

Agenda Item No:	<b>10</b>	
Committee:	<b>Council</b>	
Date:	<b>20 February 2020</b>	
Report Title:	<b>General Fund Budget Estimates 2020/21 and Medium Term Financial Strategy (MTFS) 2020/21 to 2024/25; Capital Programme 2020 - 2023</b>	

## Cover sheet:

### **1 Purpose / Summary**

To consider the Cabinet recommendations in relation to:

- the General Fund Budget Estimates 2020/21 and the Medium Term Financial Strategy 2020/21 to 2024/25;
- the Council Tax levels for 2020/21;
- the Capital Programme 2020-2023;
- the Treasury Management Strategy Statement, Capital Strategy and Annual Treasury Investment Strategy for 2020/21.

### **2 Key issues**

- The Final Local Government Finance Settlement was announced on 6 February 2020 and there are no changes to the provisional settlement figures. Business Rates Baseline Funding (Settlement Funding Assessment) has increased by 1.63% (based on CPI as at September 2019).
- In accordance with the motion adopted by Council in July 2019, a 0% Council Tax increase has been included in the MTFS for 2020/21 and over the medium term.
- Council Tax Referendum limits for 2020/21 have been set at an increase of 2% or £5 whichever is the higher.
- Projections for 2019/20 are currently forecasting an under-spend of £94k at the end of the financial year. This excludes the budgeted contribution of £151k from the General Fund Balance.
- Current forecasts for 2020/21 show a balanced budget based on the assumptions detailed in Appendix C. The following years show an increasing shortfall, reaching £1.105m in 2024/25.
- The forecasts for 2020/21 and over the MTFS include a number of additional resource opportunities (as detailed in paragraph 8.9 of the report). These ensure the Council is able to deliver a balanced budget for 2020/21 without the need for any contribution from the General Fund Balance.
- An updated Capital Programme for 2019/20 and for the medium term 2020-23 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 2020/21 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 the Additional Business Rates Relief measures detailed in paragraphs 5.8 – 5.9 be approved;
- (v) the expenses detailed in Section 11 be approved to be treated as general expenses for 2020/21;
- (vi) the Port Health levy for 2020/21 be set as shown in Section 12;
- (vii) the Treasury Management Strategy Statement, Capital Strategy, Minimum Revenue Provision, Treasury Investment Strategy, Prudential and Treasury Indicators for 2020/21 as set out in Section 14 and Appendix E be approved;
- (viii) the Band D Council Tax level for Fenland District Council Services for 2020/21 be set at £260.46, no increase on the current year.

<b>Wards Affected</b>	All
<b>Portfolio Holder(s)</b>	Cllr Chris Boden, Leader and Portfolio Holder, Finance
<b>Report Originator(s)</b>	Peter Catchpole, Corporate Director and Chief Finance Officer (S.151 Officer) Mark Saunders, Chief Accountant
<b>Contact Officer(s)</b>	Paul Medd, Chief Executive Peter Catchpole, Corporate Director and Chief Finance Officer (S.151 Officer) Mark Saunders, Chief Accountant
<b>Background Paper(s)</b>	Final Finance settlement – Ministry for Housing, Communities and Local Government (MHCLG). Spending Round 2019 (HM Treasury) Medium Term Financial Strategy working papers. Government announcements since February 2019.

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, Capital Strategy, 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

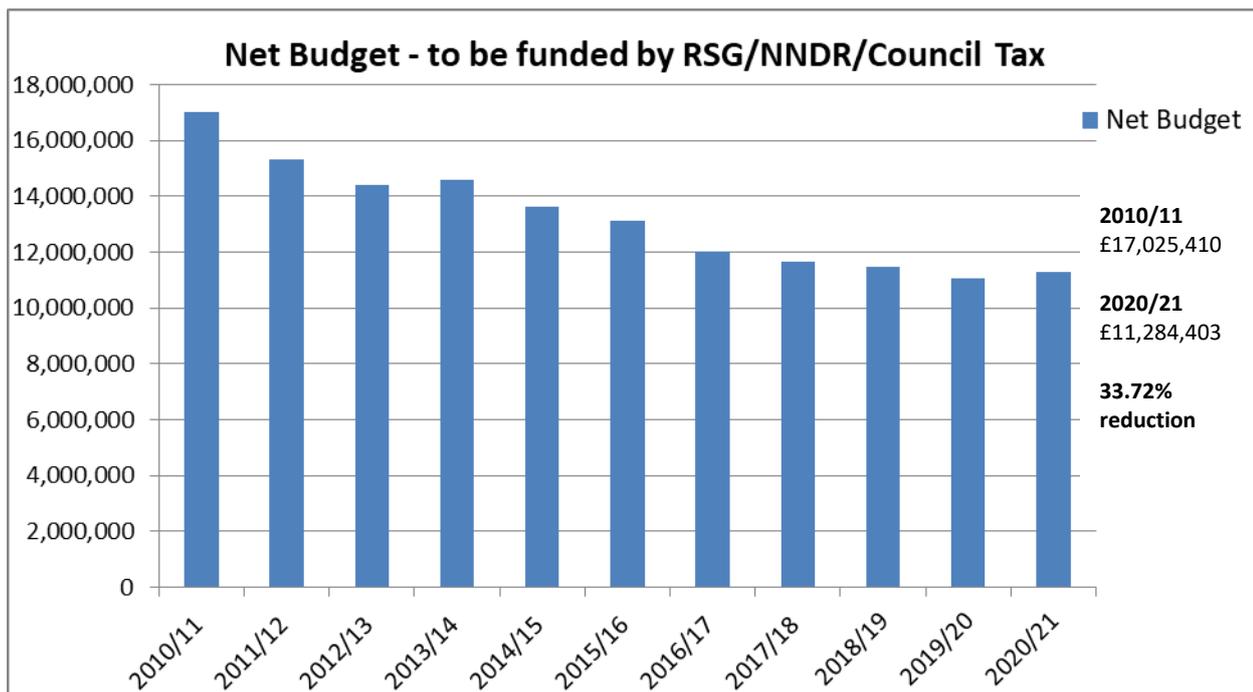
1.1 This report sets out the financial implications of the council's priorities described in the draft Business Plan 2020/21. The Revenue budget estimates and the Capital Programme are final at this stage for approval. The draft Business Plan 2020/21 and draft Budget Estimates 2020/21 considered by Cabinet on 9<sup>th</sup> January 2020 together were subject to a public and stakeholder consultation from 9<sup>th</sup> January to 3<sup>rd</sup> February 2020, prior to final budget and council tax setting for 2020/21 on 20<sup>th</sup> February 2020. The results from the consultation are published on the Council's website:

[https://www.fenland.gov.uk/media/15331/Draft-Business-Plan-and-Budget-Consultation-Feedback-2020/pdf/Draft\\_Business\\_Plan\\_and\\_Budget\\_Consultation\\_Feedback\\_2020.pdf](https://www.fenland.gov.uk/media/15331/Draft-Business-Plan-and-Budget-Consultation-Feedback-2020/pdf/Draft_Business_Plan_and_Budget_Consultation_Feedback_2020.pdf)

The Overview and Scrutiny Panel considered the Draft Budget 2020/21 and MTFS on 13 January 2020 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.

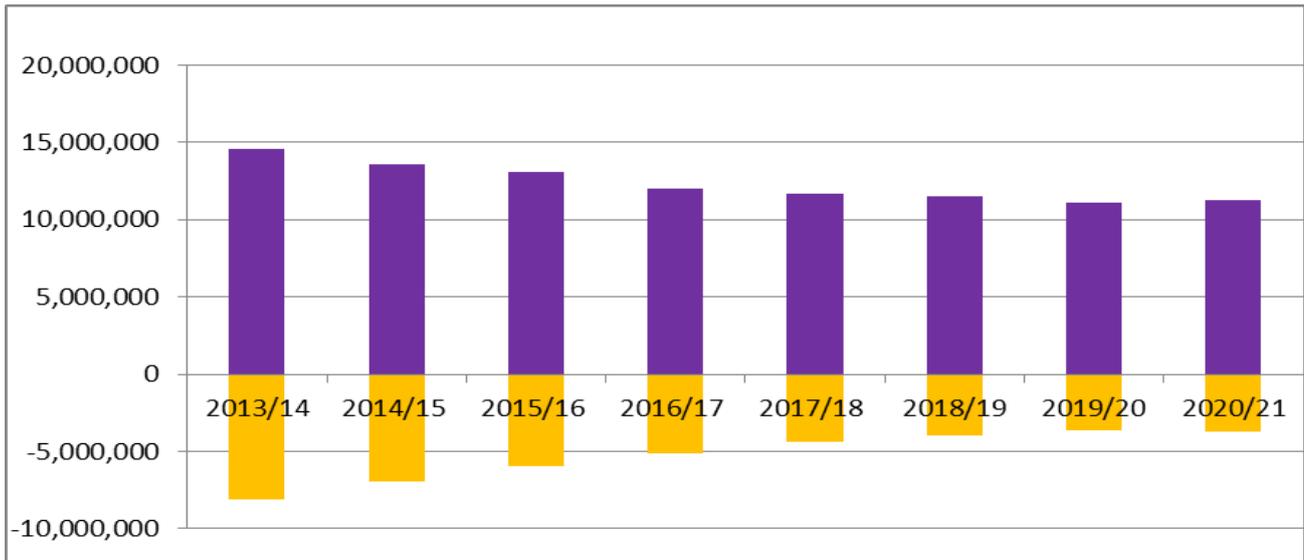
1.2 Much of the financial information is necessarily based on a number of assumptions which are wholly or partly influenced by external factors. However, where final and known actual costs and revenue is known then they are included for example the Final Local Government Finance Settlement for 2020/21 was announced on 6 February 2020. Equally, some additional costs and income discussed later in this report became known since the Draft Budget Estimates were prepared; for example actual allocations of New Homes Bonus and other specific government grant announcements.

