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5 February 2018

Dear Sir/Madam

CABINET

A meeting of the Cabinet has been arranged to take place on **TUESDAY, 13 FEBRUARY, 2018 at 6.00 PM IN THE COMMITTEE ROOM** District Council House, Lichfield to consider the following business.

Access to the Committee Room is via the Members' Entrance.

Yours Faithfully

Neil Turner BSc (Hons) MSc
Director of Transformation & Resources

To: Members of Cabinet

Councillors Wilcox (Chairman), Pritchard (Vice-Chair), Eadie, Pullen, Smith and Spruce

AGENDA

RESOLVED: "That as publicity would be prejudicial to the public interest by reason of the confidential nature of the business to be transacted, the public and press be excluded from the meeting for the following items of business, which would involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972"

Money Matters : 2017/18 Review of Financial Performance against the Financial Strategy

Cabinet Member for Finance and Democracy

Lichfield district council
www.lichfielddc.gov.uk

Cabinet

Date:	13 February 2018
Agenda Item:	3
Contact Officer:	Anthony Thomas
Tel Number:	01543 308012
Email:	Anthony.thomas@lichfielddc.gov.uk
Key Decision?	**YES**
Local Ward Members :	**Full Council**

1. Executive Summary

1.1 The report covers the financial performance from April to November (Revised Estimate) for 2017/18.

1.2 The Net Cost of Services is projected to be below budget by **(£306,700)** and Corporate Budgets (Treasury and Section 31 Grants) are projected to be **(£46,340)** below budget, a total of **(£353,040)**.

1.3 A large proportion of the Efficiency Plan target of **(£250,000)** has been identified totalling **(£163,100[1])** and **(£86,900)** remains to be identified during 2017/18.

1.4 The Council on 21 February 2017 approved a transfer to general reserves of **£1,060.** However on 17 October 2017 Council approved a series of changes impacting on general reserves and the subsequent approval of the Outsourcing of the Leisure Centres. The Approved Budget therefore shows a contribution from general reserves of **(£870,260)**.

1.5 The projected below budget performance detailed in 1.2 means a lower transfer of (**£517,220**) is currently projected from general reserves.

1.6 The Capital Programme is projected to be below budget by **(£1,279,000)** resulting from profiling updates.

1.7 The Council is projected to receive capital receipts of **(£204,790)** compared to the Approved Budget of **(£250,000).** This projection now includes **(£190,000)** of Right to Buy Receipts from Bromford Housing.

1.8 In terms of Council Tax, Business Rates and Sundry Debtors:

- The Council's collection performance on Council Tax based on debt covering all years is **76.45%** and this is consistent with previous years.
- There is a projected surplus for Council Tax and the Council's share of **(£42,410)** will be included in the 2018/19 budget.
- Overall invoices outstanding have reduced by **(£431,794)** or (30.28%) with a reduction in those outstanding for less than 6 months by **(£394,527)** or (49.43%). This is due to no Section 106 Invoices being raised in 2017 due to the implementation of Community Infrastructure Levy.
- The Council is projected to be paying Business Rate levy of **£669,000** to the GBS pool and will receive **(£217,000)** of returned levy. This is **£152,000** more net levy than the Approved Budget (after taking account of the budgeted volatility allowance) although this is offset by projected additional Section 31 Grants of **(£152,000)**.
- Overall Retained Business Rate Income is projected to be in line with the Approved Budget.
- The Council's collection performance on Business Rates based on debt covering all years is **74.95%** and this is consistent with previous years.
- There is a projected surplus for Business Rates and the Council's share of **(£599,700)** with **(£591,300)** included in the 2018/19 budget and the balance to be included in the 2019/20 budget.

1.9 The Council's investments achieved a risk status that was more secure than the aim of **A-** and yield exceeded all four of the industry standard LIBID yield benchmarks.

[1] This is the recurring savings of (£26,000) from 2016/17, (£20,440) in virements and (£65,500) in 2017/18 Three Months (£40,360) in 2017/18 Six Months and (£10,800) in this report at **APPENDIX B**.

2. Recommendations

2.1 To note the report and issues raised within.

2.2 To note that Leadership Team with Cabinet Members will continue to closely monitor and manage the Medium Term Financial Strategy 2016-21.

2.3 To formally accept the offer of **£82,000** from the Department of Communities and Local Government (DCLG) to support expenditure on Disabled Facilities Grants in 2017/18.

2.4 To approve an update to the Capital Programme expenditure budget for Disabled Facilities Grants in 2017/18 to **£1,010,000**, funded by **£176,000** of council resources, **£752,000** of Better Care Fund (BCF) and **£82,000** of DCLG Grant.

2.5 To note the outcome of the Ealing Case related to sporting services and the resultant potential financial benefit for the Council, and to approve an exception to Contract Procedure Rules for the payment to Price Waterhouse Coopers as the lead organisation in the event the Council receives a refund.

3. Background

Budget Management

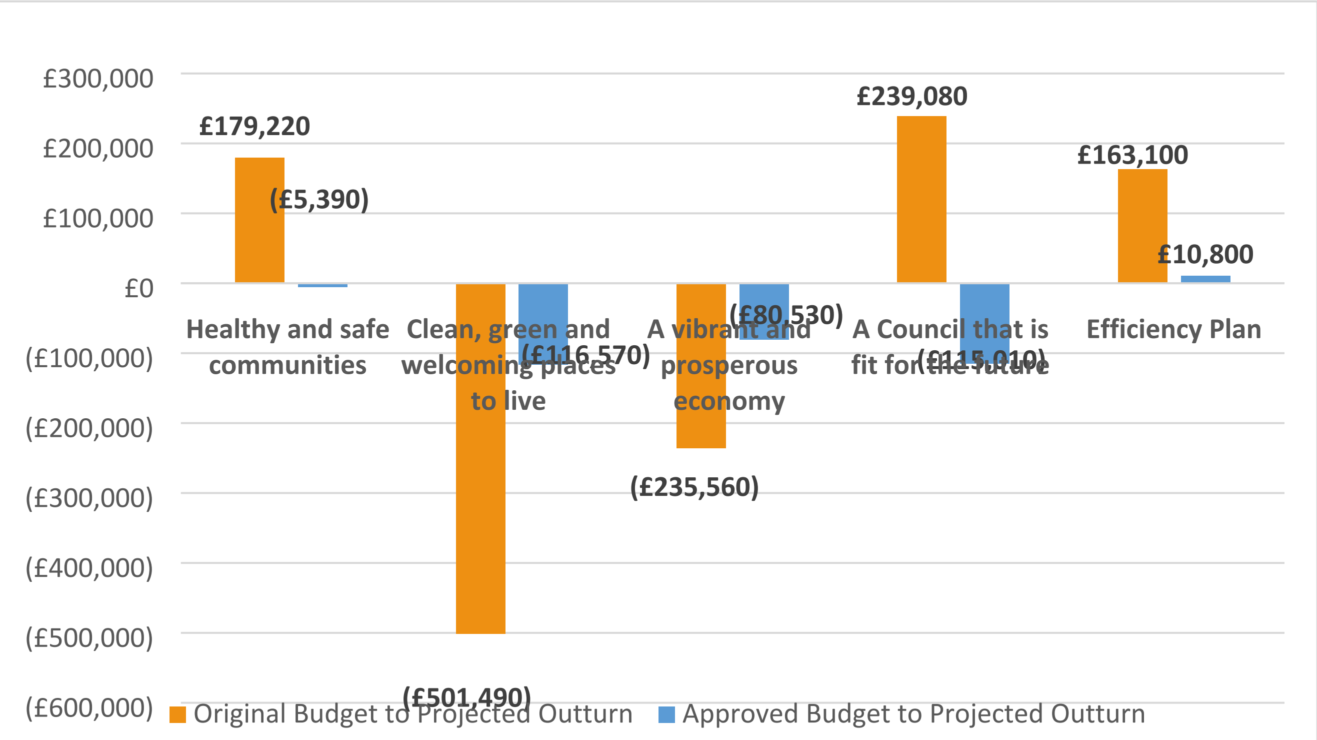
1.1. The MTFS 2016-21 approved by Council on 21 February 2017 included the Original Budget for 2017/18 and sets out the allocation of resources and the policies and parameters within which managers are required to operate.

1.2. Throughout the financial year, Money Matters reports will be provided to Cabinet and Briefing Notes to Strategic (Overview and Scrutiny) Committee at 3, 6 and 8 month intervals to monitor financial performance.

1.3. The Money Matters reports update the Approved Budget to reflect latest projections and this 8 month Money Matters report will form the basis of the Revised Approved Budget for 2017/18 and will be approved by Council on 20 February 2018.

The Revenue Budget

1.4. The detailed financial performance is shown in **APPENDIX B** and in summary in the graph below:



Performance compared to the Approved Budget

1.5. The projected variance to the Approved Budget related to 'one off' items of **(£313,700)** is shown in summary in the table below and in more detail in **APPENDIX B** by Service Area.

	Approved Budget	
	Virements	**Variance**
Healthy and Safe Communities		
• Savings/income found in this quarter		(5,390)
Clean, green and welcoming places to live		
• Savings/income found in this quarter	(5,800)	(46,010)
• Underspends on maintenance of premises and trees within the parks		(30,000)
• Transfers for New Burdens funding	(34,760)	
• Savings on equipment spend and also additional income from external contracts	(25,000)	
• Earmarked Reserve request for Vehicle Replacement Programme	25,000	
A vibrant and prosperous economy		
• Savings/income found in this quarter		(48,460)
• Contribution from Building Control Partnership Surplus		(10,000)
• Additional Planning Application income	(154,000)	
• Earmarked Reserve Request for Planning Appeals	154,000	
• Additional net income from car parks remain open during 2017/18 when the MTFS assumed they would close due to the Friarsgate Programme	(169,000)	(22,070)
• Income set aside into Friarsgate Earmarked Reserve	105,000	
• Income set aside into Business Rates Reserve	64,000	
• Vacant post savings	(11,000)	
• Earmarked Reserve Request for Tourism Signage	11,000	
A Council that is fit for the future		
• Savings/income found in this quarter	(5,000)	(22,130)
• Fit for the Future Earmarked Reserve No Longer required		(57,140)
• Vacant posts		(44,500)
• Members savings as a result of committee restructure		(21,000)
• Transfers for New Burdens funding	34,760	
Efficiency Plan		
• Savings/income found in this quarter	10,800	
Total – Net Cost of Services	**£0**	**(£306,700)**
Net Treasury		(7,000)
Sub Total		**(£313,700)**
Funding including Section 31 Grant to reimburse the Council for the Government previously capping Business Rate increases		(39,340)
Additional Transfer (to) / from General Reserves	**£0**	**(£353,040)**

Leisure VAT Claim

1.6. In 2015 the Council submitted a claim for the repayment of VAT on sporting services supplied for the benefit of those taking part in sport as part of a case submitted by Ealing Council and led by PWC on a 'no win no fee' basis to the European Court of Justice (ECJ).

1.7. This case focussed on the principle of inconsistency in UK law compared to EU law regarding exemption and supplies of sporting services compared to other bodies such as Trusts etc.

1.8. In July 2017 Ealing won the case in the ECJ and HMRC accepted the decision and have also confirmed they will not be seeking to invoke unjust enrichment provisions and therefore reduce the value of the claim.

1.9. This means the VAT included in the claim made by the Council (plus a claim for the period between the last claim and the judgement) should be repaid to the Council subject to any checks by HMRC.

1.10. The claim was for circa **£400,000** (there will be an additional claim for the period of consideration by the European Court) and PWC will receive 20% or circa **£80,000** of this sum as the lead organisation.

Projected Outturn for Leisure Centres and the Waste Service

1.11. The forecast position for leisure centres is very difficult to estimate at this point in time given the outsourcing that will take place on 1 February 2018. It has therefore been assumed that the final position will be in line with the Approved Budget.

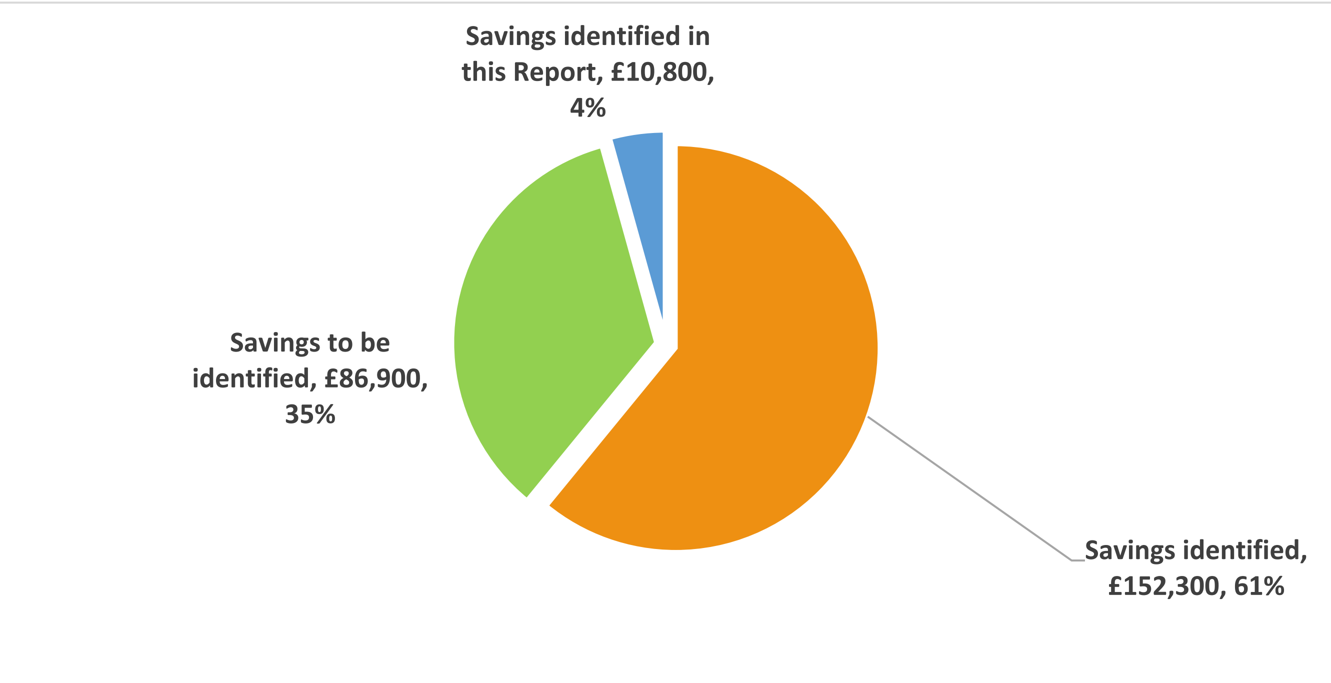
1.12. There are many variables that could impact on the final year-end position for Waste Services and as a result it is difficult to forecast the outturn other than to assume it will be in line with budget. The variable factors include the following:

- The difficulty in predicting the number of subscriptions for the garden waste chargeable service which will impact not only on the income from charging for collection but also impact on recycling credits received.
- The recent disruption caused by inclement weather conditions has increased operational costs and the full impact has yet to be determined. The Service may be affected by similar disruptions as the winter months continue.
- There has in recent months been a sudden increase in the number of rejected loads of dry recyclate at the recycling centre because of high levels of contamination. This has resulted in additional costs and lost income.
- The impact of the Chinese ban on plastics and other recycled materials. Our income share from the sale of dry recyclate relies on the world market price for each commodity, and it is very likely that the price and hence our income will fall over the coming months.

The Efficiency Plan

1.13. The Council approved an Efficiency Plan Target of **(£250,000)** for 2017/18 with **(£152,300)** already identified in the Six months Report.

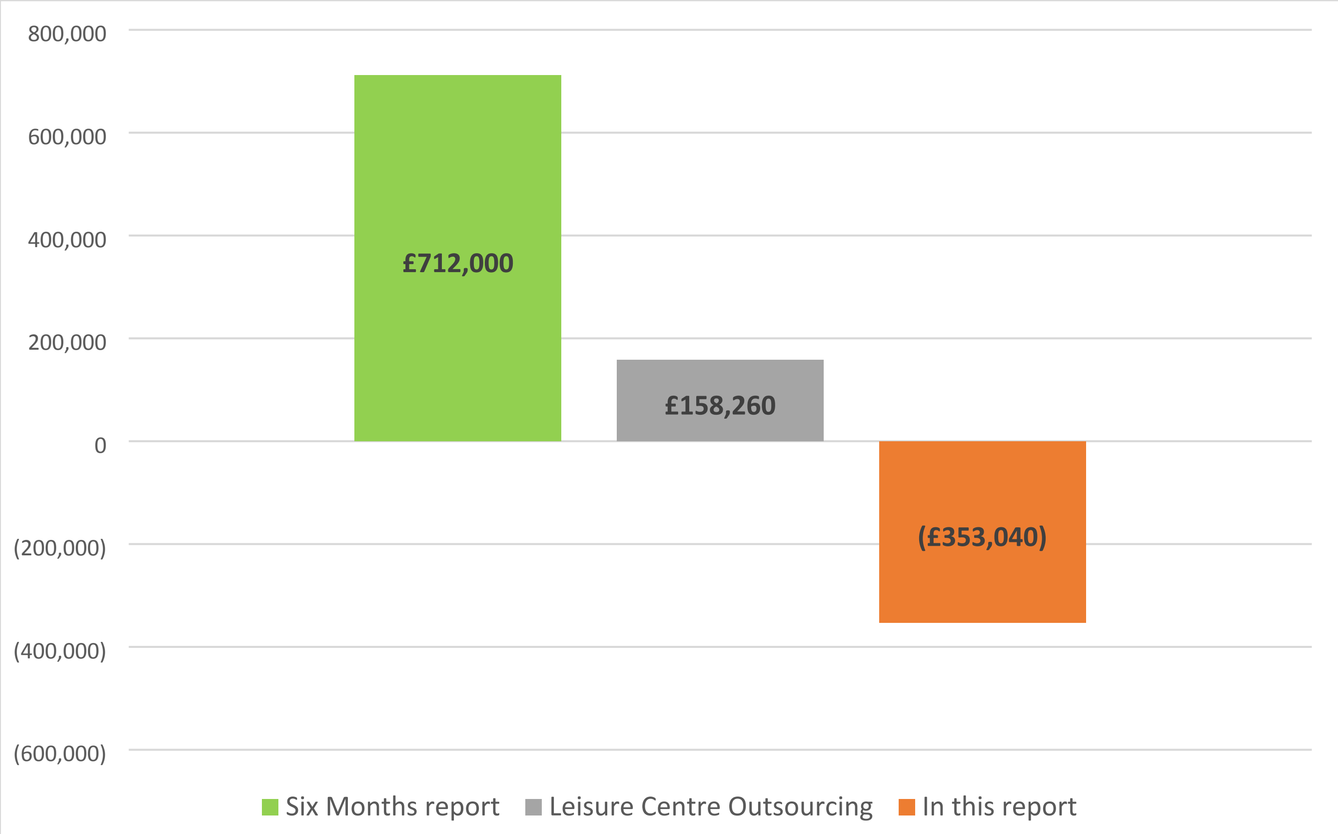
1.14. This report identifies a further **(£10,800**) of ongoing savings/additional income (**APPENDIX B**). The progress to date on the Efficiency Plan is shown in the graph below:



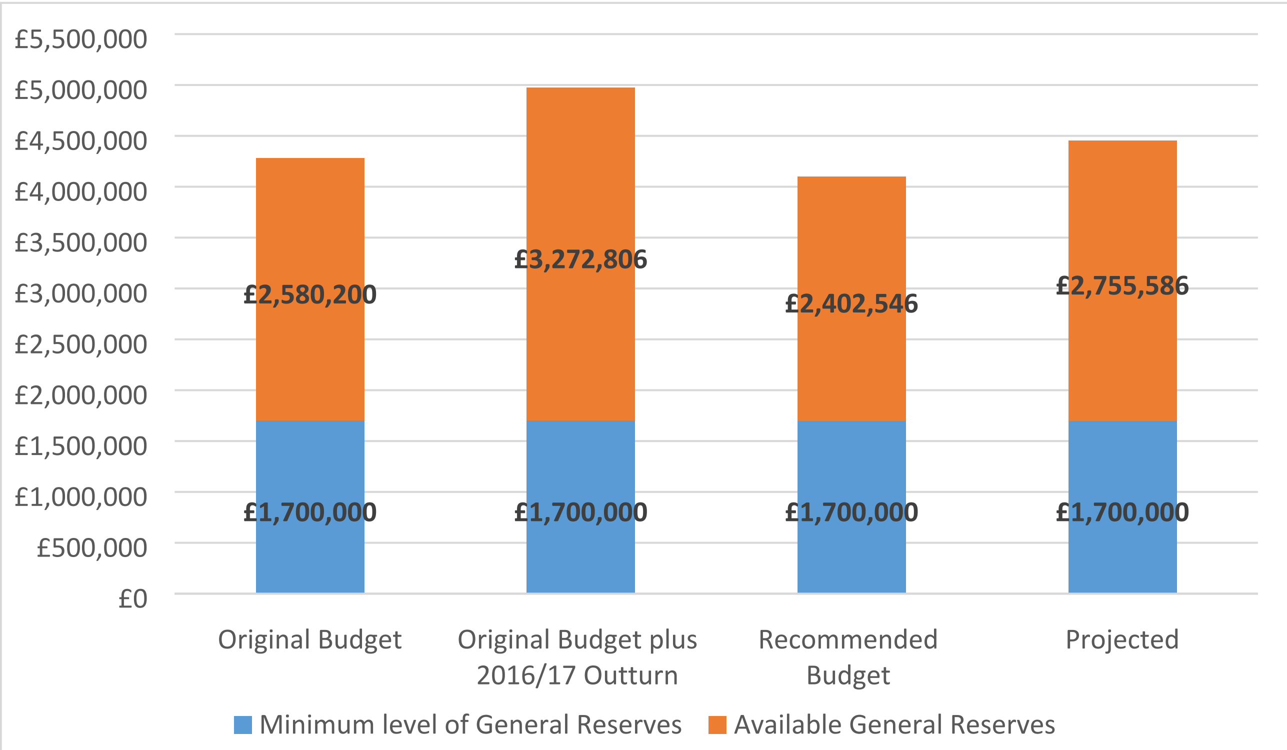
Revenue General Reserves

1.15. The Council's Original Budget approved a contribution to General Reserves of **£1,060**. The Approved Budget following approvals by Council currently shows a contribution from General Reserves of **(£870,260)** at the six months stage and also taking into account the Leisure Centre Outsourcing impact.

1.16. This report identifies **(£353,040)** of below budget performance and therefore the contribution from general reserves will reduce to **(£517,220)** and this is shown in the graph below:

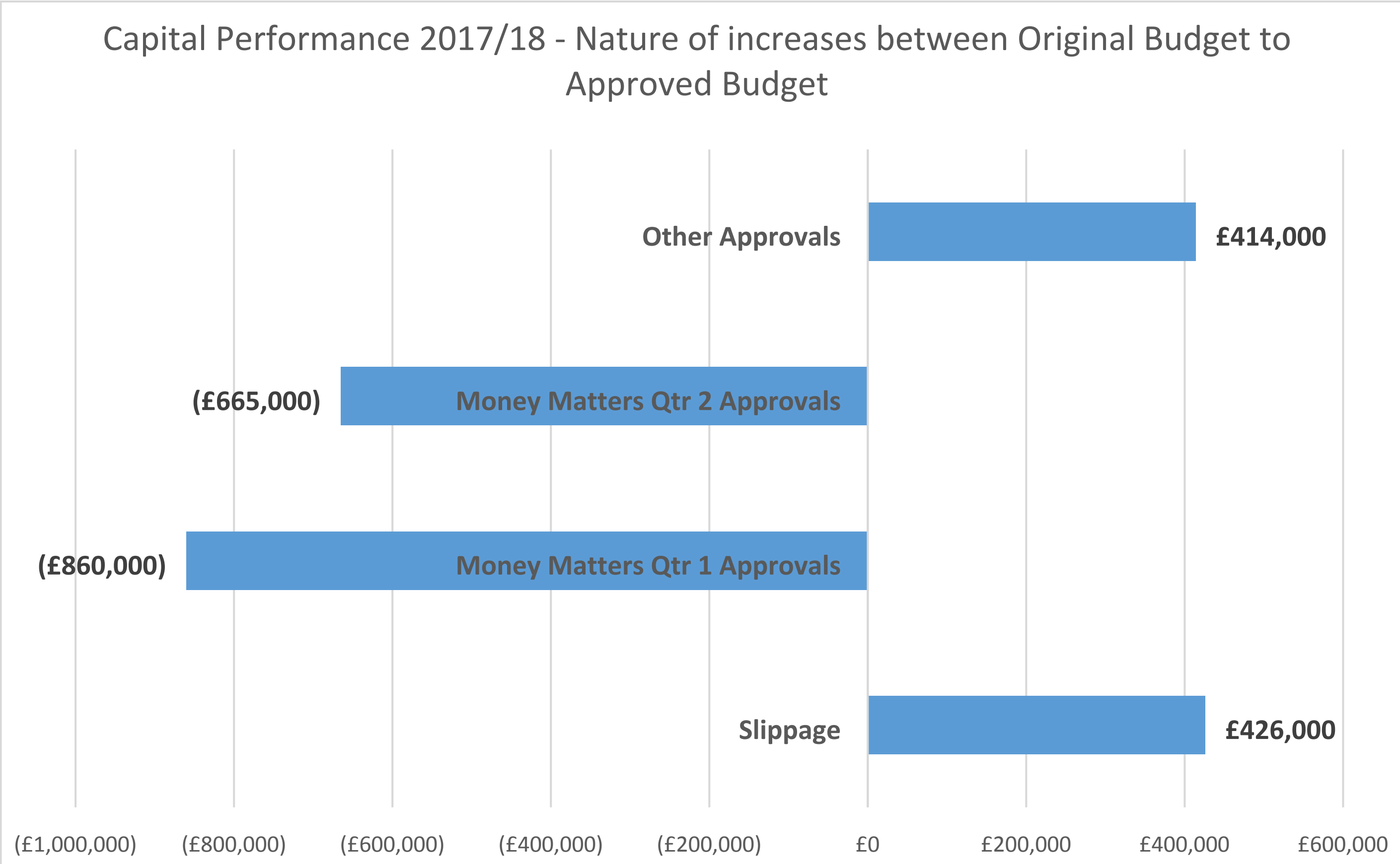


1.17. The following Revenue general reserves are available to assist the Council in meeting General Fund expenditure as part of the Medium Term Financial Strategy:

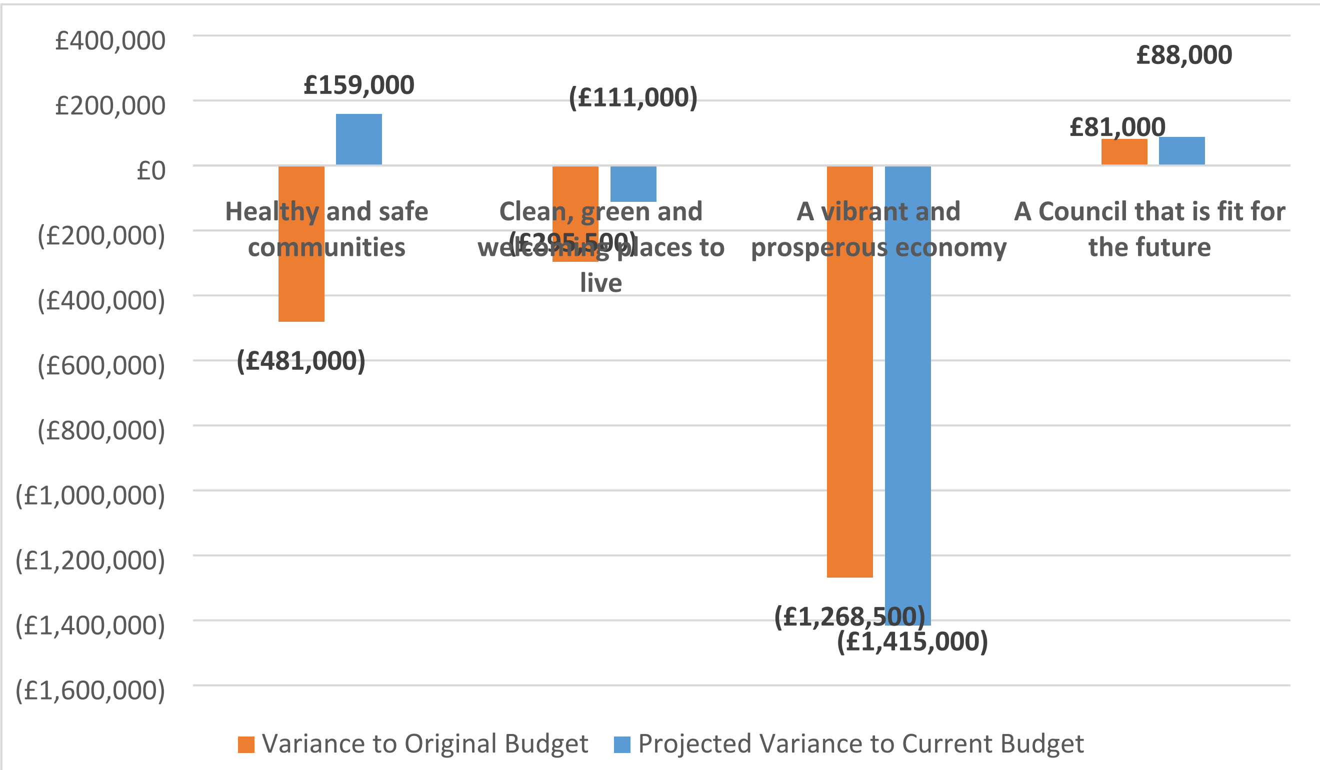


The Capital Programme

3.18. The budgetary changes from the Original Budget of **£5,332,000** to the Approved Budget of **£4,647,000** is shown in the graph below.



3.19. We are projecting that the Capital Programme performance will be below budget by **(£1,279,000)** or **28%** compared to the Approved Budget. This below budget performance compared to both the Original and the Approved Budgets is shown by the Strategic Plan's priorities in the graph below and in detail at **APPENDIX C**:



Performance compared to the Approved Budget

1.1. There are projected variances compared to the Approved Budget related to:

	Approved Budget Variance
Healthy and Safe Communities	
• **Disabled Facilities Grants** – £82,000 received from DCLG and £78,000 brought forward from 2018/19 to meet current projected demand.	160,000
• **Play Area at Hawksyard** - Capital project transferred to new manager, therefore spend delayed until 2018/19 whilst needs are assessed.	(1,000)
Clean, green and welcoming places to live	
• **Darnford Park** – Capital project transferred to new manager, therefore spend delayed until 2018/19 whilst needs are assessed.	(13,000)
• **Shortbutts Park** – Capital project transferred to new manager, therefore spend delayed until 2018/19 whilst needs are assessed.	(23,000)
• **Vehicle Replacement Programme** – the planned lease acquisition has been categorised as an Operating lease and therefore will not be categorised as a capital purchase.	(75,000)
A vibrant and prosperous economy	
• **Document Management System** – Orders expected to be placed in the New Year, therefore half of the budget has been slipped until 2018/19.	(6,000)
• **Friarsgate Support** – The Capital Programme assumed the Council would acquire the Police Station and receive reimbursement however latest plans are the developer will now acquire and transfer to the Council.	(1,409,000)
A Council that is fit for the future	
• **IT and Channel Shift Programme** – Several projects implemented earlier than forecast.	98,000
• **Bin Storage Area Resurfacing** – Project complete and under budget.	(10,000)
Total	**(£1,279,000)**

Disabled Facilities Grants

1.2. On 1 December 2017 the Department of Communities and Local Government (DCLG) provided details of the allocation of a further £42m of funding for Disabled Facilities Grants in 2017/18 announced in the Autumn Budget.

1.3. This funding will be paid directly to lower tier councils unlike funding allocated as part of the Better Care Fund.

1.4. The Council's maximum allocation is **£82,095** and this will mean an update to the Capital Programme.

Capital Receipts

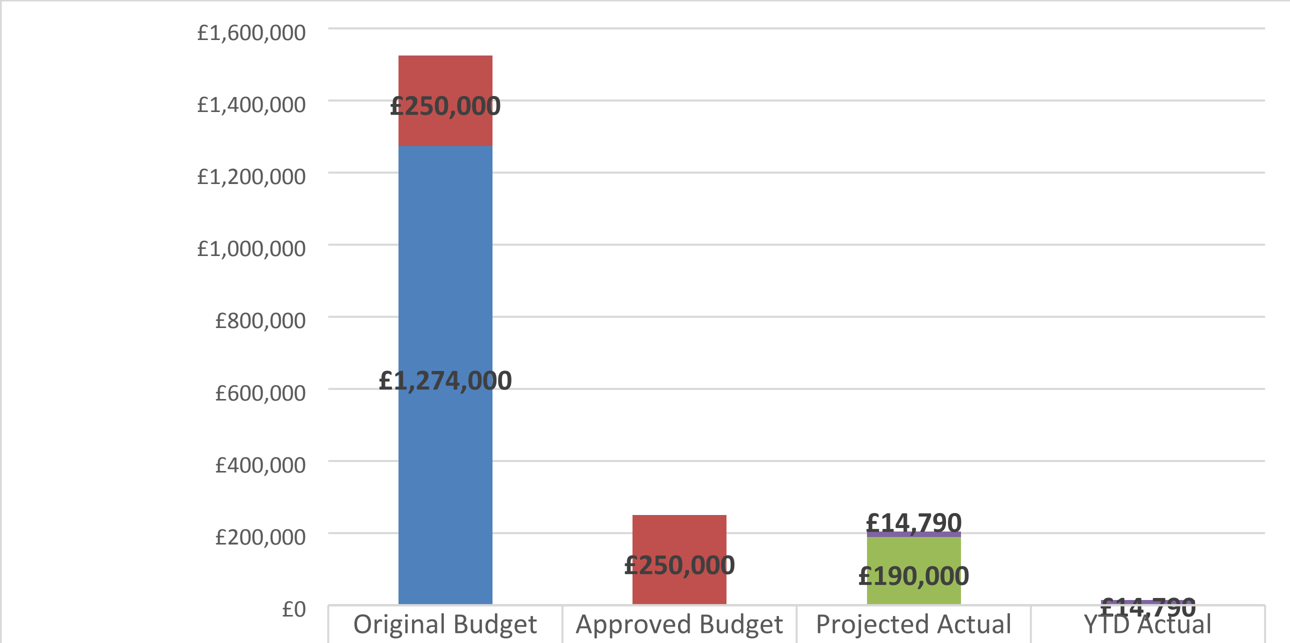
1.5. There have been **(£14,790)** of other receipts from housing grant repayments received during the first eight months of 2017/18 compared to the Original Budget of **(£1,524,000)** and Approved Budget of **(£250,000)**.

1.6. The Approved Budget now takes account of the Council's decision to retain the Bore Street Shops (Asset Strategy Review) and reduction in capital receipts of **£1,274,000**.

1.7. The **(£250,000)** capital receipt related to Friarsgate is not currently committed in the Council's Medium Term Financial Strategy because it is related to a specific milestone in the Friarsgate development.

1.8. We are currently projecting capital receipts of **(£204,790)** which includes **(£190,000)** from the Council's share of Bromford Housing's sales.

