

Agenda Item No:	6	
Committee:	Cabinet	
Date:	21 February 2019	
Report Title:	Revised General Fund Budget and Capital Programme 2018/19; General Fund Budget Estimates 2019/20 and Medium Term Financial Strategy (MTFS) 2019/20 to 2023/24; Capital Programme 2019 - 2022	

## Cover sheet:

### 1 Purpose / Summary

To consider and approve:

- the revised General Fund Budget and Capital Programme for 2018/19 and;

To consider and recommend to Council:

- the General Fund Budget Estimates 2019/20 and the Medium Term Financial Strategy 2019/20 to 2023/24;
- the Council Tax levels for 2019/20;
- the Capital Programme 2019-2022;
- the Treasury Management, Capital Strategy and Investment Strategy for 2019/20.

### 2 Key issues

- Core Funding (Revenue Support Grant and Business Rates) in 2019/20 has reduced by 9.0%, continuing the policy of austerity adopted by government as part of the four year financial settlement adopted in 2016/17.
- In accordance with the current MTFS approved by Council in February 2018 and Cabinet in December 2018, Council Tax is factored to increase by 1.97% in 2019/20 and 1.98% over the medium term.
- Council Tax Referendum limits for 2019/20 have been set at an increase of 3% or £5 whichever is the higher, the same level as this financial year (2018/19).
- Revised estimates for 2018/19 are currently forecasting an under-spend of £103,000 at the end of the financial year.
- An updated Capital Programme for 2018/19 and for the medium term 2019-22 is proposed.
- The Fenland Comprehensive Spending Review is ongoing to deliver the projects to meet the approved savings over the period of the MTFS to 2019/20
- Given the scale of the challenges and uncertainties faced by the Council, the financial forecasts represent a significant achievement and demonstrates the focus from Members and Officers throughout the Council in delivering the required savings.
- The Council continues to focus on delivering quality services and to minimise the impact on front-line services.

### 3 Recommendations

- It is recommended that:
  - (i) the revised estimates for 2018/19 as set out in Section 7 and Appendix A showing an estimated under-spend at outturn in the region of £103,000, be approved;
- It is recommended to Council that:
  - (ii) the General Fund revenue budget for 2019/20 as set out in Section 8 and Appendix A be approved;
  - (iii) the Medium Term Financial Strategy as outlined in this report and Appendix B be adopted;
  - (iv) the Capital Programme and funding statement as set out in Appendix D be approved;
  - (v) the adoption of the Business Rates Retail Relief scheme detailed in paragraphs 5.4 – 5.6 be approved;
  - (vi) the expenses detailed in Section 10 be approved to be treated as general expenses for 2019/20;
  - (vii) the Port Health levy for 2019/20 be set as shown in Section 11;
  - (viii) the adoption of additional Council Tax premiums on Long Term Empty Properties as detailed in Section 12 be approved;
  - (ix) the Treasury Management, Capital Strategy Minimum Revenue Provision, Investment Strategy, Prudential and Treasury Indicators for 2019/20 as set out in Section 15 and Appendix E be approved;
  - (x) the Band D Council Tax level for Fenland District Council Services for 2019/20 be set at £265.59, an increase of £5.13 (1.97%) on the current year.

<b>Wards Affected</b>	All
<b>Portfolio Holder(s)</b>	Cllr Chris Seaton, Leader Cllr Anne Hay, Portfolio Holder, Finance
<b>Report Originator(s)</b>	Kamal Mehta, Interim Corporate Director and Chief Finance Officer (S.151 Officer) Mark Saunders, Chief Accountant
<b>Contact Officer(s)</b>	Paul Medd, Chief Executive Kamal Mehta, Interim Corporate Director and Chief Finance Officer (S.151 Officer) Mark Saunders, Chief Accountant
<b>Background Paper(s)</b>	Final Finance settlement – Ministry for Housing, Communities and Local Government (MHCLG). Budget Statement 2018 (HM Treasury) Consultation Documents on Business Rates Retention Reform and Review of Relative Needs and Resources (MHCLG) Medium Term Financial Strategy working papers.

This report contains the following Appendices:

**Appendices**

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

## Report:

### 1 INTRODUCTION

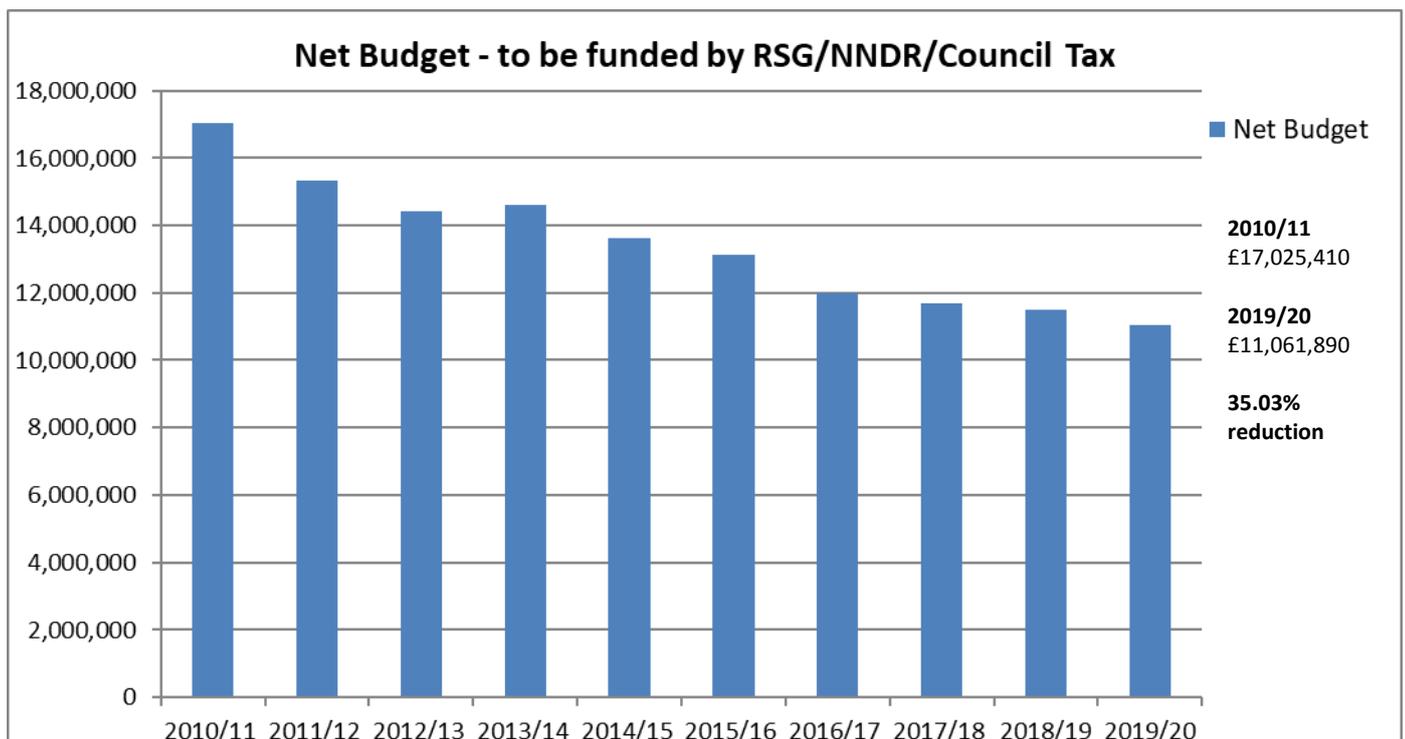
1.1 This report sets out the financial implications of the council's priorities described in the draft Business Plan 2019/20. The Revenue budget estimates and the Capital Programme are final at this stage for approval. The draft Business Plan 2019/20 and draft Budget Estimates 2019/20 considered by Cabinet on 13<sup>th</sup> December 2018 together were subject to a public and stakeholder consultation from 3<sup>rd</sup> January to 1<sup>st</sup> February 2019 prior to final budget and council tax setting for 2019/20 in February 2019. The results from the consultation are published on the Council's website:

[https://www.fenland.gov.uk/media/15331/Draft-Business-Plan-and-Budget-Consultation-Feedback-2019/pdf/WEB\\_VERSION\\_-\\_Draft\\_Business\\_Plan\\_and\\_Budget\\_Consultation\\_Feedback\\_2019.pdf](https://www.fenland.gov.uk/media/15331/Draft-Business-Plan-and-Budget-Consultation-Feedback-2019/pdf/WEB_VERSION_-_Draft_Business_Plan_and_Budget_Consultation_Feedback_2019.pdf)

The Overview and Scrutiny Panel considered the Draft Budget 2019/20 and MTFs on 14 January 2019 and made its comments to the Cabinet. Members asked questions, made comments and received responses from Officers and Portfolio Holders. Prior to the meeting, members had requested empirical evidence regarding the accuracy of the Council's estimates and forecasts compared to actual figures for 2013/14 onwards in order to analyse the Council's surplus per year. Members were presented with the figures at the meeting. The Chairman thanked officers for their contribution and said that members were satisfied with the advice and information received.

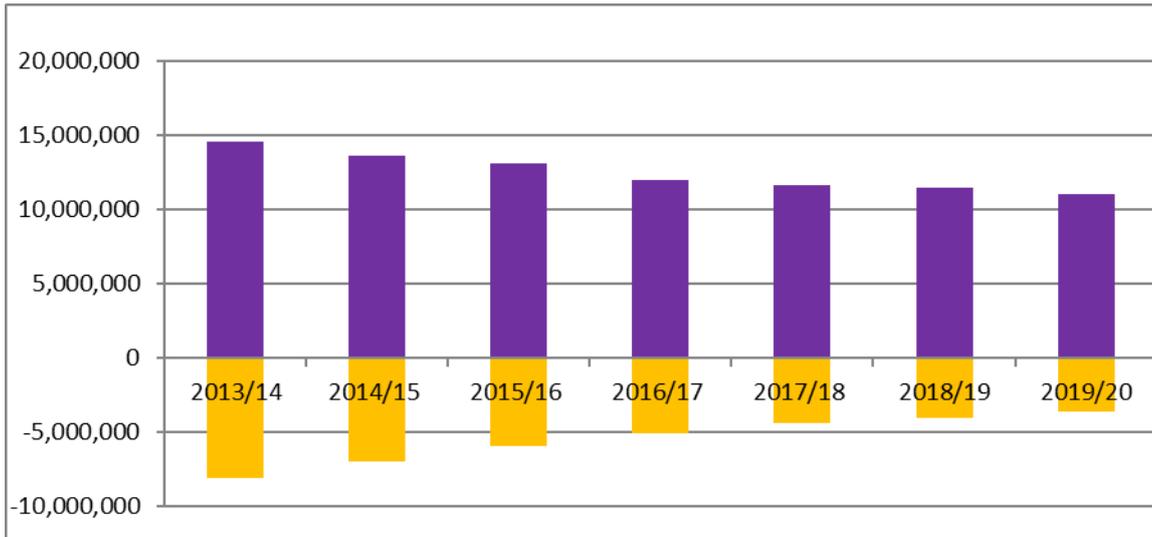
1.2 Much of the financial information is necessarily based on a number of assumptions which are wholly or partly influenced by external factors. However, where final and known actual costs and revenue is known then they are included for example the Final Local Government Finance Settlement for 2019/20 was announced on 29 January 2019. Equally, some additional costs discussed later in this report became known since the Draft Budget Estimates were considered and approved for consultation on 13 December 2018; for example the potential costs of the new pay and grading structure and the potential additional costs of the recycling contract.

1.3 Local Government has been at the forefront of the austerity measures introduced by the government to reduce the national deficit following the General Election in 2010. This Council has had to reduce its Net Budget significantly since 2010 and by the end of 2019/20 it will have reduced by 35.03%. This is exemplified in the graph below:

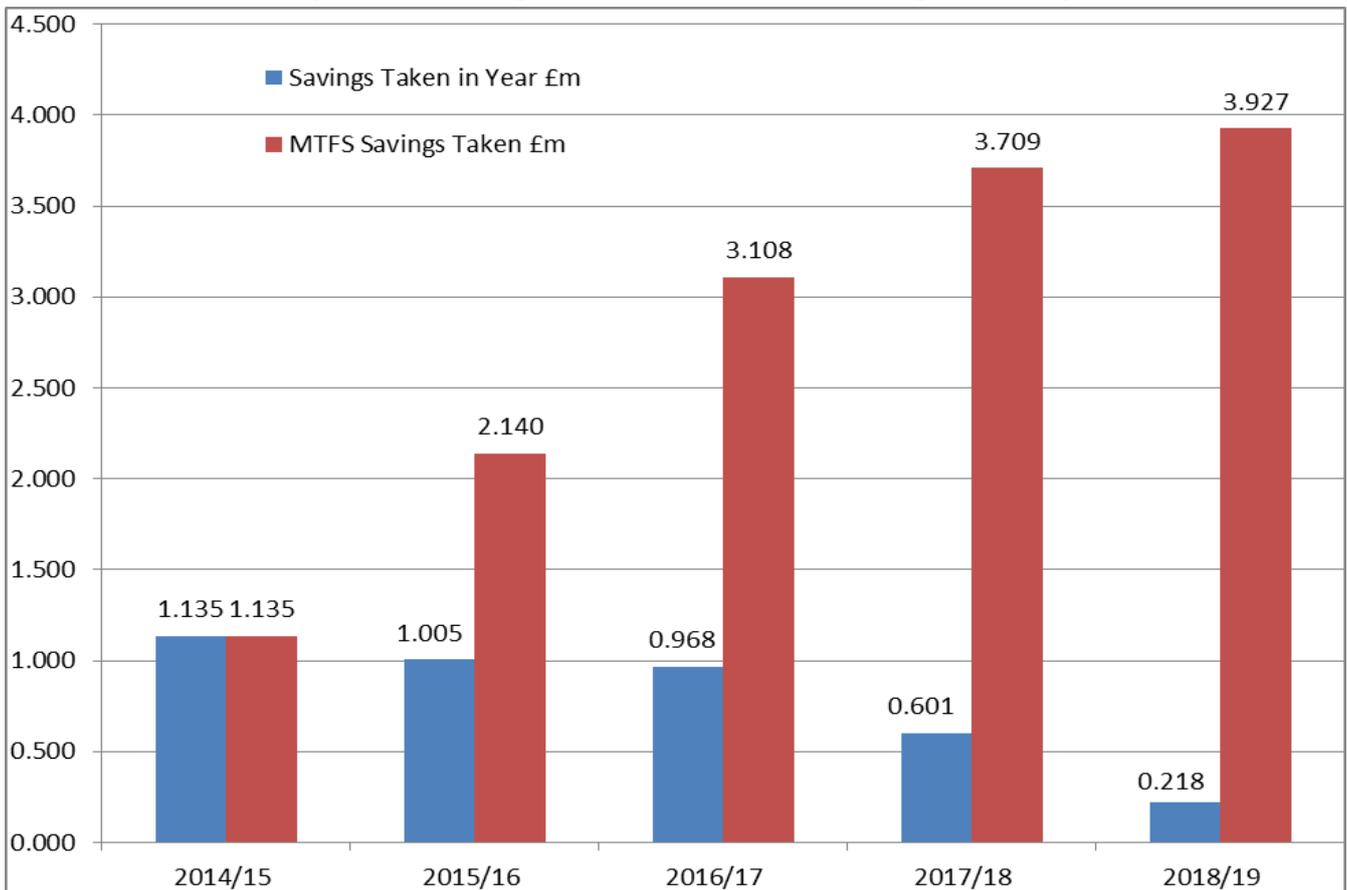


1.4 Since 2013/14 government support has reduced by around 50% and the Council's net budget by around 24% as illustrated in the following tables. In addition, Council Tax referendum principles have restricted increases in Council Tax.

	2013/14	2019/20	Reduction	%
Government Grant	£8,094,919	£3,642,529	£4,452,390	55.00
Net Budget	£14,604,750	£11,061,890	£3,542,860	24.26



1.5 The following graph illustrates how successful the Council has been in delivering savings over the last 5 years, enabling it to achieve balanced budgets each year.