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 2020/21 it will have reduced by 33.72%. This is exemplified in the graph below:

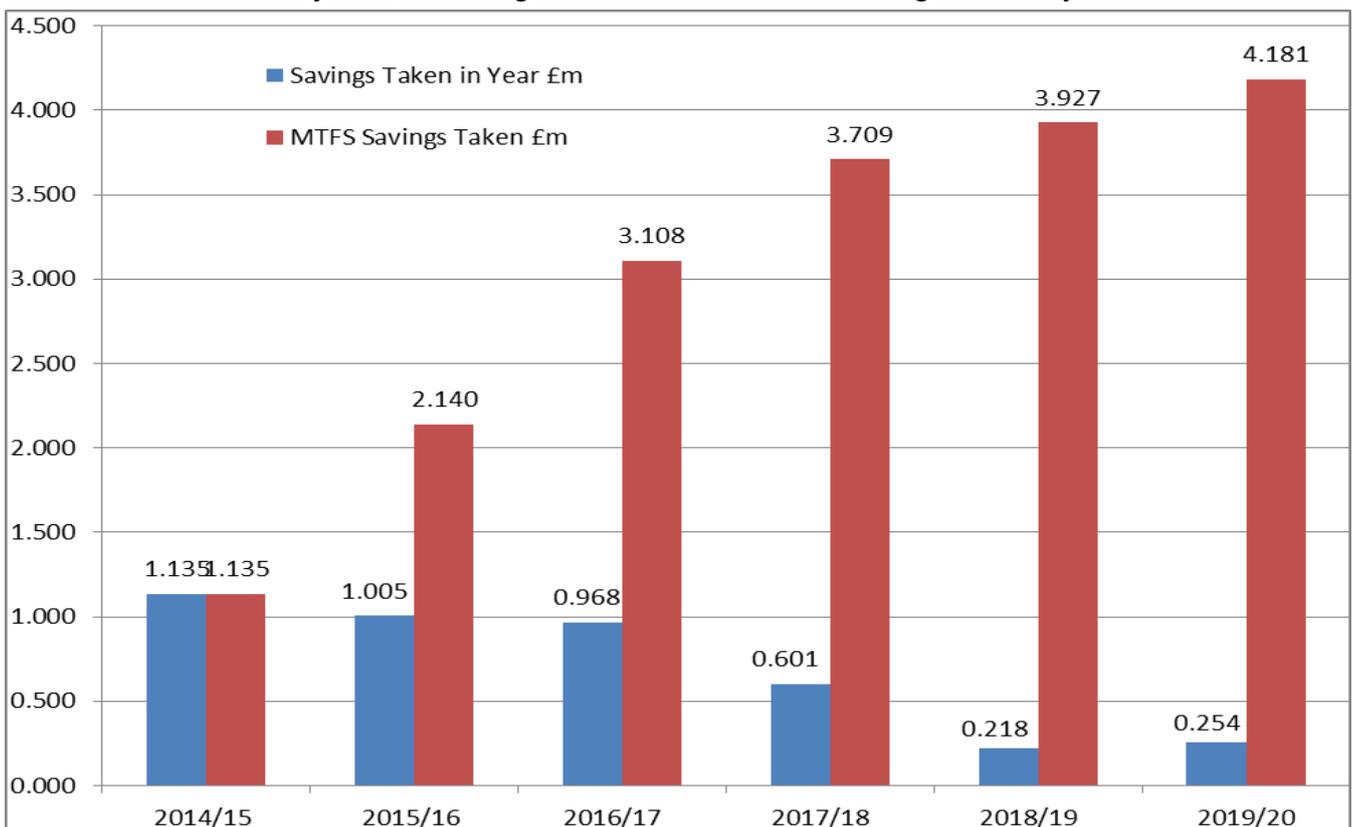


1.4 Since 2013/14 government support has reduced by around 54% and the Council's net budget by around 23% as illustrated in the following tables. In addition, Council Tax referendum principles have restricted increases in Council Tax.

	2013/14	2020/21	Reduction	%
Government Grant/Business Rates Baseline	£8,094,919	£3,701,878	£4,393,041	54.27
Net Budget	£14,604,750	£11,284,403	£3,320,347	22.73



1.5 The following graph illustrates how successful the Council has been in delivering savings over the last 6 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 2020/21 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 2019 SPENDING ROUND AND LOCAL GOVERNMENT FINANCE SETTLEMENT TECHNICAL CONSULTATION**

2.1 On 4 September 2019, the Government outlined its spending plans for 2020/21 by setting budgets for each central government department. Following this, on 3 October 2019, the Government set out its proposals for the 2020/21 Local Government Finance Settlement in a technical consultation.

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

- Local Government's business rate baseline funding levels will increase in line with inflation (determined by the CPI rate as at September 2019, ie. 1.7%);
- A proposed Council Tax referendum limit of 2% (together with an additional 2% increase for Adult Social Care);
- Continuation of homelessness and rough sleeping funding at 2019/20 levels as a minimum;
- The Fair Funding Review and introduction of 75% business rate retention will now be implemented in April 2021;
- Continuation of the New Homes Bonus for 2020/21 with potential changes to the scheme design, legacy payments and allocations in future years.

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 6 February 2020.

2.4 It is anticipated that a 3 year Spending Review will be undertaken by the government in Autumn 2020 covering the period 2021/22 – 2023/24.

## **3 LOCAL GOVERNMENT FINANCE SETTLEMENT**

3.1 The Final Finance Settlement for 2020/21 was announced on 6 February 2020. The government confirmed the settlement for the Council as was set out provisionally on 20 December 2019.

3.2 The Council's Settlement Funding Assessment for 2020/21 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)**

	<b>Actual 2019/20 £000</b>	<b>Actual 2020/21 £000</b>	<b>2020/21 % Increase</b>
<b>Settlement Funding Assessment (Business Rates Baseline Funding only)</b>	<b>3,643</b>	<b>3,702</b>	<b>1.63%</b>

3.3 The settlement only provides detail of figures for 2020/21 with future funding announcements dependent on the outcome of the 3 year spending review to be undertaken in Autumn 2020. The Medium Term forecasts detailed in Appendix B have assumed a continuation of the current policy of increasing business rates baselines by

inflation (CPI as at September each year) and increases of 2% per annum has been allowed for in 2021/22 onwards.

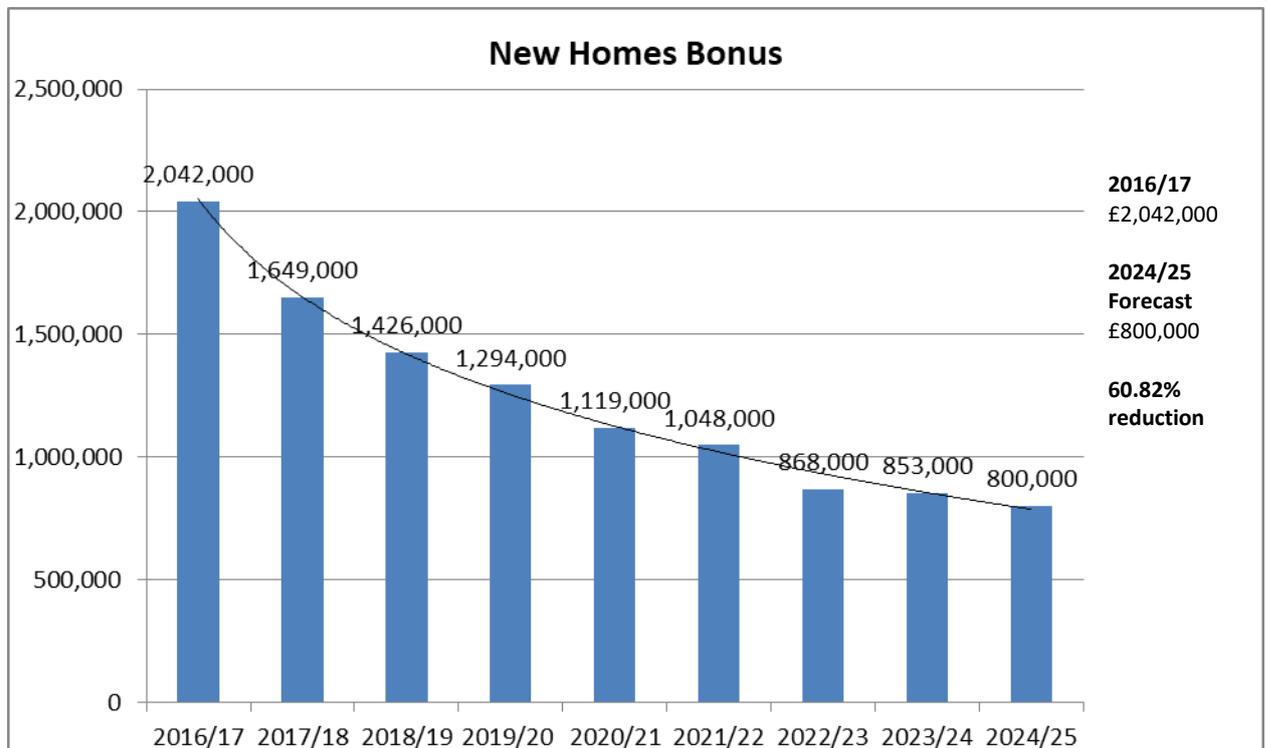
### **Fair Funding Review**

- 3.4 The Government has now confirmed that it is looking to implement the Fair Funding Review in April 2021 rather than the previously announced date of April 2020. Working groups continue to develop proposals for the Fair Funding Review and MHCLG have issued consultation papers on various aspects of the review.
- 3.5 To date, the consultations explore what factors should be taken into account in determining the needs and resources of local authorities. This is particularly important as these elements have a major impact on what the government determines individual authorities 'spending assessment' will be. This will, in turn determine how much of future business rates income this Council will retain through its' Baseline Funding Level (see Section 5 below). It is therefore, intrinsically linked to the reform of the business rates retention system.
- 3.6 One aspect of local authorities' resources specifically referenced in the consultation documents is that the government will include car park charging income to determine the national resource total. This could have consequences for the Council's 'spending assessment' calculation as the Council has determined it will not charge for car parking in the medium term. Consequently, this could lead to a lower Baseline Funding Level than currently forecast.
- 3.7 The consultation documents imply that the government in assessing relative needs, favours a simpler distribution formula with fewer indicators based largely around population projections with deprivation removed from the formula. This could have a detrimental effect on this Council's funding. However, the options around relative resources (the ability of each authority to generate council tax income) could result in a transfer of funding from high-taxbase (lower-need) authorities to low-taxbase (higher-need) authorities, which could benefit this Council. At the current time, there is no reasonable assessment that can be made of the potential impact on this Council of the Fair Funding Review.
- 3.8 The outcome of this review and the reform of the Business Rates Retention System (75% also from April 2021) 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 2019/20 is £1.294m and will be £1.119m in 2020/21. Based on the actual NHB from additional homes delivered during the past year (from October 2018 – October 2019) and the current allocation methodology, the forecast NHB reduces to around £800k by 2024/25. The graph below shows how the amount received from NHB has significantly changed over the past four years together with forecasts over the medium term.



- 4.4 Although the NHB is being paid in full for 2020/21, with no changes to the allocation methodology, the future of the NHB in 2021/22 onwards is much more uncertain. The government has stated that they will not pay legacy payments in future years on the 2020/21 allocations. The written Ministerial Statement says ‘It is not clear that the NHB in its current form is focussed on incentivising homes where they are needed most. I am therefore announcing that the government will consult on the future of the housing incentive in the spring. This will include moving to a new, more targeted approach that rewards local authorities where they are ambitious in delivering the homes we need, and which is aligned with other measures around planning performance.’
- 4.5 Although it is hard to argue against reform of the NHB, the impact on this Council’s funding could be significant. We have included £1m of NHB funding in the MTFS for 2021/22 reducing year on year to £800k in 2024/25. 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 (currently £900m) will be determined by the outcome of the government’s 3 year spending review during Autumn 2020. **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 five 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.

### **Business Rates Pooling Arrangement – 2020/21**

- 5.3 The Council has joined with the County Council, Peterborough City Council, Fire Authority, East Cambridgeshire and South Cambridgeshire and applied to the government 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 MHCLG confirmed on 18 December 2019 that the Cambridgeshire Business Rates Pool had been approved. The designation has effect for the year beginning 1 April 2020 and every year after that, unless the Government exercises the power to revoke the pool (either by request from the pool or as a result of a change in government policy). Whether or not the pool will remain financially beneficial to its constituent authorities following the implementation of the proposed 75% retention system from April 2021 will be reassessed by the pool partners when this information becomes available (expected around Summer/Autumn 2020). Consequently, for the purposes of the MTFs the benefits of this pooling arrangement will initially only be recognised in 2020/21.
- 5.5 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.
- 5.6 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. This Council for example could receive up to £370k additional income according to the sharing methodology agreed between the pooled authorities. This benefit will initially be recognised for one year only in 2020/21 and is included in the estimates at Appendix A.
- 5.7 The actual benefit of the pooling arrangement will only be determined when actual figures are available at the end of 2020/21. Consequently, the actual benefit could be higher or lower than estimated.