1.9. The Original Budget, Approved Budget, projected capital receipts and actual capital receipts received in the first eight months are shown in the graph below:



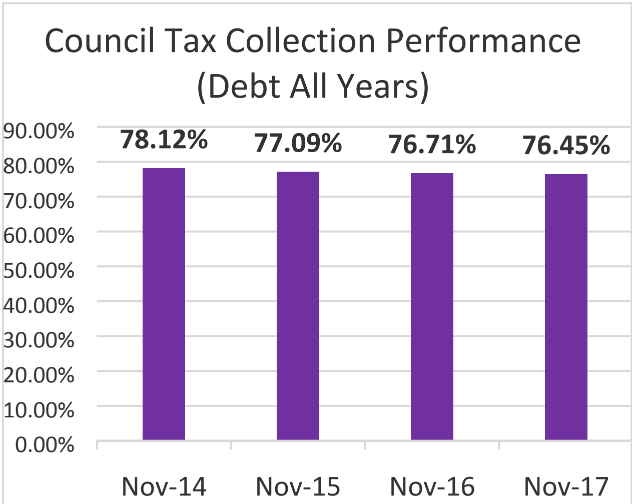
	Original Budget	Approved Budget	Projected Actual	YTD Actual
Asset Strategy Review	£1,274,000	0	0	0
Friarsgate	£1,524,000	£250,000	0	0
Bromford RTB Sales	1524000	250000	£190,000	0
Other Items	1524000	250000	£204,790	£14,790

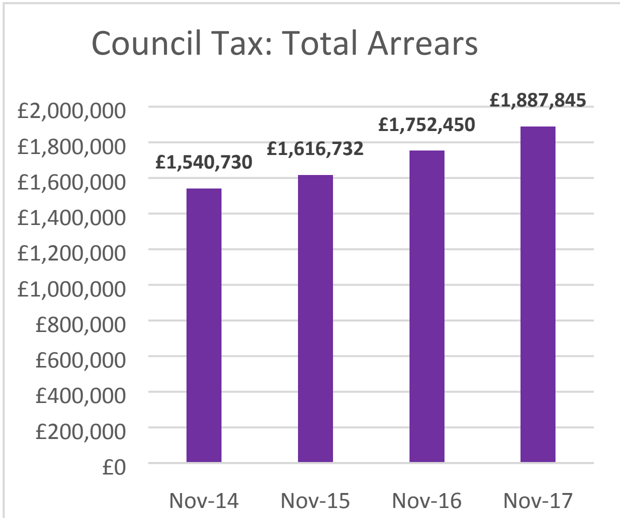
Asset Strategy Review Friarsgate Bromford RTB Sales Other Items

Council Tax

1.10. The Council is responsible for the collection of Council Tax for all precepting authorities in 2017/18 totalling **£59m**.

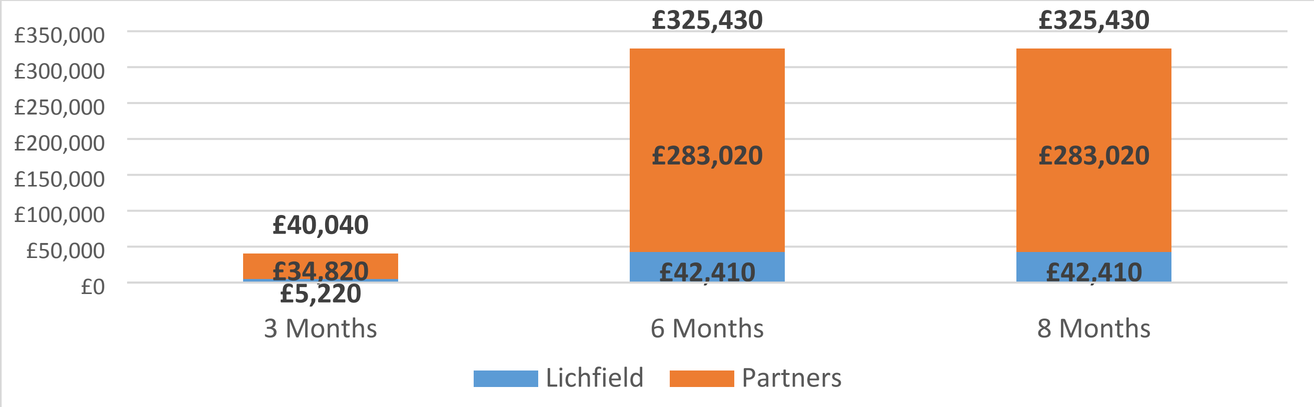
1.11. The collection performance for Council Tax for the first eight months of the last four financial years is shown in the graph below:





1.12. The collection performance has remained consistent with the same period in previous financial years although the total level of arrears is increasing. This can be attributed to several factors including the impact of the Local Council Tax Support Scheme, more properties to collect Council Tax from and the introduction of the Adult Social Care Precept.

1.13. A summary of the Projected Council Tax Collection Fund performance (The Budget assumed a breakeven position) is shown in the graph below and is based on Lichfield's (including Parishes) current share of Council Tax of **13%**:



1.14. The main reasons for the projected surplus of **(£325,430)** are:

- The net yield from Council Tax in 2017/18 is projected to be **(£362,231)** higher than estimated. This is due to lower Local Council Tax Support discount and higher Council Tax income net of other discounts and exemptions. This will include additional income following the recent project undertaken by Revenues and Benefits to review the status of all Empty Property exemptions and reduce the number in receipt.
- There was a lower surplus than projected in 2016/17 of **£36,801.**

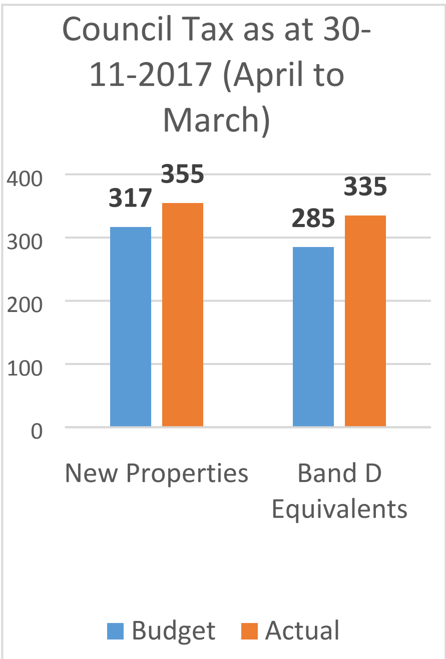
1.15. The projected surplus in 2017/18 includes the actual surplus in 2016/17 together with performance related to 2017/18. The Council's share of the projected surplus of **(£42,410)** will be included in the 2018/19 Budget and will therefore also impact on the Funding Gap in that financial year.

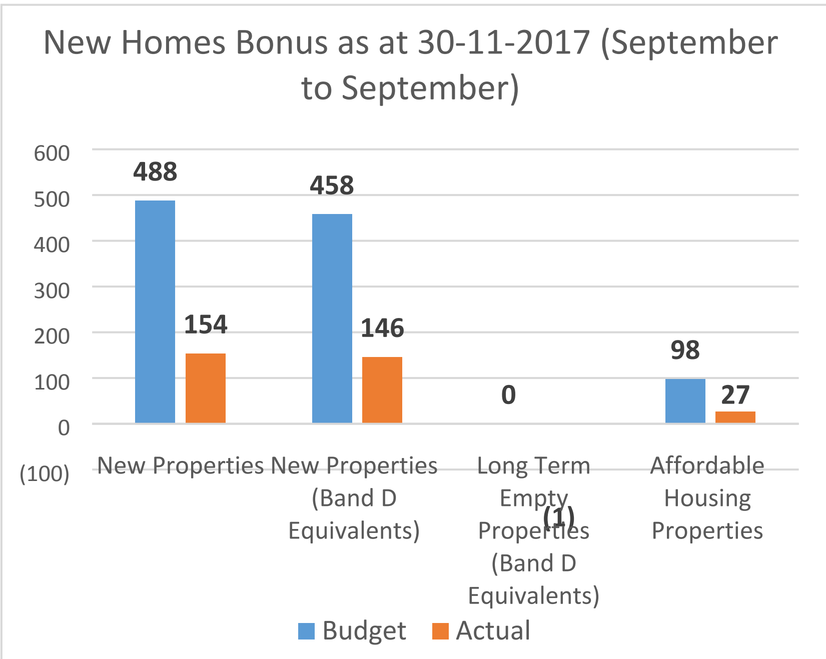
Housing Supply

1.16. Housing supply is one of the key assumptions in the current Approved Medium Term Financial Strategy because it impacts on the income we receive from both Council Tax and New Homes Bonus.

1.17. The first graph on the left shows housing completions for Council Tax for April 2017 to March 2018.

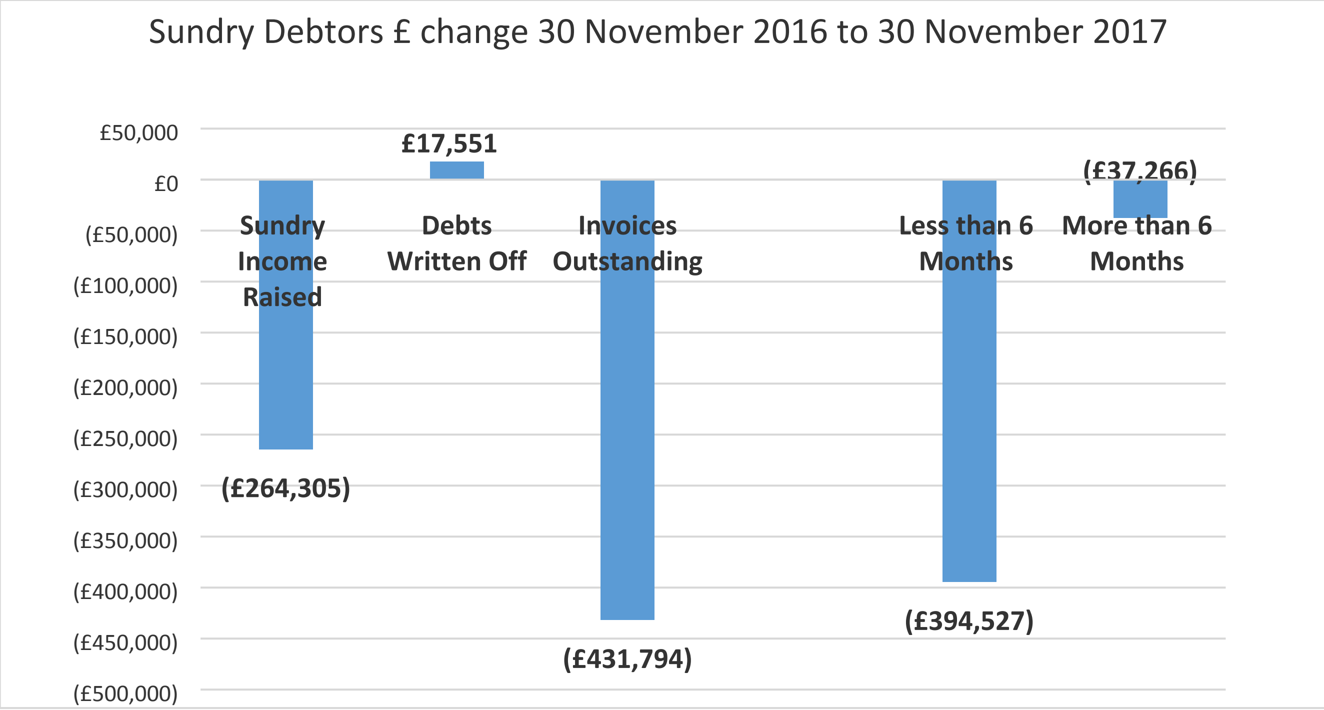
1.18. The second graph on the right for New Homes Bonus shows housing completions, changes in long term empty properties and affordable housing completions for September 2017 to September 2018.





Sundry Debtors

3.33 A summary of key transactions levels and collection performance for Sundry Debtors in 2017/18 compared to 2016/17 is shown in the graph below:



3.34 The Sundry Debtors performance is shown in detail at **APPENDIX D** and is summarised below:

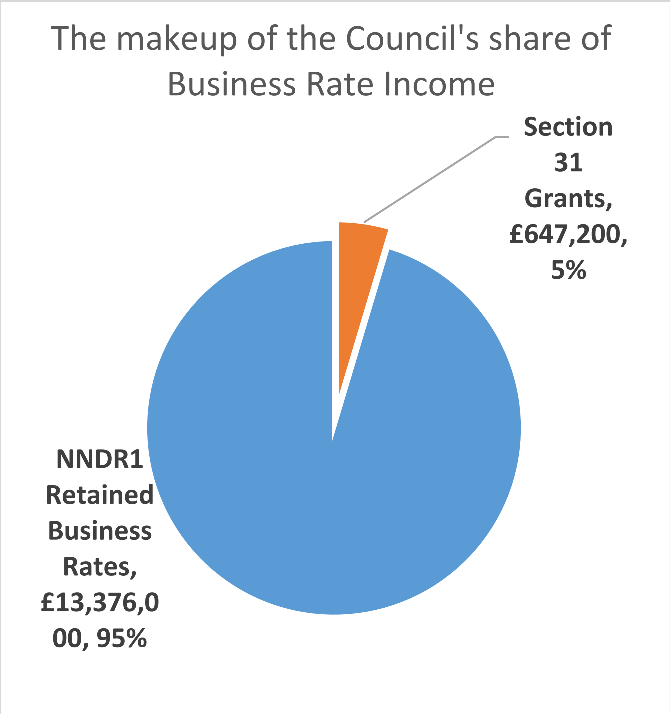
- The value of income raised by invoices has reduced by **(£264,305)** or (7.49%).
- The value of write offs has increased by **£17,551** or (39.29%).
- Overall invoices outstanding have reduced by **(£431,794)** or (30.28%) with a reduction in those outstanding for less than 6 months by **(£394,527)** or (49.43%) and a reduction in those outstanding for more than six months by **(£37,267)** or (5.93%).
- The reduction in invoices raised and outstanding for less than six months is due to no Section 106 Invoices being raised in 2017 due to the introduction of Community Infrastructure Levy.

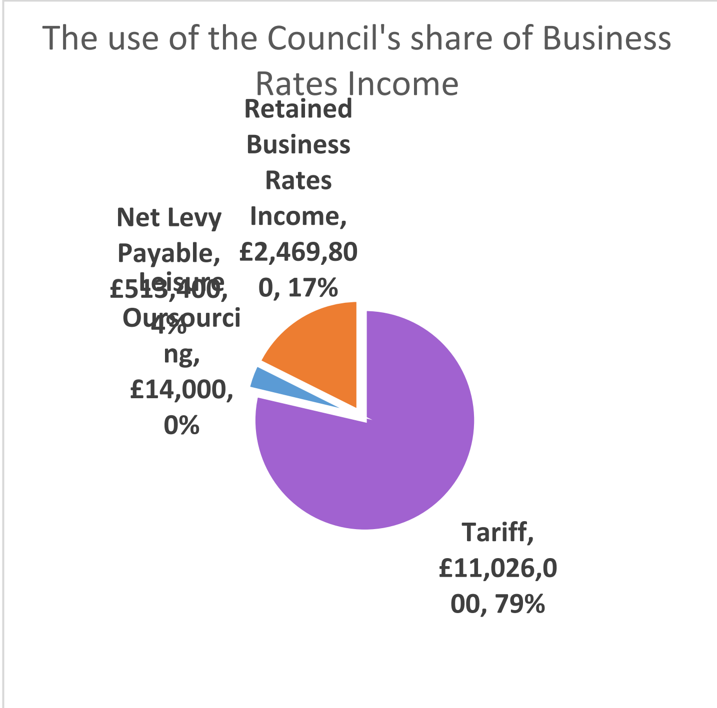
Business Rates

3.35. The Council will collect Business Rates for all partners in 2017/18 totalling **£36m**.

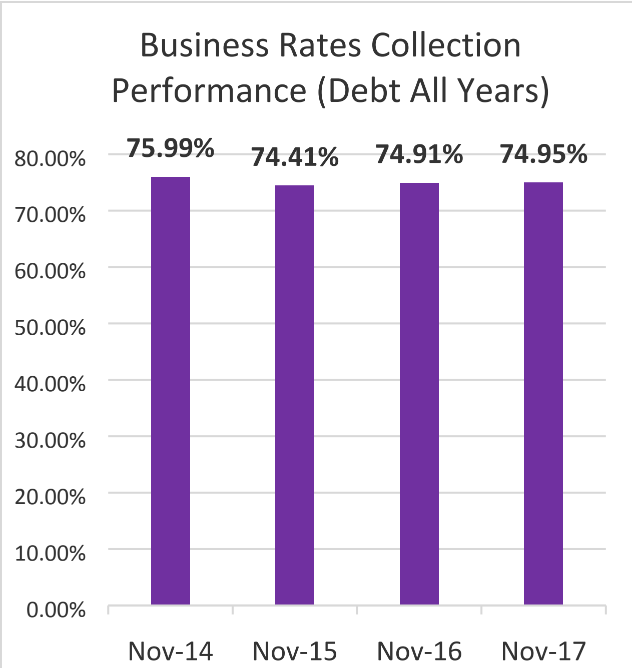
3.36. The Council receives a **40%** share of Business Rates income. The Council's share included in its budget is based on the NNDR 1 estimated level together with Section 31 grants for certain reliefs granted. The Council must then pay the Government set tariff and any net levy based on growth above the Government set baseline (or receive safety net in the event that business rates have reduced more than a set percentage below the baseline).

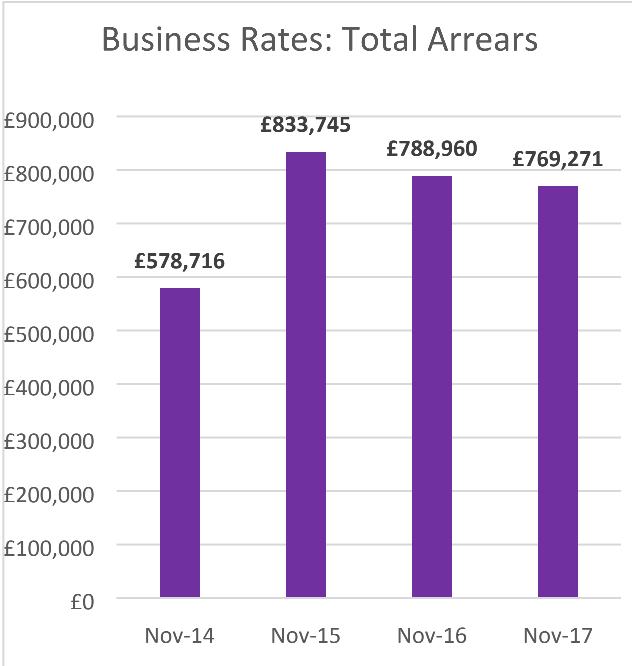
3.37. The Retained Business Rate income for 2017/18 is projected to be **(£2,469,800)** in line with the Approved Budget. There is projected to be (£152,000) of additional income however this is offset by additional net levy payments to the Greater Birmingham and Solihull Business Rates Pool. The detail of the Council's actual and budgeted share of Business Rates income, the tariff and net levy and retained Business Rates in 2017/18 is shown in detail at **APPENDIX D** and in the graphs overleaf.





3.38 The collection performance for Business Rates for the first eight months of the last four financial years is shown in the graph below:

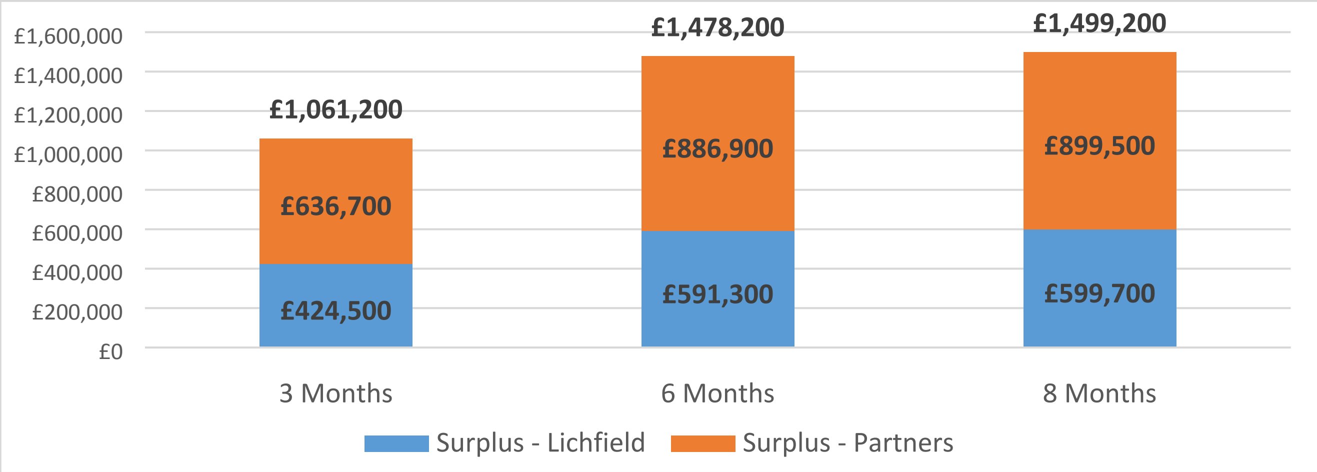




3.39 The collection performance has remained consistent with the same period in previous financial years.

3.40 The reduction in arrears at November 2017 is due to arrears in November 2016 including several large businesses that were subject to recovery and in arrears and this year are now paying as billed.

3.41 A summary of the projected Business Rates Collection Fund performance is shown in the graph below (the budget assumed a breakeven position) and is based on Lichfield's prescribed share of **40%**:



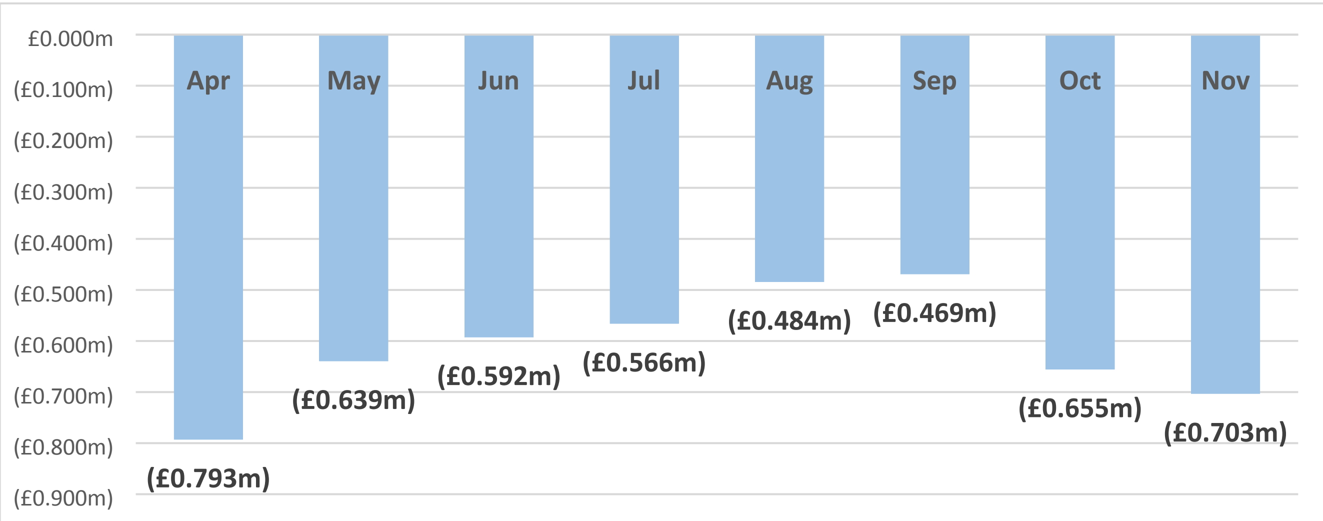
3.42 The main reasons for the surplus of **(£1,499,200)** are:

- There was a higher surplus than projected in 2016/17 of **(£729,325).**
- The projected net yield from Business Rates in 2017/18 after taking account of reliefs is projected to be **(£211,000)** higher than estimated. This additional income is in part due to the inclusion of part year income from the new large unit in Fradley.
- The allowance for Bad Debts and appeals at this stage is projected to reduce by **(£558,875)** although appeals projections now have even more complexity and risk with the introduction of the Check, Challenge and Appeal process.

3.43 Therefore the Council's share of the projected surplus in 2017/18 is **(£599,700)** compared to the budget where breakeven was assumed. The surplus of **(£591,300)** projected at the six months stage will be included in the 2018/19 Budget and the balance of **(£8,400)** will be included in the 2019/20 Budget. The 2018/19 sum will therefore either reduce the Funding Gap in that financial year or be transferred to general reserves.

3.44 Another key assumption in the Medium Term Financial Strategy is the level of growth or decline in Business Rates. The Original Budget assumed an average Rateable Value of **£88.699m** with the only reduction in Rateable Value during 2017/18 related to properties impacted by the Friarsgate development.

3.45 The Rateable Value in the first eight months is lower than projected in the Approved Budget and is shown in the graph below. The Rateable Value is one key component of calculating income and should this be an ongoing trend the Business Rates income could be lower than projected.

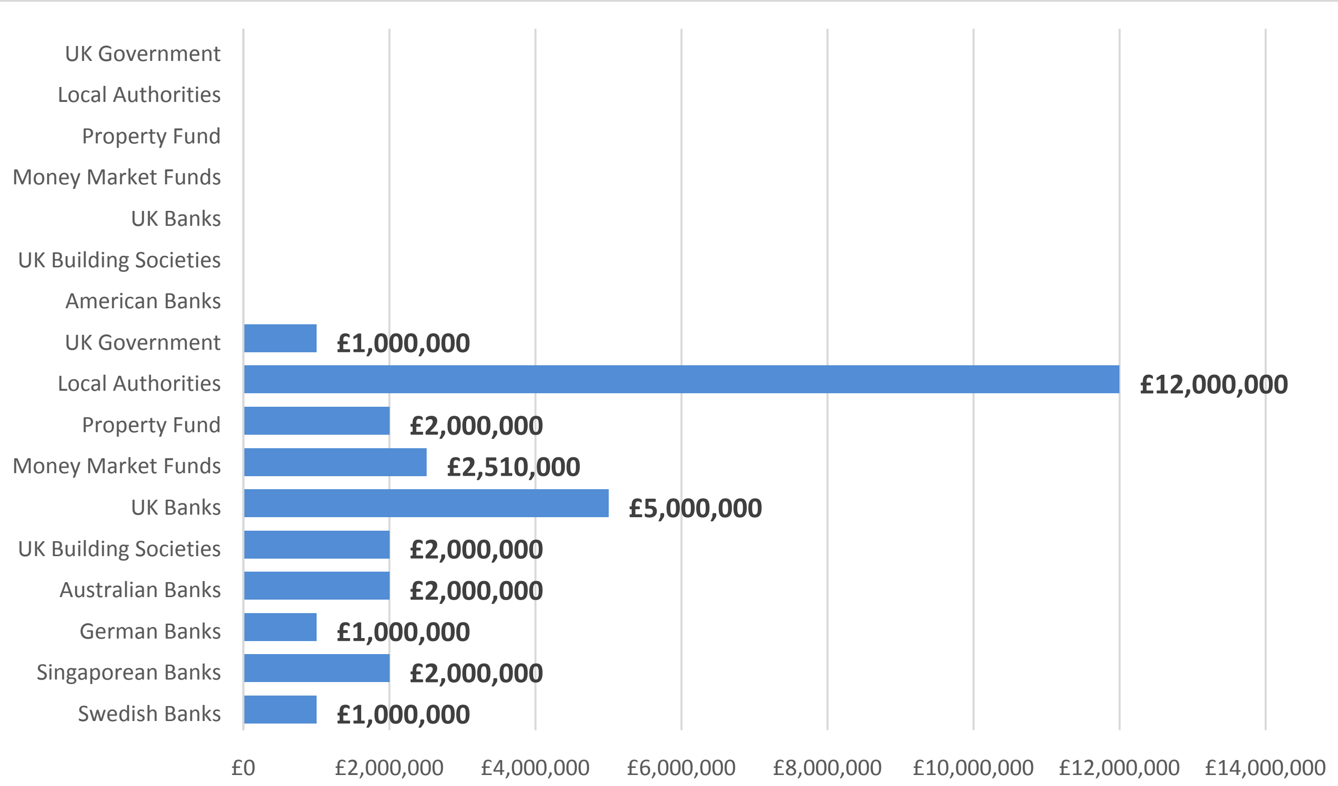


Treasury Management

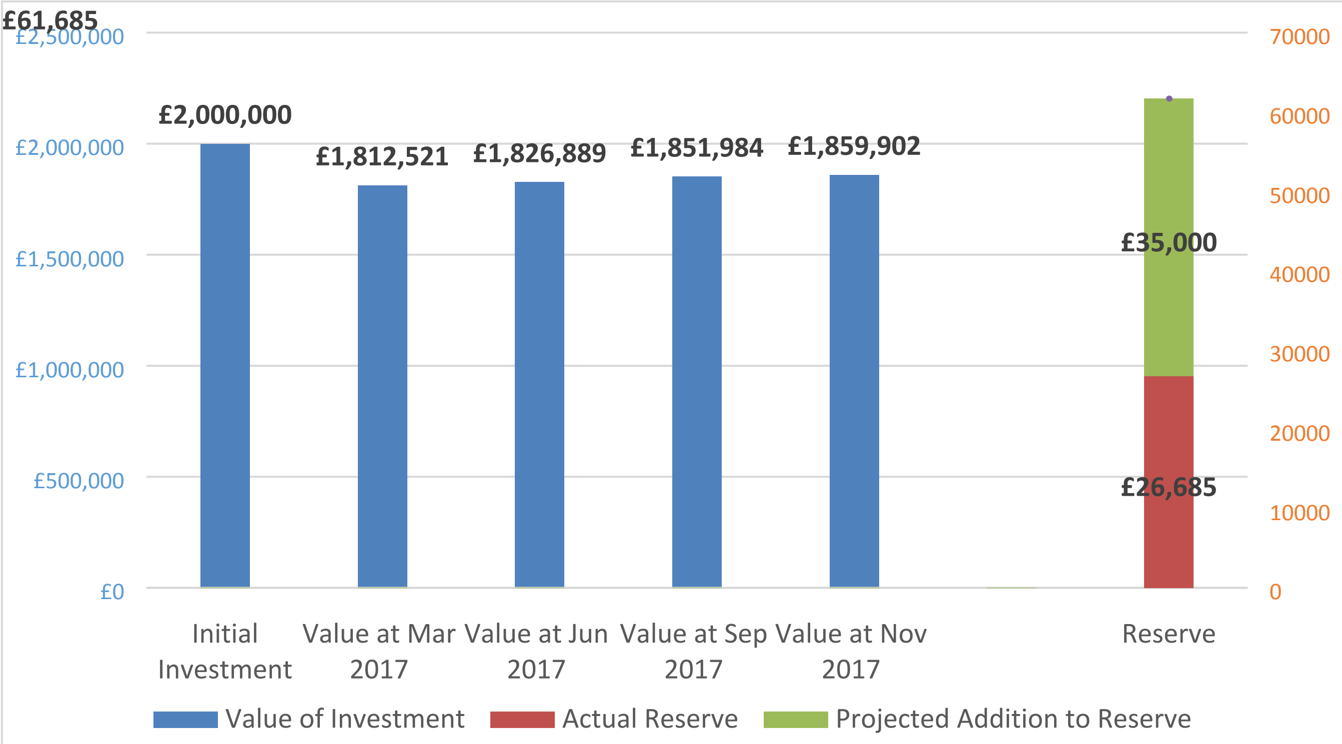
3.46 The performance of the Treasury Management function should be measured against the investment objectives of Security (the safe return of our monies), Liquidity (making sure we have sufficient money to pay for our services) and Yield (the return on our investments).