During these years, Members have been very clear, that where possible, front line services should be protected. The Council's strategy of identifying savings 12 months in advance of the financial year has led to the successful delivery of the required savings targets and means the Council is in a good position to meet the challenges and uncertainties of 2019/20 and beyond. These savings have been achieved in a number of ways, such as Management and Service reviews, shared services, procurement and income generation.

## 2 CHANCELLOR'S BUDGET STATEMENT 2018

- 2.1 The Budget 2018 Statement on 29 October 2018 contained little which has a direct impact on this Council's revenue budget over the medium term. An additional £55 million was allocated for Disabled Facilities Grant to provide home aids and adaptations for disabled children and adults on low income. Various reliefs were announced for businesses and business premises with a rateable value below £51,000 will have their business rates bills cut by a third. This will benefit up to 90% of retail properties, for two years from April 2019. The initiative will reduce the amount of business rates income retained by the Council, however the government has stated that local authorities will be fully compensated.

## 3 LOCAL GOVERNMENT FINANCE SETTLEMENT

- 3.1 The Final Finance Settlement for 2019/20 was announced on 29 January 2019. The government confirmed the settlement for the Council as was set out provisionally on 13 December 2018 and on which a briefing note had been circulated to all Members.
- 3.2 The Final Settlement Funding Assessment for 2019/20 is detailed below. This is consistent with the Council accepting the four-year settlement which ends with the 2019/20 Settlement.

**Table 1 – Final Settlement Funding Assessment (Core Funding)**

	<b>Actual 2018/19 £000</b>	<b>Actual 2019/20 £000</b>	<b>2019/20 % Reduction</b>
Revenue Support Grant (RSG)	444	0	
Business Rates Baseline Funding	3,561	3,643	
<b>Settlement Funding Assessment</b>	<b>4,005</b>	<b>3,643</b>	<b>-9.0%</b>

- 3.3 The multi-year settlement announced in Autumn 2015 (covering the period 2016/17 – 2019/20), results in RSG being a negative amount of £94k in 2019/20 and the Business Rates Baseline Funding increasing by CPI inflation. The government is meeting the cost of the negative RSG from its share of the Business Rates income rather than taking it from the local authorities share; otherwise the Councils overall Settlement Funding Assessment would have been £94k less. The Medium Term forecasts detailed in Appendix B exemplify this by reducing the overall Settlement Funding Assessment by 9.0% in 2019/20, with an inflationary increase of 2% in 2020/21 onwards.
- 3.4 The phasing out of RSG could be partly compensated by the expectation that local authorities will keep 75% of business rates income from 2020/21 (currently 50% - Fenland 40%, County Council 9% and Fire Authority 1%). However, this has not been modelled in the medium term forecasts, as the new system of local government funding through Business Rates Retention and the Fair Funding Review is currently being consulted upon and devised by the government and therefore there is no basis to be able to model any scenarios other than high level implications between different classes of local authorities. There is therefore no guarantee that additional resources will be

forthcoming to District Councils from whatever distribution mechanism will be in place for business rates.

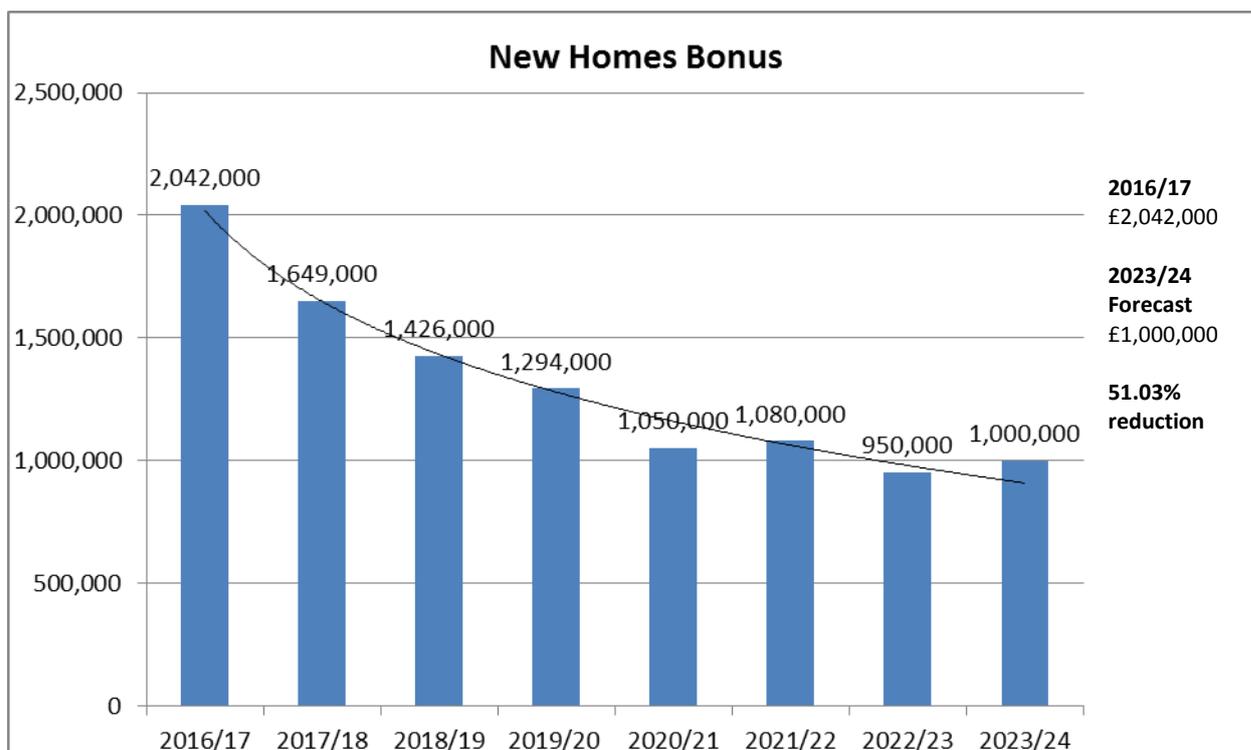
- 3.5 A consultation paper on Business Rates Retention Reform was issued by MHCLG on 13 December 2018 and the options detailed within this document represents a significant risk to the Council's future retained Business Rates (see Section 5 below).

### **Fair Funding Review**

- 3.6 The Government has previously confirmed that it is looking to implement the Fair Funding Review in April 2020. Working groups are developing proposals for the Fair Funding Review and MHCLG issued a consultation paper on the Relative Needs and Resources element of this review on 13 December 2018. There will be further technical consultations on other components of the Fair Funding Review proposals in 2019/20.
- 3.7 This consultation explores what factors should be taken into account in determining the needs and resources of local authorities. This is particularly important as these elements have a major impact on what the government determines individual authorities 'spending assessment' will be. This will, in turn determine how much of future business rates income this Council will retain through its' Baseline Funding Level (see Section 5 below). It is therefore, intrinsically linked to the reform of the business rates retention system.
- 3.8 One aspect of local authorities' resources specifically referenced in the consultation document is that the government will include car park charging income to determine the national resource total. This could have consequences for the Council's 'spending assessment' calculation as currently the Council does not charge for car parking. Consequently, this could lead to a lower Baseline Funding Level than currently forecast.
- 3.9 The consultation document implies that the government in assessing relative needs, favours a simpler distribution formula with fewer indicators based largely around population projections with deprivation removed from the formula. This could have a detrimental effect on this Councils funding. However, the options around relative resources (the ability of each authority to generate council tax income) could result in a transfer of funding from high-taxbase (lower-need) authorities to low-taxbase (higher-need) authorities, which could benefit this Council. At the current time, there is no reasonable assessment that can be made of the potential impact on this Council of the Fair Funding Review.
- 3.10 The outcome of this review and the reform of the Business Rates Retention System (75% from April 2020) will have a potentially significant impact on the future allocation of resource and represents major risks to the Council's medium term forecasts. It is considered that future funding of local government will be based mainly from the Business Rates Retention system including the new formula based Fairer Funding distribution system, Council Tax and locally raised fees and charges. Thus, locally raised revenue will be the prominent element in the amount of resources a local authority will have each year to support its revenue funding compared to what it receives from the government in the form of redistributed Business Rates. Furthermore, this Council does not have adult social care and children's services responsibilities which are the areas where the greatest budget and spending pressures are being experienced by those authorities that have those responsibilities and which are unlikely to be fully funded in the near to medium term.

## 4 NEW HOMES BONUS

- 4.1 In 2017/18, reforms to the allocation methodology of the New Homes Bonus were made which significantly reduced the total amount available for distribution which consequently reduced this Council's allocation.
- 4.2 The key focus of the reforms was to reduce the payments from 6 years to 5 years in 2017/18 and to 4 years from 2018/19. In addition, from 2017/18, a national baseline for housing growth of 0.4% was introduced, below which New Homes Bonus is not paid, reflecting a percentage of housing that would have been built anyway.
- 4.3 There have been no further changes to the allocation methodology for 2019/20 (as a result of the government funding an additional £18m nationally). The government has also announced that consultation on further changes to the NHB will take place during 2019 on how best to reward housing delivery effectively after 2019/20 and this could significantly impact the amount this Council receives over the medium term.
- 4.4 Actual NHB received in 2018/19 is £1.426m and will be £1.294m in 2019/20. Based on the actual NHB from additional homes delivered during the past year (from October 2017 – October 2018) and the current allocation methodology, the forecast NHB reduces to around £1m by 2023/24. The graph below shows how the amount received from NHB has significantly changed over the past three years together with forecasts over the medium term.



- 4.5 Although the national total to be allocated as NHB in 2020/21 onwards will be determined by the next government spending review due in Autumn 2019, it is almost inevitable, based on previous allocations, that the national total will be capped at around the current level. Consequently, the current payment threshold of 0.4% will, if kept, certainly increase. Future allocations could also be linked to achievement of housing delivery compared to local plan targets. This is a significant risk to the medium term forecasts.
- 4.6 Increasing the current payment threshold from 0.4% to 0.5% would result in the loss of around £50,000 NHB in 2020/21 rising by this amount each year until 2023/24 leading to a reduction in NHB of around £200,000 compared to the current MTFs forecasts.

## **5 BUSINESS RATES**

- 5.1 Members will be aware that the Business Rates Retention system was introduced in April 2013. Under this system, authorities benefit if their actual Business Rates income collected in a year is higher than the baseline funding level determined by government.
- 5.2 There has been real business rates growth in Fenland over the last five years, however how this impacts on the resources available to this Council is complex, due to the rules and the operation of the current 50% Business Rates Retention system.
- 5.3 As part of the Final Finance Settlement, the government has confirmed that there is a surplus on the national Business Rates Levy Account (relating to 2017/18) which it will distribute to all Councils in 2019/20. The amount for this Council is £55,883 and is a one year only distribution.
- 5.4 In the report in December 2018 it was recommended and approved that this amount is earmarked in a reserve for any impact of Brexit that the Council will experience in the form of increased costs of supplies and services and for supporting the communities and businesses in the District with advice where required. However, now due to the government allocating funding of £35,000 over two years (£17.5k in 2018/19 and £17.5k in 2019/20) to district councils for preparations for Brexit the amount of £55,883 (para. 5.3 above) is now being utilised to off-set additional costs identified since the December 2018 report in order to present a balance budget for approval. These include the recycling contract and the new pay and grading structure discussed later in this report. The government funding for preparing for Brexit (£35,000) will be held in an earmarked reserve for that purpose instead of the £55,883.

### **75% Business Rates Retention Pilot – 2019/20**

- 5.5 The Council joined with the County Council, all other Districts within Cambridgeshire, Peterborough City Council and the Combined Authority to submit a bid to be a pilot in 2019/20 for the 75% Business Rates Retention Pilot Scheme. This is an initiative by the MHCLG as part of their preparations for the national scheme due to start in 2020/21. Unfortunately, as the initiative was substantially over-subscribed nationally, the bid was unsuccessful.

### **Business Rates – Retail Relief**

- 5.6 In the budget on 29 October 2018, the government announced it was introducing extra rate relief for certain retail business premises with a rateable value below £51,000.
- 5.7 Under the new scheme, eligible ratepayers will receive a one third discount on their daily chargeable amount. The government has issued guidelines on the operation of the relief which it intends should have effect for 2019/20 and 2020/21. State aid rules will apply to the retail relief in the usual way.
- 5.8 Local Authorities are expected to use their discretionary relief powers (Section 47 of the Local Government Act 1988, as amended) to grant this new relief in line with the relevant eligibility criteria set out in the guidelines and formal approval of this is required by Council. The full cost of granting this relief will be compensated through a Section 31 grant from government.

### **75% business rates retention – 2020/21 onwards**

- 5.9 It is expected that the 75% Business Rates Retention Scheme will be implemented nationally from April 2020. A consultation paper on Business Rates Retention Reform was issued by MHCLG on 13 December 2018.
- 5.10 As the content and character of any new system and its effect on Fenland District Council are unknown at this stage, no adjustments have been made to the business rates funding within the MTFs and it has been assumed that retained business rates will increase by CPI at around 2% per annum. Nationally, the implementation of this scheme is meant to

be fiscally neutral overall, however any redistribution will create losers and winners and the extent of that is an unquantifiable risk for the council currently.

- 5.11 Although the forecasts in the MTFFS has assumed a 'neutral' funding position regarding retained business rates, the consultation paper identifies a range of options which would mean this Council will almost certainly 'lose' some of the business rates growth it's seen since the current system started in April 2013.
- 5.12 In the estimate for 2019/20 and the medium term forecasts from 2020/21, around £1m of business rates above the Council's Baseline Funding Level is being retained. From 2020/21 onwards, the Baseline Funding Level of all Councils will be reset with all 'growth' income being taken into account nationally and redistributed in the new system. This means initially the additional £1m business rates income would be removed and redistributed. What remains unclear, is how much of this £1m will be returned to the Council as part of its recalculated Baseline Funding Level.
- 5.13 In theory therefore, the Council could lose all of this additional £1m in the absolute worst case scenario. However, this is unlikely and would create significant volatility within future funding allocations nationally, which the government does not wish to see. There will also undoubtedly be some kind of transitional arrangements which would also limit the extent of any gains and losses in funding arising from the new system. The national total to be distributed to local authorities will also be dependent on the next government spending review.
- 5.14 Although it is extremely difficult to exemplify the impact of this redistribution, in broad terms, if the Council were to lose 50% of its growth income then this would add a further £500k per annum from 2020/21 to the current forecast MTFFS shortfalls. A 20% loss of growth income would add a further £200k per annum to the current shortfalls.
- 5.15 At the time of writing, the Fair Funding Review, the introduction of 75% Business Rates Retention and the reforms to the New Homes Bonus are all major risk areas for this Council over the medium term.

## **6 FENLAND COMPREHENSIVE SPENDING REVIEW**

- 6.1 The estimated total net savings generated from the FDC-CSR proposals agreed previously at £1.667m will now amount to £1.829m by the end of 2020/21 with £1.23m achieved by the end of 2018/19 with a further £0.464m in 2019/20. During this year several proposals have been implemented. These include the following:
  - Staffing Review of Customer Services, Human Resources, Accountancy and Vehicle Workshop
  - Leisure Centre management options (contract commences 4 December 2018)
  - Leisure and Open Spaces Management Review
  - Community House closure
- 6.2 During 2019/20, further FDC-CSR proposals are due to be implemented. These include the following:
  - Relocation of March and Wisbech Shops
  - CCTV – alternative service delivery
- 6.3 The savings generated from these and other CSR proposals are included within the Medium Term Financial Strategy detailed at Appendix B and have significantly contributed to the required savings target over the medium term. A progress update report on the FDC-CSR was considered by the Overview and Scrutiny Panel on 10<sup>th</sup> December 2018.

