Broxtowe Borough COUNCIL

Wednesday, 5 February 2020

Dear Sir/Madam

A meeting of the Finance and Resources Committee will be held on Thursday, 13 February 2020 in the Council Chamber, Council Offices, Foster Avenue, Beeston NG9 1AB, commencing at 7.00 pm.

Should you require advice on declaring an interest in any item on the agenda, please contact Legal Services at your earliest convenience.

Yours faithfully

Ruth E Hyde

Chief Executive

To Councillors:		
	S J Carr (Vice-Chair)	P Roberts-Thomson
	E Cubley	M Radulovic MBE
	S Easom	P Lally
	D A Elliott	E Kerry
	G Marshall (Chair)	B C Carr
	P J Owen	E Williamson
	P D Simpson	

A G E N D A

5. BUDGET PROPOSALS AND ASSOCIATED STRATEGIES (Pages 1 - 66)

To recommend to Council the capital and revenue budget proposals together with the capital strategy, prudential indicators, treasury management strategy, investment strategy and general fund medium term financial strategy and to approve the business plans. This report is circulated seperately with the agenda.

Joint Report of the Chief Executive, the Deputy Chief Executive and the Strategic Director

BUDGET PROPOSALS AND ASSOCIATED STRATEGIES

1. Purpose of report

To recommend to Council the capital and revenue budget proposals together with the capital strategy, prudential indicators, treasury management strategy, investment strategy and general fund medium term financial strategy and to approve the business plans.

2. Detail

The following reports are given in the attached appendices and are recommended for approval:

Appendix 1	Impact analysis
Appendix 2	Housing Revenue Account (HRA) Budget and Council House Rents 2020/21
Appendix 3	General Fund Revenue Budget 2020/21
Appendix 4	Capital Programme 2020/21 to 2022/23
Appendix 5	Capital Strategy 2020/21 to 2022/23
Appendix 6	Treasury Management Strategy 2020/21 to 2022/2023
Appendix 7	Investments Strategy 2020/21 to 2022/23
Appendix 8	General Fund Medium Term Financial Strategy to 2023/24

A budget consultation exercise was undertaken during October and November 2019. The results of this consultation were presented to this Committee on 9 January 2020 as included as part of the agenda (item 10) at https://democracy.broxtowe.gov.uk/ieListDocuments.aspx?CId=143&MId=287&Ver=4.

The matters referred to in the reports are inter-related and, as such, need to be considered together. An additional report on the HRA Business Plan model update will be presented to the Housing Committee on 3 June 2020.

The service and financial plans were considered as an integral part of the budget setting process by the respective committees of the Council during January and February 2020. Subject to any consequent amendments necessary as a result of any budget changes approved by Council, the Committee is asked to approve these documents.

After consulting with the Leader of the Council and the Chair of the Finance and Resources Committee, the figures included within the recommendations below and in the medium term financial strategy (appendix 8) reflect the fact that the Committee may choose to recommend to Council that the basic amount of Council Tax in 2020/21 is increased by £5 from £161.85 to £166.85 (Band D), and by 2% increase in 2021/22 and 2022/23. This is set out in detail in appendix 3.

Recommendations

The Committee is asked to RESOLVE to approve:

1. **The business plans for the Council's corporate priorities and support functions, subject to amendment as a result of any budget decisions still to be taken by Council recommended by the relevant policy committees.**

and to RECOMMEND to Council that:

2. **The Housing Revenue Account budget as submitted be approved (appendix 2).**
3. **The General Fund revenue budgets as submitted be approved (appendix 3).**
4. **The capital submissions and priorities within them be approved (appendix 4).**
5. **The Deputy Chief Executive be authorised to arrange the financing of the capital programme as necessary (appendix 4).**
6. **An amount of £25,000 be provided for a General Contingency in 2020/21 (appendix 3).**
7. **The council tax requirement for 2020/21 including special expenses (but excluding local precepting requirements) be £5,704,431 (appendix 3).**
8. **An amount of £1,167,316 be withdrawn from the General Fund reserve in 2020/21 (appendix 3).**
9. **An amount of £30,000 be added to the General Fund earmarked reserves in 2020/21 (appendix 3).**
10. **The Capital Strategy 2020/21 to 2022/23 be approved (appendix 5)**
11. **The Minimum Revenue Provision policy as set out be approved (appendix 6).**
12. **The Treasury Management Strategy Statement 2020/21 to 2022/23 be approved (appendix 6).**
13. **The Investments Strategy 2020/21 to 2022/23 be approved (appendix 7).**
14. **The General Fund Medium Term Financial Strategy 2020/21 to 2023/24 be approved (appendix 8).**

Background papers
Nil

APPENDIX 1

IMPACT ANALYSIS

1. Introduction

A detailed impact analysis (taking account of the Council's duty under section 149 of the Equality Act 2010) is undertaken for all key executive decisions which involve changes in service delivery in year.

These changes inform the budget for the following year. However, most decisions that specifically relate to budget-setting reflect changes that are not linked to specific groups of people but apply equally across the whole borough to all residents. The following are felt to be the main areas where particular groups within the population may be affected.

2. Changes in housing rents and housing-related charges

Up to and including the financial year 2019/20 under legislation, the Council was required to reduce housing rents by 1%. With effect from 1st April 2020, local authorities are able to set their own rent levels, though Government Guidance recommends that rent increases should be not more CPI plus 1%.

On 18th September 2019 the Housing Committee approved the Council's new Rent Setting Policy which in summary stated Housing Rents are to increase by September Consumer Price Index (CPI) plus 1%. For 2020/21 this will equate to an increase of 2.7%.

The increase in rents will impact on all tenants and will also have an impact on the welfare bill as it is anticipated that Housing Benefit payments will increase in proportion to the increase in rental income.

During November 2018, a Housing Needs Assessment was undertaken which included a new Housing Revenue Account (HRA) Business Plan. The Business Plan requires further update to take into account the latest 2020/21 budget estimates. The update will take place in the next few months and reported to the Housing Committee on 3 June 2020.

The Government's Universal Credit programme is to continue to be rolled out across the Borough. Universal Credit replaces a number of benefits with one. The amount due is paid direct to the claimant which is a substantial change for some claimants where housing benefits is paid directly to the landlord such as the Council. The Council is working with tenants and other agencies to ensure a smooth transition. The budget includes an increase in bad debt provision of £30,000.

The budget proposals also include estimates for increases in garage rents which have been taken into account in the budget figures approved by the Housing Committee on 18 September 2019.

It has been previously agreed that garage rents will increase by CPI plus 1%. This results in an increase of 2.7% for 2020/21.

The changes in rent levels will affect all tenants while the changes to garage rents will only affect those specific tenancy types. An Equality Impact Assessment was undertaken for the proposed changes in policy during the 2020/21 budget setting exercise. This indicated that there are no recognised groups within the Equalities Act that would be adversely affected by the change. No further changes would affect this conclusion.

3. Liberty Leisure

The budget proposals include a provision for an annual management fee of £870,000 for Liberty Leisure in 2020/21. This is a wholly owned company of the Council which delivers leisure services and events and is responsible sports and arts development and management of the D H Lawrence Birthplace Museum.

The Company was established on 1 October 2016. The cost of borrowing and provision for repayment of debt relating to property and other capital assets remain with the Council which retains ownership of the capital assets of the company. All other costs are included within the management fee payable annually. Due to tax efficiencies and other changes the net result of this change is intended was to reduce the costs to the Council of providing Leisure Services.

As Liberty Leisure is a wholly-owned company, the Council retains overall control. Any changes to service provision must be agreed by the Council. In respect of 2020/21 the management fee has been reduced by £125,000 from £995,000 in 2019/20. Given the significant number of events supported by Liberty Leisure Limited across Broxtowe, an additional events officer has been funded and established. There are, no other proposed changes in services which would have a direct impact on customers or local communities

4. Other changes to the establishment

The budget proposals include estimates for staff cost reductions in 2020/21, relating to one voluntary redundancy approved by the Personnel Committee on 27 January 2020. The Council’s policy is to reduce workforce costs in a controlled manner and to avoid compulsory redundancies if at all possible. The Council’s voluntary redundancy policy currently includes a temporary increase in entitlement based on an actual week’s pay rather than the capped statutory entitlement. On 18 May 2016, the Policy and Performance Committee resolved to extend this temporary policy to the date of new regulations that are not yet implemented.

The proposed staffing reductions would be drawn from different service areas across the Council, and none of the recognised groups under the Equalities Act should be affected disproportionately.

APPENDIX 2

HOUSING REVENUE ACCOUNT BUDGET AND COUNCIL HOUSE RENTS 2020/21

1. Introduction

The Housing Revenue Account (HRA) shows a projected surplus balance in hand at 31 March 2021 of £2,986,989.

2. Budget Changes

The following have been taken into account in the production of the overall budget position for 2020/21:

- An estimated pay award of 2% plus any increments and allowances (an increase of £113,340);
- A reduction in premises costs as a result of re-classifying major path work and asbestos removal as capital expenditure (a reduction of £180,000). This work is now funded via the capital programme.
- Increase in revenue expenditure relating to lift maintenance, laundry costs and utilities (£69,500);
- Overall net increase in Repairs and Maintenance expenditure of £147,570, a combination of variances relating to Direct Materials, Stores Purchases, Sub-Contractors expenditure);
- Reduction in legal Costs on the basis that a legal case will be resolved in 2019/20 £35,740);
- Additional software maintenance costs reflecting licences held by housing rather than an apportionment of costs. (£69,290);
- Increase in Grounds Maintenance charges for maintaining HRA non-residential land, Independent Living Accommodation and maintaining elderly residents' gardens (£122,140);
- A re-assessment of support services provided by the Council has led to an increase in charges to the HRA of £180,000. These relate mainly to Customer Services, Property Administration, ICT services and Accountancy.
- Increase in estimated Depreciation and Impairment of Fixed Assets resulting from Depreciation and Impairment of Fixed Assets (£260,780).
- Reduction in Bad Debt provision mainly relating to the provision for void repairs (£50,000);
- The Tenants Insurance scheme is largely administered by housing staff therefore the premiums paid and amounts collected now form part of the Housing Revenue Account as opposed to the General Fund generating £7,000 in commission.
- A reduction in expected interest receivable of £68,000 from the Council's investments attributable to the HRA.

3. Rent and charges proposals

Up to and including the financial year 2019/20 under legislation, the Council was required to reduce housing rents by 1%. With effect from 1st April 2020, local authorities are able to set their own rent levels, though Government Guidance recommends that rent increases should be not more CPI plus 1%.

On 18th September 2019 the Housing Committee approved the Council's new Rent Setting Policy which in summary stated Housing Rents are to:-

- Increase by September Consumer Price Index (CPI) plus 1%. For 2020/21 this will equate to an increase of 2.7%.
- Where a property becomes vacant the rent chargeable for the next tenancy will be at *Formula Rent*. Formula Rent is based upon a 'formula set by the Government and is based upon:-
  - 30% of a property's rent is based on relative property values.
  - 70% of the property's rent is based on relative local earning.
  - A bedroom factor is applied so that, other things being equal, smaller properties have lower rents.
- New build properties and property acquired (buy-back properties) will be charged at Formula Rent.
- If the Council is in receipt of grant from Homes England to develop Council Housing for Rent, it is a requirement of the grant that rent is set at *Affordable Rent* level. This is equivalent to 80% of market rent.