### **Additional Business Rates Relief Measures 2020/21**

- 5.8 The Government have announced, in a written ministerial statement, additional business rates measures that will apply from 1 April 2020. These measures will increase the current retail discount and extend that discount to cinemas and music venues; extend the duration of the local newspapers office space discount and introduce an additional discount for public houses as follows:-
- Currently retail premises receive a discount of one-third. In 2020/21 this will be increased to 50 percent for eligible retail premises that occupy a property with a Rateable Value less than £51,000. Eligible retail premises have been extended to include cinemas and music venues
  - Offices occupied by Local Newspapers will receive a discount of £1,500 for 5 years from 1 April 2020 until 31 March 2025

- Public Houses with a rateable value less than £100,000 will receive a £1,000 discount in 2020/21. This will be in addition to the retail discount detailed above and will apply after the retail discount.

5.9 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.

5.10 In order for these reliefs to be awarded with effect from 1<sup>st</sup> April 2020, Council is recommended to approve the reliefs as set out in paragraph 5.8 above.

#### **75% Business Rates Retention – 2021/22 onwards**

- 5.11 It is expected that the 75% Business Rates Retention Scheme will now be implemented nationally from April 2021. Further consultations on how the new scheme will operate are expected from MHCLG shortly.
- 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 2021/22, retained business rates will increase by CPI at around 2% per annum. Nationally, the implementation of this 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.
- 5.13 Although the forecasts in the MTFs has assumed a 'neutral' funding position regarding retained business rates, the consultation papers to date identifies 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.
- 5.14 In the estimate for 2020/21 and the medium term forecasts from 2021/22, around £1m of business rates above the Council's Baseline Funding Level is being retained. From 2021/22 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.
- 5.15 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.
- 5.16 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 2021/22 to the current forecast MTFs shortfalls. A 20% loss of growth income would add a further £200k per annum to the current shortfalls.
- 5.17 **At the time of writing, the Fair Funding Review, the introduction of 75% Business Rates Retention and the reforms 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 with £1.65m achieved by the end of 2019/20. During this year several proposals have been implemented together with the full-year benefit of proposals implemented in 2018/19. 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 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 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 2019/20**

7.1 As part of the budget setting process for 2019/20, approved by Council on 21 February 2019, which included a freeze to the level of Council Tax, £0.103m of savings (from CSR1 proposals not yet implemented) together with a contribution of £0.151m from the General Fund Balance were required to ensure a balanced budget.

7.2 It is pleasing to report that the required savings from CSR proposals have been achieved for 2019/20 and it is forecast that the budgeted contribution from the General Fund Balance will not be required.

7.3 Organisational efficiency changes (e.g. Corporate Management Team, Assets and Projects), the relocation of March and Wisbech shops, the implementation of a shared CCTV service delivery with Peterborough City Council together with the full-year benefit of previous projects such as the Leisure Centres management contract in December 2018, have enabled the savings target to be met for this year with significant contributions towards the savings target for 2020/21.

7.4 This is a considerable achievement and demonstrates the focus from Cabinet and Officers in delivering a balanced budget. The savings identified to date have not significantly affected front-line services as the Council is determined to maintain the quality of these services during these difficult and challenging times.

7.5 The latest revised estimates for 2019/20 are set out at Appendix A and show the likelihood of an under-spend in the region of £94k by the end of this financial year. This excludes the use of the approved £151k contribution from the General Fund Balance, which effectively means an under-spend of £245k has been achieved against the original budget.

7.6 The deletion of a Corporate Director Post and other changes in the Assets and Projects team has resulted in significant employee cost savings (-£174k). As a result of the Insurance re-tendering exercise, significant annual savings in premiums have been achieved (-£189k). In addition, savings have been made in the budgeted costs of the District elections due to the number of uncontested seats (-£48k); lower Drainage Board levies (-£16k); higher forecast income from Investments and VAT sharing arrangement (-£100k); a reduction in capital financing charges as a result of the re-profiled capital programme (-£79k) and higher income from Cemeteries (-£32k). These have been off-set

by a significant increase in Repairs and Maintenance (£227k); reductions in income from Marine Services (£145k) and Economic Estates (£33k) and other service variations(-£12k).

- 7.7 In addition, following a reassessment of the appeals provision for Business Rates for 2019/20 and a reduction in income following valuation reassessments, the total retained business rates income for 2019/20 is forecast to be around £144K higher than originally estimated. However, to smooth out the timing impact of these reassessments on the Council's budget (a change in this year will impact in next year), £144k has been set-aside in reserves in 2019/20 with the same amount being utilised from reserves in 2020/21. This will mitigate the impact on the Council's bottom line over these two years.
- 7.8 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, this position is maintained at the year end.

## 8 DRAFT BUDGET ESTIMATES 2020/21 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 (2020/21) but for forecast years as well, within a reasonable level of tolerance.
- 8.2 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 2020/21 and the medium term.

**Table 2 - MTFS - 0% increase in 2020/21 onwards**

	Estimate 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25
	£000	£000	£000	£000	£000
<b>Expenditure</b>					
Net Service Expenditure	12,415	12,677	13,036	13,316	13,709
Corporate Items	504	496	754	931	1,004
Renewable Energy Rates Retained	-338	-369	-376	-384	-391
Retained Business Rates (Growth)	-926	-930	-954	-978	-1,004
Business Rates Pool Benefit	-370	0	0	0	0
<b>Net Budget Requirement</b>	<b>11,285</b>	<b>11,874</b>	<b>12,460</b>	<b>12,885</b>	<b>13,318</b>
<b>Funding</b>					
Business Rates Baseline	-3,702	-3,776	-3,851	-3,928	-4,007
Business Rates Collection Fund Deficit	311	0	0	0	0
Council Tax Collection Fund Surplus	-128	-50	-50	-50	-50
Council Tax ( <i>increases of 0% in 20/21 onwards</i> )	-7,766	-7,863	-7,961	-8,059	-8,156
<b>Total Funding</b>	<b>-11,285</b>	<b>-11,689</b>	<b>-11,862</b>	<b>-12,037</b>	<b>-12,213</b>
<b>Surplus(-)/Shortfall(+)</b>	<b>0</b>	<b>+185</b>	<b>+598</b>	<b>+848</b>	<b>+1,105</b>

- 8.3 Government grant figures for 2020/21 were announced as part of the final finance settlement. This Council will only be receiving retained business rates from the finance settlement. The projections for 2021/22 onwards are based on the best estimates and information available and are consistent with the announcements on business rates in the Spending Round 2019. However, subject to further clarity on the detailed implementation of the announcements, there remains a degree of uncertainty in these projections.
- 8.4 The net budget requirement for 2020/21 is currently estimated at **£11.285m** after all identified savings and contingencies are included. This includes the assumptions detailed at Appendix C. With the provisional funding assumptions and a 0% increase in Council Tax a balanced budget is presented for 2020/21.

- 8.5 The forecasts include all proposed savings from the FDC-CSR process over the next two years together with assumptions regarding additional receipts from Council Tax and Business Rates. In addition, the forecast impact of the 'MTFS Opportunities' detailed below have been included in the budget for 2020/21 and over the MTFS.
- 8.6 At an earlier agenda item, proposals for additional funding towards Parish Street Lighting are being presented. The financial impact of these proposals have been included within the budget for 2020/21 detailed at Appendix A and the MTFS detailed at Appendix B.
- 8.7 Taking into account the proposals in the Table 2 above, the estimated net budget requirement in 2020/21 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 £1.105m by the end of 2024/25.
- 8.8 The forecasts for the years 2021/22 – 2024/25 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'**

- 8.9 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 2020/21 (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 – 5.7 above, there is a potential benefit of being part of a Business Rates Pooling arrangement in 2020/21 with other Cambridgeshire Districts, County Council and Peterborough City Council. This is expected to realise around £370k of additional income in 2020/21;
  - In April 2020, 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 £2.5m - £3.7m subject to finalising all the Horizon's statutory liabilities. For the purposes of the budget proposals for 2020/21, it has been assumed that a sum of £2.5m will be received and until proposals for its use have been finalised, this amount has been transferred to the Budget Equalisation Reserve. In the meantime, this money will be earning investment income;
  - 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 2021/22 with an additional £100k, net of costs being realised in 2020/21;
  - 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 which is expected to generate savings of around £157k in 2020/21 and £412k per annum from 2021/22.

## Significant Risks to MTFS

- 8.10 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 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.

### Other Risks

#### Capital Programme – Future Funding

- 8.11 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.
- 8.12 For example, a £1m scheme with a 20 year life, funded by prudential borrowing, would result in around an additional £80,000 per annum in interest (3%) and repayment costs.

#### Potential Impact of Major Risks

- 8.13 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 2021/22.

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

	Estimate	Forecast	Forecast	Forecast	Forecast
	2020/21	2021/22	2022/23	2022/23	2024/25
	£000	£000	£000	£000	£000
<b>MTFS Shortfall - Appendix B</b>	<b>0</b>	<b>185</b>	<b>598</b>	<b>848</b>	<b>1,105</b>
<i>(0% CT increase in 2020/21 onwards)</i>					
50% loss of NNDR growth income		500	500	500	500
Increasing NHB threshold by 0.1%		50	100	150	200
<b>Revised Shortfall</b>	<b>0</b>	<b>735</b>	<b>1,198</b>	<b>1,498</b>	<b>1,805</b>

- 8.14 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 2020/21 at its meeting on 13 January 2020 and these were subsequently considered by Cabinet on 16 January 2020. 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 2020/21.

## **12 PORT HEALTH**

- 12.1 The Port Health levy for 2020/21, based on expected expenditure, is recommended as shown in Table 4 below for Council to approve.

**Table 4: Port Health Levy 2020/21**

<b>Description</b>	<b>£</b>
a) Port Health anticipated expenditure	15,304
b) Port Levy	
Fenland District Council	13,544
South Holland District Council	1,071
King's Lynn and West Norfolk Borough Council	689
Total	15,304

## **13 FENLAND DISTRICT COUNCIL - COUNCIL TAX 2020/21**

- 13.1 As part of the 2020/21 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 2020/21 that exceed the government set limit. This limit has been set at 2% or greater than £5, whichever is higher for 2020/21 for District Councils
- 13.2 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 2024/25. 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.
- 13.3 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.