## **7 FORECAST OUTTURN 2018/19**

- 7.1 As part of the budget setting process for 2018/19, approved by Council on 22 February 2018, £0.218m of savings were required in order to achieve a balanced budget.
- 7.2 It is pleasing to report that the required savings for 2018/19 have been identified and implemented. In addition, all the required savings for 2019/20 have also been identified.
- 7.3 Organisational efficiency changes (e.g. Leisure and Open Spaces, Human Resources and Accountancy), the implementation of the new Leisure Centres management contract together with additional income have enabled the savings target to be met for this year with significant contributions towards the savings target for 2019/20.
- 7.4 This is a considerable achievement and demonstrates the focus from Cabinet and Officers in delivering a balanced budget. The savings identified to date have not significantly affected front-line services as the Council is determined to maintain the quality of these services during these difficult and challenging times.
- 7.5 The latest revised estimates for 2018/19 are set out at Appendix A and show a forecast under-spend of £103k by the end of this financial year. Additional income from the Garden Waste subscription service (-£47k) and Marine Services (-£61k); the contingency sum for an enhanced Economic Development service not required this year (-£43k); higher forecast income from Investments and VAT sharing arrangement (-£60k) has been off-set by lower anticipated Planning Fees (£94k), additional recycling contract costs (£15k) and other service variations (-£1k).
- 7.6 In addition, following a reassessment of the appeals provision for Business Rates for 2018/19, the levy payment due to the government this year has reduced by £420k and together with additional S31 Grant due from the government for reimbursement of small business rate relief, the total retained business rates for 2018/19 is forecast to be around £500K higher than originally estimated. However, due to the timing of the impact on the Council's budget of an increased appeals provision (a change in this year will impact in next year), the estimated retained rates and collection fund deficit in 2019/20 are around £500k greater than previously forecast. Consequently, to smooth out the timing impact of these changes, £500k has been set-aside in the Business Rates Equalisation Reserve in 2018/19 with the same amount being utilised from this reserve in 2019/20. This will ensure that over these two years the impact on the Council's bottom line is neutral and the balance on the Business Rates Equalisation Reserve will remain at £500k at the end of 2019/20.
- 7.7 At the present time, Corporate Management Team, Senior Managers and the Accountancy Team are managing and monitoring the position carefully and will continue to review spending levels to ensure as far as is possible, this position is maintained to the year end.

## **8 BUDGET ESTIMATES 2019/20 AND MTFs**

- 8.1 The Council's MTFs ensures that the commitments made in the Business Plan are funded not only in the year for which formal approval of the budget is required (2019/20) but for forecast years as well, within a reasonable level of tolerance.
- 8.2 The Council's medium term forecasts are shown at Appendix B and summarised in Table 2 below. The forecasts are based on a 1.97% Council Tax increase in 2019/20 and 1.98% per annum from 2020/21 onwards in line with the current approved MTFs.

**Table 2: MTFS - 1.97% CT increase in 2019/20 and 1.98% increase in 2020/21 onwards**

	Estimate	Forecast	Forecast	Forecast	Forecast
	2019/20	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000	£000
<b>Expenditure</b>					
Net Service Expenditure	13,813	13,787	14,139	14,482	14,949
Corporate Items	-1,462	-111	-95	105	85
Renewable Energy Rates Retained	-433	-352	-359	-366	-374
Retained Business Rates (Growth)	-856	-966	-988	-1,014	-1,037
<b>Net Budget Requirement</b>	<b>11,062</b>	<b>12,358</b>	<b>12,697</b>	<b>13,207</b>	<b>13,623</b>
<b>Funding</b>					
Revenue Support Grant	0	0	0	0	0
Business Rates Baseline	-3,643	-3,715	-3,790	-3,865	-3,943
Business Rates Collection Fund Deficit	443	0	0	0	0
Council Tax Collection Fund Surplus	-59	-50	-50	-50	-50
Council Tax <i>(increases of 1.97% in 19/20 and 1.98% p.a 20/21 onwards)</i>	-7,803	-8,040	-8,282	-8,530	-8,785
<b>Total Funding</b>	<b>-11,062</b>	<b>-11,805</b>	<b>-12,122</b>	<b>-12,445</b>	<b>-12,778</b>
<b>Surplus(-)/Shortfall(+)</b>	<b>0</b>	<b>+553</b>	<b>+575</b>	<b>+762</b>	<b>+845</b>

- 8.3 Government grant figures for 2019/20 have been confirmed as part of the final finance settlement. The projections for 2020/21 onwards are based on the best estimates and information available and are consistent with the announcements on business rates in the Budget Statement 2018. However, subject to further clarity on the detailed implementation of the announcements, there remains a degree of uncertainty in these projections.
- 8.4 The net budget requirement for 2019/20 is currently estimated at **£11.062m** after all identified savings and contingencies are included. This includes the assumptions detailed at Appendix C. With the final funding and the 1.97% increase in Council Tax as per the approved MTFS, a balanced budget is presented for 2019/20.
- 8.5 The forecasts include all proposed savings from the FDC-CSR process over the next three years together with assumptions regarding additional receipts from Council Tax and Business Rates.

### **Contingencies within MTFS**

- 8.6 Contingencies have been included to allow for the impact of a possible extension to the existing recycling contract and for the potential effect of re-modelling the Council's pay grades to ensure compliance with the new national pay structure (effective 1 April 2019) and to meet the requirements of the Equality Act 2010.

### **Extension to Recycling Contract**

- 8.7 The Council has benefited for the last 4 years from a jointly procured contract, which is shared with the other Cambridgeshire and Peterborough collection authorities (Recap Partnership), delivering economies of scale. The current contract comes to an end in September 2019. The Council and Recap partners are currently negotiating an extension to the contract. The proposed 3 year extension allows the Council to continue to benefit from the current agreement and avoid the authority being exposed to the market for recyclates at a time when changes proposed in the Government Waste and Resources Strategy, which threatens to change kerbside collections, along with Brexit uncertainties,

could dramatically increase the cost of any newly procured contract. The contract extension is currently being finalised through negotiation with the contractor and reflects current and projected market conditions, resulting in a supplementary gate fee being charged. The forecast additional costs of £15k in 2018/19, £30k in 2019/20 rising to £75k in 2021/22 have been included in the MTFS.

### **New Pay and Grading Structure**

- 8.8 As a result of the national pay award for 2019/20 and the associated changes to the pay grades whereby pay points have been removed and others combined, a re-modelling exercise of the Council's current pay grades has recently been carried out. Any option will need to comply with the new national pay structure and also meet the requirements of the Equalities Act 2010. Depending on which option is finally approved, there is likely to be additional costs over the term of the MTFS. As no firm decision has yet been taken regarding the various options, additional costs have been included in the MTFS as a contingency at this time. The figures represent the estimated maximum cost of implementing the new structure, although the final cost will not be known until the agreed option has been implemented. A report on the various options is to be presented to Staff Committee in March 2019.
- 8.9 Taking into account the proposals in the Table 2 above, the estimated net budget requirement in 2019/20 is detailed in Appendix A. The level of forecast resources available to the Council and the estimated levels of expenditure over the medium term are set out in detail in Appendix B. These show a funding gap of £845k by the end of 2023/24.
- 8.10 The forecasts for the years 2020/21 – 2023/24 are provisional at this stage and should be considered with extreme caution. They are based on a 'neutral' impact of the Fair Funding Review and reforms of Business Rates Retention and New Homes Bonus. Future announcements and consultation outcomes will determine government policy and therefore the funding in future years. In addition, the forecasts are dependent on permanently maintaining the savings identified through the FDC-CSR proposals.
- 8.11 Based on the forecasts which have been arrived at on the basis of best estimates and known and available information currently, further savings will be required over the medium term through an approach of similar character and reach to the FDC-CSR which is to be delivered by the end of 2019/20.

### **SIGNIFICANT RISKS TO MTFS**

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

### **Other Risks**

#### **Capital Programme – Future Funding**

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

- 8.14 For example, a £1m scheme with a 20 year life, funded by prudential borrowing, would result in around an additional £75,000 per annum in interest (2.5%) and repayment costs.
- 8.15 To exemplify the effect on the MTFS of potential additional costs arising from the above risks, Table 3 below details a scenario whereby the Council loses 20% of its business rates growth income following the reforms in 2020/21.

**Table 3: MTFS Potential Impact of Major Risks**

	Estimate	Forecast	Forecast	Forecast	Forecast
	2019/20	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000	£000
<b>MTFS Shortfall - Appendix B</b>	<b>0</b>	<b>553</b>	<b>575</b>	<b>762</b>	<b>845</b>
20% loss of NNDR growth income		200	200	200	200
Increase in NHB threshold to 0.5%		50	100	150	200
<b>Revised Shortfall (excluding 0% CT impact)</b>	<b>0</b>	<b>803</b>	<b>875</b>	<b>1,112</b>	<b>1,245</b>
0% CT increase in 2019/20	151	155	160	165	170
<b>Revised Shortfall (including 0% CT impact)</b>	<b>151</b>	<b>958</b>	<b>1,035</b>	<b>1,277</b>	<b>1,415</b>

- 8.16 As stated earlier, it is important to note that the figures detailed in the above table are purely illustrative except for the effect of a 0% CT increase in 2019/20.

### Parish Precepts

- 8.17 The levels of parish precepts set throughout Fenland are provided for information at Appendix F. These will be reported to Council as part of the Council Tax setting process.
- 8.18 As part of the Fenland CSR process, Cabinet agreed at its July 2016 meeting, to phase out the Local Council Tax Support Grant funding to Parish Councils by 2019/20, the year this Council's Revenue Support Grant (RSG) from government also ceases. This reduced the grant payments to Parish Councils from £89,260 in 2016/17 to £59,507 in 2017/18, £29,750 in 2018/19 and zero in 2019/20.

## 9 FEES AND CHARGES

- 9.1 The Overview and Scrutiny Panel reviewed fees and charges for 2019/20 at its meeting on 14 January 2019 and were subsequently considered by Cabinet on 17 January 2019. All of these recommendations have been included in the financial forecasts.

## 10 SPECIAL AND GENERAL EXPENSES

- 10.1 For the purposes of Section 35 of the Local Government Finance Act 1992, the Council needs to pass appropriate resolutions for each financial year to determine how expenses which could legally be regarded as special should be treated.
- 10.2 If expenses are treated as special expenses, then they must be charged against the parts of the Council's area to which they relate.
- 10.3 Parish precepts are special expenses and cannot be treated as general expenses.
- 10.4 Drainage Board and Port Health levies which affect only part of the Council's area are treated as general expenses unless the Council resolves otherwise. These are currently treated as general expenses and it is recommended that this position continues for 2019/20.

- 10.5 Expenses incurred by the Council in performing, in part of its area, a function performed elsewhere by a parish council are special expenses unless the Council determines otherwise. Currently, these are treated as general expenses. To maintain this position, it is recommended that the Council determines that such expenses should not be treated as special expenses for the financial year 2019/20.

## 11 PORT HEALTH

- 11.1 The Port Health levy for 2019/20, based on expected expenditure, is recommended as shown in Table 4 below for Council to approve.

**Table 4: Port Health Levy 2019/20**

Description	£
a) Port Health anticipated expenditure	14,742
b) Port Levy	
Fenland District Council	13,047
South Holland District Council	1,032
King's Lynn and West Norfolk Borough Council	663
Total	14,742

## 12 COUNCIL TAX – LONG TERM EMPTY PROPERTY PREMIUM

- 12.1 Since April 2013 Councils have the discretion to charge up to 50% empty homes premium for properties that have been empty for over 2 years. In offering these new powers the Government were seeking to influence owners to bring empty homes back into use as well as the ability for Councils to increase Council Tax income. This Council agreed to charge a 50% premium on these properties (total Council Tax 150%).
- 12.2 As part of the 2017 Budget it was announced that the Government would be implementing new flexibilities in respect of charging additional Council Tax premiums on Long Term Empty properties. Legislation recently passed will enable Councils to charge additional premiums of 50% on empty properties over 2 years (bringing the premium up to 100% and the total Council Tax to 200%) with effect from 1 April 2019, an additional 100% premium on empty properties over 5 years (total premium 200% and total Council Tax to 300%) from 1 April 2020 and an additional 100% premium on empty properties over 10 years (total premium 300% and total Council Tax 400%) from 1 April 2021.
- 12.3 There are currently 104 properties in Fenland empty longer than 2 years. The current additional income raised from the 50% premium on these properties is around £82k. As this relates to Council Tax, this Council only retains around £13k. However, the main objective is to bring long term empty properties in Fenland back into use as soon as possible and to incentivise this by adding penalties through the additional Council Tax premium charged.
- 12.4 In order for the new levels of premiums to be charged with effect from 1 April 2019, Council is recommended to approve the additional premiums on long term empty properties as set out in paragraph 12.2 above.

## 13 COUNCIL TAX REFERENDUM THRESHOLD – 2019/20

- 13.1 As part of the 2019/20 Local Government Finance Settlement announcement, the government has confirmed that District Councils are required to seek the approval of their local electorate in a referendum if they wish to set council tax increases in 2019/20 that exceed the government set thresholds. The threshold has been set at an increase of 3% or greater than £5 over the previous year, whichever is higher for 2019/20.
- 13.2 The referendum limit at 3% is 1% higher than allowed for in the MTFS. For the purposes of this report, the figures in Table 2 above and Appendices A and B include the increases built into the already approved MTFS and not the threshold limit.

13.3 An additional 1% increase in Council Tax in 2019/20 would generate £77,000 of revenue per annum to the Council. Even then the estimates for future years would continue to show a significant and increasing shortfall (see Table 2 in paragraph 8.2 above and Appendix B).

#### **14 FENLAND DISTRICT COUNCIL – COUNCIL TAX 2019/20**

14.1 After the estimates of expenditure and income have been prepared, and the Final Settlement has been received, the next step is to set the council tax for 2019/20 for Fenland District Council. This is the final piece of the “jigsaw” that identifies the balance of the total resources required to fund the Council’s services.

14.2 When considering the level of Council Tax to be set for 2019/20 it is not only important and critical but essential to give full and due regard and consideration to the projected budget shortfalls over the medium term – 2019/20 to 2023/24 as set out in Table 2 in paragraph 8.2 above. In order to meet the objectives and guidelines set out in the MTFS and based on the assumptions shown at Appendix B, the following council tax increases have been factored in to the calculations in line with the current policy :

<b>YEAR</b>	<b>INCREASE FOR MTFS PURPOSES</b>
• 2019/20	1.97%
• 2020/21 – 2023/24	1.98% per annum

The assumed increase for 2019/20 in the MTFS approved in February 2018 is at 1.98%. However, due to the way that the absolute monetary amount of council tax is calculated at Band D, which is to make it divisible by the 9 so that all the other bands also calculate exactly to the penny, the percentage increase to apply to achieve this is 1.97%.

14.3 It is expected that these increases together with the achievement of the identified efficiency savings, would provide the resources required to fund the current level of service provision in 2019/20. However, over the period of the MTFS, the Council will need to consider its strategy to meet the estimated shortfalls shown at Table 2 and in Appendix B.

14.4 The Interim Corporate Director and Chief Finance Officer advises that the Council should consider carefully the implications of a Council Tax increase less than 1.97% in 2019/20 if it was minded to do that, in the light of the already stated uncertainties in future funding from 2020/21 and the spending pressures. The forecasts, even with the assumed increases in the Council Tax in paragraph 14.2 above show budget deficits which by 2023/24 amount in total to £845k that will need to be managed out to set balanced budgets over the period of the MTFS. The implication of a lesser increase is that the Council would be reducing its financial base permanently as it would not be able to recover potential revenue foregone due to the cumulative year on year impact. The consequences of continually setting low/zero Council Tax levels and not achieving the necessary savings/additional income have been clearly demonstrated by the events at Northamptonshire County Council. The ability to achieve significant year on year savings (without increasing existing and introducing new revenue streams together with transformational change) to balance the budget becomes progressively difficult without eventually impacting on front-line services and delivery.

14.5 Council is also advised that the government recognised in 2017/18 that district council budgets were under significant pressure due to the ongoing impact of the austerity measures and in response changed the council tax raising limit in the referendum rules by introducing a monetary amount of £5 in addition to the then 2% limit whichever was the higher. In 2018/19 it raised the 2% limit to 3%.