The Security of Our Investments

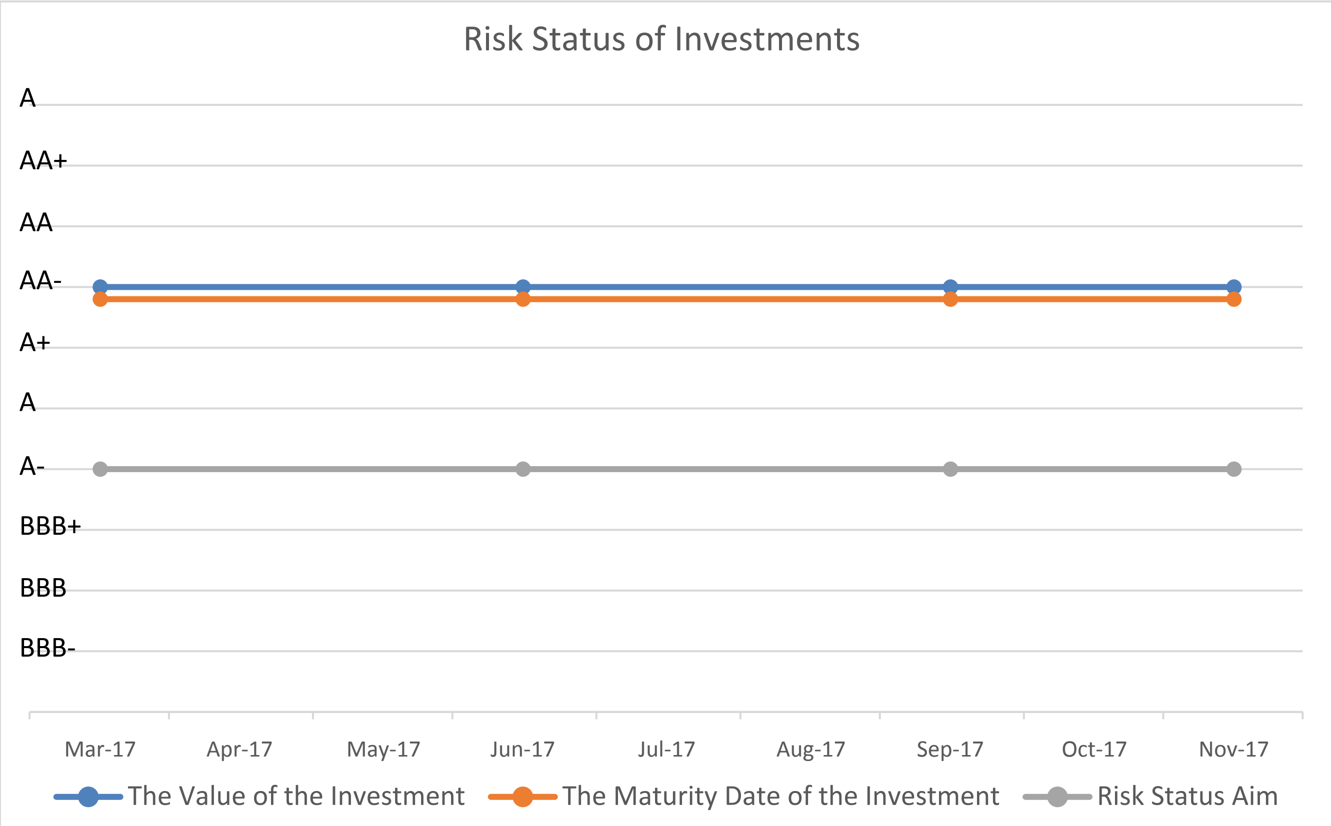
3.47 The investments the Council had at the 30 November 2017 of **£30,510,000** by type and country are summarised in the graph below and in more detail at **APPENDIX E**:



3.48 The current value of the Property Fund investment together with the projected value of the earmarked reserve at the end of 2017/18 intended to offset reductions in value is shown in the graph below:

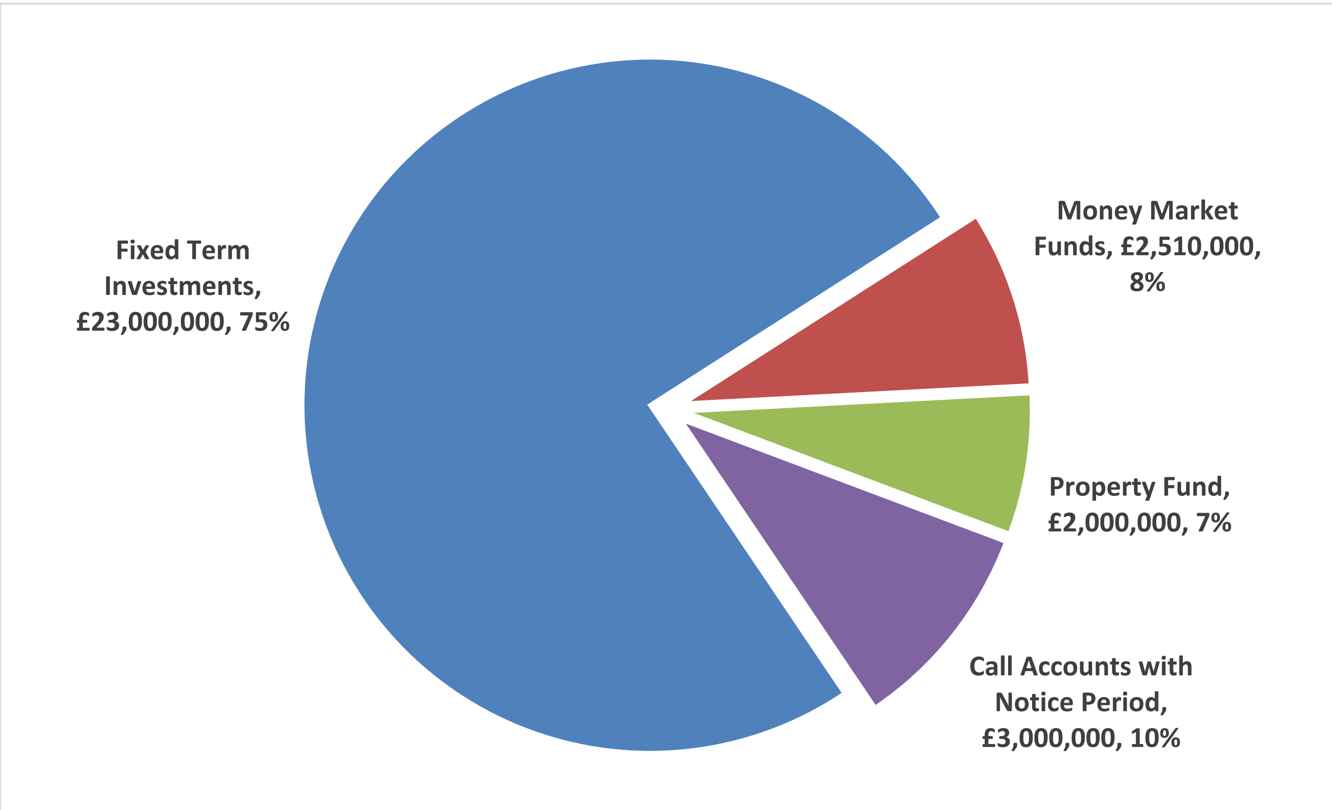


3.49 Our aim for the risk status of our investments was **A-**. The risk status based on the length of the investment and the value for a twelve month period is summarised in the graph below:



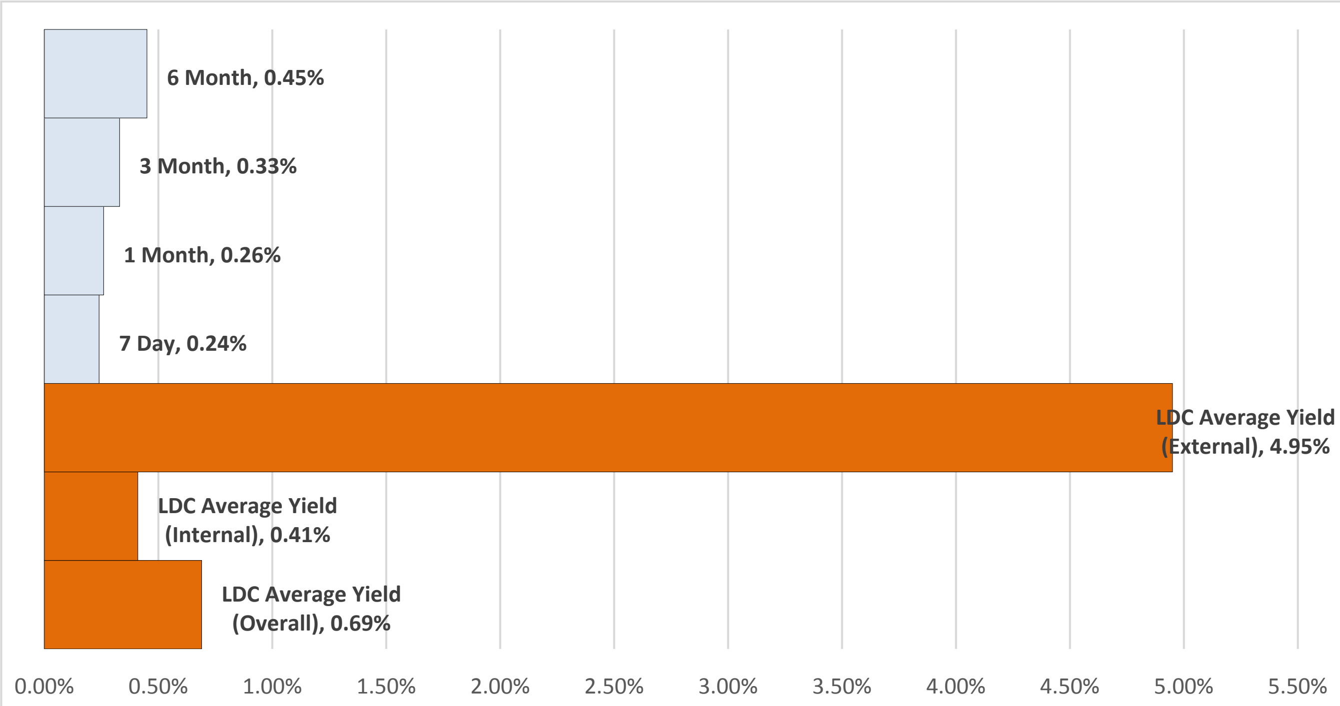
The Liquidity of our Investments

3.50 The Council has not had to temporarily borrow during 2017/18 and retains a proportion of its investments in instant access Money Market Funds to ensure there is sufficient cash available to pay for goods and services. The proportion of investments (with the Property Fund shown with its original investment value of £2m) of this type is shown in the graph below:



The Return or Yield of our Investments

3.51 The graph below shows the yields the Council achieved (internal investments, external investments i.e. the Property Fund and the overall yield) compared to a number of industry standard benchmarks shown in pale blue below (including our preferred benchmark of the 7 day LIBID rate).



3.52 The investment activity during the financial year is projected to generate **(£155,500)** of net investment income compared to a budget of **(£148,500)** and overall the Net Treasury position is projected to generate additional income of **(£7,000)**.

Alternative Options	There are no alternative options.

Consultation	Consultation is undertaken as part of the Strategic Plan 2016-20 and with Leadership Team.

Financial Implications	At this eight months stage in the year, for the period up to November 2017, we forecast a contribution from general reserves of **(£517,220)** will be made, against a budgeted contribution of **£1,060** to general reserves. Further detailed analysis on the Financial Performance up to November 2017 is shown in the attached Appendices.

Contribution to the Delivery of the Strategic Plan	The MTFS underpins the delivery of the Strategic Plan 2016-20.

Equality, Diversity and Human Rights Implications	There are no additional Equality, Diversity or Human Rights implications.

Crime & Safety Issues	There are no additional Crime and Safety Issues.

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	Management of the Council's Revenue and Capital budget is critical to the successful delivery of key Council's priorities, and control measures need to be in place to manage the re-scheduling or re-profiling of projects and to respond to the changing financial climate including the impact of the EU Referendum result	Close monitoring of expenditure. Maximising the potential of efficiency gains. Early identification of any unexpected impact on costs, for example, central Government policy, movement in the markets, and changes in the economic climate. Prioritisation of capital expenditure. Project management of projects.	Red – Severe
B	Counterparty default	This current Strategy utilises more counterparties and financial instruments to diversify the portfolio and reduce this risk.	Yellow – Material
C	Actual cash flows are different to those that are planned	The Council maintains a comprehensive cash flow model that is updated on a daily basis to reflect actual and planned cash flows. An element of the Council's investment portfolio will be invested in instant access accounts.	Yellow – Material
D	Planned capital receipts are not received	Capital Receipts are only included in the MTFS projections either following a Governance Approval or where the money is legally committed to be received.	Green – Tolerable
E	New Government policies including the level of cuts to Communities and Local Government	To ensure any new policies such as those related to Business Rates and New Homes Bonus are evaluated and the impact is incorporated into the MTFS.	Red – Severe
F	The Check, Challenge and Appeal information provided by the Valuation Office Agency related to the 2017 List is insufficient to undertake robust appeals forecasts	We are currently using historic levels of appeals from the 2005 and 2010 lists together with the allowance of **4.7%** contained in the 2017/18 Business Rates Multiplier to assess the level of appeals provision.	Red – Severe

Background Documents	• CIPFA Code of Practice for Treasury Management in the Public Services • The Prudential Code for Capital Finance in Local Authorities • Fit for the Future Leisure Review Leisure Services Options Appraisal – Cabinet 8 March 2016. • Money Matters: Council Tax, National Non Domestic Rates and Pension Contributions – Cabinet 17 January 2017. • Money Matters: Medium Term Financial Strategy (Revenue and Capital) 2016-21 Cabinet – Cabinet 7 February 2017. • The introduction of a Garden Waste Subscription Service – Cabinet 4 April 2017. • Development of Land adjacent to Milestone Way and rear of 29-39 Cannock Road, Burntwood – Cabinet 25 May 2017. • Money Matters: 2016/17 Review of Financial Performance against the Financial Strategy – Cabinet 13 June 2017. • Money Matters: 2017/18 Review of Financial Performance against the Financial Strategy – Cabinet 5 September 2017. • Money Matters: 2017/18 Review of Financial Performance against the Financial Strategy – Cabinet 5 December 2017.

Relevant web link	Cabinet – Lichfield District Council

Audit Trail – The Approved Revenue Budget

	Original Budget	Quarter 2 Approved Budget	Full Council Reports [2]	Virements below £50,000	Approved Budget	Virements above £50,000	Recommended Budget
Strategic Priority							
Healthy and safe communities	1,814,520	1,908,020	106,110	(15,000)	1,999,130		1,999,130
Clean, green and welcoming place to live	3,882,240	3,497,320			3,497,320		3,497,320
A vibrant and prosperous economy	(709,990)	(865,020)			(865,020)		(865,020)
A council that is fit for the future	5,653,680	6,007,770			6,007,770		6,007,770
Efficiency Plan	(250,000)	(97,700)			(97,700)		(97,700)
Net Cost of Services	**10,390,450**	**10,450,390**	**106,110**	**(15,000)**	**10,541,500**	**0**	**10,541,500**
Service Area							
Chief Executive	767,480	789,110		(16,980)	772,130		772,130
Finance and Procurement	1,489,630	1,480,180			1,480,180		1,480,180
Legal, Property and Democratic Services	281,610	226,280		16,980	243,260		243,260
Revenues, Benefits and Customer Services	701,630	729,630			729,630		729,630
Corporate Services	2,313,110	2,447,960			2,447,960		2,447,960
Leisure & Operational Services	2,514,620	2,640,650	106,110	(15,000)	2,731,760		2,731,760
Regulatory, Housing & Wellbeing	1,279,760	1,213,560			1,213,560		1,213,560
Development Services	39,360	24,900			24,900		24,900
Economic Growth	30,530	(167,420)			(167,420)		(167,420)
Waste Services	1,222,720	1,163,240			1,163,240		1,163,240
Efficiency Plan	(250,000)	(97,700)			(97,700)		(97,700)
Net Cost of Services	**10,390,450**	**10,450,390**	**106,110**	**(15,000)**	**10,541,500**	**0**	**10,541,500**
Net Treasury Position	(15,600)	(50,600)	38,150		(12,450)		(12,450)
Revenue Contributions to the Capital Programme	154,000	754,000		15,000	769,000		769,000
Net Operating Cost	**10,528,850**	**11,153,790**	**144,260**	**0**	**11,298,050**	**0**	**11,298,050**
Less : Transfer (from) / to General Reserve	1,060	(712,000)	(158,260)		(870,260)		(870,260)
Less : Transfer to Earmarked Reserves	504,840	592,960			592,960		592,960
Amount to be met from Government Grants and Local Taxpayers:	**£11,034,750**	**£11,034,750**	**(£14,000)**	**£0**	**£11,020,750**	**£0**	**£11,020,750**
Revenue Support Grant	(236,000)	(236,000)			(236,000)		(236,000)
Business Rates	(2,484,000)	(2,484,000)	14,000		(2,470,000)		(2,470,000)
Transition Grant	(51,750)	(51,750)			(51,750)		(51,750)
Local Council Tax Support	87,000	87,000			87,000		87,000
New Homes Bonus	(1,422,000)	(1,422,000)			(1,422,000)		(1,422,000)
Returned New Homes Bonus	(5,000)	(5,000)			(5,000)		(5,000)
Council Tax Collection Fund	(40,000)	(40,000)			(40,000)		(40,000)
Business Rates Collection Fund	(789,000)	(789,000)			(789,000)		(789,000)
Council Tax	(6,094,000)	(6,094,000)			(6,094,000)		(6,094,000)

[2] Full Council Reports relate to the Outsourcing of Leisure Facilities – Full Council 19 December 2017.

Revenue Financial Performance – Projected Variance to Budget 2017/18

Area	2017/18						
	Original Budget £	Recommended Budget £	Projected Outturn £	Projected Variance £	Projected Variance ● = adverse ☑ = favourable	Variance to Original Budget £	2017/18 Target Variance (+/-) £
Strategic Priority							
Healthy and safe communities	1,814,520	1,999,130	1,993,740	(5,390)	☑	179,220	
Clean, green and welcoming places to live	3,882,240	3,497,320	3,380,750	(116,570)	☑	(501,490)	
A vibrant and prosperous economy	(709,990)	(865,020)	(945,550)	(80,530)	☑	(235,560)	
A council that is fit for the future	5,653,680	6,007,770	5,892,760	(115,010)	☑	239,080	
Efficiency Plan	(250,000)	(97,700)	(86,900)	10,800	●	163,100	
Net Cost of Services	**10,390,450**	**10,541,500**	**10,234,800**	**(306,700)**		**(155,650)**	**0**
Service Area							
Chief Executive	767,480	772,130	694,490	(77,640)	☑	(53,780)	4,000
Finance and Procurement	1,489,630	1,480,180	1,460,050	(20,130)	☑	(29,580)	7,000
Legal, Property and Democratic Services	281,610	243,260	216,260	(27,000)	☑	(84,560)	10,000
Revenues, Benefits and Customer Services	701,630	729,630	722,830	(6,800)	☑	21,200	19,000
Corporate Services	2,313,110	2,447,960	2,403,960	(44,000)	☑	90,850	22,000
Leisure and Operational Services	2,514,620	2,731,760	2,683,760	(48,000)	☑	169,140	53,000
Regulatory, Housing and Wellbeing	1,279,760	1,213,560	1,191,470	(22,090)	☑	(88,290)	16,000
Development Services	39,360	24,900	(33,450)	(58,350)	☑	(72,810)	24,000
Economic Growth	30,530	(167,420)	(180,910)	(13,490)	☑	(211,440)	27,000
Waste Services	1,222,720	1,163,240	1,163,240	-		(59,480)	68,000
Efficiency Plan	(250,000)	(97,700)	(86,900)	10,800	●	163,100	-
Net Cost of Services	**10,390,450**	**10,541,500**	**10,234,800**	**(306,700)**		**(155,650)**	**250,000**
Net Treasury Position	(15,600)	(12,450)	(19,450)	(7,000)		(3,850)	
Revenue Contributions to the Capital Programme	154,000	769,000	769,000	-		615,000	
Net Operating Cost	**10,528,850**	**11,298,050**	**10,984,350**	**(313,700)**		**455,500**	
Transfer (from) / to General Reserve	1,060	(870,260)	(517,220)	353,040			
Transfer to Earmarked Reserves	504,840	592,960	592,960	-			
Net Revenue Expenditure	**£11,034,750**	**£11,020,750**	**£11,060,090**	**£39,340**			
Financed by:							
Revenue Support Grant	(236,000)	(236,000)	(236,000)	-			
Retained Business Rates	(2,484,000)	(2,470,000)	(2,469,800)	200			
Business Rates Cap	-	-	(32,360)	(32,360)			
Transition Grant	(51,750)	(51,750)	(51,750)	-			
Parish Local Council Tax Support	87,000	87,000	87,000	-			
New Homes Bonus	(1,422,000)	(1,422,000)	(1,422,000)	-			
Returned New Homes Bonus	(5,000)	(5,000)	(5,000)	-			
Other Government Grants	-	-	(7,180)	(7,180)			
Council Tax Collection Fund (Surplus)	(40,000)	(40,000)	(40,000)	-			
Business Rates Collection Fund (Surplus)	(789,000)	(789,000)	(789,000)	-			
Council Tax	(6,094,000)	(6,094,000)	(6,094,000)	-			

The projected variance compares projected actual (outturn) to recommended budget.

☑ = projected favourable variance and ● = projected adverse variance

Reasons for the 8 Months Budget Performance

Projected Variance £		Expenditure One Off £	Expenditure Recurring £	Income One Off £	Income Recurring £
(77,640)	Chief Executive	(77,640)	-	-	-
(20,130)	Finance and Procurement	(5,000)	-	(15,130)	-
(27,000)	Legal, Property and Democratic Services	(7,000)	-	(20,000)	-
(6,800)	Revenues, Benefits and Customer Services	39,820	(6,800)	(39,820)	-
(44,000)	Corporate Services	(44,000)	-	-	-
(48,000)	Leisure and Operational Services	(48,000)	-	-	-
(22,090)	Regulatory, Housing & Wellbeing	(22,090)	-	-	-
(58,350)	Development Services	143,030	(2,000)	(197,380)	(2,000)
(13,490)	Economic Growth	324,830	-	(338,320)	-
-	Waste Services	-	-	-	-
(7,000)	Net Treasury Position	-	-	(7,000)	-
(£324,500)	**Net Operating Cost**	**£303,950**	**(£8,800)**	**(£617,650)**	**(£2,000)**

Chief Executive

Projected Variance £	Service Area	Expenditure One Off £	Expenditure Recurring £	Income One Off £	Income Recurring £
(20,500)	Vacant post and supplies and services underspends	(20,500)	-	-	-
(57,140)	Earmarked Reserve no longer required	(57,140)	-	-	-
(£77,640)	**Total**	**(£77,640)**	**-**	**-**	**-**

Finance and Procurement

Projected Variance £	Service Area	Expenditure One Off £	Expenditure Recurring £	Income One Off £	Income Recurring £
(15,130)	One-off income including Audit Fee rebate	-	-	(15,130)	-
(5,000)	Underspend on Procurement Advice Fees	(5,000)	-	-	-
(£20,130)	**Total**	**(£5,000)**	**-**	**(£15,130)**	**-**

Legal, Property and Democratic Services

Projected Variance £	Service Area	Expenditure One Off £	Expenditure Recurring £	Income One Off £	Income Recurring £
(20,000)	Underspend on Members Allowances due to restructure	(20,000)	-	-	-
(4,000)	Additional income offset with additional works on Investment Properties	16,000	-	(20,000)	-
(3,000)	Supplies and Services underspends	(3,000)	-	-	-
(£27,000)	**Total**	**(£7,000)**	**-**	**(£20,000)**	**-**

Revenues, Benefits and Customer Services

Projected Variance £	Service Area	Expenditure One Off £	Expenditure Recurring £	Income One Off £	Income Recurring £
(6,800)	Reduction in Postage usage and IT License	-	(6,800)	-	-
-	Additional grant income offset with expenditure	39,820	-	(39,820)	-
(£6,800)	**Total**	**£39,820**	**(£6,800)**	**(£39,820)**	**-**

Corporate Services

Projected Variance £	Service Area	Expenditure One Off £	Expenditure Recurring £	Income One Off £	Income Recurring £
(24,000)	Premises and Supplies and Services underspends	(24,000)	-	-	-
(20,000)	Vacant post	(20,000)	-	-	-
(£44,000)	**Total**	**(£44,000)**	**-**	**-**	**-**

Leisure and Operational Services

Projected Variance £	Service Area	Expenditure One Off £	Expenditure Recurring £	Income One Off £	Income Recurring £
(30,000)	Underspend on tree maintenance	(30,000)	-	-	-
(18,000)	Premises underspend on Parks	(18,000)	-	-	-
(£48,000)	**Total**	**(£48,000)**	**-**	**-**	**-**

Regulatory Services, Housing and Wellbeing

Projected Variance £	Service Area	Expenditure One Off £	Expenditure Recurring £	Income One Off £	Income Recurring £
(22,090)	Vacant posts including maternity leave	(22,090)	-	-	-
(£22,090)	**Total**	**(£22,090)**	**-**	**-**	**-**

Development Services

Projected Variance £	Service Area	Expenditure One Off £	Expenditure Recurring £	Income One Off £	Income Recurring £
(340)	Additional Planning Application income and related spend including £154k of Earmarked reserve requests	191,040	-	(191,380)	-
(38,010)	Vacant post	(38,010)	-	-	-
(4,000)	Identified Savings from Conservation and Ecology	-	(2,000)	-	(2,000)
(10,000)	Building Control Partnership Additional Contribution	(10,000)	-	-	-
(6,000)	Additional HS2 income	-	-	(6,000)	-
(£58,350)	**Total**	**£143,030**	**(£2,000)**	**(£197,380)**	**(£2,000)**

Economic Growth

Projected Variance £	Service Area	Expenditure One Off £	Expenditure Recurring £	Income One Off £	Income Recurring £
(22,070)	Additional Car Park income including transfer to Friarsgate and Business Rates Earmarked Reserves	323,170	-	(345,240)	-
(19,850)	Vacant posts	(19,850)	-	-	-
1,430	Additional income and spend for Spatial Policy	21,510	-	(20,080)	-
27,000	Reduction in CIL income	-	-	27,000	-
(£13,490)	**Total**	**£324,830**	**-**	**(£338,320)**	**-**

Net Treasury Position

Projected Variance £	Service Area	Expenditure One Off £	Expenditure Recurring £	Income One Off £	Income Recurring £
(7,000)	Increased Interest Receipts	-	-	(7,000)	-
(£7,000)	**Total**	**-**	**-**	**(£7,000)**	**-**

Capital Programme Performance in 2017/18

Projects	Original Budget	Approved Budget	Actual	Projected Actual	Projected Variance
Community Building at Hawksyard	320,000	320,000	319,574	320,000	
Oakenfield Play Area (Sinking Fund)	0	9,000	9,000	9,000	
BLC Enhancement Work	42,000	74,000	11,838	74,000	
Other Burntwood Leisure Centre Projects	128,000	128,000	0	128,000	
Play Area at Hawksyard	0	1,000	0	0	(1,000)
Squash Court and Sports Hall Floors (FGLC)	0	50,000	0	50,000	
Friary Grange Leisure Centre (Boilers, Lighting)	0	15,000	0	15,000	
Leisure Review	0	282,000	0	282,000	
Accessible Homes (Disabled Facilities Grants)	850,000	850,000	828,467	1,010,000	160,000
DCLG Monies	212,000	0	0	0	
Decent Homes Standard	437,000	0	0	0	
Energy Insulation Programme	10,000	30,000	0	30,000	
Home Repair Assistance Grants	15,000	15,000	0	15,000	
Housing Redevelopment Scheme - Packington	80,000	80,000	40,000	80,000	
Unallocated S106 Affordable Housing Monies	400,000	0	0	0	
Healthy and Safe Communities	**2,494,000**	**1,854,000**	**1,208,880**	**2,013,000**	**159,000**
Ancient Monument (Friary)	0	1,500	1,500	1,500	
Canal Culvert at Huddlesford	100,000	10,000	850	10,000	
Fazeley Crossroads Environmental Improvements	0	4,000	3,971	4,000	
Darnford Park	0	13,000	0	0	(13,000)
Shortbutts Park, Lichfield	0	33,000	0	10,000	(23,000)
Stowe Pool Improvements	100,000	0	0	0	
Swan Road: Whittington Parish Council	0	28,000	28,205	28,000	
Vehicle Replacement Programme	167,000	93,000	18,325	18,000	(75,000)
Clean, Green and Welcoming Places to Live	**367,000**	**182,500**	**52,851**	**71,500**	**(111,000)**
Cannock Chase SAC	0	86,000	85,984	86,000	
Car Parks Variable Message Signing	32,000	0	0	0	
City Centre Strategy and Interpretation	0	1,500	0	1,500	
Friarsgate Support	1,830,000	1,904,000	352,713	495,000	(1,409,000)
Friarsgate: Castle Dyke/Frog Lane Enhancement	50,000	97,000	12,421	97,000	
Garrick Square	58,000	0	0	0	
Old Mining College: Refurbish access and signs	0	14,000	0	14,000	
Sankey's Corner Environmental Improvements	0	3,000	0	3,000	
Document Management System	0	11,000	0	5,000	(6,000)
A Vibrant and Prosperous Economy	**1,970,000**	**2,116,500**	**451,119**	**701,500**	**(1,415,000)**
Asset Management: District Council House	301,000	291,000	68,398	291,000	
IT and Channel Shift Programme	200,000	152,000	230,474	250,000	98,000
Multi Media in the Committee Room	0	10,000	10,236	10,000	
Bin Storage Area Resurfacing	0	30,000	19,932	20,000	(10,000)
Depot Sinking Fund	0	11,000	0	11,000	
A Council that is Fit for the Future	**501,000**	**494,000**	**329,040**	**582,000**	**88,000**
Capital Programme Total	**£5,332,000**	**£4,647,000**	**£2,041,890**	**£3,368,000**	**(£1,279,000)**

- Variance projected to be more than £100,000 / Variance projected to be less than £100,000

Funding Source	Original Budget	Approved Budget	Projected Actual	Projected Variance
Capital Receipts	1,074,000	376,000	532,000	156,000
Revenue Contributions	154,000	769,000	769,000	0
Council Funding	**1,228,000**	**1,145,000**	**1,301,000**	**156,000**
Borrowing Need	75,000	357,000	282,000	(75,000)
Capital Grants and Contributions	3,767,000	2,824,000	1,480,000	(1,344,000)
Reserves and Sinking Funds	262,000	321,000	305,000	(16,000)
Capital Programme Total	**£5,332,000**	**£4,647,000**	**£3,368,000**	**(£1,279,000)**

Council Tax

	Council Tax				
	Debt Covering All years				In year Debt
	30-Nov-16	30-Nov-17	Change		30-Nov-17
Amount Collected as a %	76.71%	76.45%	0.26%	●	**83.70%**
In year arrears outstanding at 30th Nov	£782,531	£820,641		●	**£820,641**
Previous years arrears at 30th Nov	£969,919	£1,067,204		●	
Total arrears outstanding at 30th Nov	£1,752,450	£1,887,845	7.73%	●	
Write offs as at 30th Nov	£42,883	£64,745	50.98%	●	

Sundry Debtor Performance

Details	30-Nov-16 All Debts £	30-Nov-17 All Debts £	All Debts Change (%)	Variance
Value of sundry income raised in quarter	3,530,272	3,265,967	(7.49%)	☑
Value of debts written off	44,673	62,224	39.29%	●
Value of all invoices outstanding	1,426,212	994,418	(30.27%)	☑
Aged Debt Analysis				
Less than 6 months	798,185	403,658	(49.43%)	☑
More than 6 months	628,027	590,760	(5.93%)	☑

Business Rates

The Council's Retained Business Rates Income

	Budget £	30-Nov-17 £	Projected Outturn £	Projected Variance £
NNDR 1 Based Retained Business Rates				
Retained Business Rates	(£13,376,000)	(£13,376,000)	(£13,376,000)	£0
Leisure Outsourcing	£14,000		£14,000	£0
Section 31 Grants (Lichfield's 40% Share)				
Small Business Rates Relief	(£495,200)	(£630,400)	(£629,600)	(£134,400)
New Empty Properties	£0	£0	£0	£0
Long Term Empty Properties	£0	£800	£800	£800
In lieu of transitional relief	£0	(£19,200)	(£19,200)	(£19,200)
Retail Relief	£0	£800	£800	£800
Less : Tariff Payable	£11,026,000	£11,026,000	£11,026,000	£0
Pre Levy or Safety Net Income	**(£2,831,200)**	**(£2,998,000)**	**(£2,983,200)**	**(£152,000)**
NNDR 3 Based Levy Payments				
Less : Levy Payable @ 50%	£432,600	£452,400	£669,000	£236,400
Volatility Allowance	£69,800	£208,800	£61,400	(£8,400)
Levy from the Business Rates Pool (32.5%)	(£141,000)	(£147,000)	(£217,000)	(£76,000)
Post Levy or Safety Net Income	**(£2,469,800)**	**(£2,483,800)**	**(£2,469,800)**	**£0**

Collection Performance

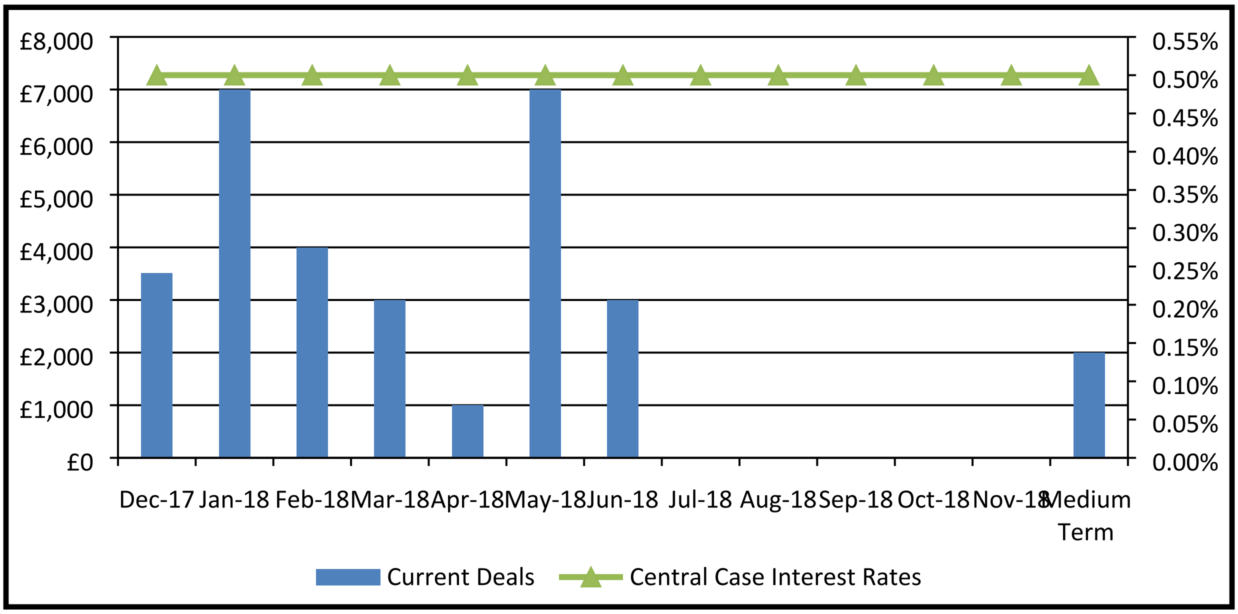
	Non Domestic Rates				
	Debt Covering All years				In year Debt
	30-Nov-16	30-Nov-17	Change		30-Nov-17
Amount Collected as a %	74.91%	74.95%	0.04%	☑	**80.70%**
In year arrears outstanding at 30th Nov	£588,033	£389,637		☑	**£389,637**
Previous years arrears at 30th Nov	£200,926	£379,634		●	
Total arrears outstanding at 30th Nov	£788,959	£769,271	-2.49%	☑	
Write offs as at 30th Nov	£434,821	£104,046	-76.07%	☑	

Investments in the 2017/18 Financial Year

The table below shows a breakdown of our investments at the end of November 2017:

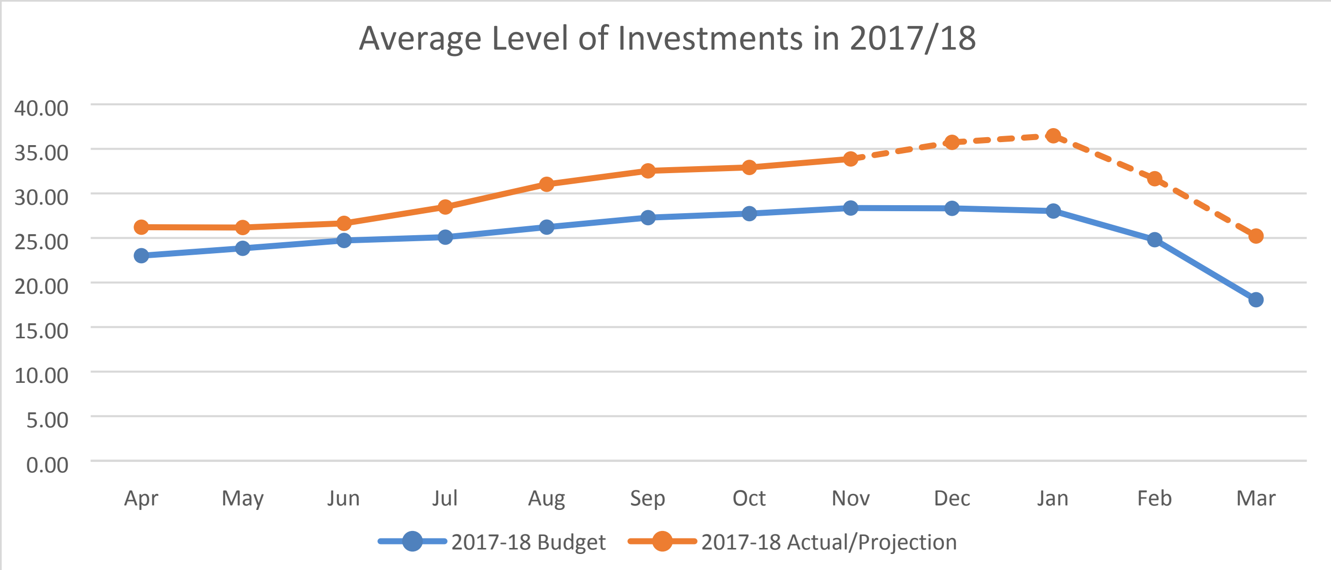
Counterparty	Principal	Matures	Days to Maturity	Rate	Credit Rating	Foreign Parent
Money Market Funds						
Legal & General	£1,000,000	01-Dec-17	Instant Access	0.36%	AA-	N/A
Federated	£510,000	01-Dec-17	Instant Access	0.31%	A+	N/A
BNP Paribas MMF	£1,000,000	01-Dec-17	Instant Access	0.36%	A+	N/A
Property Fund						
CCLA Property Fund	£2,000,000	N/A	N/A	4.56%	N/A	No
Fixed Term Investments						
Broxtowe Borough Council	£2,000,000	19-Feb-18	81	0.45%	LOCAL	No
Thurrock Council	£2,000,000	11-Jan-18	42	0.43%	LOCAL	No
Australia and New Zealand Banking Group	£1,000,000	12-Dec-17	12	0.40%	AA-	Yes
Landesbank Hessen-Thüringen (Helaba)	£1,000,000	08-Jan-18	39	0.38%	A	Yes
Rugby Borough Council	£2,000,000	29-Jun-18	211	0.35%	LOCAL	No
Close Bros	£1,000,000	29-Jan-18	60	0.60%	A	No
United Overseas Bank	£1,000,000	18-May-18	169	0.39%	AA-	Yes
DBS Bank	£1,000,000	01-Jun-18	183	0.39%	AA-	Yes
Telford & Wrekin Council	£2,000,000	22-Mar-18	112	0.29%	LOCAL	No
Moray Council	£2,000,000	22-Jan-18	53	0.32%	LOCAL	No
Coventry Building Society	£1,000,000	05-Apr-18	126	0.40%	A	No
Barclays Bank	£1,000,000	09-Feb-18	71	0.37%	A	No
Salford City Council	£2,000,000	16-May-18	167	0.50%	LOCAL	No
Commonwealth Bank of Australia	£1,000,000	03-May-18	154	0.42%	AA-	Yes
Lloyds	£1,000,000	15-May-18	166	0.65%	A	No
Nationwide	£1,000,000	15-May-18	166	0.46%	A	No
Call Accounts with Notice Period						
Santander	£1,000,000	29-May-18	180	0.55%	A	Yes
Goldman Sachs International Bank	£1,000,000	05-Mar-18	95	0.44%	A	Yes
Svenska Handelsbanken AB	£1,000,000	04-Jan-18	35	0.25%	AA-	Yes
Treasury Bills	£1,000,000	05-Feb-18	67	0.35%	UK GOV	No
Total Investments	**£30,510,000**					

The maturity profile of these investments at 30 November 2017 compared to our Treasury Management advisor Arlingclose interest rate forecasts is shown in the graph below:



Cash Flow for 2017/18

The graph below compares the budget for average investment levels in 2017/18 with the actual levels.