- 13.4 For information, an additional 1% increase in Council Tax in 2020/21 would generate in the region of £78,000 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 8.2 above and Appendix B).
- 13.5 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 2020/21 for Fenland District Council. This is the final piece of the “jigsaw” that identifies the balance of the total resources required to fund the Council’s services.
- 13.6 In line with the motion agreed by Council on 19 July 2019, assumed Council Tax increases of 0% have been included for 2020/21 and over the period of the MTFS.
- 13.7 It is expected that this level of Council Tax together with the potential benefits from the ‘opportunities’ detailed at 8.8 above, would provide the resources required to fund the current level of service provision in 2020/21. However, over the period of the MTFS, the Council will need to continually consider its strategy to meet the estimated shortfalls shown at Table 2 and in Appendix B.
- 13.8 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 Northamptonshire County Council. 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.
- 13.9 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 £77,000 revenue per annum. Table 5 shows the implications of increasing the Council Tax in 2020/21 by 1.98% per annum and thereafter compared to freezing the Council Tax in 2020/21 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	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000
Deficits at 0% increase <i>(as shown in Table 2/Appendix B)</i>	+185	+598	+848	+1,105
Additional CT with 1.98% increase p.a. from 2021/22	-155	-318	-487	-665
Deficits at 1.98% increase	+30	+280	+361	+440

13.10 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 2020/21**

COUNCIL TAX BASE	2020/21 29,815		2019/20 29,380	
	£	Band D £	£	Band D £
Fenland District Council Precept (Appendix A)	<u>7,765,610</u>		<u>7,652,310</u>	
<b>Fenland District Band D Council Tax</b>	<b>0.00%</b>	<b>260.46</b>	<b>0.00%</b>	<b>260.46</b>
MAJOR PRECEPTORS				
County Council	(3.59%)	1,359.18	(4.98%)	1,312.11
Police & Crime Commissioner	(4.49%)	232.65	(12.05%)	222.66
Fire Authority	(1.91%)	72.09	(2.88%)	70.74
Sub Total BAND D TAX		1,924.38		1,865.97
Parish Councils-average (Appendix F)	(4.42%)	48.46	(-1.19%)	46.41
Total average Band D Tax		<b>1,972.84</b>		<b>1,912.38</b>
<b>Total average increase over 2019/20</b>	<b>£60.46 (3.16%)</b>			

13.11 The County Council increase for 2020/21 includes 2% for the Adult Social Care precept (£26.24) and 1.59% on the general council tax (£20.83), giving a total increase of 3.59% (£47.07). For 2020/21, the Police and Crime Commissioner is allowed to increase council tax by up to £10.00 on a Band D property. The actual increase is £9.99 (4.49%).

#### **14 TREASURY MANAGEMENT STATEMENT, CAPITAL STRATEGY AND ANNUAL TREASURY INVESTMENT STRATEGY 2020/21**

14.1 Full details of the proposed Treasury Management, Capital Strategy and Annual Investment Strategy for 2020/21 are contained in Appendix E. The proposed strategies were presented to and endorsed by Corporate Governance Committee on 4 February 2020.

14.2 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 31/03/19) 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 2019/20 is £502,190 and the estimate for 2020/21 is £596,190. Additionally, in the extreme case, if the authority were to borrow £25M on 1<sup>st</sup> April 2020 to fund schemes taken forward as part of the Commercial and Investment Strategy this would attract annual interest payments of £602,500 per year from 2020/21 onwards.
- Bank rate is assumed to increase steadily but slowly over the next few years to reach 1.25% by quarter 2 2022.
- 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 2023.
- 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 £200,000 for 2019/20 and £270,000 for 2020/2021. The increase in 2020/21 reflects the expectation that the Council will start investing in property funds during that financial year.

## **15 REVIEW OF GENERAL FUND BALANCE AND EARMARKED RESERVES**

- 15.1 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.
- 15.2 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
- 15.3 The Council's current uncommitted General Fund Balance is £2m. As part of the budget setting process for 2019/20, a contribution of £150,720 from the General Fund Balance was approved. As detailed in Section 7, the forecast outturn for 2019/20 is not expected to require this contribution.
- 15.4 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. Cabinet at its meeting on 9<sup>th</sup> January 2020 considered and approved a report proposing a number of

changes impacting on reserves, including the General Fund. The analysis of reserves at Appendix G reflects the decisions taken by Cabinet.

- 15.5 In addition, Council at its meeting on 9<sup>th</sup> January 2020 agreed the establishment of two new reserves. Firstly, to smooth out the cost of District elections over a 4 year period and avoid the full cost being budgeted and charged to the financial year of the election, an Elections Reserve has been established with effect from 2020/21 and an annual contribution of £30,000 is to be made to this reserve. This reserve will then be utilised to fund the cost of District elections every 4 years. This contribution is reflected in the budget and MTFS figures at Appendices A and B.
- 15.6 Secondly, a Budget Equalisation Reserve has been established to provide a smoothing mechanism between financial years which could provide resources to help achieve balanced budgets in future years. Council approved that the initial allocation to this reserve will be the £200k underspend from 2018/19 together with the current forecast £94k underspend in 2019/20. This allocation will be amended based on the actual position at the year-end. In addition, any 'surplus' in 2020/21 will be allocated to this reserve.
- 15.7 The analysis of reserves at Appendix G details the projected General Fund and earmarked reserves position as at 31 March 2020 and 31 March 2021 taking account of the proposals approved by Cabinet and Council on 9<sup>th</sup> January 2020.

## **16 CAPITAL PROGRAMME**

- 16.1 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.
- 16.2 A fully updated Capital Programme for 2019-23 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.
- 16.3 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.
- 16.4 Good progress has been made towards delivering the capital schemes identified in the current capital programme. In particular, the improvements to the Hudson Leisure Centre incorporated into the Council's agreement with Freedom Leisure were completed ahead of schedule and replacement gym equipment has been installed at all four leisure centres. Following completion of works in City Road car park in March in the previous financial year, works at the Council car park at Church Terrace in Wisbech commenced in this financial year and have recently been completed.
- 16.5 The updated capital programme is set out in Appendix D to this report. A small number of changes have been made to the programme previously approved by Cabinet on 9 January 2020. The most significant of these is the incorporation of an additional £609K to fund the investment in Information Technology assessed as being necessary to take forward initiatives as part of the Council for the Future programme. This investment is split between investment in infrastructure, hardware and software. The revenue impact of this investment, which principally relates to maintenance costs and technical support, is reflected in the Medium Term Financial Strategy. Remaining changes to the programme previously approved principally relate to the timing of capital expenditure.

- 16.6 Cabinet and Council have recently considered reports relating to the development and implementation of a Commercial and Investment Strategy for the Council. Whilst there will be some revenue expenditure associated with the implementation of the strategy, investments taken forward will be capital in nature including any instances where the Council advances loan funding to fund projects of a capital nature or acquires share capital. The capital programme incorporates an allocation of £25M to the Investment Board. No assumptions have been made about when the £25M will be spent. The full allocation has been shown in the 2020/21 financial year recognising that the Investment Board has the authority to determine when to spend the funds allocated.
- 16.7 In the report considered by Cabinet on 9 January 2020 it was noted that the Council was exploring opportunities to work with the Cambridgeshire and Peterborough Combined Authority. One such project which was recently approved was a proposal to expand existing business space at South Fens Business Park in Chatteris. Cabinet have considered a separate report on this proposal. The capital programme has been prepared on the basis that Cabinet will recommend that the scheme be taken forward and the grant money allocated will be drawn down.
- 16.8 Work is continuing to assess the requirements for future capital resources to ensure the premises used by Council staff or let to third parties remain fit-for-purpose. An update on the outcome of this work will be provided in the early part of the new financial year.
- 16.9 Council resources allocated to take forward the capital schemes within the Wisbech High Street project reflect decisions taken by Cabinet and Council at the time of preparing this report. The cost of the schemes disclosed reflects the cost to the Council of the approved schemes. The values quoted therefore exclude grant money relating to the Wisbech High Street project.
- 16.10 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.
- 16.11 The Council's Borrowing Strategy which is incorporated into the Council's Treasury Management Strategy Statement, recognises that prudential borrowing will be required over the life of the capital programme. This applies not only to schemes to be taken forward as part of the implementation of the Commercial and Investment Strategy but also to schemes involving investment in the asset base required to maintain and enhance the delivery of front-line services. The revenue budget assumes that Commercial and Investment Strategy schemes will not be taken forward unless they generate a positive return after taking account of financing costs. Consequently, no provision has been made in the budget for interest costs in respect of Commercial and Investment Strategy schemes. The projected additional annual revenue costs for the Council of the borrowing which expected to be required to fund for all other capital schemes is reflected in the MTFS.

## **17 RISK ASSESSMENT**

- 17.1 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.

17.2 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.

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

18.1 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.**

18.2 The proposed budget is set against the context of significant uncertainty regarding government funding over the MTFs. In 2021/22 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 nationally of 75% business rates retention (BRR) 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 2021/22 is very uncertain. The Council should therefore retain its current level of reserves to mitigate against the impact of forthcoming changes to afford it the ability to plan for a sustainable financial future.

### **18.3 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.

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 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.

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 2020/21 budget with future year projections representing realistic planning assumptions which will be subject to review as part of the annual budget setting process.

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

A risk based approach to 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 a call on the Council's General Balances, as detailed in Section 15 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 2020/21 are fair and robust and that reserves are adequate to reflect known circumstances and to be able to manage the stated uncertainties and risks as far is known at this time. 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.

## FENLAND DISTRICT COUNCIL

## Summary of Revenue Estimates

	Current Approved Estimate 2019/20 £	Projected Outturn 2019/20 £	Estimate 2020/21 £
<b>Service Summary</b>			
<i>As detailed in Appendix A(ii)</i>			
Growth & Infrastructure	1,341,980	1,439,880	1,521,890
Communities, Environment, Leisure & Planning	5,140,305	5,091,529	4,296,960
Resources & Customer Services	6,437,200	6,435,010	6,595,330
<b>NET COST OF GENERAL FUND SERVICES</b>	<b>12,919,485</b>	<b>12,966,419</b>	<b>12,414,180</b>
<b>Corporate Items</b>			
Contributions to/ (from) Earmarked Reserves	-1,349,729	-1,277,593	-248,811
RTB/VAT Sharing Income	-65,000	-120,000	-40,000
Drainage Board Levies	1,464,110	1,464,110	1,508,030
Financing Charges - <i>Interest/Minimum Revenue Provision</i>	745,231	745,231	1,121,130
Investment Income	-200,000	-200,000	-270,000
New Homes Bonus	-1,294,000	-1,294,000	-1,118,635
Savings from Prepayment of Pension Deficit Lump Sum	-34,000	-34,000	-52,000
A14 Contribution	0	0	32,000
Vacancy Factor (2.5%)	0	0	-270,000
Business Rates - net additional income above baseline <i>(government grants for reimbursement of reliefs, growth less levy payment)</i>	-1,416,831	-1,432,834	-1,264,491
Business Rates Pool - FDC Share of Benefit	0	0	-370,000
FDC Share of Cambridgeshire Horizons Funds	0	0	-2,500,000
Corporate Adjustments	<b>-2,150,219</b>	<b>-2,149,086</b>	<b>-3,472,777</b>
<b>Net Expenditure before CFF savings</b>	<b>10,769,266</b>	<b>10,817,333</b>	<b>8,941,403</b>
<i>CFF Transformation Savings identified not yet implemented</i>			<b>-157,000</b>
<b>Net Expenditure after further CFF Savings</b>	<b>10,769,266</b>	<b>10,817,333</b>	<b>8,784,403</b>
Transfer to Budget Equalisation Reserve	0	0	2,500,000
<b>NET EXPENDITURE</b>	<b>10,769,266</b>	<b>10,817,333</b>	<b>11,284,403</b>
<b>Core Funding</b>			
Business Rates Baseline Funding	-3,642,529	-3,642,529	-3,701,878
<b>Business Rates Collection Fund Deficit(+)</b>	<b>442,988</b>	<b>442,988</b>	<b>311,349</b>
<b>Council Tax Collection Fund Surplus(-)</b>	<b>-59,319</b>	<b>-59,319</b>	<b>-128,264</b>
<b>Council Tax</b>	<b>-7,652,310</b>	<b>-7,652,310</b>	<b>-7,765,610</b>
<b>Surplus(-)/Shortfall(+)</b>	<b>-141,904</b>	<b>-93,837</b>	<b>0</b>