- 14.6 Council can of course agree to a higher increase (up to the referendum limit of 3%) and a 1% rise in Council Tax raises around £77,000 revenue per annum. This being so, with the 1.97% increase as per the MTFs figures in Table 2 / Appendix B the Council will be foregoing its ability to raise an additional £77,000 on an ongoing basis. A 0% Council Tax increase compared to the referendum limit of 3%, would mean the Council foregoing its ability to raise an additional £230,000 on an ongoing basis.
- 14.7 Table 5 shows the implications of increasing the Council Tax in 2019/20 by 1.97% and 1.98% per annum thereafter compared to freezing the Council Tax in 2019/20 and increasing it at 1.98% per annum thereafter.

**Table 5: MTFs Deficits at Differing Council Tax increases in 2019/20**

Deficits based on different % increases	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000
Deficits at 1.97% increase <i>(as shown in Table 2/Appendix B)</i>	0	+553	+575	+762	+845
Reduction in CT at 0%	+151	+155	+160	+165	+170
Deficits at 0% increase	+151	+708	+735	+927	+1,015

- 14.8 The Council's Band D Council Tax for 2019/20 at the 1.97% increase would be £265.59, an increase of £5.13 per Band D property on the current year. However, for the majority of properties in the district (84%) the increase will be proportionately less (although the percentage increase will be the same). Table 6 below shows the proposed Council Tax levels for each property band and the relevant increase at the 1.97% increase.

**Table 6: Proposed FDC Council Tax levels 2019/20 (1.97% increase) by Property Band**

Property Band	Proportion to Band D	% of Properties	Current 2018/19 Council Tax £	Proposed 2019/20 Council Tax 1.97% increase £	Increase per annum £	Increase per week pence
A	6/9	37.38	173.64	177.06	3.42	6.6p
B	7/9	27.19	202.58	206.57	3.99	7.7p
C	8/9	19.04	231.52	236.08	4.56	8.8p
<b>D</b>	<b>9/9</b>	<b>9.96</b>	<b>260.46</b>	<b>265.59</b>	<b>5.13</b>	<b>9.9p</b>
E	11/9	4.76	318.34	324.61	6.27	12.1p
F	13/9	1.29	376.22	383.63	7.41	14.3p
G	15/9	0.35	434.10	442.65	8.55	16.4p
H	18/9	0.03	520.92	531.18	10.26	19.7p

- 14.9 Table 7 shows the Band D Council Tax for spending at the level proposed, together with Council Tax levels from the major preceptors and Parishes.

**Table 7: Band D Council Tax Levels 2019/20**

COUNCIL TAX BASE	2019/20 29,380		2018/19 28,979	
	£	Band D £	£	Band D £
Fenland District Council Precept (Appendix A)	<u>7,803,030</u>		<u>7,547,870</u>	
<b>Fenland District Band D Council Tax</b>	<b>1.97%</b>	<b>265.59</b>	<b>1.97%</b>	<b>260.46</b>
MAJOR PRECEPTORS				
County Council	(4.98%)	1,312.11	(4.99%)	1,249.83
Police & Crime Commissioner	(12.05%)	222.66	(6.41%)	198.72
Fire Authority	(2.88%)	70.74	(2.96%)	68.76
Sub Total BAND D TAX		1,871.10		1,777.77
Parish Councils-average (Appendix F)	(-1.19%)	46.41		46.97
Total average Band D Tax		1,917.51		1,824.74
<b>Total average increase over 2018/19</b>		<b>£92.77 (5.08%)</b>		

- 14.10 The County Council increase for 2019/20 includes 2% for the Adult Social Care precept (£25.00) and 2.98% on the general council tax (£37.28), giving a total increase of 4.98% (£62.28). For 2019/20, the Police and Crime Commissioner is allowed to increase council tax by up to £24.00 on a Band D property. The actual increase is £23.94 (12.05%).

## 15 TREASURY MANAGEMENT, CAPITAL STRATEGY AND ANNUAL INVESTMENT STRATEGY 2019/20

- 15.1 Full details of the proposed Treasury Management, Capital Strategy and Annual Investment Strategy for 2019/20 are contained in Appendix E. The proposed strategies were presented to and endorsed by Corporate Governance Committee on 5 February 2019.
- 15.2 The key issues relating to the strategies and their impact on the MTFs are as follows:
- Continuing compliance with CIPFA's Treasury Management Code of Practice and the MHCLG's Investment Guidance;
  - The prudential and treasury indicators detailed in paragraphs 2-11 of Appendix E, show that the Council's capital investment plans are affordable, prudent and sustainable;
  - The Capital Strategy, detailed at Annex A of Appendix E, sets out the context in which capital expenditure and investment decisions are made and establishes that the Council has arrangements in place to ensure it gives due consideration to risk, reward, and impact on the achievement of priority outcomes;
  - The MRP policy sets out how the Council will make prudent provision for the repayment of borrowing needs over the medium term forecast;

- The Treasury Management Strategy has been organised so that the Council will have sufficient cash resources to meet capital expenditure plans and operational cash flows;
- At the current time, no opportunities exist to repay or reschedule the Council's external (total £7.8m) due to the premiums that would become payable on redeeming the debt early. For example, the Council's long term PWLB debt of £4.5m would currently attract a premiums of £3m;
- The Council complies with all statutory requirements in relation to its' external debt portfolio. However, the Council does not technically comply with the CIPFA Code prudential indicator for gross borrowing and capital financing, which fails to take into account the specific circumstances relating to the timing of the Housing Stock Transfer and the impact of interest rates on the repayment of debt since then;
- Total external interest which includes finance lease interest payments; revised estimate for 2018/19 is £507,940 and the estimate for 2019/20 is £574,000.
- The Bank of England's Base rate is forecast to increase steadily but slowly over the next few years to reach 2% by quarter 1 2022.
- The current Medium Term Financial Strategy assumes that some external borrowing will be required over the four-year period to 31 March 2022.
- The aim of the Council's annual investment strategy is to provide security of investments whilst minimising risk; investment returns are commensurate with the Council's low risk appetite. The Council achieves these objectives through differentiating between "specified" and "non-specified" investments and through the application of a creditworthiness policy.
- Total investment income is an estimated £170,000 for 2018/19 and £180,000 for 2019/20.

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

- 16.1 An important part of any budget strategy is the review and consideration of reserves. Earmarked Reserves are typically held and used in a planned way to deal with issues where it is foreseen that resources need to be set aside to meet a specific need but the exact amount and timing is not known. General Reserves are held to cushion the impact of an event or events that cannot be foreseen whilst maintaining these resources at a consistent and reasonable level over the medium term.
- 16.2 Sufficient levels of reserves are necessary to provide for various contingent and unplanned items that could include:-
- significant increased costs of providing statutory services
  - significant increased contractual costs
  - an unexpected and/or significant event or disaster, e.g. civil emergency
  - an unexpected major liability in law
  - the need to make significant payments in relation to prior year adjustments under the direction of the external auditor
- 16.3 The Council's current forecast uncommitted General Fund Balance at 31 March 2019 is £2.422m and has been consistently maintained around this level for a number of years. It is expected that this level of Balance will be maintained over the length of the MTFS in light of the future uncertainties and risks in respect of future funding for local government and particularly District Councils highlighted in this report.

- 16.4 Following the repayment of the Council's liability to the Pilots' National Pension Fund (PNPF) earlier this financial year, Cabinet agreed at their December 2018 meeting that the balance on the PNPF reserve (£451k) be transferred to a Local Plan Review Reserve to fund the review of the Local Plan scheduled to commence in 2019/20. The estimated cost of the Local Plan Review is £600k over the period 2019/20 to 2021/22. Therefore, to ensure that the reserve is built up to the required level to fund this significant requirement any surplus at outturn in 2018/19 will also be used for this purpose.

## **17 CAPITAL PROGRAMME**

- 17.1 Capital Expenditure and Income plans have been prepared through the Council's service and financial planning cycle. The Council's capital resources are dependent on government funding, external grants and contributions or through the ongoing disposal of assets.
- 17.2 A fully-updated Capital Programme for 2018-22 is presented at Appendix D for approval. The programme has been updated to ensure it adequately reflects the cost and anticipated timing of schemes previously approved. The total capital receipts expected over the period covered by the programme is unchanged at £836K. In the event that the Council succeeds in securing additional capital receipts from the sale of Council assets the financing of the capital programme will be reviewed and updates will be provided to Cabinet.
- 17.3 During the year several new schemes have been incorporated into the capital programme for 2018/19. Of these, three relate to the replacement or enhancement of recreation facilities. These schemes are predominantly funded from S106 monies held by the Council. Earlier this year the Council received notice from its supplier that the existing printing devices used by Council Officers and Members could no longer be supported under the current maintenance agreement. Following an evaluation the replacement devices have been purchased and funded from capital resources. Due to lower usage costs these devices will deliver revenue savings to the Council over their useful life.
- 17.4 Provision has also been made in this financial year and future years for the cost of undertaking reversion works to the premises the Council leases in March and Wisbech to operate One Stop Shop facilities. The timing and extent of the works required will be determined by the decision taken at this meeting as regards where the One Stop Shop facilities are to be located.
- 17.5 The Asset Management Plan has been revisited and this has identified a small number of areas where additional investment is now required in future financial years. Council approved the acquisition of new audio-visual equipment for the Council Chamber at its meeting on 15 November 2018 and the programme has been updated to reflect the estimated cost. Funds have also been allocated to update the audio-visual Equipment at the South Fens and Boathouse Business Centres, as well to undertake essential health and safety works to Fenland Hall, as identified in an updated condition survey. The investment required to ensure the Council is able to continue to discharge its statutory responsibilities in relation to its Port Estate has also been determined and incorporated into the programme.
- 17.6 The investment required in relation to the CCTV service has been reduced to reflect the decision taken by Council in January 2019 to approve the implementation of a CCTV shared service with Peterborough City Council.
- 17.7 From 4<sup>th</sup> December 2018 the Council entered into a fifteen-year contract for the management and operation of the Council's leisure centres. As part of that contract, Freedom Leisure agreed to undertake a significant investment programme in the Hudson leisure centre buildings in the early years of the contract and to replace leisure equipment, as necessary, over the life of the contract. The cost of this investment and replacement programme is reflected in the fees payable to the Council by Freedom over

the life of the contract. The Council's agreement with Freedom means that the Council will incur capital expenditure as and when investment works are undertaken and when replacement equipment is purchased. Over the life of the four-year capital programme set out in Appendix D, investment in improved facilities is estimated to be £905k and replacement equipment is expected to cost £745k. The capital programme also includes provision for the cost of capital works identified as part of a condition survey of the Council's leisure facilities commissioned by the Council.

- 17.8 The Council continues to work closely with the Cambridgeshire and Peterborough Combined Authority (CPCA) on a number of projects. Some of these will result in the Council incurring capital expenditure which will be either fully or part-funded by monies from the CPCA. The current capital programme includes improvement works to March and Whittlesea Railway Stations which will be fully-funded by the CPCA.
- 17.9 Should resources from external funding and/or capital receipts not generate the level of receipts forecast, or there is a delay in disposal of assets, then the capital programme will need re-visiting to ensure funding is sufficient to meet proposed expenditure including through borrowing. Reviews of the programme and resources available are carried out regularly during the year.
- 17.10 The Council's Borrowing Strategy which is incorporated into the Council's Treasury Management Strategy Statement (Appendix E) recognises that some prudential borrowing may be required over the life of the capital programme. The projected additional annual revenue costs for the Council are reflected in the MTFs.
- 17.11 The Local Government Act 2003 introduced a new Prudential Borrowing regime. This requires all Councils to set and monitor indicators relating to capital expenditure, external debt and impact on council tax. The recommended indicators for Fenland District Council from 2019/20 are included in the Treasury Management Strategy detailed below and in Appendix E.

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

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

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

- 18.2 The proposed budget is set against the context of continued reductions in core Government funding. 2019/20 is the last year of the current Medium Term Financial Strategy linked to the submission of an Efficiency Plan which secured a multi-year settlement until 2019/20 thereby providing a level of certainty for this element of funding. This allowed planning to take place and the proposed budget is consistent with the MTFs framework. The final settlement from the Government did not impose a negative RSG that would have required unplanned savings or use of reserves to balance the budget.
- 18.3 In 2020/21 the Government intends to make fundamental changes to the funding system for Local Government through the introduction of a new needs based fairer funding formula and the introduction nationally of 75% business rates retention (BRR) and a new system of distributing the New Homes Bonus. The cumulative impact of these changes and lack of visibility on any transition or damping arrangements means that financial planning for 2020/21 is very uncertain. The Council should therefore retain its current level of reserves to mitigate against the impact of forthcoming changes to afford it the ability to plan for a sustainable financial future.

- 18.4 The Section 151 Officer is required to report to the Cabinet and Council the key risks facing the Council in relation to current and future budget provision.

## **RISK ASSESSMENT**

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

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

In the current national and international context, some of the factors included in the assumptions can be particularly volatile. The MTFs will be prepared annually on a rolling basis so that as information becomes more certain the figures will be updated and early consideration can be given to any action or changes in direction that may be required.

### **(a) National Economy**

According to the Office of Budget Responsibility (OBR) Economic and Fiscal Outlook of October 2018 there remains no meaningful basis on which to predict the outcome of the current negotiations over the relationship between the UK and the EU after Brexit other than continuing with a broad-brush assumptions on productivity, trade and migration.

The OBR forecast on growth in the economy is that of a marginally better growth over the period to 2022 than the forecast from March 2018. The fiscal outlook is that the Government will manage the economy with a residual national deficit. This is mainly as a result of the combination of the effects of the Chancellor’s Budget giveaways and the commitment to fund the NHS by the Prime Minister.

It is not clear what this means for Local Government as there will still be distributional impacts across Government. The next government Spending Review is expected to take place in autumn 2019 for 2020/21 onwards and it is unclear how many years it will cover.

Any negative changes in the economy may have an impact on the financial health and therefore viability of businesses which could lead to loss of business rates. The council holds bad debts provision for business rates and this is kept under review by the S.151 Officer during the year. The Council also has a Business

Rates Equalisation Reserve which is for use to smooth out any significant variations in the business rates income that it retains. The Council is therefore mitigating a high level risk to shield itself against a significant variation in its retained business rates income.

**(b) Inflationary Costs**

CPI inflation is forecast to remain at 2% until 2020 while RPI is forecast at 3%. The MTF5 includes 2% pay award. However, no inflationary increases have been allowed on general expenditure budgets except for utilities, external contracts and drainage board levies.

The Council's next triennial pension fund valuation is due for 1 April 2020 and is likely to lead to further increases in employer contributions. The last valuation resulted in an increase of £35k per annum. An increase in employer's contribution of 0.4% has been factored in the MTF5 from 2020/21 and thereafter.

**A council tax increase of less than 2% (level of inflation) or at least the level incorporated in the current approved MTF5 combined with the reduction in the Government support by 9% compounds the ongoing pressure of being able to balance the budget over the period of the MTF5 especially at a time of uncertainty regarding the future funding system for Local Government.**

**(c) Income Risks**

The income budgets reflect the fees and charges set out in the fees and charges schedule for 2019/20 approved by Cabinet on 17<sup>th</sup> January 2019. A prudent level of income assessments has been factored into the budget. Fees and Charges have increased by inflation or where appropriate by more than inflation or by the statutory fee or on a cost recovery basis. Regular budget monitoring of income identifies any income trends and appropriate action plans put in place. The income targets included within the 2019/20 budget are considered achievable. Planning fees carry a significant risk if the expected applications for major schemes do not come through.

Any changes resulting from the new National Waste Strategy currently being consulted on, in the council's waste and recycling collection service including green waste during the period of the MTF5 may have negative impact on a significant income stream as well as the cost structure of the service.

**(d) Capital Spending**

The Council has been supporting its capital programme through its usable capital receipts, capital grants and contributions (including S.106 monies) and internal borrowing in lieu of actual external borrowing. The internal borrowing is mainly the use of its surplus cash flow and core funds which otherwise would be invested through the Treasury Management activities. The surplus cash funds will be more or less utilised during the period of the MTF5 and therefore the Council will have to undertake actual external borrowing to fund the balance of the capital programmes in the future. As such provision for debt charges for the new borrowing will be required in the revenue budget. A provision for the cost of the borrowing has been included in the 2019/20 budget for the improvement works to the Leisure Centres.

