy. The Investment Board has delegated powers to approve schemes providing the maximum budget is not exceeded.

2.17 Capital schemes which fall within the remit of the Investment Board include the acquisition of share capital or the granting of loan funding to companies and/or partnerships in which the Council has an interest. The decision about whether to establish a company or enter into a partnership rests with Cabinet. The Investment Board is responsible for the approval of the business plans of any entities created as a result of a decision taken by Cabinet. Approval of the relevant business plan will precede the allocation of capital funds.

2.18 On 9 June 2020 Cabinet approved a business case for the establishment of a Local Authority Trading Company. Following that meeting the Council formally registered Fenland Future with Companies House (Company No. 12659496). Directors have been appointed to the Board of Fenland Future and the Board has held its first meeting.

3 DEBT AND BORROWING AND TREASURY MANAGEMENT

3.1 Day-to-day responsibility for the Treasury Management function rests with the Chief Finance Officer. This section of the strategy reproduces key information taken from the Treasury Management Strategy Statement. The profile of borrowing linked to the Commercial and Investment Strategy shown below is indicative. The operational boundary and authorised limits shown in Tables 3 and 4 have been determined with reference to the budget allocated to the Investment Board referred to in paragraph 2.15 above. This recognises that the Investment Board could invest the entirety of the £25M in one financial year if this were deemed to be appropriate.

Key Considerations relating to Treasury Management

3.2 The tables below set out the Council's Investment and Debt positions with forward projections.

Year End Investments	2020/21 Revised Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Fund balances / reserves	11,315	5,860	5,750	5,750
Expected investments	25,000	15,750	15,300	15,300

Table 1: Year End Investment Balances projected over the period 1 April 2020 – 31 March 2024

Year-End Debt	2020/21 Revised Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Debt at 1 April	7,800	7,800	21,060	30,775
Expected change in debt to fund capital programme (excluding Commercial and Investment Strategy schemes)	0	3,260	(285)	(285)
Borrowing to fund Commercial and Investment Strategy schemes	0	10,000	10,000	5,000
Other long term liabilities (OLTL)	406	243	106	23
Expected change in OLT	(163)	(137)	(83)	(23)
Actual debt at 31 March	8,043	21,166	30,798	35,490

Table 2: Year End Debt and Net Investment projected over the period 1 April 2020– 31 March 2024

3.3 At 1 April 2020 the Council's Debt position comprised other long-term liabilities relating to finance leases of £406k and external borrowing of £7.8m. These loans were taken out at prevailing market rates between 1994 and 2004. The term of these loans is between 25 and 50 years.

Following the transfer of the Council's Housing Stock in 2007, which generated a significant capital receipt for the Council, the Council has retained investment balances which exceed the amounts borrowed. However, changes in prevailing interest rates since the loans were taken out mean that a high premium would be payable by the Council if it were to seek to repay any of the loans early. The premiums to be applied are considered to be prohibitively high for early redemption to be regarded as a reasonable treasury management decision. The Council continues to keep this situation under review with the support of its appointed treasury management advisors. However, for the purposes of this strategy, it has been assumed that external borrowing of £7.8m brought forward, as at 1 April 2020, will continue to be carried forward due to the current historically low interest rates.

3.4 Regulation requires the Council to determine, as part of the Treasury Management Strategy, the maximum external debt position for the upcoming three financial years. This is known as the Council's authorised limit. Additionally, the Council is required to set an operational boundary. The purpose of the operational boundary is to set a threshold for external borrowing which the Council would not expect to exceed in the ordinary management of its affairs. Sustained breaches of the operational boundary would be indicative that the Council could be at risk of exceeding its authorised limit.

3.5 The current authorised limits and operational boundaries for the period covered by this strategy are set out in the table below

Operational Boundary	**2020/21 Revised Estimate £000**	**2021/22 Estimate £000**	**2022/23 Estimate £000**	**2023/24 Estimate £000**
Debt	**12,000**	**12,000**	**12,000**	**12,000**
Other long term liabilities	**1,000**	**1,000**	**1,000**	**1,000**
Commercial Activities/ Non-Financial Investments	**25,000**	**25,000**	**25,000**	**25,000**
Total	**38,000**	**38,000**	**38,000**	**38,000**

Table 3: Operational Boundary over the period 1 April 2020 – 31 March 2024

Authorised Limit	**2020/21 Revised Estimate £000**	**2021/22 Estimate £000**	**2022/23 Estimate £000**	**2023/24 Estimate £000**
Debt	**17,000**	**17,000**	**17,000**	**17,000**
Other long term liabilities	**1,000**	**1,000**	**1,000**	**1,000**
Commercial Activities / Non-Financial Investments	**25,000**	**25,000**	**25,000**	**25,000**
Total	**43,000**	**43,000**	**43,000**	**43,000**

Table 4: Authorised Limit over the period 1 April 2020 – 31 March 2024

3.6 Table 2 above indicates that the Council's Actual Debt position is expected to increase over the period covered by this strategy. This reflects an anticipated decision to undertake external borrowing to fund the expenditure commitment set out in the capital programme. In accordance with the Council's constitution, any decision about when, how much and from where to borrow will be made by the appointed S151 Officer.

3.7 Regulations prevent the Council from borrowing in advance of need. However, there is no requirement for the Council to draw on investment balances to fund its capital commitments prior to undertaking external borrowing. To manage interest rate effectively, the Council will continue to consider medium and long-term forecasts of interest rates provided by its Treasury Management advisors to project likely returns from the investment of surplus funds and the financing costs associated with external borrowing. This approach recognises that postponing long-term borrowing to future years could be more expensive over the life of the loan if interest rates were to increase.

