Medium Term Financial Strategy (Revenue and Capital) 2019-2024 (MTFS)

Report of the Cabinet Member for Finance and Procurement

Date:	18 February 2020
Agenda Item:	12
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Key Decision?	**YES**
Local Ward Members	Full Council

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Council

1. Executive Summary

The Medium Term Financial Strategy (MTFS)

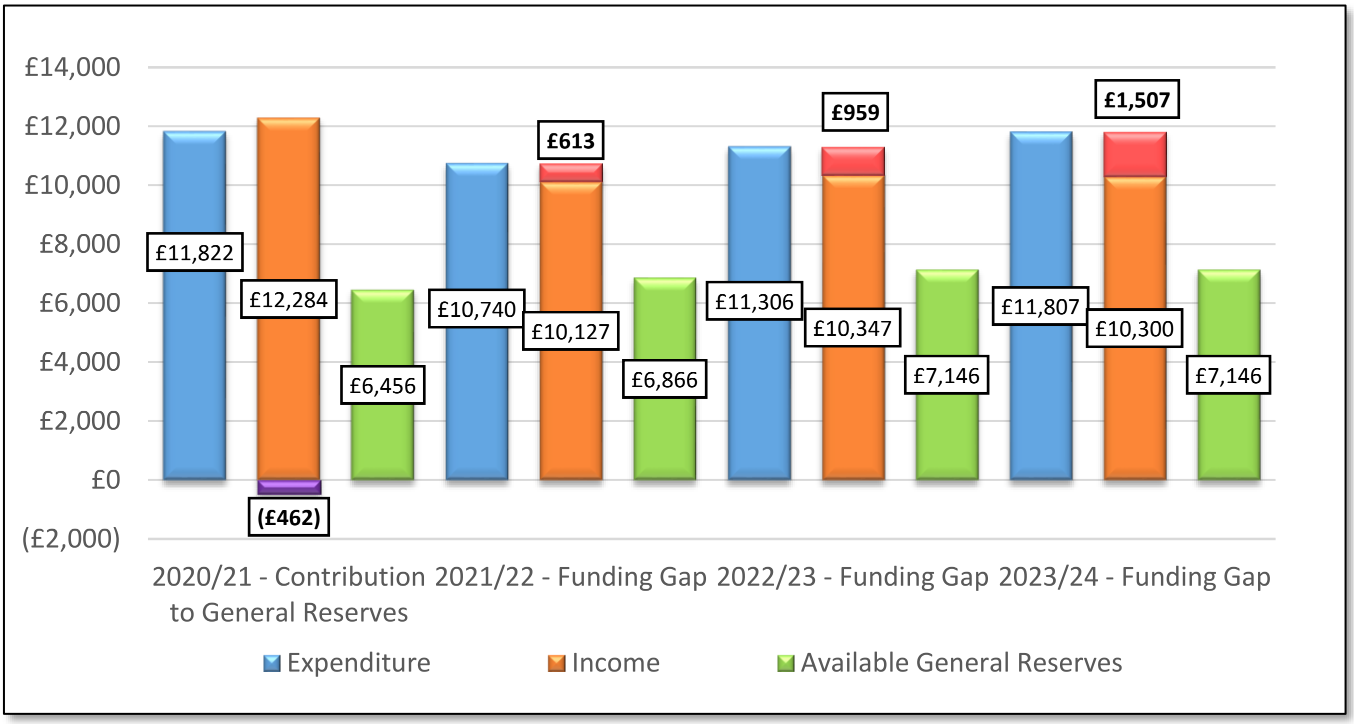
1.1 The ability to deliver the outcomes set out in the **Strategic Plan** is dependent on the resources available in the MTFS. The MTFS is presented using the Strategic Priorities identified in the new draft Strategic Plan.

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 (in £000) with a transfer to general reserves in 2020/21 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 (2020/21) of the MTFS and to set out its proposals to balance the further financial years.

1.6 The MTFS proposes a transfer to General Reserves of **£462,000** plus **£1,171,000** of New Homes Bonus in excess of the 'cap' for 2020/21 and in later years a projected Funding Gap has been identified. The Council would have **£6,456,000** 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 savings or achieve additional income to close the Funding Gap by 2023/24.

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 review:

- The Capital Strategy and Capital Programme, outlined in **APPENDICES B** & **C.**
- Minimum Revenue Provision Statement for 2020/21 **(APPENDIX D).**
- Treasury Management Strategy Statement for 2020/21 **(APPENDIX E).**
- Treasury Investments and their Limits **(APPENDIX E)**.
- The Investment Strategy Report for 2020/21 **(APPENDIX F)** as required under Statutory Guidance.
- The Capital and Treasury Prudential Indicators 2019-24 in the financial implications section.

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 G)**.

Longer Term Financial Planning

1.12 The MTFS covers a relatively short period of time (current financial year plus the next four years) and given the potentially significant changes to the Local Government financing regime, and the more commercial approach being adopted by the Council, it is prudent to begin producing financial plans that cover a longer financial planning horizon **(APPENDIX H)**.

2. Recommendations

That Council approve:

2.1 The 2020/21 Revenue Budget, including the Amount to be met from Government Grants and Local Taxpayers of **£12,284,000** and a proposed level of Council Tax (the District Council element) for 2020/21 of **£180.07** (an increase of **£5.00** or **2.86%**) for a Band D equivalent property.

2.2 The MTFS 2019-24 Revenue Budgets set out in **APPENDIX A**.

2.3 The MTFS 2019-24 Capital Strategy and Capital Programme **(APPENDICES B & C)**.

2.4 The Minimum Revenue Provision Statement for 2020/21, at **APPENDIX D**, which sets out the Council's policy of using the asset life method as the basis for making prudent provision for debt redemption.

2.5 Treasury Management Strategy Statement for 2020/21 including proposed limits **(APPENDIX E)**.

2.6 The Investment Strategy Report **(APPENDIX F)** including the proposed limits for 2020/21.

2.7 The Capital and Treasury Prudential Indicators for 2019-24 in the financial implications section.

2.8 The Authorised Limit Prudential Indicator shown within the financial implications section.

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 G**.

3. Background

MTFS Budget Principles and Assumptions

3.1. To assist in preparing the Medium Term Financial Strategy, in common with a number of Councils, a set of principles were established to guide the preparation and management of the MTFS.

3.2. Council, on 15 October 2019, approved the budget principles identified below:

- Council will consider the medium term outlook when setting the level of Council Tax to ensure that a sustainable budget position is maintained;
- Council will prioritise funding for statutory and regulatory responsibilities to ensure these are delivered in a way that meets our legal requirements and customer needs;
- Council will continue to seek continuous improvement to enable further savings, efficiencies and income gains and provide budgets that are appropriate to service needs;
- Council will ensure that all growth in the staffing establishment will be fully understood through robust business cases in order to ensure our resources match service and customer needs. Growth will usually be allowed where costs are offset by external funding, savings or additional income.
- Council will not add to other ongoing revenue budgets unless these are unavoidable costs or corresponding savings are identified elsewhere.
- Council will use robust business cases to prioritise capital funding so that we have a sustainable Capital Programme that meets statutory responsibilities, benefits the Council's overall revenue budget position, and ensures that existing assets are properly maintained.
- Council will maintain an overall level of revenue reserves that are appropriate for the overall level of risks that the organisation faces, in order to overcome any foreseeable financial impact.

3.3. Council also approved the following budget assumptions:

Key Assumptions	Financial Year				
	2019/20	2020/21	2021/22	2022/23	2023/24
Pay Award	2%	2%	2%	2%	2%
Employers National Insurance Rate (average)	9.26%	9.34%	9.44%	9.53%	9.64%
Employers Pension (%)	16.20%	16.20%	16.20%	16.20%	16.20%
Employers Pension (Actuary Past Service Element excluding transfers)	£777,270	£1,000,420	£1,102,060	£1,206,520	£1,316,520
Employers Pension (Other)	£103,820	£106,120	£109,300	£109,950	£110,400
Non contractual inflation	2%	2%	2%	2%	2%
Applicable fees and charges inflation	2%	2%	2%	2%	2%
Base Rate (for borrowing and investment)	0.75%	0.75%	0.75%	0.75%	0.75%

The Provisional Local Government Finance Settlement for 2020/21

3.4. The elements of the Provisional Finance Settlement for 2020/21 received on **20 December 2019**, relevant to this Council, have been confirmed subject to the final settlement and are included in the MTFS:

- **Council Tax** – As previously announced at Spending Round 2019, the council tax referendum limit will be 2% for local authorities. The provisional settlement confirmed districts will be allowed to apply the higher of the referendum limit or £5.
- **New Homes Bonus** - The 2020/21 allocations will be paid with the legacy payments due from previous years (2017/18 to 2019/20). As previously announced, there will be no legacy payments for the 2020/21 in year allocations. The deadweight of 0.4% was maintained, with an additional £7m added from departmental resources (total funding of £907m). In addition, the New Homes Bonus regime will be reviewed, "It is not clear that the New Homes Bonus in its current form is focussed on incentivising homes where they are needed most. The government will consult on the future of the housing incentive in the spring. This will include moving to a new, more targeted approach that rewards local authorities where they are ambitious in delivering the homes we need, and which is aligned with other measures around planning performance."
- **Negative RSG** – The government has decided to eliminate the negative RSG in 2020/21.
- **Business Rates Pilots** – No new business rates pilots were announced for 2020/21, with all areas (aside) from the original 2017/18 pilot areas reverting back to the 50% scheme.

3.5. The Provisional Settlement is in line with the assumptions used in the Draft MTFS presented to this Committee on 21 November 2019. The clarification of the majority of key income streams for **2020/21** mean that the level of uncertainty or risk allocated to 2020/21 has been reduced from **Medium** to **Low**.

3.6. However the financial benefits only impact on 2020/21 with the majority of key income streams (Business Rates, Fair Funding and New Homes Bonus) being reviewed from 2021/22. Therefore the level of uncertainty or risk from **2021/22** remains as **High**.

The Revenue Budget

Inflation

3.7. The inflationary impact compared to the approved Medium Term Financial Strategy is shown below:

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Inflation Changes	**0**	**(3)**	**(2)**	**0**	**3**

Budget Variations and Funding

3.8. The budget variations compared to the approved Medium Term Financial Strategy are shown below:

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
General Pressures					
Money Matters 8 Months 2019/20	(340)				
Other General Budget Variations		11	4	64	86
Local Plan & Related Reviews				90	90
Establishment Changes					
Assistant Chief Executive Post		77	85	87	89
Environmental Protection Officer		24	25	25	26
Facilities Management		55	56	57	58
Property Service		108	111	114	116
Funding from Existing Budgets		(264)	(277)	(283)	(289)
Finance and Procurement Restructure		(18)	(19)	(19)	(19)
Joint Waste Service (LDC Share) Pressures					
Costs of Employment		136	138	141	144
Recycling Contract ends 2022				361	380
Costs of a new round due to growth				99	99
Property Growth in the Base Budget			(72)	(88)	(88)
Ongoing Budget Variations	**(340)**	**129**	**51**	**648**	**692**
New Homes Bonus to reserves (see below)		716	(316)	(706)	(796)
Business Rates Collection fund surplus		(75)			
Climate Change Initiatives		100			
Less : Dry Recycling Contract Reserve				(162)	
Other Budget Variations	**0**	**741**	**(316)**	**(868)**	**(796)**
Total Budget Variations	**(340)**	**870**	**(265)**	**(220)**	**(104)**

3.9. The funding changes compared to the approved Medium Term Financial Strategy are shown below:

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
New Homes Bonus change (see above)		(716)	316	706	796
Council Tax – additional property growth		(109)	(131)	(191)	(276)
Retained Business Rates – no reset in 20/21		(830)			(78)
Negative RSG - eliminate for 2020/21		(463)			
Grant - Business Rates Cap	(18)	(86)			
Grant - Levy Account Surplus	(36)	(49)			
Grant - Family Annexe	(13)				
Grant - Returned New Homes Bonus			(51)	(74)	
Collection Fund - Council Tax	35	(40)			
Collection Fund - Business Rates		75			
Funding Changes	**(32)**	**(2,218)**	**134**	**441**	**442**

3.10. The changes to the Treasury Management budgets compared to the approved Medium Term Financial Strategy are shown below:

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Investment Income & Invest to Save		(97)	(97)	(97)	(97)
Treasury Management	**0**	**(97)**	**(97)**	**(97)**	**(97)**

Modelled Changes and their Impact on the Revenue Budget and the Funding Gap

3.11. A summary of the modelled changes to the Revenue Budget compared to the approved Medium Term Financial Strategy and their impact on the Revenue Budget Funding Gap are shown below:

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Inflation Changes	0	(3)	(2)	0	3
Budget Variations	(340)	870	(265)	(220)	(104)
Funding Changes	(32)	(2,218)	134	441	442
Revenue Implications of Capital Bids	0	229	(30)	(85)	19
Treasury Management	0	(97)	(97)	(97)	(97)
Sub Total Modelled Changes	**(372)**	**(1,219)**	**(260)**	**39**	**263**

	2019/20		2020/21	2021/22	2022/23	2023/24
	Original Budget £000	Revised Budget £000	£000	£000	£000	£000
LEVEL OF UNCERTAINTY / RISK	**LOW**	**LOW**	**LOW**	**HIGH**	**HIGH**	**HIGH**
Approved Funding Gap	(149)	(741)	757	873	920	1,244
Modelled Changes	0	(372)	(1,219)	(260)	39	263
Funding Gap (transfer to General Reserves)	**(149)**	**(1,113)**	**(462)**	**613**	**959**	**1,507**

3.12. The Revenue Budget is shown in detail at **APPENDIX A** and in summary below:

	2019/20		2020/21	2021/22	2022/23	2023/24
	Original Budget £000	Revised Budget £000	£000	£000	£000	£000
LEVEL OF UNCERTAINTY / RISK	**LOW**	**LOW**	**LOW**	**HIGH**	**HIGH**	**HIGH**
Enabling people	1,528	1,593	1,480	1,463	1,454	1,480
Shaping place	3,259	3,050	3,570	3,625	4,269	4,554
Developing prosperity	(1,079)	(1,105)	(1,234)	(2,039)	(2,811)	(3,451)
A good Council	6,186	5,929	6,301	6,411	6,585	6,865
Corporate Inc. New Homes Bonus Transfers	1,329	1,127	1,705	1,280	1,809	2,359
Revenue Expenditure	**11,223**	**10,594**	**11,822**	**10,740**	**11,306**	**11,807**
Revenue Funding	(11,372)	(11,707)	(12,284)	(10,127)	(10,347)	(10,300)
Funding Gap (transfer to General Reserves)	**(149)**	**(1,113)**	**(462)**	**613**	**959**	**1,507**

The Capital Strategy

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

- **Capital expenditure**, including the approval process, long-term financing strategy, asset management, maintenance requirements, planned disposals and funding restrictions.
- **Debt and borrowing and treasury management**, including projections for the level of borrowing, capital financing requirement and liability benchmark, provision for the repayment of debt, the authorised limit and operational boundary for the coming year and the authority's approach to treasury management.
- **Commercial activities**, including due diligence processes, the authority's risk appetite, proportionality in respect of overall resources, requirements for independent and expert advice and scrutiny arrangements.
- **Other long-term liabilities**, such as financial guarantees.
- **Knowledge and skills**, including a summary of that available to the authority and its link to the authority's risk appetite.

3.14. The key risks associated with the Capital Strategy are principally related to Investment in Property and its funding through borrowing. As the Council's Chief Financial Officer, I have assessed the current overall risk as **a yellow or material level of risk**.

The Capital Programme

3.15. Leadership Team with Cabinet Members were requested to submit capital bids for consideration in the MTFS. These Capital Bids are summarised below:

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Bids submitted 21/11/2019					
Vehicle Replacement Programme (score 80)			(210)		132
Property Planned Maintenance (score 72)	104	125	150	180	215
Disabled Facilities Grants (score 68)					44
New Financial Information System (score 65)		250			
ICT Hardware (score 59)		202	161	160	174
Coach Park - Acquisition (score 55)	50				
Coach Park - Works (score 55)	575	625			
Bids - Existing Revenue or External Funding					
Joint Waste Service Bin Purchase (score 84)	150	150	150	150	150
Energy Insulation Programme (score 68)		(10)			10
Home Repair Assistance Grants (score 60)		(15)			15
Total Bids	**879**	**1,327**	**251**	**490**	**740**

Usable Capital Receipts	(161)	(520)	(101)	(340)	(352)
Revenue Budget		(182)			(213)
Existing Revenue Budgets	(150)	(150)	(150)	(150)	(150)
External Funding – coach park works		(475)			(25)
Business Rates Pilot – coach park works	(568)				
Total Funding	**(879)**	**(1,327)**	**(251)**	**(490)**	**(740)**
Shortfall in Funding & Borrowing Need	0	0	0	0	0

3.16. The Capital Bids submitted and changes to the funding of the Capital Programme have revenue implications and these are shown below:

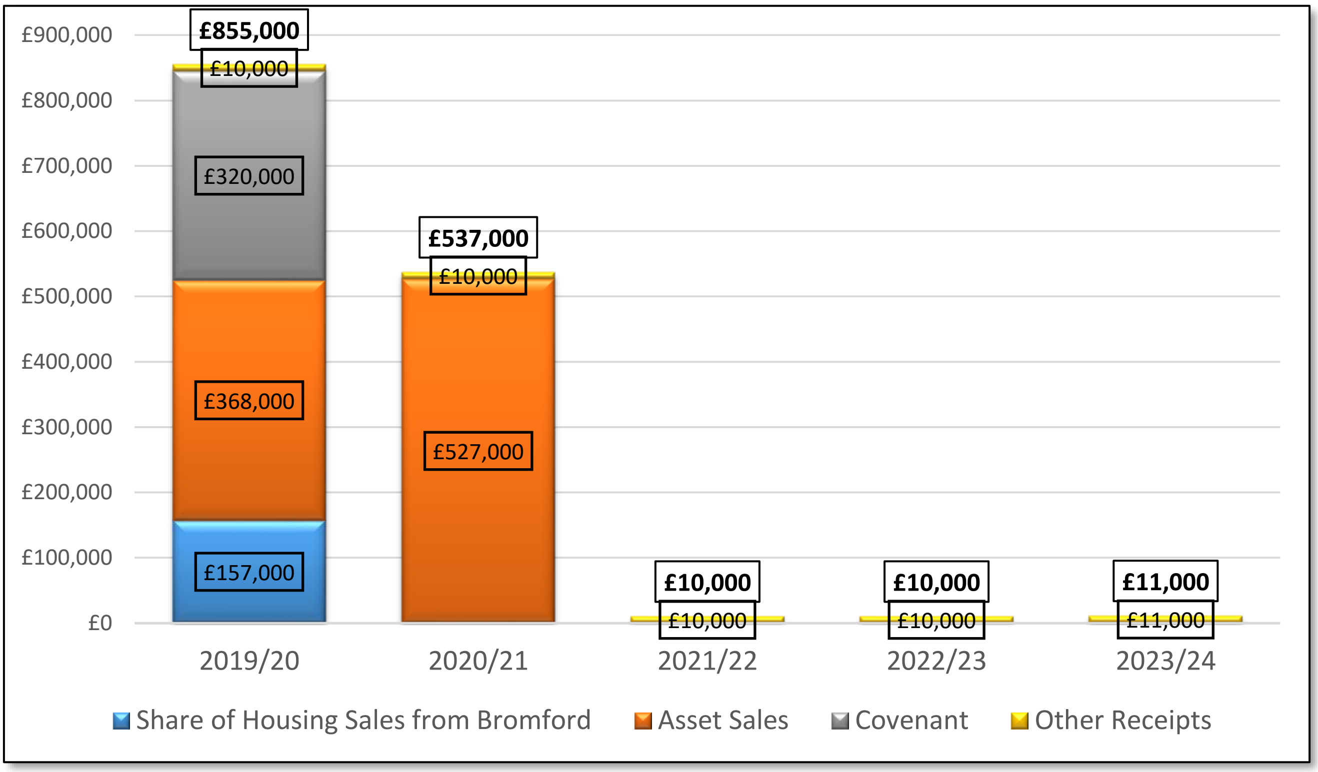
	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Coach Park Operating Costs		50	50	50	50
IT Hardware		9	9	4	(38)
Oracle Cloud Solution Option		19	9	25	25
Capital Bids Revenue Implications	**0**	**78**	**68**	**79**	**37**
Revenue Budget		182			213
Investment in Property - Internal Borrowing		(31)	(98)	(164)	(231)
Revenue Implications of the Capital Programme	**0**	**229**	**(30)**	**(85)**	**19**

3.17. The Capital Programme is summarised below and is shown in detail at **APPENDIX C**:

	2019/20		2020/21	2021/22	2022/23	2023/24
	Original Budget £000	Revised Budget £000	£000	£000	£000	£000
LEVEL OF UNCERTAINTY / RISK	**LOW**	**LOW**	**LOW**	**HIGH**	**HIGH**	**HIGH**
Enabling people	2,376	2,324	3,424	1,164	3,324	3,235
Shaping place	2,158	809	1,045	502	3,482	427
Developing prosperity	673	1,732	625	0	0	0
A good Council	6,411	10,794	12,657	11,970	12,015	389
Capital Expenditure	**11,618**	**15,659**	**17,751**	**13,636**	**18,821**	**4,051**
Capital Funding	(5,618)	(5,091)	(6,087)	(1,947)	(4,972)	(1,791)
Borrowing Need	6,000	10,568	11,664	11,689	13,849	2,260

Usable Capital Receipts	(1,618)	(2,259)	(1,394)	(890)	(341)	0

3.18. The projected Capital Receipts included in the Medium Term Financial Strategy are shown at **APPENDIX B** and below:



Treasury Management

3.19. 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."