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

The robustness of the Budget estimates and the adequacy of the reserves are largely dependent on the levels of risk and uncertainty. There is an element of judgement as budget estimates of spending and income are made at a point in time and may change as circumstances change.

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

The principal financial assumptions made in the Budget are noted in this report and attached at Appendix C. Budget monitoring throughout the year will be an important tool in identifying, at an early stage, potential issues so appropriate action can be taken.

The delivery of the planned savings including all those of CSR1 in 2019/20 and major business projects **is critical** to the successful delivery of the Council's budget strategy. Current activity provides adequate assurance as to the deliverability of the 2019/20 budget with future year projections representing realistic planning assumptions which will be subject to review as part of the annual budget setting process.

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

A risk based approach to consideration of the level of reserves is a component of the Council's overall risk management framework. Operational risks should be managed within Services' bottom line budgets and thus will not normally result in a call on the Council's General Balances, as detailed in Section 16 above.

My assessment of the process that has been undertaken is that the calculations used in the preparation of the estimates for the Budget for 2019/20 are fair and robust and that reserves are adequate to reflect known circumstances and to be able to manage the stated uncertainties and risks as far is known at this time. All earmarked reserves are held for the purpose for which they are set up and are considered to be adequate to meet the requirements of those purposes when called upon based on the best information available as at the time of writing.

**On the basis of the planned 1.97% increase in Council Tax there are no 'unidentified' savings still to be identified within the balanced Draft Budget 2019/20.**

## FENLAND DISTRICT COUNCIL

## Summary of Revenue Estimates

	Approved Estimate 2018/19 £	Revised Estimate 2018/19 £	Estimate 2019/20 £
<b>Service Summary</b>			
Growth & Infrastructure	1,563,495	1,609,795	1,275,560
Housing, Environment, Leisure & Community	4,395,640	4,513,370	4,270,720
Resources & Customer Services	6,123,340	6,113,910	6,360,638
Planning, Policy & Governance	1,703,960	1,699,010	1,905,920
<b>NET COST OF GENERAL FUND SERVICES</b>	<b>13,786,435</b>	<b>13,936,085</b>	<b>13,812,838</b>
<b>Corporate Items</b>			
Contributions to/ (from) Earmarked Reserves	-1,046,187	-919,427	-1,157,380
Revenue Funding of Capital Expenditure	1,297,000	1,063,000	470,000
RTB/VAT Sharing Income	-90,000	-90,000	-40,000
Financing Charges - <i>Interest/Minimum Revenue Provision</i>	658,795	658,925	824,000
Investment Income	-155,000	-170,000	-180,000
New Homes Bonus	-1,426,180	-1,426,180	-1,294,000
Council tax Support - <i>Payments to Parish Councils</i>	29,750	29,750	0
Brexit Preparation Grant	0	-17,500	-17,500
A14 Contribution	0	0	32,000
Allocation of Levy Account Surplus	0	0	-55,883
Contingencies:			
Extension of Recycling Contract	0	15,000	30,000
Re-modelling of Pay Grades	0	0	30,000
Business Rates - net additional income above baseline <i>(government grants for reimbursement of reliefs, growth less levy payment)</i>	-1,699,698	-1,688,738	-1,289,185
Corporate Adjustments	<b>-2,431,520</b>	<b>-2,545,170</b>	<b>-2,647,948</b>
<b>Net Expenditure before further CSR savings</b>	<b>11,354,915</b>	<b>11,390,915</b>	<b>11,164,890</b>
<i>CSR Savings identified not yet implemented</i>			<b>-103,000</b>
<b>Net Expenditure after further CSR Savings</b>	<b>11,354,915</b>	<b>11,390,915</b>	<b>11,061,890</b>
Contribution from General Fund Balance	0	0	0
<b>NET EXPENDITURE after use of balances/reserves</b>	<b>11,354,915</b>	<b>11,390,915</b>	<b>11,061,890</b>
<b>Core Funding</b>			
Revenue Support Grant	-443,802	-443,802	0
Business Rates Baseline Funding	-3,560,925	-3,560,925	-3,642,529
<b>Council Tax Collection Fund Surplus(-)</b>	<b>-110,000</b>	<b>-110,000</b>	<b>-59,319</b>
<b>Business Rates Collection Fund Deficit(+)</b>	<b>168,682</b>	<b>168,682</b>	<b>442,988</b>
<b>Council Tax</b>	<b>-7,547,870</b>	<b>-7,547,870</b>	<b>-7,803,030</b>
<b>Surplus(-)/Shortfall(+)</b>	<b>-139,000</b>	<b>-103,000</b>	<b>0</b>

<b>GROWTH AND INFRASTRUCTURE</b>			
<b>Service</b>	<b>2018/19 Current Approved Estimate £</b>	<b>2018/19 Projected Outturn £</b>	<b>2019/20 Original Estimate £</b>
<b>Direct Services</b>			
Marine Services	-101,700	-89,200	-187,400
Drainage (District)	3,000	3,000	3,000
Highways	220,800	220,800	136,300
Car Parks	177,300	177,300	184,700
Sewage Treatment Works	15,500	15,500	-13,400
Parish Council Concurrent Functions	41,395	41,395	42,250
Miscellaneous (Clocks, Monuments)	6,400	7,900	11,500
Economic Estates	-82,440	-76,240	-79,600
Planning Policy	244,400	259,000	130,750
Transport Development	153,550	130,650	137,900
Economic Development	87,650	87,650	139,950
HLF- High St Wisbech	46,730	46,730	30,170
<b>Total Direct Services</b>	<b>812,585</b>	<b>824,485</b>	<b>536,120</b>
<b>Support Services</b>			
Asset & Project Services	397,450	397,450	395,500
Fenland Hall	325,360	358,160	296,100
The Base	96,100	97,700	97,840
<b>Total Support Services</b>	<b>818,910</b>	<b>853,310</b>	<b>789,440</b>
<b>Net Cost of Services</b>	<b>1,631,495</b>	<b>1,677,795</b>	<b>1,325,560</b>
<b>Less Support Services Recharges to Capital Schemes</b>	<b>-68,000</b>	<b>-68,000</b>	<b>-50,000</b>
<b>TOTAL GROWTH AND INFRASTRUCTURE</b>	<b>1,563,495</b>	<b>1,609,795</b>	<b>1,275,560</b>

Notes:

1. Within all the Service Estimates detailed in Appendix A(ii), Support Services costs have not been reallocated with the exception of recharges to Capital Schemes.
2. Similarly, Capital Charges have not been reallocated as these 'costs' are reversed out within the Corporate Items section of the estimates, thereby having no impact on the Budget Requirement and Council Tax.
3. Estimates for 2019/20 include the assumptions on pay, expenditure and income detailed at Appendix C.

<b>HOUSING, ENVIRONMENT, LEISURE &amp; COMMUNITY</b>			
<b>Service</b>	<b>2018/19 Current Approved Estimate £</b>	<b>2018/19 Projected Outturn £</b>	<b>2019/20 Original Estimate £</b>
<b>Direct Services</b>			
Housing Strategy	127,200	127,200	120,380
Private Sector Renewals	104,390	104,390	103,910
Housing Standards	21,590	19,670	23,950
Care & Repair	28,590	28,590	28,930
CCTV	100,390	108,120	81,230
Safer Fenland	104,670	104,670	108,920
Licensing	-8,970	-14,840	12,560
Housing Options	275,540	281,150	394,020
Controlling Migration	-39,860	2,670	53,530
Community Development	99,620	99,620	134,170
Community House	31,760	31,860	0
Travellers Services	-45,360	-30,360	-77,380
Pollution Reduction	190,490	167,620	125,480
Public Health	224,360	224,360	262,710
Food Safety	139,740	137,310	136,000
Health and Safety	50,800	50,060	76,880
Refuse Collection - Domestic	1,159,440	1,131,440	1,184,490
Garden Waste	-206,220	-221,910	-9,520
Refuse Collection - Trade Waste	-143,890	-155,820	-101,010
Street Cleansing	809,510	809,070	810,600
Streetscene	236,950	236,950	238,570
Public Conveniences	23,510	23,410	23,730
Arts Development & Culture	9,900	9,900	10,040
Tourism Development	29,000	29,000	29,670
Leisure Centres	395,340	558,420	-174,430
Sports Development	68,320	64,720	75,240
Parks and Open Spaces	473,860	462,280	467,060
Cemeteries	-4,650	-16,520	11,340
Markets and Fairs	90	90	-7,520
Community Events	107,310	105,940	101,900
Vehicle Workshop	32,220	34,310	25,270
<b>TOTAL HOUSING, ENVIRONMENT, LEISURE &amp; COMMUNITY</b>	<b>4,395,640</b>	<b>4,513,370</b>	<b>4,270,720</b>

<b>PLANNING, RESOURCES AND CUSTOMER SERVICES</b>			
<b>Service</b>	<b>2018/19 Current Approved Estimate £</b>	<b>2018/19 Projected Outturn £</b>	<b>2019/20 Original Estimate £</b>
<b>Direct Services</b>			
Miscellaneous Central Services	242,040	240,740	234,040
Drainage Board Levies	1,436,980	1,436,980	1,480,080
Unfunded Pension Costs/Apprenticeship Levy	899,000	899,000	937,000
Corporate Management	744,190	753,620	515,058
Council Tax Cost of Collection	-36,130	-37,990	198,700
Business Rates Cost of Collection	2,720	3,800	-23,950
Housing Benefits	100,560	100,930	184,840
ICT Direct Service Costs	636,470	643,790	608,230
Emergency Planning	34,260	34,440	68,690
<b>Total Direct Services</b>	<b>4,060,090</b>	<b>4,075,310</b>	<b>4,202,688</b>
<b>Support Services</b>			
Accountancy	526,620	528,750	541,850
Information & Communication Technology	355,520	353,370	372,190
Customer Access	870,320	848,770	946,030
Corporate Health & Safety	2,360	1,360	10,790
Human Resources	308,430	306,350	287,090
<b>Total Support Services</b>	<b>2,063,250</b>	<b>2,038,600</b>	<b>2,157,950</b>
<b>TOTAL RESOURCES AND CUSTOMER SERVICES</b>	<b>6,123,340</b>	<b>6,113,910</b>	<b>6,360,638</b>

<b>PLANNING, POLICY AND GOVERNANCE</b>			
<b>Service</b>	<b>2018/19 Current Approved Estimate £</b>	<b>2018/19 Projected Outturn £</b>	<b>2019/20 Original Estimate £</b>
<b>Direct Services</b>			
Development Management	-52,690	-5,490	-56,200
Building Control	54,400	54,400	54,000
Conservation	39,970	39,970	39,170
Planning Compliance	81,850	81,850	85,450
Technical Support	158,640	158,640	178,000
Policy	206,950	204,950	216,450
Land Charges	-73,290	-73,290	-74,200
Elections & Electoral Registration	195,400	200,350	323,750
Democratic Services	551,780	550,980	562,550
<b>Total Direct Services</b>	<b>1,163,010</b>	<b>1,212,360</b>	<b>1,328,970</b>
<b>Support Services</b>			
Post & Reprographics	203,900	199,600	185,100
Internal Audit	89,200	89,200	93,800
Legal Services	247,850	197,850	298,050
<b>Total Support Services</b>	<b>540,950</b>	<b>486,650</b>	<b>576,950</b>
<b>TOTAL PLANNING, POLICY AND GOVERNANCE</b>	<b>1,703,960</b>	<b>1,699,010</b>	<b>1,905,920</b>

**APPENDIX B**

<b>Medium Term Financial Strategy</b>	Projected 2018/19 £000	Estimate 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000	Forecast 2022/23 £000	Forecast 2023/24 £000
<b>Expenditure</b>						
<b>Service Expenditure</b>						
Gross Service Expenditure	25,057	22,466	21,816	22,239	22,661	23,227
Fees and Charges	-7,458	-6,020	-6,093	-6,176	-6,265	-6,349
Grants and Contributions	-2,834	-1,768	-1,053	-1,021	-991	-986
Recycling Credits	-829	-865	-883	-903	-923	-943
<b>Total Net Service Expenditure</b>	<b>13,936</b>	<b>13,813</b>	<b>13,787</b>	<b>14,139</b>	<b>14,482</b>	<b>14,949</b>
<b>Corporate Items</b>						
<b>Corporate Expenditure/Savings</b>						
Council Tax Support Grant - Parish Councils	30	0	0	0	0	0
Financing Charges - Interest on External Borrowing	507	533	565	556	556	556
Financing Charges - Current Capital Programme - MRP	152	250	387	407	407	407
Financing Costs - Leisure Contract Capital Schemes		41	268	268	268	268
Savings from Prepayment of Pension Lump Sum			-35	-35	-35	-35
A14 Upgrade - contribution		32	32	32	32	32
CSR Savings identified but not yet implemented		-103	-238	-238	-238	-238
<b>Contingencies</b>						
Extension of Recycling Contract (subject to negotiation)	15	30	50	75	75	75
Re-modelling of Pay Grades (subject to negotiation)		30	100	120	150	180
	<b>704</b>	<b>813</b>	<b>1,129</b>	<b>1,185</b>	<b>1,215</b>	<b>1,245</b>
<b>Corporate Income Items</b>						
RTB/VAT Sharing Income	-90	-40	-40	-40	-10	-10
Investment Income	-170	-180	-200	-210	-200	-200
New Homes Bonus	-1,426	-1,294	-1,050	-1,080	-950	-1,000
Brexit Preparation Grant	-18	-17				
Allocation of Business Rates Levy Account Surplus		-56				
Contribution to(+)/from(-) Earmarked Reserves	144	-688	50	50	50	50
Business Rates - net additional income above baseline	-1,689	-1,289	-1,318	-1,347	-1,380	-1,411
	<b>-3,249</b>	<b>-3,564</b>	<b>-2,558</b>	<b>-2,627</b>	<b>-2,490</b>	<b>-2,571</b>
<b>Total Corporate Items</b>	<b>-2,545</b>	<b>-2,751</b>	<b>-1,429</b>	<b>-1,442</b>	<b>-1,275</b>	<b>-1,326</b>
<b>Gross Service/Corporate Expenditure</b>	<b>25,761</b>	<b>23,279</b>	<b>22,945</b>	<b>23,424</b>	<b>23,876</b>	<b>24,472</b>
<b>Gross Service/Corporate Income</b>	<b>-14,370</b>	<b>-12,217</b>	<b>-10,587</b>	<b>-10,727</b>	<b>-10,669</b>	<b>-10,849</b>
<b>Net Budget Requirement</b>	<b>11,391</b>	<b>11,062</b>	<b>12,358</b>	<b>12,697</b>	<b>13,207</b>	<b>13,623</b>
<b>Funding - RSG/NNDR/CT</b>						
Revenue Support Grant	-444	0	0	0	0	0
Business Rates Baseline Funding	-3,561	-3,643	-3,715	-3,790	-3,865	-3,943
Business Rates Collection Fund Deficit	169	443	0	0	0	0
Council Tax Collection Fund Surplus	-110	-59	-50	-50	-50	-50
Council Tax (increases of 1.97% in 19/20 and 1.98% p.a 20/21 onwards)	-7,548	-7,803	-8,040	-8,282	-8,530	-8,785
<b>Total Funding - RSG/NNDR/CT</b>	<b>-11,494</b>	<b>-11,062</b>	<b>-11,805</b>	<b>-12,122</b>	<b>-12,445</b>	<b>-12,778</b>
<b>Surplus(-)/Shortfall(+)</b>	<b>-103</b>	<b>0</b>	<b>+553</b>	<b>+575</b>	<b>+762</b>	<b>+845</b>

<b>Summary</b>						
<b>Total Gross Expenditure</b>	<b>25,761</b>	<b>23,279</b>	<b>22,945</b>	<b>23,424</b>	<b>23,876</b>	<b>24,472</b>
Funded by:						
Fees and Charges	-7,458	-6,020	-6,093	-6,176	-6,265	-6,349
Grants and Contributions	-2,834	-1,768	-1,053	-1,021	-991	-986
Recycling Credits	-829	-865	-883	-903	-923	-943
New Homes Bonus	-1,426	-1,294	-1,050	-1,080	-950	-1,000
Other - Investment Income, VAT/RTB, Reserves	-134	-981	-190	-200	-160	-160
Revenue Support Grant	-444	0	0	0	0	0
Retained Business Rates	-5,081	-4,489	-5,033	-5,137	-5,245	-5,354
Council Tax	-7,658	-7,862	-8,090	-8,332	-8,580	-8,835
<b>Total Funding</b>	<b>-25,864</b>	<b>-23,279</b>	<b>-22,392</b>	<b>-22,849</b>	<b>-23,114</b>	<b>-23,627</b>
<b>Surplus(-)/Shortfall(+)</b>	<b>-103</b>	<b>0</b>	<b>+553</b>	<b>+575</b>	<b>+762</b>	<b>+845</b>

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

Within the forecasts are a number of assumptions which are necessary to produce the overall budget strategy. However, there is an element of risk associated with this process although the aim is to mitigate these risks as detailed in section 17 of the main report.