<b>GROWTH AND INFRASTRUCTURE</b>			
<b>Service</b>	<b>2019/20 Current Approved Estimate £</b>	<b>2019/20 Projected Outturn £</b>	<b>2020/21 Original Estimate £</b>
<b>Direct Services</b>			
Marine Services	37,450	96,900	-8,780
Drainage (District)	3,000	3,000	3,000
Highways	127,100	127,100	126,600
Car Parks	168,100	165,500	180,500
Sewage Treatment Works	-9,600	-9,600	-16,500
Parish Council Concurrent Functions	40,050	40,000	242,000
Miscellaneous (Clocks, Monuments)	13,500	13,500	3,750
Economic Estates	21,650	42,650	-53,300
Transport Development	87,800	74,650	121,200
Economic Development	125,550	89,400	168,150
Regeneration	22,900	22,900	0
HLF- High St Wisbech	29,380	41,880	42,720
<b>Total Direct Services</b>	<b>666,880</b>	<b>707,880</b>	<b>809,340</b>
<b>Support Services</b>			
Asset & Project Services	329,200	329,200	365,200
Fenland Hall	317,900	371,800	303,050
The Base	98,000	101,000	114,300
<b>Total Support Services</b>	<b>745,100</b>	<b>802,000</b>	<b>782,550</b>
<b>Net Cost of Services</b>	<b>1,411,980</b>	<b>1,509,880</b>	<b>1,591,890</b>
<b>Less Support Services Recharges to Capital Schemes</b>	<b>-70,000</b>	<b>-70,000</b>	<b>-70,000</b>
<b>TOTAL GROWTH AND INFRASTRUCTURE</b>	<b>1,341,980</b>	<b>1,439,880</b>	<b>1,521,890</b>

## Notes:

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 2020/21 include the assumptions on pay, expenditure and income detailed at Appendix C. In addition, staff cost allocations to services have been reviewed for 2020/21 and have resulted in costs being re-allocated to better reflect time spent on providing those services.

<b>COMMUNITIES, ENVIRONMENT, LEISURE &amp; PLANNING</b>			
<b>Service</b>	<b>2019/20 Current Approved Estimate £</b>	<b>2019/20 Projected Outturn £</b>	<b>2020/21 Original Estimate £</b>
<b>Direct Services</b>			
Housing Strategy	132,890	132,890	135,760
Private Sector Renewals	104,820	106,820	81,200
Housing Standards	35,525	35,530	55,150
Care & Repair	28,940	28,940	29,150
CCTV	133,130	139,830	56,490
Safer Fenland	74,890	61,890	78,520
Licensing	-29,420	-31,540	-1,540
Housing Options	379,200	362,460	244,990
Controlling Migration	600,280	600,280	33,250
Community Development	145,560	145,560	136,380
Travellers Services	-36,500	-36,500	-78,970
Pollution Reduction	215,620	203,560	117,350
Public Health	221,270	226,750	232,240
Food Safety	104,380	103,000	143,740
Health and Safety	56,460	56,140	76,670
Refuse Collection - Domestic	1,170,610	1,176,670	1,215,890
Garden Waste	-85,720	-86,670	2,610
Refuse Collection - Trade Waste	-133,860	-132,080	-153,500
Street Cleansing	808,230	807,300	809,450
Streetscene	211,780	203,250	214,670
Public Conveniences	29,160	34,160	23,580
Arts Development & Culture	18,280	18,150	5,210
Tourism Development	21,160	27,170	7,090
Planning Policy	230,750	230,750	200,750
Development Management	-43,800	-43,800	-124,200
Building Control	54,000	54,000	54,000
Conservation	40,900	40,900	39,800
Planning Compliance	86,350	86,350	89,950
Technical Support	181,000	181,000	188,400
Leisure Centres	-256,300	-240,120	-300,440
Sports Development	107,140	48,080	74,280
Parks and Open Spaces	474,120	474,849	491,100
Cemeteries	-22,680	-26,930	-14,020
Markets and Fairs	-8,890	-6,880	-5,120
Community Events	107,090	105,630	114,930
Vehicle Workshop	-16,060	4,140	22,150
<b>TOTAL COMMUNITIES, ENVIRONMENT, LEISURE &amp; PLANNING</b>	<b>5,140,305</b>	<b>5,091,529</b>	<b>4,296,960</b>

<b>RESOURCES AND CUSTOMER SERVICES</b>			
<b>Service</b>	<b>2019/20 Current Approved Estimate £</b>	<b>2019/20 Projected Outturn £</b>	<b>2020/21 Original Estimate £</b>
<b>Direct Services</b>			
Miscellaneous Central Services	204,040	204,040	205,040
Unfunded Pension Costs/Apprenticeship Levy	976,700	976,700	969,000
Corporate Management	670,300	650,390	889,050
Council Tax Cost of Collection	189,490	198,910	189,860
Business Rates Cost of Collection	-28,040	-23,960	-21,090
Housing Benefits	123,050	131,870	187,240
ICT Direct Service Costs	648,750	644,460	636,740
Policy	209,000	209,000	197,760
Land Charges	-76,200	-61,200	-65,200
Elections & Electoral Registration	280,450	291,900	202,550
Democratic Services	561,350	561,350	529,350
Emergency Planning	67,140	67,140	70,750
<b>Total Direct Services</b>	<b>3,826,030</b>	<b>3,850,600</b>	<b>3,991,050</b>
<b>Support Services</b>			
Accountancy	546,500	548,350	539,140
Information & Communication Technology	361,330	367,400	393,910
Customer Access	902,240	892,020	809,030
Post & Reprographics	161,150	161,150	164,300
Internal Audit	90,450	90,500	136,050
Legal Services	262,800	237,800	262,800
Corporate Health & Safety	3,940	3,940	4,170
Human Resources	282,760	283,250	294,880
<b>Total Support Services</b>	<b>2,611,170</b>	<b>2,584,410</b>	<b>2,604,280</b>
<b>TOTAL RESOURCES AND CUSTOMER SERVICES</b>	<b>6,437,200</b>	<b>6,435,010</b>	<b>6,595,330</b>

**APPENDIX B**  
(0% Council Tax increase)

Medium Term Financial Strategy	Projected 2019/20 £000	Estimate 2020/21 £000	Forecast 2021/22 £000	Forecast 2022/23 £000	Forecast 2023/24 £000	Forecast 2024/25 £000
<b>Expenditure</b>						
<b>Service Expenditure/Income</b>						
Gross Service Expenditure	23,119	20,843	20,885	21,346	21,705	22,184
Fees and Charges	-6,056	-6,051	-6,208	-6,319	-6,395	-6,474
Grants and Contributions	-3,159	-1,417	-1,025	-996	-979	-966
Recycling Credits	-937	-960	-975	-995	-1,015	-1,035
<b>Total Net Service Expenditure</b>	<b>12,967</b>	<b>12,415</b>	<b>12,677</b>	<b>13,036</b>	<b>13,316</b>	<b>13,709</b>
<b>Corporate Items</b>						
<b>Corporate Expenditure/Savings</b>						
Drainage Board Levies	1,464	1,508	1,538	1,569	1,600	1,632
Financing Charges - Interest on External Borrowing	502	596	581	581	581	581
Financing Charges - Current Capital Programme - MRP	243	525	650	650	650	650
Savings from Prepayment of Pension Lump Sum	-34	-52	-57	-63	-63	-68
Vacancy Factor (2.5%)	0	-270	-279	-286	-294	-301
A14 Upgrade - contribution	0	32	32	32	32	32
Transfer to Budget Equalisation Reserve	0	2,500	0	0	0	0
CFF Transformation Savings identified not yet implemented	0	-157	-412	-412	-412	-412
	2,175	4,682	2,053	2,071	2,094	2,114
<b>Corporate Income Items</b>						
RTB/VAT Sharing Income	-120	-40	-40	-10	-10	-10
Investment Income	-200	-270	-415	-390	-400	-400
New Homes Bonus	-1,294	-1,119	-1,048	-868	-853	-800
Contribution to(+)/from(-) Earmarked Reserves	-1,278	-249	-54	-49	100	100
Business Rates - net additional income above baseline	-1,433	-1,264	-1,299	-1,330	-1,362	-1,395
Business Rates Pool - FDC Share of Benefit	0	-370	0	0	0	0
FDC Share of Cambridgeshire Horizons Funds	0	-2,500	0	0	0	0
	-4,325	-5,812	-2,856	-2,647	-2,525	-2,505
<b>Total Corporate Items</b>	<b>-2,150</b>	<b>-1,130</b>	<b>-803</b>	<b>-576</b>	<b>-431</b>	<b>-391</b>
<b>Gross Service/Corporate Expenditure</b>	<b>25,294</b>	<b>23,025</b>	<b>22,938</b>	<b>23,417</b>	<b>23,799</b>	<b>24,298</b>
<b>Gross Service/Corporate Income</b>	<b>-14,477</b>	<b>-11,740</b>	<b>-11,064</b>	<b>-10,957</b>	<b>-10,914</b>	<b>-10,980</b>
<b>Net Budget Requirement</b>	<b>10,817</b>	<b>11,285</b>	<b>11,874</b>	<b>12,460</b>	<b>12,885</b>	<b>13,318</b>
<b>Funding - NNDR/CT</b>						
Business Rates Baseline Funding	-3,643	-3,702	-3,776	-3,851	-3,928	-4,007
Business Rates Collection Fund Deficit	443	311	0	0	0	0
Council Tax Collection Fund Surplus	-59	-128	-50	-50	-50	-50
Council Tax (increases of 0% in 19/20 onwards)	-7,652	-7,766	-7,863	-7,961	-8,059	-8,156
<b>Total Funding - NNDR/CT</b>	<b>-10,911</b>	<b>-11,285</b>	<b>-11,689</b>	<b>-11,862</b>	<b>-12,037</b>	<b>-12,213</b>
<b>Surplus(-)/Shortfall(+)</b>	<b>-94</b>	<b>0</b>	<b>+185</b>	<b>+598</b>	<b>+848</b>	<b>+1,105</b>

<b>Summary</b>						
<b>Total Gross Expenditure</b>	<b>25,294</b>	<b>23,025</b>	<b>22,938</b>	<b>23,417</b>	<b>23,799</b>	<b>24,298</b>
Funded by:						
Fees and Charges	-6,056	-6,051	-6,208	-6,319	-6,395	-6,474
Grants and Contributions	-3,159	-1,417	-1,025	-996	-979	-966
Recycling Credits	-937	-960	-975	-995	-1,015	-1,035
New Homes Bonus	-1,294	-1,119	-1,048	-868	-853	-800
Investment Income, VAT/RTB	-320	-310	-455	-400	-410	-410
Reserves	-1,278	-249	-54	-49	100	100
Retained Business Rates	-4,633	-5,025	-5,075	-5,181	-5,290	-5,402
Council Tax	-7,711	-7,894	-7,913	-8,011	-8,109	-8,206
<b>Total Funding</b>	<b>-25,388</b>	<b>-23,025</b>	<b>-22,753</b>	<b>-22,819</b>	<b>-22,951</b>	<b>-23,193</b>
<b>Surplus(-)/Shortfall(+)</b>	<b>-94</b>	<b>0</b>	<b>+185</b>	<b>+598</b>	<b>+848</b>	<b>+1,105</b>

## 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 17 of the main report.

The main assumptions are as follows:

- 0% Council Tax increase for 2020/21 and thereafter (1% increase generates around £77k of resources and 1.98% around £153k of resources);
- 1.48% increase in Council Tax base in 2020/2021(Tax-base 29,815) and 1.20% thereafter (increase of 375 Band D equivalent properties per annum);
- Inflation (CPI) increases in Retained Business Rates income (1.7% for 2020/21 and assumed 2% for 2021/22 onwards);
- Inclusion of this Council's share (£370k) of the benefit arising from the Cambridgeshire Business Rates Pool in 2020/21only. Potential benefit from the Pool in future years will be dependent on the scheme design of the new 75% Business Rates Retention System from 1 April 2021.
- 2% pay award (£240k cost) for 2020/21 and thereafter together with an allowance for pay increments of around 1% p.a. (£120k 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 2020/21 is to remain the same as 2019/20 (17.4% of salary with additional past deficit lump sum payment of £865k). For 2021/22 and 2022/23 the contribution rate remains at 17.4% with a lump sum payment of £953k in 21/22 and £1.041m in 22/23, 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 in 2020/21, equivalent to a reduction in staff costs of 2.5% (£270,000 in 2020/21);
- 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 second quarter of 2021 when market rates are forecast to begin rising slowly;
- Investment income includes an assumed £5m investment in property funds during 2020/21(additional £100k income net of costs) with the full year impact from 2021/22 onwards (additional £250k income per annum);
- Continuing impact of 2019/20 in year income pressures;
- Assumptions regarding forecast income levels from fees and charges have been included. These are a combination of fee increases (where applicable) and review of activity levels;
- The New Homes Bonus for 2020/21 onwards has been included as detailed in paragraph 4.3 of the report.