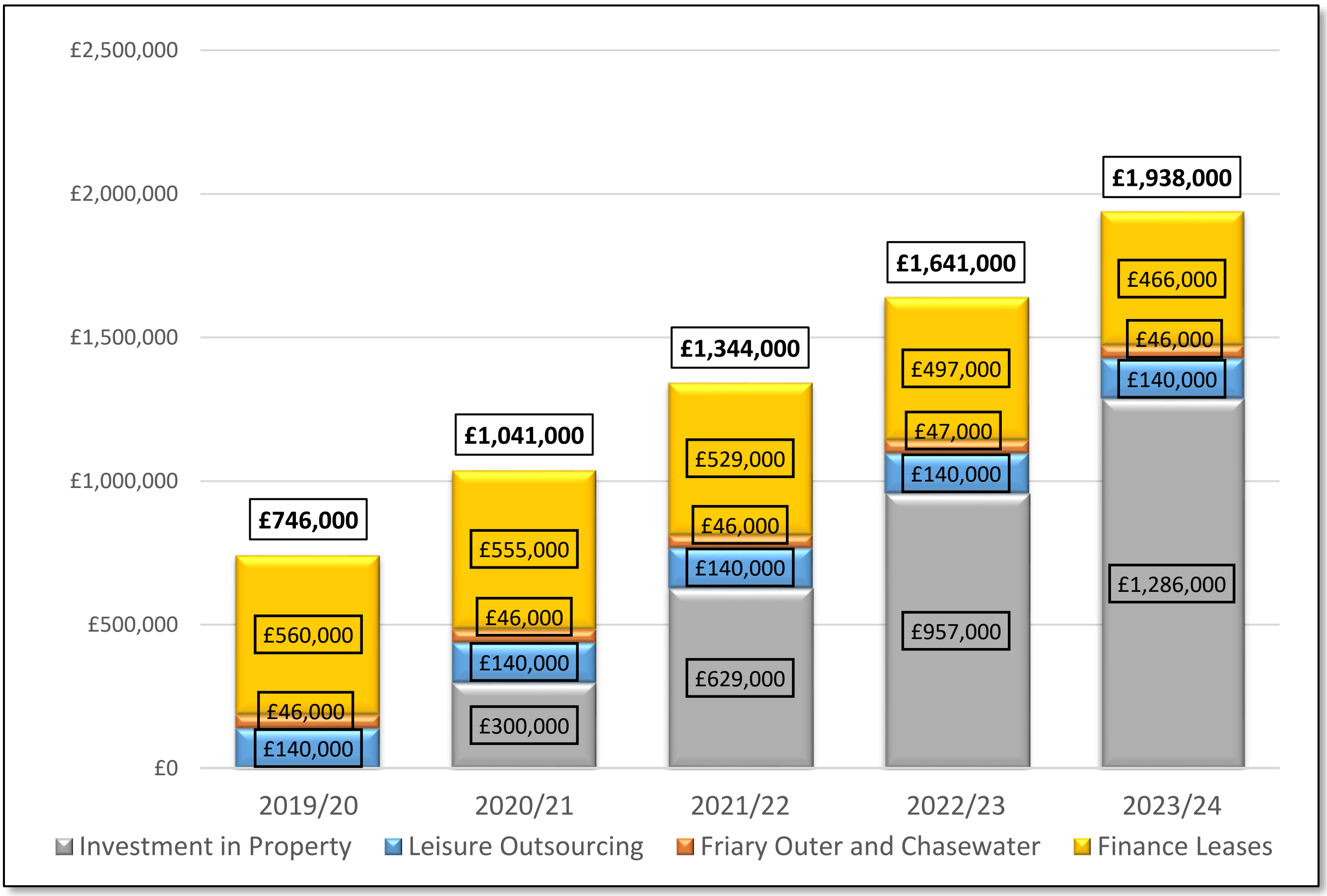
3.21 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are an important and integral element of its treasury management activities. The main risks to the Council's treasury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

3.22 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.

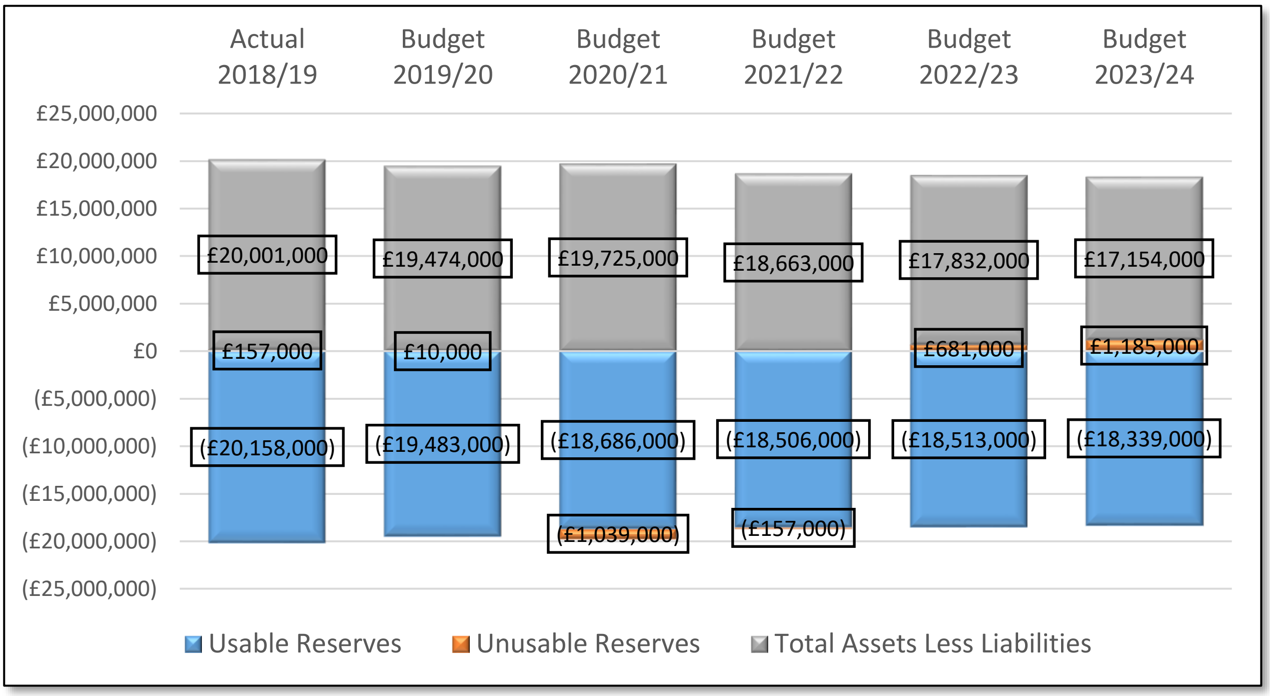
3.23 **Minimum Revenue Provision Statement 2020/21**

- 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 finance 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 D)**. The estimated MRP chargeable during the Medium Term Financial Strategy is shown below:



3.24 **Balance Sheet Projections**

- Integrated Revenue Budgets and a Capital Programme budgets are prepared. These budgets together with the actual Balance Sheet from the previous financial year are used to prepare Balance Sheet projections.
- These Balance Sheet projections (**APPENDIX E**) are significant in assessing the Council's Treasury Management Position in terms of borrowing requirement, investment levels and the Investment Strategy.
- The projected changes in the Balance Sheet over the Strategy period 2018/19 to 2023/24 are summarised below:



Total Assets less Liabilities (a reduction of £2,847,000):

1. **Non-Current Assets** – Non Current Assets will significantly increase with Investment in Property and the capital provision for a replacement Leisure Centre
2. **Borrowing and Leasing** – the capital investment in Non-Current Assets will partly be financed through an increase in external debt (borrowing and leases).
3. **Investments** – the value is projected to reduce due to the financing of the Capital Programme and an increase in the level of Internal Borrowing.
4. **Long term liability for pensions** – this value is projected to increase.

Unusable Reserves (a reduction of £1,028,000):

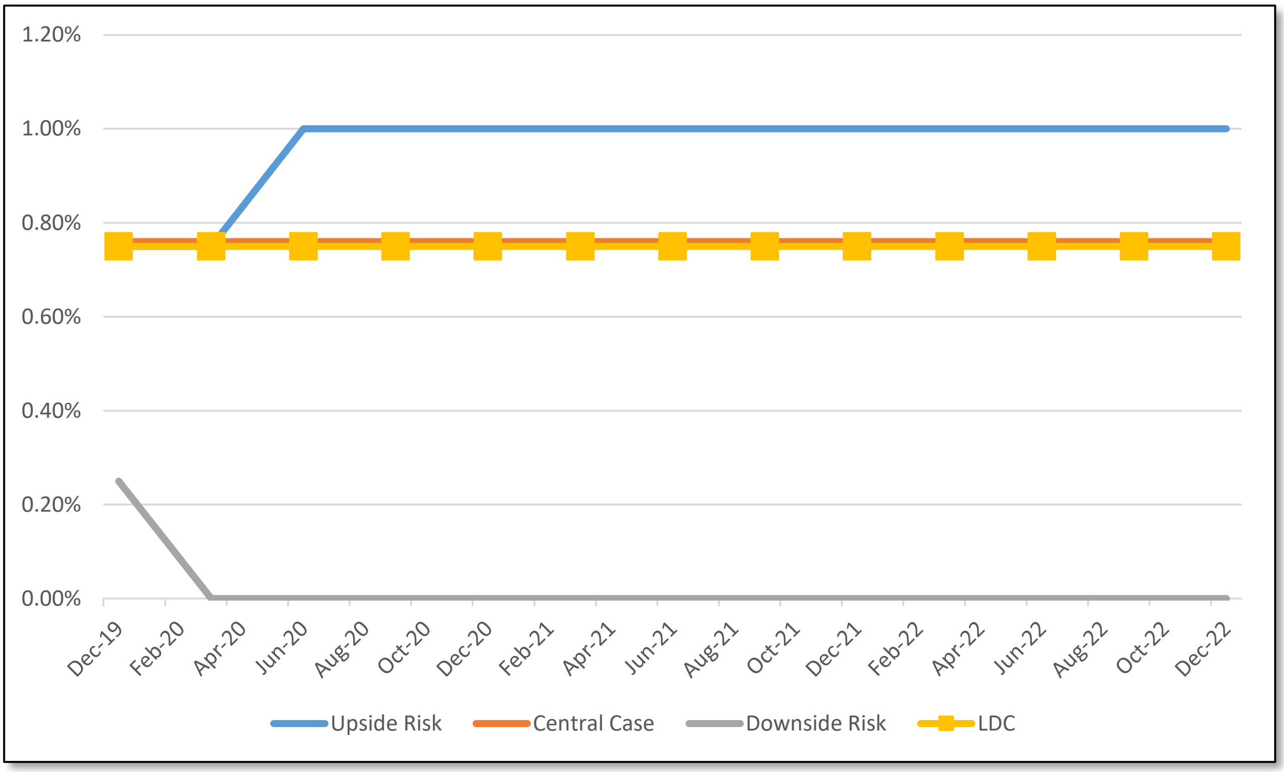
5. **Capital Funding** – this will increase as a result of the use of grants, contributions and capital receipts to fund capital investment.
6. **Pensions Reserve** – the negative value will increase to offset projected increases in the long term liability for pensions.

Usable Reserves (a reduction of £1,819,000):

7. **Earmarked Reserves** – these will reduce as they are used to fund both revenue expenditure and the Capital Programme.
8. **General Reserve** – there will be an increase as a result of the contributions from 2019/20 and 2020/21 together with the transfer of projected New Homes Bonus in excess of the 'cap' up to 2022/23.

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

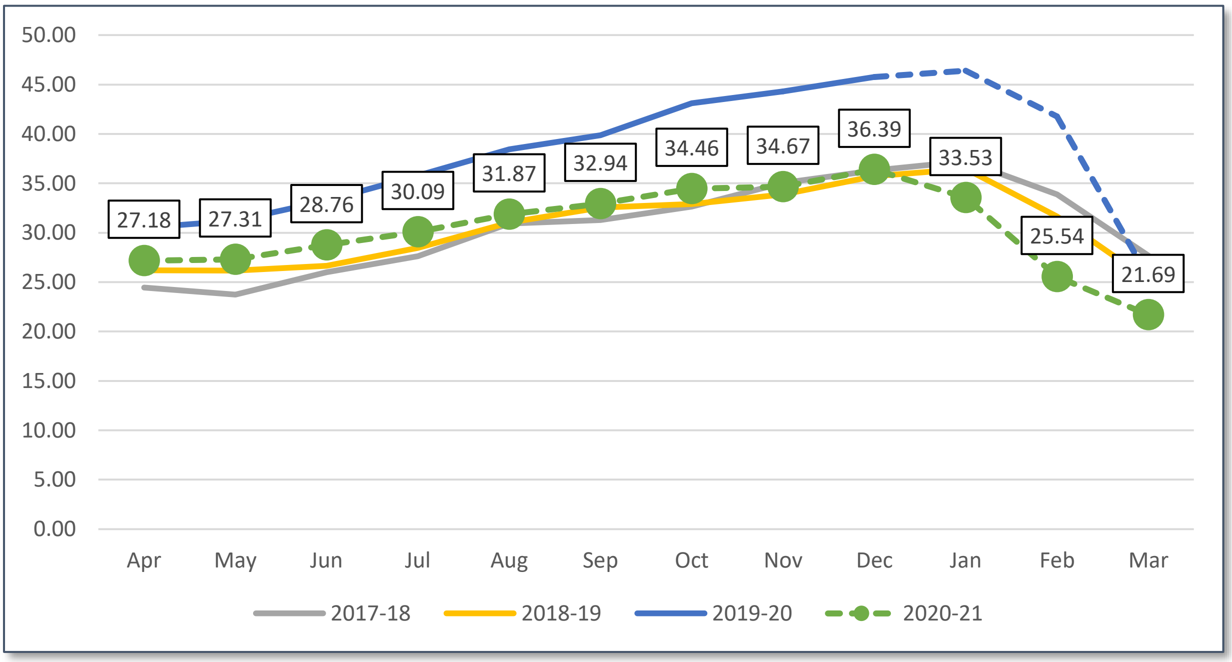
- The Official Bank Rate outlook provided by the Council's Treasury Advisor, together with the Council's assumption where interest rates remain at the current level of **0.75%** is shown below:



- The Council assumptions has been used as the basis for preparation of the investment income and borrowing budgets for 2020/21 and future years.

3.26 **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 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.



- The planned monthly cash flow forecast for the 2020/21 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 rate or yield achieved.
- The Treasury Management estimates for 2020/21 for both investment income and borrowing are shown in the table below:

Treasury Management	2020/21 Approved Budget	
	Investment Income	Borrowing
Average Balance	£31.27m	£10.10m
Average Rate	1.27%	2.68%
Gross Investment Income	(£397,000)	
Property Fund Transfer to Reserves	£45,000	
DIF Transfer to Reserves	£15,000	
External Interest		£273,000
Internal Interest		£4,000
Minimum Revenue Provision (less Finance Leases)		£486,000
Net Treasury Position	**(£337,000)**	**£763,000**
	£426,000	

- The gross interest receipts have been estimated as **(£397,000)** (this equates to 13**%** of The Council's income from Retained Business Rates of **£3,020,000** in **2020/21**), transfers to the Property and Diversified Income Reserves of **£60,000** and therefore Net Investment income is **(£337,000).**

3.27 **Treasury Management Strategy Statement and the Annual Investment Strategy**

- The Treasury Investments and their limits are shown in detail at **APPENDIX E** with proposed changes shown in red. The proposed changes for 2020/21 compared to those approved for 2019/20, principally to accommodate higher investment balances, are:
  1. **Approved Investment Counterparties and Limits** – Pooled Funds and Real Estate Investment Trusts. Recommended increase from **£2m per fund** to **£4m per fund** (based on Arlingclose advice of 10% of £42.3m[1]).
  2. **Investment Limits** – Any Group of Funds under the same Management. Recommended increase from **£9m per manager** to **£11m per manager** (based on Arlingclose advice of 25% of £42.3m).
  3. **Investment Limits** – Money Market Funds. Recommended increase from **£12m in total** to **£21m in total** (based on Arlingclose advice of 50% of £42.3m).
  4. **Strategic Fund Investments** – the Council diversified its investment portfolio to include two Strategic Fund investments with CCLA totalling **£4m**. To further diversify the investment portfolio and achieve higher returns, further potential investment of up to **£4m** is planned.

3.28 **Investment Strategy Report for 2020/21**

- This investment strategy for 2020/21 **(APPENDIX F)**, meeting the requirements of statutory guidance issued by the government in January 2018, and focuses on how the Authority invests its money to support local public services and earns investment income from commercial investments.

[1] Highest projected balance in 2020/21 of £36m plus Internal Borrowing of £6.3m.