Performance of the Treasury Management Function

The performance of the Treasury Management function should be measured against the investment objectives of Security (the safe return of our monies), Liquidity (making sure we have sufficient money to pay for our services) and Yield (the return on our investments).

	Target	Actual
<u>Security</u>		
Risk Status (length of Investment)	A-	AA-
Risk Status (Value of the investment)		AA-
<u>Liquidity</u>		
Length of Investments (days)	N/A	110 days
Temporary Borrowing	£0	£0
<u>Yield</u>		
Average amount we had available to invest (£m)	£30.70m	£30.21m
Average Interest Rate (%)	0.65%	0.67%
7-day London Inter-bank Bid (LIBID) rate	0.24%	
1 month London Inter-bank Bid (LIBID) rate	0.26%	
3 month London Inter-bank Bid (LIBID) rate	0.33%	
6 month London Inter-bank Bid (LIBID) rate	0.45%	
Net Investment Income (£)	(£148,500)	(£155,500)
Net Treasury Position (£)	(£50,600)	(£57,600)

The Medium Term Financial Strategy (Revenue and Capital) 2017-22 (MTFS)

Report of the Cabinet Member for Finance and Democracy

Lichfield district council
www.lichfielddc.gov.uk

Cabinet

Date:	13 February 2018
Agenda Item:	4
Contact Officers:	Diane Tilley/Anthony Thomas
Tel Number:	01543 308001/308012
Email:	diane.tilley@lichfielddc.gov.uk/ anthony.thomas@lichfielddc.gov.uk
Key Decision?	**YES**
Local Ward Members	Full Council

1. Executive Summary

The Medium Term Financial Strategy

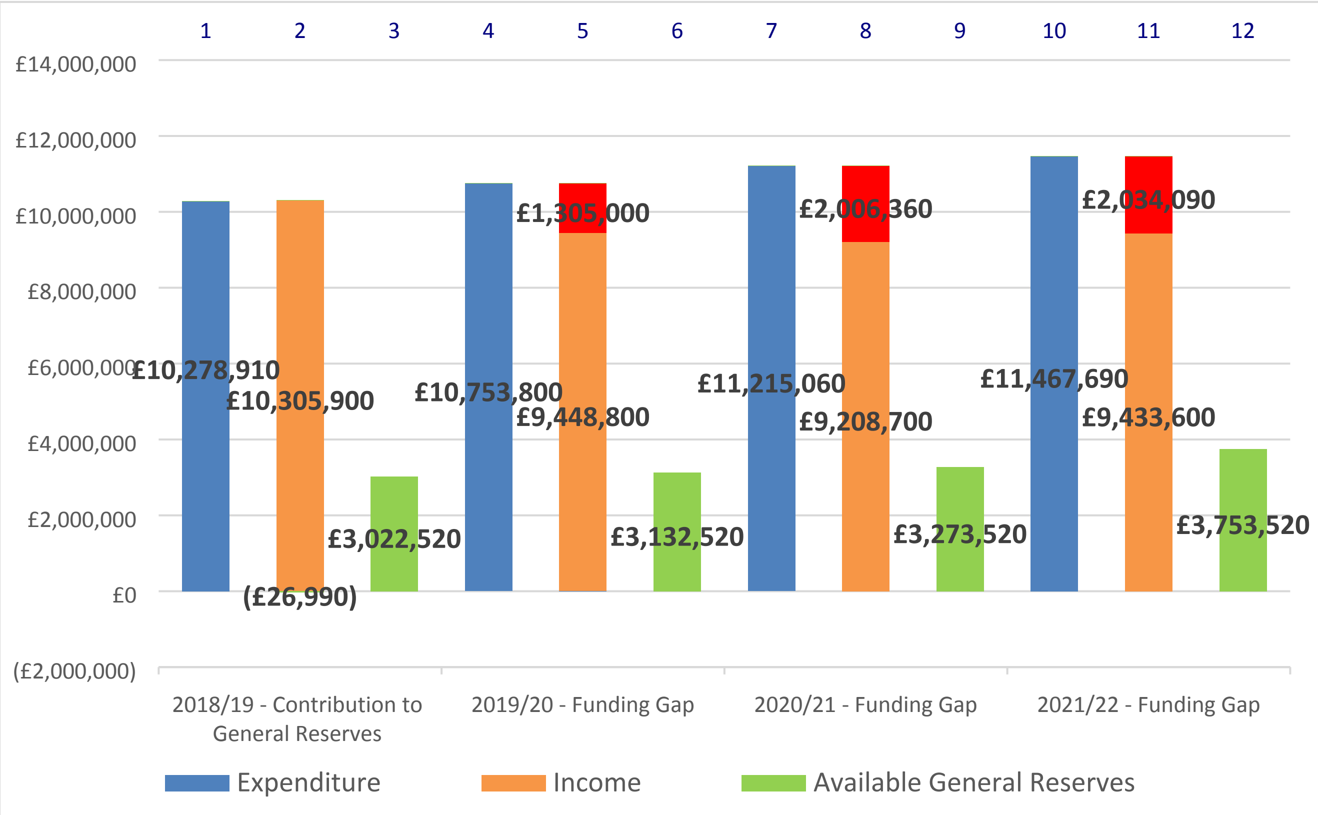
1.1 The ability to deliver the outcomes set out in the **Lichfield District Council Strategic Plan 2016-20** is dependent on the resources available in the MTFS.

1.2 The Council has a statutory duty to set a balanced budget and to calculate the level of Council Tax for its area. The Chief Financial Officer (CFO) has a statutory duty to ensure the figures provided for estimating and financial planning are robust and will stand up to Audit scrutiny.

1.3 The Local Government Act 2003 places duties and requirements on the Authority on how it sets and monitors its budgets, including the CFO's report on the Robustness of the Budget and adequacy of Reserves and this report forms part of the MTFS.

The Revenue Budget

1.4 The Revenue Budget with a transfer to general reserves in 2018/19 and Funding Gaps (shown in red in the graph below) in later years is shown in detail at **APPENDIX A** and in summary below:



1.5 The Council is legally required to balance the budget in the first year (2018/19) of the MTFS and to set out its proposals to balance the further financial years - 2019/20, 2020/21 and 2021/22.

1.6 The MTFS proposes a transfer to General Reserves of **£26,990** for 2018/19 and in later years a projected Funding Gap has been identified. The Council would have **£3,022,520** of General Reserves available (after taking account of the Minimum Level of Reserves) after this contribution to assist with balancing the budget in future years, if needed.

1.7 The Council will need to make significant levels of savings or achieve additional income to close the Funding Gap by 2021/22.

Treasury Management, the Capital Strategy and the Capital Programme

1.8 The Treasury Management Strategy Statement incorporates the Annual Investment Strategy and it covers the financing and investment strategy for the forthcoming financial year.

1.9 The purpose of this paper is, therefore, to approve:

- The Capital Strategy and Capital Programme, outlined in **APPENDICES B** & **C.**
- Balance Sheet Projections and Borrowing Requirement and Strategy for 2018/19 **(APPENDIX D)**.
- Minimum Revenue Provision Statement 2018/19 **(APPENDIX E).**
- Treasury Management Policy Statement, Annual Investment Strategy and Cash Flow Forecast for 2018/19 **(APPENDIX F).**
- Use of Specified and Non-Specified Investments **(APPENDIX F)**.
- Prudential Indicators 2017-22 **(APPENDIX G)**.

1.10 All treasury activity will comply with relevant statute, guidance and accounting standards.

The CFO's Report on the Robustness of the Budget and the Adequacy of Reserves

1.11 In accordance with the Local Government Act 2003 (Sections 25-27) and to comply with CIPFA Guidance on Local Authority Reserves and Balances, the CFO is required to formally report to Members on the robustness of the Budget and the adequacy of Reserves **(APPENDIX H)**.

2. Recommendations

That Cabinet recommend to Council for approval:

2.1 The 2018/19 Revenue Budget, including the Amount to be met from Government Grants and Local Taxpayers of **£10,305,900** and a proposed level of Council Tax (the District Council element) for 2018/19 of **£169.99** (an increase of £5 or 3.03%) for a Band D equivalent property.

2.2 The MTFS 2017-22 Revenue Budgets set out in **APPENDIX A**.

2.3 The MTFS 2017-22 Capital Strategy, Capital Programme and Balance Sheet Projections **(APPENDICES B, C & D)**.

2.4 The Minimum Revenue Provision Statement 2018/19, at **APPENDIX E**, which sets out the Council's policy of using the asset life as the basis for making prudent provision for debt redemption.

2.5 Treasury Management Policy Statement and The Annual Investment Strategy 2018/19 and the detailed criteria - **APPENDIX F**.

2.6 The use of Specified and Non-Specified Investments - **APPENDIX F.**

2.7 The Prudential Indicators and limits for 2017-22 contained within **APPENDIX G** of this report.

2.8 The Authorised Limit Prudential Indicator shown within **APPENDIX G**.

2.9 The requirements and duties that the Local Government Act 2003 places on the Authority on how it sets and monitors its Budgets, including the CFO's report on the robustness of the Budget and adequacy of Reserves shown in **APPENDIX H**.

3. Background

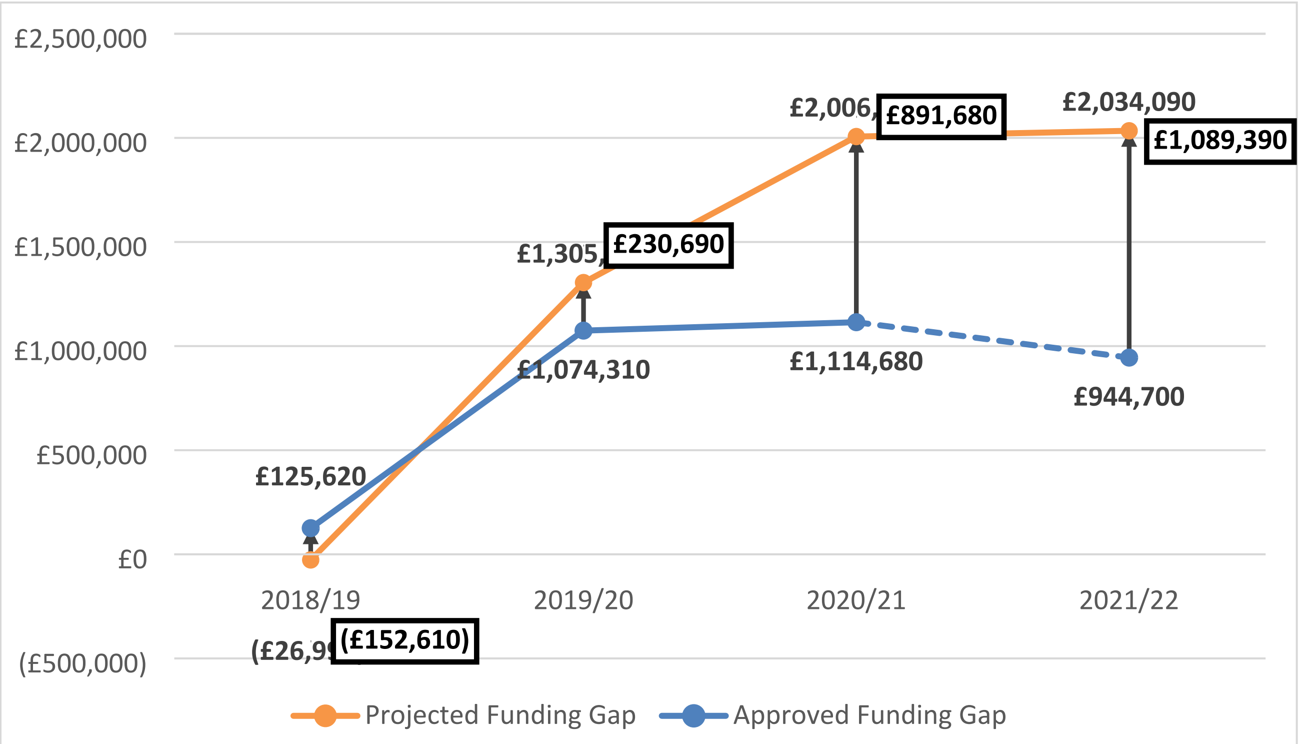
The Revenue Budget

3.1 The MTFS covering 2016-21 was approved by Council on 21 February 2017 and included the projected level of Funding Gaps for 2018/19 to 2020/21.

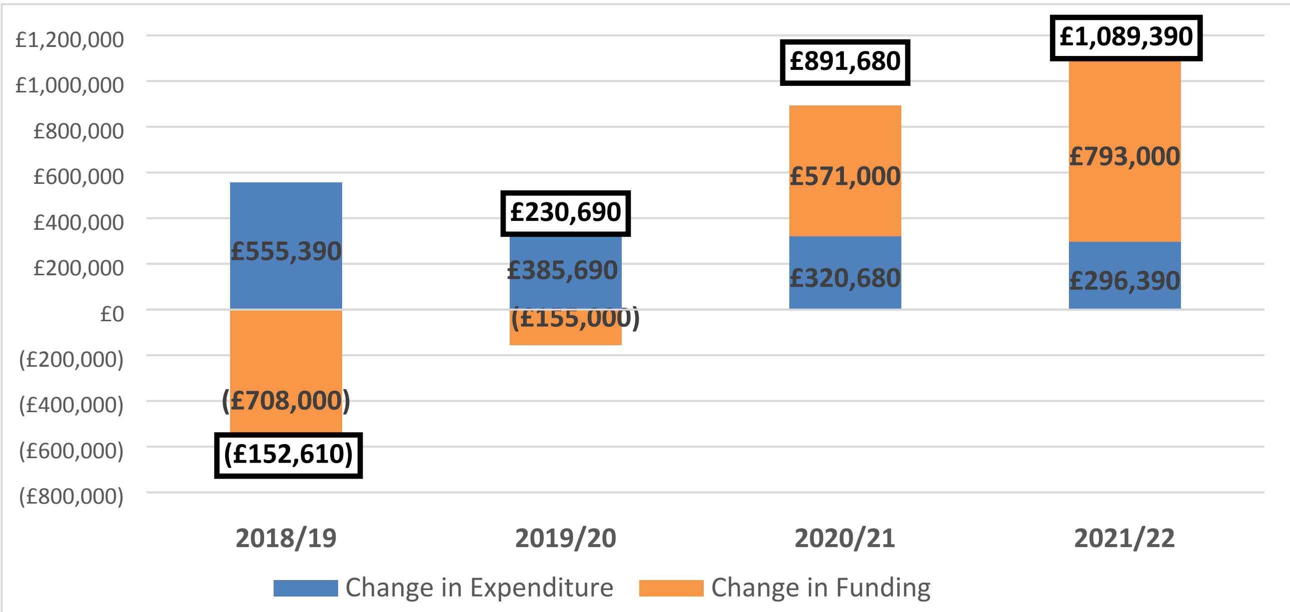
3.2 Throughout the financial year, Money Matters reports have been provided to both Cabinet and Strategic (Overview and Scrutiny) Committee at three, six and eight month (a separate report on this agenda) intervals to monitor financial performance.

3.3 The Revenue Budget is shown by both Strategic Priority and Service Area in detail at **APPENDIX A** (the savings resulting from the garden waste subscription service and Leisure Outsourcing are now included in the Approved Budget).

3.4 The projected Funding Gap compared to the Approved Funding Gap (taking account of Approved changes during 2017/18) plus a further projection for 2021/22 is shown in the graph below:



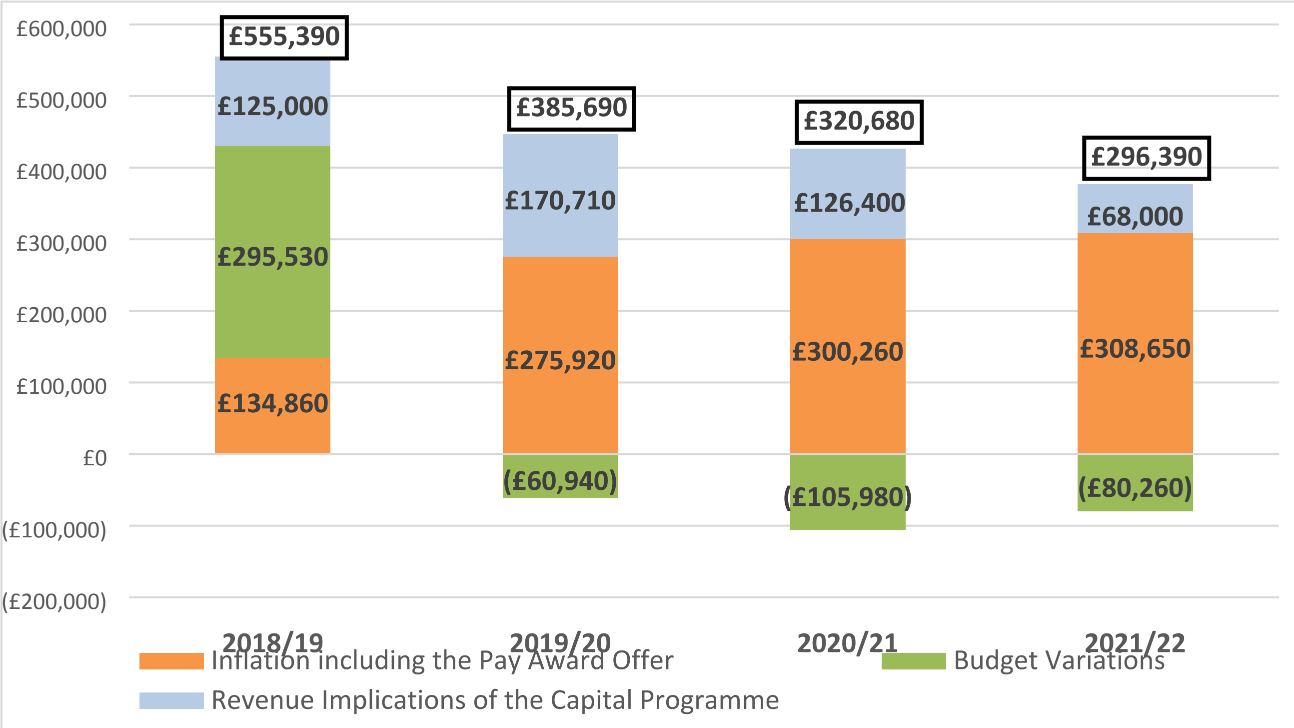
3.5 There has been an increase in the size of the projected Funding Gap in 2020/21 and 2021/22 and this is as a result of increases in expenditure and changes in funding as summarised in the graph below:



3.6 The MTFS is based on the Provisional Local Government Financial Settlement published on 19 December 2017. The final Settlement will not be announced until February 2018. There are a number of areas where results of the consultation, and subsequent Government decisions, could impact on our Settlement thus requiring further changes to the MTFS.

Increases in Expenditure

3.7 The key reasons for the increase in expenditure compared to the Approved MTFS are explained in the chart below:



3.8 These increases in expenditure are explained in more detail below:

<u>**Inflation - The 2 Year Pay Award Offer and Other Items**</u>

- On 5 December 2017 the National Employers made a final pay offer covering the period 1 April 2018 to 31 March 2020.
- The measures included in the pay offer accommodate the future National Living Wage and redefine the pay spine accordingly from 2019.
- In year 1 from 1 April 2018 the offer includes bottom loading on scale points 6 to 19 and then a flat rate increase of 2% on scale points 20 and above.
- In year 2 from April 2019 the offer involves changes in scale points to introduce new scale points 1 to 22 to deal with compacting differentials and then a flat rate increase of 2% for the new scale point 23 and above.
- We have continued to include a pay award of **1%** for the remaining financial years of the Medium Term Financial Strategy. This is subject to change although as a rough guide a **1%** pay increase equates to circa **£100,000** in additional costs each year.
- No inflation is added to other budgets unless there is a contractual requirement.

<u>**Budget Variations**</u>

- **Changes to Pay** – these are a combination of changes resulting from the Personal Assistants review and the Management Restructure (such as officers not being appointed at the top of the grade).

- **Local Plan** – these are budget pressures related to the Local Plan allocations and review of **£90,000** in 2018/19 and **£80,000** in 2019/20 in excess of the earmarked reserve.

- **Reduction in income** – this is a combination of reduced Community Infrastructure Levy income in 2018/19 of **£33,000**, projected reduced Department of Works and Pensions grant in 2020/21 of **£20,000** and in 2021/22 of a further **£20,000**, the ceasing of card surcharges of **£7,000** and the reduction in SLA income from the Garrick for ICT Services of **£39,970**.

- **Reduction in expenditure** – this reflects the approved reduction in the Garrick subsidy of **(£60,000)** from £310,000 to £250,000 from 2018/19 and the achievement of the **(£50,000)** Fit for the Future target for Revenues and Benefits (further savings were included as part of the management restructuring).

- **Other** – including **£250,000** in 2018/19 to enable the facilitation and development of commercialisation and transformation projects requiring initial investment (that may be repaid from savings or additional income). In addition there are other relatively small changes in expenditure and income budgets including an increase in investment income as a result of the recent interest rate increase.

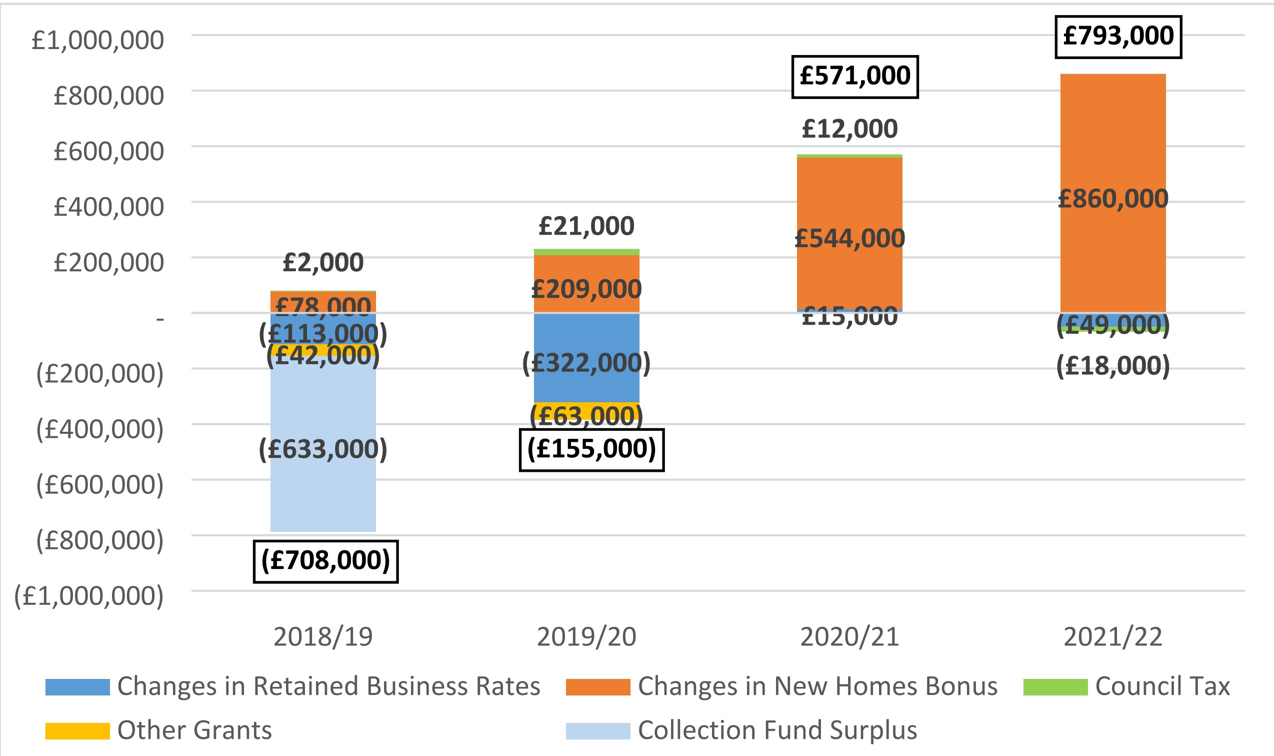
Revenue Implications of the Capital Programme

- These now only include the revenue implications related to the Friarsgate Report to Cabinet on 5 December 2017 and updated projections for the Property Investment Strategy.

- In terms of the Property Investment Strategy, in the early years of 2018/19 and 2019/20 where management costs and borrowing repayments exceed income, the net cost has been included in the Draft Medium Term Financial Strategy. In later years, from 2020/21 onwards where income exceeds costs, it is assumed income equals costs and therefore no surplus is currently included.

Changes in Funding

3.9 The key reasons for the change in funding compared to the Approved MTFS are explained in the chart below:



3.10 These changes in funding are explained below:

- **New Homes Bonus** – the Local Government Finance Settlement for 2017/18 introduced the concept of a **0.4%** deadweight or baseline where no bonus would be paid and reduced the payment from six years to four years from 2018/19 onwards. The Local Government Finance Settlement consultation for 2018/19 introduced the prospect of further changes to the regime based on measures linked to planning effectively. These potential measures relate to withholding bonus from houses granted on appeal and linking bonus to the housing delivery test or the standard approach to local housing need. The Provisional Local Government Finance Settlement for 2018/19 indicated that there would be no change to the baseline and the planning effectively measures would also not be implemented. The position is uncertain for 2019/20 onwards.

  The calculation of New Homes Bonus used to be relatively straightforward, however with the introduction of the deadweight or baseline (the Government has reserved the right to alter this based on national levels of growth to remain within budget) and the proposed planning effectively measures, the risk has increased significantly.

  It was in anticipation of the proposed changes that a report was taken to Cabinet on 11 July 2017 recommending that a reducing 'cap' was introduced for the level of New Homes Bonus utilised as core funding. Any funding received in excess of the approved 'cap' will be transferred to general reserves.

  The funds will be in general reserves should they need to be utilised, but it is still with the strong belief that as a Council we should be in a position where we are not reliant on New Homes Bonus to meet service costs.

- **Retained Business Rates** – there have been a number of consultations on the proposed new system and it now looks increasingly likely that the reset of the baselines to reflect need **will occur in 2020/21 rather than 2019/20**. This means a higher share of Business Rates growth can be included in the Medium Term Financial Strategy for <u>2019/20 only</u>.
  In 2017/18 the projection indicates the Council's share of Business Rates Growth will be growth of **(£500,000)** above the baseline and this level is also assumed for 2018/19 and 2019/20. However from 2020/21 to reflect the Fair Funding Review this growth has been reduced to **(£100,000)** per year.
- **The Collection Fund Surpluses** – The six month's Money Matters Report projects a surplus on the Council Tax and Business Rates Collection Fund. The Council's projected share of the Council Tax Collection Fund surplus is **(£42,000)** and for Business Rates the projected share is **(£591,000)**.

- **Council Tax** – the approved MTFS is based on a year on year increase of **£5.00** (3.03% for 2018/19) and this assumption continues in this MTFS.

3.11 The detailed assumptions used in the calculation of funding in the revenue budget are shown in detail at **APPENDIX A**.

3.12 To provide an element of certainty for Revenue Support Grant and Transition Grant the Council accepted the Government's invitation to be part of a four year settlement covering the years 2016/17 to 2019/20.

3.13 As part of this multi-year settlement process, the Council was required to develop and publish an Efficiency Plan. This Plan sets out the Council's approach to identifying the savings identified in the MTFS. This plan includes four strands:

- **In Year Efficiency Savings/Income Generation.** This is in recognition of the Council's favourable financial performance over the last three financial years, in comparison with the Approved Budget.
- **Fit for the Future (F4F) Efficiency Savings/Income Generation**. This is part of the Council's ongoing F4F programme. This programme is designed to manage the change that will be needed across The Council and its services in order to meet all of the changes following the fundamental review of Local Government finances.
- **F4F Transformational Change**. This is the element of the F4F programme designed to reshape and redesign The Council and its services into one that is fit for the future.
- **Growing the Business Rates and Council Tax base**. The Council will seek to maximise the growth of both of these in order to increase the income from these funding sources. This will help to enable The Council to become financially self-sufficient over the medium term.

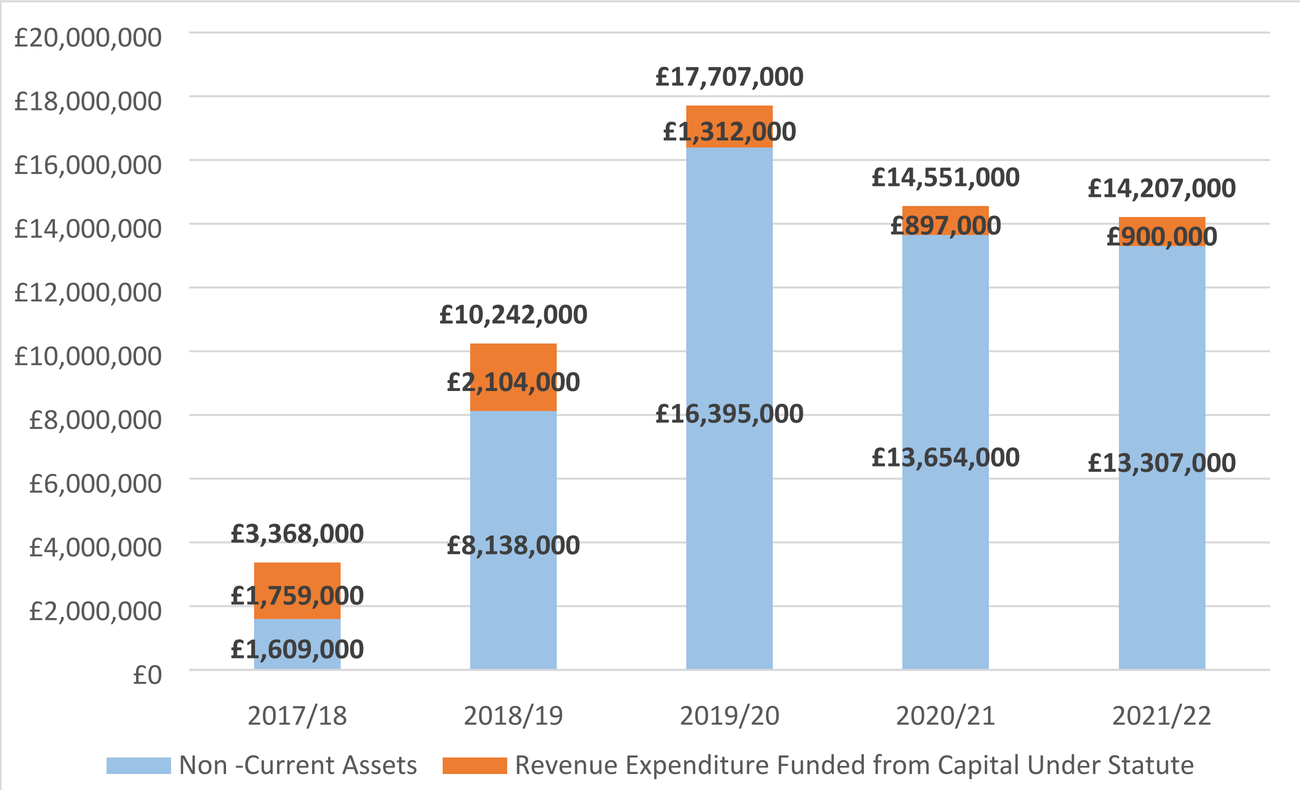
The Capital Strategy

3.14 The Capital Strategy is shown at **APPENDIX B** and sets out the Council's framework for managing the Capital Programme including:

- Project identification and prioritisation.
- Planning obligations.
- The disposal of assets.
- Project and service procurement.
- Project implementation and monitoring.
- Performance Measurement.

The Capital Programme

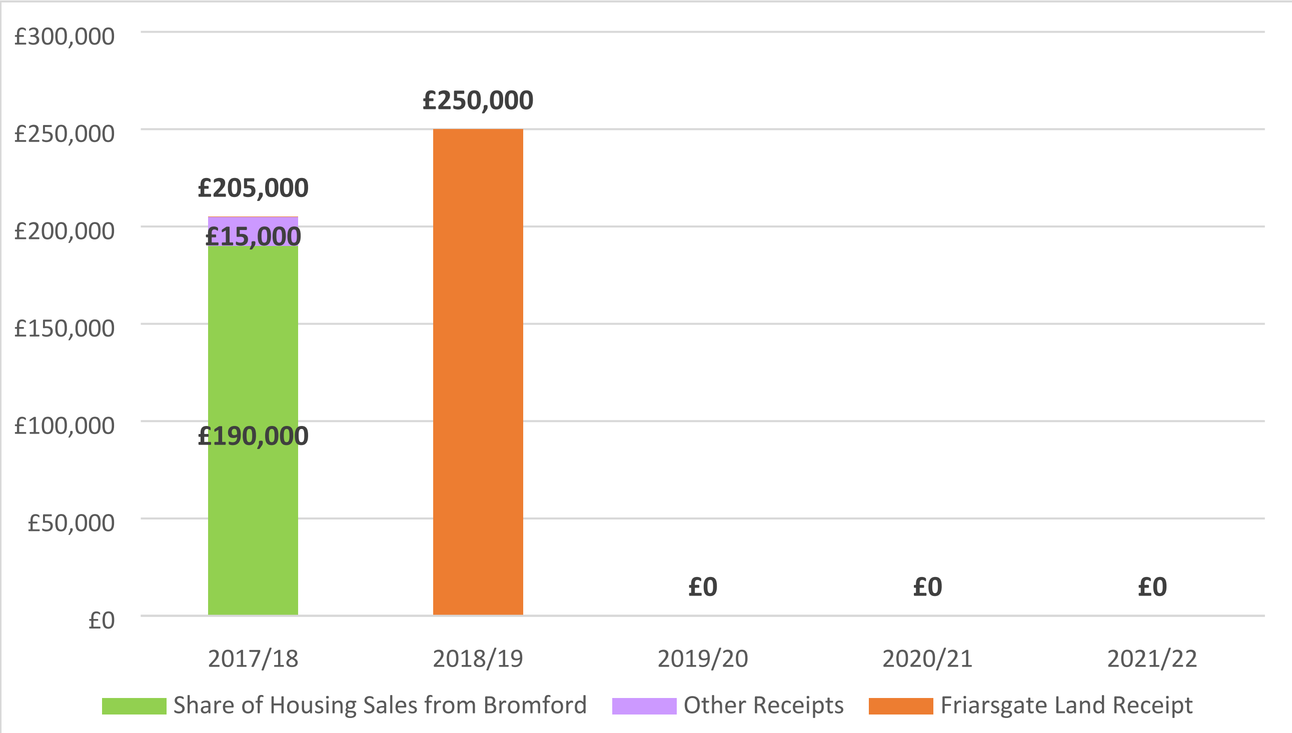
3.15 The Draft Capital Programme (Revenue Expenditure Funded from Capital under Statute relates to projects such as Disabled Facilities Grants) is shown in detail at **APPENDIX C** and in summary below:



3.16 The Property Investment Strategy was approved by Cabinet and income will contribute to offset the Funding Gap from 2020/21 onwards.