In determining the budget, Right to Buy sales (reducing the rent income budget) have been estimated using the HRA Business Plan. The budget also has assumed a level of 'buy back properties' and 'new build properties' based upon developments likely to be complete during 2020/21 (increasing the rent income budget). The net increase in rental income due between 2019/20 and 2020/21 is £296,440.

There has been a major overall to the Council Garages which has including renovating some but also demolishing others to increase available sites for new build housing. It is proposed that garage rents also increase by 2.7%. However, the reduction in the number of garages available in 2020/21 has reduced the income due for the year by £13,000.

4. Summary

The minimum working balance recommended on this account in 2020/21 is £1 million. To the extent that the predicted balance exceeds this, it is proposed to use any surplus resources to increase the revenue contribution towards financing the capital programme, thereby reducing the potential need for prudential borrowing by a similar amount.

The interest cost arising from any prudential borrowing to help finance the capital programme falls on the revenue account and is estimated at £2,488,690 in 2020/21. No additional borrowing is required for 2020/21 to fund the Housing capital programme as all expected capital costs can be met from revenue resources or additional housing capital receipts. A revenue contribution of £1,813,100 to the Capital Programme is anticipated in 2020/21.

In order to fund the capital programme in 2020/21 £742,790 has been utilised from the HRA Revenue Balance.

It is recommended that a working balance of at least £1 million is maintained in future years to ensure that sufficient provision exists to meet unexpected needs. This is will be increasingly significant in terms of, for example, having sufficient funds available to meet the cost of potential new build properties and other commitments.

A re-visit of the HRA Business Plan in underway as a result of the material increases in expenditure to the 2020/21 budget.

APPENDIX 3

RESOURCES ALLOCATION – GENERAL FUND REVENUE BUDGET 2020/21

1. Summary of Proposals

   The policy committees of the Council have considered the revised budgets for 2019/20 and the base budgets for 2020/21 for their respective areas. Any changes arising from this process are set out below along with a summary of the proposed General Fund budget for 2020/21.

2. Key Assumptions and Other Changes

   After consideration of the revised budgets for 2019/20 and the base budgets for 2020/21 by the various service committees, the following changes have been made:

   - The Environmental Services budget proposals include, one new recycling post and promotion (c£26,000), additional tree planting (£11,000), and meadow flowers (£15,000).
   - The Economic development budget proposals include additional start-up grants to small businesses (£15,000).
   - Liberty Leisure Limited budget proposals include an additional events officer.
   - An additional £80,000 is budgeted for the BBC share of the Core Strategy review which will be undertaken over the Greater Nottingham Area and will involve close collaboration between BBC and our neighbouring Council's at Erewash, Gedling, Nottingham and Rushcliffe.
   - A budget of £30,000 has been set aside to further develop a range of Mental Health initiatives, to support the improvement of mental health of staff and residents.
   - Voluntary Redundancies – The Personnel Committee on 27 January 2020 approved the voluntary redundancy of the Operations Manager (T200), Customer Services Assistant (C91), Equality and Diversity Assistant (C101). The savings from the Operations Manager have been built into the 20/21 budget.

   The base budgets for 2020/21 include estimates for inflation on certain headings such as utilities costs and software maintenance agreements. In accordance with the expected national agreements, which are not yet agreed, a 2% annual pay award has been assumed for the majority of staff with effect from 1 April 2020.

   No allowance has yet been made for an increase in Member's allowances. On 22 January 2020 the Council's Independent Remuneration Panel recommended increasing member allowance rates in line with any employee pay award (2%). The impact on the General Fund, should the Council resolve to accept the recommendation of the Panel, would be approximately £2,500.

Under the prudential framework for capital finance, prudential borrowing has to be considered in overall terms and taking account of the effect on revenue budgets and general affordability in the short and medium term. Appendix 5 to this report proposes total additional prudential borrowing of £0 in 2020/21 in relation to the Housing Revenue Account and borrowing of £7,713,500 in relation to the General Fund. Based on external borrowing rates, an estimate for additional borrowing costs has been included in the base budget for 2020/2021.

It is prudent to provide a sum of money within the budget to cover unforeseen items of expenditure which may arise during the year. As in 2019/20, a General Contingency of £25,000 has been established for 2020/21.

All known revenue developments have been incorporated into base budgets. No further revenue developments are expected but other items may be brought forward to committees during the course of the year as and when need arises.

The Personnel Committee on 27 January 2020 approved a number of establishment changes relating to Legal Services, Democratic Services, Public Protection and Environmental Services. These staffing budget changes will be incorporated within the revised 2020/21 revenue budget, and reported to the next Finance and Resources Committee.

The Non Domestic Rates income is primarily based on a calculation taking into account the local non-domestic rates tax base and the Government's calculations of each authority's spending requirements. For budgeting purposes the Council completes an assessment at the beginning of each year and uses this to determine the amount of rates to be collected (the NNDR1). The budget is then set on the basis of this assessment. For 2020/21 the non-domestic rates budget based on the NNDR1 for the year has been set at £3,258,506, which includes estimates for losses on appeals and the recovery of deficit arising from prior year transactions on the Collection Fund. Any difference between budgeted income and actual income receivable will be recovered in the following year.

Non Domestic Rates income is also affected by Section 31 grants received from Central Government and by payments to or receipts from the Nottinghamshire Business Rates Pool.

The provisional funding settlement for 2020/21 announced by the Ministry of Housing, Communities and Local Government Department (MHCLG) on 20 December 2019 included details of the New Homes Bonus (NHB) allocations to Councils. The provisional NHB allocation to Broxtowe for 2020/21 of £110,350 represents a reduction of £36,400 (24%) on the £146,750 received in 2019/20.

As set out in section 3 below, the recommendations are based upon withdrawing a net £1,269,251 and £1,137,316 from balances in 2019/20 and 2020/21 respectively.

3. General Fund Revenue Budget 2020/21

The table below shows the 2019/20 revised budget for each committee along with the base budget figures for 2020/21. It also shows the impact that this would have upon the Council's available balances.

	2019/20 Revised Estimate £	2020/21 Base Budget £
Committee		
Community Safety	1,522,153	1,426,080
Environment and Climate Change	3,691,398	3,807,620
Finance and Resources	2,514,897	2,809,565
General Fund Housing	375,689	401,270
Jobs and Economy	356,838	472,270
Leisure and Health	1,808,736	1,597,440
Committee Net Expenditure	10,269,711	10,514,245
Beeston Special Expenses	25,000	25,000
Total Net Expenditure	10,294,711	10,539,245
Funding		
NNDR (ie. Business Rates)	(3,172,342)	(3,258,506)
NNDR (Surplus)/Deficit	231,541	215,260
Estimated Safety Net or Levy Payment to/(from) Pool	612,863	647,826
Estimated S31 Grant (per NNDR1)	(1,150,838)	(1,217,092)
Returned Funding from Pool 2018/19	(20,000)	(20,000)
Council Tax	(5,450,252)	(5,679,431)
Council Tax (Surplus)/Deficit	(51,432)	(64,986)
Beeston Special Expenses Precept	(25,000)	(25,000)
Total Funding	(9,025,460)	(9,401,929)
(Addition to)/withdrawal from balances	1,269,251	1,137,316

The increase in the 2020/21 base budget for total net expenditure when compared with the 2019/20 revised estimate of £244,534 is primarily a consequence of the following items:

	£000s
Allowance for estimated 2% pay award from April 2020	211
Decrease in Distribution from Bramcote Crematorium	200
Additional minimum revenue provision (MRP)	130
Review of Core Strategy	80
Revenue Developments	
- Environment and Climate Change	51
- Leisure and Health	25
- Jobs and Economy	15
Reduction in New Homes Bonus	36
Removal of Budget for May 2019 Borough Election	(149)
Removal of 2018/19 Underspends Carried Forward to 2019/20	(344)
TOTAL	255

The increase in funding of £376,469 from the 2019/20 revised estimate total of £9,025,460 to the base budget 2020/21 figure of £9,401,929 is mainly due to the following:

	£000s
Increase in NNDR (ie. Business Rates)	(86)
Decrease in NNDR Deficit	(16)
Increase in Safety Net or Levy Payment to/(from) Pool	35
Increase in S31 Grant	(66)
Increase in Council Tax Income	(229)
Increase in Council Tax Surplus	(14)
TOTAL	(376)

The anticipated withdrawals from balances in 2019/20 and 2020/21 shown above would affect the Council's reserves as follows:

<u>Change in Balances 2019/20</u>

	Actual Balance at 1 April 2019	Projected Withdrawal (Addition)	Estimated Balance at 31 March 2020
General Fund Reserve	(6,047,911)	1,004,926	(5,042,985)
Homelessness Grant Reserve	(68,381)	0	(68,381)
Elections Reserve	(90,000)	90,000	0
Local Land Charges Reserve	(136,891)	136,891	0
Local Auth. Mortgage Reserve	(37,434)	37,434	0
Total Balances	(6,380,617)	1,269,251	(5,111,366)

Change in Balances 2020/21

	Actual Balance at 1 April 2020	Projected Withdrawal (Addition)	Estimated Balance at 31 March 2021
General Fund Reserve	(5,042,985)	1,167,316	(3,875,669)
Homelessness Grant Reserve	(68,381)		(68,381)
Elections Reserve	0	(30,000)	(30,000)
Total Balances	(5,111,366)	1,137,316	(3,974,050)

The recommendations are based upon withdrawing £1,167,316 from the General Fund reserve in 2019/20 as well as adding £30,000 to the Elections reserve to meet the cost of the Borough Council elections in May 2023.

No legislative restriction applies as to how the Council's reserves may be used. The minimum acceptable total of General Reserves to meet revenue expenditure and capital financing commitments is considered to be £1.5 million.

4. Budget Savings

It is proposed to set an employee savings target of £300,000 in 2020/21 to be met from vacancies, flexible retirements and redundancies. This is in line with the previous year's salary savings target. Any further approvals by the Personnel Committee of voluntary redundancy or flexible retirement requests will help to achieve this saving.

A range of potential efficiencies and additional income has been identified and included in the Business Strategy which was presented to the Finance and Resources Committee on 9 January 2020. The majority of these savings and additional income have been built into the 2020/21 budget.

A further refresh of the Business Strategy will be required later in 2020 to identify further potential efficiencies and this work expected to led by the General Management Team, and commence during early 2020.

5. Beeston Special Expenses

Beeston and the surrounding area is a special expense area purely in relation to the cost of maintaining allotments. It is anticipated that, assuming no unforeseen and significant events occur of a size similar to those experienced with water leaks a few years ago, then sufficient monies will remain on the account such that a precept of £25,000 per annum should be capable of being maintained for several years.

In the Beeston Special Expenses Area it is proposed to retain the precept at £25,000 as in 2019/20 and hence the council tax charge. In reality this would mean that, within the Beeston Special Expenses Area, the combined effect of the two council tax elements would produce an increase of £4.99 per band D dwelling whilst the other parts of the borough would show an increase of £5.00.