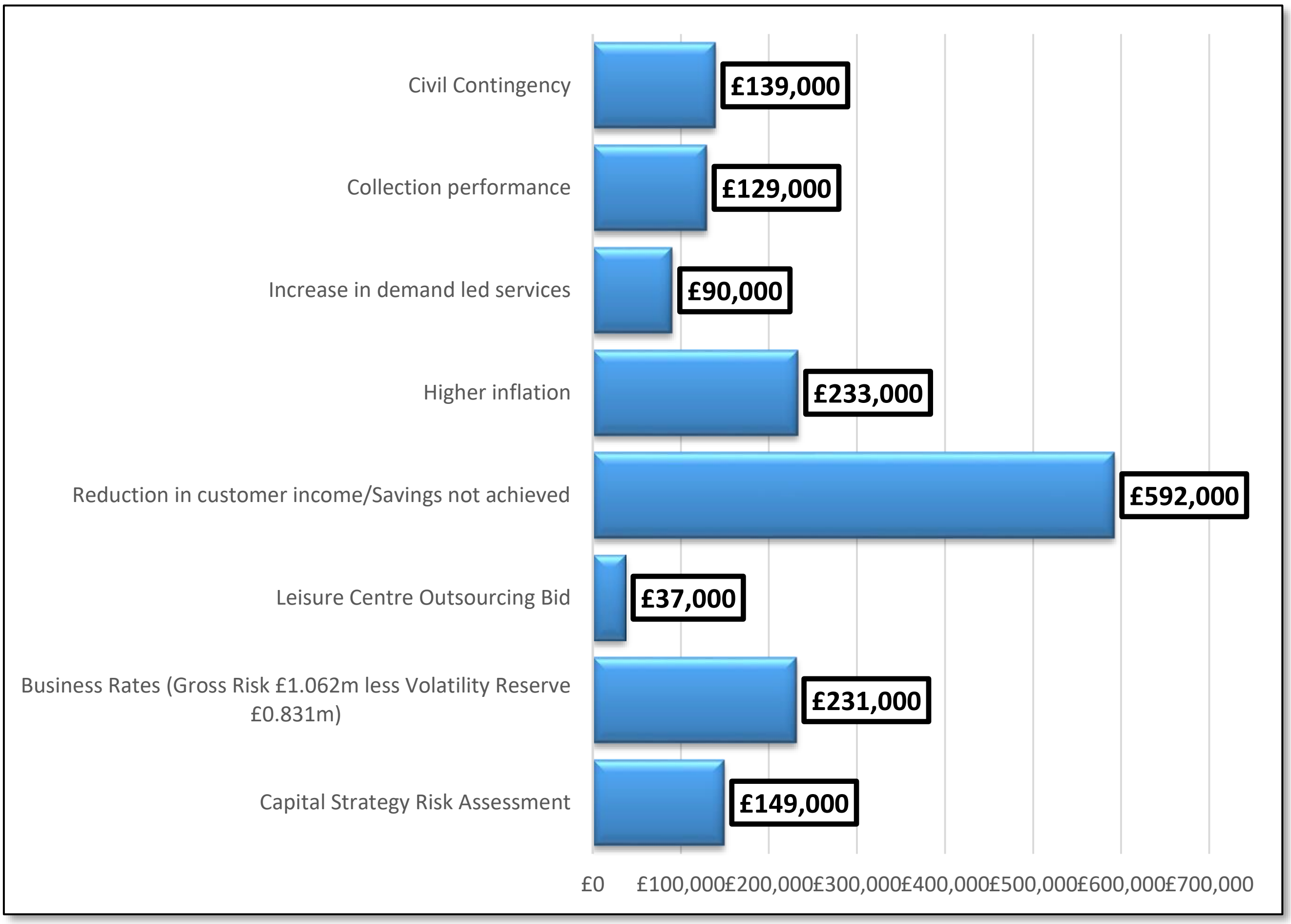
Opinion of CFO on the Adequacy of Reserves and the Robustness of the Estimates

3.29 The Chartered Institute of Finance and Accountancy (CIPFA) provided the first release of its Financial Resilience Index on 16 December 2019 (Lichfield DC's information compared to all District Councils and Nearest Neighbours is shown at **APPENDIX G**). The index shows this Council's position on a range of measures associated with financial risk. The selection of indicators has been informed by the extensive financial resilience work undertaken by CIPFA over the past four years, public consultation and technical stakeholder engagement.

3.30 My conclusion is that on the range of measures selected by CIPFA, we compare favourably with the majority at the lower end of the risk spectrum. However I must emphasise the Resilience Index is currently based on backward looking measures rather than the future financial challenges identified in forward looking Medium Term Financial Strategies.

3.31 It is therefore 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 main elements of the risk assessment are shown in detail at **APPENDIX G** and below:



3.33 The Chief Finance Officer (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.

3.34 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.

Projected General Reserves

3.35 The total projected level of general reserves categorised by the level of reserves available for use (including New Homes Bonus in excess of the "cap") and the Minimum Level are shown below:

	2019/20		2020/21	2021/22	2022/23	2023/24
	Original Budget £000	Revised Budget £000	£000	£000	£000	£000
Available General Reserves Year Start	**3,710**	**3,710**	**4,823**	**6,456**	**6,867**	**7,147**
Contributions from Revenue Budget	39	1,003	462	0	0	0
New Homes Bonus in excess of the 'Cap'	110	110	1,171	411	280	0
Available General Reserves Year End	**3,859**	**4,823**	**6,456**	**6,867**	**7,147**	**7,147**
Minimum Level	1,600	1,600	1,600	1,600	1,600	1,600
Total Projected General Reserves	**5,459**	**6,423**	**8,056**	**8,467**	**8,747**	**8,747**

Available General Reserves assuming no Savings/income identified	**4,823**	**6,456**	**6,253**	**5,575**	**4,068**

Longer Term Financial Planning

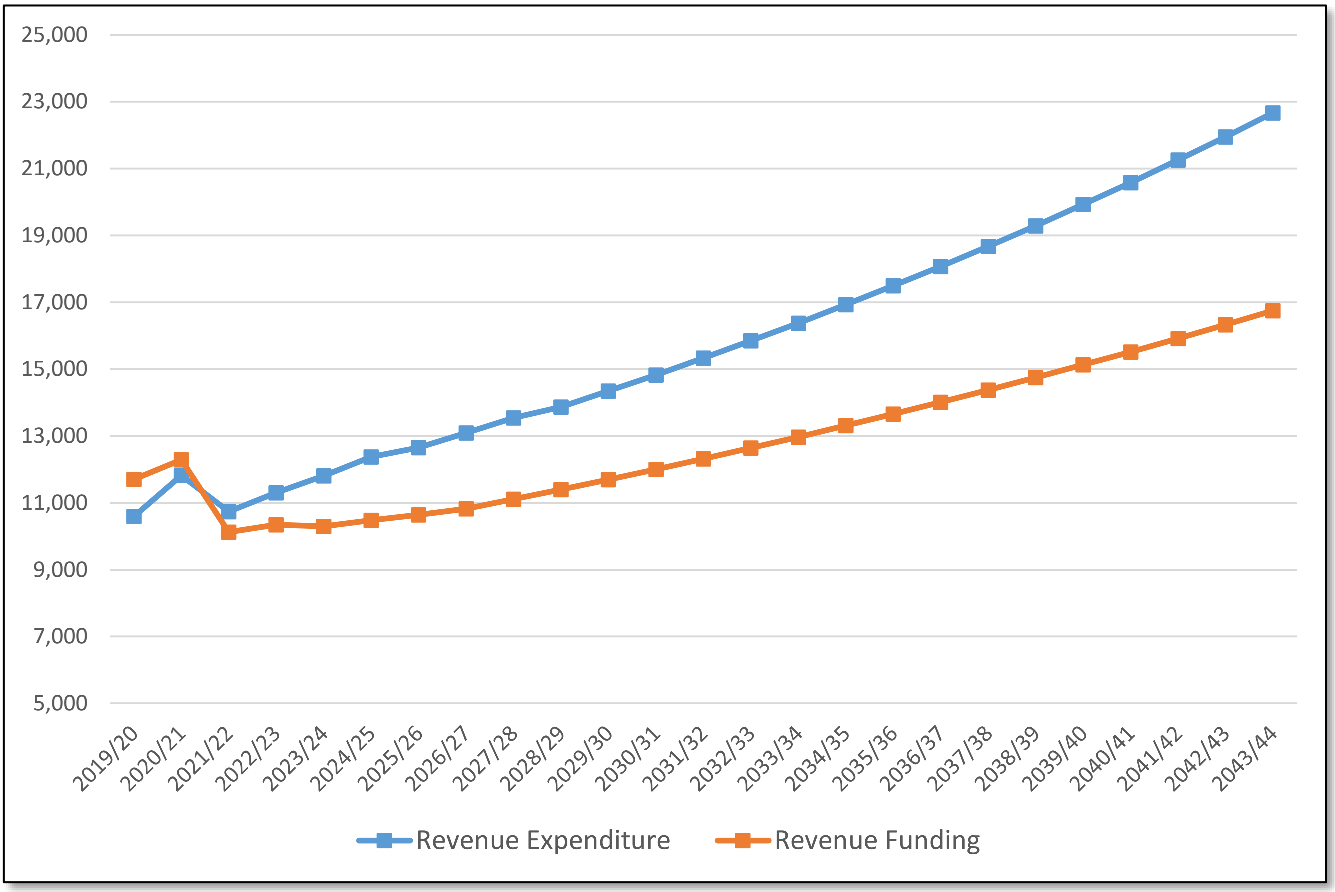
3.36 The MTFS covers a relatively short period of time (current financial year plus the next four years) and given the potential significant changes to the Local Government Financing Regime, and the more commercial approach being adopted by the Council, it is prudent to begin producing financial plans that cover a longer financial planning horizon such as 25 years.

3.37 The potential significant changes to the Local Government Financing Regime mean that whilst there is significant uncertainty beyond 2020/21, there is a benefit for the Council to understand the financial challenges that it could face in the medium to long term.

3.38 The following key assumptions have been utilised in producing the longer term financial plan:

- Annual core inflation of **2.5%** and funding increases by **2%**.
- Residential growth based on **75%** of the Strategic Housing Land Availability Assessment (SHLAA) until 2024/25 and then the Local Housing Need (LHN) assessed figure of **331** per annum.
- Council Tax increases of **£5** per annum until 2023/24 and then **1.99%** per annum.
- Service delivery budgetary growth resulting from residential growth is included. The use of the LG Futures nearest neighbours highest Unit Cost for Waste and Council Tax collection of £53 per property in 2019/20 uprated by inflation to **£58** per property in 2024/25.
- The Past Service element of Pensions increases by **£100,000** per annum from 2024/25 and is also increased annually by inflation of **2%**.
- Retained Business Rates – a full reset in 2021/22 with the majority of growth above the baseline redistributed and phased resets between full resets. These resets mean growth will only be retained for relatively short periods of time. Therefore at this stage, a prudent annual allowance of **(£100,000)** retained growth is included from 2024/25 with annual inflation increases of **2%**.
- Negative Revenue Support Grant – the principles used where funding is redistributed from relatively low need authorities that are relatively more able to fund the need through Council Tax, such as Lichfield District Council, are applied in the Fair Funding Review from 2021/22.
- New Homes Bonus – legacy payments continue to 2022/23 and then the scheme is phased out.

3.39 The longer term financial plan is shown in detail at **APPENDIX H** and in the chart below:



3.40 The Council will need to identify initiatives (including Invest to Save projects) to close the projected funding gap from 2021/22 onwards that will be focussed around:

- **Transformation and a more commercial approach** – this is designed to manage the change that will be across LDC and its services in order to meet all of the changes following the fundamental review of Local Government Finances. This includes three strands; income, innovation and investment (the latter of which includes the capital strategy). The anticipated outcomes are identified at the scoping stage of each project and benefit realisation assessed post implementation. The investment in property is regularly reviewed and re-profiled as necessary to mitigate risk.
- **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 enable the Council to become financially self-sufficient over the medium term.

Alternative Options	In the main, the options are focused on the level of resource allocated to Strategic Priorities and the level of Council Tax increase.

Consultation	The Strategic Plan consultation including the Budget Consultation was undertaken from 16 December 2019 to Mid-January 2020. The report on the Strategic Plan on the agenda provides further details of the key themes including those relevant to the MTFS. Strategic (Overview and Scrutiny) Committee at its meeting on 28 January 2020 scrutinised the MTFS 2019-24 and the Chair will provide feedback to Cabinet as appropriate. Audit and Member Standards scrutinised the Treasury Management Strategy Statement 2020/21 at its meeting on 5 February 2020 and the chair will provide feedback to the Cabinet as appropriate.

Financial Implications

Prudential and Local Indicators (PIs)

The Prudential and Local Indicators are shown below:

Capital Strategy Indicators

Prudential Indicators

Indicators	2018/19 Actual	2019/20 Original	2019/20 Revised	2020/21 Original	2021/22 Original	2022/23 Original	2023/24 Original
Capital Investment							
Capital Expenditure (£m)	£4.910	£11.618	£15.659	£17.751	£13.636	£18.821	£4.051
Capital Financing Requirement (£m)	£4.987	£10.301	£14.809	£25.432	£35.777	£51.245	£51.567
Gross Debt and the Capital Financing Requirement							
Gross Debt	(£4.315)	(£9.598)	(£11.439)	(£19.091)	(£26.520)	(£36.993)	(£40.362)
Borrowing in Advance - Gross Debt in excess of the Capital Financing Requirement	No	No	No	No	No	No	No
Total Debt							
Authorised Limit (£m)	£3.991	£21.598	£23.473	£31.906	£40.515	£48.379	£51.933
Operational Boundary (£m)	£3.991	£13.006	£14.881	£23.088	£31.046	£38.755	£42.590
Proportion of Financing Costs to Net Revenue Stream (%)	5%	6%	4%	10%	17%	22%	27%

Local Indicators

Indicators	2018/19 Actual	2019/20 Original	2019/20 Revised	2020/21 Original	2021/22 Original	2022/23 Original	2023/24 Original
Replacement of Debt Finance/MRP (£m)	(£0.709)	(£0.720)	(£0.746)	(£1.041)	(£1.344)	(£1.641)	(£1.938)
Capital Receipts (£m)	(£0.760)	(£1.056)	(£0.855)	(£0.537)	(£0.010)	(£0.010)	(£0.011)
Liability Benchmark (£m)	£14.168	£5.017	£3.938	(£11.249)	(£21.191)	(£32.672)	(£35.963)
Treasury Management Investments (£m)	£26.876	£23.689	£23.749	£16.769	£14.785	£11.013	£11.557

Treasury Management Indicators

Prudential Indicators

	Lower Limit	Upper Limit	As at 31/03/19	As at 31/12/19
Refinancing Rate Risk Indicator	0%	100%		
Under 12 months	0%	100%	7.24%	7.89%
12 months and within 24 months	0%	100%	7.32%	7.99%
24 months and within 5 years	0%	100%	22.49%	24.53%
5 years and within 10 years	0%	100%	36.43%	33.48%
10 years and within 20 years	0%	100%	23.06%	24.86%
20 years and within 30 years	0%	100%	3.46%	1.24%
30 years and within 40 years	0%	100%		
40 years and within 50 years	0%	100%		
50 years and above	0%	100%		

Indicators	2018/19 Actual	2019/20 Original	2019/20 Revised	2020/21 Original	2021/22 Original	2022/23 Original	2023/24 Original
Principal Sums invested for periods longer than a year (£m)	£2.000	£6.000	£6.000	£10.000	£10.000	£10.000	£10.000

Local Indicators

Indicators	2018/19 Actual	2019/20 Original	2019/20 Revised	2020/21 Original	2021/22 Original	2022/23 Original	2023/24 Original
	£m	£m	£m	£m	£m	£m	£m
Balance Sheet Summary and Forecast							
Borrowing Capital Financing Requirement	£3.312	£9.152	£13.694	£24.871	£35.745	£48.450	£49.238
Internal (over) Borrowing	£0.672	£0.703	£3.370	£6.340	£9.256	£14.252	£11.205
Investments (or New Borrowing)	(£26.519)	(£23.689)	(£23.748)	(£16.093)	(£14.109)	(£10.337)	(£10.881)
Liability Benchmark	(£14.168)	(£5.017)	(£3.938)	£11.249	£21.191	£32.672	£35.963

	Target
Security	
Portfolio average credit rating	A-
Liquidity	
Temporary Borrowing	£0.000
Total Cash Available within 100 days (maximum)	90%

Contribution to the Delivery of the Strategic Plan	The report directly links to overall performance and especially the delivery of the Strategic Plan.
Equality, Diversity and Human Rights Implications	These areas are addressed as part of the specific areas of activity prior to being included in the Strategic Plan.
Crime & Safety Issues	These areas are addressed as part of the specific areas of activity prior to being included in the Strategic Plan.
GDPR/Privacy Impact Assessment	There are no specific implications related to the Medium Term Financial Strategy

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	Council Tax is not set by the Statutory Date of **11 March 2020**.	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	Non 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	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 MHCLG Allowance) for appeals has been included in the Business Rate Estimates.	Yellow - Material
E	The review of the New Homes Bonus regime in 2021/22.	Not all of the projected New Homes Bonus is included as core funding in the Base Budget. In 2021/22 £500,000 is included and this is then being reduced by £100,000 per annum.	Yellow - Material
F	The increased Localisation of Business Rates and the Fair Funding Review in 2021/2022.	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
G	The affordability and risk associated with the Capital Strategy.	An estates management team has been recruited to provide professional expertise and advice in relation to investment in property and to continue to take a prudent approach to budgeting.	Yellow - Material

Background documents

- CIPFA Code of Practice for Treasury Management in the Public Services
- The Prudential Code for Capital Finance in Local Authorities
- Money Matters: Medium Term Financial Strategy (Revenue and Capital) 2018-23 – Cabinet 12 February 2019
- Allocation of Strategic Community Infrastructure Levy (CIL) Funding – Cabinet 12 March 2019
- Multi Storey Car Park – Cabinet 12 March 2019
- Money Matters: 2018/19 Review of Financial Performance against the Financial Strategy – Cabinet 13 June 2019.
- Jigsaw Funding Agreement – Cabinet 9 July 2019
- Money Matters: 2019/20 Review of Financial Performance against the Financial Strategy – Cabinet 10 September 2019
- Birmingham Road Site Enabling Works – Cabinet 10 September 2019
- Friary Grange Leisure Centre – Cabinet 7 October 2019
- Medium Term Financial Strategy 2019-24 – Cabinet 8 October 2019
- St Stephen's School allocation of Section 106 – Cabinet Member Decision 24 October 2019
- Community Lottery – Cabinet 12 November 2019
- Money Matters: 2019/20 Review of Financial Performance against the Financial Strategy – Cabinet 3 December 2019
- Money Matters: Calculation of Business Rates 2020/21, Council Tax Base for 2020/21 and the projected Collection Fund Surplus / Deficit for 2019/20 – Cabinet 3 December 2019
- Money Matters: 2019/20 Review of Financial Performance against the Financial Strategy – Cabinet 11 February 2020
- Capital Bids

Relevant web links

APPENDIX A

Revenue Budget 2019/20 to 2023/24 (£000)