3.8 The Council is required by statute to make arrangements to ensure that there is provision to repay as part of the Council's revenue budget any borrowing undertaken to finance the capital programme. This is known as the Minimum Revenue Provision (MRP) and the Council is required to approve its MRP policy on an annual basis:

	Projected Minimum Revenue Provision £000
2020/21	349
2021/22	436
2022/23	582
2023/24	610

Table 5: Projected Minimum Revenue Provision over the period 1 April 2020– 31 March 2024

3.9 Regulation requires the Council to ensure that its MRP policy results in prudent levels of MRP. The Council's MRP policies are explained in full as part of the Treasury Management Strategy Statement which is approved by Full Council annually. Specific provisions are in place to explain the approach taken to determine MRP for schemes taken forward as part of the Commercial and Investment Strategy.

3.10 At the present time no assumptions have been made regarding the MRP which would be due on schemes taken forward as part of the implementation of the Commercial and Investment Strategy. These assumptions will be updated as schemes are taken forward.

3.11 In recognition of the inherent volatility of commercial investment the Council has established an Investment Strategy reserve. One of the purposes of that reserve is that it should hold surpluses in respect of those years where actual income generated from commercial investments exceeds budget estimates. This can help reduce the impact on the General Fund of any unanticipated shortfall which might arise in future years.

4. COMMERCIAL ACTIVITY

4.1 The Council has a long-standing portfolio of non-operational assets which it manages to secure a rental income and income from fees and charges earned from providing facilities for conferences and meetings. The main non-operational assets held by the Council are:

- Boathouse Business Centre, Wisbech – Office Units, Conference and Meeting Space

- South Fens Business Centre, Chatteris - Office Units, Conference and Meeting Space

- South Fens Enterprise Park, Chatteris – Light Industrial Units for Small Business Use

4.2 Rents generated from the lease to third parties of areas of land, buildings and/or infrastructure held by the Council principally for the purposes of service delivery, i.e. premises at Fenland Hall, the Base and Wisbech Port have been assessed by officers to fall outside the scope of commercial activity in the context of this section of the Council Strategy. This reflects the fact that the motive for holding these assets is not principally commercial in nature.

4.3 Responsibility for assessing the need for capital investment in the current portfolio of non-operational assets, reflecting those non-operational assets held as at 31 March 2020 currently rests with the Corporate Asset Team in accordance with the arrangements set out in paragraph 2.10 above.

4.4 During the 2019-20 financial year the Council approved a Commercial and Investment Strategy. The Council has established an Investment Board to take forward capital schemes which deliver against objectives set out in part two (commercial property investment) and part three of the Strategy (commercial investment and regeneration).

4.5 The Commercial and Investment Strategy sets out the assessment criteria to be used for investments undertaken in accordance with part two of the strategy. This requires the Council to determine the net yield associated with each proposed acquisition, after taking account of financing costs, including MRP, and to assess the particular circumstances relating to each acquisition to understand the risks the Council is subject to and possible sources of mitigation. The Council is cognisant of the recent changes to the regulations which govern the basis on which authorities can take out loans from the

Public Works Loan Board and specifically preclude authorities who plan to acquire investment assets primarily for yield from accessing PWLB loans. Reference to the current regulations has been incorporated into the Investment Board's decision-making processes.

4.6 The Investment Board is a sub-committee of the Cabinet. The Council's constitution requires that the committee's membership includes the Leader (who Chairs the Investment Board), the Portfolio Holder for Finance, as well as one other member of Cabinet appointed by the Leader or two members of Cabinet if the Leader also has the Finance Portfolio. The constitution requires the Chair of the Investment Board to ensure the Investment Board meets a minimum of three times each year. The Chair of the Overview and Scrutiny Panel will attend the Investment Board's meetings in an observational capacity.

4.7 The Investment Board is a decision-making body and its functions include the determination of investment appraisals and business cases submitted for its consideration. A report on the discharge of these functions is provided to the Cabinet twice a year.

4.8 The Investment Board also has responsibility for monitoring the performance and financial delivery of those appraisals and business cases it agrees to fund. The Section 151 Officer ensures that reports on the activities of the Investment Board prepared for consideration by Cabinet include details about the impact of the Board's activities on the overall financial position of the Council.

4.9 Statutory guidance published by MHCLG requires the Council to:

- assess and disclose publicly the extent to which it is dependent on profit-generating investments to deliver a balanced revenue budget over the life of the medium-term financial strategy; and
- to set limits for gross debt and commercial income as a proportion of the Council's budgeted net service expenditure over the life of the medium-term financial strategy.

Commercial Income as a proportion of net service expenditure

4.10 The current limit for budgeted commercial income as a proportion of net service expenditure has been set at 20% (equivalent to commercial income of £2.313M per year based on 2019/20 budgeted net service expenditure).

4.11 The Investment Board was established in January 2020 and it is yet to approve any capital schemes. Consequently, the Council currently only has a very limited reliance on its non-operational assets to generate income to balance the Council's budget. This is shown in the table 6 below:

Budgeted Income from pre-2020/2021 non-operational assets (Economic Estates - Revised Budget 2020/21)	£813,000
Net Service Expenditure	£11,305,000
Commercial Income as a % of Net Service Expenditure	7.2%
Approved Limit	20%

Table 6: Commercial Income as a proportion of Net Service Expenditure

Gross Debt as a proportion of net service expenditure

4.12 The current limit for gross debt as a proportion of net service expenditure has been set at 375% (equivalent to gross debt of £42.393M per year based on 2020/21 budgeted net service expenditure).