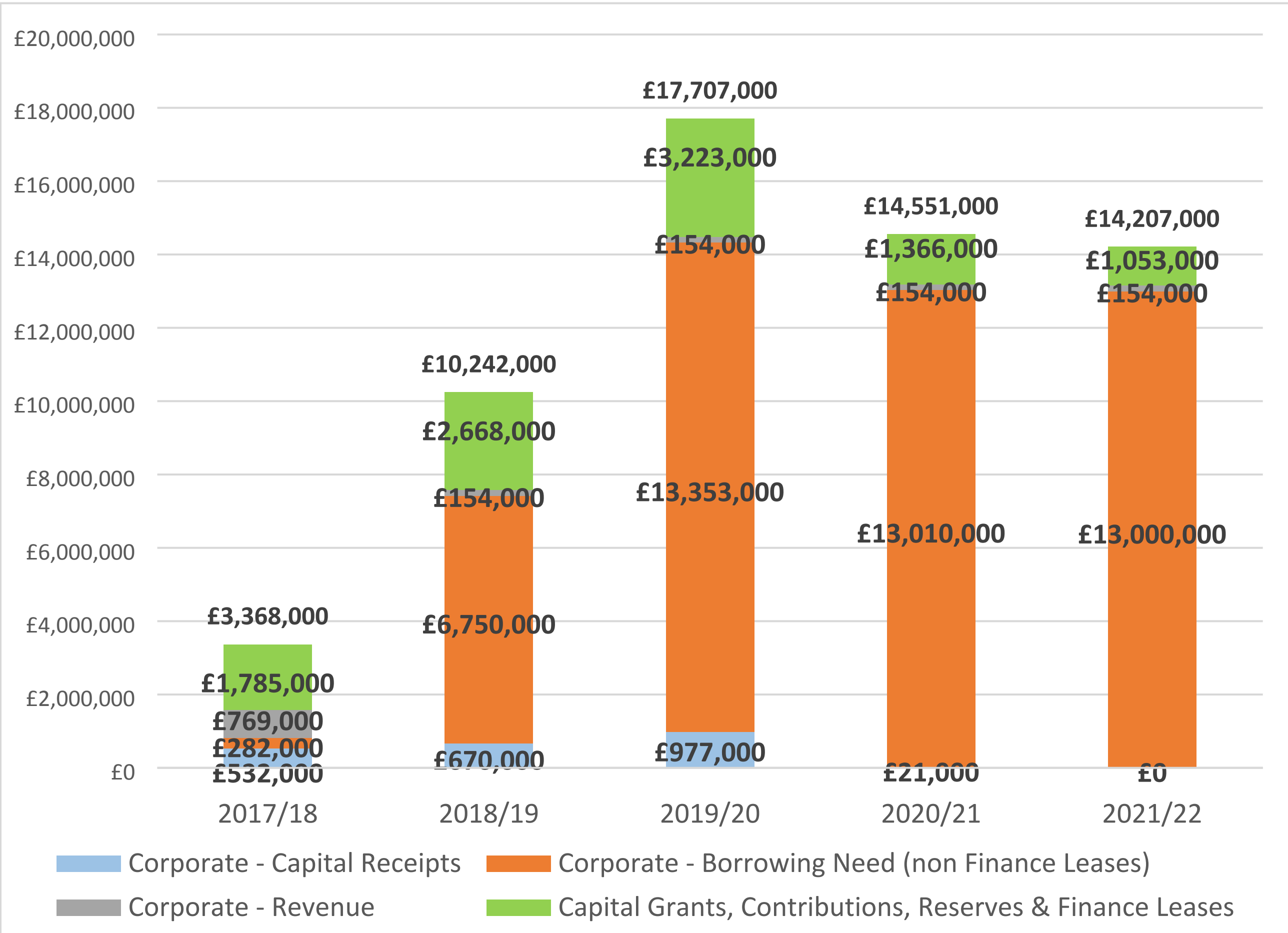
Capital Receipts

3.17 The projected Capital Receipts (due to its uncertainty, the **(£250,000)** Friarsgate Land Receipt is not currently used for funding the Draft Capital Programme) included in the MTFS are shown in the graph below:



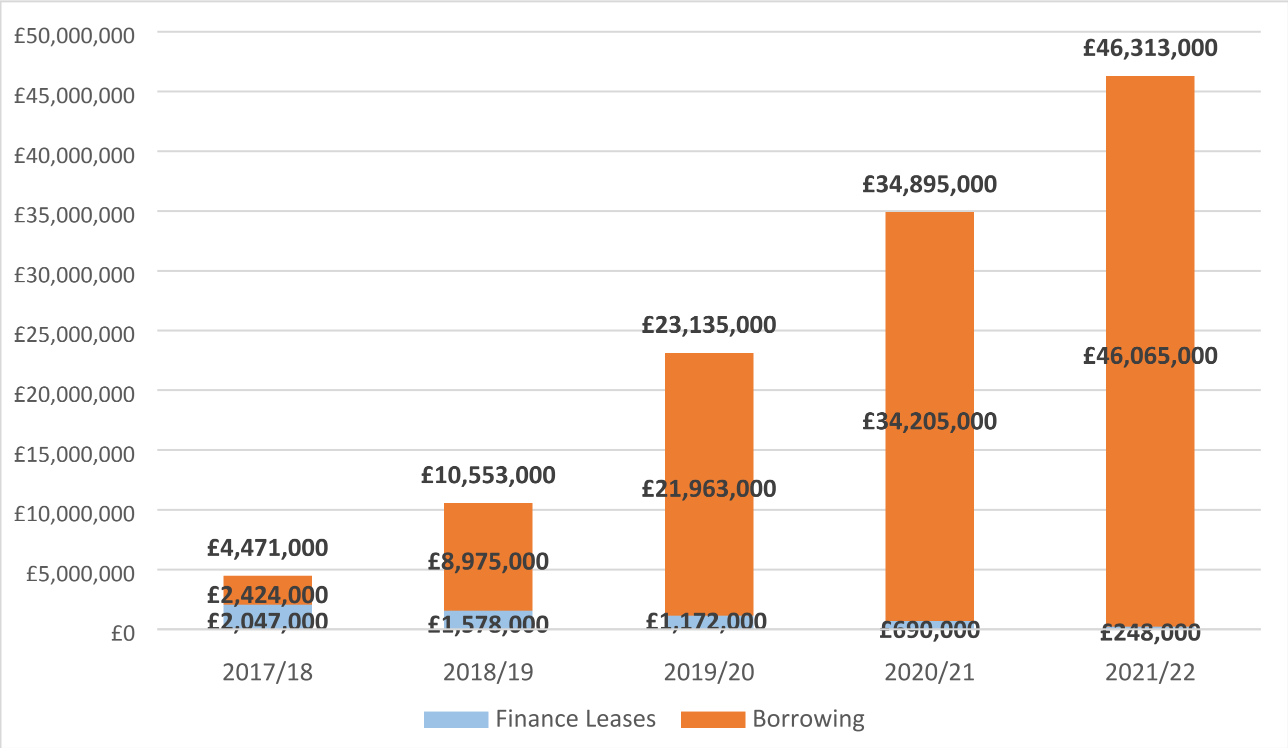
The Funding of the Capital Programme

3.18 The funding of the Draft Capital Programme including the element funded by the corporate sources of funding of revenue, borrowing and capital receipts is shown in detail at **APPENDIX C** and in summary below:



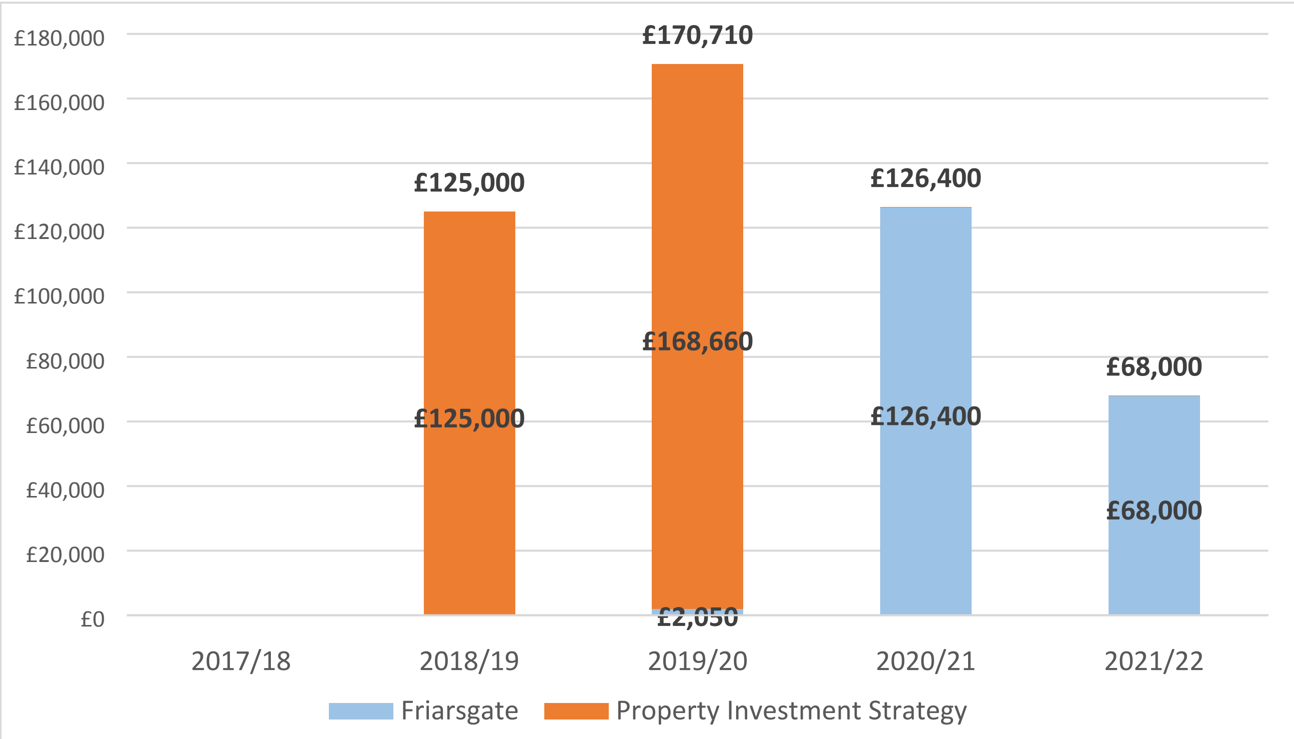
The Cumulative Borrowing Need and its Financing

3.19 The projected Cumulative Borrowing Need related to the Draft Capital Programme and its financing from borrowing and finance leases is shown in detail at **APPENDIX C** and in summary below:



Revenue Implications of the Capital Programme

3.20 The Revenue Implications of the draft Capital Programme (using a prudent approach to the net income for the Property Investment Strategy) compared to the Approved Budget (including those related to the Leisure Facilities Outsource) are shown in detail at **APPENDIX C** and in summary below:



3.21 There is potential that additional capital investment will be required for Friarsgate such as the Coach Park and public realm improvements that are not currently within the Approved Budget.

Treasury Management

3.22 CIPFA has defined Treasury Management as :

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

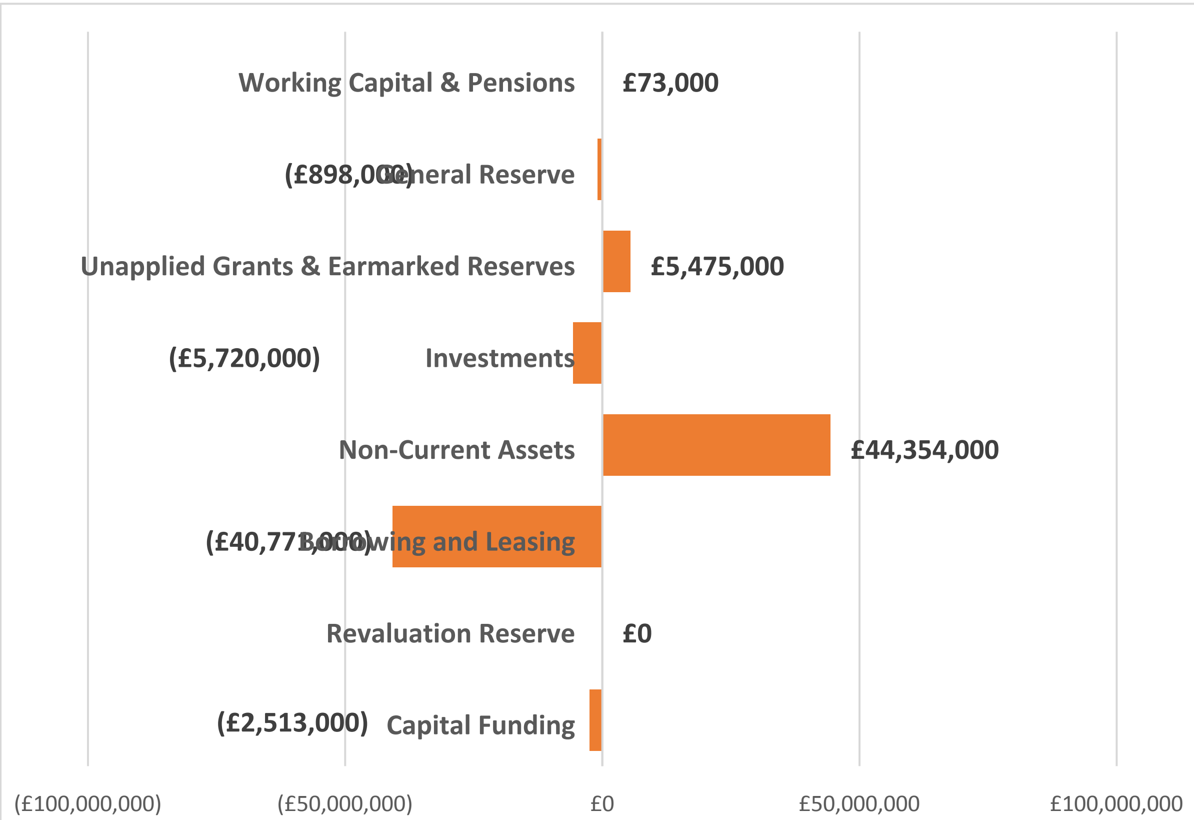
3.23 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are an important and integral element of its treasury management activities. The main risks to the Council's treasury activities are:

- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels)
- Inflation Risk (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risk (Impact of debt maturing in future years)
- Legal and Regulatory Risk

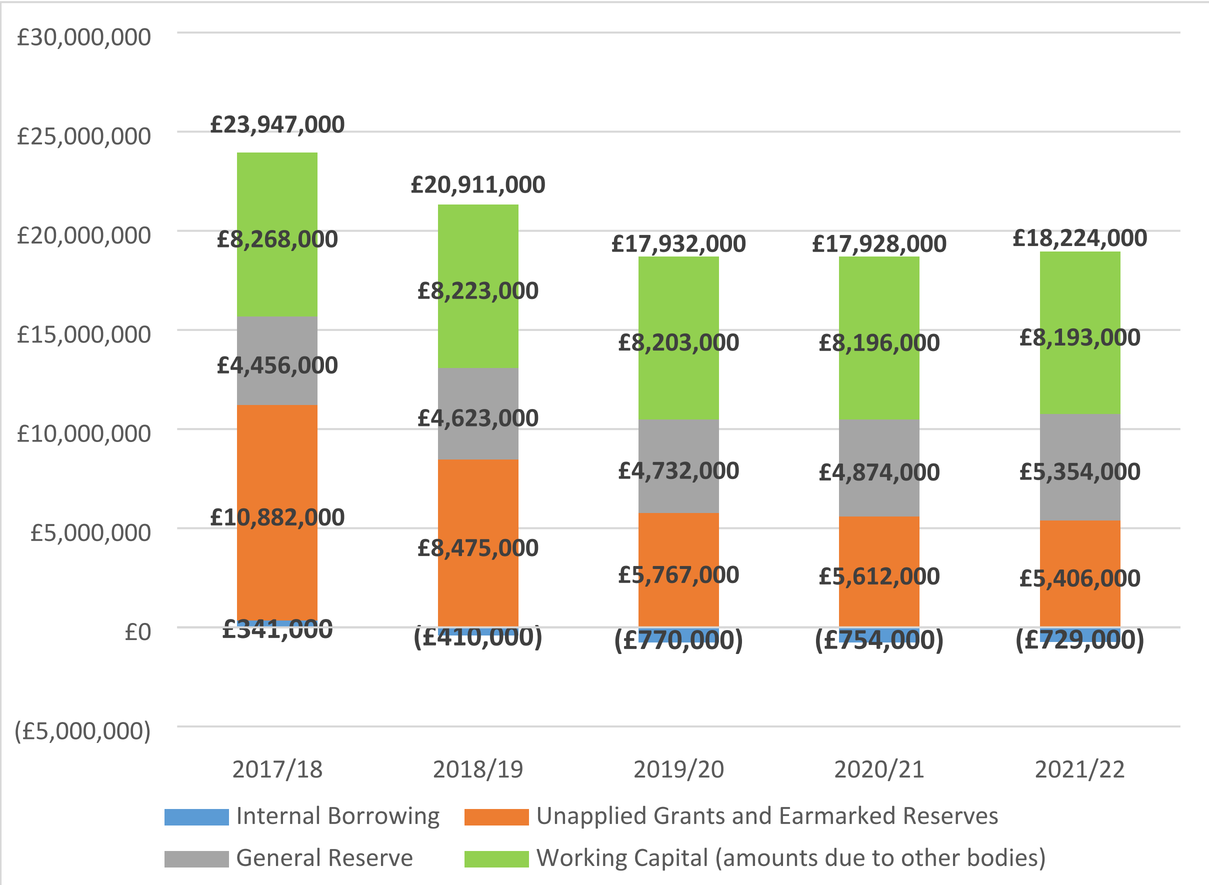
3.24 The Strategy also takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position, the Prudential Indicators and the outlook for interest rates.

3.25 **Balance Sheet Projections**

- As part of the MTFS, we prepare Revenue Budgets and a Capital Programme. These budgets, together with the actual Balance Sheet from the previous financial year, are used to also prepare Balance Sheet projections.
- These Balance Sheet projections (**APPENDIX D**) are significant in assessing the Council's Treasury Management Position in terms of borrowing requirement, investment levels and our Investment Policy and Strategy.
- The projected changes in the Balance Sheet over the Strategy period 2017/18 to 2021/22 are summarised below:

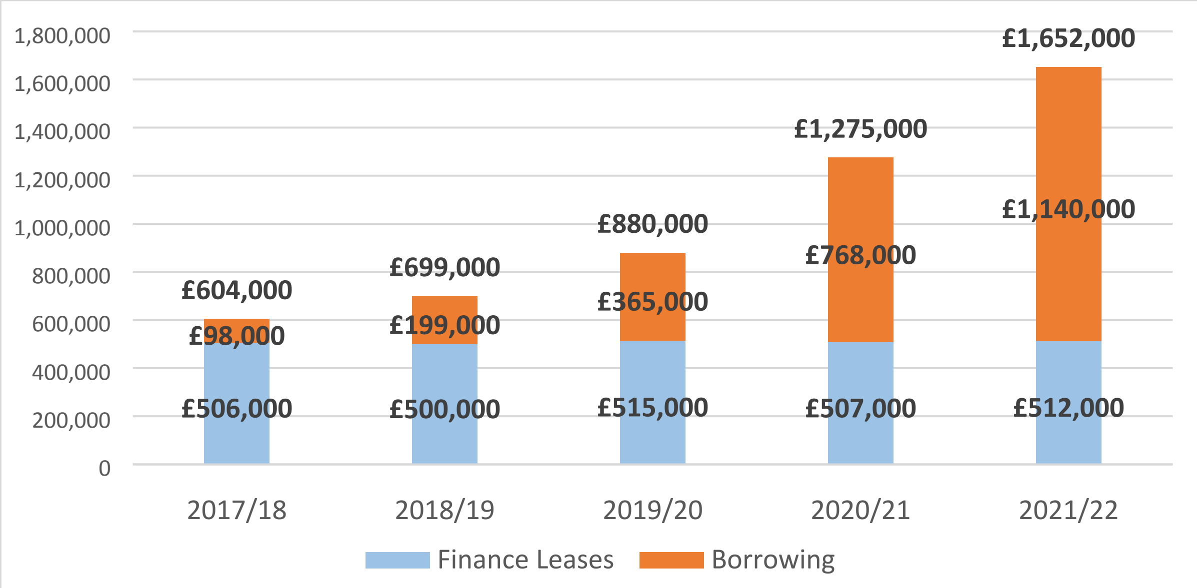


- The reasons for these projected changes are explained below:
    1. **Working Capital** – no significant change is projected.
    2. **General Reserve** – there will be increase as a result of the contribution in 2018/19 and the transfer of projected New Homes Bonus in excess of the proposed 'cap'.
    3. **Unapplied Grants and Earmarked Reserves** - the value is projected to reduce as capital receipts, grants, contributions and reserves are used to fund the Capital Programme.
    4. **Investments** – the value is projected to reduce as capital receipts, grants, contributions and reserves are used to fund the Capital Programme.
    5. **Non-Current Assets** – Non Current Assets will significantly increase with the Leisure Facilities Outsource and the delivery of the Property Investment Strategy.
    6. **Borrowing and Leasing** – the capital investment in Non-Current Assets will predominantly be financed through an increase in external borrowing.
    7. **Capital Funding** – this will increase as a result of the use of grants, contributions and capital receipts to fund capital investment.
- The Balance Sheet Projections (**APPENDIX D**) also show the projected year end investment levels and the sources of cash:



3.26 **Minimum Revenue Provision Statement 2018/19**

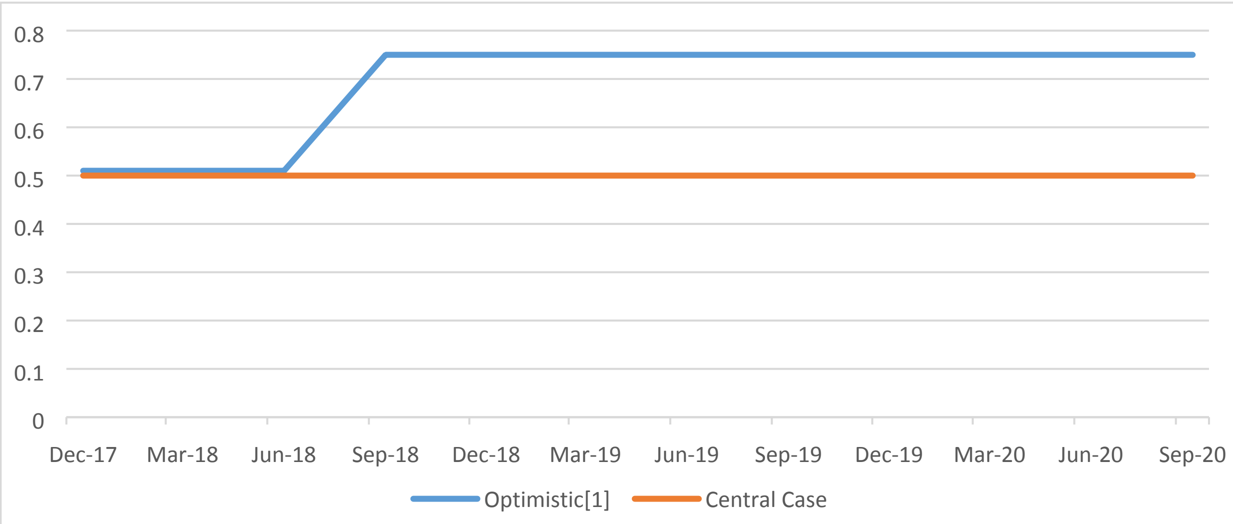
- The Council is required to make prudent provision for debt redemption (known as Minimum Revenue Provision (MRP)) and each year the Council must approve its MRP statement and this will include an allowance for leases that appear on the Council's Balance Sheet.
- As in previous years, the Council proposes to base its MRP on the estimated life of the asset **(APPENDIX E)**.
- The graph overleaf shows the Minimum Revenue Provision for the Strategy period with significant increases projected for the borrowing element in relation to the Leisure Facilities Outsource and Property Investment Strategy projects increasing the Borrowing Need:



3.27 **Treasury Management Advice and the Expected Movement in Interest Rates**

- The Official Bank Rate outlook provided by the Council's Treasury Advisor is shown below:

Projection	Dec 2017	Mar 2018	Jun 2018	Sep 2018	Dec 2018	Mar 2019	Jun 2019	Sep 2019	Dec 2019	Mar 2020	Jun 2020	Sep 2020
Optimistic[1]	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50



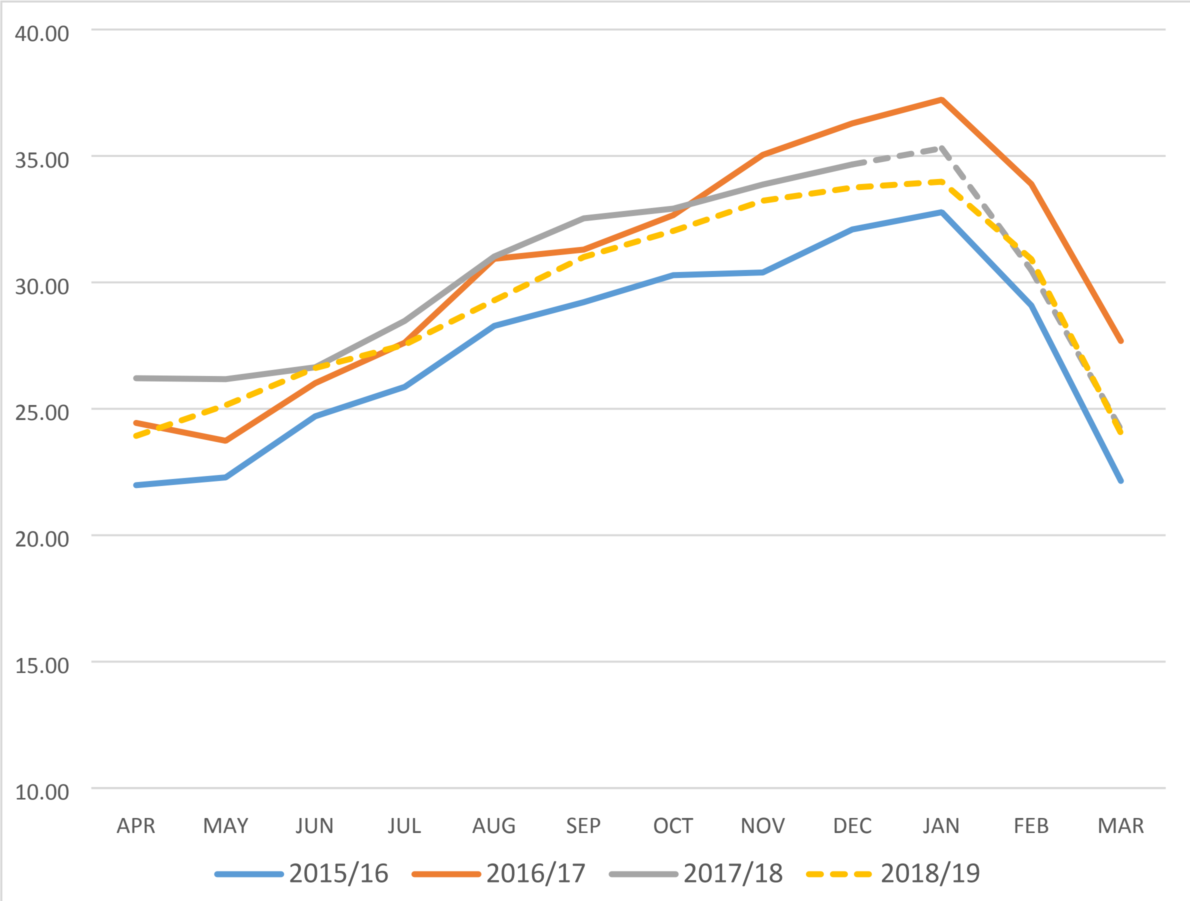
- The Central Case rates have been used as the basis for preparation of the investment income budgets for 2018/19 and future years.

3.28 **Cash Flow Forecast**

- Treasury Management includes the management of the Council's cash flows as a key responsibility. The cash flow forecast takes account of the income the Council receives including Housing Benefits Grant, Council Tax and Business Rate income and expenditure such as payments to precepting bodies, employee costs and Housing Benefit payments.
- The planned monthly cash flow forecast for the 2018/19 financial year has been used to calculate the investment income budget. The key components of this calculation are the average level of investment balances and the yield achieved.

[1] This is a scenario where Interest Rates increase earlier that the central case projection.

- The gross interest receipts have been estimated as **(£183,000)** (this equates to **7%** of The Council's income from Revenue Support Grant and Retained Business Rates of **£2,536,000** in **2018/19**), transfers to the Property Reserve **£38,000** and Net Investment income is **(£145,000)** and these are shown at **APPENDIX F.**
- The graph below shows average investment levels throughout the financial year with a significant reduction in February and March due to minimal Council Tax income being received.



3.29 **Treasury Management Policy Statement, Annual Investment Strategy and Specified and Non-Specified Investments**

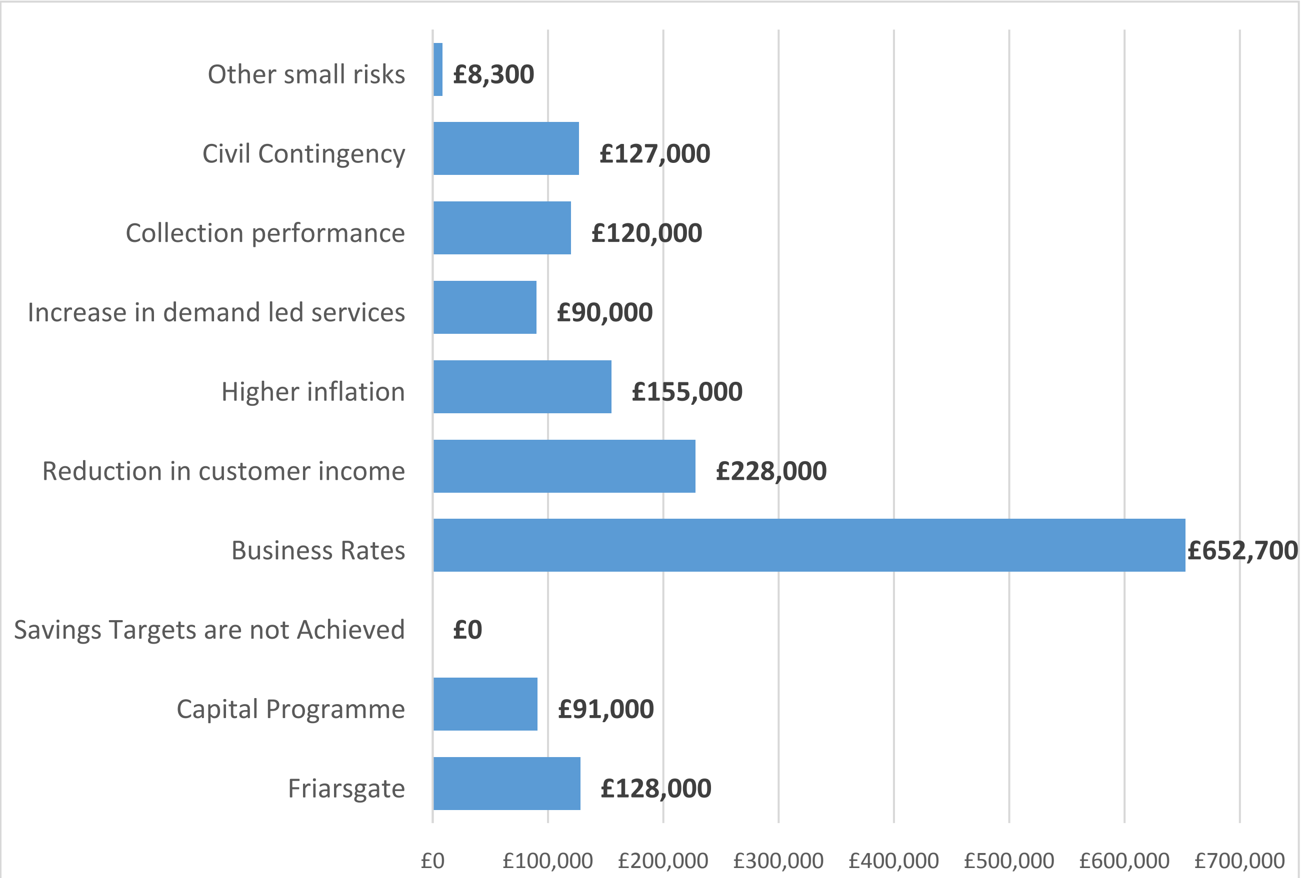
- The criteria and limits for Specified Investments and Non-Specified Investments are shown in detail at **APPENDIX F**.
- **No changes are planned for 2018/19 compared to those approved for 2017/18.**

3.30 **Prudential Indicators** – these are summarised in the Financial Implications section of this report and are shown in detail at **APPENDIX G**.

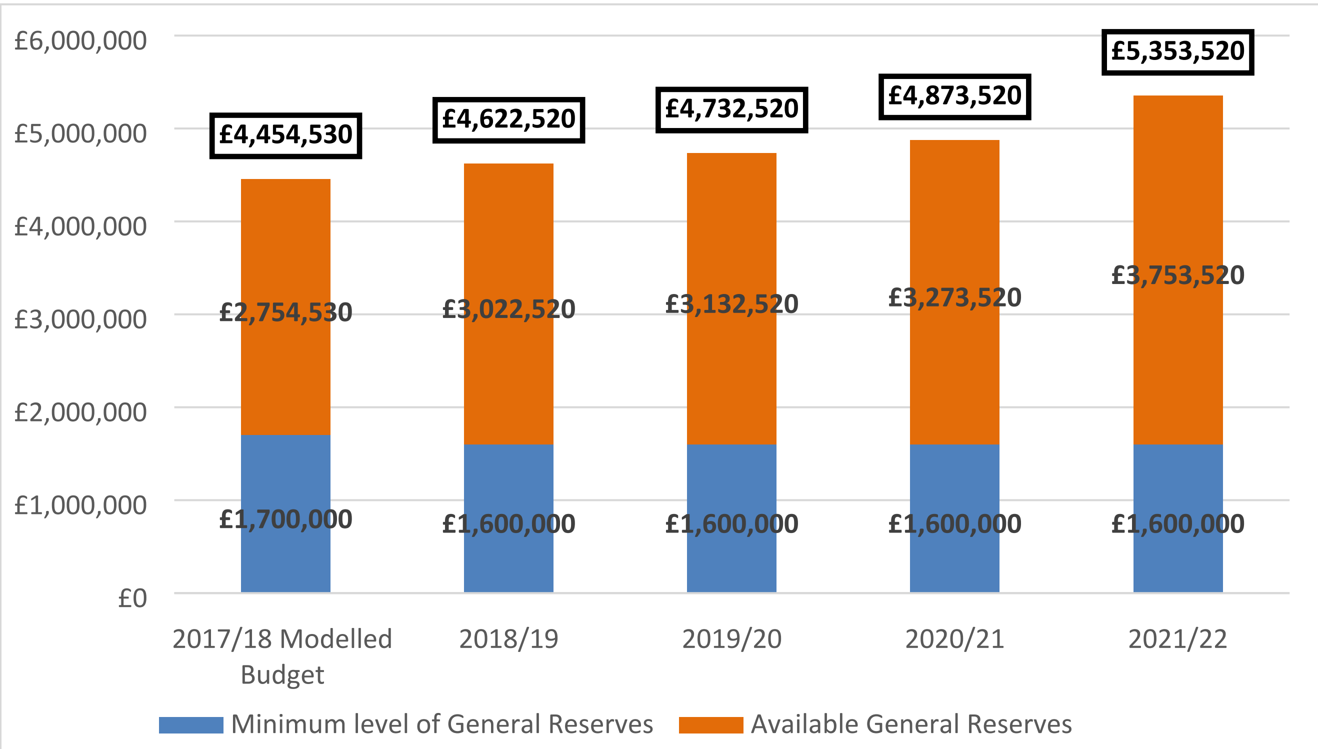
The Use of General Reserves and the Minimum Level

3.31 It is prudent for the Council to maintain an adequate 'working balance' or Minimum Level that is part of its general reserves. A risk assessment approach in line with Best Practice is used to determine the required Minimum Level and the level of general and earmarked reserves.