	2019/20 Original Budget	2019/20 Revised Budget	2020/21	2021/22	2022/23	2023/24
LEVEL OF UNCERTAINTY / RISK	LOW	LOW	LOW	HIGH	HIGH	HIGH
Enabling people	1,528	1,593	1,480	1,463	1,454	1,480
Shaping place	3,259	3,050	3,570	3,625	4,269	4,554
Developing prosperity	(1,079)	(1,105)	(1,234)	(2,039)	(2,811)	(3,451)
A good council	6,186	5,930	6,302	6,410	6,585	6,864
Revenue Implications of Capital Programme	0	0	229	(30)	(85)	19
Corporate Expenditure	1,329	1,127	305	899	1,614	2,340
Total Expenditure	**11,223**	**10,595**	**10,651**	**10,329**	**11,026**	**11,807**
Retained Business Rates Baseline Funding	(2,083)	(2,083)	(2,117)	(1,691)	(1,720)	(1,749)
Retained Business Rates Growth Allowance	(443)	(746)	(903)	(89)	(116)	(123)
Business Rates Cap	(68)	(86)	(85)	0	0	0
Business Rates Pilot	(568)	(568)	0	0	0	0
Levy Account Surplus/ Other Grants	0	(49)	(49)	(51)	(74)	0
New Homes Bonus - Base Budget	(700)	(700)	(600)	(500)	(400)	(300)
New Homes Bonus - to Earmarked Reserve	(468)	(468)	0	0	0	0
New Homes Bonus - to General Reserve	(110)	(110)	(1,171)	(411)	(280)	0
Collection Fund (Surplus)/Deficit	(277)	(242)	(330)	(35)	(35)	(35)
Council Tax	(6,655)	(6,655)	(7,029)	(7,350)	(7,722)	(8,093)
Total Funding	**(11,371)**	**(11,708)**	**(12,284)**	**(10,127)**	**(10,347)**	**(10,300)**
Transfer to general reserves	39	1,004	0	0	0	0
New Homes Bonus to general reserves	110	110	1,171	411	280	0
Funding Gap (transfer to general reserves)	**0**	**0**	**(462)**	**613**	**959**	**1,507**
Council Tax Base	**38,011**	**38,011**	**39,032**	**39,717**	**40,627**	**41,487**
Band D Council Tax (assumes maximum £5)	**175.07**	**175.07**	**180.07**	**185.07**	**190.07**	**195.07**

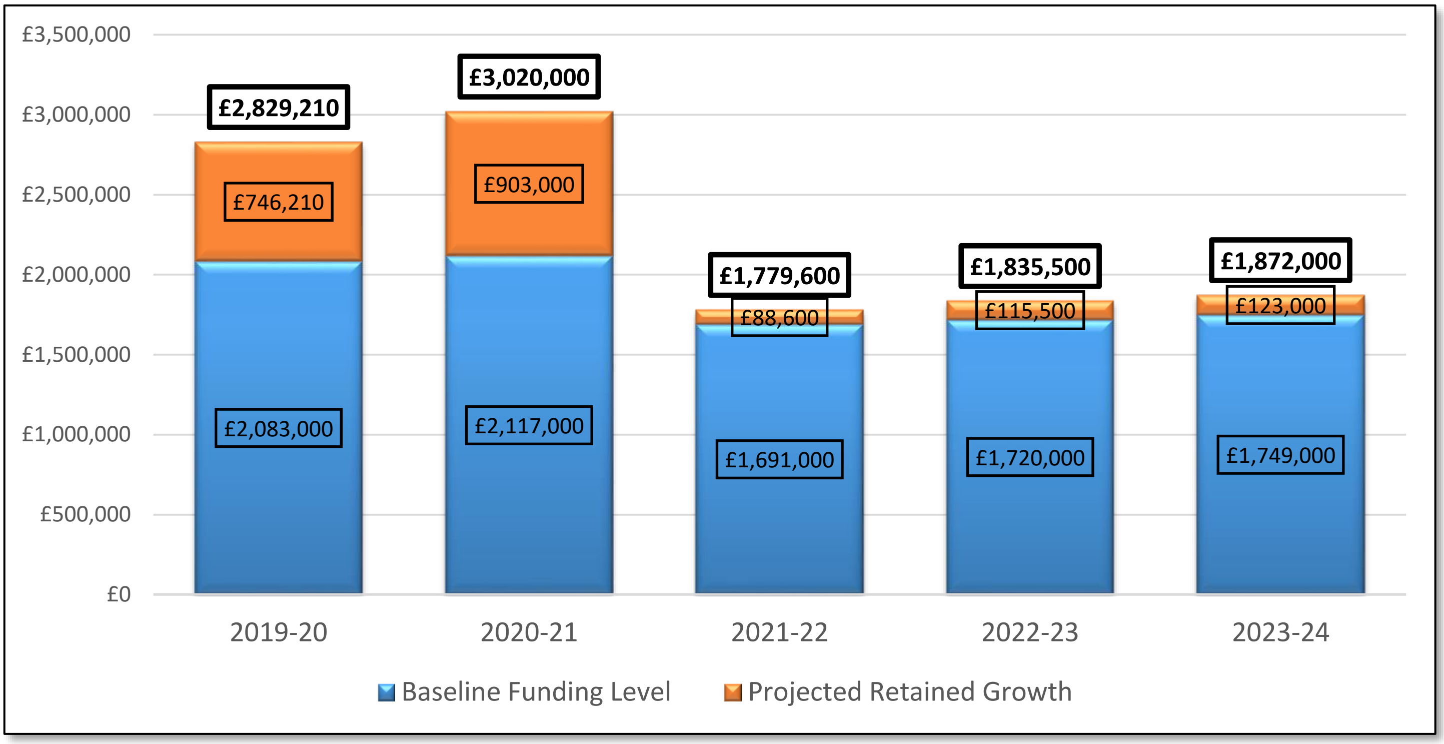
Reconciliation of Original Funding Gap to MTFS Funding Gap

	2019/20	2020/21	2021/22	2022/23	2023/24
ORIGINAL FUNDING GAP/ (Transfer to general reserves)	**(£149)**	**£842**	**£917**	**£1,012**	**£1,339**
<u>Budget Monitoring in 2019/20</u>					
2018/19 Money Matters	(10)	(10)	(10)	(10)	(10)
3 Month's Money Matters	(489)	(10)	(10)	(10)	(10)
6 Month's Money Matters	(66)	0	0	0	0
8 Month's Money Matters	(373)	0	0	0	0
Cabinet and Council Reports	(27)	(64)	(23)	(71)	(74)
Approved Funding Gap/ (Transfer to general reserves)	**(1,114)**	**757**	**874**	**921**	**1,244**
<u>Modelled Changes</u>	Included in 8 Month's Money Matters Report				
Inflation		(3)	(2)	(0)	3
Budget Variations – includes changes to NHB transfers		870	(266)	(221)	(105)
Revenue Implications of the Capital Programme		229	(30)	(85)	19
Net Treasury		(97)	(97)	(97)	(97)
Retained Business Rates / Negative RSG		(1,293)	(0)	(1)	(78)
Business Rates Cap		(85)	0	0	0
Council Tax		(109)	(131)	(191)	(276)
New Homes Bonus – income changes offset by transfers to general reserves		(716)	265	632	796
Levy Account Surplus		(49)	0	0	0
Business Rates Collection Fund		75	0	0	0
Council Tax Collection Fund		(40)	0	0	0
MTFS FUNDING GAP / (Transfer to general reserves)	**(£1,114)**	**(£462)**	**£613**	**£959**	**£1,507**

Revenue Budget key Revenue Streams

Retained Business Rates

The budgets for Retained Business Rates income, with Business Retention reform and the Fair Funding Review presenting significant risks to the assumptions made from 2021/22, are:



The change in retained Business Rates compared to the Approved Medium Term Financial Strategy is shown below:

	2019-20	2020-21	2021-22	2022-23	2023-24
Approved MTFS (assumed Fair Funding and 75% Business Rates from 2020/21)	£2,829,210	£1,726,700	£1,779,600	£1,835,500	£1,794,490
Draft MTFS (assumes Fair Funding and 75% Business Rates from 2021/22)	£2,829,210	£3,020,000	£1,779,600	£1,835,500	£1,872,000
Change	-	**£1,293,300**	-	-	**£77,510**

The Council has access to sector expert's financial models and these can be used to identify alternative scenarios (using various parameters such as the level of need funded by Council Tax income, how Council Tax is split in two tier areas and whether car parking income is included) to the one identified in the graph above following the Fair Funding Review:

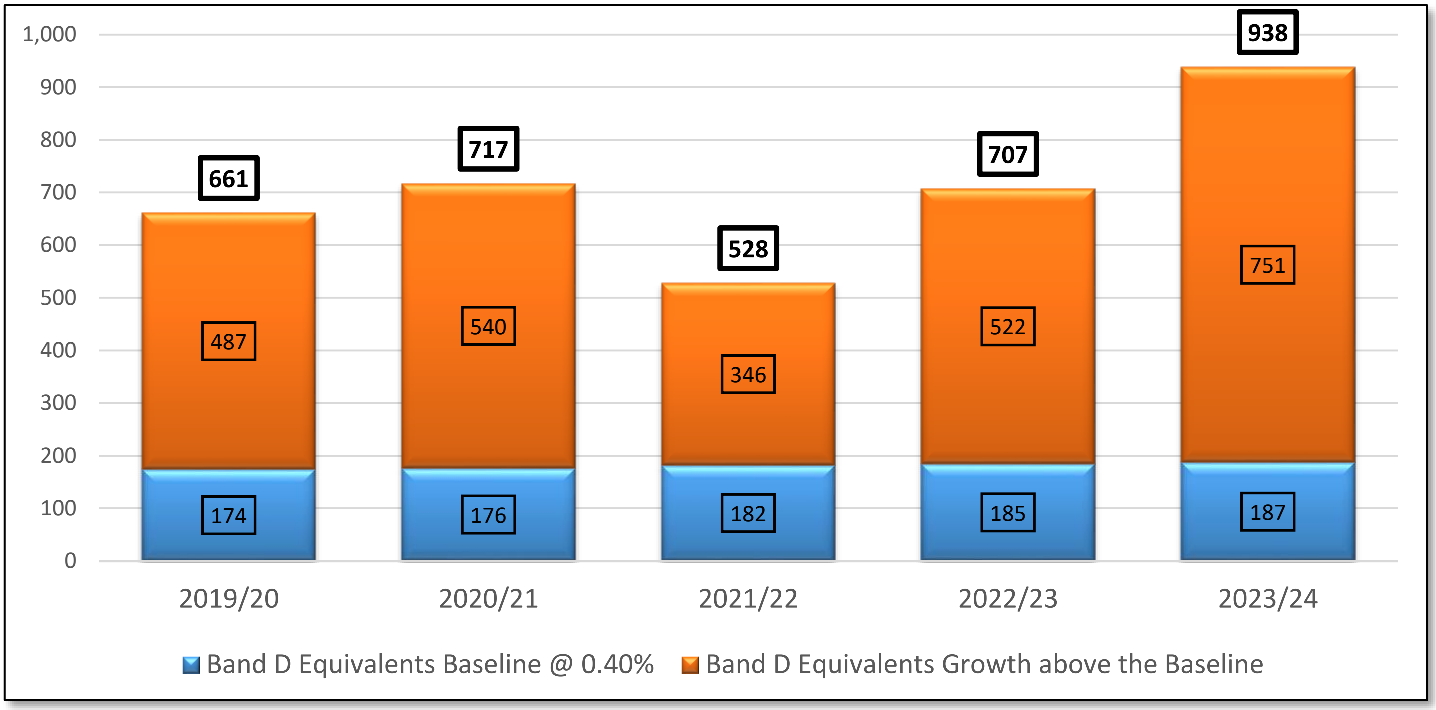
Fair Funding Review Scenarios 2021/22					
Need Funded by Council Tax	**Council Tax Tier Split**			**Car Park Income**	
	Upper	**Lower**	**Fire**	**Excluding**	**Including**
Baseline Funding Level Budget				**£1,691,000**	
75%	83.9%	12.8%	3.3%	£1,620,000	£1,024,000
100%	83.9%	12.8%	3.3%	£1,247,000	£657,000
75%	83.8%	12.9%	3.3%	£1,576,000	£980,000
100%	83.8%	12.9%	3.3%	£1,189,000	£600,000
75%	83.2%	11.9%	4.8%	£2,014,000	£1,416,000
100%	83.2%	11.9%	4.8%	£1,768,000	£1,176,000

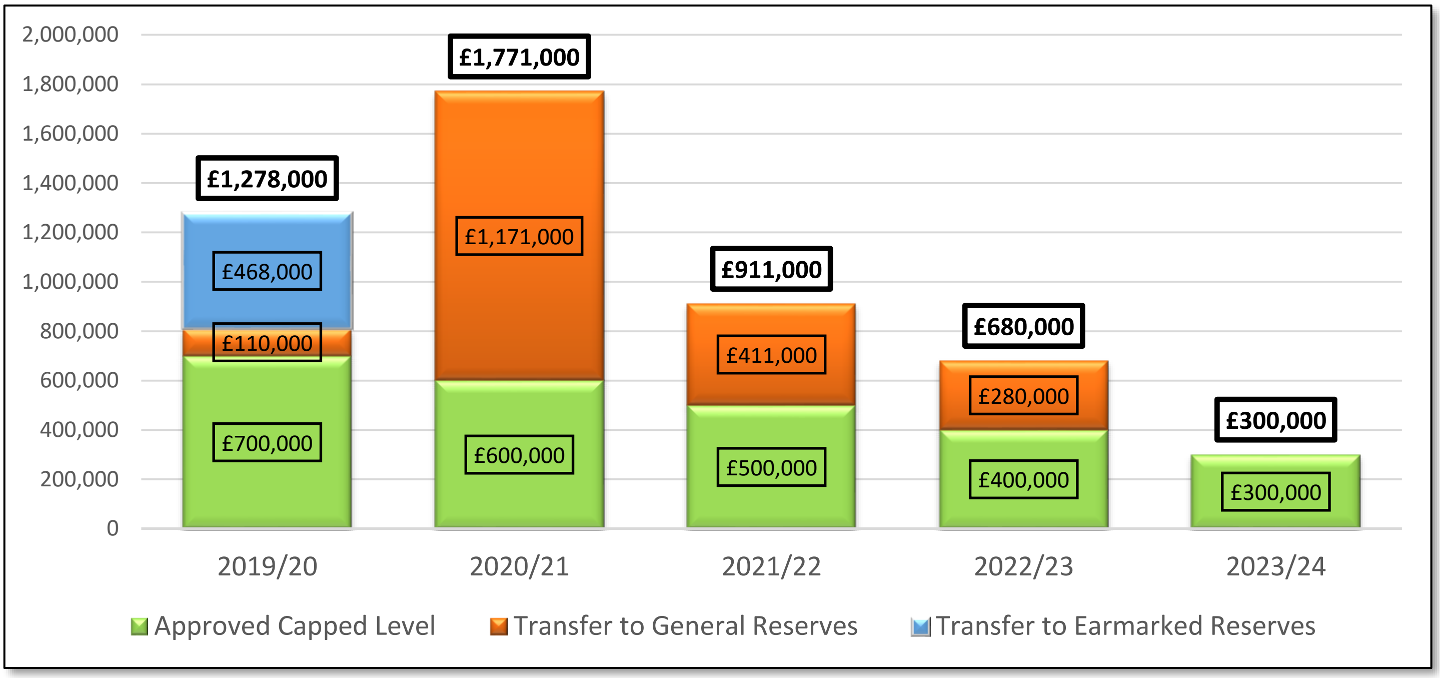
At present, the Medium Term Financial Strategy does not include any allowance for managing the transition from the current Local Government Finance system to the new Local Government Finance System.

APPENDIX A

New Homes Bonus

The budgets for housing supply and New Homes Bonus, with the review from 2021/22 presenting a material risk, are:





The change in New Homes Bonus income compared to the Approved Medium Term Financial Strategy is shown below:

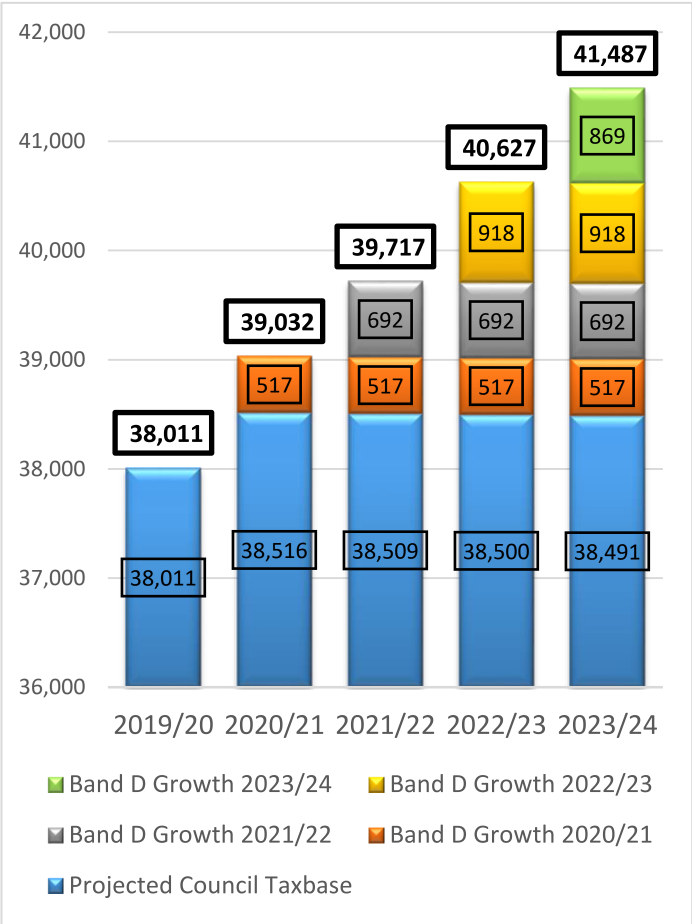
Capped Level	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Approved MTFS	£700,000	£600,000	£500,000	£400,000	£300,000
Draft MTFS	£700,000	£600,000	£500,000	£400,000	£300,000
Change	-	-	-	-	-

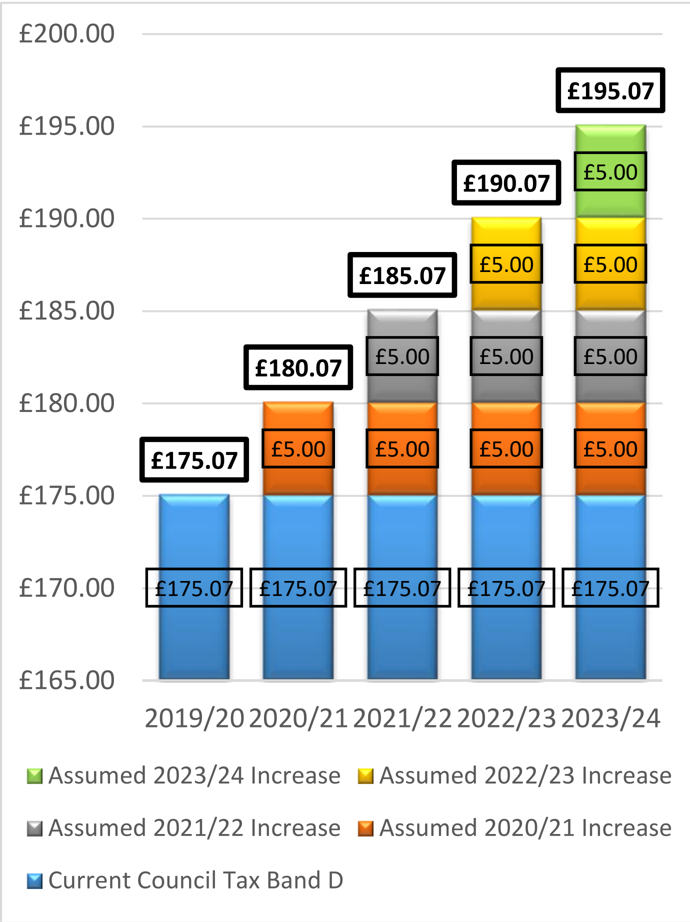
Total amount of New Homes Bonus	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Approved MTFS	£1,278,000	£1,055,000	£1,227,000	£1,386,000	£1,096,000
Draft MTFS	£1,278,000	£1,771,000	£911,000	£680,000	£300,000
Change	-	**£716,000**	**(£316,000)**	**(£706,000)**	**(£796,000)**