4.13 As explained in paragraph 3.3 above whilst the Council has not undertaken external borrowing in recent years it does have £7.8M of external debt which was taken out at prevailing market rates between 1994 and 2004. This impacts on the calculation of gross debt as a proportion of net service expenditure as follows:

Gross Debt expected as at 31 March 2021	£7,800,000
Net Service Expenditure (2020/21)	£11,305,000
Gross Debt as a proportion of Net Service Expenditure	69%
Approved Limit	375%

Table 7: Gross Debt as a proportion of Net Service Expenditure

Commercial Property Investment – Loan to Value Assessment

4.14 An important consideration when appraising the impact of the Council's commercial and investment strategy on the Council is to consider the extent to which borrowing undertaken by the Council to fund investment in property is matched by the underlying value of the assets purchased.

4.15 When assets are first purchased it is common for the directly attributable costs associated with acquiring the asset, including applicable stamp duty, to exceed the realisable value of the asset. Consequently, if a property purchase is funded from borrowing this may mean in the early years of the Council's ownership the fair value of property owned by the Council may be less than the borrowing undertaken by the Council to fund the acquisition. Over time, if property prices appreciate this will have a positive impact on the Council's loan to value ratio.

4.16 The Council will obtain valuations of all its commercial investment properties annually and disclose the Loan to Value ratio as part of each year's capital strategy. Currently the Council does not hold any investment properties which have been funded from borrowing.

Borrowing in Advance of Need

4.17 Statutory guidance on Local Authority Investments and the Prudential Code published by CIPFA requires that authorities must not borrow in advance of their needs purely in order to profit from the investment of the extra sums borrowed. Government has clarified that this requirement extends to the use of external borrowing to fund the purchase of non-financial investments, including investment properties.

4.19 As noted in paragraph 2.15 above the Council's Investment Board has been allocated a budget of £25M to take forward the Council's Commercial and Investment Strategy. The Council's Commercial and Investment Strategy provides for two types of investments to be taken forward: part two of the strategy sets out the process to be followed for commercial property investment and part three is concerned with investments for regeneration and place-shaping.

4.20 The Council will need to undertake external borrowing if it is to utilise the full budget of £25M which has been allocated by Full Council.

4.21 The statutory guidance recognises that the Council can disregard the provisions of the Prudential Code and the statutory guidance providing it explains its reasons for doing so and its policies for investing the extra amounts borrowed and the arrangements in place to manage the associated risks. However, the decision taken by government in November 2020 to preclude Councils from accessing loans from the Public Works Loans Board if they plan to acquire investment assets primarily from yield limits Councils' opportunities to take forward proposals which would previously have been possible.

4.22 The launch of the Council's Commercial and Investment Strategy represents a key element of the Council's 20/21 Business Plan. This Council believes that investment in property is an appropriate and proportionate response to the Council's current financial position. Exploiting opportunities presented by commercial property activity, focussing on assets which can be funded from PWLB borrowing, including schemes to increase the supply of housing and facilitate regeneration of the District, could provide this Council with a reliable long-term source of revenue income to fund the provision of Council services. Securing such an income stream could therefore help achieve the reduction in net expenditure necessary to meet the financial gap identified in the Council's Medium Financial Strategy. This approach also further diversifies the Council's sources of income recognising that upcoming reforms to the business rates system and the implementation of the fair funding review could adversely impact on the Council's financial position.

4.23 The Commercial and Investment Strategy sets out in detail the appraisal and decision-making approach the Investment Board is required to follow before any investment in commercial property is undertaken. This ensures that appropriate governance arrangements are in place and the Council has due regard to the risks associated with investments both individually and in the context of the overall level of risk presented by the Council's current portfolio.

4.24 Active monitoring of the portfolio will take place throughout the year with reference to the indicators included in this strategy together with appropriate commentary relevant to the particular investments held by this Council.

5. KNOWLEDGE AND SKILLS

5.1 The Council has professionally qualified staff across a range of disciplines including finance, legal and property that follow continuous professional development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills.

5.2 Appropriate external advice will be engaged from suitably qualified professionals as and when required. This will apply particularly in those circumstances when the Council needs to undertake independent due diligence prior to making a decision regarding a proposed investment. Additionally, the Council will continue to enlist the year-round support of external Treasury Management advisors. This support is currently provided by Link Asset Services.

5.3 Internal and external training is offered to members to ensure they have up to date knowledge and expertise to understand and challenge capital proposals brought forward for approval and interpret the treasury management policies developed by officers in conjunction with relevant professional advisors.

APPENDIX E

Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2021/22

1 Introduction

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 assessment of its 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, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure) and are separate from the day to day treasury management activities.

1.5 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and pursuit of optimum performance consistent with those risks."

2 Capital Strategy Reporting Requirements

2.1 The CIPFA revised 2017 Prudential and Treasury Management Codes require all local authorities to prepare an additional document, a Capital Strategy which will provide the following:

- a high-level long-term 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; and
- the implications for future financial sustainability.

2.2 The aim of the Capital Strategy is to ensure that all elected members on full Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. The Capital Strategy for 2021/22 is attached as Annex A.

2.3 This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the articulation of the Council's arrangements to identify, pursue and monitor commercial investments in accordance with the approach set out in the approved Commercial and Investment Strategy. The capital strategy explains:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (incorporating but not restricted to the MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

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

2.5 Where the Council has borrowed to fund any non-treasury investment, i.e. an investment where the principal motivation for making the investment is to profit from the sums invested there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to. If any non-treasury investment sustains a loss during the final accounts and/or audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy. In addition, on 25.11.20, the Chancellor announced a prohibition was to be introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme.

2.6 The Council's Commercial and Investment Strategy was approved in January 2020. At its meeting on 20 February 2020 Council approved the allocation of £25M for the purpose of taking forward schemes linked to the Commercial and Investment Strategy. This allocation continues to be reflected in the Council's capital programme and the Council's plan is to fund the allocation from a combination of reserves and external borrowing. The Council's Commercial and Investment Strategy provides the Council, through its Investment Board, with the flexibility to take forward a range of different types of non-treasury investments, including the facility to deliver projects through the use of Fenland Future Limited, the Council's wholly-owned Trading Company.