3.32 The Approved Minimum Level is **£1,700,000** and the MTFS projects a reduction in this Minimum Level to **£1,600,000**. The main elements of the risk assessment are shown in detail at **APPENDIX H** and are summarised in the graph below:



3.33 The projected level of general reserves categorised by the Minimum Level and the level of reserves available for use by the Council for the MTFS are shown in the chart below:



Alternative Options

There are no alternative options.

Consultation

Audit and Member Standards Committee scrutinised the Treasury Management Strategy Statement 2018/19 and the Prudential Indicators at its meeting on 22 January 2018 and the Chair will provide feedback to Cabinet, as appropriate.
Strategic (Overview and Scrutiny) Committee at its meeting on 31 January 2018 scrutinised the MTFS 2017-22 and the Chair will provide feedback to Cabinet, as appropriate.

In addition, a specific budget consultation exercise was undertaken for the 2018/19 Budget between 21 November 2017 and 22 December 2017 and the headline results are detailed below:

- We received **129** responses (**0.3%** of Council Taxpayers) to the Your View 2017 questionnaire.
- The top three most important services and identified as those the Council should definitely fund were:
  1. Waste collection from homes (**71%**).
  2. Street cleansing and public toilets (**36%**).
  3. Parks and open spaces (**34%**).
- The top three least important services and highest ranked for reducing or stopping were:
  1. Central costs (**41%**).
  2. The arts including the Garrick (**35%**).
  3. Private sector housing (**28%**).
- **69%** would support a £5 increase in Council Tax.

Financial Implications

Prudential Indicators (PIs)
The Prudential Indicators are shown in detail at **APPENDIX G**, and in the table below:

PI	Description	2017/18 Revised	2018/19 Original	2019/20 Original	2020/21 Original	2021/22 Original
1	Capital Expenditure (£m)	£3.368m	£10.242m	£17.707m	£14.551m	£14.207m
2	Ratio of Financing Costs to Net Revenue Stream (%)	5%	7%	10%	17%	23%
3	Capital Financing Requirement (£m)	£4.471m	£10.552m	£23.135m	£34.894m	£46.313m
3	Net external borrowing does not exceed the Capital Financing Requirement in the current year plus the next two years	True	True	True	True	True
4	Actual External Debt including Finance Leases (£m)	(£3.468m)	(£10.142m)	(£22.365m)	(£34.139m)	(£45.583m)
5	Incremental impact of capital investment decisions on Band D Council Tax (£)	£0.00	£3.35	£4.52	£3.30	£1.76
6	Authorised Limit (Maximum) (£m)	£15.292m	£21.377m	£34.564m	£47.191m	£59.217m
7	Operational Boundary (Maximum) (£m)	£5.895m	£13.122m	£25.750m	£38.007m	£49.892m
8	Adoption of CIPFA Code of Practice in Treasury Management	Yes				
9	Is our Gross Debt in excess of our Capital Financing Requirement and are we therefore borrowing in advance of need?	No	No	No	No	No

	Interest Rate Exposures (%)					
10	Upper Limit for Investments (Fixed Interest Rate Exposure)	(100%)	(100%)	(100%)	(100%)	(100%)
10	Upper Limit for Investments (Variable Interest Rate Exposure)	100%	100%	100%	100%	100%
11	Upper Limit for Borrowings (Fixed Interest Rate Exposure)	(100%)	(100%)	(100%)	(100%)	(100%)
11	Upper Limit for Borrowings (Variable Interest Rate Exposure)	30%	30%	30%	30%	30%
	Maturity Structure of Fixed Rate Borrowing (Upper Limit) (%)	**Lower Limit**	**Upper Limit**			
12	Under 12 months	0%	100%			
12	12 months and within 24 months	0%	100%			
12	24 months and within 5 years	0%	100%			
12	5 years and within 10 years	0%	100%			
12	10 years and within 20 years	0%	100%			
12	20 years and within 30 years	0%	100%			
12	30 years and within 40 years	0%	100%			
12	40 years and within 50 years	0%	100%			
12	50 years and above	0%	100%			
13	Principal sums invested > 364 days (£m)	£6.000m	£6.000m	£6.000m	£6.000m	£6.000m
14	Credit Risk	We consider security; liquidity and yield, in that order, when making investment decisions				

Contribution to the Delivery of Lichfield District Council's Strategic Plan	The report directly links to overall performance and especially the delivery of Lichfield District Council's Strategic Plan 2016-20 and beyond.
Equality, Diversity and Human Rights Implications	These areas are addressed as part of the specific areas of activity prior to being included in Lichfield District Council's Strategic Plan 2016-20.
Crime & Safety Issues	These areas are addressed as part of the specific areas of activity prior to being included in Lichfield District Council's Strategic Plan 2016-20.

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	Council Tax is not set by the Statutory Date of **11 March 2018**.	Full Council set with reference to when major preceptors and Parishes have approved their Council Tax Requirements.	Green - Tolerable
B	Planned Capital Receipts are not received.	The budget for capital receipts will be monitored as part of The Council's normal budget monitoring procedures.	Green - Tolerable
C	Achievement of The Council's key Council priorities.	Close monitoring of performance and expenditure; maximising the potential of efficiency gains; early identification of any unexpected impact on costs including Central Government Policy changes, movement in the markets, and changes in the economic climate.	Green - Tolerable
D	Implementation of the Check, Challenge and Appeal Business Rates Appeals and more frequent revaluations.	To closely monitor the level of appeals. An allowance of **4.7%** (in line with the DCLG Allowance) for appeals has been included in the Business Rate Estimates.	Red - Severe
E	The financial impact of changes to the New Homes Bonus regime.	The housing projections utilised in the projections for New Homes Bonus take account of the reduction in payments from **6 to 4 years**, the inclusion of a baseline of **0.40%** and potential changes related to planning effectively.	Red - Severe
F	The increased Localisation of Business Rates and the Fair Funding Review in 2020/2021.	To assess the implications of proposed changes and respond to consultations to attempt to influence the policy direction in the Council's favour.	Red - Severe

Background documents:

- CIPFA Code of Practice for Treasury Management in the Public Services.
- The Prudential Code for Capital Finance in Local Authorities.
- Fit for the Future Leisure Review Leisure Services Options Appraisal – Cabinet 8 March 2016.
- Money Matters: Council Tax, National Non Domestic Rates and Pension Contributions – Cabinet 17 January 2017.
- Money Matters: Medium Term Financial Strategy (Revenue and Capital) 2016-21 Cabinet – Cabinet 7 February 2017.
- The introduction of a Garden Waste Subscription Service – Cabinet 4 April 2017.
- Development of Land adjacent to Milestone Way and rear of 29-39 Cannock Road, Burntwood – Cabinet 25 May 2017.
- Money Matters: 2016/17 Review of Financial Performance against the Financial Strategy – Cabinet 13 June 2017.
- Money Matters: 2017/18 Review of Financial Performance against the Financial Strategy – Cabinet 5 September 2017.
- Money Matters: 2017/18 Review of Financial Performance against the Financial Strategy – Cabinet 5 December 2017.

Relevant web link:

The Provisional Local Government Finance Settlement:
https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2018-to-2019

BUDGET	2017/18 Original Budget £	2017/18 Revised Budget £	2018/19 Original Budget £	2019/20 Original Budget £	2020/21 Original Budget £	2021/22 Original Budget £
LEVEL OF UNCERTAINTY / RISK	**LOW**			**MEDIUM**	**HIGH**	
Strategic Priority						
Healthy and safe communities	1,814,520	1,993,740	1,808,850	1,517,080	1,344,110	1,316,830
Clean, green and welcoming places to live	3,882,240	3,380,750	3,427,580	3,534,400	3,540,510	3,625,610
A vibrant and prosperous economy	(709,990)	(945,550)	(652,350)	(511,400)	(574,980)	(550,510)
A council that is fit for the future	5,653,680	5,892,760	6,281,510	6,186,320	6,452,750	6,689,440
Efficiency Plan	(250,000)	(86,900)	(71,180)	(71,180)	(71,180)	(71,180)
Savings Required	0	0	0	(1,305,000)	(2,006,360)	(2,034,090)
Net Cost of Services	**10,390,450**	**10,234,800**	**10,794,410**	**9,350,220**	**8,684,850**	**8,976,100**
Service Area						
Chief Executive	767,480	694,490	796,010	476,850	481,690	486,810
Finance & Procurement	1,489,630	1,460,050	1,628,490	1,773,760	1,949,280	2,113,650
Legal, Property & Democratic Services	281,610	216,260	424,800	510,460	363,530	344,780
Revenues, Benefits and Customer Services	701,630	722,830	725,470	792,320	835,600	874,680
Corporate Services	2,313,110	2,403,960	2,560,830	2,599,060	2,668,670	2,727,340
Leisure & Operational Services	2,514,620	2,683,760	2,422,310	2,162,840	2,009,090	2,012,250
Regulatory Services, Housing & Wellbeing	1,279,760	1,191,470	1,264,250	1,299,680	1,318,680	1,330,140
Development Services	39,360	(33,450)	61,310	93,280	91,760	106,410
Economic Growth	30,530	(180,910)	82,920	76,990	83,030	106,010
Waste Services	1,222,720	1,163,240	899,200	941,160	961,060	979,300
Efficiency Plan	(250,000)	(86,900)	(71,180)	(71,180)	(71,180)	(71,180)
Savings Required	0	0	0	(1,305,000)	(2,006,360)	(2,034,090)
Net Cost of Services	**10,390,450**	**10,234,800**	**10,794,410**	**9,350,220**	**8,684,850**	**8,976,100**
Net Treasury Position	(15,600)	(19,450)	104,860	108,260	134,610	124,610
Revenue Contributions to the Capital Programme	154,000	769,000	154,000	154,000	154,000	154,000
Net Operating Cost	**10,528,850**	**10,984,350**	**11,053,270**	**9,612,480**	**8,973,460**	**9,254,710**
Less : Transfer (from) / to General Reserve	1,060	(517,220)	26,990	0	0	0
Less : Transfer to (from) / to Earmarked Reserves	504,840	592,960	(774,360)	(163,680)	235,240	178,890
Amount to be met from Government Grants and Local Taxpayers	**£11,034,750**	**£11,060,090**	**£10,305,900**	**£9,448,800**	**£9,208,700**	**£9,433,600**
Retained Business Rates	(2,484,000)	(2,469,800)	(2,479,900)	(2,523,800)	(2,187,700)	(2,253,600)
Business Rates Cap	0	(32,360)	(42,000)	(63,000)	0	0
Revenue Support Grant / Tariff Adjustment	(236,000)	(236,000)	0	453,000	463,000	477,000
Returned New Homes Bonus	(5,000)	(5,000)	0	0	0	0
Parish Local Council Tax Support	87,000	87,000	0	0	0	0
New Homes Bonus	(1,422,000)	(1,422,000)	(800,000)	(700,000)	(600,000)	(500,000)
Other Government Grants	0	(7,180)	0	0	0	0
Transition Grant	(51,750)	(51,750)	0	0	0	0
Council Tax Collection Fund (surplus) / deficit	(40,000)	(40,000)	(42,000)	0	0	0
Business Rates Collection Fund (surplus) / deficit	(789,000)	(789,000)	(591,000)	0	0	0
Council Tax Requirement	(6,094,000)	(6,094,000)	(6,351,000)	(6,615,000)	(6,884,000)	(7,157,000)
Council Tax Base	**36,935**	**36,935**	**37,360**	**37,803**	**38,245**	**38,688**
Council Tax assuming a £5.00 annual increase	**£164.99**	**£164.99**	**£169.99**	**£174.99**	**£179.99**	**£184.99**

	2018/19	2019/20	2020/21	2021/22
Amount to be met from Government Grants and Local Taxpayers	10,305,900	9,448,800	9,208,700	9,433,600
Transfer to General Reserves / Funding Gap	(26,990)	1,305,000	2,006,360	2,034,090
Total Expenditure	**£10,278,910**	**£10,753,800**	**£11,215,060**	**£11,467,690**

Funding Lichfield District Council's Strategic Plan 2016-20: The Financial Strategy

1. The ability to deliver the outcomes set out in the Strategic Plan is dependent on resources, and therefore this must drive the Medium Term Financial Strategy.

2. The Local Government Act 2003 (Sections 25-28) places duties on Local Authorities on how they set and monitor budgets.
The Council's Chief Financial Officer (CFO), is of the opinion that the estimates are robust and the Council's proposed Reserves are adequate (Sections 25-27).
Section 28 of the Act places a statutory duty on an authority to review its budget from time to time during the year. If the Budget Monitoring Report shows that there has been deterioration in the Authority's financial position, the Authority must take such action as it considers necessary. The Council currently reviews the Budget on a quarterly basis and this practice will continue.
Supporting information on the Chief Financial Officer's Report on the robustness of the budget and the adequacy of Reserves is shown in **APPENDIX H**.

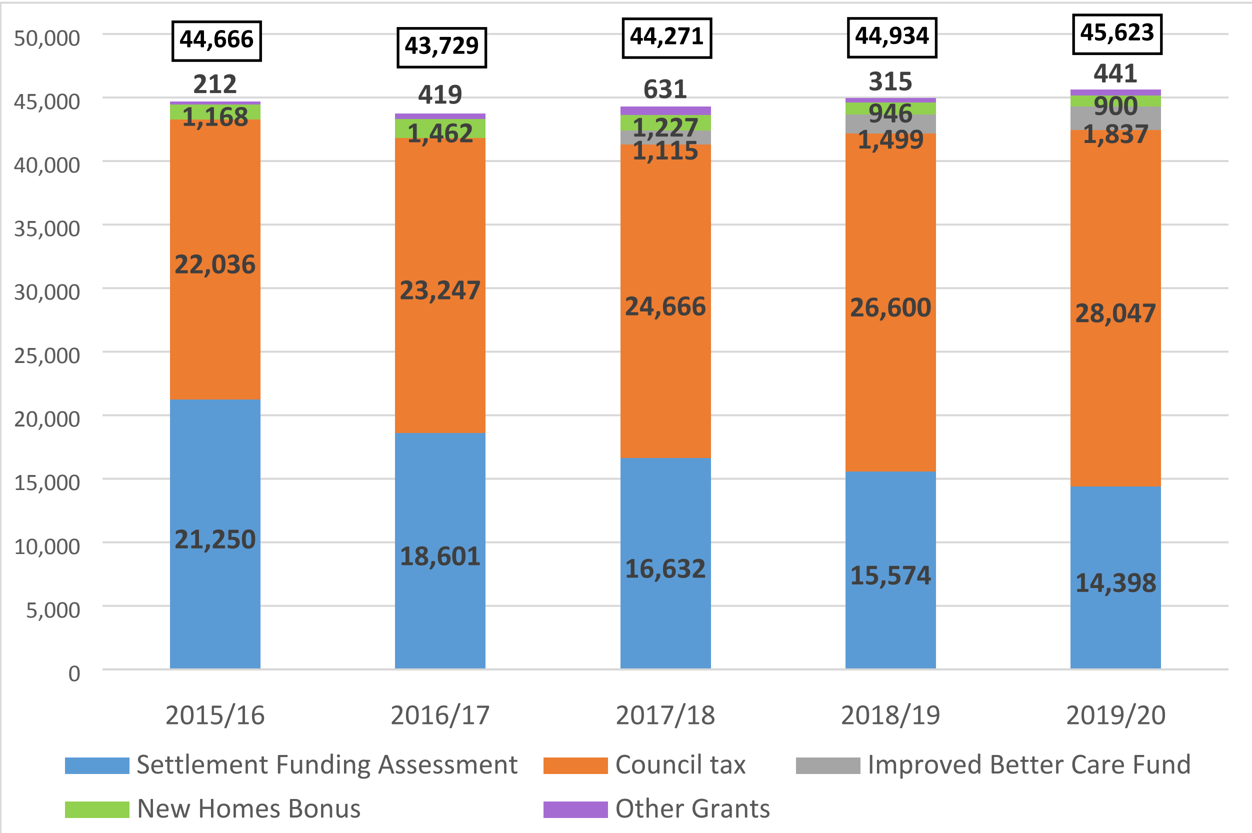
Revenue Budget

The Provisional Local Government Settlement

3. The Council was advised of its Provisional Financial Settlement for 2018/19 to 2019/20 on 19 December 2017.

Core Spending Power

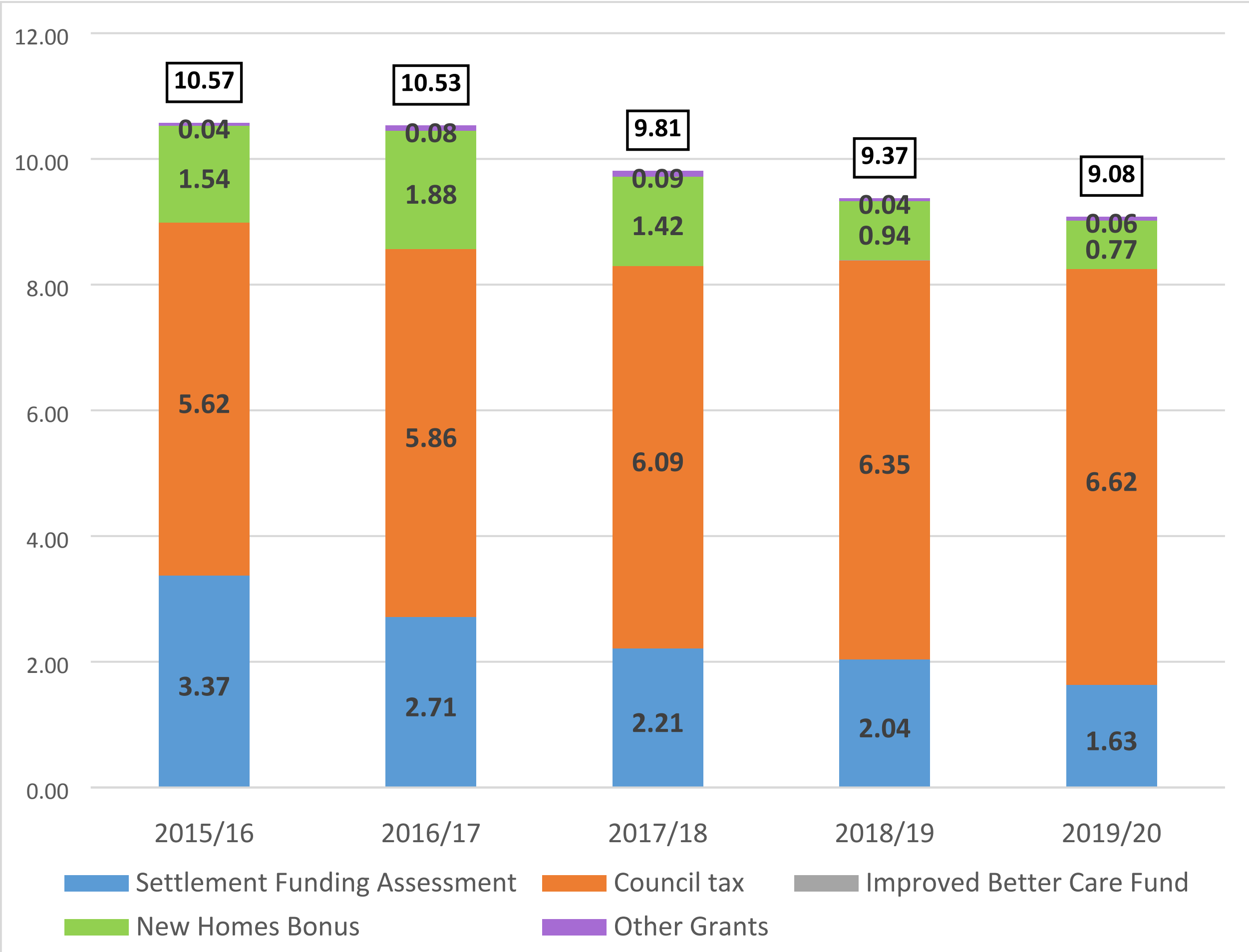
4. The Settlement Funding Assessments (SFA) and Core Spending Powers for all Councils in England in £m are shown in the chart below :



5. These figures show an increase in Core Spending Power from 2015/16 to 2019/20 of **£956m** or **2.1%.** The reduction in funding from the Government of **£5,055m** is being more than offset through additional income raised from Council Tax of **£6,011m.**

6. **Government's Assessment of Lichfield's Core Spending Power**

   Government has produced for each local authority *notional* figures known as 'core spending power' based on national projections to enable comparisons to be made between different years. These core spending power figures consist of the Council's main income streams such as Council Tax, Settlement Funding Assessments (consisting of Revenue Support Grant and Retained Business Rates) and New Homes Bonus. The figures in £m for Lichfield are provided in the following chart:



7. These figures show a reduction in Core Spending Power from 2015/16 to 2019/20 of **£1.5m** or **14%.**

8. Using these *notional* core spending power figures, the equivalent Settlement Funding Assessment percentage reduction is **8%** in 2018/19 in comparison with adjusted core spending power 2017/18.

9. Revenue Support Grant (RSG) for 2018/19 represents **0%** (9% in 2017/18) of the Settlement Funding Assessment for the Council. RSG Funding for 2017/18 is **(£236,000)** and is reduced by **£236,000** or **100%** to **£0** for 2018/19 in comparison with 2017/18.

Retained Business Rates (including the Tariff Adjustment)

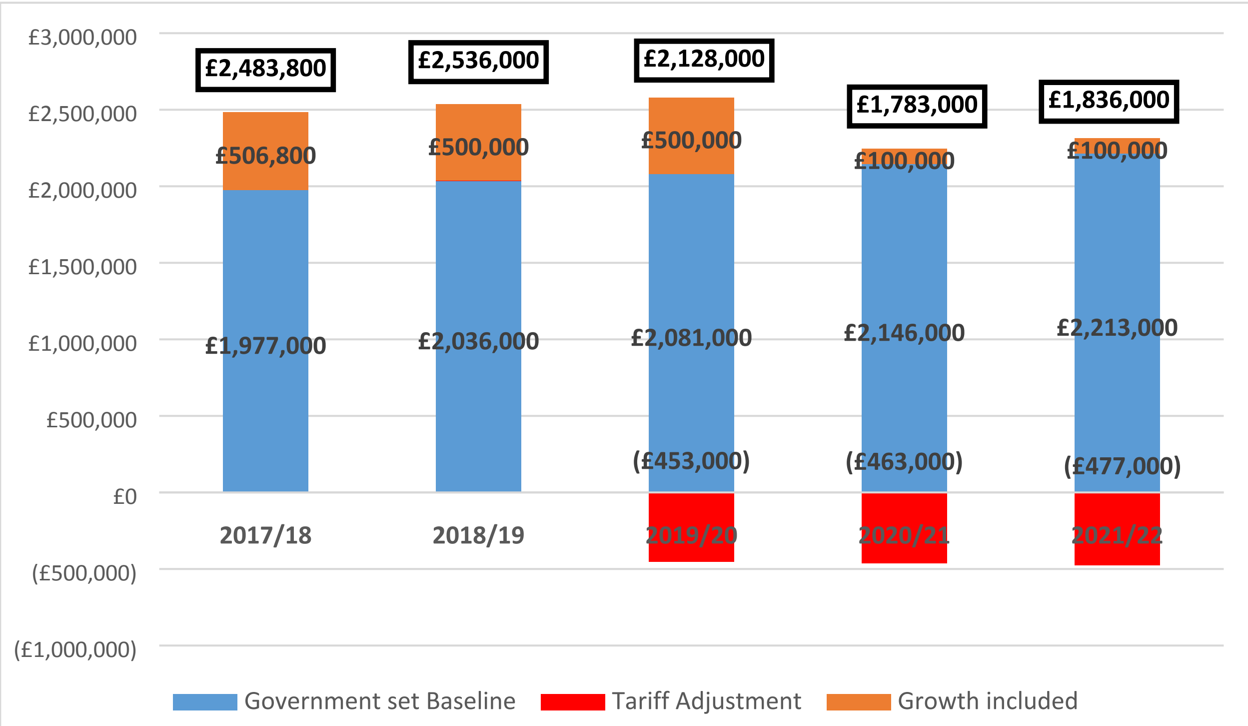
10. The approved Medium Term Financial Strategy was based on the following key assumptions related to retained Business Rates:

- The introduction of 100% retention of Business Rates by Local Government would occur in 2019/20.
- The reset of Government set baselines for Business Rates as part of the Fair Funding Review would also occur in 2019/20 and the majority of business rates growth in excess of the baseline would be redistributed to reflect need in the wider Local Government Sector.

11. There have been a number of consultations on the proposed new system and it now looks increasingly likely that the reset of the baselines to reflect need **will occur in 2020/21 rather than 2019/20**. This means a higher share of Business Rates growth can be included in the Medium Term Financial Strategy for 2019/20 only.

12. In 2017/18 the projection indicates the Council's share of Business Rates Growth will be growth of **(£500,000)** above the baseline and this level is also assumed for 2018/19 and 2019/20. However from 2020/21 to reflect the anticipated impact of the Fair Funding Review and a new baseline this growth has been reduced to **(£100,000)** per year.

13. The projected Government Set Baseline and the projected level of growth included in the Medium Term Financial Strategy are shown below:



14. The change in retained Business Rates projected income (including the Tariff Adjustment) compared to the Approved Budget is shown below:

	2017/18	2018/19	2019/20	2020/21	2021/22
Approved MTFS	2,484,000	2,423,000	1,806,000	1,798,000	1,787,000
Projections	2,483,800	2,536,000	2,128,000	1,783,000	1,836,000
Change	**£200**	**(£113,000)**	**(£322,000)**	**£15,000**	**(£49,000)**

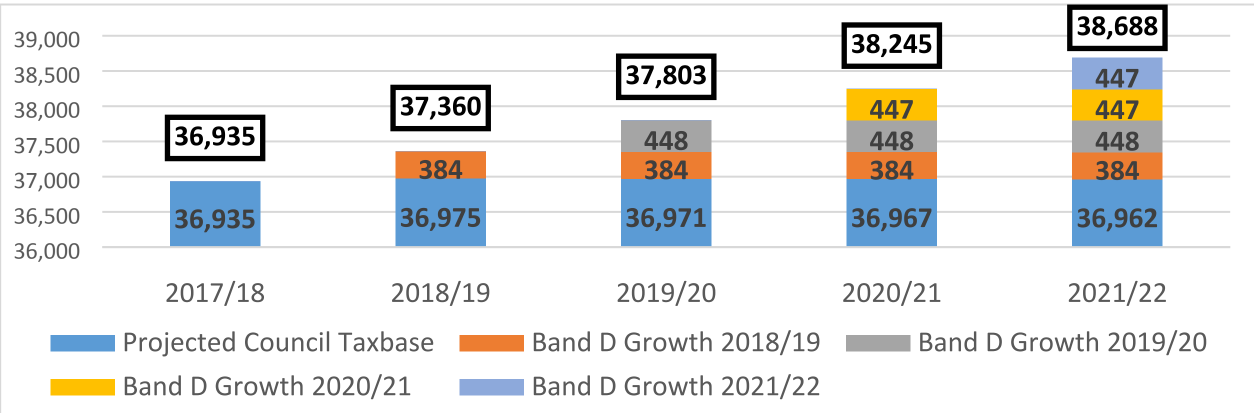
Council Tax Base (CTB) Projections

15. The key assumptions in the calculation of Council Tax income are:

- The Council Taxbase including the projected growth.
- The level of Council Tax increase.

16. The mid-point housing growth projections using the Strategic Housing Land Availability Assessment (SHLAA) included in the Report to Cabinet on 5 December 2017 have been used. These completions are all converted to Band D equivalents.

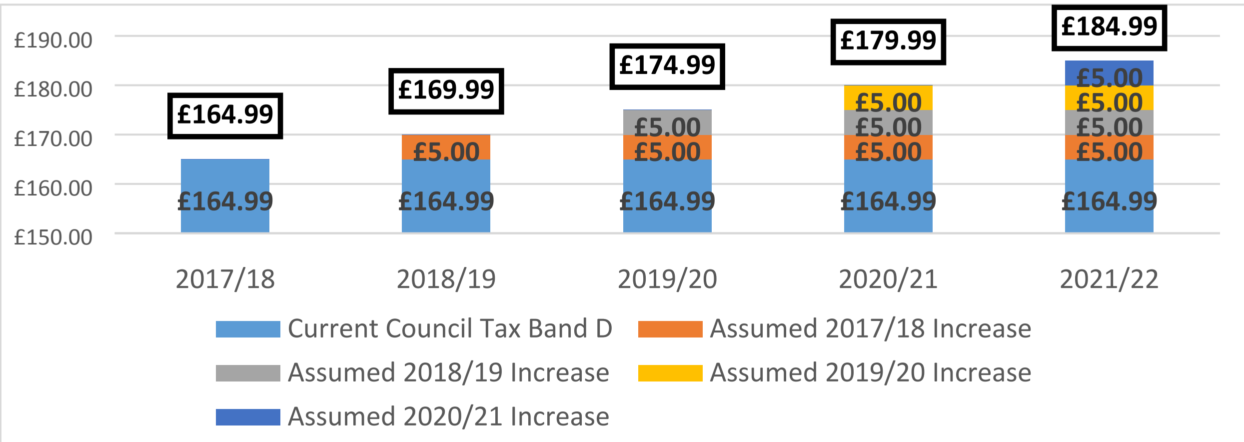
17. The Council Taxbase including Band D equivalents growth is shown below:



Modelled Council Tax Increase

18. Under the Localism Act 2011, local communities have the power to decide on Council Tax rises. It was announced as part of the Provisional Finance Settlement, that the limit for Council Tax increases for 2018/19 will be the higher of **3**% or **£5.00 (the increase to 3% has no impact for this Council)**. Any increases proposed above this level will require a referendum.

19. The Approved MTFS is based on a year-on-year increase of **£5.00** and this assumption continues for the MTFS. The modelled level of Council Tax increases included in the MTFS are shown in the chart below:



20. A summary of the latest Council Tax income projections compared to the Approved Medium Term Financial Strategy are shown below:

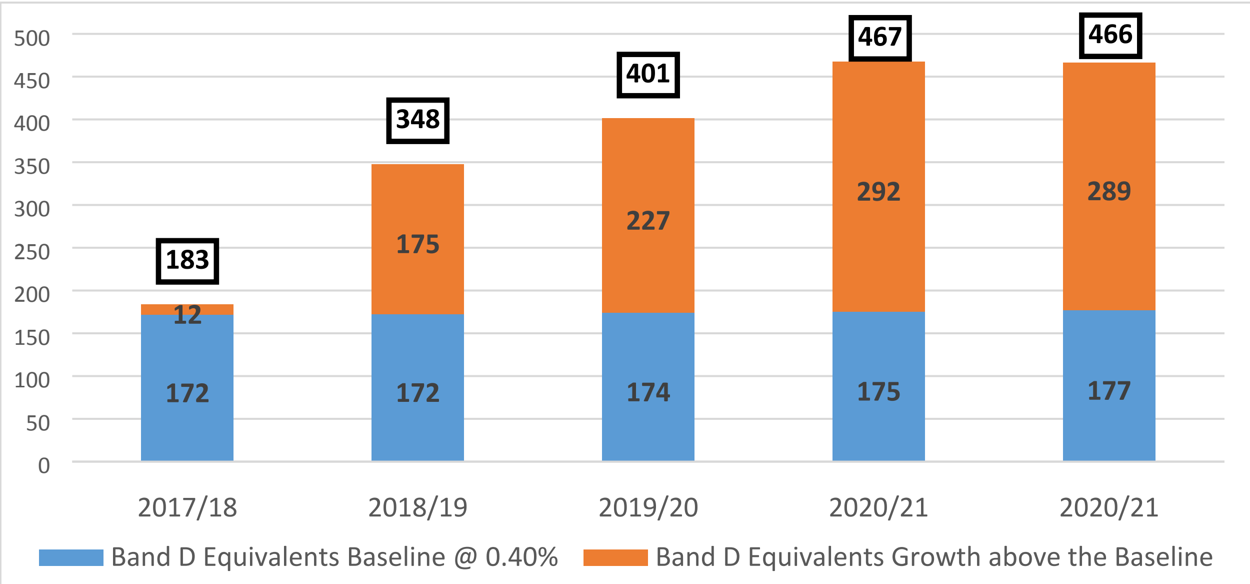
	2017/18	2018/19	2019/20	2020/21	2021/22
Approved MTFS	6,094,000	6,353,000	6,636,000	6,896,000	7,139,000
Projections	6,094,000	6,351,000	6,615,000	6,884,000	7,157,000
Change	**£0**	**£2,000**	**£21,000**	**£12,000**	**(£18,000)**

New Homes Bonus

21. The key assumption in the calculation of New Homes Bonus remains the number of residential units delivered as measured in the Council Tax Base Return based on a September to September year.

22. The mid-point housing growth projections using the Strategic Housing Land Availability Assessment (SHLAA) included in the Report to Cabinet on 5 December 2017 have been used **with a one year delay** to reflect the New Homes Bonus claim year. These completions are all converted to Band D equivalents.

23. The projected Band D deadweight or baseline at **0.40%** (rounded), the Band D equivalent housing completions in excess of the baseline subject to reward and the total Band D equivalent housing completions based on the midpoint scenario are shown below:



24. In addition, to the risk around the deadweight or baseline the Local Government Finance Settlement for 2018/19 introduced the prospect of further changes to the regime based on measures linked to planning effectively.

25. These potential measures relate to withholding bonus from houses granted on appeal and linking bonus to the housing delivery test or the standard approach to local housing need.

26. In terms of 2018/19 and appeals performance, the Head of Development Services has calculated that the potential reduction to the bonus would be **2.4%** for housing granted following successful appeals.

27. The Provisional Local Government Finance Settlement for 2018/19 indicated that the reduction based on appeals performance would not be implemented for 2018/19. However from 2019/20 onwards a reduction of **5%** will be applied to each New Homes Bonus award.

28. In terms of 2019/20 and housing delivery, the Council on average has delivered **245** houses per annum and the standardised approach indicates a target of **340** homes per annum. Therefore should we continue to deliver the average level we would only be delivering **72%** of this target.