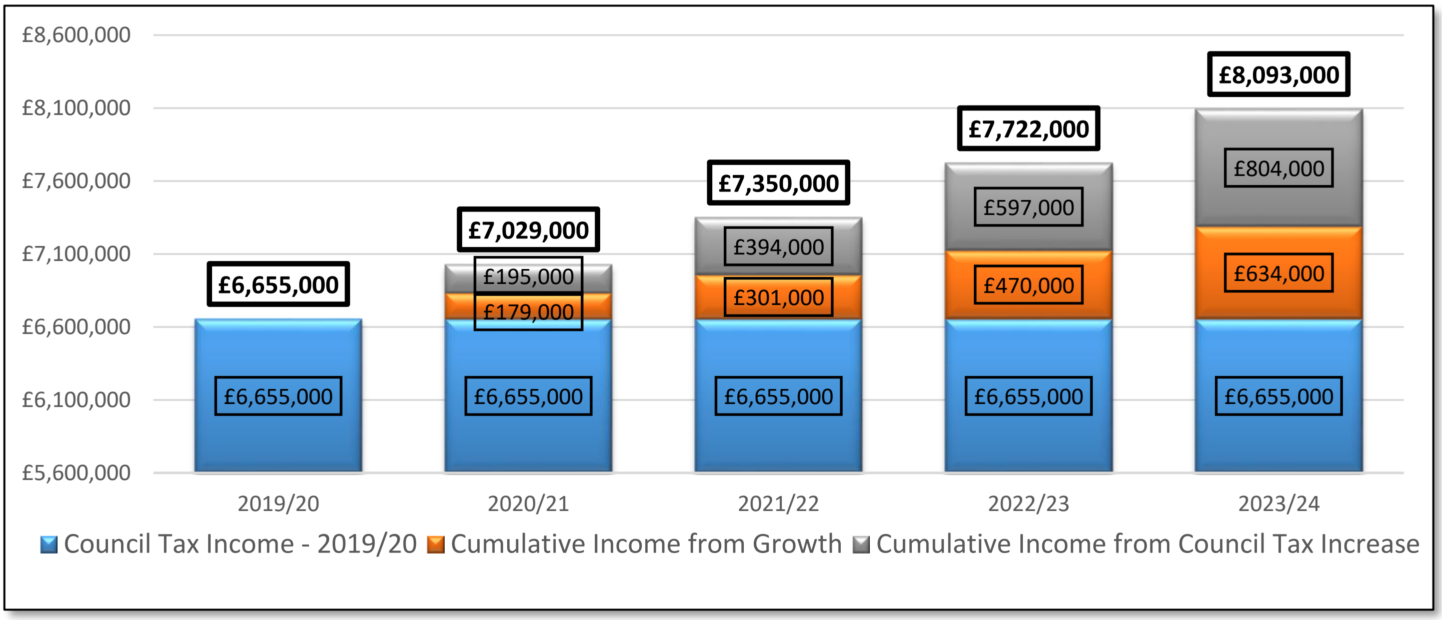
APPENDIX A

Council Tax

The Approved Budgets for Council Tax base (with a modelled **£5** increase to Council Tax Band D) and income are:







The change in Council Tax income compared to the Approved Medium Term Financial Strategy is shown below:

	2019/20	2020/21	2021/22	2022/23	2023/24
Approved MTFS	£6,655,000	£6,920,000	£7,219,000	£7,531,000	£7,817,000
MTFS	£6,655,000	£7,029,000	£7,350,000	£7,722,000	£8,093,000
Change	-	**£109,000**	**£131,000**	**£191,000**	**£276,000**

Capital Strategy

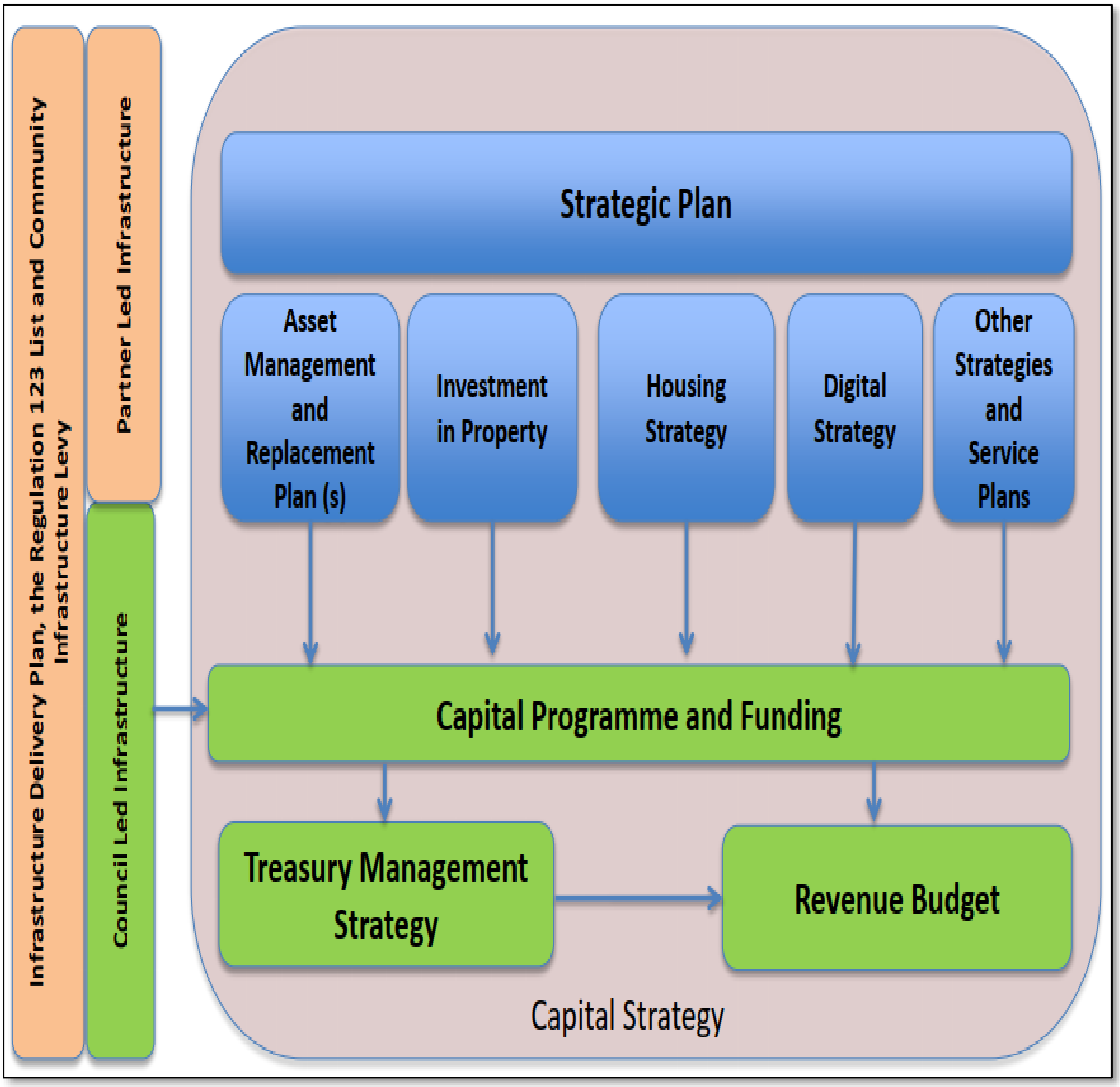
1. Introduction

1.1. The Prudential Code requires the completion of a Capital Strategy that is approved by Full Council.

1.2. The Capital Strategy provides a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

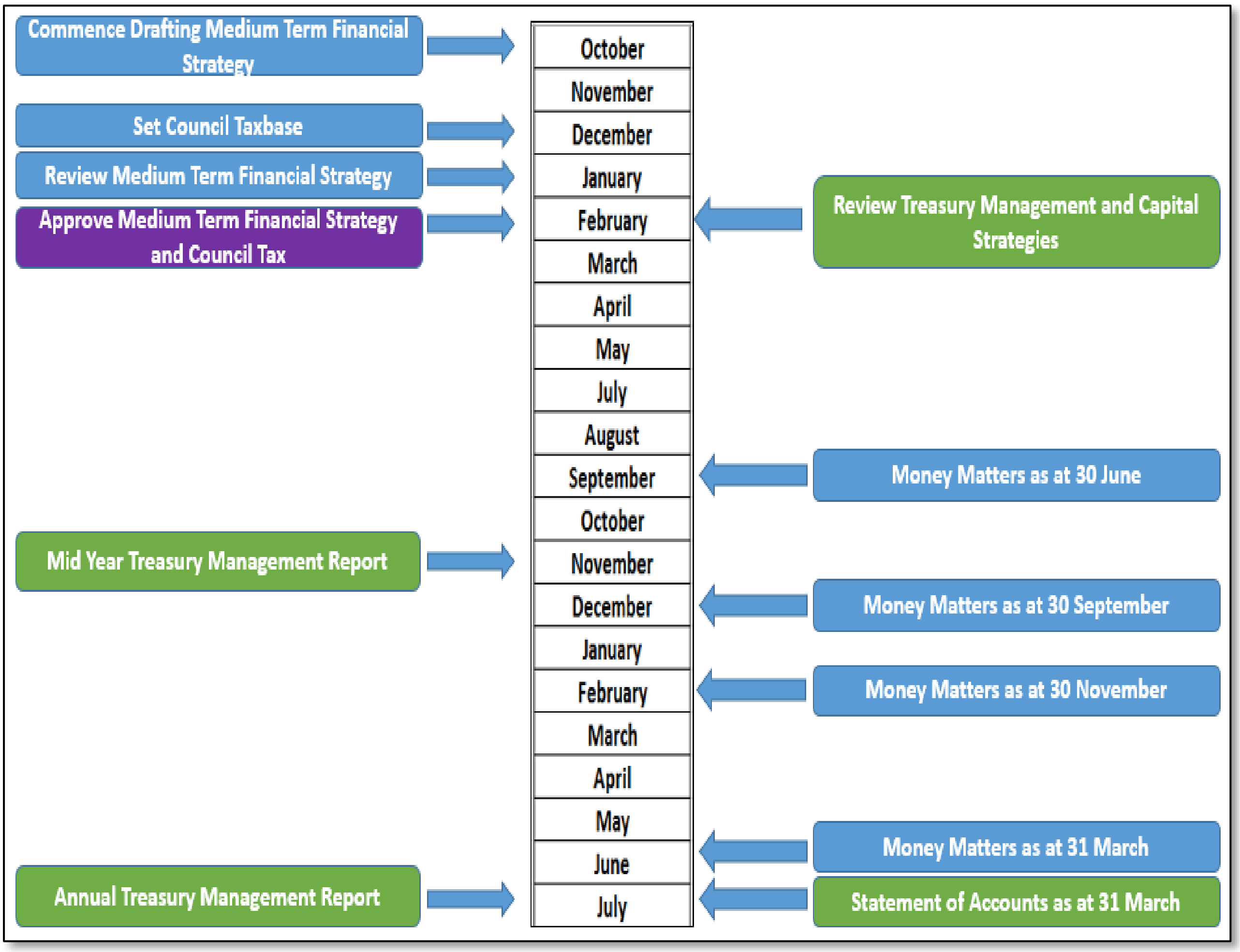
1.3. It forms part of the Councils integrated revenue, capital and balance sheet planning. The Council already undertakes elements of the new requirements although some areas, such as Asset Management Planning, need further development.

1.4. The Prudential Code now requires all of this information to be brought together in a single place as shown below:



2. The Capital Programme

2.1. The financial planning process and its Governance (Blue is Cabinet and Strategic (Overview and Scrutiny) Committee, Green is Audit and Member Standards and Purple is Council) is shown below:



The Capital Programme Process

2.2. As the Council becomes more commercial and Asset Management Plans are developed, it is probable that capital needs will be identified that exceed resources available thus necessitating a more transparent and robust process to inform Members during the development of the MTFS.

2.3. This process has been designed to ensure consistency, objectivity, equity and transparency to the prioritisation and allocation of capital funding, while ensuring we get maximum value for money.

2.4. A summary of the new process is identified below:

- Service identifies a budget requirement and consults with the Finance and Procurement Team.
- Service requests funding by completing and submitting a funding bid form.
- Service completes a funding bid financial profile form and submits this with their bid.
- Service completes a funding bid assessment form and submits this with their bid.
- The Finance and Procurement Team reviews all bids and assessments and requests clarification where required.
- The Finance and Procurement Team reviews bids using the assessment criteria and submits a report to Leadership Team.

- Leadership Team review all bids and recommend changes before recommending the allocation of funding either through a Cabinet Report or through the MTFS.
- Finance and Procurement monitor funding allocations and spend, reporting to Leadership Team as part of Money Matters Reports.
- Service completes work / project outlined within the bid and undertakes a review (i.e. post-project review) within 6 months of work being completed, providing this to Finance and Procurement to include in a report to Leadership Team.

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

2.5. 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).

2.6. 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.

2.7. 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.

2.8. 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.

2.9. The **Capital Programme** and its **funding** by Strategic Priority is summarised below:

Strategic Priority	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total £000	Corporate £000
Enabling People	2,324	3,424	1,164	3,324	3,235	13,471	396
Shaping Place	809	1,045	502	3,482	427	6,265	273
Developing Prosperity	1,732	625	0	0	0	2,357	471
A Good Council	10,794	12,657	11,970	12,015	389	47,825	2,682
Grand Total	**15,659**	**17,751**	**13,636**	**18,821**	**4,051**	**69,918**	**3,822**

Funding Source	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total £000
Capital Receipts	547	1,402	514	559	352	3,374
Capital Receipts - Statue	53	0	0	0	0	53
Revenue - Corporate	0	182	0	0	213	395
Corporate Council Funding	**600**	**1,584**	**514**	**559**	**565**	**3,822**
Grant	1,266	2,343	931	931	931	6,402
Section 106	673	865	25	0	0	1,563
CIL	221	79	0	0	0	300
Reserves	1,946	1,066	327	72	145	3,556
Revenue (Joint Waste Service)	150	150	150	150	150	750
Sinking Fund	235	0	0	0	0	235
Leases	0	0	0	3,260	0	3,260
Total	**5,091**	**6,087**	**1,947**	**4,972**	**1,791**	**19,888**
Borrowing Need	**10,568**	**11,664**	**11,689**	**13,849**	**2,260**	**50,030**
Funding Total	**15,659**	**17,751**	**13,636**	**18,821**	**4,051**	**69,918**

APPENDIX B

2.10. The Revenue implications are shown below:

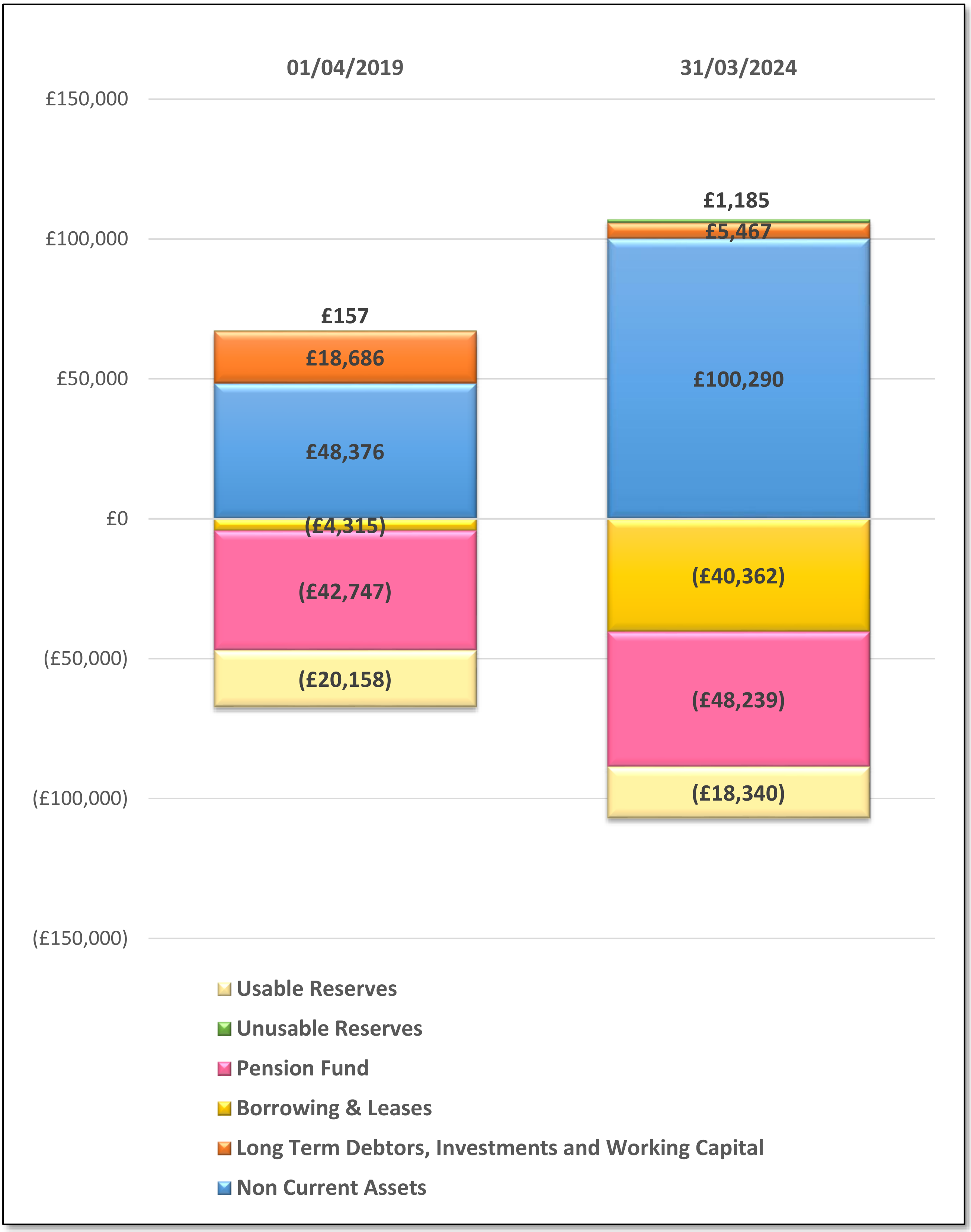
Revenue Implications	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total £000
Approved Budgets						
Investment in Property	0	(56)	(180)	(303)	(427)	(966)
Interest on Loan to the LA Company	0	(4)	(18)	(22)	(22)	(66)
Leisure Outsourcing	(57)	(58)	(61)	(63)	(63)	(302)
Friary Grange - Refurbishment	33	135	135	135	135	573
Digital Strategy	50	(30)	(100)	(150)	(150)	(380)
Approved Budget	**26**	**(13)**	**(224)**	**(403)**	**(527)**	**(1,141)**
Capital Programme						
Revenue Implications of Bids	0	78	68	79	37	262
Property - Internal Borrowing	0	(31)	(98)	(164)	(231)	(524)
Revenue Budget	0	182	0	0	213	395
Changes to Approved Budget	**0**	**229**	**(30)**	**(85)**	**19**	**133**
Capital Programme	**26**	**216**	**(254)**	**(488)**	**(508)**	**(1,008)**