The main assumptions are as follows:

- 1.97% Council Tax increase for 2019/20 and 1.98% p.a. thereafter;
- 1.38% increase in Council Tax base in 2019/20 (Tax base 29,380) and 1.00% thereafter (increase of 300 Band D properties per annum);
- 2% pay award per annum for 2019/20 and thereafter;
- Allowance for pay increments;
- Continuing impact of increases to the National Living Wage from April 2018;
- Forecast increase in Employer's Pension Contributions (as determined by the latest triennial valuation of the Cambridgeshire Pension Fund in 2016). The current years' contribution takes the form of a percentage of pay (17.4%) together with a lump sum payment of £825,000. For 2019/20, the percentage of pay remains at 17.4% with the lump sum payments increasing to £865,000. For 2020/21 onwards, following the next triennial valuation, a further 0.4% increase in the percentage paid has been assumed;
- Inclusion of the Apprenticeship Levy at an annual cost of around £34,000;
- Inclusion of a vacancy factor over the MTFS, equivalent to a reduction in staff costs of around 2.5%;
- 0% general inflation for the period of the MTFS;
- Specific allowance for inflation for business rates, external contracts, energy and water, drainage board levies;
- Investment interest rates to stay at current rates until second quarter of 2019 when market rates are forecast to begin rising slowly to reach 2% by first quarter of 2022;
- Continuing impact of 2018/19 in year income pressures;
- Assumptions regarding forecast income levels from fees and charges have been included. These are a combination of fee increases (where applicable) and review of activity levels;
- The New Homes Bonus for 2019/20 onwards has been included as detailed in paragraph 4.4 of the report;

## CAPITAL PROGRAMME AND FUNDING 2018- 2022

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
<b>CURRENT FORECAST EXPENDITURE</b>	<b>3,743</b>	<b>5,909</b>	<b>1,750</b>	<b>1,415</b>
<b>FORECAST RESOURCES AVAILABLE</b>				
Capital Grants	1,222	1,018	950	950
Usable Capital Receipts - In Year	144	467	225	0
Usable Capital Receipts - B/fwd	6	0	0	0
Reserves used in year to fund Capital	1,063	470	69	0
Section 106's and Other Contributions	330	150	0	0
Borrowing (Internal and Prudential)	978	3,804	506	465
<b>Total Forecast Resources</b>	<b>3,743</b>	<b>5,909</b>	<b>1,750</b>	<b>1,415</b>

**CAPITAL PROGRAMME SUMMARY 2018 - 2022**

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Total Cost £000	FDC Funding £000	External Funding £000	External Funders and FDC Reserves/S106
<b>Leisure Centres</b>								
Essential Building Safety Improvements	24				24	24		
Condition Survey Improvements	30	152	187		369	369		£251K R&M Reserve
Hudson Leisure Centre Improvements	30	875			905	905		
Leisure Equipment	70	675			745	745		
<b>Regeneration Programmes</b>								
Fenland Renaissance and Place Shaping	30				30	30		
Heritage Lottery Fund - Match Funding bid	50	100			150	150		
Heritage Lottery Fund - 24 High Street, Wisbech	140	30			170	170		£50K Conservation Reserve
Heritage Lottery Fund - Acquisition of 11-12 High Street	150				150	150		
Railway Station Improvements	15	150			165		165	Fully- funded by Cambridge and Peterborough Combined Authority
<b>Cemeteries</b>								
Rebuild Front Wall - Manea Churchyard		15			15	15		
Rebuild Front Wall - St Mary's Churchyard, Whittlesey	5	20			25	25		
Remedial Works in Closed Cemeteries		25	25	25	75	75		
Mt Pleasant Cemetery, Wisbech			60		60	60		
Walsoken Cemetery			20		20	20		
<b>Parks and Open Spaces</b>								
West End Park, March - Replace Skate Ramps		120			120	90	30	Bid for grant funding to be submitted
Manea Multi-Use Games Area	23				23		23	S106 Funded Scheme
Wisbech Town Park - Relocate Zip Wire and Install Multi Play Module	23				23	3	20	S106 Funded Scheme
Wisbech Jasmine Close Park	14				14		14	S106 Funded Scheme
Wisbech Skate Park, Bath Road	75				75	10	65	£30K External Contribution, £35K S106
Water Tower Park, Whittlesey	42	15			57	5	52	£47K Grant Funding, £5K Town Council
Refurbish Wall, The Pound, Whittlesey		20			20	20		
<b>Car Parks</b>								
City Road, March - Surfacing, Landscaping and Drainage	282				282	282		
Church Terrace, Wisbech - Surfacing, Landscaping and Drainage		220			220	220		
Church Lane, Chatteris			33		33	33		
<b>Sub -Total</b>	<b>1,003</b>	<b>2,417</b>	<b>325</b>	<b>25</b>	<b>3,770</b>	<b>3,401</b>	<b>369</b>	

**CAPITAL PROGRAMME SUMMARY 2018 - 2022**

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Total Cost £000	FDC Funding £000	External Funding £000	External Funders and FDC Reserves/S106
<b>B/FWD</b>	<b>1,003</b>	<b>2,417</b>	<b>325</b>	<b>25</b>	<b>3,770</b>	<b>3,401</b>	<b>369</b>	
<b>Highways</b>								
Street Light Improvements - FDC (Cat 1)	62				62	62		
Street Light Improvements - FDC (Cat 2)		356			356	356		£47K Invest to Save Reserve
Street Light Improvements - Rechargeable Works	82				82		82	Fully re-charged to Clarion
Street Light Improvements - Parishes (Cat 1)	60				60	60		£60K Capital Reserve
Street Light Improvements - Parishes (Contribution to Cat 2 Replacements)	50	54			104	104		£104K Capital Reserve
Street Name Plates/District Facilities Signage	5	4	40		49	49		
<b>Office Accommodation</b>								
AV Equipment in Council Chamber	40				40	40		
Fenland Hall - Passenger Lift Replacement	39				39	39		
The Base CCTV	15				15	15		
Fenland Hall - Repairs and Renewal Works		130			130	130		
Reversion Works at March and Wisbech One Stop Shops	45	185			230	230		£230K Management of Change Reserve
<b>Port</b>								
Mooring & Fuelling Facilities, Sutton Bridge	130				130	130		
Suspended Quay -Structural Repairs/Fender Piles	35	190			225	225		
Boat/Vessels - Replacement Deck, Hull and Engines	42	30	30	30	132	132		
Replacement and Renewal of Navigation Aids	53				53	53		
Nene Parade Surface Water Pumping Station		50			50	50		
Replacement of Expansion Joints		50			50	50		
Yacht Harbour Improvements			20		20	20		
<b>Vehicles and Plant</b>								
Vehicles	497	677	160	160	1,494	1,494		
<b>ICT System Replacement Programme &amp; Upgrades</b>								
Replacement & Upgrade Programme	121	75	75	75	346	346		
Replacement of Multi-Functional Devices	64				64	64		
Replacement of Payment Machines in One Stop Shops		34			34	34		
<b>Sub -Total</b>	<b>2,343</b>	<b>4,252</b>	<b>650</b>	<b>290</b>	<b>7,535</b>	<b>7,084</b>	<b>451</b>	

**CAPITAL PROGRAMME SUMMARY 2018 - 2022**

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Total Cost £000	FDC Funding £000	External Funding £000	External Funders and FDC Reserves/S106
<b>B/FWD</b>	<b>2,343</b>	<b>4,252</b>	<b>650</b>	<b>290</b>	<b>7,535</b>	<b>7,084</b>	<b>451</b>	
<b>Improvement of Assets</b>								
Sewage Treatment Works Refurbishment	10	282	150	150	592	592		
Energy Plan - Invest to Save Projects	7				7	7		
Eastwood Chatteris Car Park Improvements		75			75	75		
Lattersely Nature Reserve - Capping Layer		40			40	40		
March SWMP - Eastwood Cemetery Flood Prevention		80			80	80		
Birch Fen Silt Removal and Outfall Maintenance				25	25	25		
<b>Community Safety</b>								
CCTV Control Room Upgrade		80			80	80		
Camera Replacements		20			20	20		£20K CCTV Reserve
<b>Community Fund</b>								
Estover Playing Field Sports Provision, March	100				100	100		£100k Management of Change Reserve
<b>Rural Community Fund</b>								
Friday Bridge Play/Skate Park & MUGA	98				98	77	21	£21K S106 Monies
<b>Economic Estates</b>								
Longhill, March - Drainage Works		40			40	40		
Replacement of AV Equipment at Business Centres		50			50	50		
Station Road, Whittlesey - Carriageway Resurfacing		40			40	40		£12K Station Reserve
<b>Private Sector Housing Support</b>								
Private Sector Renewal Grants	40	40	40	40	160		160	£160k Govt Grant
Disabled Facilities Grants	1,145	910	910	910	3,875		3,875	£3.875m Govt Grant
<b>Total - Approved Programme</b>	<b>3,743</b>	<b>5,909</b>	<b>1,750</b>	<b>1,415</b>	<b>12,817</b>	<b>8,310</b>	<b>4,507</b>	

## Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2019/20

### 1 Introduction

- 1.1 The Council is required to operate a balance budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
- 1.4 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:
- "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and pursuit of optimum performance consistent with those risks."
- 1.5 Revised reporting is required for the 2019/20 reporting cycle due to revisions of the Ministry of Housing, Communities and Local Government's (MHCLG) Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.
- 1.6 The Council has not engaged in any commercial investments and has no non-treasury investments.

### 2 Reporting Requirements

- 2.1 The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional document, a Capital Strategy (see Appendix A attached), which will provide the following:
- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;

- an overview of how the associated risk is managed; and
- the implications for future financial sustainability.

2.2 The aim of the Capital Strategy is to ensure that all elected members on full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

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

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

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

**A Mid-Year Treasury Management Report** - This will update Members with the progress of the capital position, amending prudential indicators as necessary and whether any policies require revision.

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

2.5 The Strategy covers two main areas:

**Capital issues;**

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

**Treasury management issues;**

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

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

### 3 Capital Prudential Indicators 2019/20 to 2021/22

- 3.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.
- 3.2 The capital expenditure prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously and those forming part of this budget cycle. The table below summarises the capital expenditure plans and how these are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

<b>Capital Programme</b>	<b>2018/19 Revised Estimate £000</b>	<b>2019/20 Estimate £000</b>	<b>2020/21 Estimate £000</b>	<b>2021/22 Estimate £000</b>
<b>Forecast Capital Expenditure</b>	<b>3,743</b>	<b>5,909</b>	<b>1,750</b>	<b>1,415</b>
Financed by:				
Capital Receipts	150	467	225	0
Capital Grants	1,222	1,018	950	950
Capital Reserves	1,063	470	69	0
Section 106 and Other Contributions	330	150	0	0
<b>Total Financing</b>	<b>2,765</b>	<b>2,105</b>	<b>1,244</b>	<b>950</b>
<b>Net Financing Need For The Year (Borrowing)</b>	<b>978</b>	<b>3,804</b>	<b>506</b>	<b>465</b>

- 3.3 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure shown above, which has not immediately been paid for will increase the CFR.
- 3.4 The CFR does not increase indefinitely, as each year the Council is required to pay off an element of the capital spend (including finance leases) through a statutory revenue charge (MRP). This has the effect of reducing the Council's (CFR) broadly over the assets life.
- 3.5 The CFR includes any other long term liabilities (finance leases). A finance lease is a commercial arrangement between the Council and a lessor (finance company), where in consideration for a series of payments the Council has the right to use an asset (e.g. refuse vehicle, leisure equipment) for the lease duration (typically 5 to 7 years). The annual lease payment is made up of a capital and interest repayment.
- 3.6 Although legally the Council doesn't own the asset during the lease duration, International Accounting Standards require that the Council capitalise the asset and liability on its balance sheet, much like a loan. Whilst this increases the CFR, the nature of the finance lease agreement doesn't require the Council to separately borrow to fund the asset.

<b>Capital Financing Requirement</b>	<b>2018/19 Revised Estimate £000</b>	<b>2019/20 Estimate £000</b>	<b>2020/21 Estimate £000</b>	<b>2021/22 Estimate £000</b>
<b>CFR at 1 April</b>	<b>765</b>	<b>1,592</b>	<b>5,144</b>	<b>4,995</b>
<b>Movement in CFR</b>	<b>826</b>	<b>3,552</b>	<b>(149)</b>	<b>(210)</b>
Net financing need for the year	978	3,804	506	465
Less MRP	(151)	(252)	(655)	(675)
<b>Movement in CFR</b>	<b>827</b>	<b>3,552</b>	<b>(149)</b>	<b>(210)</b>

#### **4 Minimum Revenue Provision (MRP) Policy Statement**

- 4.1 The Council is required to pay off an element of the accumulated general fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision).
- 4.2 MHCLG regulations have been issued which require the Council to approve an MRP statement in advance each year. A variety of options are provided to Councils, so long as there is a prudent provision. For all new unsupported borrowing (including finance leases) the MRP policy will be the asset life method - MRP will be based on the estimated useful life of the assets, in accordance with regulations. This option provides for a reduction in the borrowing need over approximately the asset's life. Repayments included in finance leases are applied as MRP.

#### **5 The Use of Council's Resources and the Investment Position**

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

<b>Year End Resources</b>	<b>2018/19 Revised Estimate £000</b>	<b>2019/20 Estimate £000</b>	<b>2020/21 Estimate £000</b>	<b>2021/22 Estimate £000</b>
<b>Fund balances / reserves</b>	<b>8,924</b>	<b>7,749</b>	<b>7,630</b>	<b>7,580</b>
<b>Capital Grants Unapplied</b>	<b>(44)</b>	<b>(44)</b>	<b>(44)</b>	<b>(44)</b>
<b>Total core funds</b>	<b>8,880</b>	<b>7,705</b>	<b>7,586</b>	<b>7,536</b>
<b>Expected Cash investments</b>	<b>17,500</b>	<b>16,000</b>	<b>15,500</b>	<b>15,000</b>

#### **6 Affordability Prudential Indicators**

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

<b>Financing Costs to Net Revenue Stream</b>	<b>2018/19 Revised Estimate</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>
	%	%	%	%
<b>General Fund</b>	<b>3.71</b>	<b>5.23</b>	<b>7.85</b>	<b>7.58</b>

## **7 Treasury Management Strategy**

- 7.1 The capital expenditure plans set out in section 3 provide a summary of future level of spend. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet service activity and the Council's capital strategy. This will involve both the organisation of cash flow and where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.
- 7.2 The Council's treasury portfolio as at 31 March 2018 for borrowing and investments was £8.514m and £19.5m respectively. As of 31 December 2018, investments are £23.75m (see Appendix B attached) and borrowing remains unchanged at £8.514m.
- 7.3 The Councils forward projections for borrowings are summarised below. The table shows the actual external debt, against the underlying capital borrowing need (the Capital Financing Requirement - CFR).