29. In anticipation of this reduction in the bonus a further reduction of **30%** will be applied from 2019/20.

30. This means the total reduction related to measures linked to planning effectively from 2019/20 is projected at this stage to be **35%.**

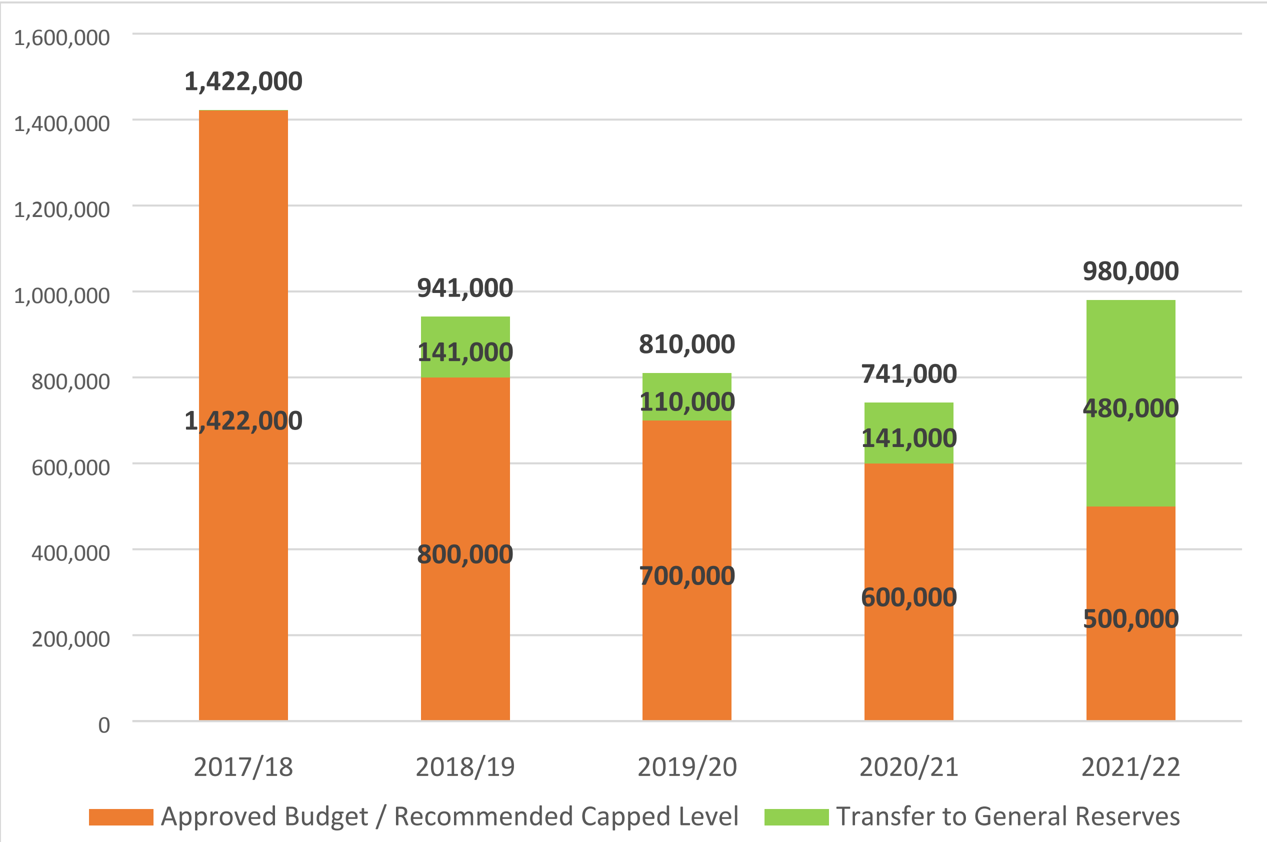
31. The calculation of New Homes Bonus used to be relatively straightforward, however with the introduction of the deadweight or baseline (the Government has reserved the right to alter this based on national levels of growth to remain within budget) and the proposed planning effectively measures, the risk has increased significantly.

32. **It was in anticipation of the proposed changes that a report was taken to Cabinet on 11 July 2017 recommending that a reducing 'cap' was introduced for the level of New Homes Bonus utilised as core funding. Any funding received in excess of the approved 'cap' would be transferred to general reserves.**

33. The increasing risk related to New Homes Bonus has meant a number of Councils are taking a similar approach to that approved by Cabinet. In Staffordshire 7 out of the 10 Councils in receipt of New Homes Bonus are now reducing the level of income included in the base budget with the County Council fully removing it from 2021/22.

34. The chart below shows for the midpoint New Homes Bonus calculation:

- The approved budget for 2017/18 and the recommended 'cap' from 2018/19 onwards.
- The transfer to general reserves for bonus in excess of the 'cap'.



35. A summary of the latest New Homes Bonus income projections compared to the Approved Medium Term Financial Strategy are shown below:

	2017/18	2018/19	2019/20	2020/21	2021/22
Approved MTFS	1,422,000	878,000	909,000	1,144,000	1,360,000
Projections	1,422,000	800,000	700,000	600,000	500,000
Change	**£0**	**£78,000**	**£209,000**	**£544,000**	**£860,000**

Resourcing our Investment Plans: The Capital Programme

36. The Capital Programme identifies all Capital projects approved by Council in line with its Capital Strategy. The Capital Programme is updated either as a result of Cabinet approvals, or through delegation approved by the Council. The Capital Programme 2017-22 is shown by the Strategic Plan priority in **APPENDIX C**.

The Capital Strategy

Project Identification and Prioritisation

37. The Capital Programme is a rolling programme subject to change that identifies the Council's capital investment plans for both its assets and the wider community's needs to achieve its strategic aims and objectives.

38. The Capital Programme is managed by the Council's Leadership Team and Service Managers.

Project Prioritisation

- All new capital investment needs are identified using a standard Capital Investment template.
- These documents identify the project title, lead officer and the service area.
- They also outline what the funding is to be used for and the outcomes anticipated and the financial profile.

Planning Obligations - Section 106 and Community Infrastructure Levy (CIL)

39. As part of the planning process planning obligations including the Community Infrastructure Levy are received from new developments. The vast majority is spent directly on infrastructure works or will be spent in line with the Infrastructure Delivery Plan (IDP).

40. There is however an element of contributions, which afford an element of discretion on how they are allocated. These contributions towards social and community facilities are linked to the development proposed.

41. Whilst some of these financial contributions are very specific in terms of the projects on which they must be spent, a proportion is to be allocated towards appropriate social and community schemes that result in time from the proposed development.

42. The Council's Capital Programme includes a number of projects that are to be funded by Section 106 and will begin to include projects funded by CIL; this is a significant source of funding and there is a significant level of interest from the community in relation to the allocation of sums to projects.

The Disposal of Assets.

43. The Council has determined an Asset Disposal policy. This policy involves evaluating each asset that The Council owns against the following criteria to determine if ownership should be retained :

- The strategic aims that the ownership of the asset helps The Council to achieve.
- The rate of return that investment properties generate.
- Whether disposal of the asset would further enhance the achievement of strategic aims.

44. The Council reviews its assets on a regular basis. In addition, as part of F4F Reviews, the potential to transfer assets to other organisations or to dispose of assets is always considered.

45. The Spending Review 2015 announced that Government would *"let Councils spend 100% of the receipts from the assets they sell to improve their local services*". The Guidance published by Communities and Local Government permits Revenue Expenditure to be treated as Capital Expenditure, and this is funded from capital receipts where expenditure is *"incurred on projects designed to reduce future revenue costs and/or transform service delivery" from 1 April 2016 to 31 March 2019*.

Project and Service Procurement

46. The Council has evaluated its procurement policies in line with best practice. The table below shows the five drivers of change identified within the report and the action the Council has taken or is taking to improve its procurement practices.

Driver for Change	Lichfield District Council's Initiatives
Committed leadership	• Clarity of decision making is provided through the role of Cabinet being specified. • Committees have been set up to scrutinise the decisions of the Cabinet.
A focus on the customer	• The design of major capital projects involves stakeholder participation at the design stage. • A number of major capital projects involve a management board consisting of stakeholders.
Integrated processes and teams	• The Council utilises the Projects in a Controlled Environment (PRINCE2) methodology to project manage all new major projects. • The Council engages in value engineering dialogue with appointed contractors to determine cost savings and quality enhancements in major capital contracts. • A risk management strategy to identify possible risks to successful outcomes and the ways these risks could be managed has been developed.
A quality driven agenda	• The evaluation of supplier bids takes account of both cost and quality criteria as determined by the project manager for each project.
Commitment to people	• The Council's Financial Procedure Rules and Contract Procedure Rules require evaluation of potential contractors' records on Health & Safety etc.

Project Implementation and Monitoring

47. The Project Manager for each project is responsible for managing the project implementation and delivering its objectives. This monitoring is often in partnership with professional services such as architects and service users. Additionally, some projects are subject to external monitoring, particularly when projects are using grant funding.

48. Project Managers hold regular meetings with parties involved in the procurement process.

49. Member involvement in capital monitoring, in conformance with the requirements of the Local Government Act, consists of regular reporting on the Capital Programme to Cabinet and Overview and Scrutiny Committees.

Performance Measurement

50. The Council undertakes performance measurement in relation to capital investment in a number of different ways :

- As part of the project development, the project manager identifies the objectives that the success of the project will be measured against.
- Regular reports to Cabinet and the Overview and Scrutiny Committees in relation to the progress of major projects such as Friarsgate are undertaken.

Full Capital Programme 2017-22

Project	Actual 2017/18 £000	Draft Budget (R=>£500k, A=£250k to £500k and G= Less than £250k) 2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Total £000	Corporate £000
Community Building / Play Area at Hawksyard	320	320	1				321	
Oakenfield Play Area (Sinking Fund)	9	9					9	9
Burntwood Leisure Centre Enhancement Work	11	202	42	3			247	
Squash Court and Sports Hall Floors (FGLC)		50					50	
Friary Grange (Boiler, Lighting)		15					15	15
Accessible Homes (Disabled Facilities Grants)	828	1,010	772	850	850	850	4,332	490
Housing Monies / Decent Homes Standard			1,049				1,049	
Leisure Facilities Outsource		282	750	353	10		1,395	
Energy Insulation / Home Repair Assistance		45	35	25	25	25	155	130
Housing Redevelopment Scheme - Packington	40	80					80	
Healthy and Safe Communities Total	**1,209**	**2,013**	**2,649**	**1,231**	**885**	**875**	**7,653**	**644**
Ancient Monument (Friary)	1	1					1	
Canal Culvert at Huddlesford	1	10	90				100	100
Environmental Improvements - Upper St John			7				7	
Fazeley Crossroads Environmental Imps	4	4					4	
The Leomansley Area Improvement Project			3				3	
Darnford / Shortbutts Parks		10	36				46	20
Swan Road - Whittington Parish Council	28	28					28	
Stowe Pool Improvements			100	450	450		1,000	5
Vehicle Replacement Programme	18	18	168	288	144	307	925	31
Clean, Green and Welcoming Places to Live Total	**53**	**71**	**404**	**738**	**594**	**307**	**2,114**	**156**
Cannock Chase SAC	86	86	43	32	22	25	208	
City Centre Strategy - Interpretation / Car Parks		2	32				34	
Friarsgate Support	365	592	868	2,487			3,947	1,724
Old Mining College - Refurbish access and signs		14					14	
Sankey's Corner Environmental Improvements		3					3	
Data Management System		5	6				11	
A Vibrant and Prosperous Economy Total	**451**	**702**	**949**	**2,519**	**22**	**25**	**4,217**	**1,724**
Bin Storage Area Resurfacing	20	20					20	
Asset Management - District Council House	69	291	88	187	50		616	616
Property Investment Strategy			6,000	13,000	13,000	13,000	45,000	
IT and Channel Shift Programme	230	250	152	32			434	434
Multi Media in the Committee Room	10	10					10	
Depot Sinking Fund		11					11	11
A Council That is Fit for the Future Total	**329**	**582**	**6,240**	**13,219**	**13,050**	**13,000**	**46,091**	**1,061**
Grand Total	**2,042**	**3,368**	**10,242**	**17,707**	**14,551**	**14,207**	**60,075**	**3,585**

Funding Source	Draft Budget 2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Total £000
Usable Capital Receipts	532	670	977	21		2,200
Revenue	769	154	154	154	154	1,385
Corporate Council Sources	**1,301**	**824**	**1,131**	**175**	**154**	**3,585**
Other Sources	1,785	2,668	3,223	1,366	1,053	10,095
Grand Total	**3,086**	**3,492**	**4,354**	**1,541**	**1,207**	**13,680**
FUNDING GAP (Borrowing Need)	**282**	**6,750**	**13,353**	**13,010**	**13,000**	**46,395**
Total FUNDING GAP Inc. previous years (Borrowing Need)	**2,424**	**8,975**	**21,963**	**34,205**	**46,065**	**46,065**
Available Capital Receipts	**(2,457)**	**(1,787)**	**(810)**	**(789)**	**(789)**	**(789)**

The Original Capital Programme was **£13,013,000** and the Draft Capital Programme is **£60,075,000**, an increase of **£47,062,000**. This increase is explained below (The Property Investment Strategy and Leisure Outsourcing are the main reasons):

	Approved MTFS				New	Total
	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s	£000s
Slippage from 2016/17	426					426
Project Spend Rephasing	(1,330)	1,139	174	(79)	96	0
New Projects						
Property Investment Strategy	0	6,000	13,000	13,000	13,000	45,000
Leisure Facilities Outsource	282	750	353	10	0	1,395
Friarsgate						
Police Station acquisition and reimbursement - U&I will now acquire and transfer to the Council	(1,409)					(1,409)
Inclusion of the Coach Parking contribution and related spend		450				450
Spend funded by External Funding						
Cannock Chase SAC	49	43	32	22	25	171
Swan Road: Whittington Parish	28					28
Disabled Facilities Grants	20				752	772
Ongoing Budgets additional Year (for modelling)						
Disabled Facilities Grants					98	98
Home Repair Assistance Grants					15	15
Energy Insulation Programme					10	10
Spend funded by Reserves and Revenue						
Multi Media in the Committee Room	10					10
Friary Grange (Boiler, Lighting)	15					15
Bin Storage Area Resurfacing	20					20
Vehicle Replacement Programme						
Changes to plan	(75)	0	(75)	0	211	61
Total	**(£1,964)**	**£8,382**	**£13,484**	**£12,953**	**£14,207**	**£47,062**

Revenue Implications

	Projected					
	2017/18	2018/19	2019/20	2020/21	2021/22	Total
Income	(£54,600)	(£218,380)	(£218,380)	(£218,380)	(£218,380)	(£928,120)
Friarsgate (Cabinet 5/12/2017)	£0	£0	£2,050	£126,400	£68,000	£196,450
Minimum Revenue Provision (non-Finance Leases)	£97,870	£199,500	£193,500	£225,440	£225,440	£941,750
Loss of Investment Income	£5,450	£6,400	£7,100	£8,800	£8,930	£36,680
External Borrowing Interest	£39,180	£47,400	£45,800	£44,210	£44,210	£220,800
Sub Total - Other Projects	**£87,900**	**£34,920**	**£30,070**	**£186,470**	**£128,200**	**£467,560**
Income	£0	£0	(£354,580)	(£1,122,900)	(£1,891,200)	(£3,368,680)
Management Costs	£0	£125,000	£250,000	£250,000	£250,000	£875,000
Minimum Revenue Provision	£0	£0	£171,430	£542,860	£914,290	£1,628,580
External Borrowing Interest	£0	£0	£101,810	£322,390	£542,980	£967,180
Sub Total - Property Investment Strategy	**£0**	**£125,000**	**£168,660**	**(£7,650)**	**(£183,930)**	**£102,080**
Total Direct Revenue Implications	**£87,900**	**£159,920**	**£198,730**	**£178,820**	**(£55,730)**	**£569,640**
Revenue Funding	£769,000	£154,000	£154,000	£154,000	£154,000	£1,385,000
Total Revenue Implications	**£856,900**	**£313,920**	**£352,730**	**£332,820**	**£98,270**	**£1,954,640**
Total MTFS	**£856,900**	**£313,920**	**£352,730**	**£340,470**	**£282,200**	**£2,146,220**
Approved Capital Programme	£856,900	£188,920	£182,020	£214,070	£214,200	£1,656,110
Change included in the MTFS	**£0**	**£125,000**	**£170,710**	**£126,400**	**£68,000**	**£490,110**

Balance Sheet Projections 2017-22

(Figures may not sum due to rounding)

	Type	2016/17 Actual £000s	2017/18 Budget £000s	2018/19 Budget £000s	2019/20 Budget £000s	2020/21 Budget £000s	2021/22 Budget £000s	2017/22 Change £000s
Property, Plant and Equipment	ASSET	43,080	42,904	43,257	44,867	43,736	42,258	(646)
Heritage Assets	ASSET	515	515	515	515	515	515	0
Investment Property	ASSET	5,572	5,572	11,572	24,572	37,572	50,572	45,000
Intangible Assets	ASSET	50	50	50	50	50	50	0
Assets Held for Sale	ASSET	0	0	0	0	0	0	0
Investments	INV	24,981	23,760	20,724	17,745	17,741	18,040	(5,720)
Borrowing	BOLE	(1,439)	(2,765)	(8,565)	(21,193)	(33,450)	(45,335)	(42,570)
Finance Leases	BOLE	(2,552)	(2,047)	(1,577)	(1,172)	(690)	(248)	1,799
Working Capital	CRED	(9,170)	(8,446)	(8,399)	(8,379)	(8,374)	(8,373)	73
Pensions	CRED	(36,562)	(36,562)	(36,562)	(36,562)	(36,562)	(36,562)	0
TOTAL ASSETS LESS LIABILITIES		**24,475**	**22,981**	**21,015**	**20,443**	**20,538**	**20,917**	**(2,064)**

Unusable Reserves								
Revaluation Reserve	REV	(7,800)	(7,800)	(7,800)	(7,800)	(7,800)	(7,800)	0
Capital Adjustment Account	CAP	(36,624)	(36,770)	(37,042)	(39,069)	(39,180)	(39,283)	(2,513)
Deferred Credits	CRED	(47)	(47)	(47)	(47)	(47)	(47)	0
Pension Scheme	CRED	36,562	36,562	36,562	36,562	36,562	36,562	0
Benefits Payable During Employment Adjustment Account	CRED	225	225	225	225	225	225	0
Collection Fund	UGER	(1,115)	(634)	0	0	0	0	634
Available for Sale Financial Instruments Reserve	INV	187	187	187	187	187	187	
Usable Reserves								
Unapplied Grants and Contributions - General	UGER	(759)	(654)	(4)	(4)	(4)	(4)	649
Unapplied Grants and Contributions - Cannock Chase	UGER	(213)	(185)	(185)	(185)	(185)	(185)	0
Unapplied Grants and Contributions - Section 106	UGER	(488)	(459)	(42)	(42)	(26)	(26)	432
Unapplied Grants and Contributions - Revenue	UGER	0	0	0	0	0	0	0
Usable Capital Receipts	UGER	(2,784)	(2,457)	(1,787)	(810)	(789)	(789)	1,668
Usable Capital Receipts - Arts Statue	UGER	(134)	(134)	(134)	(134)	(134)	(134)	0
Burntwood Leisure Centre Sinking Fund	UGER	(247)	(45)	(3)	0	0	0	45
City Centre Redevelopment Sinking Fund	UGER	(25)	(25)	(25)	(25)	(25)	(25)	0
Elections	UGER	(226)	(226)	(226)	(226)	(226)	(226)	0
Public Open Spaces	UGER	(476)	(476)	(476)	(476)	(476)	(476)	0
Three Spires Multi Storey	UGER	(1,979)	(2,129)	(2,279)	(729)	(729)	(729)	1,400
Building Regulations	UGER	(209)	(209)	(209)	(209)	(209)	(209)	0
Other Earmarked Reserves	UGER	(3,326)	(3,223)	(3,079)	(2,901)	(2,782)	(2,576)	647
Grant Aid - Development	UGER	(26)	(26)	(26)	(26)	(26)	(26)	0
General Fund Balance	GEN	(4,971)	(4,456)	(4,623)	(4,732)	(4,874)	(5,354)	(898)
TOTAL EQUITY		**(24,475)**	**(22,981)**	**(21,015)**	**(20,443)**	**(20,538)**	**(20,917)**	**2,064**

Reserves Available to cover Investment Losses		**(8,348)**	**(7,730)**	**(7,753)**	**(7,684)**	**(7,707)**	**(7,981)**	**(251)**

Summary								
Capital Funding	CAP	(36,624)	(36,770)	(37,042)	(39,069)	(39,180)	(39,283)	(2,513)
Revaluation Reserve	REV	(7,800)	(7,800)	(7,800)	(7,800)	(7,800)	(7,800)	0
Borrowing and Leasing	BOLE	(3,991)	(4,812)	(10,142)	(22,365)	(34,139)	(45,583)	(40,771)
Non-Current Assets	ASSET	49,217	49,041	55,394	70,004	81,873	93,395	44,354
Investments	INV	25,168	23,947	20,911	17,932	17,928	18,227	(5,720)
Unapplied Grants & Earmarked Reserves	UGER	(12,007)	(10,882)	(8,476)	(5,768)	(5,612)	(5,406)	5,475
General Reserve	GEN	(4,971)	(4,456)	(4,623)	(4,732)	(4,874)	(5,354)	(898)
Working Capital & Pensions	CRED	(8,992)	(8,268)	(8,221)	(8,201)	(8,196)	(8,195)	73
Total		**0**	**0**	**0**	**0**	**(1)**	**0**	**0**
Internal Borrowing		**802**	**(341)**	**410**	**770**	**754**	**729**	**1,070**

Minimum Revenue Provision Statement 2018/19

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP). Although there has been no statutory minimum since 2008. The Local Government Act 2003 requires this Authority to have regard to the Department of Communities and Local Government's (CLG) guidance on MRP most recently issued in 2012.

The broad aim of the CLG Guidance is to ensure that debt is repaid over the period that is reasonably commensurate with that over which the capital expenditure provides benefits.

The CLG Guidance requires the Authority to approve an annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP.

- For capital expenditure incurred after 1 April 2008 where no financial support is provided by the Government through the Revenue Support Grant system, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments. MRP on purchases of **freehold land** will be charged over **50 years**. MRP on expenditure not related to assets but that has been **capitalised by regulation or direction** (Revenue Expenditure Funded by Capital under Statute or REFCUS) will be charged over **20 years**.
- For assets acquired by **finance leases**, MRP will be determined as being equal to the **element of the charge that is used to reduce the Balance Sheet liability**.
- For **capital expenditure loans to third parties that are repaid** in annual or more frequent instalments of principal, the Council will make **nil MRP**, but instead apply the capital receipts arising to reduce the Capital Financing Requirement or Borrowing Need instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate delaying the MRP until the year after the assets become operational.

Based on the Authority's Draft Capital Programme and its estimates of the Capital Financing Requirement or Borrowing Need, the budget for MRP has been set as follows:

	2017/18	2018/19	2019/20	2020/21	2021/22
Finance Leases	£2,047,000	£1,578,000	£1,172,000	£690,000	£248,000
Borrowing	£2,424,000	£8,975,000	£21,963,000	£34,205,000	£46,065,000
Total	**£4,471,000**	**£10,553,000**	**£23,135,000**	**£34,895,000**	**£46,313,000**

	2017/18	2018/19	2019/20	2020/21	2021/22
Finance Leases	£506,000	£500,000	£515,000	£507,000	£512,000
Borrowing	£98,000	£199,000	£365,000	£768,000	£1,140,000
Total	**£604,000**	**£699,000**	**£880,000**	**£1,275,000**	**£1,652,000**

Treasury Management

Introduction and Background

In February 2003 the Council adopted the CIPFA Treasury Management in the Public Services: Code of Practice (the CIPFA Code), which requires the Council to approve a treasury management strategy before the start of each financial year.

In addition, the Department of Communities and Local Government (CLG) issued revised guidance in Local Authority Investments in March 2010 that requires the Council to approve an investment strategy before the start of the financial year.

This report fulfils the legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance.

The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

Accordingly, The Council will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
- Suitable treasury management practices (TMPs), setting out the manner in which The Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The Council (i.e. full Council) will receive reports on its Treasury Management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year (this report), in year reviews and an annual report after its close, in the form prescribed in its Treasury Management Practices.

The Council delegates responsibility for the implementation and monitoring of its Treasury Management policies and practices to Cabinet and for the execution and administration of treasury management decisions to the Chief Finance Officer, who will act in accordance with the organisation's policy statement and Treasury Management Practices and CIPFA Standard of Professional Practice on Treasury Management. The Council nominates the **Audit and Member Standards Committee** to be responsible for ensuring effective scrutiny of the Treasury Management strategy and policies.

Policies and Objectives of Treasury Management Activities

The Council defines its treasury management activities as:

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

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

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

The Council's borrowing will be affordable, sustainable and prudent; and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow The Council transparency and control over its debt. **The Council's primary objective in relation to investments remains the security of capital**. The Council's objective for investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Detailed Cash flow for 2018/19 (figures may not sum due to rounding)

2018/19 (£m)													
Detail	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Total**
Income													
Council Tax Collected	-£6.54	-£6.30	-£5.96	-£6.10	-£6.08	-£6.10	-£6.14	-£6.13	-£6.09	-£5.79	-£0.74	-£0.79	**-£62.78**
Business Rates Collected	-£3.54	-£4.61	-£3.45	-£3.63	-£4.80	-£3.49	-£3.42	-£3.43	-£3.27	-£3.19	-£0.83	-£0.63	**-£38.29**
Rent Allowance Grant	-£1.69	-£1.69	-£1.69	-£1.69	-£1.69	-£1.69	-£1.69	-£1.69	-£1.69	-£1.69	-£1.69	-£1.69	**-£20.22**
New Homes Bonus	-£0.07	-£0.07	-£0.07	-£0.07	-£0.07	-£0.07	-£0.07	-£0.07	-£0.07	-£0.07	-£0.07	-£0.07	**-£0.88**
Net Revenue Income	-£0.69	-£0.73	-£0.73	-£0.73	-£0.73	-£0.73	-£0.69	-£0.73	-£0.73	-£0.73	-£0.73	-£0.73	**-£8.71**
Revenue Support Grant	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	**£0.00**
Capital Income	-£0.03	-£0.03	-£0.03	-£0.03	-£0.03	-£0.03	-£0.03	-£0.03	-£0.03	-£0.03	-£0.03	-£0.03	**-£0.33**
New Borrowing	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	**£0.00**
Spend													
Capital Programme	£0.85	£0.85	£0.85	£0.85	£0.85	£0.85	£0.85	£0.85	£0.85	£0.85	£0.85	£0.85	**£10.24**
Other Spend	£0.04	£0.04	£0.04	£0.04	£0.04	£0.04	£0.04	£0.04	£0.04	£0.04	£0.04	£0.04	**£0.52**
Rent Allowance Payments	£1.62	£1.54	£1.56	£1.78	£1.55	£1.60	£1.55	£1.55	£2.75	£1.55	£1.55	£1.62	**£20.22**
Employees	£0.98	£0.98	£0.98	£0.98	£0.98	£0.98	£0.98	£0.98	£0.98	£0.98	£0.98	£0.98	**£11.76**
Business Rate Payments	£2.75	£3.39	£3.07	£3.07	£2.88	£2.88	£2.88	£2.88	£2.88	£2.88	£2.88	£2.88	**£35.29**
Precepts	£5.95	£4.56	£4.56	£4.56	£4.56	£4.87	£4.56	£4.56	£4.56	£4.56	£4.56	£4.56	**£56.38**
Cash Flow	-£0.35	-£2.07	-£0.87	-£0.98	-£2.54	-£0.89	-£1.17	-£1.22	£0.18	-£0.64	£6.77	£6.98	**£3.20**
Average Level of Investments	£23.93	£25.14	£26.61	£27.53	£29.29	£31.00	£32.03	£33.23	£33.75	£33.98	£30.92	£24.04	

Investment Income Budget for 2018/19

Based on the cash flow forecast above and the revenue implications of the Capital Programme, the budgeted Investment Income budget is shown in the table below:

Details	**2018/19 Budget**
Average amount we have available to invest (£m)	29.29
Average Interest Rate (%)	0.64%
Interest Receipts	(183,000)
Transfer to the Property Reserve	38,000
Net Investment Income	**(£145,000)**

In terms of interest receipts, there are two key risks/sensitivities:

a) The interest rate receivable.
b) The amount of money we have available to invest.

What if:

Interest Rates Change	**We have more cash available to invest (£000)**				
	+£1m	**+£2m**	**+£3m**	**+£4m**	**+£5m**
Current Estimate	194	200	207	213	219
+0.50%	345	357	368	379	391

Borrowing Strategy

The detailed Borrowing Projections for 2018/19 included in the Balance Sheet Projections at **APPENDIX D** as part of its strategy for funding the Capital Programme are shown below:

Projected External Borrowing at 1 April 2018	**(£2,765,000)**
New Borrowing in 2018/19	(£6,000,000)
Borrowing Repayments in 2018/19	£200,000
Projected External Borrowing at 31 March 2019	**(£8,565,000)**

The Council has an Authorised Borrowing Limit of **£21.377m**.

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

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

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years (when long-term borrowing rates are forecast to rise modestly). Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2018/19 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

In addition, the Authority may borrow short-term loans to cover unexpected cash flow shortages. The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Staffordshire County Council Pension Fund)
- capital market bond investors
- Local Capital Finance Company and other special purpose companies created to enable local authority bond issues
- Salix.

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases and hire purchase
- sale and leaseback

The Authority has previously raised the majority of its long term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

Municipal Bonds Agency: the UK Municipal Bonds Agency Plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Full Council.

Short-term and Variable Rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

Investment Strategy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In 2017/18, the Authority's investment balance is projected to range between **£24m** and **£36m**, and the projected levels for 2018/19 range from **£24m** to **£35m**.

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

Negative Interest Rates: if the UK enters into a recession in 2018/19, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short term investment options. This situation already exists in any other European countries. In this event, security will be measured as receiving the contractually agreed amount on maturity, even though this may be less than the amount originally invested.

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to diversify into more secure and/or higher yielding asset classes during 2018/19. This is especially the case for the estimated **£7m** that is available for longer-term investment although **£2m** of this sum has already been invested in the Property Fund. The majority of the Authorities surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit and money market funds.

This diversification will therefore represent a substantial change in strategy over the coming year.

Approved Counterparties: The Authority may invest its surplus funds with any of the counterparty types in Table 1 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 1: Approved Investment Counterparties and Limits (**no changes are recommended**)

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Government	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£1m 5 years	£1m 20 years	£2m 50 years	£1m 20 years	£1m 20 years
AA+	£1m 5 years	£1m 10 years	£2m 25 years	£1m 10 years	£1m 10 years
AA	£1m 4 years	£1m 5 years	£2m 15 years	£1m 5 years	£1m 10 years
AA-	£1m 3 years	£1m 4 years	£2m 10 years	£1m 4 years	£1m 10 years
A+	£1m 2 years	£1m 3 years	£2m 5 years	£1m 3 years	£1m 5 years
A	£1m 13 months	£1m 2 years	£2m 5 years	£1m 2 years	£1m 5 years
A-	£1m 6 months	£1m 13 months	£2m 5 years	£1m 13 months	£1m 5 years
None	£0.5m 6 months	n/a	£2m 25 years	£50,000 5 years	£0.5m 5 years
Pooled funds	£2m per fund				

Credit Rating: Investment decisions are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. **These investments are subject to the risk of credit loss via a Bail-In should the regulator determine that the bank is failing or likely to fail**.

Operational Bank Accounts: The Authority may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services for credit and debit cards, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of bank bail-in, and balances will therefore be kept below **£500,000** per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

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

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to Bail-In, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

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

Registered Providers: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

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

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

Risk Assessment and Credit Ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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

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

Other Information on the Security of Investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations, in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

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

Specified Investments: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government,
    - a UK local authority, parish council or community council, or
    - a body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations and securities as those having a credit rating of **[A-]** or higher that are domiciled in the UK or a foreign country with a sovereign rating of **[AA+]** or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of **[A-]** or higher.

Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in Table 2 below.

Table 2: Non-Specified Investment Limits (**no changes are recommended**)

	Approved limit
Total long-term investments	£6m
Total investments without credit ratings or rated below **[A-]**	£8m
Total investments with institutions **(except pooled funds)** domiciled in foreign countries rated below **[AA+]**	£1m
Total non-specified investments	£15m

Investment Limits: The Authority's revenue reserves available to cover investment losses (excluding capital grants and contributions, capital receipts and the multi storey reserve etc.) are forecast to be between **£7.73m** and **£8.00m** during 2018/19 (**APPENDIX D**).

In order that no more than **14%** of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government and other UK Local Authorities) will be **£1m**. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below (investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries):

Table 3: Investment Limits (**no changes are recommended**)

	Approved limit
Any single organisation, except the UK Central Government and UK Local Authorities	£1m each
UK Central Government	unlimited
UK Local Authorities	£2m each
Any group of organisations under the same ownership	£1m per group
Any group of pooled funds under the same management	£4m per manager
Negotiable instruments held in a broker's nominee account	£12m per broker
Foreign countries	£2m per country
Registered Providers	£5m in total
Unsecured investments with Building Societies	£2m in total
Loans to unrated corporates	£2m in total
Money Market Funds	£12m in total

Liquidity Management: The Authority uses excel for cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's MTFS and cash flow forecast.

Non Treasury Investments: Although not classed as treasury management activities and therefore not covered by CIPFA or the CLG Guidance, the Authority may also purchase property for investment purposes and also may make loans and investments for service purposes.

Such loans and investments will be subject to the Authority's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy. The Authority's existing and planned non treasury investments are shown below (see paragraphs 3.7 and 3.8):

	2016/17 Actual	2017/18 Budget	2018/19 Budget	2019/20 Budget	2020/21 Budget	2021/22 Budget
Investment Property	5,572,000	5,572,000	11,572,000	24,572,000	37,572,000	50,572,000

In 2016/17, the net gain from Investment Property was **(£399,000)** representing a **7%** net yield based on property value and **4%** of the actual Net Cost of Services.

Other Items

There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

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

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

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

Investment Training: The needs of the Authority's treasury management staff for training in investment management are assessed every six months as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA.

Investment Advisers: The Authority has recently reappointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled by the specification related to the procurement and regular contact with the Adviser.

Investment of Money Borrowed in Advance of Need: The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of **£21.377m** in 2018/19. The maximum period between borrowing and expenditure is expected to be **three** years, although the Authority is not required to link particular loans with particular items of expenditure.