6. Council Tax

The Local Authorities (Conduct of Referendums) (Council Tax Increases) (England) Regulations 2012, provide that any shire district or borough council proposing an increase of 2.0% (or £5) or more in their council tax will need to provide the opportunity for local people to approve or veto the increase in a referendum. The Leader of the Council and Chair of the Finance and Resources Committee have been consulted, and it is proposed that the band D basic council tax amount be increased by £5 from £161.85 in 2019/20 to £166.85 in 2020/21.

The authority's share of the estimated surplus on the Council Tax element of the Collection Fund as at the end of 2019/20 is £64,986. After taking this into account, and the increase in the council tax base for 2020/21 as approved by the Committee on 9 January 2020, then a £5 increase in the basic council tax (per Band D property) amount equates to a council tax requirement (excluding the special expenses area) of £5,679,431 in 2020/21 and would require an overall withdrawal from balances totalling £1,137,316.

APPENDIX 4

RESOURCES ALLOCATION - CAPITAL PROGRAMME 2020/21 TO 2022/23

1. Summary of proposals

The Council's policy committees considered capital submissions for the three years 2020/21 to 2022/23, of which some are recommended to proceed immediately since funding resources are in place whilst others are awaiting confirmation of receipt of funding. Details are given in the reports to the committees as to which schemes are to proceed immediately and which are on hold until the funding is received or the Finance and Resources Committee makes a decision to allow the scheme to start and recommends a reduction in reserves or increase in borrowing.

The capital submissions as recommended by the policy committees and the methods of financing the 2020/21 programme are summarised below.

	General Fund £	**HRA £**
Draft Capital Programme 2020/21		
Housing	796,850	9,497,300
Community Safety	0	
Jobs and Economy	246,400	
Leisure and Health	2,619,500	
Environment and Climate Change	982,000	
Finance & Resources	9,210,000	
TOTAL	**13,854,750**	**9,497,300**
Anticipated Funding:		
HRA Depreciation (Major Repairs Reserve)		4,166,200
Better Care Fund (Disabled Facilities Grants)	796,850	
Usable Capital Receipts (estimate)	2,384,500	3,500,000
Prudential Borrowing	7,713,500	0
Revenue Contributions	0	1,831,100
Other Grants	806,000	
Shortfall/(surplus)	2,153,900	
TOTAL	**13,854,750**	**9,497,300**

Capital contingencies of £55,000 (General Fund) and £27,900 (HRA) have been allowed for in the above table.

2. Capital Programme

The Local Government Act 2003 requires local authorities to comply with the Prudential Code for Capital Finance in Local Authorities published by the Chartered Institute of Public Finance and Accountancy (CIPFA) when carrying out their capital budgeting activities. The objectives of the Prudential Code are to ensure that the capital investment plans are affordable, prudent and sustainable. A fundamental part of the Code is the calculation of a number of 'prudential indicators' that form the framework for capital financing and spending decisions. Further details can be found in Appendix 7.

The Local Authority (Capital Financing and Accounting) (England) (Amendment) regulations 2008 place a duty on local authorities to make a prudent provision for the repayment of debt. This is known as the Minimum Revenue Provision (MRP). Further details can be found in Appendix 8.

3. Capital Grants and Contributions

The only proposed capital schemes for 2020/21 to 2022/23 that are likely to be funded from capital grants are Disabled Facilities Grants (DFG). Government allocations towards is channelled through the Better Care Fund, which is administered by Nottinghamshire County Council. The funding for 2020/21 to 2022/23 is assumed to be £796,850 per annum.

As disabled adaptations work is demand-led, further capital commitments may be required. Requests for these will be brought forward to the Finance and Resources Committee for consideration along with details as to how these can be funded if and when they arise.

The capital programme 2020/21 includes a £1,050,000 scheme for a new full size 3G football pitch and car park at Kimberley Leisure Centre. This assumes external contributions of £650,000 from the Nottinghamshire Football Association and £50,000 from Liberty Leisure. However, the scheme would require the Council to contribute £350,000 and would not proceed until a source for this could be identified, even if the external contributions were realised.

The capital programme 2020/21 also includes an £80,000 scheme for a PRAMA studio at Kimberley Leisure Centre. This assumes an external contribution of £40,000 from Liberty Leisure with the Council contributing the other £40,000. This scheme will also not proceed until a source for the Council's contribution can be identified.

The capital programme 2020/21 also includes a £22,000 scheme for electrical, roof, window and drainage works at Kimberley Leisure Centre. This assumes an external contribution of £11,000 from Kimberley School with the Council contributing the other £11,000. As with the new full size 3G football pitch and car park and the PRAMA studio, this scheme will not proceed until a source for the Council's contribution can be identified.

The capital programme 2020/21 is also based upon contributions from organisations such as FCC Communities Foundation (formerly known as WREN) to fund improvement works at parks and recreation grounds.

4. Capital Receipts for 2020/21

In 2012/13 the authority committed to using any capital receipts from housing right to buy sales towards a new build programme, with government restrictions such that these monies have to be used within 3 years of their receipt or they will be passed over to the government. The calculation of the value of such receipts that can be used in this way is complicated by a formula which takes into account the assumed level of receipts within the HRA self financing settlement which took place at the end of 2011/12. As at the end of December 2019 accumulated usable capital receipts of approximately £4,467,450 were calculated as being available. These will be used to finance the housing new build programme and acquisition of properties as set out in the Housing Delivery Plan.

A capital receipt of in excess of £2m from the sale for residential development of part of the Council's land in Beeston is expected in May 2020 and this will be used to help finance the Beeston Town Centre Redevelopment scheme.

Further capital receipts are anticipated following the acquisition by NET of a number of retail businesses in The Square which are owned by the Council but which were on a long term lease to Henry Boot. No assumptions have been made with regards to either the value or timing of such receipts that may subsequently be received.

4. Revenue Contributions

Revenue contributions can be used to finance capital expenditure. In 2020/21 the only revenue contribution that is proposed relates to the HRA and this is in line with proposals contained within the HRA revenue budget and the HRA business plan model. No General Fund revenue contributions are proposed.

5. Borrowing

A revenue contribution from the HRA of £1,831,100 and a contribution of £4,166,200 from the Major Repairs Reserve along with HRA capital receipts of £3,500,000 are proposed in 2020/21 to finance the HRA capital programme. There is no planned borrowing in 2020/21 to meet the proposed HRA capital programme which can be funded in full from revenue contributions and capital receipts. The nature of the HRA is that no Minimum Revenue Provision (MRP) has to be provided on borrowing but it has to be affordable. Appendices 6 and 7 outline the MRP policy and various prudential indicators which can be used to help judge the affordability of any such borrowing.

In respect of General Fund capital schemes, there is a funding shortfall in 2020/21 of £2,153,900 as shown in section 1 above. The options for addressing this shortfall are as follows:

- Reducing the size of the programme.
- Using existing reserves (i.e. funding the schemes directly from revenue resources)
- Borrowing
- Creating a reserve list for schemes to be brought forward as and when funding becomes available.

The programme has been compiled in accordance with the Capital Strategy 2020/21 – 2022/23 set out in appendix 5. All of the proposed schemes meet the required criteria and are deemed either essential or beneficial in reducing revenue costs or increasing income (invest to save schemes). Therefore there are no grounds for reducing the size of the programme although some re-phasing may be possible.

The Council has sufficient reserves to meet the costs of the programme in full. However, on the basis of the proposals presented in this report, this would reduce the level of reserves to below the required £1.5m balance on the General Fund by 2023/24. More detail on the reserves position in the medium term is provided in Appendix 8.

It is therefore proposed to meet part of the shortfall by prudential borrowing and to place the remaining schemes on a reserve list. The following schemes are proposed to be financed from borrowing in 2020/21:

Scheme	**Proposed borrowing 2020/21 £**
Replacement Vehicles and Plant	738,500
Replacement/Development Programme	90,000
Technical Infrastructure Architecture	150,000
E-Facilities Initiatives	40,000
Beeston Town Centre Redevelopment	6,695,000
Total	**7,713,500**

The level of financial reserves available to the Council indicates that the borrowing can potentially be financed from internal sources (subject to cash flow considerations). As returns on investment are currently lower than external borrowing rates, internal borrowing will be more cost-effective than external borrowing at this point in time.

Depending on the date at which the loans are raised this will have a part year impact in 2020/21 and a full year impact from 2021/22 onwards. The costs of any additional borrowing required to finance the Capital Programme 2020/21 will need to be met from the General Fund budget for 2020/21.

The following schemes are contained within the Capital Programme 2020/21 but are awaiting funding:

Proposed scheme	£
Car Parks - Resurfacing	25,000
Mushroom Farm – New Industrial Units	246,400
BLC – Main Pool Filter Media Replacement	15,000
BLC – Refurbishment of Fitness Changing Rooms	38,500
BLC – Replacement of Teaching Pool Filter	25,000
BLC – Replacement of Flat Roofs	176,000
BLC – Replacement Heating Valves	22,500
BLC – Replacement of Teaching Pool Windows	33,000
BLC – Replacement of Main Pool Windows	93,500
BLC – Replacement Hot Water Calorifier	20,000
BLC – Replacement Intruder Alarm	20,000
BLC – Refurbishment of Pool Surrounds	80,000
BLC – Replacement of High Voltage Transformer	57,000
KLC – Electrical, Roof, Window and Drainage Works	11,000
KLC – New Full Size 3G Football Pitch and Car Park	350,000
KLC – PRAMA Studio	40,000
KLC – Reconfigure Gyms and Studios	70,000
KLC – Replacement Pool Circulation and Shower Pumps	12,000
KLC – Extension of Gym Changing facilities	330,000
KLC – Replacement of Suspended Ceilings and Floors	18,000
KLC – Repaint Car Park Lines and Customer Walkways	8,500
KLC – Spinning Studio Conversion	30,500
KLC – Replace Pipework (Plant Room to Swimming Pool)	275,000
KLC – Renewal of Intruder Alarm Sensors	8,500
CO – Refurbishment of Male Changing Rooms	74,500
Cemeteries - Footpath and Roadway Impts	30,000
Asset Management - Programmed Maintenance	44,000
Total	**2,153,900**

APPENDIX 5

CAPITAL STRATEGY 2020/21 – 2022/23

1. Introduction

The Capital Strategy is intended to provide a high–level overview of how the Council's capital expenditure, capital financing and treasury management activity contribute to the provision of services to the residents of Broxtowe along with an overview of how associated risk is managed and the implications for future financial sustainability.

The Capital Strategy should be considered in conjunction with the following appendices that form part of this report:

- Treasury Management Strategy Statement 2020/21 – 2022/23 (appendix 6)
- Investments Strategy 2020/21 - 2022/23 (appendix 7)

Decisions made this year on capital and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory framework and a local policy framework, summarised in this report.

2. Background

The Capital Strategy is intended to ensure that decisions about capital spending are taken in alignment with agreed corporate priorities and make the best use of scarce resources. It has been developed in conjunction with the Council's Corporate Plan, ICT Strategy, Asset Management Strategy and People Strategy and seeks links to other approved strategies and policies .