2.11. Capital Programme are shown in the table below:

Capital Receipts	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total £000
Opening Balance	**(2,004)**	**(2,259)**	**(1,394)**	**(890)**	**(341)**	**(2,004)**
Guardian House Covenant	(320)					(320)
Sale of Beacon Cottage	(368)					(368)
Sale of land at Netherstowe and Leyfields		(527)				(527)
Right to Buy Receipts	(157)					(157)
Other Receipts	(10)	(10)	(10)	(10)	(11)	(51)
Utilised in Year	600	1,402	514	559	352	3,427
Closing Balance	**(2,259)**	**(1,394)**	**(890)**	**(341)**	**0**	**0**

3. The Balance Sheet (in £000s)

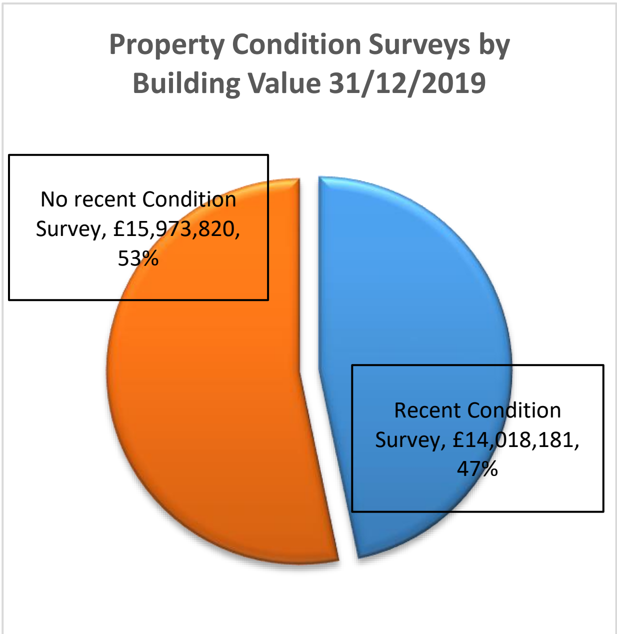
3.1. The Capital Programme and its funding will significantly impact on the Council's Balance Sheet through investment in property funded by borrowing:

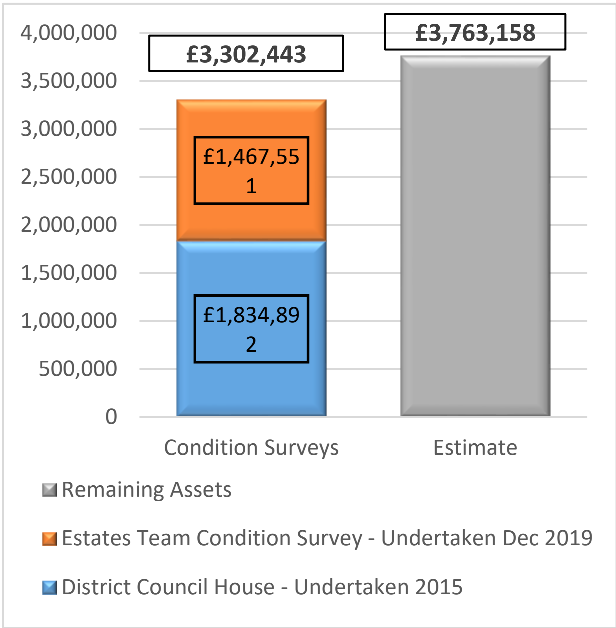


4. Asset Management Planning

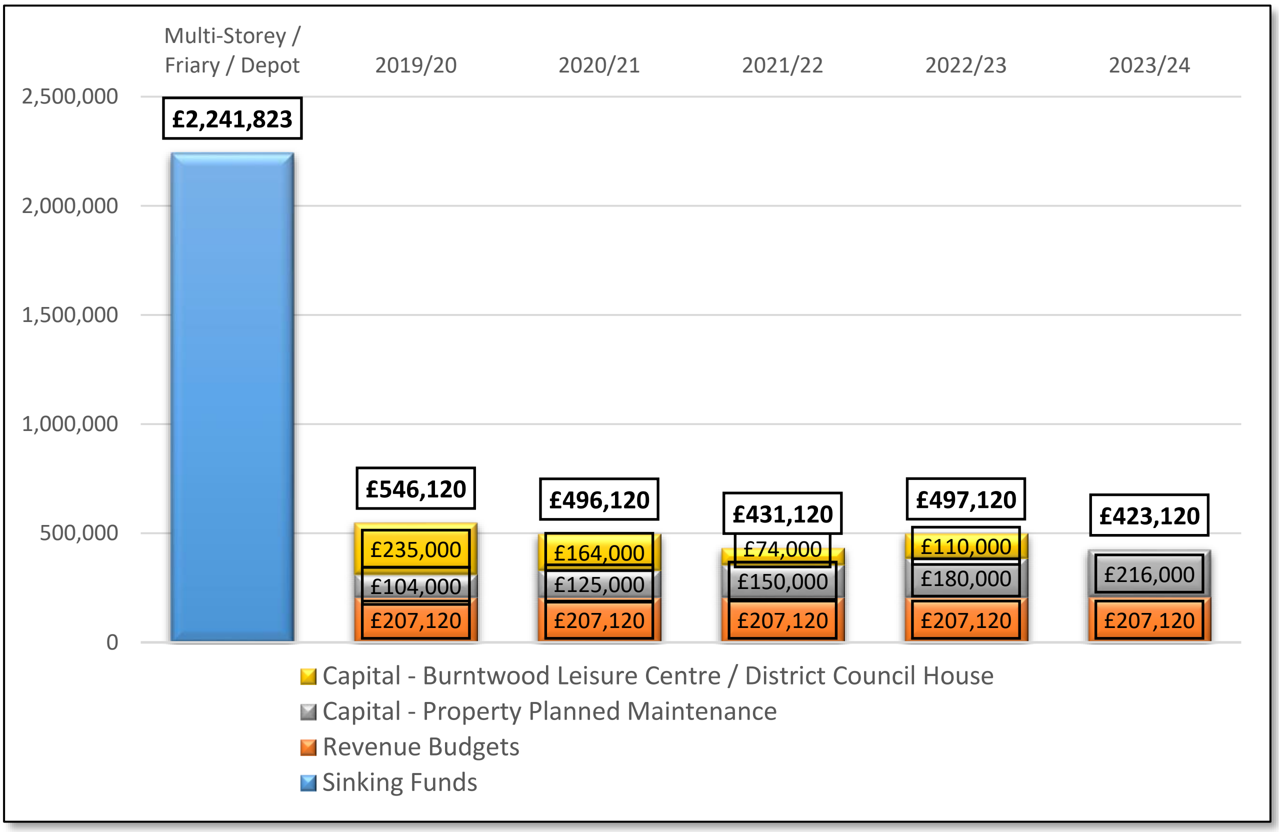
4.1. The Estates Team is currently in the process of undertaking Property Condition Surveys for Property Assets owned by the Council.

4.2. Property assets with recent Property Condition Surveys and the backlog maintenance identified plus a projection for all property assets is shown below:

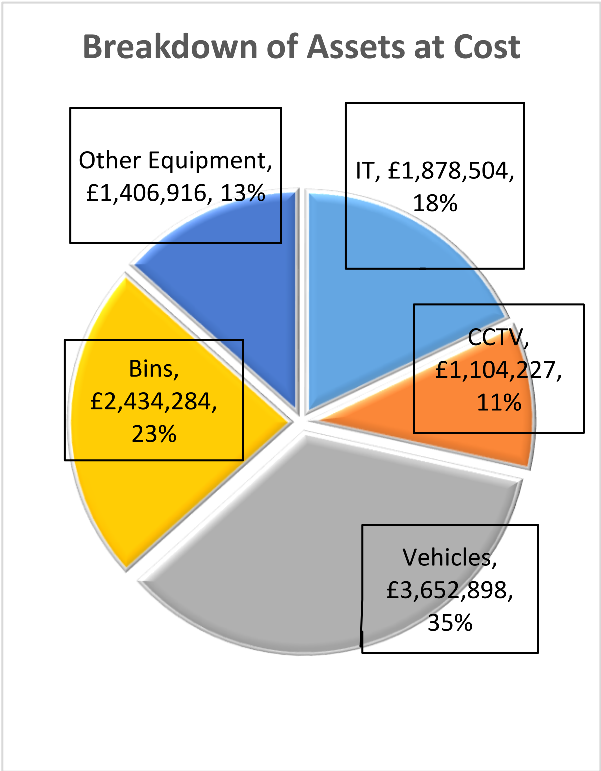


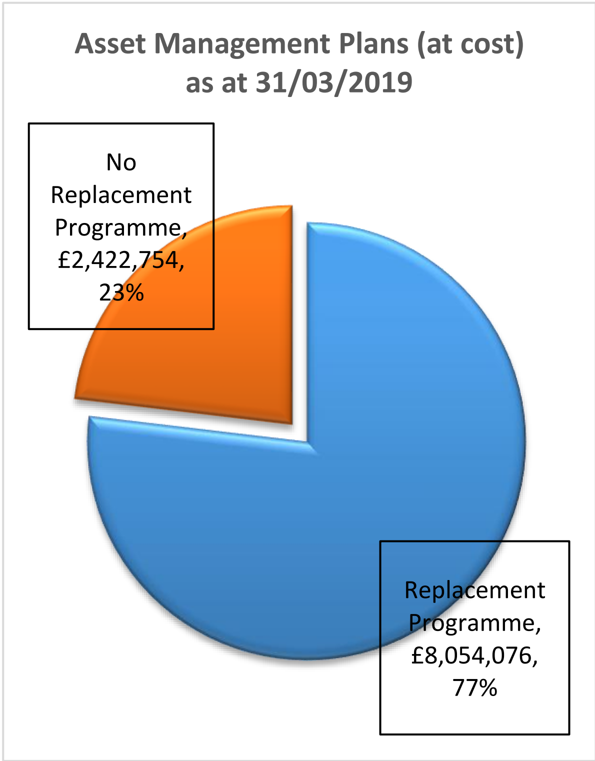


4.3. The resources identified for enhancement and maintenance of property assets are:

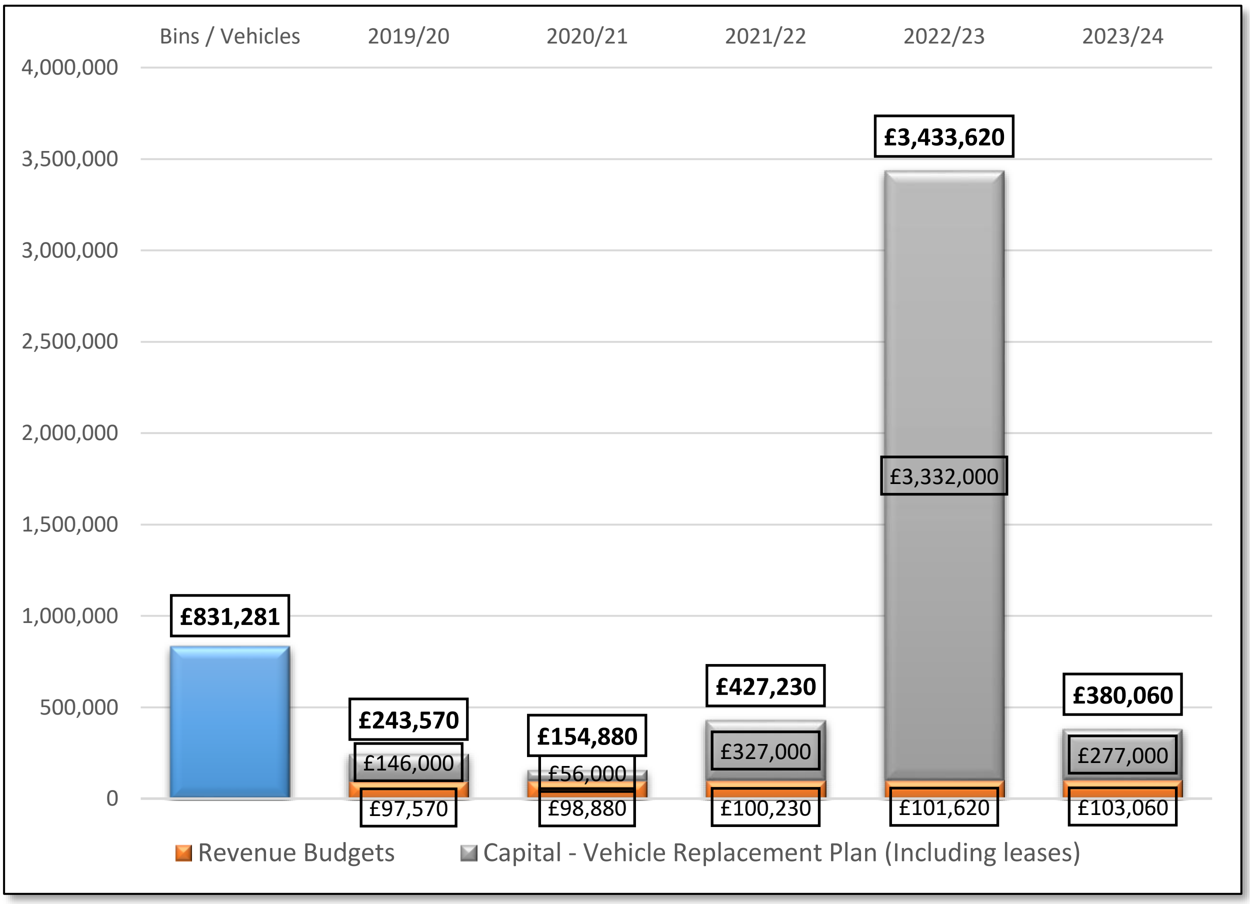


4.4. The Asset Management Plans in place for vehicles, plant and equipment assets are:





4.5. The resources identified for replacement and maintenance of vehicles, plant and equipment are:



APPENDIX B

5. Investment in Property

5.1. The Council is committed to investing in land and property to shape places, enable regeneration, enhance communities, grow the economy, meet local housing needs and thereby deliver its strategic objectives whilst also providing opportunities to realise an ongoing source of income. For this reason, the council approved an investment fund of £45m to invest in land and property assets across the district.

5.2. The Council must give due consideration to the drivers for investment (below), along with the guidance from CIPFA and the Ministry of Housing, Communities and Local Government. The latter is a clear steer to look at investments as listed below, where yield is the last consideration after security and liquidity, so that a focus on the potential return on investment does not hamper the need for appropriate due diligence and assessment of risk.

1. **Security** – ensure capital sums are largely protected from loss.
2. **Liquidity** – ensure money is available when required to meet ongoing needs.
3. **Yield** – ensure there is a viable and sustainable return on investment.

5.3. To ensure the maximum number of benefits are achieved, that public perception is considered and that management cost are optimised, the following principles have been selected by the Council to govern any decisions made on property investment;

- **Diversified** – property investment will be diversified to broaden the portfolio and so reduce the risk, with a focus given to particular groups, such as housing and offices, when justification is clear and evidenced.
- **Local** – property will be within the District of Lichfield, or within the functional economic geography. It should be close enough to allow it to be effectively managed and maintained, as well as being appealing to tenants or purchasers now and in the future.
- **Profitable** – property investment will provide a return on investment, either through lettings or sales. The yield on the property should exceed the ongoing costs for management, maintenance and borrowing, while considering the full costs of acquisition or development (e.g. Stamp Duty, legal fees, external valuations and structural surveys). To ensure these principles are considered in each case any decision to invest will be supported by the introduction of an assessment methodology, considering the key aspects of the property, such as; location, tenancy strength, tenure, lease length, repairing terms and size. This could be done through an assessment matrix, which would provide a level of assurance and objectivity to decision making.
- **Prudent** – property investment will be appropriately risk assessed. Where acquisition is being considered, the current tenancy should offer some security in relation to the length of tenure, strength of the covenant and ongoing viability of the tenant. Where development is being considered, likely tenancies and pre-lets would need to be leveraged to support any financial assessment.
- **Sustainable** – property investment decisions will support the council to reduce the impact it has on the environment. Property acquisitions will consider the environmental impact of either the property or the nature of the businesses who will utilise it. In addition, when undertaking development the council will seek to adopt sustainable forms of construction wherever feasible and practicable.

- **Strategic** – property investment should be for the long-term and be regularly rebalanced to support our strategic priorities as well as being acceptable to our community.

5.4. Investment, including property acquisitions and development, always attracts a level of risk and higher returns are often associated with higher risks. This is one of the reasons for every decision to be appropriately risk assessed, while the overall portfolio should be adequately managed to reduce the risk attached to it.

5.5. Risk will come from a number of factors, including;

- **Customer** – reputational damage from resident perception of investment.
- **Economic** – periods of rental decline or lack of income, the costs of maintaining the property and falls in property values in a recessionary environment, certain property market segments or certain geographical areas becoming less attractive than others
- **Legislative** – changes to ownership, investment or borrowing legislation.
- **Political** – changes to national government or local priorities
- **Tenant** - in the form of default/insolvency, resulting in loss of rental income and voids

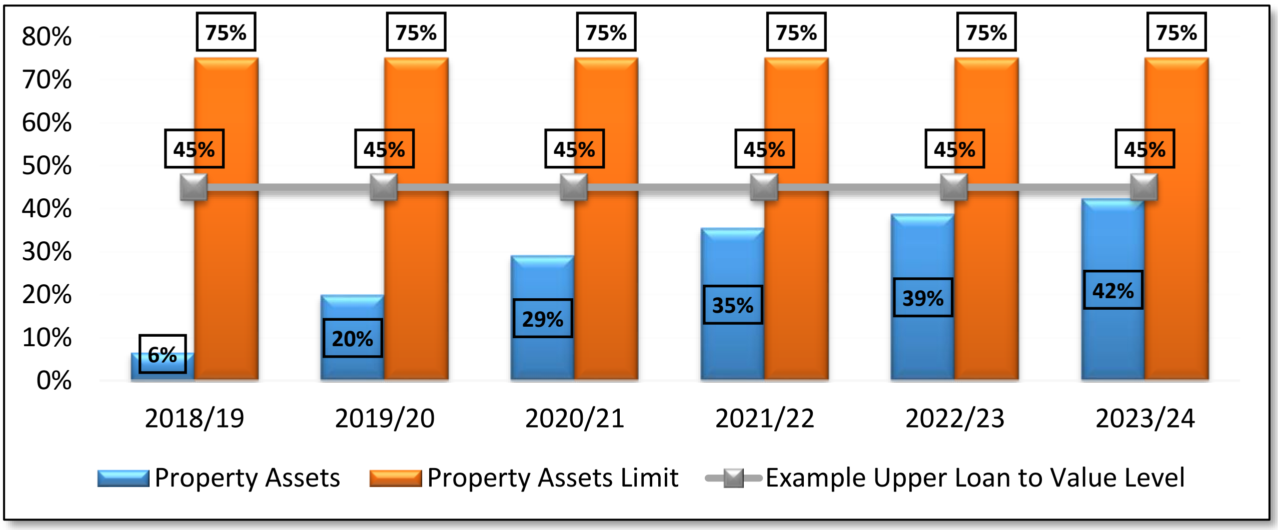
5.6. Ongoing risk, will be managed through standard risk management policies and procedures, ensuring appropriate transparency and challenge.