	<b>2018/19 Revised Estimate</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>
	£000	£000	£000	£000
<b>Debt at 1 April</b>	<b>7,800</b>	<b>7,800</b>	<b>10,536</b>	<b>10,128</b>
<b>Expected change in debt</b>	<b>0</b>	<b>2,736</b>	<b>(408)</b>	<b>(408)</b>
<b>Other long term liabilities (OLTL)</b>	<b>715</b>	<b>563</b>	<b>406</b>	<b>243</b>
<b>Expected change in OLTL</b>	<b>(152)</b>	<b>(157)</b>	<b>(163)</b>	<b>(137)</b>
<b>Actual gross debt at 31 March</b>	<b>8,363</b>	<b>10,942</b>	<b>10,371</b>	<b>9,826</b>
<b>Capital financing requirement (CFR) at 31 March</b>	<b>1,592</b>	<b>5,144</b>	<b>4,995</b>	<b>4,785</b>
<b>Borrowing less CFR – 31 March</b>	<b>6,771</b>	<b>5,798</b>	<b>5,376</b>	<b>5,041</b>

- 7.4 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years and ensures that long term borrowing is not undertaken for revenue or speculative purposes, other than where the borrowing fits in with the Council's approved Investment Strategy ( Appendix A refers).
- 7.5 As a result of the Council's long term Public Works Loan Board (PWLB) debt portfolio of £4.5m (31/03/19) currently attracting excessive premiums (£2.885m at the time of writing this report), if it were prematurely repaid and the fixed rate market loan of £3.3m (31/03/2019), attracting a premium charge on application to prematurely repay, it is not financially advantageous for the Council to fully comply with this prudential indicator. This has been the case since the housing stock transfer in 2007 and has been acknowledged

and approved by Council since then. In addition, the Council's external auditors have also acknowledged this situation and have not raised any issues with our strategy.

- 7.6 Interest repayments associated with the external debt (including finance leases) above are shown below.

<b>YEARS</b>	<b>INTEREST DUE £</b>
2018/19	507,940
2019/20	574,000
2020/21	565,000
2021/22	556,000

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

<b>Operational Boundary</b>	<b>2018/19 Revised Estimate £000</b>	<b>2019/20 Estimate £000</b>	<b>2020/21 Estimate £000</b>	<b>2021/22 Estimate £000</b>
<b>Debt</b>	<b>12,000</b>	<b>12,000</b>	<b>12,000</b>	<b>12,000</b>
<b>Other long term liabilities</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>
<b>Total</b>	<b>13,000</b>	<b>13,000</b>	<b>13,000</b>	<b>13,000</b>

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

<b>Authorised limit</b>	<b>2018/19 Revised Estimate £000</b>	<b>2019/20 Estimate £000</b>	<b>2020/21 Estimate £000</b>	<b>2021/22 Estimate £000</b>
<b>Debt</b>	<b>17,000</b>	<b>17,000</b>	<b>17,000</b>	<b>17,000</b>
<b>Other long term liabilities</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>
<b>Total</b>	<b>18,000</b>	<b>18,000</b>	<b>18,000</b>	<b>18,000</b>

## 8 Prospects for Interest Rates

- 8.1 The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Link Assets Service's central view.

Link Asset Services Interest Rate View													
	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

- 8.2 The flow of generally positive economic statistics after the quarter ended 30 June 2018 meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. Growth became increasingly strong during 2018 until slowing significantly during the last quarter. At their November quarterly Inflation Report meeting, the MPC left Bank Rate unchanged, but expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. On a major assumption that Parliament and the EU agree a Brexit deal in the first quarter of 2019, then the next increase in Bank Rate is forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.
- 8.3 The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. However, over about the last 25 years, we have been through a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets.
- 8.4 In 2016, we saw the start of a reversal of this trend with a sharp rise in bond yields after the US Presidential election in November 2016, with yields then rising further as a result of the big increase in the US government deficit aimed at stimulating even stronger economic growth.
- 8.5 That policy change also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment. Unsurprisingly, the Fed has continued on its series of robust responses to combat its perception of rising inflationary pressures by repeatedly increasing the Fed rate to reach 2.25 – 2.50% in December 2018. It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative easing, when they mature. We therefore saw US 10 year bond Treasury yields rise above 3.2% during October 2018 and also investors causing a sharp fall in equity prices as they sold out of holding riskier assets. However, by early January 2019, US 10 year bond yields had fallen back considerably on fears that the Fed was being too aggressive in raising interest rates and was going to cause a recession. Equity prices have been very volatile on alternating good and bad news during this period.

- 8.6 From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.
- 8.7 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

## **9 Borrowing Strategy**

- 9.1 The Council will not borrow more than or in advance of its needs purely in order to profit from investment of the extra sums borrowed, other than where the borrowing fits in with the Council's approved Investment Strategy. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.
- 9.2 Risks associated with borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.
- 9.3 As a result of the Council's decision not to repay debt of £7.8m at the time of the housing stock transfer in 2007, the Council is currently over borrowed (see paragraph 7.5 above); the Council's gross debt exceeds its CFR over the term of the treasury strategy.
- 9.4 Where the Council has insufficient internal resources to fund its capital programme the difference between available resources and funds required is met through borrowing. The Council is able to borrow internally if it identifies that it has surplus funds currently held in investments which could be used to finance its capital programme. However, any decision to borrow internally has to consider when any funds borrowed might be required to support the day-to-day cash needs of the Council. Unless the Council is able to increase the surplus funds it has available, i.e. through generating surpluses on the revenue account, internal borrowing will only provide a temporary solution to funding the capital programme.
- 9.5 When the Council borrows externally it will ordinarily do so using funds borrowed from the Public Works Loan Board. The current Medium Term Financial Strategy assumes that some external borrowing will be required over the four-year period to 31 March 2022. Assumptions about the level of external interest payable are reflected as part of the prudential indicators included in this document. Responsibility for deciding when to borrow externally, together with details of the amount to borrow and the term and type of any loan, rests with the Chief Finance Officer. The Chief Finance Officer's decision will be informed by advice from the Council's treasury management advisors and information regarding the progress of schemes set out in the capital programme. Any borrowing decisions will be reported to Cabinet through either the mid-year or annual treasury management reports.
- 9.6 The Chief Finance Officer will monitor capital plans and interest rates in financial markets and adopt a pragmatic approach to funding the capital programme. Any borrowing decisions and budget consequences will be reported to Cabinet through either the mid-year or annual treasury management reports.
- 9.7 Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

<b>Maturity structure of fixed interest rate borrowing 2019/20</b>	<b>Lower %</b>	<b>Upper %</b>
<b>Under 12 months</b>	<b>0</b>	<b>20</b>
<b>12 months to 2 years</b>	<b>0</b>	<b>50</b>
<b>2 years to 5 years</b>	<b>0</b>	<b>75</b>
<b>5 years to 10 years</b>	<b>0</b>	<b>75</b>
<b>10 years and above</b>	<b>0</b>	<b>100</b>

<b>Maturity structure of variable interest rate borrowing 2019/20</b>	<b>Lower %</b>	<b>Upper %</b>
<b>Under 12 months</b>	<b>0</b>	<b>100</b>
<b>12 months to 2 years</b>	<b>0</b>	<b>100</b>
<b>2 years to 5 years</b>	<b>0</b>	<b>100</b>
<b>5 years to 10 years</b>	<b>0</b>	<b>100</b>
<b>10 years and above</b>	<b>0</b>	<b>100</b>

## **10 Debt Rescheduling / Repayment**

10.1 The Council has sufficient cash balances set aside to pay off its external debt.

10.2 The reasons for any rescheduling to take place will include:

- the generation of cash savings;
- helping to fulfil the treasury strategy;
- enhancing the balance of the portfolio by flattening the maturity profile.

10.3 The Council's debt rescheduling position will be monitored throughout 2019/20.

## **11 Annual Investment Strategy**

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

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

11.2 The intention of the strategy is to provide security and minimise risk. The Council's investment priorities are:

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

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

11.4 Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings

- 11.5 Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.
- 11.6 Investment instruments identified for use in the financial year are listed below under the ‘specified’ and ‘non-specified’ investments categories. Counterparty limits will be as set through the Council’s treasury management practices – schedules.
- 11.7 **Specified Investments** – These investments are sterling investments (meeting the minimum ‘high’ quality criteria where applicable) of not more than one year maturity, or those which could be for a longer period but where the Council has the right to repay within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. Investment instruments identified for use in the financial year are as follows:
- term deposits with part nationalised banks and local authorities;
  - term deposits with high credit criteria deposit takers (banks and building societies);
  - callable deposits with part nationalised banks and local authorities
  - callable deposits with high credit criteria deposit takers (banks and building societies);
  - money market funds (CNAV) / (LVNAV) / (VNAV)
  - Debt Management Agency Deposit Facility (DMADF);
  - UK Government gilts, custodial arrangement required prior to purchase.
- 11.8 **Non-Specified Investments** – These are any other type of investment (i.e. not defined as specified above). Investment instruments identified in both “specified” and “non-specified” categories are differentiated by maturity date and classed as non-specified when the investment period and right to be repaid exceeds one year. Non-specified investments are more complex instruments which require greater consideration by members and officers before being authorised for use. Investment instruments identified for use in the financial year are as follows:
- term deposits with high credit criteria deposit takers (banks and building societies);
  - term deposits with part nationalised banks and local authorities;
  - callable deposits with part nationalised banks and local authorities
  - callable deposits with high credit criteria deposit takers (banks and building societies);
  - Debt Management Agency Deposit Facility (DMADF);
  - UK Government gilts, custodial arrangement required prior to purchase.
  - Property funds.
- 11.9 As a result of the change in accounting standards for 2018/19 under **IFRS 9**, the Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18.).

- 11.10 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Short term cash flow requirements (up to 12 months) include payments such as, precepts, business rate retention, housing benefits, salaries, suppliers, interest payments on debt etc.
- 11.11 Bank rate is forecast to increase steadily but slowly over the next few years to reach 2% by quarter 1 2022. Bank rate forecasts for financial year ends (March) are:
- 2018/19 - 0.75%
  - 2019/20 - 1.25%
  - 2020/21 - 1.50%
  - 2021/22 – 2.00%
- 11.12 The overall balance of risks to economic growth, increases in Bank Rate and shorter term PWLB rates, are probably neutral, dependant on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively . Forecast average investment interest rates for returns on investments placed for periods up to about three months during each financial year are as follows:
- 2019/20 - 1.00%
  - 2020/21 - 1.50%
  - 2021/22 - 1.75%
- 11.13 Estimated investment income is shown below.

<b>YEARS</b>	<b>INTEREST RECEIVED £</b>
2018/19	170,000
2019/20	180,000
2020/21	200,000
2021/22	210,000

- 11.14 **Investment treasury indicator and limit** – total principal funds invested for greater than 365 days. These limits are set with regard to the Council’s liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year end.

	<b>2019/20 £000</b>	<b>2020/21 £000</b>	<b>2021/22 £000</b>
<b>Maximum principal sums invested &gt; 365 days</b>	<b>8,000</b>	<b>8,000</b>	<b>8,000</b>

- 11.15 For its cash flow generated balances, the Council will seek to utilise its call accounts and short dated deposits (overnight to 100 days) in order to benefit from the compounding interest.
- 11.16 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

## 12 Creditworthiness Policy

- 12.1 The Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:
- credit watches and credit outlooks from credit rating agencies;
  - Credit Default Swaps spreads to give early warning of likely changes in credit ratings;
  - sovereign ratings to select counterparties from only the most creditworthy countries.
- 12.2 The modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system, which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:
- yellow 5 years;
  - dark pink 5 years for ultra-short dated bond funds with a credit score of 1.25;
  - light pink 5 years for ultra-short dated bonds funds with a credit score of 1.5;
  - purple 2 years;
  - blue 1 year (only applies to nationalised or semi nationalised UK banks);
  - orange 1 year;
  - red 6 months;
  - green 100 days
  - no colour not to be used.
- 12.3 The Link Asset Services creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system does not give undue preponderance to just one agency's ratings.
- 12.4 Typically the minimum credit ratings criteria the Council will use will be short term rating (Fitch or equivalents) of F1 and a long term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use
- 12.5 The Council's own bank currently meets the creditworthiness policy. However, should they fall below Link Asset Services creditworthiness policy the Council will retain the bank on its counterparty list for transactional purposes, though would restrict cash balances to a minimum.
- 12.6 All credit ratings are monitored weekly and prior to any new investment decision. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services creditworthiness service.
- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
  - In addition to the use of credit ratings the Council will be advised of information in movements in credit default swaps against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

- 12.7 Sole reliance will not be placed on the use of Link Asset Services Creditworthiness policy. In addition, this Council will also use market data and market information, information on any external support for banks to justify its decision making process.
- 12.8 To further mitigate risk the Council has decided that where counterparties form part of a larger group, group limits should be used in addition to single institutional limits. Group limits will be as set through the Council's Treasury Management Practices – schedules.
- 12.9 The Council currently only invests in UK banks, which provides sufficient high credit quality counterparties to meet investment objectives. It should be noted that in some cases these banks are subsidiaries of foreign banks but these are of the highest credit quality.

### **13 External Service Providers**

- 13.1 The Council uses Link Asset Services, Treasury Solutions as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the authority at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to available information, including, but not solely, our treasury advisors.
- 13.2 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

**FENLAND DISTRICT COUNCIL  
CAPITAL STRATEGY 2019/20-2021/22**

**1. OVERVIEW AND CONTEXT**

- 1.1 The Council has established statutory and regulatory responsibilities for the management of its financial affairs. These responsibilities encompass revenue and capital expenditure. The specific responsibilities of full Council, the Cabinet, Corporate Management Team (CMT) and the Council's appointed Section 151 Officer are defined within the Council's constitution.
- 1.2 The Council regularly updates its Medium Term Financial Strategy (MTFS). The MTFS provides a framework for setting the Council's annual revenue budget and updating the Council's three-year capital programme. The MTFS sets out the primary assumptions underpinning the assessment of the resources available to the Council and anticipated service budgets over the coming five financial years.
- 1.3 Whilst local authorities are required to set a balanced revenue budget, legislation permits local authorities to obtain credit and therefore fund their capital programmes from borrowing. Individual authorities are required to have regard for the Prudential Code published by the Chartered Institute of Public Finance and Accountancy. The Prudential Code requires authorities to ensure:
- all capital expenditure and investment plans are affordable;
  - all external borrowing and long-term liabilities are within prudent and sustainable levels;
  - treasury management and other investment decisions are taken in accordance with professional good practice; and
  - authorities can demonstrate themselves to be accountable by providing a clear and transparent framework.
- 1.4 Historically, this Council has discharged its responsibilities under the Prudential Code by ensuring that the Treasury Management Strategy, which is approved annually by full Council, is prepared with reference to the latest capital programme. The Capital Programme is itself developed with explicit consideration of the extent to which proposed capital investment is affordable, prudent and sustainable given the resources available to the Council as set out in the MTFS.

- 1.5 Following an update to the Prudential Code in December 2017, local authorities are now required to have a Capital Strategy. The introduction of this requirement acknowledges that individual authorities will each have their own approach to assessing priorities for capital investment, the amount the Authority can afford to borrow and the Authority's appetite to risk.
- 1.6 This strategy sets out in a single document the long term context in which capital expenditure and investment decisions are made and establishes that the Council has arrangements in place to ensure it gives due consideration to risk, reward, and impact on the achievement of priority outcomes.

## **2. CAPITAL EXPENDITURE**

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

### **Role and Purpose of the Asset Management Plan**

- 2.2 The Council has developed an Asset Management Plan in accordance with acknowledged best practice. This document provides a strategic framework for managing the Council's current portfolio of land and buildings ensuring that officers and elected members can have confidence, in the long-term, that the Council has the land and property needed to fulfil the pledges set out in the Council's Business Plan.
- 2.3 The Asset Management Plan incorporates oversight of operational and non-operational property owned by the Council. Operational assets are those assets held by the Council to enable the Council, or its partners, to deliver those services which are either statutory in nature or provided on a discretionary basis to the extent that providing those services is consistent with the strategic objectives of the Council. Non-operational assets are those assets which are not directly used for the purposes of service delivery but are held to either provide the Council with a return on investment, either through rental income, appreciation in the value of the asset or the potential contribution that holding the asset makes to the Council's wider corporate objectives, e.g. taking forward opportunities to regenerate and develop the local economy.
- 2.4 Responsibility for the Asset Management Plan rests with the Council's Assets and Projects team which reports to the Council's Corporate Director (Growth and Infrastructure). The Assets and Projects team regularly appraise the condition of the Council's property portfolio to determine the revenue and capital resources required to ensure the portfolio continues to meet the needs of Service Managers. When the needs of services managers change, the Assets and Project team will assist in determining the impact on the property portfolio, including the resources required to meet those needs. The Assets and Projects team recognise that the Council's property needs are unlikely to remain static and the past cost of maintaining a Council asset is not necessarily a reliable indicator of future costs. Forward projections

regarding the resources to be allocated to asset management recognise the interaction between revenue and capital expenditure in determining the Council's cost base.