Treasury Management Strategy

The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The CFO, having consulted the Cabinet Member for Finance and Democracy, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

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

Prudential Indicators 2017-22

Background:

There is a requirement under the Local Government Act 2003 for Local Authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

Estimates of Capital Expenditure

No. 1 Capital Financing	2017/18 Original £m	2017/18 Approved £m	2017/18 Revised £m	2018/19 Original £m	2019/20 Original £m	2020/21 Original £m	2021/22 Original £m
Non-Current Assets	2.800	2.824	1.609	8.138	16.395	13.654	13.307
Revenue Expenditure funded from Capital under Statute	2.532	2.074	1.759	2.104	1.312	0.897	0.900
Total	**£5.332**	**£4.898**	**£3.368**	**£10.242**	**£17.707**	**£14.551**	**£14.207**

No. 1 Capital Financing	2017/18 Original £m	2017/18 Approved £m	2017/18 Revised £m	2018/19 Original £m	2019/20 Original £m	2020/21 Original £m	2021/22 Original £m
Capital Receipts	1.074	0.651	0.532	0.670	0.977	0.021	0.000
Burntwood Sinking Fund	0.170	0.202	0.202	0.042	0.003	0.000	0.000
Property Investment Non Borrowing Funding	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Capital Grants and Contributions	3.767	3.137	1.480	2.452	1.232	1.222	0.777
Earmarked Reserves	0.092	0.079	0.103	0.144	1.878	0.119	0.206
Revenue Contributions	0.154	0.754	0.769	0.154	0.154	0.154	0.154
Finance Leases	0.075	0.075	0.000	0.030	0.110	0.025	0.070
Borrowing	0.000	0.000	0.282	6.750	13.353	13.010	13.000
Total	**£5.332**	**£4.898**	**£3.368**	**£10.242**	**£17.707**	**£14.551**	**£14.207**

Ratio of Financing Costs to Net Revenue Stream

No. 2 Ratio of Financing Costs to Net Revenue Stream	2017/18 Original £m	2017/18 Approved £m	2017/18 Revised £m	2018/19 Original £m	2019/20 Original £m	2020/21 Original £m	2021/22 Original £m
Investment Income	(0.161)	(0.182)	(0.195)	(0.187)	(0.174)	(0.178)	(0.187)
Transfer to Property Reserve	0.038	0.035	0.035	0.038	0.038	0.038	0.038
Internal Interest	0.004	0.004	0.004	0.004	0.004	0.004	0.004
Borrowing Interest	0.036	0.036	0.037	0.048	0.148	0.367	0.586
Finance Lease Interest Charges	0.018	0.018	0.016	0.070	0.072	0.071	0.071
Minimum Revenue Provision - Leases	0.518	0.518	0.506	0.500	0.515	0.507	0.512
Minimum Revenue Provision - Borrowing	0.063	0.063	0.098	0.199	0.365	0.768	1.140
Total Financing Costs	**0.515**	**0.491**	**0.501**	**0.672**	**0.969**	**1.579**	**2.164**
%	**5%**	**4%**	**5%**	**7%**	**10%**	**17%**	**23%**

Capital Financing Requirement

No. 3 Capital Financing Requirement	2017/18 Original £m	2017/18 Approved £m	2017/18 Revised £m	2018/19 Original £m	2019/20 Original £m	2020/21 Original £m	2021/22 Original £m
Balance Brought Forward	4.806	4.806	4.793	4.471	10.552	23.135	34.894
Capital Expenditure financed from borrowing and Invest to Save	0.075	0.075	0.282	6.780	13.463	13.035	13.070
Minimum Revenue Provision - Leases	(0.518)	(0.518)	(0.506)	(0.500)	(0.515)	(0.507)	(0.512)
Minimum Revenue Provision - Borrowing	(0.063)	(0.063)	(0.098)	(0.199)	(0.365)	(0.768)	(1.140)
Balance Carried Forward	**£4.300**	**£4.300**	**£4.471**	**£10.552**	**£23.135**	**£34.894**	**£46.313**

Gross External Borrowing does not exceed the CFR

No. 3	2017/18 Original £m	2017/18 Approved £m	2017/18 Revised £m	2018/19 Original £m	2019/20 Original £m	2020/21 Original £m	2021/22 Original £m
CFR plus next 2 years	3.993	4.515	24.714	49.240	64.043	75.392	86.339
Gross Debt	(3.461)	(3.461)	(3.468)	(10.142)	(22.365)	(34.139)	(45.583)
Gross Borrowing < CFR plus next 2 years	**True**	**True**	**True**	**True**	**True**	**True**	**True**

Actual External Debt

No. 4	31-Mar-2017 Actual £m		2017/18 Revised £m	2018/19 Original £m	2019/20 Original £m	2020/21 Original £m	2021/22 Original £m
LT Borrowing	1.370		1.309	8.193	20.450	32.335	43.849
Short Term Element of LT Borrowing	0.069		0.061	0.372	0.743	1.115	1.486
Short Term Element of LT Liabilities	0.505		0.516	0.515	0.507	0.512	0.178
Other Long Term Liabilities	2.047		1.582	1.062	0.665	0.178	0.070
Total	**£3.991**		**£3.468**	**£10.142**	**£22.365**	**£34.139**	**£45.583**

Incremental Impact of Capital Investment Decisions

No.5 **Incremental Impact of Capital investment Decisions**	2017/18 Original £	2017/18 Approved £	2017/18 Revised £	2018/19 Original £	2019/20 Original £	2020/21 Original £	2021/22 Original £
Band D Properties	36,935	36,935	36,935	37,360	37,803	38,245	38,688
Capital Investment							
Change in Revenue Implications to Approved Budget	(8)	(8)	0	125	171	126	68
Band D Equivalent	**£3.77**	**(£0.21)**	**£0.00**	**£3.35**	**£4.52**	**£3.30**	**£1.76**

	2017/18 Original £m	2017/18 Approved £m	2017/18 Revised £m	2018/19 Original £m	2019/20 Original £m	2020/21 Original £m	2021/22 Original £m
New Vehicle and Plant Procurements	£0.030	£0.075	£0.018	£0.168	£0.208	£0.149	£0.337

Authorised Limit

No. 6 **Authorised Limit for External Debt**	2017/18 Original £m	2017/18 Approved £m	2017/18 Revised £m	2018/19 Original £m	2019/20 Original £m	2020/21 Original £m	2021/22 Original £m
Borrowing	10.844	10.844	10.844	16.929	30.116	42.743	54.769
Finance Leases - New	4.448	4.448	4.448	4.448	4.448	4.448	4.448
Total	**£15.292**	**£15.292**	**£15.292**	**£21.377**	**£34.564**	**£47.191**	**£59.217**

Operational Boundary

No. 7 **Operational Boundary for External Debt**	2017/18 Original £m	2017/18 Approved £m	2017/18 Revised £m	2018/19 Original £m	2019/20 Original £m	2020/21 Original £m	2021/22 Original £m
Borrowing	1.838	1.838	1.838	9.065	21.693	33.950	45.835
Finance Leases	4.057	4.057	4.057	4.057	4.057	4.057	4.057
Total	**£5.895**	**£5.895**	**£5.895**	**£13.122**	**£25.750**	**£38.007**	**£49.892**

Adoption of the CIPFA Treasury Management Code

No. 8
The Council approved the adoption of the CIPFA Treasury Management Code at its Full Council meeting on 25 February 2003. The Council has incorporated any changes resulting from the revisions to the CIPFA Treasury Management Code within its treasury policies, practices and procedures.

Gross Debt

No. 9	2017/18 Original £m	2017/18 Approved £m	2017/18 Revised £m	2018/19 Original £m	2019/20 Original £m	2020/21 Original £m	2021/22 Original £m
Outstanding Borrowing	(1.338)	(1.338)	(1.370)	(8.565)	(21.193)	(33.450)	(45.335)
Other Long Term Liabilities	(2.124)	(2.124)	(2.098)	(1.577)	(1.172)	(0.690)	(0.248)
Gross Debt	**(£3.462)**	**(£3.462)**	**(£3.468)**	**(£10.142)**	**(£22.365)**	**(£34.139)**	**(£45.583)**
Capital Financing Requirement	**£4.300**	**£4.300**	**£4.471**	**£10.647**	**£23.505**	**£35.936**	**£48.402**
Is our Gross Debt in excess of our Capital Financing Requirement and are we therefore borrowing in advance of need ?	**No**	**No**	**No**	**No**	**No**	**No**	**No**

Interest Rate Exposures

No. 10 and 11	2017/18 Original %	2017/18 Approved %	2017/18 Revised %	2018/19 Original %	2019/20 Original %	2020/21 Original %	2021/22 Original %
Fixed Interest Rates							
Upper Limit on Fixed Interest Rate Exposure on Investments	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)
Upper Limit on Fixed Interest Rate Exposure on Debt	100%	100%	100%	100%	100%	100%	100%
Net Fixed Exposure (No. 10)	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**
Variable Interest Rates							
Upper Limit for Variable Rate Exposure on Investments	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)
Upper Limit for Variable Rate Exposure on Debt	30%	30%	30%	30%	30%	30%	30%
Net Variable Exposure (No. 11)	**(70%)**	**(70%)**	**(70%)**	**(70%)**	**(70%)**	**(70%)**	**(70%)**

Maturity structure of fixed rate borrowing

No. 12 Maturity Structure of Fixed Rate Borrowing	£	%	Lower Limit	Upper Limit
Under 12 months	60,880	4.44%	0%	100%
12 months and within 24 months	60,880	4.44%	0%	100%
24 months and within 5 years	182,640	13.33%	0%	100%
5 years and within 10 years	304,400	22.22%	0%	100%
10 years and within 20 years	608,800	44.44%	0%	100%
20 years and within 30 years	152,200	11.11%	0%	100%
30 years and within 40 years	0	0.00%	0%	100%
40 years and within 50 years	0	0.00%	0%	100%
50 years and above	0	0.00%	0%	100%
Total	**1,369,800**			

Upper limit for total principal sums invested over 364 days

No 13 Upper Limit for total principal sums invested over 364 days	2017/18 Original £m	2017/18 Approved £m	2017/18 Revised £m	2018/19 Original £m	2019/20 Original £m	2020/21 Original £m	2021/22 Original £m
Upper Limit	**6.000**	**6.000**	**6.000**	**6.000**	**6.000**	**6.000**	**6.000**

CFO Report on Robustness of the Budget and Adequacy of Reserves - Supporting Information

Context

1. In accordance with the Local Government Act 2003 (Sections 25-27) and to comply with CIPFA Guidance on Local Authority Reserves and Balances, the CFO is required to formally report to Members on the robustness of the Budget and the adequacy of Reserves. The CFO is appropriately qualified under the terms of Section 113 of the Local Government Finance Act 1988.

Adequacy of Reserves

2. The CFO assesses and determines the appropriate level of Reserves and Provisions using a variety of mechanisms, including:

- Being significantly involved in the Budget setting process, the annual financial cycle and engaged in the strategic leadership of the organisation as a member of the Leadership Team including wider corporate roles beyond that of finance;
- Leading and writing on the annual revision of the MTFS;
- Challenging the budget at various stages of preparation, including the reasonableness of the key budget assumptions and sensitivities such as estimates for inflation and corporate financial pressures, realism of income targets and the extent to which known trends and liabilities are provided for:
    - Meetings with specific colleagues to examine particular areas or issues;
    - An in-depth review of the financial risks assessment;
    - Review of the movements, trends (including a comparison to the level at other Councils) and availability of contingency, provisions and earmarked reserves to meet unforeseen cost pressures in the context of future pressures and issues;
    - The use of professional experience and best professional judgement;
    - The use of appropriate professional, technical guidance and local frameworks;
    - Knowledge of the colleagues involved in the process, particularly finance professionals, including their degree of experience and qualifications;
    - Review of the strength of financial management and reporting arrangements, including internal control and governance arrangements. This is undertaken in consultation with relevant colleagues and Members of the Cabinet.

3. It is prudent for Councils to maintain an adequate ‘working balance’, that is part of General Reserves. A Risk Assessment approach is used to determine the required level of General Reserves and Provisions.

4. The Council’s aim is to have a prudent level of General Reserves available for unforeseen financial risks. The Council projects general reserves of **£4,454,530** at 31 March 2018. The minimum level of Reserves for 2018/19 onwards is **£1,600,000** and has been determined by Risk Assessment**.** This is **16%** of the amount to be met from Government Grants and Local Taxpayers in 2018/19 of **£10,305,900**. The total General Reserve Projections are shown below:

Usable Reserve	2016/17 Actual £000s	2017/18 Budget £000s	2018/19 Budget £000s	2019/20 Budget £000s	2020/21 Budget £000s	2021/22 Budget £000s
General Reserve	(4,971)	(4,456)	(4,623)	(4,732)	(4,874)	(5,354)

5. In recommending an adequate level of Reserves, the CFO considers and monitors the opportunity costs of maintaining particular levels of Reserves and Balances and compares these to the benefits accrued from having such Reserves. The opportunity cost of maintaining a specific level of Reserves is the 'lost' opportunity for example, of investing elsewhere to generate additional investment income, or using the funds to invest in service improvements.

6. In assessing this, it is important to consider that Reserves can only be used once and are therefore potentially only "one off" sources of funding. Therefore, any use of General Reserves above the lower minimum threshold is only ever used on one-off items of expenditure.

7. Expenditure - the level of Reserves is also determined by use of a comprehensive risk assessment to ensure they represent an appropriately robust "safety net" that adequately protects The Council against potential unbudgeted costs.

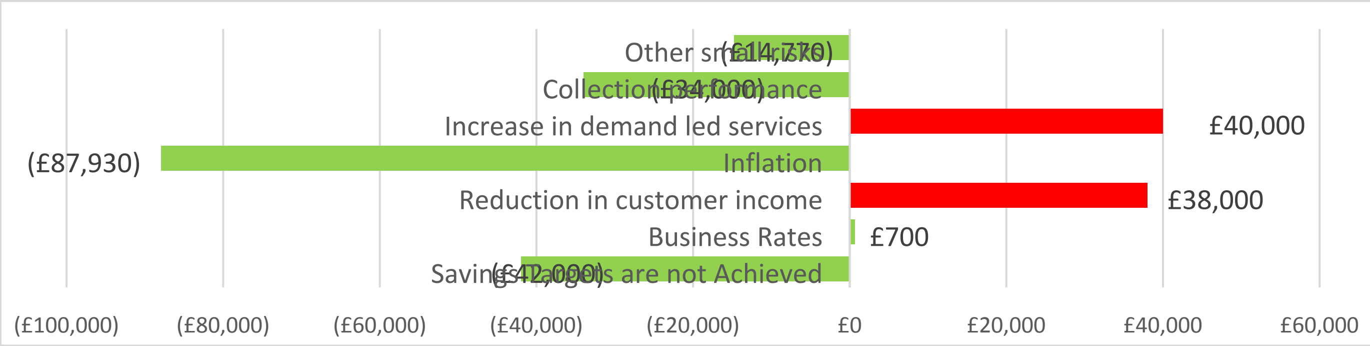
Use of General Revenue Reserves

8. The above assessment demonstrates that General Revenue Reserves are at an appropriate level as determined in accordance with the MTFS and the CFO's professional advice. The MTFS allows any Reserves above the level required by the Strategy to be used to fund one-off items of expenditure. No General Revenue Reserves below the minimum threshold are being used to support the 2017/18 budget and beyond.

9. CIPFA guidance provides guidance for determining the minimum level of Reserves. The Council uses the method based on risk assessment. The approach to the risk assessment of Reserves has taken into account CIPFA guidance (LAAP 99) (Guidance note on Local Authority Reserves and Balances).

10. The table below shows the financial risk assessment made for **2018/19** :

Activity Area	Explanation of Risk / Justification of Balances	Severity of Risk	2018/19 Reserve Amounts	2017/18 Reserve Amounts	Change
Friarsgate	Friarsgate	Material	£128,000	£128,000	£0
IT Systems are no longer fit for purpose	Capital Programme	Material	£91,000	£91,000	£0
Savings Targets	Savings Targets are not achieved	Material	£0	£42,000	(£42,000)
Business Rates	Business Rates	Severe	£652,700	£652,000	£700
High Risk Streams of Income including Fees and Charges	Reduction in customer income	Material	£228,000	£190,000	£38,000
Inflation Assumptions	Higher inflation	Material	£155,000	£242,930	(£87,930)
Demand Led Services	Increase in demand led services	Material	£90,000	£50,000	£40,000
Collection of Income Performance	Collection performance	Material	£120,000	£154,000	(£34,000)
Civil Contingency	Civil Contingency	Tolerable	£127,000	£127,000	£0
Other	Other small risks	Tolerable	£8,300	£23,070	(£14,770)
Total Minimum Reserves			**£1,600,000**	**£1,700,000**	**(£100,000)**



Other small risks
(£14,770)
Collection performance
(£34,000)
Increase in demand led services
£40,000
(£87,930)
Inflation
Reduction in customer income
£38,000
Business Rates
£700
Savings Targets are not Achieved
(£42,000)
(£100,000)
(£80,000)
(£60,000)
(£40,000)
(£20,000)
£0
£20,000
£40,000
£60,000

Other Reserves (in addition to General Reserves)

11. A review of the level of Earmarked Reserves has been undertaken as part of the annual Budget preparation. For each Reserve established, the purpose, usage and basis of transactions has been identified.

Usable Reserve excluding General Reserves	Reason for the Reserve	2016/17 Actual £000s	2017/18 Budget £000s	2018/19 Budget £000s	2019/20 Budget £000s	2020/21 Budget £000s	2021/22 Budget £000s
Revenue							
Other Earmarked Reserves	To finance specific capital and revenue projects	(3,326)	(3,223)	(3,079)	(2,901)	(2,782)	(2,576)
Grant Aid - Development	To provide assistance to Historic Buildings, Nature Conservation and Biodiversity projects	(26)	(26)	(26)	(26)	(26)	(26)
Elections	This reserve is required to ensure sufficient resources are available to meet the District Council Elections	(226)	(226)	(226)	(226)	(226)	(226)
Public Open Spaces	To fund the cost of equipment in public open spaces	(476)	(476)	(476)	(476)	(476)	(476)
Building Regulations	To manage the risks related to the Building Control Function	(209)	(209)	(209)	(209)	(209)	(209)
Capital							
Three Spires Multi Storey	Provides for future capital works to the car park	(1,979)	(2,129)	(2,279)	(729)	(729)	(729)
Capital Grants Unapplied	The Capital grants reserve is to meet specific capital grant expenditure in future years	(1,460)	(1,298)	(232)	(232)	(216)	(216)
Capital Receipts Reserve	The usable capital receipts reserve represents capital receipts available to finance capital expenditure in future years in accordance with best practice	(2,918)	(2,591)	(1,921)	(944)	(923)	(923)
Sinking Funds	These have been setup for Burntwood Leisure Centre including the synthetic pitch , King Edwards Leisure Centre synthetic pitch	(272)	(70)	(28)	(25)	(25)	(25)
Total		**(£10,892)**	**(£10,248)**	**(£8,476)**	**(£5,768)**	**(£5,612)**	**(£5,406)**

12. Ongoing review of Earmarked Reserves will take place as part of the Money Matters Reports to ensure we are only holding funds for known and essential purposes.

13. The Council also holds other Unusable Reserves that arise out of the interaction of legislation and proper accounting practice and the Balance Sheet projections are shown in the table below :

Unusable Reserve	Reason for the Reserve	2016/17 Actual £000s	2017/18 Budget £000s	2018/19 Budget £000s	2019/20 Budget £000s	2020/21 Budget £000s	2021/22 Budget £000s
Revaluation Reserve	This is a reserve that records unrealised gains in the value of non-current assets including available for sale reserve	(7,800)	(7,800)	(7,800)	(7,800)	(7,800)	(7,800)
Available For Sale Reserve	The difference between cost and current value of the Property Fund	187	187	187	187	187	187
Capital Adjustment Account	This provides a balancing mechanism between the different rates at which assets are depreciated under the Statement of Recommended practice(SORP) and are refinanced through the capital control system	(36,624)	(36,770)	(37,042)	(39,069)	(39,180)	(39,283)
Deferred Credits	This item consists of mortgage principal outstanding on the sale of council houses properties	(47)	(47)	(47)	(47)	(47)	(47)
Pension Scheme	This is a specific accounting mechanism used to reconcile the payments made for the year to various statutory pension schemes in accordance with the scheme requirements and the net change in the authority's recognised liability under IAS19 (FRS 17)	36,562	36,562	36,562	36,562	36,562	36,562
Benefits Payable During Employment Adjustment Account	This is a specific accounting mechanism used to reconcile employee benefits (accrued holiday entitlements) under IAS 19	225	225	225	225	225	225
Collection Fund	This is required under the Statement of Recommended practice (SORP) for Council Tax & Non Domestic rates accrued income	(1,115)	(634)	0	0	0	0
Total		**(£8,612)**	**(£8,277)**	**(£7,915)**	**(£9,942)**	**(£10,053)**	**(£10,156)**

The **CFO** has been involved throughout the entire budget process, including revising the MTFS, input to the drafting of the budget, the ongoing financial monitoring and reporting process, evaluation of investments and savings, engagement with Members of the Cabinet and Overview and Scrutiny Committees, advising colleagues, the strategic choices activities, challenge and evaluation activities, and scrutiny of the budget. The following sections of this statement outline particular activities and documents.

Process - a robust budget process has been used within the overall context of the MTFS.
Timetable - the process started in June 2017 and the draft budget was completed in December 2017 prior to the Provisional Financial Settlement for Local Government 2018/19. This enabled formal scrutiny of the budget making process in January 2018. The final budget is due to be set at Council on 20 February 2018, well within the statutory deadline.[2]
Member involvement and Scrutiny (including budget monitoring) - formal Member involvement has been extensive, particularly through the Cabinet in conjunction with Leadership Team, Strategic Overview & Scrutiny Committee and Audit and Member Standards Committee, which has fed upwards to Cabinet.
Consultation – In December 2017, we carried out a budget consultation to find out what people who live in the District think about the services we provide and their view on an acceptable level of Council Tax increase.
Challenge - there are various points of challenge at various stages of the Budget, meetings of Leadership Team, various Service Management Teams, Cabinet and the Scrutiny process itself.
Localism Act - Right to approve or veto excessive Council Tax rises - The Secretary of State has determined a **3%** or **£5.00** (whichever is the higher) limit for Council Tax increases for 2018/19. If an Authority proposes to raise taxes above the limit they will have to hold a referendum to get approval for this from the local voters who will be asked to approve or veto the rises.
Ownership and accountability - the budget has progressed through various stages including review by management within services and Leadership Team. Budget holders were sent copies of budget estimate working papers for their respective areas of service responsibility.
Current financial position - the budget is a statement of financial intent, reflecting The Council's vision, plans and priorities. It also sets the financial spending parameters for each financial year and as such, the CFO assessment of the adequacy of Reserves, also includes the risk of services overspending and/or under-spending their budgets and the impact of this on the financial health of The Council and its level of Reserves. The current financial position has been reported throughout the year.
Key assumptions - The pay and prices used in the budget are derived from current intelligence, are considered appropriate and compare with those used by other Councils. Fees and charges have been reviewed and changes are reflected in the overall budget. The Capital Receipts to be used for the Capital Programme are based on estimates of both timing and value.
Financial risks – The Council continues to use an embedded good practice Risk Assessment approach both when setting the Budget and in validating estimated outturns. This continues for the 2017/18 outturn and 2018/19 plus Budget. The minimum level of General Reserves is considered to be adequate to cover all but the most unusual and serious combination of risks.

Summary - Opinion of CFO on the Adequacy of Reserves and the Robustness of the Estimates

I am of the opinion that for a Council of this size and with our recent record of prudent spending, effective Risk Management, robust budgeting and effective Budget monitoring and control, a General Minimum Reserve level of **£1,600,000** is adequate.

[2] Statutory deadline date for setting Council Tax is by 11 March 2018.

Affordable housing delivery- approval of Registered Providers and use of s106 monies(commuted sums)

Report of the Cabinet Member for Regulatory Services, Housing and Wellbeing: Councillor Doug Pullen

Lichfield district council
www.lichfielddc.gov.uk

Date:	13th February 2018
Agenda Item:	5
Contact Officer:	Gareth Davies/Lucy Robinson
Tel Number:	01543 308741/308710
Email:	gareth.davies@lichfielddc.gov.uk lucy.robinson@lichfielddc.gov.uk
Key Decision?	**YES**
Local Ward Members	All

CABINET

1. Executive Summary

1.1 This report sets out how the council has worked in partnership with housing associations (Registered Providers) through a Development Partnership Agreement to deliver new affordable homes since stock transfer. The Agreement has now lapsed and we propose to replace this with a policy that includes a set of criteria to approve Registered Providers (RP's) for future s106 opportunities (developer contributions) for affordable housing[1]. The report also sets out how the council intends to invite bids from Approved Registered Providers for existing and future affordable housing commuted sums to deliver new affordable homes, and the criteria to assess these bids based on their strategic housing fit, deliverability, and value for money and affordability.

2. Recommendations

2.1 That Cabinet recommend to Council for approval the proposed policy containing the criteria for approval of Registered Providers (RP's) at Appendix A and use of s106 monies (commuted sums) for affordable housing at Appendix B.

2.2 That Cabinet agree to delegate authority to the Cabinet Member for Regulatory Services, Housing and Wellbeing and the Director for Place and Community to approve RP's on an annual basis, and to approve the successful bid(s) from Approved RP's for use of the commuted sums for affordable housing through the competitive process outlined in the report.

3. Background

Approval of Registered Providers

3.1 In 1999 the council went through a lengthy and rigorous selection process[2] to select four partners to form a Development Partnership that would work together to deliver new affordable housing; whilst never a legal document the partnership was established on the principles of trust and cooperation. At this time there were several funding streams available from the government to enable delivery of affordable homes including Local Authority Social Housing Grant (LASHG),[3] and the intention was that only the four partners would be eligible for this funding, in addition to any s106 opportunities or

[1] Planning obligations made under Section 106 of the Town and Country Planning Act 1990 (as amended), commonly known as s106 agreements, are a mechanism which make a development proposal acceptable in planning terms. S106 agreements are often referred to as 'developer contributions' along with highway contributions and the Community Infrastructure Levy. The most common use of planning obligations is to secure affordable housing. See https://www.lichfielddc.gov.uk/Council/Planning/The-local-plan-and-planning-policy/Planning-obligations/Section-106.aspx

[2] This was done in conjunction with the Housing Corporation which became the Homes and Communities Agency in 2008 and is set to become Homes England in 2018. The HCA directs government funding through to and regulates housing associations.

[3] LASHG was introduced in 1974 and was available until 2003.

developer contributions for affordable housing arising from new development sites in the district. The Partnership Agreement was reviewed with revisions made in 2004, 2008 and 2011.

3.2 Since the selection of the four partners there have been many significant changes, both locally and nationally such as:

- the formation of group structures of many local housing associations, and in particular the merger of HomeZone and Bromford which reduced the number of partners to 3
- the Housing Corporation became the Homes and Communities Agency(HCA) with a different emphasis on delivery
- housing associations became known as Registered Social Landlords(RSL's) and more recently Registered Providers(RP's)
- LASHG was abolished in 2003 and HCA funding towards the delivery of affordable housing gradually reduced, most dramatically since 2010[4]
- the housing market is very different and the reduction in grant funding has meant that housing associations have had to look for different ways of enabling new supply without recourse to public funding such as buying and developing their own sites and not being so reliant on s106 opportunities

3.3 Since mid-2000 the council has occasionally received criticism from housebuilders and their agents that the Development Partnership was precluding competition from other housing associations. Due to this, several years ago it was decided to change the wording of s106 agreements to stipulate that a housing association had to be 'approved[5]' by the council as opposed to 'preferred', meaning that other housing associations not just those in the Development Partnership could bid for s106 opportunities. In addition to the original partners, the council has 'approved' another four RP's, one as they acquired s106 units that none of the partners would purchase, and another three as they brought forward significant affordable housing opportunities of their own. The additional RP's were approved as they could demonstrate that they were committed to delivering good quality, well designed, sustainable, adaptable, affordable homes in the District, could meet our strategic housing aims and had excellent housing management and maintenance standards[6].

3.4 In 2017 the council received approaches from two new RP's that have entered into arrangements with national housebuilders and have sought to become approved for the purposes of the s106 agreement. Both of these are 'for profit' RP's meaning that rather than surpluses being reinvested in the stock and communities they pay dividends to shareholders. Of the 1,746 RPs registered with the HCA, only 39 or 2% are 'for profit' with the majority being non-profit and predominantly charitable housing associations like those currently operating in the district.

3.5 The Partnership Agreement, that was last reviewed and signed in 2011 for a period of 4 years, has now lapsed. This along with the changes and approaches outlined above mean that rather than look to revise such an agreement, we propose to adopt a policy on the council's criteria to approve new RP's. All Approved RP's would then be monitored and reviewed on an annual basis to ensure that they continue to meet the criteria; they would be invited to regular meetings to discuss development opportunities and their performance on managing their homes and enabling new supply.

3.6 A set of proposed criteria for approving Registered Providers is attached at Appendix A.

Use of s106 monies (commuted sums) received

3.7 Where constraints preclude the delivery of affordable housing on site it is possible to negotiate a commuted sum[7] in lieu of the affordable homes normally required. The council currently has £400,000

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[4] RP's can bid for funding for new affordable housing to the HCA through the National Affordable Homes Programme (NAHP).

[5] S106 agreements state that an RP has to be approved by the council but that approval will not be unreasonably upheld.

[6] Source: Developer Contributions SPD 2016

[7] Developer Contributions SPD 2016 states that any alternatives to on-site provision will only be considered in exceptional circumstances and where off -site alternatives are considered to be the best way to achieve the delivery of affordable housing- see https://www.lichfielddc.gov.uk/Council/Planning/The-local-plan-and-planning-policy/Supplementary-planning-documents/Downloads/Developer-Contributions-SPD/Developer-Contributions-SPD.pdf

of commuted sums in reserves that we are now seeking to use towards delivery of affordable housing. Other smaller sums have been negotiated[8] that once received, we propose to keep in reserves to allocate once an amount c£200k has been collected.

3.8 It is proposed to allow the RP's that have been approved by the Council to bid for this money and a recommended set of criteria to be used to assess bids is attached at Appendix B. It is proposed to evaluate the bids on their strategic housing fit and how well they meet housing needs, their deliverability, value for money and affordability.

3.9 We plan to invite bids from the approved RP's and will allow 6 weeks to receive submissions. The bids will be assessed by a panel of officers and the Cabinet Member for Housing and Health[9].

3.10 The proposals have considered the Council's developing property investment strategy, which may present further options for the development of affordable homes in the future.

<table>
<tr><td>Alternative Options</td><td><u>Approval of RP's</u>:

1. To do nothing and not approve more RP's/have a criteria
2. To adopt different criteria for approving RP's and/or assessing bids
3. To not have an approved list and relax s106 agreements to enable all future s106 negotiated new-build affordable housing to be allocated to any organisation of the developer's choice.
4. To develop a new Partnership Agreement with existing partners.
5. To develop a new Partnership Agreement, re-advertise for new development partners and have a full selection process of interviews and presentations.

<u>Use of s106 monies</u>:

1. To adopt different criteria for allocating s106 monies
2. To not open up the funds to all Approved RP's and only allocate to the stock transfer RP Bromford, however this would reduce the competition element from the process.</td></tr>
</table>

<table>
<tr><td>Consultation</td><td>We have consulted the original 3 development partners and the other 4 approved RP's on our proposals and criteria for approval. All have welcomed our approach and feel that the council has acted reasonably in its approval of RP's to date and that having a policy with criteria for approving current and future RP's is a very good way forward. One RP said that "We feel that the approach is fair, open and transparent. We completely agree that having a management presence in the area is vital to ensure that estates are managed well and tenants are supported". All approved RP's have also welcomed the opportunity to be able to bid for s106 monies to deliver more affordable homes.

The report was considered at Overview and Scrutiny on 11th January 2018 where the proposed approach received full support from Members and was recommended for approval.</td></tr>
</table>

[8] Other commuted sums totalling £654,100 have been agreed but they will not be due until the schemes start on site

[9] This is a separate arrangement to the adopted CIL Governance Structure and Administrative arrangements for the allocation of other Section 106 monies which are for infrastructure projects outlined in the report that was agreed by Cabinet on 5.12.17.

Financial Implications	The first bidding round will use £400k of s106 monies that is currently held in reserves. Other commuted sums negotiated will be added to reserves once they are received and other invitations to bid will be conducted once sums circa £200k are collected.

Contribution to the Delivery of the Strategic Plan	The Strategic Plan 2016-2020 sets out what we want to achieve in four main themes. The development of new affordable homes will contribute towards the theme of 'clean, green and welcoming places to live' and by helping to reduce homelessness it will contribute towards the theme of 'healthy and safe communities'.

Equality, Diversity and Human Rights Implications	The new homes will have be a positive impact on the availability of affordable homes for those in need, particularly vulnerable, low income households.

Crime & Safety Issues	New affordable homes may help to improve an area previously subject to anti-social behaviour which will impact positively on our duty to prevent crime and disorder within the district (Section 17 of the Crime and Disorder Act, 1998).

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	No RP's come forward to bid for the s106 monies or inadequate bids are received.	Promotion amongst all RP's and sufficient lead in time given to develop bids.	G
B	Legal challenge from RP's that we do not approve that seek to pursue s106 opportunities with developers.	Discussion with major housebuilders with sites in the district and promotion of the approved list to ensure that they contact these RP's to invite bids.	Y

Background documents

Relevant web links:
Lichfield District Housing Strategy 2013-2017 - https://www.lichfielddc.gov.uk/Residents/Housing/Housing-strategy/Download-our-housing-strategies
Lichfield District Council Strategic Plan 2016-2020 - https://www.lichfielddc.gov.uk/Council/Performance-efficiency/Strategic-plan-2016-2020.aspx
Local Plan Strategy 2008-2029- https://www.lichfielddc.gov.uk/Council/Planning/The-local-plan-and-planning-policy/Local-plan/Local-Plan-Strategy.aspx
Tenancy Strategy 2012- https://www.lichfielddc.gov.uk/Residents/Housing/Housing-strategy/Download-our-housing-strategies

Criteria for becoming an Approved Registered Provider

To become included on the 'Approved list of Registered Providers', organisations must demonstrate that they:

1. Are registered with the Homes and Communities Agency (HCA) and are judged by them as compliant for governance and viability requirements[10]
2. Manage stock in the local[11] area and/or have an established local management arrangement
3. Have a sustainable and long[12] track record in the management of affordable homes and have a plan in place to reinvest any surpluses for the benefit of local communities

They must also agree to:

1. Have in place or agree to develop a nomination agreement[13] with the council and allocate homes in accordance with the councils allocation policy through the choice based lettings system[14]
2. Commit to the principles enshrined within the council's Tenancy Strategy
3. Agree to develop a complaints protocol by negotiation with the council
4. Attend and actively contribute to the councils Strategic Housing Partnership and other Development related meetings
5. Consult and liaise with council officers about potential new development opportunities

Note: This criteria will be reviewed to ensure compliance on an annual basis.

[10] The HCA publishes regulatory judgements on RP's for compliance with the governance and viability requirements of the Governance and Financial Viability Standard. G1 and V1 are the preferred ratings.
[11] Local = to own or manage stock in Lichfield District or a neighbouring authority
[12] Long term is 5 years plus
[13] The nomination agreement is for purposes of allocation of housing (nomination, acceptance and refusal of nomination) and successful partnership working between the RP and LDC.
[14] The current choice based lettings system is called Homes Direct

APPENDIX B

Evaluation Criteria	What We Would Like to See
1. Strategic housing fit Bids will be assessed in relation to how well the proposed scheme(s) complies with the council's Strategic Housing priorities as set out in: • Strategic Plan 2016-2020 • Housing Strategy 2013-17 • Tenancy Strategy 2012 • Local Plan Strategy 2008-2029 The proposed scheme(s) will need to make a clear contribution to meeting housing need and providing healthy, sustainable communities.	Strategic Housing priorities: • The housing mix, type, size and tenure meets identified housing needs • Increased provision of social rented or affordable rented homes. • Reduced homelessness Suitability and sustainability of the location: • Brownfield land brought back into use • Close proximity to amenities, employment opportunities and public transport provision • Conforms with the Local Plan Strategy Promotes health and wellbeing: • Scheme design includes high-quality greenspace and encourages physical activity • Provision of Lifetime Homes • Safe and accessible scheme design
2. Deliverability The proposed scheme(s) must be deliverable within a reasonable timescale, preferably within 6 months of approval.	The bid should address the following: • Evidence of site ownership • Confirmation of any pre planning application advice that has been received or planning permission obtained • Outline of anticipated construction schedule and how 'start on site' will be achieved by the agreed date • Confirmation of payment dates and amounts
3. Value for Money Scheme proposal should demonstrate value for money. The most competitive scheme that maximises the number of bed/person spaces will be awarded higher marks.	The scheme will ensure: • Delivery of affordable homes that would otherwise be undeliverable without commuted sum funding • Maximisation of new affordable home bed/person spaces for the funding requested • Additional New Homes Bonus and council tax received
4. Affordability The proposed scheme should be affordable and designed to minimise running costs. Rents should be lower than LHA rates. Social rent is preferable to affordable rent.	Housing costs: • Confirmation of proposed rents, between 60% and 80% of the market rent and no more than Local Housing Allowance[15] • Explanation and breakdown of any service charges and the terms and conditions which will be applied. • Where included, shared ownership homes must be affordable Fuel poverty: • Confirmation of energy efficient design, including any low/zero carbon energy generation technologies

[15] Local Housing Allowance was introduced in 2008 and is the maximum financial help that a tenant of a private landlord can get towards the rent. It is based on the 30th percentile of local rented accommodation in the area in which the housing benefit claim is made. These areas are called Broad Rental Market Areas, defined as 'where a person could reasonably be expected to live taking into account access to facilities and services'.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 7

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