5.7. Investment in property will predominantly be funded through borrowing, however other funding routes will be considered where it would support the affordability of the investment being proposed and the non-financial benefits it would offer.

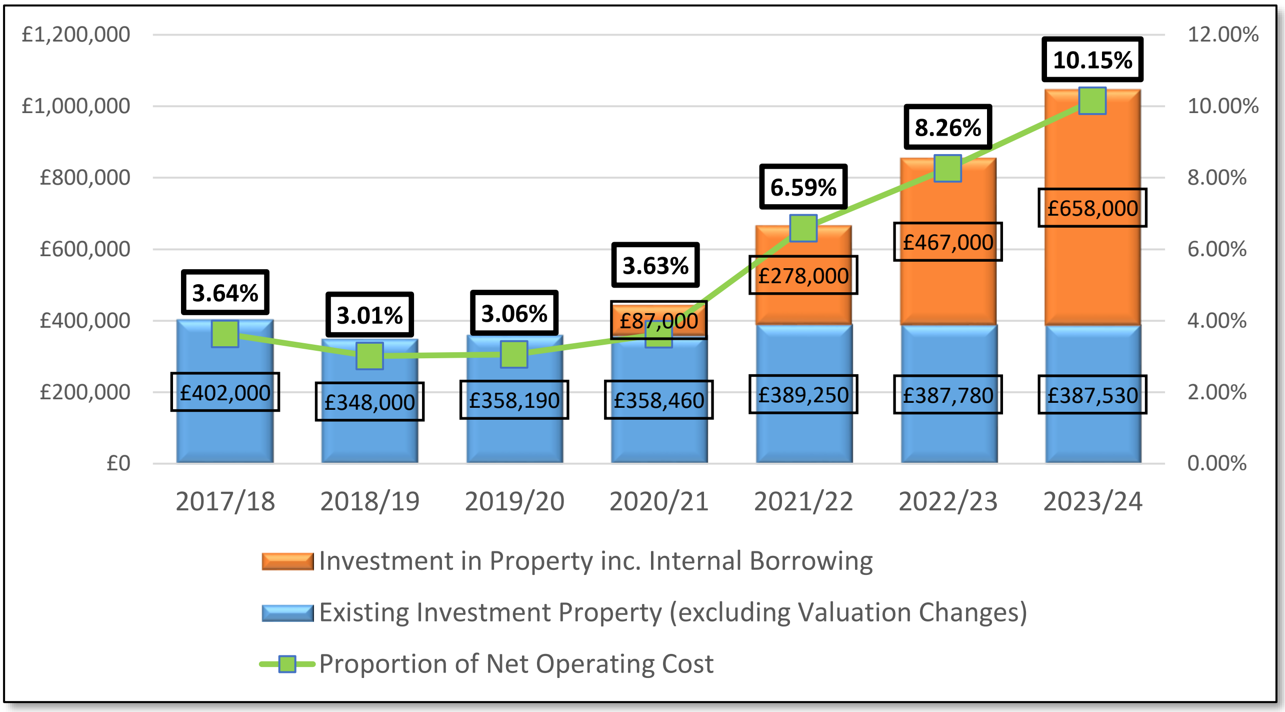
5.8. The level of property value funded by borrowing is known as gearing and in the private sector is measured as the loan to value (LTV) ratio. The private sector will set a maximum loan to value range for property typically **35%** to **45%** to manage the risk that the loans outstanding are unable to adapt to changing asset strategy or property value. This will be evident in a recession where typically property values reduce and loans therefore can exceed property value (known as negative equity).

5.9. A negative equity scenario can make it difficult to rebalance the portfolio through disposals due to the existing loan repayments that will still need to be paid whilst income is no longer received.

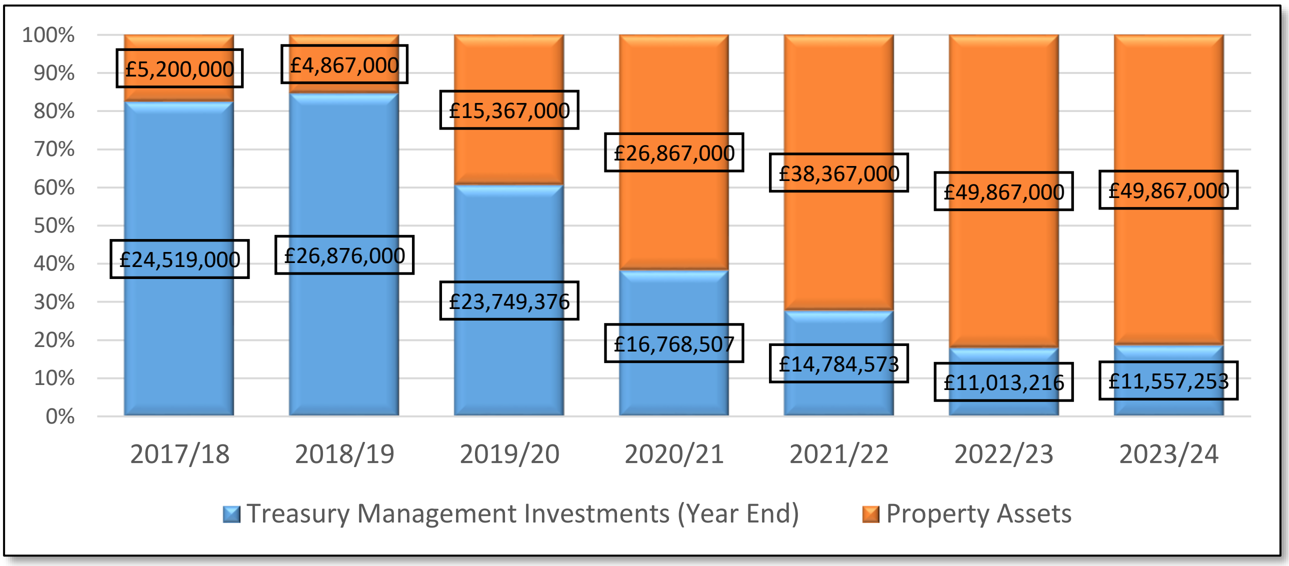
5.10. The projected gearing ratio and an example upper loan to value limit from a property investment company is shown below:



5.11. The Revenue Budget supported by income (including the savings from Internal Borrowing) is:



5.12. The ratio of Treasury Management Investments to relevant Property Investments is shown below:



5.13. The Council has a joint venture partnership with PSP for property, established in 2016/17, and Lichfield Housing Limited (a Local Authority Trading Company) was incorporated in September 2019 with an aim to deliver development and housing ambitions.

5.14. The Capital Programme includes an equity investment of **£225,000** in 2019/20 and a loan of up to **£675,000** in 2020/21 for a period of **5 years** to facilitate housing development.

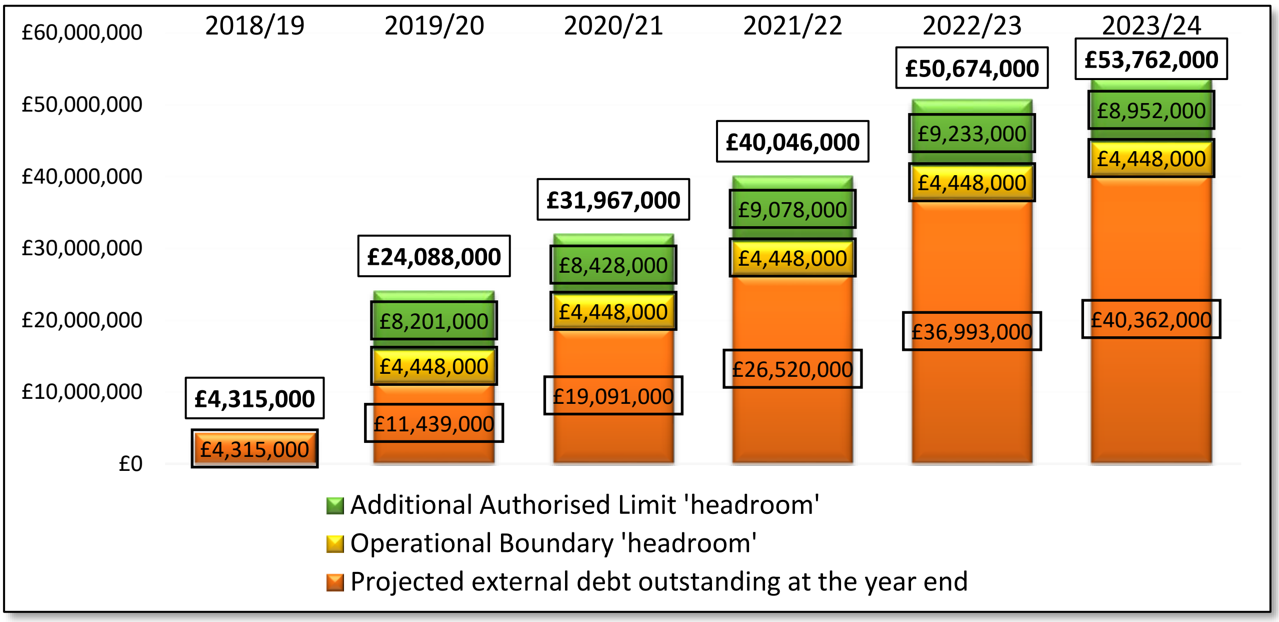
5.15. The loan to the Company will produce an income stream at **4%** from the company and the loan repayment will be treated as a capital receipt in 2024/25 in the Medium Term Financial Strategy. At present, no dividend income is assumed to be received from the Company.

5.16. The investment rate of return (net of all costs) is forecast to be **9.38%** for 2020/21.

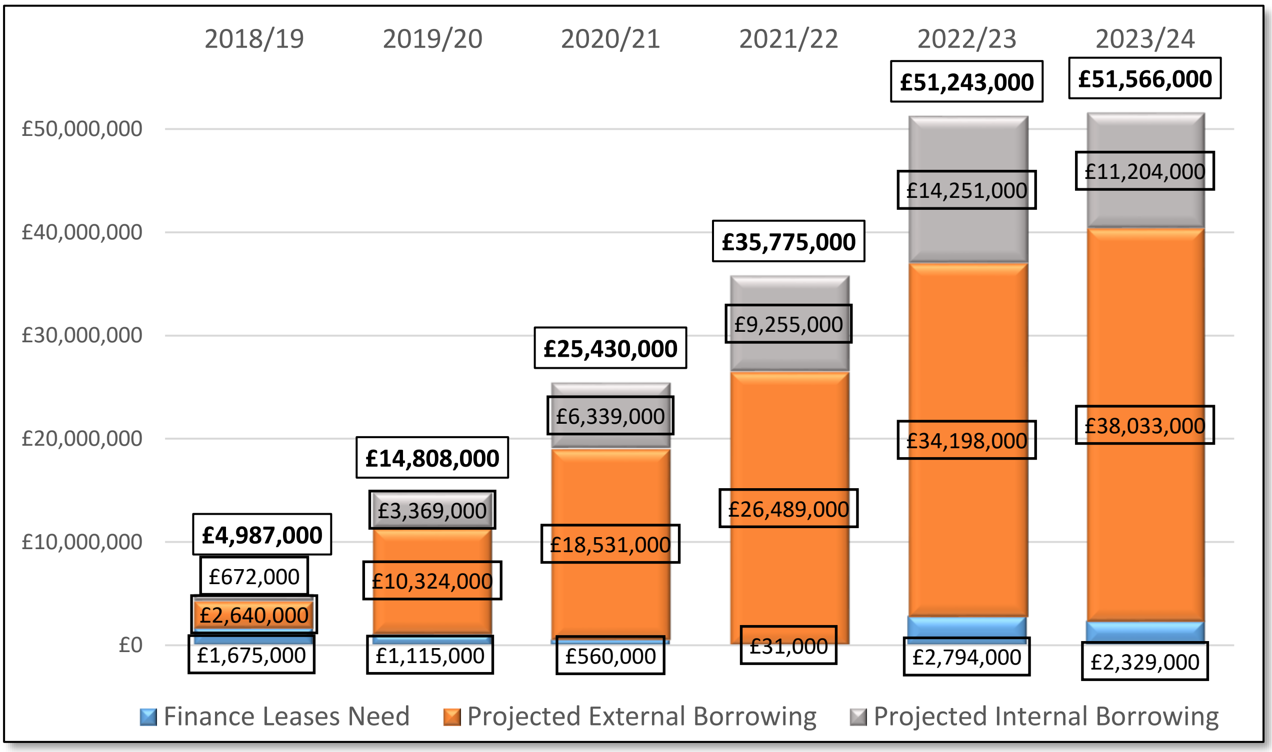
6. Debt Management

6.1. At 31 March 2019 the Council had a relatively low level of debt outstanding of **£4.315m**. The Investment in Property and the renewal of the waste fleet will mean external debt is projected to increase to **£40.362m** by 31 March 2024.

6.2. The Council is managing its debt through setting Prudential Indicators, related to the statutory maximum, known as the **Authorised Limit** and **Operational Boundary** as shown below:

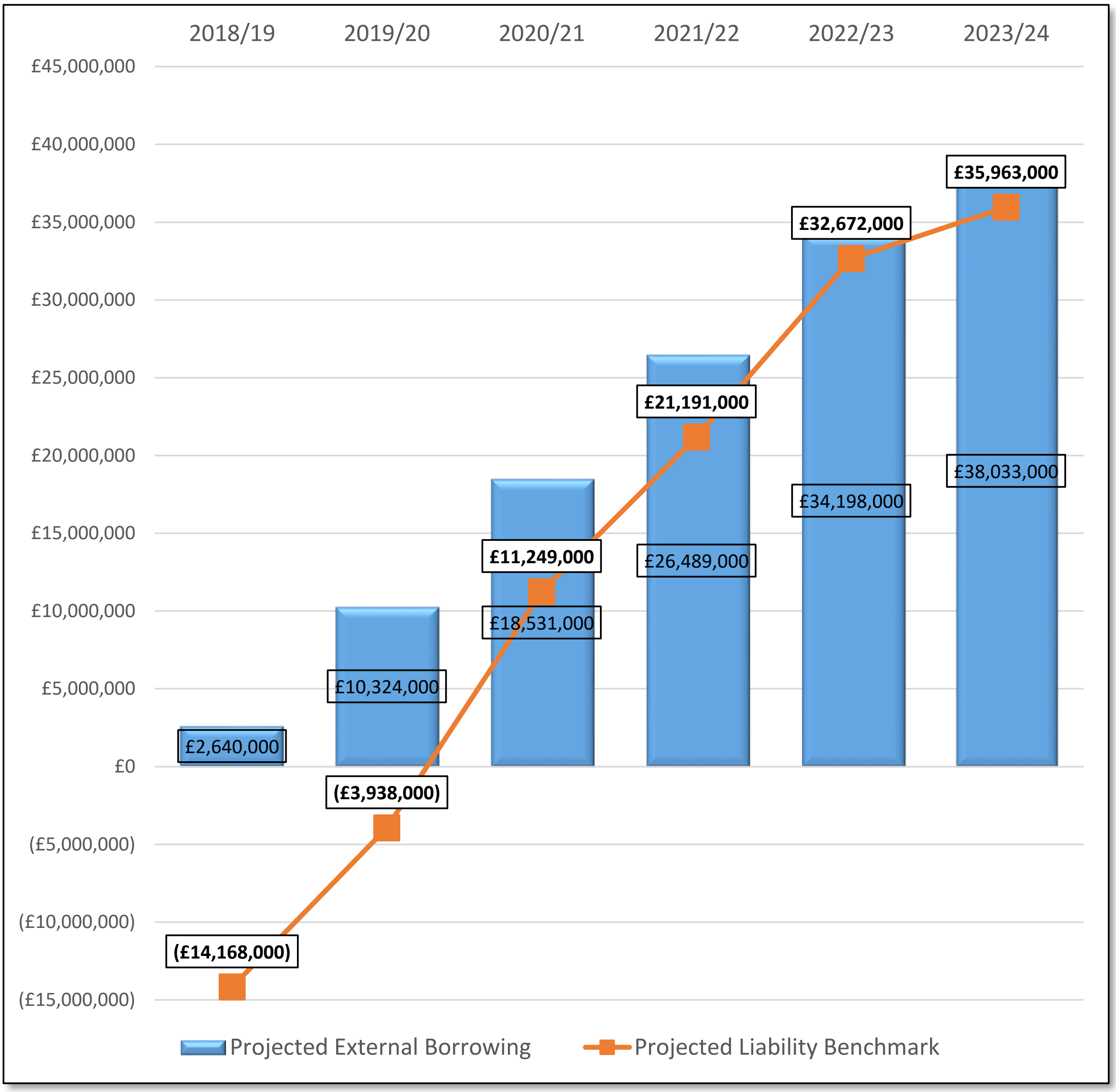


6.3. The projected **Capital Financing Requirement** or borrowing need (the total for each column), **external debt** (finance leases and external borrowing) and **internal borrowing** is shown below:



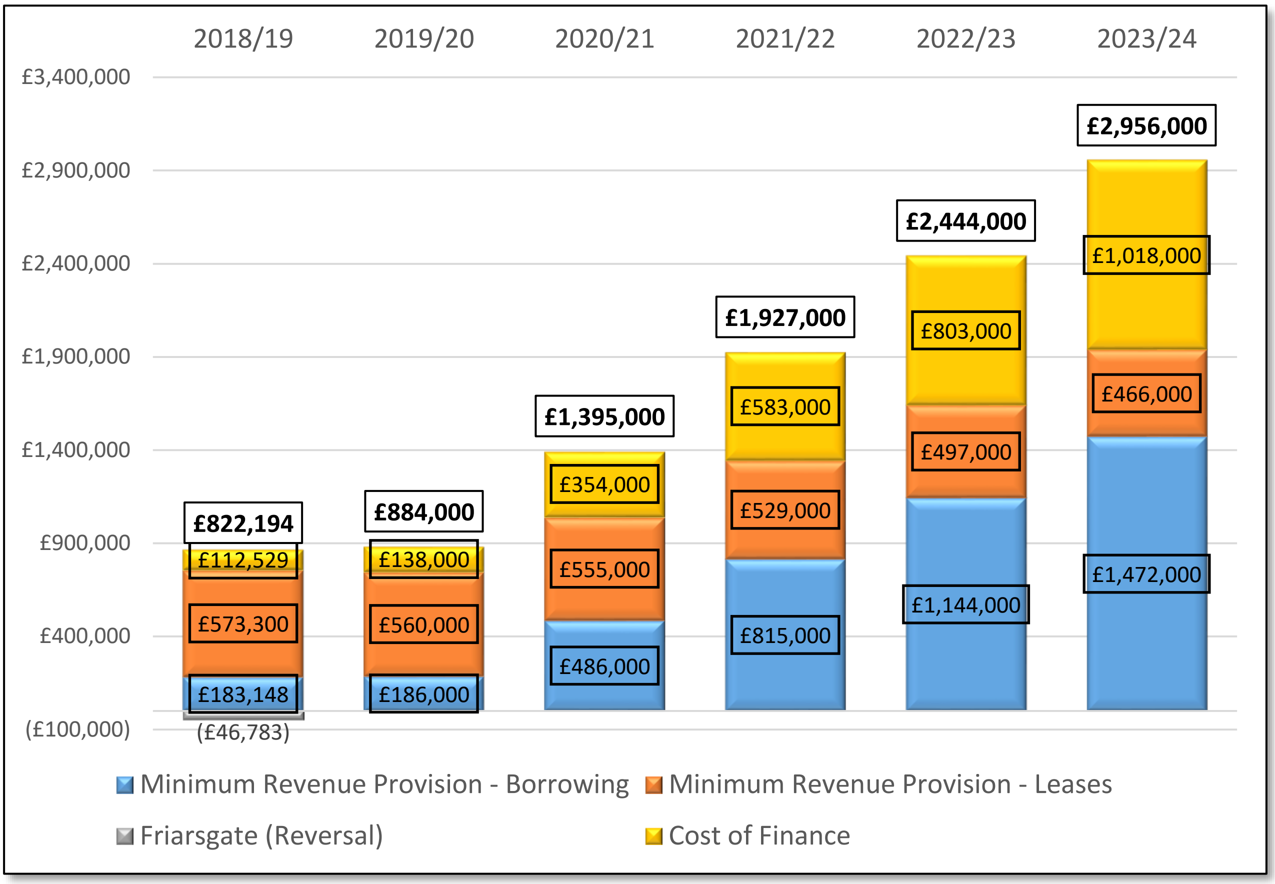
6.4. The **liability benchmark** is the lowest risk level of <u>external borrowing</u> by keeping cash and investment balances to a minimum level of **£10m** at each year end to maintain liquidity but minimise credit risk.