2.7 The Council's Minimum Revenue Provision policy has been updated so, as required by regulation, Full Council can approve its approach to charging MRP on any non-treasury investments before any transactions take place.

2.8 Section 4 of the Council's Capital Strategy explains that, as part of the appraisal process, the S151 Officer will provide the Investment Board with details of how the proposed investment will impact on the Council's financial position. The cumulative impact of approved investments on the Council's medium-term financial position will be reflected in the information presented in future treasury management reports to Audit and Risk Management Committee, Cabinet and Full Council as per the reporting requirements outlined below.

3 Treasury Strategy Reporting Requirements

3.1 The Council is required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by the Audit and Risk Management Committee and Cabinet before being recommended to the Council.

3.2 **Prudential and Treasury Indicators and Treasury Strategy** (this report), the first and most important report is forward looking and covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how investments and borrowings are to be organised) including treasury indicators; and
- an Investment Strategy (the parameters on how investments are to be managed).

A 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.

An Annual Treasury Report - This is a backward looking review document and provides details of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

3.3 The Strategy covers two main areas:

Capital issues

- the capital expenditure plans and associated prudential indicators;
- the MRP policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

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

4 Capital Prudential Indicators 2021/22 to 2023/24

4.1 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.

4.2 The capital expenditure prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously and those forming part of this budget cycle. Commercial activities/non-financial investments relate to areas such as capital expenditure on investment properties, loans to third parties etc.

4.3 The table below summarises the capital expenditure plans and how these are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital Programme	**2020/21 Revised Estimate £000**	**2021/22 Estimate £000**	**2022/23 Estimate £000**	**2023/24 Estimate £000**
Forecast Capital Expenditure	**4,519**	**17,970**	**6,306**	**1,635**
Commercial and Investment Strategy Schemes	**0**	**10,000**	**10,000**	**5,000**
TOTAL	**4,519**	**27,970**	**16,306**	**6,635**
Financed by:				
Capital Grants	2,619	14,449	5,443	950
Capital Receipts	60	265	100	100
Reserves used in year to fund Capital	353	508	100	0
Section 106 and Other Contributions	207	108	12	0
Total Financing	**3,239**	**15,330**	**5,655**	**1,050**
Net Financing Need For The Year (Borrowing)	**1,280**	**12,640**	**10,651**	**5,585**

4.4 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 indebtedness, its underlying borrowing need. Any capital expenditure shown above, which has not immediately been paid for will increase the CFR.

4.5 The CFR does not increase indefinitely, as each year the Council is required to pay off an element of the capital spend (including finance leases) through a statutory revenue charge (MRP). In the case of schemes taken forward as part of the Council’s capital programme this has the effect of reducing the Council's (CFR) broadly over the asset’s life.

4.6 In the case of capital expenditure incurred in accordance with the Council’s Commercial and Investment Strategy the MRP charge cannot be determined until such time that the Investment Board approves a scheme. Where the projected Capital Financing Requirement is disclosed in this report the figures used reflect the impact of borrowing to fund the full allocation of £25M over the next 3 years but no assumptions have been made regarding how MRP might reduce the CFR attributable to these schemes. This approach is considered reasonable until such time that any schemes are formally approved by the Investment Board.

4.7 In this context, it is also important to note that, as well as the statutory MRP charge, the Council is permitted to make additional voluntary payments to reduce the CFR. These voluntary payments will typically reduce the statutory charge that would have been due in future years. Voluntary payments can be funded from capital resources. This is particularly significant in the context of the Council’s Commercial and Investment Strategy. As a result of investments undertaken, the Council may receive significant capital receipts and/or repayments of amounts due under the terms of loan agreements with third parties, including the Local Authority Trading Company. These amounts may be received before the maturity date of the external borrowing used to undertake the initial investment. Any assumptions regarding the anticipated use of capital resources to reduce the CFR will be reported as part of future treasury management reporting.

4.8 The CFR includes any other long term liabilities (finance leases). A finance lease is a commercial arrangement between the Council and a lessor (finance company), where in consideration for a series of payments the Council has the right to use an asset (e.g. refuse vehicle) for the lease duration (typically 7 years). The annual lease payment is made up of a capital and interest repayment.

4.9 Although legally the Council doesn't own the asset during the lease duration, International Accounting Standards require that the Council capitalise the asset and liability on its balance sheet, much like a loan. Whilst this increases the CFR, the nature of the finance lease agreement doesn't require the Council to separately borrow to fund the asset.

Capital Financing Requirement (CFR)	**2020/21 Revised Estimate £000**	**2021/22 Estimate £000**	**2022/23 Estimate £000**	**2023/24 Estimate £000**
CFR – as at 31 March				
Opening CFR	**2,274**	**3,205**	**15,409**	**25,478**
Movement in CFR	**931**	**12,204**	**10,069**	**4,975**
Closing CFR	**3,205**	**15,409**	**25,478**	**30,453**
Movement in CFR represented by				
Net financing need for the year	1,280	12,640	10,651	5,585
Less MRP and other Financing Movements	(349)	(436)	(582)	(610)
Movement in CFR	**931**	**12,204**	**10,069**	**4,975**

5 Minimum Revenue Provision (MRP) Policy Statement

5.1 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), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision).