The Council will have regard to the following in determining its capital expenditure plans::

- Corporate objectives (e.g. strategic planning)
- Stewardship of assets (e.g. asset management planning)
- Value for money (e.g. appraisal of options)
- Prudence and sustainability (e.g. implications for external borrowing and whole life costing)
- Affordability (e.g. implications for long–term resources and ultimately on the level of council tax)
- Practicality (e.g. the achievability of the Corporate Plan)

The production of the capital programme will be based upon the following eight core principles:

(i) All assets will be periodically reviewed to determine whether they remain fit for purpose
(ii) Asset management systems will be used to increase the proportion of expenditure on planned as opposed to reactive maintenance and to determine appropriate levels of contingency in each planning period
(iii) Capital expenditure, particularly in respect of investment in commercial assets, will be undertaken within the context of the Council's defined risk appetite and adopted priorities
(iv) The decision to procure or build new assets will take into account the full revenue implications of the life cycle of the asset
(v) Income from asset disposals will be retained centrally for the funding of future capital programmes
(vi) Capital submissions produced by departments will be included in the third year of the three-year rolling capital programme unless they meet the specific criteria outlined above.
(vii) Capital submissions will be reviewed by the Council's Section 151 Officer in conjunction with General Management Team (GMT) using a pre-determined scoring matrix set out in the submission template
(viii) Borrowing will only be pursued as an option for financing capital expenditure after all other potential financing options have been considered

The capital programme is a three-year rolling programme with new submissions, based upon an agreed template, accepted only for year three unless they meet the following criteria:

- The project has health and safety implications which must be addressed as a priority or is a statutory requirement
- The project generates more income over time than the investment required (an "invest to save" project)
- The project is required to match income from external sources that would otherwise be lost

Unforeseen factors may arise will require schemes to be swiftly incorporated within the capital programme. These schemes will be subject to the same appraisal process set out above and will be funding will be assisted by the inclusion of suitable contingencies within the capital programme to avoid disrupting other planned capital schemes.

3. Capital Expenditure and Financing

Capital expenditure is where the Council spends money on assets (such as property, vehicles or equipment) that will be used for more than one year. In local government this includes expenditure on assets owned by other bodies and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion as to what to classify as capital expenditure and this is set out in its Accounting Policies.

Capital expenditure can be paid for immediately by applying capital resources, such as capital receipts or capital grants, or by using revenue resources. However, if these resources are insufficient then any residual expenditure will add to the Council's borrowing need.

The following table summarises the three-year capital programme as presented to the Finance and Resources Committee on 13 February 2020 along with the intended financing:

Capital Expenditure	2018/19 Actual £'000	2019/20 Revised £'000	2020/21 Estimated £'000	2021/22 Estimated £'000	2022/23 Estimated £'000
General Fund	2,767	7,731	13,855	2,842	2,009
Housing Revenue Account	5,696	7,304	9,497	9,818	7,333
Total	**8,463**	**15,035**	**23,352**	**12,660**	**9,342**
Financed by:					
Borrowing – GF	388	4,052	7,713	1,625	761
Borrowing - HRA	0	0	0	0	0
Major Repairs Reserve	3,904	4,191	4,166	4,166	4,166
United Living	5	3	0	0	0
Tesco	1	0	0	0	0
Capital Receipts – GF	797	1,818	2,385	110	151
Capital Receipts - HRA	0	1,333	3,500	3,900	1,500
Direct Revenue Financing - GF	157	17	0	0	0
Direct Revenue Financing - HRA	1,784	1,508	1,831	1,752	1,667
Better Care Fund	907	1,098	797	797	797
Liberty Leisure	0	0	90	0	0
Section 106 receipts	89	200	0	0	0
Kimberley School	0	0	11	0	0
Notts County Council	250	0	0	0	0
Notts Pre-Development Fund	115	0	0	0	0
Ministry of Housing, Communities and Local Government	0	33	0	0	0
Notts FA	0	0	650	0	0
D2N2 LEP	0	592	0	0	0
Homes England	0	20	0	0	0
FCC (ex WREN)	57	144	50	0	75
Insurance Settlement	0	25	0	0	0
Other Bodies	9	1	5	0	0

Total	**8,463**	**15,035**	**21,198**	**12,660**	**9,117**
Shortfall still to be funded	**0**	**0**	**2,154**	**310**	**225**

One of the key risks to the capital expenditure plans above is the level of resources available within the HRA to support capital expenditure. The HRA business plan model update to be reported to the Housing Committee on 3 June 2020 demonstrates that this should not be a major risk over the three year period, particularly in view of the availability of capital receipts from right to buy sales and the greater freedom to borrow following the abolition of the "debt cap".

Similarly, a risk to General Fund capital expenditure plans is that some of the estimates for other sources of funding may also be subject to change over this timescale. The table above, for example, assumes there are limited capital receipts available to finance General Fund capital expenditure from 2020/21 to 2022/23 other than the sum in excess of £2,000,000 from the sale for residential development of part of the Council's land in Beeston expected in May 2020.

Further capital receipts are anticipated following the acquisition by NET of a number of retail businesses in The Square which are owned by the Council but which were on a long term lease to Henry Boot. This matter is being progressed in conjunction with the Council's advisors. No assumptions have been made with regards to either the value or timing of any further receipts that may subsequently be received.

The Council's land and property holdings will continue to be reviewed in line with a new Asset Management Strategy to be produced that will, among other things, seek to identify opportunities to bring forward recommendations to dispose of or make alternative use of surplus assets.

It is anticipated that borrowing of £7,713,500 will be undertaken to finance General Fund capital expenditure in 2020/21 with further borrowing of £1,625,000 in 2021/22 and £761,000 in 2022/23. The primary factor behind this will be the need to finance the £12,876,300 Beeston Town Centre Redevelopment scheme.

The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives may sometimes be conflicting and the Council therefore seeks to strike a balance between cheap short-term loans (currently available between 0.75% and 1.0%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0% to 3.0%).

The tight revenue situation is such that it has been assumed that the capital programme from 2020/21 will be revisited and re-aligned as far as possible to tie into available capital resources in order to minimise the level of prudential borrowing required.

4. The Capital Financing Requirement

The Capital Financing Requirement (CFR) represents the Council's underlying need to borrow for capital purposes. It is the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. The CFR will change each year in accordance with the value of the approved capital programme and the financing available. The capital expenditure above which has not been financed from available internal resources or from grants or third party contributions will increase the CFR.

	2019/20 Revised	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**
Capital Financing Requirement	**£'000**	**£'000**	**£'000**	**£'000**
CFR – General Fund	21,540	28,426	28,826	28,274
CFR – HRA	81,435	81,435	81,435	81,435
Total CFR – 31 March	**102,975**	**109,861**	**110,261**	**109,709**
Movement in CFR represented by:				
Borrowing need for the year	4,052	7,713	1,625	761
MRP/VRP and other financing movements	(697)	(827)	(1,225)	(1,313)
Movement in CFR	**3,355**	**6,886**	**400**	**(552)**

5. Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's needs whilst managing the risks involved. Surplus cash is invested until required whilst an anticipated shortage of cash is met by borrowing in order to avoid an overdraft in the Council's bank current account.

The Council usually has surplus cash available in the short-term as revenue income is normally received before it is spent but can have a cash deficit in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

i) Borrowing Strategy

The Council's main objectives when borrowing are to achieve a low but certain cost of finance whilst retaining flexibility should plans change in the future. These objectives are often conflicting and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0% to 3.0%).

Projected levels of the Council's total borrowing when compared with the capital financing requirement are shown in the table below.

	2018/19 Actual	2019/20 Revised	2020/21 Estimate	2021/22 Estimate
	£'000	£'000	£'000	£'000
Gross Borrowing				
- PWLB and Market	96,789	97,780	105,483	107,096
- Bramcote Crematorium	512	303	486	501
Net Borrowing – 31 March	**97,301**	**98,083**	**105,969**	**107,597**
Capital Financing Requirement				
CFR – General Fund	18,185	21,540	28,426	28,826
CFR – HRA	81,435	81,435	81,435	81,435
Total CFR – 31 March	**99,620**	**102,975**	**109,861**	**110,261**

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen in the above table, the Council expects to comply with this in the medium term.

ii) Affordable Borrowing Limit

The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should borrowing approach this limit.

	2019/20 Revised	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
	£'000	£'000	£'000	£'000
Authorised Limit for Borrowing	123,900	133,200	135,500	136,400
Operational Boundary for External Debt	99,100	106,550	108,400	109,100

The authorised limit and operational boundary as set out above assume that the Council will not be entering into any private finance initiatives or leases over the period shown. The Council presently has no plans to enter into such arrangements.

iii) Treasury Investment Strategy

Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Council's policy on treasury investments is to prioritise security and liquidity over yield. In other words, the objective is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the short-term is invested securely with, for example, the government, other local authorities or selected high-quality banks to minimise the risk of loss. Money that will be held for the long-term is invested more widely to balance the risk of loss against the risk of receiving returns below inflation. Both short-term and long-term investments may be held in pooled funds where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

The table below highlights the expected change in investment balances.

	2019/20 Revised	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
	£'000	£'000	£'000	£'000
Investments at 1 April	14,680	15,000	13,300	12,000
Expected Change in Investments	320	(1,700)	(1,300)	(1,500)
Investments at 31 March	15,000	13,300	12,000	10,500

iv) Risk Management

The effective management and control of risk are prime objectives of the Council's treasury management activities. The Treasury Management Strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

v) Governance

Decisions on treasury management investment and borrowing are made daily and are delegated to the Deputy Chief Executive and Section 151 Officer and colleagues who must act in accordance with the Treasury Management Strategy approved by Finance and Resources Committee. Reports on treasury management activity are also presented to the Finance and Resources Committee whose members are responsible for scrutinising treasury management decisions.

6. Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and minimum revenue provision (MRP) are charged to revenue albeit offset by investment income receivable. The net annual charge is known as financing costs and is compared to the net revenue stream (ie, the amount funded from council tax, business rates and general government grants).

	2018/19 Actual	2019/20 Revised	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
General Fund	10.7%	12.3%	14.2%	18.8%	19.5%
HRA	15.1%	14.7%	14.9%	14.5%	14.2%

The estimates of financing costs reflect current commitments and the proposals in the revenue and capital budget reports elsewhere on the agenda.

The indicators for the General Fund rise significantly from 2021/22 to reflect the increase in MRP following the additional borrowing required to finance the Beeston Town Centre Redevelopment scheme.

The reduction in the indicators for the HRA from 2020/21 to 2022/23 are a reflection of the fact that no borrowing is planned to finance capital expenditure over the period and rents will be increased by the consumer price index (CPI) plus 1% from 2020/21.

Overall, the Council intends to undertake a prudent level of borrowing to support the capital programme during the period covered by its medium term financial plans.

7. Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the following individuals all hold the Chartered Institute of Public Finance and Accountancy (CIPFA) professional accountancy qualification:

- Deputy Chief Executive and Section 151 Officer
- Head of Finance Services
- Chief Accountant
- Chief Audit and Control Officer

The Council also pays for staff to study towards this and other relevant qualifications such as those administered by the Association of Accounting Technicians (AAT).

Where Council staff do not have the knowledge and skills required, use is made of external advisors and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisors. The present contract with Arlingclose to provide this service was initially for the three years and commenced on 1 April 2014. This contract has been extended on a 12 month rolling basis and is currently due to expire on 31 March 2020. An exercise is to be undertaken to establish the service provider from 1 April 2020.