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

### **Investment in New Land and Buildings**

- 2.6 The Council recognises that circumstances might arise where the Council could benefit from an investment which expands its existing asset base. Such investments might relate to operational or non-operational assets. As with an investment in existing assets, all proposals for investment in new land or buildings will initially be considered at a meeting of the Corporate Asset Team
- 2.7 The Council is currently developing an Investment Strategy. The purpose of the Strategy is to ensure the Council has a robust and transparent framework in place to support decision-makers to make decisions where the rationale supporting proposed investment is not exclusively or principally concerned with the delivery of Council services.

### **Investment in Vehicles, Plant, Equipment and IT**

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

### **Role and Function of the Corporate Asset Team**

- 2.9 The Corporate Asset Team is an officer-led group which meets bi-monthly under the Chairmanship of the Corporate Director (Growth and Infrastructure). On behalf of the Council's Corporate Management Team,

the Corporate Asset Team assumes responsibility for providing a strategic oversight in respect of all matters pertaining to asset management.

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

- there is a statutory obligation for the Council to incur the capital expenditure proposed;
- the proposed capital expenditure relates to works deemed necessary on the grounds of health and safety;
- capital expenditure is proposed to protect a Council asset and reduce the risk of excessive revenue expenditure being incurred in upcoming financial years;
- the proposed capital expenditure will generate income, either of a revenue or capital nature, in excess of the capital expenditure which is expected to be incurred including any financing costs; and/or
- the proposed capital expenditure will (after including financing costs) reduce revenue expenditure incurred by one or more of services in future financial years.

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

2.12 Any proposals to incur capital expenditure which does not lead to the recognition of a physical asset where the expenditure proposed exceeds £10,000 will be considered at a meeting of CMT prior to being forward to the Cabinet and, where appropriate, full Council for consideration and approval. Possible examples include, but are not restricted to:

- granting loans to third parties;
- acquiring share capital in a third party;
- establishing a joint venture or subsidiary company; or

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

### 3. DEBT AND BORROWING AND TREASURY MANAGEMENT

3.1 Day-to-day responsibility for the Treasury Management function rests with the Chief Finance Officer.

#### Key Considerations relating to Treasury Management

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

<b>Year End Investments</b>	<b>2018/19 Revised Estimate £000</b>	<b>2019/20 Estimate £000</b>	<b>2020/21 Estimate £000</b>	<b>2021/22 Estimate £000</b>
<b>Fund balances / reserves</b>	<b>8,924</b>	<b>7,749</b>	<b>7,630</b>	<b>7,580</b>
<b>Capital Grants Unapplied</b>	<b>(44)</b>	<b>(44)</b>	<b>(44)</b>	<b>(44)</b>
<b>Total core funds</b>	<b>8,880</b>	<b>7,705</b>	<b>7,586</b>	<b>7,536</b>
<b>Expected investments</b>	<b>17,500</b>	<b>16,000</b>	<b>15,500</b>	<b>15,000</b>

*Table 1: Year End Investment Balances projected over the period 1 April 2018 – 31 March 2022*

<b>Year-End Debt</b>	<b>2018/19 Revised Estimate £000</b>	<b>2019/20 Estimate £000</b>	<b>2020/21 Estimate £000</b>	<b>2021/22 Estimate £000</b>
<b>Debt at 1 April</b>	<b>7,800</b>	<b>7,800</b>	<b>10,536</b>	<b>10,128</b>
<b>Expected change in debt</b>	<b>0</b>	<b>2,736</b>	<b>(408)</b>	<b>(408)</b>
<b>Other long term liabilities (OLTL)</b>	<b>715</b>	<b>563</b>	<b>406</b>	<b>243</b>
<b>Expected change in OLTL</b>	<b>(152)</b>	<b>(157)</b>	<b>(163)</b>	<b>(137)</b>
<b>Actual debt at 31 March</b>	<b>8,363</b>	<b>10,942</b>	<b>10,371</b>	<b>9,826</b>
<b>Net Investment/(Debt) as at 31 March</b>	<b>9,137</b>	<b>5,058</b>	<b>5,129</b>	<b>5,174</b>

*Table 2: Year End Debt and Net Investment projected over the period 1 April 2018 – 31 March 2022*

3.3 At 1 April 2018 the Council's Debt position comprised other long-term liabilities relating to finance leases of £715k and external borrowing of £7.8m. These loans were taken out at prevailing market rates between 1994 and 2004. The term of these loans is between 25 and 50 years.

Following the transfer of the Council's Housing Stock in 2007, which generated a significant capital receipt for the Council, the Council has retained investment balances which exceed the amounts borrowed. However, changes in prevailing interest rates since the loans were taken out mean that a high premium would be payable by the Council if it were to seek to repay any of the loans early. The premiums to be applied are considered to be prohibitively high for early redemption to be regarded as a reasonable treasury management decision. The Council continues to keep this situation under review with the support of its appointed treasury management advisors. However, for the purposes of this strategy, it has been assumed that external borrowing of £7.8m brought forward, as at 1 April 2018, will continue to be carried forward due to the current historically low interest rates.

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

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

<b>Operational Boundary</b>	<b>2018/19 Revised Estimate</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Debt</b>	<b>12,000</b>	<b>12,000</b>	<b>12,000</b>	<b>12,000</b>
<b>Other long term liabilities</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>
<b>Total</b>	<b>13,000</b>	<b>13,000</b>	<b>13,000</b>	<b>13,000</b>

*Table 3: Operational Boundary over the period 1 April 2018 – 31 March 2022*

<b>Authorised Limit</b>	<b>2018/19 Revised Estimate</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Debt</b>	<b>17,000</b>	<b>17,000</b>	<b>17,000</b>	<b>17,000</b>
<b>Other long term liabilities</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>
<b>Total</b>	<b>18,000</b>	<b>18,000</b>	<b>18,000</b>	<b>18,000</b>

*Table 4: Authorised Limit over the period 1 April 2018 – 31 March 2022*

- 3.6 Table 2 above indicates that the Council's Actual Debt position is expected to increase over the period covered by this strategy. This reflects an anticipated decision to undertake external borrowing to fund the expenditure commitment set out in the capital programme. In accordance with the Council's constitution, any decision about when, how much and from where to borrow will be made by the appointed S151 Officer.
- 3.7 Regulations prevent the Council from borrowing in advance of need. However, there is no requirement for the Council to draw on investment balances to fund its capital commitments prior to undertaking external borrowing. To manage interest rate effectively, the Council will continue to consider medium and long-term forecasts of interest rates provided by its Treasury Management advisors to project likely returns from the investment of surplus funds and the financing costs associated with external borrowing. This approach recognises that postponing long-term borrowing to future years could be more expensive over the life of the loan if interest rates were to increase.
- 3.8 The Council is required by statute to make arrangements to ensure that there is provision to repay as part of the Council's revenue budget any borrowing undertaken to finance the capital programme. This is known as the Minimum Revenue Provision (MRP) and the Council is required to approve its MRP policy on an annual basis. Based on Table 2 above MRP expected to be charged to revenue over the life of this strategy is as follows:

	<b>Projected Minimum Revenue Provision £000</b>
<b>2018/19</b>	151
<b>2019/20</b>	252
<b>2020/21</b>	655
<b>2021/22</b>	675

*Table 5: Projected Minimum Revenue Provision over the period 1 April 2018 – 31 March 2022*

- 3.9 Regulation requires the Council to ensure that its MRP policy results in prudent levels of MRP. The Council's current MRP policy allocates MRP in equal instalments over a period reflecting the anticipated life of the asset purchased from borrowing undertaken by the Council. This is one of the methods suggested in guidance published by central government.

#### **4. COMMERCIAL ACTIVITY**

- 4.1 The Council has a portfolio of non-operational assets which it manages to secure a rental income and income from fees and charges earned from providing facilities for conferences and meetings. The main non-operational assets held by the Council are:
- Boathouse Business Centre, Wisbech – Office Units, Conference and Meeting Space
  - South Fens Business Centre, Chatteris - Office Units, Conference and Meeting Space
  - South Fens Enterprise Park, Chatteris – Light Industrial Units for Small Business Use
- 4.2 The Council recognises that investing in other non-operational assets has the potential to generate new sources of revenue as well as supporting the achievement of the priorities set out in the Council Business Plan. There are no significant current projects in the Capital Programme to increase the portfolio of non-operational assets. However, should an opportunity arise to make an investment of this nature, the decision will be taken with reference to the Council's Investment Strategy which is currently being developed.
- 4.3 The Council recognises that there are other types of investment opportunity available to local authorities which do not result in the acquisition of a physical asset. Examples include the types of capital expenditure set out in paragraph 2.12 above and also investments in instruments such as unit trusts and pooled investments funds. Any investments of this nature will be appraised in accordance with the Council's Investment Strategy once this has been finalised or the Treasury Management Strategy. Future updates to this Capital Strategy will summarise the key elements of the Investment Strategy.

## **5. KNOWLEDGE AND SKILLS**

- 5.1 The Council has professionally qualified staff across a range of disciplines including finance, legal and property that follow continuous professional development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills.
- 5.2 Appropriate external advice will be engaged from suitably qualified professionals as and when required. This will apply particularly in those circumstances when the Council needs to undertake independent due diligence prior to making a decision regarding a proposed investment. Additionally, the Council will continue to enlist the year-round support of external Treasury Management advisors. This support is currently provided by Link Asset Services.
- 5.3 Internal and external training is offered to members to ensure they have up to date knowledge and expertise to understand and challenge capital proposals brought forward for approval and interpret the treasury management policies developed by officers in conjunction with relevant professional advisors.

## PARISH PRECEPTS 2019/20

TAX BASE (Equated Band D Properties)	PRECEPT 2018/19 £	COUNCIL TAX PER BAND D PROPERTY £	PARISH	TAX BASE (Equated Band D Properties)	PRECEPT 2019/20 £	COUNCIL TAX PER BAND D PROPERTY £	INCREASE FROM 2018/19 %
349	11,037	31.62	BENWICK	351	12,852	36.62	15.8
3,292	151,000	45.87	CHATTERIS	3,326	151,000	45.40	-1.0
265	14,250	53.77	CHRISTCHURCH	268	12,750	47.57	-11.5
796	47,895	60.17	DODDINGTON	814	51,540	63.32	5.2
1,161	67,646	58.27	ELM	1,168	41,267	35.33	-39.4
383	16,000	41.78	GOREFIELD	387	17,000	43.93	5.2
1,098	51,000	46.45	LEVERINGTON	1,100	53,000	48.18	3.7
779	47,487	60.96	MANEA	808	47,487	58.77	-3.6
6,484	270,000	41.64	MARCH	6,505	283,000	43.50	4.5
234	13,000	55.56	NEWTON IN THE ISLE	237	13,000	54.85	-1.3
433	18,876	43.59	PARSON DROVE	448	19,378	43.25	-0.8
383	1,000	2.61	TYDD ST GILES	389	1,000	2.57	-1.5
5,154	171,015	33.18	WHITTLESEY	5,285	171,015	32.36	-2.5
756	62,986	83.31	WIMBLINGTON	756	64,560	85.40	2.5
6,294	364,237	57.87	WISBECH	6,383	369,200	57.84	-0.1
1,118	53,732	48.06	WISBECH ST MARY	1,155	55,510	48.06	0.0
<b>28,979</b>	<b>1,361,161</b>	<b>46.97</b>	<b>GRAND TOTAL</b>	<b>29,380</b>	<b>1,363,559</b>	<b>46.41</b>	<b>-1.19</b>

**EARMARKED AND GENERAL RESERVES - Revised 2018/2019 and Estimated 2019/20**

Reserve Name	Balance 01.04.18 £	Capital Funding £	Revenue Contributions to(+)/from(-) 2018/19 £	Revised Balance 31.03.19 £	Capital Funding £	Revenue Contributions to(+)/from(-) 2019/20 £	Estimated Balance 31.03.20 £	Comments / Conditions of Use
Travellers Sites	282,698		-5,050	277,648		53,600	331,248	Can only be used for specific future maintenance liabilities.
Station Road, Whittlesey - Maintenance	8,400		2,800	11,200	-12,000	2,800	2,000	Required for future road maintenance.
CCTV - Plant & Equipment	104,533		6,190	110,723	-20,000	10,000	100,723	Available for future CCTV maintenance & replacement liabilities.
Invest to Save	120,521			120,521	-47,000		73,521	To provide resources for schemes which will deliver future efficiencies. £50k committed to energy efficiency schemes match funded by Salix Finance, as part of the Council's 'Keen to be Green' strategy.
Conservation	54,124	-50,000		4,124			4,124	Available for the purchase, renovation and subsequent re-selling of difficult properties of local importance where intervention by this Council is seen as the only solution.
Management of Change	1,319,946	-145,000	-43,683	1,131,263	-185,000		946,263	Available for the effective management of any organisational changes required to meet the Council's future priorities.
Neighbourhood Planning Reserve	185,156			185,156			185,156	Available to assist the Council with delivering the 'Neighbourhood Planning' objective and delivery of the Core Strategy.
Specific Government Grants (received in previous years)	1,038,782		-248,770	790,012		-241,110	548,902	Available to fund specific spending commitments in future years.
Personal Search Fees	115,524			115,524			115,524	Available to off-set restitution claims associated with the revocation of the personal search fees of the local land charges register.
Community Projects Reserve	12,431			12,431			12,431	Available for small-scale community projects. Previously used to assist Parish/Town Councils to fund Diamond Jubilee Celebrations.
Business Rates Equalisation Reserve	500,000		500,000	1,000,000		-500,000	500,000	Available to assist the Council in delivering the business rates retention system.
Capital Contribution Reserve	1,246,647	-838,000		408,647	-54,000		354,647	Available to fund specific spending commitments in future years.
Port - Bouy Maintenance	147,319			147,319			147,319	Available for future buoy maintenance to service windfarms.
Pilots' National Pension Fund	451,178		-451,178	0			0	Liability repaid to PNPF. Balance on reserve transferred to Local Plan Reserve as approved by Cabinet on 13.12.18
Local Plan Reserve	0		451,178	451,178			451,178	Available to assist the Council with reviewing the Local Plan.
Repairs and Maintenance	542,684	-30,000	-38,684	474,000	-152,000		322,000	Available to provide funding for one-off schemes, not covered by the normal Repairs and Maintenance revenue budgets.
Property Development Fund	1,000,000			1,000,000			1,000,000	Available to enable progression of future development and property schemes.
Heritage Lottery Fund (HLF) - Wisbech	191,260		-46,730	144,530		-30,170	114,360	To manage the Heritage Lottery Funded scheme in Wisbech.
Brexit Preparation Reserve	0		17,500	17,500		17,500	35,000	Available to mitigate any potential short-term impact of Brexit.
<b>TOTAL EARMARKED RESERVES</b>	<b>7,321,201</b>	<b>-1,063,000</b>	<b>143,573</b>	<b>6,401,774</b>	<b>-470,000</b>	<b>-687,380</b>	<b>5,244,394</b>	
General Fund Balance	2,421,818			2,421,818			2,421,818	Unallocated general reserve required for various and unplanned for contingencies, to mitigate risks associated with future financial planning as well as for general day to day cash flow needs.
<b>TOTAL RESERVES</b>	<b>9,743,019</b>	<b>-1,063,000</b>	<b>143,573</b>	<b>8,823,592</b>	<b>-470,000</b>	<b>-687,380</b>	<b>7,666,212</b>	

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