5.2 MHCLG regulations have been issued which require the Council to approve an MRP statement in advance each year. A variety of options are provided to Councils within the guidance. Councils are permitted under the guidance to establish their own approach to setting MRP and different approaches can be applied for different types of assets. The Council's principal responsibility is to ensure that it can demonstrate that whatever approach they adopt across their asset base it is prudent. Given the Council's decision to adopt a Commercial and Investment Strategy it was necessary to revise the MRP policy last year (2020/21) to take account of investments which might feasibly be taken forward in accordance with the Commercial and Investment Strategy. The policy applicable from the 2020/21 financial year onwards is as follows:

(1) For unsupported borrowing (including finance leases) undertaken to fund the Council's capital programme, excluding any capital expenditure approved by

the Council's Investment Board, MRP will be based on the estimated useful life of the assets to be purchased or acquired. Repayments made under the terms of finance leases shall be applied as MRP.

(2) For Investment Properties purchased or constructed (following a decision taken by the Council's Investment Board) the MRP charge shall be based on the difference between the value of the asset and the value of any outstanding unsupported borrowing secured to fund the original purchase of the asset. A calculation shall be undertaken at the end of each financial year to identify the difference between the value of the asset and the amount borrowed. Where a difference exists MRP shall be charged over a period commensurate with the period the Council expects to hold the asset as set out in reports presented to the Investment Board.

(3) For any loans made to third parties, including those made to the Local Authority Trading Company, no MRP shall be charged where the loan requirement requires the third party to make repayments on at least an annual basis over the life of the loan. In the unlikely event of the Council providing a maturity loan to a third party, MRP shall be charged in equal amounts over the life of the loan.

(4) Should the Council acquire an equity stake in any third party, the MRP charge will be for the lower of twenty years or the scheduled completion date of any projects funded by the third party using the proceeds from selling an equity stake to the Council.

(5) For investment in Property Funds which the Council, following consultation with its Treasury Advisors, assesses as meeting the definition of capital expenditure MRP shall be charged over the period the Council expects to hold the investment. The period over which MRP can be charged for this type of investment shall not be permitted to exceed 20 years.

6 The Use of Council's Resources and the Investment Position

6.1 The application of resources (capital receipts, reserves etc) and temporary use of 'surplus cash balances' to both finance capital expenditure and other budget decisions to support the revenue budget reduces cash investment balances held (see below). Unless resources are supplemented with new sources (asset sales, capital grants, etc) then new borrowing will be required to fulfil the objectives as set in the Council's Business Plan. Detailed below are estimates of the year end balances for each resource.

Year End Resources	**2020/21 Revised Estimate £000**	**2021/22 Estimate £000**	**2022/23 Estimate £000**	**2023/24 Estimate £000**
Fund balances / reserves	**11,315**	**5,860**	**5,750**	**5,750**
Expected Cash investments	**25,000**	**15,750**	**15,300**	**15,300**

7 Affordability Prudential Indicators

7.1 The previous sections cover the overall capital and control of borrowing prudential indicators; also within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators.

7.2 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.

Financing Costs to Net Revenue Stream	2020/21 Revised Estimate %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %
General Fund (excluding Commercial and Investment Strategy Schemes)	**7.01**	**8.19**	**9.31**	**9.36**
Commercial and Investment Strategy Schemes (£25M allocation)	**0**	**1.02**	**2.00**	**2.47**
Total	**7.01**	**9.21**	**11.31**	**11.83**
Net Revenue Stream	**£11.285m**	**£11.305m**	**£11.464m**	**£11.621m**

8 Treasury Management Strategy

8.1 The capital expenditure plans set out in section 4 provide a summary of future level of spend. 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 service activity and the Council's capital strategy. This will involve both the organisation of 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.

8.2 The Council's treasury portfolio as at 31 March 2020 for borrowing and investments was £8.206m and £18.3m respectively. As of 31 December 2020, investments are £25.350m and borrowing £8.135m.

8.3 The Council's forward projections for borrowings are summarised below. The next table shows the actual external debt, against the underlying capital borrowing need (the Capital Financing Requirement - CFR).

	2020/21 Revised Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Debt at 1 April	**7,800**	**7,800**	**21,060**	**30,775**
Expected change in debt to fund capital programme (excluding Commercial and Investment Strategy schemes)	**0**	**3,260**	**(285)**	**(285)**
Borrowing to fund Commercial and Investment Strategy Schemes	**0**	**10,000**	**10,000**	**5,000**
Other long term liabilities (OLTL)	**406**	**243**	**106**	**23**
Expected change in OLTL	**(163)**	**(137)**	**(83)**	**(23)**
Actual gross debt at 31 March	**8,043**	**21,166**	**30,798**	**35,490**
Capital financing requirement (CFR) at 31 March	**3,205**	**15,409**	**25,478**	**30,453**
Borrowing less CFR – 31 March	**4,838**	**5,757**	**5,320**	**5,037**

8.4 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 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future years and ensures that long term borrowing is not undertaken for revenue or speculative purposes (in the sense of anticipating future upward movements in interest rates), other than where the borrowing fits in with the Council's approved Investment Strategy.

8.5 The Council notes that the Prudential Code published by CIPFA prohibits local authorities from borrowing in advance of need. This prohibition has been recently re-affirmed by MHCLG in its Statutory Guidance on Local Authority Investments which states that this prohibition extends to undertaking borrowing to fund the purchase of financial and non-financial investments, including investment properties. This is on the basis that in such circumstances local authorities would be borrowing 'purely in order to profit from investment of the extra sums borrowed'. Section 4 of the Council's Capital Strategy explains how the Council has had regard for this guidance and notes the Council's approach to determining whether the motivation behind any proposed investment is purely to profit from investment of any sums borrowed.

8.6 As a result of the Council's long term Public Works Loan Board (PWLB) debt portfolio of £4.5m (31/03/20) currently attracting excessive premiums (£2.965m at the time of writing this report), if it were prematurely repaid and the fixed rate market loan of £3.3m (31/03/2020), attracting a premium charge on application to prematurely repay, it is not financially advantageous for the Council to fully comply with this prudential indicator. This has been the case since the housing stock transfer in 2007 and has been acknowledged and approved by Council since then. In addition, the Council's external auditors have also acknowledged this situation and have not raised any issues with our strategy.