The services currently provided by Arlingclose include:

- technical support on treasury matters and capital finance issues
- economic and interest rate analysis
- debt services (including advice on the timing of borrowing)
- debt rescheduling advice surrounding the existing portfolio
- generic investment advice on interest rates etc.
- credit ratings/market information service comprising the three main credit rating agencies

Whilst the treasury management advisors provide support to the internal treasury function, the current market rules and the CIPFA Treasury Management Code confirms that the final decision on treasury management matters rests with the Council.

APPENDIX 6

TREASURY MANAGEMENT STRATEGY STATEMENT 2020/21 to 2022/23

1. Introduction

Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

Investments are addressed separately in the Investments Strategy 2020/21 to 2022/23 as set out in appendix 7 of this report.

For the purpose of setting the 2020/21 budget, it has been assumed that new treasury management investments will be made at an average rate of 0.75%, and that new borrowing will be short-term loans at an average rate of 1.00%.

2. Current Debt and Investment Position

The Council's current debt and investment position is as follows:

		Actual at 31 December 19	Estimate at 31 March 20
		£'000	**£'000**
Fixed Rate Debt	PWLB	79,779	79,769
	Market	3,000	3,000
Variable Rate Debt	PWLB	5	11
	Market	11,000	15,000
	Crematorium	583	303
Total Debt		**94,367**	**98,083**
Total Investments		**(23,390)**	**(15,000)**
Net Borrowing		**70,977**	**83,083**

The fixed rate debt shown above consists of fixed rate loans totalling £79.78m from the PWLB that are due to be re-paid in at least one years' time and a loan of £3.0 million at 4.19% from Barclays Bank that is due to mature on 4 February 2073.

The variable rate debt shown above relates to fixed rate loans from the PWLB, other public sector bodies or other institutions that are due to mature within one year and therefore likely to be replaced by further loans but at a different rate of interest from the current rate.

The crematorium debt relates to surplus cash balances of the Bramcote Crematorium that the Council invests on its behalf to generate a suitable return. This fluctuates in accordance with the Bramcote Crematorium's cash inflows and outflows. There is no other variable rate debt.

The Council's existing debt portfolio (including Bramcote Crematorium) is estimated to total £98.1 million at 31 March 2020 as shown above. The optimum debt level for the Council as defined by the CFR is estimated at £103.0 million at 31 March 2020 and therefore the estimated level of borrowing is below the optimum level.

As set out in section 4 below, the Council is permitted to borrow in advance of need given that certain criteria are met. The Council has loans totalling £15.0 million that are due to mature within the next 12 months. These loans may not necessarily be replaced with loans of a similar value when they mature and whether or not they are replaced will in part depend upon the Council's cashflow position at the time. In addition, the Council has a loan of £3.0 million that will not mature within the next 12 months. This loan is from Barclays Bank at an interest rate of 4.19% and is due to mature on 4 February 2073.

The majority of the investments should be regarded as the investment of the Council's revenue reserves, including the General Fund balance and the HRA balance, provisions and unapplied capital contributions.

3. Capital Financing Requirement

The Capital Financing Requirement (CFR) represents the Council's underlying need to borrow for capital purposes. It is the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. The CFR will change each year in accordance with the value of the approved capital programme and the financing available. The capital expenditure above which has not been financed from available internal resources or from grants or third party contributions will increase the CFR.

	2019/20 Revised	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital Financing Requirement	**£'000**	**£'000**	**£'000**	**£'000**
CFR – General Fund	21,540	28,426	28,826	28,274
CFR – HRA	81,435	81,435	81,435	81,435
Total CFR – 31 March	**102,975**	**109,861**	**110,261**	**109,709**
Movement in CFR represented by:				
Borrowing need for the year	4,052	7,713	1,625	761
MRP/VRP and other financing movements	(697)	(827)	(1,225)	(1,313)
Movement in CFR	**3,355**	**6,886**	**400**	**(552)**

The Authority has an increasing CFR over the period shown due to the capital programme. The Council's current strategy is to maintain borrowing and investments below their underlying levels. This is sometimes referred to as "internal borrowing".

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. The table below shows that the Council met this requirement in 2018/19 and is also expected to comply with this requirement in the following three years.

	2018/19 Actual	2019/20 Revised	2020/21 Estimate	2021/22 Estimate
	£'000	**£'000**	**£'000**	**£'000**
Gross Borrowing				
- PWLB and Market	96,789	97,780	105,483	107,096
- Bramcote Crematorium	512	303	486	501
Net Borrowing – 31 March	**97,301**	**98,083**	**105,969**	**107,597**
Capital Financing Requirement				
CFR – General Fund	18,185	21,540	28,426	28,826
CFR – HRA	81,435	81,435	81,435	81,435
Total CFR – 31 March	**99,620**	**102,975**	**109,861**	**110,261**

4. Borrowing Strategy

The Council currently holds £98.1million of loans, an increase of £0.8 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Council plans to borrow £7.7 million in 2020/21. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £133.2 million.

i) Objectives

The Councils primary objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

ii) Strategy

Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

Using internal resources or borrowing on a short-term basis allows the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of using internal resources short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. The Council's treasury management advisors will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2020/21 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Council has previously raised the majority of its long-term borrowing from the PWLB but the government increased PWLB rates by 1% in October 2019 making it now a relatively expensive options. The Council will now look to borrow any long-term loans from other sources including banks, pensions and local authorities in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

Alternatively, the Council may arrange forward starting loans where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Council may borrow further short-term loans to cover unplanned cash flow shortages.

iii) Sources of Borrowing

The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

iv) Other Sources of Debt Finance

Capital finance may also be raised by the following methods which, whilst they are not borrowing, may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

v) Municipal Bonds Agency

UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for the following reasons:

(a) borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason
(b) there will be a lead time of several months between committing to borrow and knowing the interest rate payable

Any decision to borrow from the Municipal Bonds Agency will therefore be the subject of a separate report to the Finance and Resources Committee.

vi) Short-Term and Variable Rate Loans

These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

vii) Debt Rescheduling

The PWLB allows local authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

5. Investment Strategy

The Council holds significant investments, representing income received in advance of expenditure plus balances and reserves held. Since April 2019, the Council's investment balance has ranged between £13.24million and £25.03 million and similar levels are expected to be maintained in the forthcoming year.

i) Objectives

The CIPFA Code requires the Council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest rate of return (or yield). The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation in order to maintain the spending power of the sum invested.

ii) Negative Interest Rates

If the United Kingdom enters into a recession in 2020/21, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

iii) Strategy

Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to further diversify into more secure and/or higher yielding asset classes during 2020/21. This is especially the case for the estimated £8.0 million that is available for longer-term investment. The majority of the Council's surplus cash is currently invested in short-term unsecured bank deposits and money market funds. This diversification will represent a continuation of the strategy followed in 2019/20.

iv) Business Models

Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

v) Approved Counterparties

The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Government	N/A	N/A	Unlimited 50 Years	N/A	N/A
AAA	£5m 2 Years	£5m 5 Years	£5m 2 Years	£5m 2 Years	£5m 2 Years
AA+	£5m 2 Years	£5m 5 Years	£5m 2 Years	£5m 2 Years	£5m 2 Years
AA	£5m 2 Years	£5m 5 Years	£5m 2 Years	£5m 2 Years	£5m 2 Years
AA-	£5m 2 Years	£5m 5 Years	£5m 2 Years	£5m 2 Years	£5m 2 Years
A+	£5m 2 Years	£5m 5 Years	£5m 2 Years	£5m 2 Years	£5m 2 Years
A	£5m 13 Months	£5m 2 Years	£5m 5 Years	£5m 2 Years	£5m 5 Years
A-	£5m 6 Months	£5m 13 Months	£5m 13 Months	£5m 13 Months	£5m 13 Months
Unrated (UK Local Authorities)	N/A	N/A	£5m 2 Years	N/A	N/A
Pooled Funds and REITS	£5m per Fund				

vi) Credit Rating

Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings and all other relevant factors, including external advice, will be taken into account.

vii) Counterparty Types

The counterparty types are defined as follows:

a. Banks Unsecured

These are accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies (other than multilateral development banks). These investments are subject to the risk of credit loss via a "bail-in" should the regulator determine that the bank is failing or likely to fail. Arrangements relating to operational bank accounts are set out below.

b. Banks Secured

These are covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency and means that they are exempt from "bail-in". Where there is no investment specific credit rating but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

c. Government

This includes loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to "bail-in" arrangements and, whilst there is generally a lower risk of insolvency, they are not "zero risk". Investments with the UK Central Government may be made in unlimited amounts for up to 50 years. Investments with UK local authorities are limited per authority to £5m and 2 years.

d. Corporates

These are loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to "bail-in" but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk more widely.

e. Registered Providers

These are loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing and, as providers of public services, they retain the likelihood of receiving government support if needed.

f. Pooled Funds

These are shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term money market funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Since these funds have no defined maturity date but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

g. Real Estate Investment Trusts (REITs)

These are shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term but are more volatile, especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

viii) Operational Bank Accounts

The Council may incur operational exposures, for example, though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank "bail-in" and balances will therefore be kept below £10,000,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be "bailed-in" than made insolvent, increasing the chance of the Council maintaining operational continuity.

ix) Risk Assessment and Credit Ratings

Credit ratings are obtained and monitored by the Council's treasury management advisors who will notify the Council if changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

x) Other Information on the Security of Investments

The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management advisor. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills or with other local authorities. This will cause a reduction in the level of investment income earned but will protect the principal sum invested.

xi) Investment Limits

The Council's revenue reserves available to cover investment losses are forecast to be £5.043 million on 31 March 2020. In order to ensure that available revenue reserves are not put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5.0 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

	Cash limit
Any single organisation, except the UK Central Government	£5.0m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£5.0m per group
Any group of pooled funds under the same management	£5.0m per manager
Registered providers and registered social landlords	£5.0m in total
Unsecured investments with building societies	£10.0m in total
Money market funds	£20.0m in total
Real estate investment trusts	£5.0m in total

xii) Liquidity Management

The Council uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial strategy and cash flow forecast.

6. Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators:

i) Security

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit Risk Indicator	**Target**
Portfolio Average Credit Rating	A-

ii) Liquidity

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

Liquidity Risk Indicator	**Target**
Total cash available within 3 months	£10m

iii) Interest Rate Exposures

This indicator is set to control the Council's exposure to interest rate risk. The [upper limits on the one-year revenue impact of a 1% rise or fall in interest rates] will be:

Interest rate risk indicator	**Limit**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1,000,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1,000,000

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

iv) Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing Rate Risk Indicator	**Upper limit**	**Lower limit**
Under 12 months	50%	0%
12 months to 2 years	50%	0%
2 years to 5 years	50%	0%
5 years to 10 years	75%	0%
10 years to 20 years	100%	0%
20 years to 30 years	100%	0%
30 years to 40 years	100%	0%
40 years to 50 years	100%	0%
Over 50 years	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

v) Principal Sums Invested for Periods Longer than a Year

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price Risk Indicator	**2020/21 £000s**	**2021/22 £000s**	**2022/23 £000s**
Limit on principal invested beyond year end	8,000	8,000	8,000

7. Related Matters

The CIPFA Code requires the Council to include the following in its treasury management strategy.

i) Financial Derivatives

Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit.

ii) Housing Revenue Account (HRA)

The reforms of the HRA subsidy system mean that the Council has not had to pay an annual subsidy from the HRA to the government since 2011/12. However, the Council is required to recharge interest expenditure and income attributable to the HRA in accordance with Determinations issued by the Department for Communities and Local Government (DCLG).