## CAPITAL PROGRAMME AND FUNDING 2019 - 2023

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Capital Programme (excluding Commercial and Investment Strategy Schemes)	5,507	5,673	2,054	1,557
Commercial and Investment Strategy Schemes	0	25,000	0	0
<b>CURRENT FORECAST EXPENDITURE</b>	<b>5,507</b>	<b>30,673</b>	<b>2,054</b>	<b>1,557</b>

## FORECAST RESOURCES AVAILABLE

Capital Grants	1,454	2,063	950	950
Usable Capital Receipts - In Year	467	225	0	0
Usable Capital Receipts - B/fwd	0	0	0	0
Reserves used in year to fund Capital Section 106s and Other Contributions	672	361	400	0
Borrowing (Internal and Prudential)	2,849	27,780	659	595
<b>Total Forecast Resources</b>	<b>5,507</b>	<b>30,673</b>	<b>2,054</b>	<b>1,557</b>

**CAPITAL PROGRAMME SUMMARY 2019/20 - 2022/23**

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total Cost £000	FDC Funding £000	External Funding £000	External Funders and FDC Reserves/S106
<b>Leisure Centres</b>								
1 Hudson Leisure Centre Improvements	864				864	864		
2 Leisure Equipment	644				644	644		
3 Condition Survey Improvements	128	237	212	75	652	652		£229K R&M Reserve
<b>Regeneration Programmes</b>								
4 Fenland Renaissance and Place Shaping	16				16	16		
5 Heritage Lottery Fund - Match Funding bid	150				150	150		
6 Heritage Lottery Fund - 24 High Street, Wisbech	87				87	87		
7 Railway Station Improvements		179			179	63	116	£63K S106 money. £116K CPCA funding
<b>Cemeteries</b>								
8 Rebuild Front Wall - St Mary's Churchyard, Whittlesey	34				34	34		
9 Manea Chuchyard		15			15	15		
10 Remedial Works in Closed Cemeteries		28	25	25	78	78		
11 Mt Pleasant Cemetery, Wisbech		60			60	60		
12 Walsoken Cemetery		20			20	20		
<b>Car Parks</b>								
13 Church Terrace, Wisbech	220				220	220		
<b>Highways</b>								
14 Catgeory 1 Street Lights - Parishes	12				12	12		
15 Catgeory 2 Street Lights - FDC Lights	214	142			356	356		£47K Invest to Save Reserve
16 Street Name Plates/District Facilities Signage	4	40			44	44		
Street Light Improvements - Parishes (Contribution to Cat								
17 2 Replacements)	98				98	98		£98K Capital Contribution Reserve
<b>Office Accommodation</b>								
18 AV Equipment in Council Chamber	42				42	42		
19 Reversion Works at March and Wisbech One Stop Shops	222				222	222		£222K Management of Change Reserve
20 Fenland Hall - Repairs and Renewals	65				65	65		
<b>Environment</b>								
21 Replacement Littter Bins		88	83		171	171		
<b>Port</b>								
22 Boat/Vessels - Replacement Deck, Hull and Engines		54	30		84	84		
23 Yacht Harbour Improvements		15			15	15		
24 Wisbech Port Structural Works	140	250			390	390		
25 Wisbech Port Fender Piles		90			90	90		
<b>Sub Total</b>	<b>2,940</b>	<b>1,218</b>	<b>350</b>	<b>100</b>	<b>4,608</b>	<b>4,492</b>	<b>116</b>	

<b>Brought Forward</b>	<b>2,940</b>	<b>1,218</b>	<b>350</b>	<b>100</b>	<b>4,608</b>	<b>4,492</b>	<b>116</b>	
<b>Parks and Open Spaces</b>								
26 West End Park, March - Replace Skate Ramps	141				141	108	33	£33K Grant Money. £15K S106 money
27 Water Tower Park, Whittlesey	57				57	5	52	£47K Grant Funding, £5K Town Council Contribution
28 Manea Skate Park		64			64	64		£64K S106 money
29 Parks, Play Areas and Open Space - Chatteris	48	30	30	40	148	145	3	£51K S106 money, £3K Grant Money
30 Parks, Play Areas and Open Space - Doddington		45			45	45		£21K S106 money
31 Parks, Play Areas and Open Space - Parson Drove		30			30	30		£30K S106 money
32 Parks, Play Areas and Open Space - Whittlesey		40	45		85	85		£85K S106 money
33 Parks, Play Areas and Open Space - Wisbech	13	20		20	53	40	13	£32K S106 money, £13K External Grant
<b>Vehicles and Plant</b>								
34 Vehicles	476	310	104	210	1,100	1,100		
<b>ICT System Replacement Programme &amp; Upgrades</b>								
35 Replacement & Upgrade Programme	149	504	400	75	1,128	1,128		£700K Management of Change Reserve
36 Replacement of Cash Machines in One Stop Shops	45				45	45		
<b>Improvement of Assets</b>								
37 Sewage Treatment Works Refurbishment	25	335	150	150	660	660		
38 Birch Fen Silt Removal and Outfall Maintenance			25		25	25		
39 March Moorings Renewals		12		12	24	24		
40 Hostel Roof Renewal		28			28	28		
41 Lattersley Nature Reserve - Capping Layer		40			40	40		
42 Sandbank Travellers Site Pumping Station	25				25	25		£25K Travellers Reserve
43 Nene Parade Surface Water Pumping Station	50				50	50		
<b>Economic Estates</b>								
44 Replacement of AV Equipment at Business Centres		50			50	50		
45 Station Road, Whittlesey - Carriageway Resurfacing	40				40	40		£12K Station Road Reserve
46 South Fens Business Park Expansion		1,997			1,997	1,000	997	£997K CPCA 'Business Space' Funding
<b>Community Safety</b>								
47 CCTV Control Room Upgrade	40				40	40		
48 Camera Replacements	100				100	100		£100K CCTV Reserve
<b>Private Sector Housing Support</b>								
49 Private Sector Renewal Grants	150	40	40	40	270		160	£160K Govt Grant
50 Disabled Facilities Grants	1208	910	910	910	3,938		4,048	£4.048M Govt Grant
<b>Total - Approved Programme</b>	<b>5,507</b>	<b>5,673</b>	<b>2,054</b>	<b>1,557</b>	<b>14,791</b>	<b>9,369</b>	<b>5,422</b>	

## Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2020/21

### 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 (see Appendix A attached), 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 has been substantially revised and updated from that approved in February 2019 to reflect

decisions taken by members in this financial year which have culminated in the approval of a Commercial and Investment Strategy for the Council.

- 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 recently-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.
- 2.6 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.
- 2.7 The Council's Commercial and Investment Strategy was approved in January 2020. The upcoming 2020/21 financial year will be the first year in which any non-treasury investments may be undertaken in accordance with the provisions of this policy. At its meeting on 9 January 2020 Council noted the proposed intention that the newly-established Investment Board would be permitted to invest up to £25M which would be funded from a combination of borrowing and use of reserves. The allocation of £25M is expected to be formally confirmed as part of the budget-setting process.
- 2.8 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 a Local Authority Trading Company. At the time of preparing this report the Investment Board is yet to meet therefore no decisions regarding the Council's investment programme have been taken.
- 2.9 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.
- 2.10 Section Four 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 Corporate Governance 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 Corporate Governance 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 2020/21 to 2022/23**

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.

<b>Capital Programme</b>	<b>2019/20 Revised Estimate £000</b>	<b>2020/21 Estimate £000</b>	<b>2021/22 Estimate £000</b>	<b>2022/23 Estimate £000</b>
<b>Forecast Capital Expenditure</b>	<b>5,507</b>	<b>5,673</b>	<b>2,054</b>	<b>1,557</b>
<b>Commercial and Investment Strategy – Approved Allocation to Investment Board</b>	<b>0</b>	<b>25,000</b>	<b>0</b>	<b>0</b>
<b>TOTAL</b>	<b>5,507</b>	<b>30,673</b>	<b>2,054</b>	<b>1,557</b>
Financed by:				
Capital Grants	1,454	2,063	950	950
Capital Receipts	467	225	0	0
Reserves used in year to fund Capital	672	361	400	0
Section 106 and Other Contributions	65	244	45	12
<b>Total Financing</b>	<b>2,658</b>	<b>2,893</b>	<b>1,395</b>	<b>962</b>
<b>Net Financing Need For The Year (Borrowing)</b>	<b>2,849</b>	<b>27,780</b>	<b>659</b>	<b>595</b>

- 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 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 proposed 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.

<b>Capital Financing Requirement (CFR)</b>	<b>2019/20 Revised Estimate £000</b>	<b>2020/21 Estimate £000</b>	<b>2021/22 Estimate £000</b>	<b>2022/23 Estimate £000</b>
<b>CFR – as at 31 March</b>				
<b>FDC Capital Programme</b>	<b>3,818</b>	<b>6,073</b>	<b>6,082</b>	<b>6,027</b>
<b>Commercial and Investment Strategy – Approved Allocation to Investment Board</b>	<b>0</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>
<b>Total CFR</b>	<b>3,818</b>	<b>31,073</b>	<b>31,082</b>	<b>31,027</b>
<b>Movement in CFR</b>	<b>2,606</b>	<b>27,255</b>	<b>9</b>	<b>(55)</b>
<b>Movement in CFR represented by</b>				
Net financing need for the year	2,849	27,780	659	595
Less MRP and other Financing Movements	(243)	(525)	(650)	(650)
<b>Movement in CFR</b>	<b>2,606</b>	<b>27,255</b>	<b>9</b>	<b>(55)</b>

## **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 they 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 has been necessary to revise the MRP policy which applied to previous years 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 shall be 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.