8.7 Interest repayments associated with the external debt (including finance leases) above are shown below. The figures in the third column reflect the interest which would fall due if the Investment Board were to approve schemes totalling the full allocation of £25M and borrowing was undertaken over 3 years (£10m in both 2021/22, 2022/23 and £5m in 2023/24) funded by a maturity loan at today's rate.

YEARS	INTEREST DUE (EXISTING CAPITAL SCHEMES) £000	INTEREST DUE (FUNDING OF COMMERCIAL AND INVESTMENT STRATEGY) £000	TOTAL £000
2020/21	497	0	497
2021/22	531	115	646
2022/23	524	230	754
2023/24	517	287	804

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

Operational Boundary	2020/21 Revised Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Debt	**12,000**	**12,000**	**12,000**	**12,000**
Other long term liabilities	**1,000**	**1,000**	**1,000**	**1,000**
Commercial Activities / Non Financial Investments	**25,000**	**25,000**	**25,000**	**25,000**
Total	**38,000**	**38,000**	**38,000**	**38,000**

8.9 The authorised limit is a key prudential indicator, which represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited and this limit needs to be set or revised by 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.

8.10 This is a 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 council's 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	2020/21 Revised Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Debt	**17,000**	**17,000**	**17,000**	**17,000**
Other long term liabilities	**1,000**	**1,000**	**1,000**	**1,000**
Commercial Activities / Non Financial Investments	**25,000**	**25,000**	**25,000**	**25,000**
Total	**43,000**	**43,000**	**43,000**	**43,000**

9 Prospects for Interest Rates

9.1 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. The following table gives Link Assets Service's central view.

Link Group Interest Rate View 9.11.20													
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20													
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

9.2 The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 16th December, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the near-term as economic recovery is expected to be only gradual and, therefore, prolonged.

9.3 Gilt yields/PWLB rates. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was a heightened expectation that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

9.4 Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up during the financial crisis in March, we have seen these yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies and moved cash into safe haven assets i.e. government bonds. However, major western central banks took rapid action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in "normal" times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.

9.5 As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. 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, emerging market developments and sharp changes in investor sentiment, (as shown on 9th November 2020 when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

9.6 Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 20/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. The unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 bps in October 2019, required an initial major rethink of local authority treasury management strategy and risk management. However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure.

9.7 On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme.

9.8 Borrowing for capital expenditure. As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows. However, greater value can be obtained in borrowing for shorter maturity periods so the Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. Longer-term borrowing could also be undertaken for the purpose of certainty, where that is desirable.

9.9 While this authority will not be able to avoid borrowing to finance new capital expenditure and the rundown of reserves, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

10 Borrowing Strategy

10.1 As noted above in paragraph 8.5 the Council recognises that statutory guidance indicates that whilst the Council has the necessary powers to borrow in advance of need the government and CIPFA state it should refrain from doing so where such borrowing takes place purely in order to profit from investment of the extra sums borrowed. None of the Council's current borrowing was undertaken in advance of need. Section 4 of the Council's 20/21 Capital Strategy explains how this Council will have regard for this guidance in future. This section of the strategy explains the process to be followed should the Chief Finance Officer wish to bring forward a proposal to borrow in advance of need purely in order to profit from investment of the extra sums borrowed. Risks associated with borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

10.2 As a result of the Council's decision not to repay debt of £7.8m at the time of the housing stock transfer in 2007, the Council is currently over borrowed (see paragraph 8.6 above); the Council's gross debt exceeds its CFR over the term of the treasury strategy.

10.3 Where the Council has insufficient internal resources to funds its capital programme the difference between available resources and funds required is met through borrowing. The Council is able to borrow internally if it identifies that it has surplus funds currently held in investments which could be used to finance its capital programme. However, any decision to borrow internally has to consider when any funds borrowed might be required to support the day-to-day cash needs of the Council. Unless the Council is able to increase the surplus funds it has available, i.e. through generating surpluses on the revenue account, internal borrowing will only provide a temporary solution to funding the capital programme.

10.4 When the Council borrows externally it will ordinarily do so using funds borrowed from the Public Works Loan Board, though this does not preclude the Council considering other sources of lending.

10.5 The current Medium Term Financial Strategy assumes that some external borrowing will be required over the four-year period to 31 March 2024. Assumptions about the level of external interest payable are reflected as part of the prudential indicators included in this document. Responsibility for deciding when to borrow externally, together with details of the amount to borrow and the term and type of any loan, rests with the Chief Finance Officer. The Chief Finance Officer's decision will be informed by advice from the Council's treasury management advisors and information regarding the progress of schemes set out in the capital programme. Any borrowing decisions will be reported to Cabinet through either the mid-year or annual treasury management reports.

10.6 The Chief Finance Officer will monitor capital plans and interest rates in financial markets and adopt a pragmatic approach to funding the capital programme. Any borrowing decisions and budget consequences will be reported to Cabinet through either the mid-year or annual treasury management reports.

10.7 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.

Maturity structure of fixed interest rate borrowing 2020/21	**Lower %**	**Upper %**
Under 12 months	**0**	**20**
12 months to 2 years	**0**	**50**
2 years to 5 years	**0**	**75**
5 years to 10 years	**0**	**75**
10 years and above	**0**	**100**

Maturity structure of variable interest rate borrowing 2020/21	**Lower %**	**Upper %**
Under 12 months	**0**	**100**
12 months to 2 years	**0**	**100**
2 years to 5 years	**0**	**100**
5 years to 10 years	**0**	**100**
10 years and above	**0**	**100**

11 Debt Rescheduling / Repayment

11.1 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100 bps in November 2020.