The Determinations do not set out a methodology for calculating the interest rate to use. The Council is therefore required to adopt a policy that will set out how interest charges attributable to the HRA will be determined. The CIPFA Treasury Management Code recommends that the Council set out their policy in the Treasury Management Strategy Statement.

Whilst there are a number of different approaches for the apportionment of interest expenditure and income between the HRA and General Fund, the Council adopted the 'one pool' approach upon the commencement of HRA self-financing on 1 April 2012 and will continue to follow this approach in 2019/20. This involves having a single pool for all debt irrespective as to whether it arose pre or post HRA self-financing and whether or not debt can be explicitly attributed to either the HRA or the General Fund.

The ‘one pool’ approach is considered to be the easiest for the Council to manage from an administrative perspective and enables treasury risk to be managed for the Council as a whole.

Whilst the ‘one pool’ approach carries an element of interest rate risk as and when maturing debt needs to be replaced, given that HRA debt vastly exceeds General Fund debt and that no major debt replacement is anticipated for the new HRA debt within the first ten years, this risk is not considered to be significant.

Under the ‘one pool’ approach, interest on loans will be calculated in accordance with proper accounting practice. This will require interest to be apportioned between the HRA and the General Fund by applying the average interest rate on external debt to the relative HRA and General Fund CFRs.

Investment income will be apportioned to the HRA based upon the opening and closing HRA balances for the year and the interest rate used for calculating interest on loans.

iii) Markets in Financial Instruments Directive (MiFID)

The Council has opted up to professional client status with its providers of financial services (including advisors, banks, brokers and fund managers) allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council’s treasury management activities, the Deputy Chief Executive and Section 151 Officer believes this to be the most appropriate status.

8. Financial Implications

The budget for investment income in 2020/21 is £370,000 and includes both short and long-term investments. The budget for debt interest paid in 2020/21 is £3,064,500 based on a debt portfolio of short and long-term borrowing. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

9. Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Deputy Chief Executive and Section 151 Officer, having consulted the Chair of the Finance and Resources Committee, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed in the following table:

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

10. Minimum Revenue Provision Statement 2020/21

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 place a duty upon local authorities to make a prudent provision for debt repayment. This is known as Minimum Revenue Provision (MRP). The Council is also allowed to undertake additional Voluntary Revenue Provision (VRP) should it wish to do so. There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing but the Council may also choose to do this should it wish to.

Guidance on MRP has been issued by the Secretary of State and local authorities are required to "have regard" to this guidance under section 21 (1A) of the Local Government Act 2003.

The four MRP options available are:

Option 1 – Regulatory Method
Option 2 – Capital Financing Requirement (CFR) Method
Option 3 – Asset Life Method
Option 4 – Depreciation Method

MHCLG regulations require full council to approve an MRP Statement in advance of each year. Any subsequent changes in year also require full council approval. The proposed policy for 2020/21 is set out below:

MRP Policy 2020/21

For capital expenditure incurred before 1 April 2008, the General Fund MRP will continue to follow the CFR method (option 2) and be based upon 4% of the CFR at that date.

For all unsupported borrowing incurred from 1 April 2008, the General Fund MRP will be based upon the estimated life of the assets which this borrowing is intended to finance (option 3).

No voluntary MRP is to be charged to the HRA in 2020/21. However, it is anticipated that the updated 30 year HRA business plan as presented to this meeting will allow the £66.446 million debt taken as part of the move to HRA self-financing to be re-paid by 2049/50.

11. Local Performance Indicators

The CIPFA Treasury Management Code requires the Council to set local indicators to assess the performance of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators which are predominantly forward looking. Indicators should be considered within set risk parameters. Examples of performance indicators often used for the treasury function are:

- Borrowing – average rate of borrowing for the year compared with the average available
- Borrowing – average rate movement year on year
- Investments – Internal returns above the 7 day London Interbank Bid Rate (LIBID)
- Investments – average credit risk score of counterparties with whom interim investments have been placed
- Investments – average days to maturity of investments

Further details will be included in monitoring statements presented to the Finance and Resources Committee and in the mid-year and annual treasury management reports.

12. Conduct of Operations

All treasury management operations will be conducted in accordance with the Council's Treasury Policy Statement, Treasury Management Practice Notices and associated systems documentation. Monitoring reports will be included in the mid-year and annual treasury management reports.

13. Money Market Brokers

In accordance with the Council's Treasury Management Practice Notices, the majority of investments are made primarily via direct dealing with counterparties.

The external money market brokers to be used from 13 February 2020 are:

Tradition (UK) Ltd
Beaufort House
15 St Botolph Street
London
EC3A 7QX

Sterling International Brokers
1 Churchill Place
Canary Wharf
London
E14 5RD

Martins Brokers (UK) Ltd
20th Floor
1 Churchill Place
Canary Wharf
London
E14 5RD

King and Shaxson Ltd
6th Floor
120 Cannon Street
London
EC4N 6AS

Imperial Treasury Services
25 St Andrew Street
Hertford
SG14 1HZ

Whilst the treasury management advisors provide support to the internal treasury function, the current market rules and the CIPFA Treasury Management Code confirms that the final decision on treasury management matters rests with the Council. The service provided by the Council's treasury management advisors is subject to regular review.

14. Member and Officer Training

The increased member consideration of treasury management matters and the need to ensure that officers dealing with treasury management are trained and kept up to date requires a suitable training process for members and officers. The Council will address this important issue by:

- facilitating workshops for members on finance issues as part of the Member Development Programme
- identifying officer training needs on treasury management related issues through the Performance Development and Review (PDR) appraisal process
- officer attendance at training events, seminars and workshops
- support from the Council's treasury management advisors

15. On-Line Banking

As technology advances, the range of facilities available for undertaking financial transactions increases. These facilities include on line banking and other internet based systems. These will continue to be examined carefully to assess whether they would be suitable for some of the Council's banking and treasury management transactions.

APPENDIX 6a

TREASURY MANAGEMENT POLICY STATEMENT

1. This Council defines its treasury management activities as:
“The management of the Council’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

2. This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.

3. This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

4. The Council will adopt a flexible approach to any borrowing that it may need to undertake in consultation with its treasury management advisors. All borrowing decisions will give appropriate consideration to:

   - affordability
   - maturity profile of existing debt
   - interest rate and refinancing risk
   - source of borrowing

5. All investment decisions made by the Council will seek to ensure that sums invested remain secure and that there is sufficient liquidity of investments to provide the Council with the necessary cash resources to allow the Council to carry out its functions at all times. Only after fulfilling the security and liquidity objectives will the Council seek to achieve the maximum return on these investments.

APPENDIX 6b

LIST OF CURRENTLY APPROVED COUNTERPARTIES FOR LENDING (as at 27 January 2020)

UK BANKS	**Short term**	**Long term**	**Short term**	**Long term**	**Short term**	**Long term**		
BANCO SANTANDER GROUP - Santander UK Plc	F1	A+	P-1	Aa3	A-1	A	£5m	£7.5m
Close Brothers Ltd	F1	A	P-1	Aa3			£5m	
Goldman Sach's International Bank	F1	A	P-1	A1	A-1	A+	£5m	
Handelsbanken PLC	F1+	AA			A-1+	AA-	£5m	
HSBC GROUP - HSBC Bank Plc - HSBC Bank UK PLC	. F1+	A+	P-1	Aa3	A-1+	AA-	£5m	
LLOYDS BANKING GROUP - Bank of Scotland Plc - Lloyds Bank	F1 F1	A+ A+	P-1 P-1	Aa3 Aa3	A-1 A-1	A+ A+	£5m £5m	£7.5m
Barclays Bank	F1	A+	P-1	A1	A-1	A	£5m	
Standard Chartered Bank	F1	A+	P-1	A1	A-1	A	£5m	
RBS GROUP - Royal Bank of Scotland - National Westminster Bank	F1 F1	A+ A+	P-1 P-1	A1 A1	A-1 A-1	A A	£5m £5m	£7.5m
UK BUILDING SOCIETIES								
Coventry Building Society	F1	A-	P-1	A2			£5m	
Leeds Building Society	F1	A-	P-2	A3			£5m	
Nationwide Building Society	F1	A+	P-1	Aa3	A-1	A	£5m	
OTHERS								
Debt Management Office (UK sovereign ratings)	F1+	AA		Aa2	A-1+u	AAu		
CCLA								£7.5m
Local authorities							£5m per LA	

Money Market Funds (AAA – rated)								£5m per MMF	
Variable Net Asset Value (VNAV) pooled funds								£5m per Fund	

APPENDIX 7

INVESTMENTS STRATEGY 2020/21 to 2022/23

1. Introduction

The Council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities. For example, when income is received in advance of expenditure (known as **treasury management investments**)
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

2. Treasury Management Investments

The Council typically receives its income in cash (such as from taxes, grants and fees) before it pays for its expenditure in cash (such as the monthly payroll or the payment of invoices from suppliers). It also holds reserves for future expenditure [and collects local taxes on behalf of other local authorities and central government].

The activities outlined above, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA). The balance of treasury management investments is expected to fluctuate between £13.0m and £25.0m during the 2020/21 financial year.

The contribution that treasury management investments make to the Council's priorities is to support effective treasury management activities. The Council's approach to treasury management investments is set out in the Treasury Investments Strategy that forms part of the Capital Strategy 2020/21-2022/23 in appendix 5.

3. Service Investments

Service investments can be in either loans or shares. Further details of the approach adopted by the Council are as follows:

(i) Loans

The Council does not lend money to any subsidiaries, suppliers, local businesses, local charities, housing associations or local residents to support local public services or stimulate local economic growth. The Council does, however, provide “soft” loans to some employees through a car loan scheme. The balance outstanding on these at 31 March 2019 was £92,983 and the interest paid by employees totals around £1,000 per annum. Monthly deductions for both principal and interest are made from the salaries of the employees with these loans and any risk of default is considered to be minimal.

(ii) Shares.

The Council does not invest in the shares of subsidiaries, suppliers and businesses to support local public services or stimulate economic growth.

The Council does, however, have a wholly owned Local Authority Trading Company (LATC) named Liberty Leisure that was incorporated on 1 October 2016. Liberty Leisure is a company limited by guarantee and its operations are overseen by a Board of Directors consisting of one Council elected member, two Council officers, an external appointee, a staff representative and the Managing Director of the company. Liberty Leisure was established, amongst other things, to:

- Provide leisure, sports, cultural and heritage services for the benefit of the public
- Ensure sustainability of services by maximising income and seeking all possible avenue of funding for the services
- Promote, maintain and improve access to suitable services, activities and facilities
- Improve health and well-being by promoting increased participation to reduce obesity, anti-social behaviour and the health inequality gap
- Promote jobs and strengthen the local economy

The Council maintains control over the company through retained decision making powers and through the scrutiny of the Leisure and Health Committee which reviews the financial and operational performance of the company. The Council pays the company an annual management fee for the provision of the services outlined above and this will be £870,000 in 2020/21.

The Council also jointly owns Bramcote Crematorium in association with Erewash Borough Council. The operation is overseen by the Bramcote Bereavement Services Joint Committee although the management of all operations is undertaken by this Council. The Joint Committee pays a management fee for this arrangement.