<b>Year End Resources</b>	<b>2019/20 Revised Estimate £000</b>	<b>2020/21 Estimate £000</b>	<b>2021/22 Estimate £000</b>	<b>2022/23 Estimate £000</b>
<b>Fund balances / reserves</b>	<b>8,713</b>	<b>7,595</b>	<b>6,880</b>	<b>6,750</b>
<b>Capital Grants Unapplied</b>	<b>396</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total core funds</b>	<b>9,109</b>	<b>7,595</b>	<b>6,880</b>	<b>6,750</b>
<b>Expected Cash investments</b>	<b>16,000</b>	<b>11,250</b>	<b>10,150</b>	<b>9,550</b>

## 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. 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.

<b>Financing Costs to Net Revenue Stream</b>	<b>2019/20 Revised Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
<b>General Fund (excluding Commercial and Investment Strategy Schemes)</b>	<b>4.99</b>	<b>8.31</b>	<b>8.99</b>	<b>8.86</b>
<b>Commercial and Investment Strategy Schemes (£25M allocation)</b>	<b>0</b>	<b>5.34</b>	<b>5.15</b>	<b>5.08</b>
<b>Total</b>	<b>4.99</b>	<b>13.65</b>	<b>14.14</b>	<b>13.94</b>

### **Treasury Management Strategy**

- 7.2 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.
- 7.3 The Council's treasury portfolio as at 31 March 2019 for borrowing and investments was £8.363m and £20.2m respectively. As of 31 December 2019, investments are £21.9m and borrowing £8.294m.
- 7.4 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).

	<b>2019/20 Revised Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Debt at 1 April</b>	<b>7,800</b>	<b>7,800</b>	<b>36,574</b>	<b>36,159</b>
<b>Expected change in debt to fund capital programme (excluding Commercial and Investment Strategy schemes)</b>	<b>0</b>	<b>3,774</b>	<b>(415)</b>	<b>(415)</b>
<b>Borrowing to fund Commercial and Investment Strategy Schemes</b>	<b>0</b>	<b>25,000</b>	<b>0</b>	<b>0</b>
<b>Other long term liabilities (OLTL)</b>	<b>563</b>	<b>406</b>	<b>243</b>	<b>106</b>
<b>Expected change in OLTL</b>	<b>(157)</b>	<b>(163)</b>	<b>(137)</b>	<b>(83)</b>
<b>Actual gross debt at 31 March</b>	<b>8,206</b>	<b>36,817</b>	<b>36,265</b>	<b>35,767</b>
<b>Capital financing requirement (CFR) at 31 March</b>	<b>3,818</b>	<b>31,073</b>	<b>31,082</b>	<b>31,027</b>

<b>Borrowing less CFR – 31 March</b>				
	<b>4,388</b>	<b>5,744</b>	<b>5,183</b>	<b>4,740</b>

- 7.5 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 2020/21 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 ( Appendix A refers).
- 7.6 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.
- 7.7 As a result of the Council's long term Public Works Loan Board (PWLB) debt portfolio of £4.5m (31/03/19) currently attracting excessive premiums (£3.152m at the time of writing this report), if it were prematurely repaid and the fixed rate market loan of £3.3m (31/03/2019), 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.
- 7.8 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 on 1<sup>st</sup> April 2020 and fund all of that expenditure from a maturity loan at today's rate.

<b>YEARS</b>	<b>INTEREST DUE (EXISTING CAPITAL SCHEMES) £000</b>	<b>INTEREST DUE (FUNDING OF COMMERCIAL AND INVESTMENT STRATEGY) £000</b>	<b>TOTAL £000</b>
2019/20	502	-	502
2020/21	596	603	1,199
2021/22	581	603	1,184
2022/23	581	603	1,171

- 7.9 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.

<b>Operational Boundary</b>	<b>2019/20 Revised Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>
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	£000	£000	£000	£000
<b>Debt</b>	<b>12,000</b>	<b>12,000</b>	<b>12,000</b>	<b>12,000</b>
<b>Other long term liabilities</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>
<b>Commercial Activities / Non Financial Investments</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>
<b>Total</b>	<b>38,000</b>	<b>38,000</b>	<b>38,000</b>	<b>38,000</b>

- 7.10 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.
- 7.11 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.

<b>Authorised Limit</b>	<b>2019/20 Revised Estimate £000</b>	<b>2020/21 Estimate £000</b>	<b>2021/22 Estimate £000</b>	<b>2022/23 Estimate £000</b>
<b>Debt</b>	<b>17,000</b>	<b>17,000</b>	<b>17,000</b>	<b>17,000</b>
<b>Other long term liabilities</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>
<b>Commercial Activities / Non Financial Investments</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>
<b>Total</b>	<b>43,000</b>	<b>43,000</b>	<b>43,000</b>	<b>43,000</b>

## 8 Prospects for Interest Rates

- 8.1 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 Asset Services Interest Rate View													
	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	0.90	0.90	1.00	1.10	1.20	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.30	2.40	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.50	2.50	2.60	2.60	2.70	2.80	2.90	3.00	3.10	3.10	3.20	3.20	3.30
25yr PWLB Rate	3.00	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.80	3.80	3.90	3.90
50yr PWLB Rate	2.90	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.80

- 8.2 The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a comprehensive trade deal within the short time to December 2020, as the prime minister has pledged.

- 8.3 2019 was a weak year for UK economic growth as political and Brexit uncertainty depressed confidence. It was therefore little surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% during the year. However, during January 2020, financial markets were predicting a 50:50 chance of a cut in Bank Rate at the time of the 30 January MPC meeting. Admittedly, there had been plenty of downbeat UK economic news in December and January which showed that all the political uncertainty leading up to the general election, together with uncertainty over where Brexit would be going after that election, had depressed economic growth in quarter 4 of 2019. However, that downbeat news was backward looking; more recent economic statistics and forward looking business surveys, all pointed in the direction of a robust bounce in economic activity and a recovery of confidence after the decisive result of the general election removed political and Brexit uncertainty. The MPC clearly decided to focus on the more recent forward-looking news, rather than the earlier downbeat news, and so left Bank Rate unchanged. Provided that the forward-looking surveys are borne out in practice in the coming months, and the March Budget delivers with a fiscal boost, then it is expected that Bank Rate will be left unchanged until after the December trade deal deadline. However, the MPC is on alert that if the surveys prove optimistic and/or the Budget disappoints, then they may still take action and cut Bank Rate in order to stimulate growth.
- 8.4 There had been much speculation during 2019 that the bond market had gone into a bubble, as evidenced by high bond prices and remarkably low yields. However, given the context that there have been heightened expectations that the US was heading for a recession in 2020, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions were ripe for 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. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten-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. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.
- 8.5 During the first half of 2019-20 to 30 September, gilt yields plunged and caused a near halving of longer term PWLB rates to completely unprecedented historic low levels. (See paragraph 9.9 for comments on the increase in the PWLB rates margin over gilt yields of 100bps introduced on 9.10.19.) There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but also in the UK due to a correlation between US treasuries and UK gilts; at various times this correlation has been strong but at other times weak. However, forecasting the timing of this, and how strong the correlation is likely to be, is very difficult to forecast with any degree of confidence. Changes in UK Bank Rate will also impact on gilt yields.
- 8.6 One potential danger that may be lurking in investor minds is that Japan has become mired in a twenty-year bog of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank

and government. Investors could be fretting that this condition might become contagious to other western economies.

- 8.7 Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt-fuelled boom that now makes it harder for central banks to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop. (A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.
- 8.8 The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.
- 8.9 In addition, PWLB rates are subject to ad hoc decisions by H.M. Treasury to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented on 9.10.19.
- 8.10 Economic and interest rate forecasting remains difficult with so many influences weighing on UK gilt yields and PWLB rates. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

## **9 Borrowing Strategy**

- 9.1 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 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.
- 9.2 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.
- 9.3 Where the Council has insufficient internal resources to fund 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.

- 9.4 When the Council borrows externally it will ordinarily do so using funds borrowed from the Public Works Loan Board. The current Medium Term Financial Strategy assumes that some external borrowing will be required over the four-year period to 31 March 2023. 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.
- 9.5 Following the decision by PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 bps on loans lent to local authorities, consideration will be given to sourcing funding at cheaper rates from other sources.
- 9.6 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.
- 9.7 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.

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

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

## **10 Debt Scheduling / Repayment**

- 10.1 When the Council takes on new borrowing it shall not only have regard for the limits shown above but it shall also consider the risk presented by over-concentration of maturity dates. Over-concentration presents a considerable risk to the revenue budget if the Council needs to re-finance and interest rates have increased significantly from those which applied at the point the borrowing was originally undertaken. It should be noted that, as well as maturity loans, the Council is able to borrow money using instruments which incorporate regular repayment of amounts borrowed over the life of the loan.

- 10.2 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.
- 10.3 If rescheduling was done, it will be reported to the Cabinet at the earliest meeting following its action.

## 11 Annual Treasury Investment Strategy

- 11.1 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, (a separate report).
- 11.2 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.
- 11.3 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.
- 11.4 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.
- 11.5 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
- 11.6 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.
- 11.7 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.
- 11.8 **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.

11.9 **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.

11.10 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.

11.11 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.

11.12 On the assumptions that the UK and EU agree a Brexit deal including the terms of trade by the end of the 2020 or soon after, then Bank rate is forecast to increase only slowly over the next few years to reach 1.25% by quarter 1 2023. Bank rate forecasts for financial year ends (March) are:

- 2020/21 – 0.75%
- 2021/22 – 1.00%
- 2022/23 – 1.25%

11.13 Forecast average investment interest rates for returns on investments placed for periods up to about three months during each financial year are as follows:

- 2019/20 - 0.75%
- 2020/21 - 0.75%

- 2021/22 - 1.00%
- 2022/23 - 1.25%

11.14 Estimated investment income is shown below. These figures assume that none of the existing cash balances held by the Authority will be utilised to fund schemes approved by the Investment Board. The increase from 2020/21 onwards reflects the expectation detailed in the MTFs that the Council will start investing in property funds during the 2020/21 financial year.

YEARS	INVESTMENT INCOME £
2019/20	200,000
2020/21	270,000
2021/22	415,000
2022/23	390,000

11.15 **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.

	2020/21 £000	2021/22 £000	2022/23 £000
<b>Maximum principal sums invested &gt; 365 days</b>	<b>8,000</b>	<b>8,000</b>	<b>8,000</b>

11.16 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.

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

## 12 Creditworthiness Policy

12.1 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.

12.2 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.

- 12.3 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.
- 12.4 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
- 12.5 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.
- 12.6 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.
- 12.7 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.
- 12.8 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.
- 12.9 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.

### **13 External Service Providers**

- 13.1 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.

- 13.2 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.
- 13.3 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.

**FENLAND DISTRICT COUNCIL**  
**CAPITAL STRATEGY 2020/21-2022/23**

**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 out 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 Corporate Director (Growth and Infrastructure). 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.

### **Role and Function of the Investment Board**

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.

### 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. For reasons outlined in that document, no assumptions have been made regarding the timing of any borrowing (internal and/or external) arising from the implementation of the Commercial and Investment Strategy. However, the operational boundary and authorised limits shown in Tables 3 and 4 have been determined with reference to the budget allocated to the newly-established Investment Board referred to in paragraph 2.15 above.