11.2 If rescheduling was done, it will be reported to the Cabinet at the earliest meeting following its action.

12 Annual Investment Strategy

12.1 The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (see Annex A to this report).

12.2 The Council's investment policy has regard to the following:-

- MHCLG's Guidance on Local Government Investments ("the Guidance");
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code"); and
- CIPFA Treasury Management Guidance Notes 2018.

12.3 The intention of the strategy is to provide security and appropriately manage risk. The Council's investment priorities are:

- the security of capital;
- the liquidity of its investments;
- return on its investments.

12.4 The above guidance from the MHCLG and CIPFA, place a high priority on the management of risk. The Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means.

12.5 Minimum acceptable credit criteria are applied 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

12.6 Ratings will not be the sole determinant of the quality of an institution; 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 consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

12.7 Investment instruments identified for use in the financial year are listed below under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

12.8 **Specified Investments -** These investments are sterling investments (meeting the minimum 'high' quality criteria where applicable) of not more than one year maturity, or those which could be for a longer period but where the Council has the right to repay within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. Investment instruments identified for use in the financial year are as follows:

- term deposits with part nationalised banks and local authorities;

- term deposits with high credit criteria deposit takers (banks and building societies);
- callable deposits with part nationalised banks and local authorities;
- callable deposits with high credit criteria deposit takers (banks and building societies);
- money market funds (CNAV) / (LVNAV) / (VNAV);
- Debt Management Agency Deposit Facility (DMADF); and
- UK Government gilts, custodial arrangement required prior to purchase.

12.9 **Non-Specified Investments -** These are any other type of investment (i.e. not defined as specified above). Investment instruments identified in both “specified” and “non-specified” categories are differentiated by maturity date and classed as non-specified when the investment period and right to be repaid exceeds one year. Non-specified investments are more complex instruments which require greater consideration by members and officers before being authorised for use. Investment instruments identified for use in the financial year are as follows:

- term deposits with high credit criteria deposit takers (banks and building societies);
- term deposits with part nationalised banks and local authorities;
- callable deposits with part nationalised banks and local authorities;
- callable deposits with high credit criteria deposit takers (banks and building societies);
- Debt Management Agency Deposit Facility (DMADF);
- UK Government gilts, custodial arrangement required prior to purchase; and
- Property funds.

12.10 As a result of the change in accounting standards first introduced in 2018/19 under IFRS 9, the Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18.

12.11 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). Short term cash flow requirements (up to 12 months) include payments such as, precepts, business rate retention, housing benefits, salaries, suppliers, interest payments on debt etc.

12.12 Bank rate is expected to remain unchanged at 0.10% throughout the period of this strategy and consequently budgeted investment earning rates for returns on investments placed for periods of up to about three months are not expected to exceed the bank rate.

12.13 Estimated investment income is £55,000 for 2020/21 and then £40,000 for all future years. These estimates assume that none of the existing cash balances held by the Authority will be utilised to fund schemes approved by the Investment Board.

12.14 **Investment treasury indicator and limit -** total principal funds invested for greater than 365 days. These limits are 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.

	2021/22 £000	2022/23 £000	2023/24 £000
Maximum principal sums invested > 365 days	**10,000**	**10,000**	**10,000**

12.15 For its cash flow generated balances, the Council will seek to utilise its call accounts and short dated deposits (overnight to 180 days) in order to benefit from the compounding interest.

12.16 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

13 Creditworthiness Policy

13.1 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 & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- ''watches'' and ''outlooks'' from credit rating agencies;
- Credit Default Swaps spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

13.2 This modelling approach combines credit ratings, Watches and 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 which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- yellow 5 years;
- dark pink 5 years for ultra-short dated bond funds with a credit score of 1.25;
- light pink 5 years for ultra-short dated bonds funds with a credit score of 1.5;
- purple 2 years;
- blue 1 year (only applies to nationalised or semi nationalised UK banks);
- orange 1 year;
- red 6 months;
- green 100 days
- no colour not to be used.

13.3 The Link Asset Services creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system does not give undue preponderance to just one agency's ratings.

13.4 Typically, the minimum credit ratings criteria the Council will use will be 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

13.5 The Council's own bank currently meets the creditworthiness policy. However, should they fall below Link Asset Services creditworthiness policy the Council will retain the bank on its counterparty list for transactional purposes, though would restrict cash balances to a minimum.

13.6 All credit ratings are monitored weekly and prior to any new investment decision. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services creditworthiness service.

- 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 swaps against the iTraxx European Financials benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

13.7 Sole reliance will not be placed on the use of Link Asset Services Creditworthiness policy. In addition, this Council will also use market data and market information, information on any external support for banks to justify its decision making process.

13.8 To further mitigate risk the Council has decided that where counterparties form part of a larger group, group limits should be used in addition to single institutional limits. Group limits will be as set through the Council's Treasury Management Practices – schedules.

13.9 In relation to financial institutions, the Council currently only invests in UK banks and building societies, which provides sufficient high credit quality counterparties to meet investment objectives. It should be noted that in some cases these banks are subsidiaries of foreign banks but these are of the highest credit quality.

14 External Service Providers

14.1 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 authority at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to available information, including, but not solely, our treasury advisors.

14.2 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.

14.3 The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The Council will engage specialist advisers for commercial-type investments.