Each year a distribution agreed by the Joint Committee is paid to the respective local authorities. In 2020/21 this will be £300,000 to each authority. This is fixed for the year and any failure by the Crematorium to meet their targets for 2020/21 will be reflected in the distribution for 2021/22.

4. Commercial Investments

Among the most common forms of commercial investments are property and loan commitments/financial guarantees. Further details of the approach adopted by the Council are set out below:

(i) Property

The Council does not presently invest in local, regional, United Kingdom wide or international commercial and residential property with the intention of making a profit that can be spent on the provision of local services. Any decisions to make such investments would be undertaken in accordance with the Capital Strategy 2020/21 to 2022/23 set out in appendix 5.

The purchase by the Council in May 2016 of the long-term lease in respect of an area of Beeston town centre already owned by the Council was for regeneration as opposed to investment purposes.

The development of Beeston town centre presently underway on the former multi storey car park and other land owned by the Council is also considered to be for the regeneration of the area to make it attractive for residents, visitors and businesses and not for single objective generating returns that can help underwrite the cost providing Council services.

The Council had no investment properties on its balance sheet at 31 March 2019 and a similar position is anticipated as at 31 March 2020 and 31 March 2021.

(ii) Loan Commitments and Financial Guarantees

Although they are not strictly regarded by many as investments due to no money changing hands until various conditions are met, loan commitments and financial guarantees carry similar risks to investments in property.

The Council has not made any such commitment and presently has no intentions of doing so. Any proposed changes will be reported to members for their consideration.

5. Investment Indicators

A new requirement of the Investment Guidance issued by MHCLG in January 2018 is the need for local authorities to develop quantitative indicators to allow elected members and the public to assess the total risk exposure resulting from the Council's investment decisions. The indicators for treasury management investments are set out in appendix 7.

If the Council decides to make commercial investments in property designed to generate revenue income and fund this through borrowing then the following indicators will be calculated and reported to members on an annual basis:

Indicator	Definition
Debt to Net Service Expenditure (NSE) Ration	Gross debt as a percentage of net service expenditure (where net service expenditure is a proxy for the size and financial strength of a local authority)
Commercial Income to NSE Ration	Dependence on non-fees and charges income to deliver core services. Fees and charges should be netted off gross service expenditure to calculate net service expenditure
Investment Cover Ratio	The total net income from property investments compared to the interest expense
Loan to Value Ratio	The amount of debt compared to the total asset value
Target Income Returns	Net revenue income compared to equity. This is a measure of achievement of the portfolio of properties.
Benchmarking of Returns	As a measure against other investments and against other council's property portfolios
Gross and Net Income	The income received from the investment portfolio at a gross level and net level (less costs) over time
Operating Costs	The trend in operating costs of the non-financial investment portfolio over time as the portfolio of non-financial investments expands
Vacancy Levels and Tenancy Exposures for Non-Financial Investments	Monitoring vacancy levels (voids) to ensure the property portfolio is being managed (including marketing and tenant relations) to ensure the portfolio is as productive as possible

These indicators are based on those set out in MHCLG's Investment Guidance. Should the Council make such non-financial investments then suitable target values will be attached to these indicators and progress will be monitored accordingly. Further indicators will be developed, target set and progress reported as necessary.

APPENDIX 8

GENERAL FUND – MEDIUM TERM FINANCIAL STRATEGY TO 2023/24

1. Summary

This report is aligned with financial reports elsewhere on this agenda covering the Council's revenue and capital budgets, prudential framework indicators, the treasury management strategy and the investment strategy. Figures and assumptions within these other financial reports have been applied to produce this medium term financial strategy. The key changes around proposed savings have all been taken into account.

A key element of the Code of Corporate Governance is the existence of a periodically-reviewed medium term financial strategy. The proposed strategy for the next four years including the basis of any broad assumptions used to produce the medium term forecasts is set out below.

It is the opinion of the Deputy Chief Executive that the estimates for 2020/21 and future years that have been used to produce the budget and Medium Term Financial Strategy (MTFS) are robust and that, if further initiatives to reduce expenditure or increase income are implemented, there are sufficient retained reserves to meet the Council's needs over the lifetime of the Strategy. Members will be aware that some savings or income proposals are still being finalised and may carry some implementation risk which could have an impact on the savings profile. It is therefore essential to maintain a rigorous approach to financial management which will enable the Council to continue to set a balanced budget over time without further depletion of reserves.

2. Revised 2019/20 position and 2020/21 assumptions

The purpose of the MTFS is to:

- provide indicative financial projections through to 2023/24 which can be used to inform the Council's decision making and budget setting process
- provide a document for use by the Council which can assist in the development of policies and planning future initiatives and which integrates with the Council's performance management system and corporate plan priorities
- enable the Council to have a wider appreciation of the overall financial standing of the authority
- provide a solid basis for the stabilisation of the Council's financial position such that it is not dependent upon using reserves to achieve a balanced budget or to restrict council tax increases to at or below government guidelines.

The strategy is based on the revised budget assumptions for 2019/20. In 2020/21 there were two areas of major potential risk to estimates which need to be taken account of in future financial years:

- Localisation of Business rates
- Efficiencies and employee savings proposals.

Localisation of business rates

The largest area of uncertainty over the previous years has been the transition to locally retained business rates. Reductions in rates caused by economic downturn or growth in successful valuation appeals (some of which go back to 2010) can increase significantly uncertainty of income. Various government initiatives to help businesses with their non-domestic rates increase this uncertainty. Further-more the operation of the Nottinghamshire Business Rates Pool adds a layer of complexity to the calculation of likely cash flows in each accounting period.

There is an inherent risk in estimating business rates income because of (a) the time lag of 18 months between budgeted and actual income received and (b) the operation of the funding system and the business rates pool. The final outturn will be known after 31 March 2020.

The need to develop the business rates base across the borough will become more important for the Council. The Nottinghamshire authorities are part of a business rates pool. This allows business rates income that would otherwise have been returned to Central Government to be retained within the county and provides a safety net for authorities whose income falls below a defined level.

The current business rates retention scheme sees 50% of the business rates collected retained by the precepting bodies and 50% returned to Central Government. The Government had announced plans to move towards 75% local retention of business rates from 2020/21, but this will not take place, as the Fair Funding Review has not yet been completed. It has been confirmed that that the current business rates pool will continue in 2020/21.

The Government will be undertaking a “fair funding” review to accompany the move towards 75% business rates retention. It is not possible at this stage to profile what, if any, impact this may have upon the Council. However, it would appear that priority in any redistribution exercise is likely to go to those authorities with social care responsibilities. The Fair Funding Review has not been completed, and the current business rates retention will continue in 2020/21. New proposals arising from the fair funding review are expected to be issued and consulted upon during the Spring 2020.

Efficiencies and employee savings proposals

In order to mitigate the effect of the shortfall of resources, the Business Strategy was refreshed and presented to the Finance and Resources Committee on 9 January 2020. The Business Strategy identified a range of efficiencies and additional sources of income.

The refresh of the Business Strategy was undertaken during the budget process, with the aim of identifying sufficient efficiencies to produce a balanced budget over the lifetime of the strategy.

It is essential for the financial health of the authority over the medium term that these efficiencies and additional income are achieved.

It is important to note that if any future proposed employee savings are developed, this will attract potential redundancy and pension strain costs, and that there will be a lead-in time period for the implementation of service reviews and associated employee savings.

3. Financial projections to 2023/24

The projections for the financial years 2019/20 through to 2023/24 are summarised at Schedule 1. In formulating the projections, a number of assumptions have been made. Those assumptions which have a material impact on the MTFS are described in more detail below.

Assumptions

As with the Council's normal budget-setting process the basic underlying assumption within the MTFS is that current levels of service will be maintained wherever possible. However, a number of budget reductions have taken place during the last year and further changes are proposed which will continue to affect services for the foreseeable future. Any proposed budget changes will be set out in the detailed budget papers to the policy committees or this Finance and Resources Committee, and have taken due regard of the Council's priorities, the overarching need for cost effectiveness and the expected further reductions in government funding in years to come.

In summary, the assumptions contained in the MTFS are that:

- Council tax levels will increase by £5 (Band D) in 2020/21 and thereafter will increase at a rate of 2.0% per annum
- Estimated income from business rates will increase in line with current data about the operation of the Business Rates Pool and allowing for marginal growth in future years
- New Homes Bonus will continue to be paid for only 2020/21 at this stage, whilst the future of New Homes Bonus is being reviewed.

- Pay award is assumed at 2% from 2020/21 onwards
- The efficiency schemes and income set out in the Business Strategy will be realised during 2020/21.
- Further ongoing efficiencies will need to be realised in each subsequent year to 2023/24
- Revenue rental income from the Beeston Phase 2 development from 2021/22 is not included within the MTFS projections at this stage.

New Homes Bonus

The amount to be received in 2020/21 in respect of New Homes Bonus (NHB) has been confirmed as £101,350 which represents a reduction of £36,400 on the sum of £146,750 received in 2019/20. The sum received is heavily influenced by the imposition of a threshold of 0.4% on the Council Tax base, under which amount no NHB will be paid for properties brought onto the list, except for the Affordable Homes Premium.

The current projection is based upon the level of NHB received in recent years. This may be considered a prudent assumption based upon the targets set out in the Core Strategy and the Part 2 Local Plan.

Reserves

The Council has been undertaking a planned use of reserves when setting the budget. However, when expenditure levels are finalised the actual use of reserves has often been less than anticipated.

The latest projected level of general reserves at the end of 2019/20 is £5.111m. The Chartered Institute of Public Finance and Accountancy (CIPFA) has published guidance on factors to be taken into account when assessing the adequacy of reserves. Such factors include:

- pressures arising from inflation and movements in interest rates
- estimates of the level and timing of capital receipts
- potential demand led pressures
- any planned efficiency savings/productivity gains
- financial risks arising from any major partnership arrangements
- availability of other funds to deal with major contingencies and the adequacy of provisions.

After taking into account this advice and reviewing the various factors as they relate to this authority, the advice from the Deputy Chief Executive is that general reserves of at least £1.5 million should be maintained at the present time. This is to reflect the continued risk and uncertainty that the Council now faces with the transition from direct Government funding to locally raised sources of finance. If all the assumptions as set out in this strategy arise then overall reserve levels will have reduced to around £1.07m by the end of 2022/23.