#### Key Considerations relating to Treasury Management

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

<b>Year End Investments</b>	<b>2019/20 Revised Estimate £000</b>	<b>2020/21 Estimate £000</b>	<b>2021/22 Estimate £000</b>	<b>2022/23 Estimate £000</b>
<b>Fund balances / reserves</b>	<b>8,713</b>	<b>7,595</b>	<b>6,880</b>	<b>6,750</b>
<b>Capital Grants Unapplied</b>	<b>396</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total core funds</b>	<b>9,109</b>	<b>7,595</b>	<b>6,880</b>	<b>6,750</b>
<b>Expected investments</b>	<b>16,000</b>	<b>11,250</b>	<b>10,150</b>	<b>9,550</b>

*Table 1: Year End Investment Balances projected over the period 1 April 2019 – 31 March 2023*

<b>Year-End Debt</b>	<b>2019/20 Revised Estimate £000</b>	<b>2020/21 Estimate £000</b>	<b>2021/22 Estimate £000</b>	<b>2022/23 Estimate £000</b>
<b>Debt at 1 April</b>	<b>7,800</b>	<b>7,800</b>	<b>36,574</b>	<b>36,159</b>
<b>Expected change in debt to fund capital programme (excluding Commercial and Investment Strategy schemes)</b>	<b>0</b>	<b>3,774</b>	<b>(415)</b>	<b>(415)</b>
<b>Borrowing to fund Commercial and Investment Strategy schemes</b>	<b>0</b>	<b>25,000</b>	<b>0</b>	<b>0</b>
<b>Other long term liabilities (OLTL)</b>	<b>563</b>	<b>406</b>	<b>243</b>	<b>106</b>
<b>Expected change in OLTL</b>	<b>(157)</b>	<b>(163)</b>	<b>(137)</b>	<b>(83)</b>
<b>Actual debt at 31 March</b>	<b>8,206</b>	<b>36,817</b>	<b>36,265</b>	<b>35,767</b>

*Table 2: Year End Debt and Net Investment projected over the period 1 April 2019– 31 March 2023*

3.3 At 1 April 2019 the Council's Debt position comprised other long-term liabilities relating to finance leases of £563k 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 2019, 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

<b>Operational Boundary</b>	<b>2019/20 Revised Estimate £000</b>	<b>2020/21 Estimate £000</b>	<b>2021/22 Estimate £000</b>	<b>2022/23 Estimate £000</b>
<b>Debt</b>	<b>12,000</b>	<b>12,000</b>	<b>12,000</b>	<b>12,000</b>
<b>Other long term liabilities</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>
<b>Commercial Activities/ Non-Financial Investments</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>
<b>Total</b>	<b>38,000</b>	<b>38,000</b>	<b>38,000</b>	<b>38,000</b>

*Table 3: Operational Boundary over the period 1 April 2019 – 31 March 2023*

<b>Authorised Limit</b>	<b>2019/20 Revised Estimate £000</b>	<b>2020/21 Estimate £000</b>	<b>2021/22 Estimate £000</b>	<b>2022/23 Estimate £000</b>
<b>Debt</b>	<b>17,000</b>	<b>17,000</b>	<b>17,000</b>	<b>17,000</b>
<b>Other long term liabilities</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>
<b>Commercial Activities / Non-Financial Investments</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>
<b>Total</b>	<b>43,000</b>	<b>43,000</b>	<b>43,000</b>	<b>43,000</b>

*Table 4: Authorised Limit over the period 1 April 2019 – 31 March 2023*

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:

	<b>Projected Minimum Revenue Provision £000</b>
<b>2019/20</b>	243
<b>2020/21</b>	525
<b>2021/22</b>	650
<b>2022/23</b>	650

*Table 5: Projected Minimum Revenue Provision over the period 1 April 2019 – 31 March 2023*

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.
- 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 publically 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:

<b>Budgeted Income from pre-2019/2020 non-operational assets (Economic Estates - Revised Budget 2019/20)</b>	£842,000
<b>Net Service Expenditure</b>	£11,565,000
<b>Commercial Income as a proportion of Net Service Expenditure</b>	7.3%
<b>Approved Limit</b>	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 £43.370M per year based on 2019/20 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:

<b>Gross Debt expected as at 31 March 2020</b>	£7,800,000
<b>Net Service Expenditure</b>	£11,565,000
<b>Gross Debt as a proportion of Net Service Expenditure</b>	67%
<b>Approved Limit</b>	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. Part two of the Council's Commercial and Investment Strategy states that any investments made in accordance with this part of the strategy will be 'for pure financial benefit'. Consequently any borrowing undertaken to enable such investments to take place will be in breach of the statutory guidance published by MHCLG.
- 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.
- 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 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. The extent to which the Council needs to borrow in advance of need to undertake investment in commercial property will be fully disclosed to the Investment Board by the Chief Finance Officer before any investment is undertaken.

- 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.

PARISH PRECEPTS 2020/21

TAX BASE (Equated Band D Properties)	PRECEPT 2019/20 £	COUNCIL TAX PER BAND D PROPERTY £	PARISH	TAX BASE (Equated Band D Properties)	PRECEPT 2020/21 £	COUNCIL TAX PER BAND D PROPERTY £	INCREASE FROM 2019/20 %
351	12,852	36.62	BENWICK	357	12,852	36.00	-1.7
3,326	151,000	45.40	CHATTERIS	3,345	151,000	45.14	-0.6
268	12,750	47.57	CHRISTCHURCH	274	12,750	46.53	-2.2
814	51,540	63.32	DODDINGTON	838	56,459	67.37	6.4
1,168	41,267	35.33	ELM	1,192	40,367	33.86	-4.2
387	17,000	43.93	GOREFIELD	390	19,000	48.72	10.9
1,100	53,000	48.18	LEVERINGTON	1,123	53,000	47.20	-2.1
808	47,487	58.77	MANEA	853	55,143	64.65	10.0
6,505	283,000	43.50	MARCH	6,554	320,000	48.83	12.2
237	13,000	54.85	NEWTON IN THE ISLE	235	13,000	55.32	0.9
448	19,378	43.25	PARSON DROVE	449	20,643	45.98	6.3
389	1,000	2.57	TYDD ST GILES	389	1,000	2.57	0.0
5,285	171,015	32.36	WHITTLESEY	5,424	171,015	31.53	-2.6
756	64,560	85.40	WIMBLINGTON	758	65,851	86.87	1.7
6,383	369,200	57.84	WISBECH	6,466	372,270	57.57	-0.5
1,155	55,510	48.06	WISBECH ST MARY	1,168	80,510	68.93	43.4
<b>29,380</b>	<b>1,363,559</b>	<b>46.41</b>	<b>GRAND TOTAL</b>	<b>29,815</b>	<b>1,444,860</b>	<b>48.46</b>	<b>4.42</b>

Reserve Name	Balance 01.04.19 £	Re-allocations Cabinet 9 January 2020	Capital Funding £	Revenue Contributions to(+)/from(-) 2019/20 £	Revised Balance 31.03.20 £	Capital Funding £	Revenue Contributions to(+)/from(-) 2020/21 £	Estimated Balance 31.03.21 £	Comments / Conditions of Use
Travellers Sites	305,820		-25,000	6,810	287,630		56,070	343,700	Can only be used for specific future maintenance liabilities.
Station Road, Whittlesey - Maintenance	11,200		-12,000	2,800	2,000		2,800	4,800	Required for future road maintenance.
CCTV - Plant & Equipment	100,723		-100,000	10,000	10,723		10,000	20,723	Available for future CCTV maintenance & replacement liabilities.
Invest to Save	120,521		-47,000		73,521			73,521	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.
Conservation	4,124	-4,124			0			0	Previously available for the purchase, renovation and subsequent re-selling of difficult properties of local importance where intervention by this Council is seen as the only solution. Given minimal balance on reserve remaining balance transferred to Investment Strategy reserve in January 2020.
Management of Change	1,201,800		-262,000	-40,000	899,800	-260,000		639,800	Available for the effective management of any organisational changes required to meet the Council's future priorities.
Neighbourhood Planning Reserve	185,156	-185,156			0			0	Previously available to assist the Council with delivering the 'Neighbourhood Planning' objective and delivery of the Core Strategy. Amalgamated with Local Plan Reserve to form Planning Reserve in January 2020.
Specific Government Grants (received in previous years)	1,620,144	-165,637		-733,711	720,796		-36,621	684,175	Available to fund specific spending commitments in future years.
Personal Search Fees	115,524	-115,524			0			0	Previously available to off-set restitution claims associated with the revocation of the personal search fees of the local land charges register. No longer required as explained in report presented to Cabinet on 9 January 2020 therefore transferred to Investment Strategy reserve.
Community Projects Reserve	12,431	-12,431			0			0	Available for small-scale community projects. Previously used to assist Parish/Town Councils to fund Diamond Jubilee Celebrations. On 9 January 2020 Cabinet approved proposal to transfer residual balance to Investment Strategy reserve.
Business Rates Equalisation Reserve	1,055,883			-412,233	643,650		-143,650	500,000	Available to assist the Council in smoothing out volatility in the business rates retention system.
Capital Contribution Reserve	419,932	422,000	-98,000		743,932			743,932	Available to fund specific spending commitments in future years.
Port - Buoy Maintenance	147,319				147,319			147,319	Available for future buoy maintenance to service windfarms.

Reserve Name	Balance 01.04.19 £	Re-allocations Cabinet 9 January 2020	Capital Funding £	Revenue Contributions to(+)/from(-) 2019/20 £	Revised Balance 31.03.20 £	Capital Funding £	Revenue Contributions to(+)/from(-) 2020/21 £	Estimated Balance 31.03.21 £	Comments / Conditions of Use
Local Plan Reserve	451,178	-451,178			0			0	Available to assist the Council with reviewing the Local Plan.
Repairs and Maintenance	642,518		-128,000	-21,659	492,859	-101,000	-42,000	349,859	Available to provide funding for one-off schemes, not covered by the normal Repairs and Maintenance revenue budgets.
Property Development Fund	1,000,000	-1,000,000			0			0	Available to enable progression of future development and property schemes. On 9 January 2020 Cabinet approved proposal to transfer residual balance to Investment Strategy reserve.
Heritage Lottery Fund (HLF) - Wisbech	151,966			-41,880	110,086		-42,720	67,366	To manage the Heritage Lottery Funded scheme in Wisbech.
Brexit Preparation Reserve	17,484	-17,484			0			0	Available to mitigate any potential short-term impact of Brexit. On 9 January 2020 Cabinet approved proposal to transfer residual balance to Investment Strategy reserve.
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	17,500			17,310	34,810		17,310	52,120	Available to fund future repairs and maintenance relating to street lighting.
Investment Strategy Reserve	0	1,315,200		34,970	1,350,170			1,350,170	Established to provide future funding for Commercial and Investment Strategy projects.
Budget Equalisation Reserve	0	200,236			200,236		2,500,000	2,700,236	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	0	636,334		-100,000	536,334		-100,000	436,334	Available to fund additional planning costs not reflected in the annual budget, including the development of the Local Plan.
Elections Reserve	0				0		30,000	30,000	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.
<b>TOTAL EARMARKED RESERVES</b>	<b>7,681,221</b>	<b>622,236</b>	<b>-672,000</b>	<b>-1,277,593</b>	<b>6,353,864</b>	<b>-361,000</b>	<b>2,251,189</b>	<b>8,244,053</b>	
General Fund Balance	2,622,236	-622,236			2,000,000			2,000,000	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.
<b>TOTAL RESERVES</b>	<b>10,303,457</b>	<b>0</b>	<b>-672,000</b>	<b>-1,277,593</b>	<b>8,353,864</b>	<b>-361,000</b>	<b>2,251,189</b>	<b>10,244,053</b>	

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.