APPENDIX F

PARISH PRECEPTS 2021/22

TAX BASE (Equated Band D Properties)	PRECEPT 2020/21 £	COUNCIL TAX PER BAND D PROPERTY £	PARISH	TAX BASE (Equated Band D Properties)	PRECEPT 2021/22 £	COUNCIL TAX PER BAND D PROPERTY £	INCREASE FROM 2020/21 %
357	12,852	36.00	**BENWICK**	350	12,852	36.72	2.0
3,345	151,000	45.14	**CHATTERIS**	3,364	151,000	44.89	-0.6
274	12,750	46.53	**CHRISTCHURCH**	275	12,750	46.36	-0.4
838	56,459	67.37	**DODDINGTON**	843	56,459	66.97	-0.6
1,192	40,367	33.86	**ELM**	1,193	30,000	25.15	-25.7
390	19,000	48.72	**GOREFIELD**	397	19,000	47.86	-1.8
1,123	53,000	47.20	**LEVERINGTON**	1,135	54,000	47.58	0.8
853	55,143	64.65	**MANEA**	890	61,000	68.54	6.0
6,554	320,000	48.83	**MARCH**	6,606	320,000	48.44	-0.8
235	13,000	55.32	**NEWTON IN THE ISLE**	241	13,000	53.94	-2.5
449	20,643	45.98	**PARSON DROVE**	455	20,560	45.19	-1.7
389	1,000	2.57	**TYDD ST GILES**	389	12,000	30.85	1,100.0
5,424	171,015	31.53	**WHITTLESEY**	5,610	171,015	30.48	-3.3
758	65,851	86.87	**WIMBLINGTON**	787	65,851	83.67	-3.7
6,466	372,270	57.57	**WISBECH**	6,427	368,885	57.40	-0.3
1,168	80,510	68.93	**WISBECH ST MARY**	1,181	80,116	67.84	-1.6
29,815	**1,444,860**	**48.46**	**GRAND TOTAL**	**30,143**	**1,448,488**	**48.05**	**-0.84**

EARMARKED AND GENERAL RESERVES - Revised 2020/21 and Estimated 2021/22

APPENDIX G

Reserve Name	**Balance 01.04.20** £	Capital Funding £	Revenue Contributions to(+)/from(-) 2020/21 £	**Revised Balance 31.03.21** £	Capital Funding £	Revenue Contributions to(+)/from(-) 2021/22 £	**Estimated Balance 31.03.22** £	*Comments / Conditions of Use*
Travellers Sites	**322,373**		10,330	**332,703**		45,750	**378,453**	Can only be used for specific future maintenance liabilities.
Station Road, Whittlesey - Maintenance	**2,000**		2,800	**4,800**		2,800	**7,600**	Required for future road maintenance.
CCTV - Plant & Equipment	**48,368**	-38,000	10,000	**20,368**		10,000	**30,368**	Available for future CCTV maintenance & replacement liabilities.
Invest to Save	**84,924**	-13,000		**71,924**			**71,924**	To provide resources for schemes which will deliver future efficiencies. £50k committed to energy efficiency schemes match funded by Salix Finance, as part of the Council's 'Keen to be Green' strategy.
Management of Change	**946,468**	-169,000		**777,468**	-431,000		**346,468**	Available for the effective management of any organisational changes required to meet the Council's future priorities.
Specific Government Grants (received in previous years)	**1,070,270**		-71,447	**998,823**		-39,408	**959,415**	Available to fund specific spending commitments in future years.
Business Rates Equalisation Reserve	**721,043**		3,196,387	**3,917,430**		-3,417,430	**500,000**	Available to assist the Council in smoothing out volatility in the business rates retention system.
Capital Contribution Reserve	**340,905**	-38,000		**302,905**			**302,905**	Available to fund specific spending commitments in future years.
Port - Buoy Maintenance	**146,999**			**146,999**		-19,000	**127,999**	Available for future buoy maintenance to service windfarms.
Repairs and Maintenance	**637,064**	-95,000		**542,064**	-77,000		**465,064**	Available to provide funding for one-off schemes, not covered by the normal Repairs and Maintenance revenue budgets.
Heritage Lottery Fund (HLF) - Wisbech	**114,020**		-36,800	**77,220**		-30,980	**46,240**	To manage the Heritage Lottery Funded scheme in Wisbech.
Solid Wall Remediation	**100,000**			**100,000**			**100,000**	Available to fund potential costs linked to solid wall installations in the District.
Highways Street Lighting	**23,314**		17,310	**40,624**		17,310	**57,934**	Available to fund future repairs and maintenance relating to street lighting.
Investment Strategy Reserve	**1,350,168**		-10,000	**1,340,168**			**1,340,168**	Established to provide future funding for Commercial and Investment Strategy projects.
Budget Equalisation Reserve	**315,307**			**315,307**			**315,307**	Year-end surpluses are transferred to this reserve. If a deficit is forecast this reserve can be used to offset the expected shortfall.
Planning Reserve	**496,848**		-107,000	**389,848**			**389,848**	Available to fund additional planning costs not reflected in the annual budget, including the development of the Local Plan.
Elections Reserve	**0**		30,000	**30,000**		30,000	**60,000**	Available to fund four-yearly District-wide elections. Transfers are made to this reserve each year to fund the cost of the next District-wide election.
Covid-19 Emergency Response Reserve	**43,212**		-43,212	**0**			**0**	Established to hold funding received from central government in March 2020 to respond to the Covid-19 pandemic. Utilised in 2020/21.
TOTAL EARMARKED RESERVES	**6,763,281**	-353,000	2,998,368	**9,408,649**	-508,000	-3,400,958	**5,499,691**	
General Fund Balance	**2,000,000**			**2,000,000**		**-842,254**	**1,157,746**	Unallocated general reserve required for various and unplanned for contingencies, to mitigate risks associated with future financial planning as well as for general day to day cash flow needs.
TOTAL RESERVES	**8,763,281**	-353,000	2,998,368	**11,408,649**	-508,000	-4,243,212	**6,657,437**	

NB: In accordance with the Council's Financial Rules and Scheme of Financial Delegation (Part 4, Rule 6 of the Constitution), paragraphs B57 - B60 delegates authority to the Chief Finance Officer to approve expenditure from these reserves in accordance with their approved use as detailed above.