GENERAL FUND FINANCIAL PROJECTIONS TO 2023/24

	REVISED ESTIMATE 2019/20 £'000	ESTIMATE 2020/21 £'000	ESTIMATE 2021/22 £'000	ESTIMATE 2022/23 £'000	ESTIMATE 2023/24 £'000
BASE EXPENDITURE	10,270	10,514	10,514	11,118	11,504
(Base already includes vacancy factor of £300k)					
Changes to the base					
Core Strategy Review			(80)	0	0
Estimated reduction in New Homes Bonus			91	2	17
Increased fees and charges	Reflected in Base Budget	Reflected in Base Budget	(40)	(40)	(40)
Inflation allowance: Pay including pensions back-funding			226	230	234
Inflation allowance: Prices			89	97	106
Minimum Revenue Provision			398	88	58
Interest on Borrowing			20	10	0
Increase (-)/Decrease (+) in Contribution from Crem			(100)	0	0
BUDGET REQUIREMENT BEFORE SPECIAL EXPENSES	**10,270**	**10,514**	**11,118**	**11,504**	**11,880**
Beeston Special Expenses net requirement	25	25	25	25	25
GROSS BUDGET REQUIREMENT	**10,295**	**10,539**	**11,143**	**11,529**	**11,905**
FINANCED BY:-					
Beeston Special Expenses precept (council tax)	25	25	25	25	25
Non Domestic Rates (NDR - Business Rates)	3,172	3,258	3,323	3,390	3,457
NDR - Share of Previous Years Collection Fund Deficit	(231)	(215)	0	0	0
NDR - Section 31 Grants	1,151	1,217	1,241	1,266	1,291
Returned Levy from Nottinghamshire Business Rates Pool 2018/19	20	20	20	20	20

Growth Levy/(Safety Net) to/(from) Notts NNDR Pool	(613)	(648)	(661)	(674)	(688)
Council Tax	5,450	5,679	5,851	6,028	6,210
Council Tax Share of Previous Years Collection Fund Surplus	52	65	50	50	50
TOTAL RESOURCES	9,026	9,401	9,850	10,105	10,366
SURPLUS (DEFICIT) TO BE MET BEFORE MOVEMENT IN RESERVES	**(1,269)**	**(1,138)**	**(1,293)**	**(1,425)**	**(1,538)**
MOVEMENT IN RESERVES					
Planned Movement into Earmarked Reserves	0	(30)	(30)	(30)	(30)
Planned Movement (from) Earmarked Reserves	264	0	0	0	0
PLANNED SURPLUS/DEFICIT AFTER MOVEMENT IN RESERVES TO BE FUNDED FROM GENERAL FUND BALANCE	**(1,005)**	**(1,168)**	**(1,323)**	**(1,455)**	**(1,568)**
FORECAST BALANCES AS AT 31ST MARCH					
-General Fund Opening Balance	6,048	5,043	3,875	2,552	1,097
-In-year net movement in reserves	(1,005)	(1,168)	(1,323)	(1,455)	(1,568)
- General Fund Closing Balance	5,043	3,875	2,552	**1,097**	**(471)**
BALANCE OF RESERVES					
Minimum Balance	1,500	1,500	1,500	1,500	1,500
Available Reserves (Figures in bold - below minimum balance	3,543	2,375	1,052	**(403)**	**(1,971)**

-Earmarked Reserves Opening Balance	333	69	99	129	159
-In-year net movement in reserves	(264)	30	30	30	30

- Earmarked Reserves Closing Balance	69	99	129	159	189

Council tax base	33,674.71	34,011.46	34,351.57	34,695.09	35,042.04
Basic council tax	**161.85**	**166.85**	**170.19**	**173.59**	**177.06**
% change on previous year	**0.00**	**3.09**	**2.00**	**2.00**	**2.00**

SCHEDULE 1

RISK ASSESSMENT - REVENUE BUDGET 2020/21

1. Employee Expenses

Around a quarter of the Council's gross expenditure relates to employees, including pay, national insurance and pensions. The Council operates within an approved establishment and the respective budget headings are based on this establishment. Provision has been included within the budget figures based on an expected increase of 2% in 2020/21 onwards.

A previous government announcement has indicated an intention to move to a National Living Wage by 2020. The Council has made some changes to pay scales from 2013/14, particularly to assist those employees who were on the lower grades and is now in a good position to move towards the living wage. Further work is required to ensure that the Council can meet the costs of implementing the National Living Wage in due course.

The actuarial valuation of the pension fund as at March 2019 set out fixed increases in employer's pension contribution rates for 2020/21 to 2022/23. The fund is well funded at 93%, and the employer's contributions has increased from 14.4% to 18% of salary per annum, with lump sum contributions of £263,512; £273,119 and £283,076 over the next three years. A provision has been made in the budget plans on this basis.

Provision has been made within the base budgets for the costs associated with the approved establishment after taking account of submissions by services.

Progress towards employee savings is dependent on suitable applications for voluntary redundancy, flexible retirement and changes to working hours coming forward from employees or from posts being deleted as a result of changes to services. First year costs from redundancy payments or pension strain may limit the benefit in year one from these sources. Moreover the extent to which establishment reductions can be accommodated without significant impact on services reduces as this strategy is continued. The General Management Team will need to regularly monitor the situation and members will also be kept regularly informed of progress through the Policy and Performance and Finance and Resources Committees.

Risk assessment reduced: MEDIUM RISK

2. Capital financing

Borrowing costs on the Council's current debt are largely known in advance since the Council's long-term borrowing is generally at fixed rates. For 2020/21 new borrowing of £7,713,000 is proposed to help finance the General Fund capital programme. The Council will seek low cost borrowing from other sources including the Public Works Loan Board, Municipal Bonds Agency or other local authorities.

The Council's reserves position in the MTFS allows for some further borrowing in respect of the Beeston Town Centre Re-Development. However, financing of other capital schemes will be dependent upon the availability of capital receipts.

Works on the tram and the phase one refurbishment of units in The Square in Beeston are complete. Compensation from the NET consortium/City Council arising from the tram works has still to be resolved. No allowance has been made for any such compensation within the detailed figures, since the timing and size of any such receipts cannot be predicted. However, in monetary terms it will be significant.

Should capital receipts or tram compensation not arise the Council will need to fund its infrastructure, including the maintenance and development of ICT systems and key assets, from other sources. This may have a significant impact on the viability of the MTFS.

Risk assessment: HIGH RISK

3. Reserves

Based on the budget proposals, the overall level of available reserves at 31 March 2020 is estimated at around £5.111m. There is no historical evidence of overspending against service budgets.

Advice produced by CIPFA indicates that reserves should be held for three main purposes:

- as a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing - this forms part of general reserves
- as a contingency to cushion the impact of unexpected events or emergencies - this also forms part of general reserves
- as a means of building up funds to meet known or predicted liabilities - referred to as earmarked reserves

Previous guidance from the former Audit Commission indicated that, as part of the comprehensive performance assessment, it would expect to see general reserves at least equal to 5% of a Council's net operating expenditure in a 'good' council. In Broxtowe this would equate to £500,000. The Deputy Chief Executive advises that for district councils, which have relatively high levels of income compared to other classes of authority, the reference to net operating expenditure is not appropriate since any "target" should reflect the risk to income and expenditure levels separately. In the light of this risk assessment and the medium term financial strategy as proposed, the Deputy Chief Executive advises that, in his opinion, general reserves should remain at or above £1.5 million.

This does not pose an immediate problem but this medium term financial strategy highlights the pressure that will be on reserve levels in future years as the public sector spending squeeze continues. Careful monitoring of the situation, advance planning and responding quickly to any changes will be of particular importance moving forward.

Members should also be aware that the level of reserves held also reflects on the investment interest received. Each £100,000 change in reserves has the effect of increasing or decreasing net expenditure by around £1,000 per annum.

Risk assessment: MEDIUM RISK

4. Government support

The award of New Homes Bonus for 2020/21 has been confirmed for only one year. Whilst indicative support from non-domestic rates is shown as part of the Settlement Funding Assessment, in reality this is mainly to produce indicative positions which can then be used to monitor "spending power" as defined by the government. The rates retention scheme has highlighted the considerable risk and vulnerability that local authorities face for reasons which are outside of their control. Increased understanding of the operation of the pool and the use of local data to monitor expected income during the year has reduced the risks relating to business rates income but this remains significant.

The lack of control and lengthy delays experienced in dealing with rates appeals by the Valuation Office remains a source of uncertainty. Whilst the authority has a list of outstanding appeals, it is not possible to come up with a meaningful estimate as to the level of rate reductions that may arise from such appeals and therefore predictions as to rates yield are also subject to significant change.

Risk assessment increased: HIGH RISK

5. Fees and Charges

Over 10% of the Council's income arises from fees and charges, of which the largest service areas are planning fees, car parking, garden waste, trade waste, licensing and land charges. Take up for garden waste collection has exceeded original expectations and continues to grow.

The establishment of Liberty Leisure in October 2016 was designed to implement a new delivery model for leisure services. The aim is to create stronger ownership of the function with an increased focus on business management. The Commercial Manager within the Deputy Chief Executive's Department will provide a client-side focus for managing the Council's relationship with the company, and explore commercial opportunities. Further challenges exist, however, as the leisure facilities through which leisure service operates are reaching the end-of-life stage and are placing increasing pressures on capital budgets. The Council has embarked upon a Leisure Facilities Strategy review, in order develop a way forward for leisure services provision across Broxtowe.

Most of the other service areas are customer led and close monitoring of these budgets has taken place for several years

Some increases in fees and charges across various functions have been introduced for 2020/21 but these largely assume similar demand levels to 2019/20.

Risk assessment: MEDIUM RISK

6. Insurance

The Council's insurance cover is generally provided through external insurers with varying excess levels, depending upon the nature of any claim. The current insurance policies were retendered and new contracts entered into from April 2017 for a period of up to seven years.

The cost of premiums is only one element of the overall insurance cost with a significant part also relating to policy excesses which the Council meets itself. Budget performance in terms of the nature and value of any successful claims against the Council is also of direct relevance. The Strategic Risk Management Group meets regularly to appraise and monitor strategic issues, some of which can have direct influence on insurance cover and the levels of claims received. No adverse trends have become apparent in the past financial year.

Risk assessment: LOW RISK

7. Other running costs

Almost a quarter of the Council's gross expenditure is in this area, which includes energy, repairs and maintenance, vehicle operating costs, purchase of supplies and services, printing, postages and telephones. The cost areas are tightly controlled and where possible central contracts are put in place. Very limited inflation provision has been made in recent years.

As regards other running costs, no excessive cost pressures are known of and, given the general rules about virement, it is anticipated that running costs can be contained within overall available budgets. The continuing progress of central and joint procurement contracts, coupled with efforts to increase on-line transactions and correspondence and reduce the volume of printing and postage that takes place (as promoted through the Digital Strategy) will also help to alleviate any cost increase pressures in this area.

Risk assessment: LOW RISK

8. Housing Benefit Expenditure

Housing benefit expenditure accounts for around 40% of the Council's gross expenditure. The expenditure is demand led and the housing benefit aspects are mainly governed by national benefit schemes. The number of claimants has been reducing in recent years as the economic situation improves, although the amounts claimed have remained stable.

The 2020/21 housing benefit budgets have been prepared assuming no change to claimant numbers compared to those for 2019/20. Given that effectively the value of housing benefit payments is almost 100% reimbursed through government grant, the overall effect of any changes in caseload is felt not to be significant at this stage.

The proposed rollout of Universal Credit took place from June 2018 for Broxtowe residents who use the Heanor Job Centre and November 2018 for those who use the Beeston Job Centre. A reduction in benefits administration subsidy has been assumed in the MTFS to reflect this.

Risk assessment: LOW RISK

9. Investment income

Investment levels have remained at steady levels in 2019/20 as a result of continuing good cash flow performance with collection rates being maintained. Wherever reasonable to do so investment levels have been reduced rather than taking out any new borrowing to meet capital financing requirements.

The position with regard to interest rates and the economy generally is stable at present and no movement in interest rates has been assumed in 2020/21 or future years.

Risk assessment: LOW RISK

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