6.5. The projected level of external borrowing, together with the projected liability benchmark in the Medium Term Financial Strategy, is shown in the chart below:

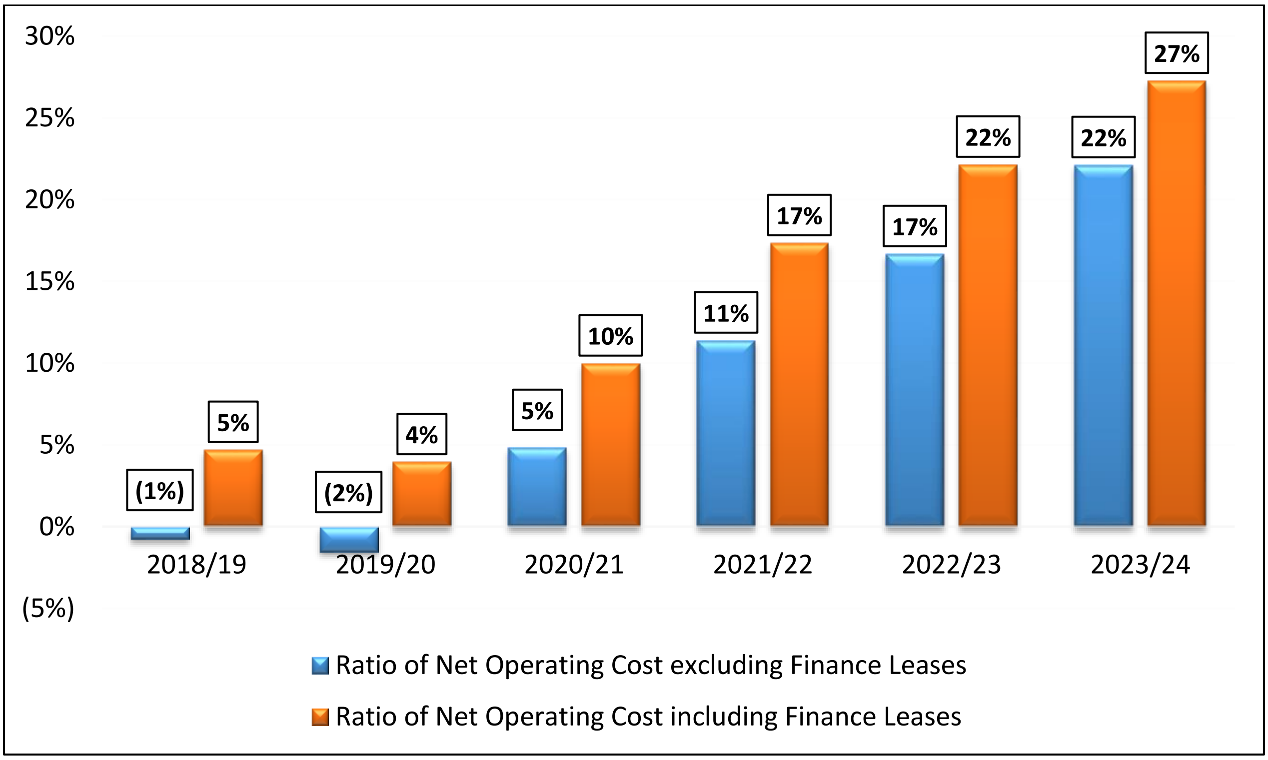


6.6. The chart above indicates that, based on current Balance Sheet projections and funding **£11m** of Investment in Property though Internal Borrowing, the Council's projected External Borrowing from 2022/23 will be closer to the liability benchmark.

6.7. The level of debt determines the cost of debt servicing (Minimum Revenue Provision which is similar to depreciation with asset cost divided by assessed asset life plus the cost of finance):



6.8. The proportion of the net budget allocated to financing costs (net of investment income) is below:



7. Financial Guarantees

7.1. In addition to the debt projections shown above, in relation to external borrowing and finance leases, the Council also acts as a guarantor for an admitted body that delivers services on behalf of the Council.

7.2. In the event that it is probable that these guarantees will be required a financial provision would be created to mitigate the risk. The guarantees identified in the Statement of Accounts under the Contingent Liabilities note are:

- **The Lichfield Garrick** – the guarantee relates to the pensions of transferred employees and at 31 March 2019 the risk of default was assessed as less than **1%** and therefore the financial risk to the Council is **£4,250.**
- **Freedom Leisure -** the guarantee relates to the pensions of transferred employees and at 31 March 2019 the risk of default was assessed as less than **1%** and therefore the financial risk to the Council is **£85,750.** Freedom Leisure have been admitted to the Pension Fund using a 'pass through' agreement where the Council bears all market related risks such as investment returns. The Pension Fund actuary assessed a market related bond to manage these risks to be **£677,000**. The Council agreed to the creation of an earmarked reserve, projected to total **£267,080** (£33,390 at 31 March 2019) at the end of the ten year contract period, from the leisure outsourcing savings with any additional sum to be provided by General Reserves.

7.3. These guarantees are assessed throughout the year, in terms of the financial viability of the organisations for which the guarantee is provided, to determine whether a financial provision will need to be created.

8. The Authority's Risk Appetite, Knowledge and Skills

8.1. The Council's risk appetite, along with the majority of Local Government, is increasing due to the need to offset funding reductions from Central Government with income from alternative and commercial sources.

8.2. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Head of Finance and Procurement is a qualified accountant with 30 years' experience, the Council has recruited a new Estates Team to optimise the management of existing property and support the future investment in land and property. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA and the Association of Accounting Technicians.

8.3. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers and has access to property professionals through the Estates Team and the PSP joint venture. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

8.4. The Council does not plan to utilise the flexible use of capital receipts for transformation projects.

9. Prudential and Local Indicators

9.1. The Prudential and Local Indicators in relation to the Capital Strategy are shown below:

Prudential Indicators							
Indicators	**2018/19 Actual**	**2019/20 Original**	**2019/20 Revised**	**2020/21 Original**	**2021/22 Original**	**2022/23 Original**	**2023/24 Original**
Capital Investment							
Capital Expenditure (£m)	£4.910	£11.618	£15.659	£17.751	£13.636	£18.821	£4.051
Capital Financing Requirement (£m)	£4.987	£10.301	£14.809	£25.432	£35.777	£51.245	£51.567
Gross Debt and the Capital Financing Requirement							
Gross Debt	(£4.315)	(£9.598)	(£11.439)	(£19.091)	(£26.520)	(£36.993)	(£40.362)
Borrowing in Advance - Gross Debt in excess of the Capital Financing Requirement	No	No	No	No	No	No	No
Total Debt							
Authorised Limit (£m)	£3.991	£21.598	£23.473	£31.906	£40.515	£48.379	£51.933
Operational Boundary (£m)	£3.991	£13.006	£14.881	£23.088	£31.046	£38.755	£42.590
Proportion of Financing Costs to Net Revenue Stream (%)	5%	6%	4%	10%	17%	22%	27%

Local Indicators							
Indicators	**2018/19 Actual**	**2019/20 Original**	**2019/20 Revised**	**2020/21 Original**	**2021/22 Original**	**2022/23 Original**	**2023/24 Original**
Replacement of Debt Finance or MRP (£m)	(£0.709)	(£0.720)	(£0.746)	(£1.041)	(£1.344)	(£1.641)	(£1.938)
Capital Receipts (£m)	(£0.760)	(£1.056)	(£0.855)	(£0.537)	(£0.010)	(£0.010)	(£0.011)
Liability Benchmark (£m)	£14.168	£5.017	£3.938	(£11.249)	(£21.191)	(£32.672)	(£35.963)
Treasury Management Investments (£m)	£26.876	£23.689	£23.749	£16.769	£14.785	£11.013	£11.557

10. Chief Finance Officer Assessment of the Capital Strategy

10.1. The key risks associated with the Capital Strategy are principally related to the Investment in Property and its funding given this is planned to be funded through borrowing. I have assessed the current overall risk as **81** out of **144** based on the following factors:

	Likelihood	Impact	2020/21	2019/20
Minimum			**0**	**0**
Capital Strategy				
Slippage Occurs in the Capital Spend	4	2	8	8
Planned Capital Receipts are not received	3	4	12	12
Actual Cash flows differ from planned Cash flows	2	2	4	4
Investment in Property				
Slippage Occurs in the Capital Spend	4	2	8	8
Change of Government policy including regulatory change	3	4	12	8
The form of exit from the EU adversely impacts on the UK economy including the Property Market and Borrowing Costs	3	4	12	12
There is a cyclical 'downturn' in the wider markets	3	3	9	9
Insufficient expertise to Invest in Property	1	4	4	12
Inability to acquire or dispose of assets due to good opportunities not being identified	3	4	12	12
Assessed Level of Risk			**81**	**85**
Maximum			**144**	**144**

Capital Programme

Project	Capital Programme (R=>500k, A=250k to 500k and G=<250k) 2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total £000	Corporate
Leisure Review: Capital Investment	30	0	0	0	0	30	0
Play Equipment at Hill Ridware Village Hall	30	0	0	0	0	30	0
New Build Parish Office/Community Hub	0	92	0	0	0	92	0
Fradley Village Heating & CCTV	5	0	0	0	0	5	0
Fradley Youth & Community Centre Cladding	15	0	0	0	0	15	0
Armitage with Handsacre Village Hall heating	5	0	0	0	0	5	0
Armitage with Handsacre Village Hall storage	0	6	0	0	0	6	0
Improvement of Armitage War Memorial	0	120	0	0	0	120	0
Replacement of canopy and artificial grass	13	0	0	0	0	13	0
Burntwood LC CHP Unit	235	0	0	0	0	235	0
Westgate Practice Refurbishment	120	0	0	0	0	120	0
King Edwards VI School	101	0	0	0	0	101	0
Friary Grange - Short Term Refurbishment	174	521	0	0	0	695	0
Replacement Leisure Centre	38	164	189	2,349	2,260	5,000	0
St. Stephen's School, Fradley	22	0	0	0	0	22	0
Accessible Homes (Disabled Facilities Grants)	1,200	1,698	950	950	950	5,748	396
Home Repair Assistance Grants	28	15	15	15	15	88	0
Decent Homes Standard	0	172	0	0	0	172	0
Energy Insulation Programme	38	10	10	10	10	78	0
DCLG Monies	0	212	0	0	0	212	0
Unallocated S106 Affordable Housing Monies	270	414	0	0	0	684	0
Enabling People Total	**2,324**	**3,424**	**1,164**	**3,324**	**3,235**	**13,471**	**396**
Darnford Park (S106)	0	13	0	0	0	13	0
Canal Towpath (Brereton & Ravenhill)	211	0	0	0	0	211	0
Loan to Council Dev Co.	0	675	0	0	0	675	116
Lichfield St Johns Community Link (CIL)	0	35	0	0	0	35	0
Staffordshire Countryside Explorer (CIL)	0	44	0	0	0	44	0
Equity in Council Dev Co.	225	0	0	0	0	225	0
Vehicle Replacement Programme (Waste)	0	0	0	3,190	75	3,265	75
Vehicle Replacement Programme (Other)	146	56	327	142	202	873	57
Bin Purchase	150	150	150	150	150	750	0
Shortbutts Park, Lichfield	23	0	0	0	0	23	20
Env. Improvements - Upper St John St	7	0	0	0	0	7	0
Stowe Pool Improvements	0	50	0	0	0	50	5
The Leomansley Area Improvement Project	3	0	0	0	0	3	0
Cannock Chase SAC	44	22	25	0	0	91	0
Shaping Place Total	**809**	**1,045**	**502**	**3,482**	**427**	**6,265**	**273**
Multi Storey Car Park Refurbishment Project	300	0	0	0	0	300	0
Birmingham Road Site - Coach Park	861	625	0	0	0	1,486	418
Birmingham Road Site - Short Term Use	473	0	0	0	0	473	0
Car Parks Variable Message Signing	32	0	0	0	0	32	0
Old Mining College - Refurbish access	13	0	0	0	0	13	0
Erasmus Darwin Lunar Legacy (Lichfield Art)	3	0	0	0	0	3	3
St. Chads Sculpture (Lichfield City Art Fund)	50	0	0	0	0	50	50
Developing Prosperity Total	**1,732**	**625**	**0**	**0**	**0**	**2,357**	**471**
Investment in Property	10,500	11,500	11,500	11,500	0	45,000	0
Property Planned Maintenance	104	125	150	180	215	774	774

APPENDIX C

Project	Capital Programme (R=>500k, A=250k to 500k and G=<250k) 2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total £000	Corporate
Depot Sinking Fund	0	11	0	0	0	11	11
New Financial Information System	0	250	0	0	0	250	250
IT Infrastructure	105	55	35	15	0	210	210
IT Cloud	25	100	0	0	0	125	125
IT Innovation	60	250	50	50	0	410	305
IT Hardware	0	202	161	160	174	697	697
District Council House Repair Programme	0	164	74	110	0	348	310
A Good Council Total	**10,794**	**12,657**	**11,970**	**12,015**	**389**	**47,825**	**2,682**
Capital Programme	**15,659**	**17,751**	**13,636**	**18,821**	**4,051**	**69,918**	**3,822**

Funding Source	Capital Programme 2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total £000
Capital Receipts	547	1,402	514	559	352	3,374
Capital Receipts - Statue	53	0	0	0	0	53
Revenue - Corporate	0	182	0	0	213	395
Corporate Council Funding	**600**	**1,584**	**514**	**559**	**565**	**3,822**
Grant	1,266	2,343	931	931	931	6,402
Section 106	673	865	25	0	0	1,563
CIL	221	79	0	0	0	300
Reserves	1,946	1,066	327	72	145	3,556
Revenue (Joint Waste Service)	150	150	150	150	150	750
Sinking Fund	235	0	0	0	0	235
Leases	0	0	0	3,260	0	3,260
Total	**5,091**	**6,087**	**1,947**	**4,972**	**1,791**	**19,888**
Borrowing Need	**10,568**	**11,664**	**11,689**	**13,849**	**2,260**	**50,030**
Funding Total	**15,659**	**17,751**	**13,636**	**18,821**	**4,051**	**69,918**

APPENDIX C

Reconciliation of Original Capital Programme to this Capital Programme

	Cabinet or Decision Date	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total £000
Original Budget Council 19/02/2019		**11,618**	**14,909**	**14,466**	**17,250**	**0**	**58,243**
Approved Changes							
Allocation of Community Infrastructure Levy	12/03/2019	255	45				300
Multi Storey Car Park Refurbishment	12/03/2019	300					300
Slippage from 2018/19	13/06/2019	819					819
Quarter 1 Money Matters	10/09/2019	(805)	333				(472)
Birmingham Road Enabling Works	10/09/2019	120					120
St. Stephen's School (S106)	24/10/2019	22					22
Quarter 2 Money Matters	03/12/2019	(1,664)	1,664				0
8 Months Money Matters	11/02/2020	4,183	(1,109)	(1,500)	(1,500)		74
Friary Grange Leisure Centre							
Replacement Facility	07/10/2019	38	164	189	2,349	2,260	5,000
Short Term Refurbishment	07/10/2019	174	521				695
Capital Bids Received - 21/11/2019							
Vehicle Replacement Programme (score 80)	Medium Term Financial Strategy	(280)	(103)	20	232	277	146
Property Planned Maintenance (score 72)		104	125	150	180	215	774
Disabled Facilities Grants (score 68)						950	950
New Financial Information System (score 65)			250				250
ICT Hardware (score 59)			202	161	160	174	697
Coach Park - Acquisition (score 55)		50					50
Coach Park - Works (score 55)		575	625				1,200
Capital Bids fully funded by Revenue or External							
Joint Waste Service Bin Purchase (score 84)		150	150	150	150	150	750
Energy Insulation Programme (score 68)			(10)			10	0
Home Repair Assistance Grants (score 60)			(15)			15	0
Capital Programme		**15,659**	**17,751**	**13,636**	**18,821**	**4,051**	**69,918**

Minimum Revenue Provision Statement 2020/21

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 Ministry of Housing, Communities and Local Government's (MGCLG) guidance on MRP most recently issued in 2018.

The broad aim of the MHCLG 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 MHCLG 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 Finance Settlement, 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 a maximum of **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 a maximum of **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. 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.

Treasury Management

Introduction

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

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

Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

As part of the MTFS, we prepare integrated 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 are shown on the next page.

These Balance Sheet projections are significant in assessing the Council's Treasury Management Position in terms of borrowing requirement (including comparison to a **Liability Benchmark** explained below), investment levels and our Investment Policy and Strategy.

A Liability benchmark compares the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as used in the Balance Sheet projections, but that cash and investment balances are kept to a minimum level (**£10m**) to maintain sufficient liquidity but minimise credit risk through the use of Internal Borrowing.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast Capital Financing Requirement (CFR) or Borrowing Need over the next three years. The table shows that the Authority expects to comply with this recommendation.

	2018/19 £000	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**	**2023/24 £000**
Capital Financing Requirement (Borrowing)	£3,312	£13,694	£24,872	£35,746	£48,451	£49,238
Capital Financing Requirement (Finance Leases)	£1,675	£1,115	£560	£31	£2,794	£2,329
Total	**£4,987**	**£14,809**	**£25,432**	**£35,777**	**£51,245**	**£51,567**

External Borrowing	(£2,640)	(£10,324)	(£18,531)	(£26,489)	(£34,198)	(£38,033)
Finance Leases	(£1,675)	(£1,115)	(£560)	(£31)	(£2,794)	(£2,329)
Total	**(£4,315)**	**(£11,439)**	**(£19,091)**	**(£26,520)**	**(£36,993)**	**(£40,362)**

Liability Benchmark	£14,168	£3,938	(£11,249)	(£21,191)	(£32,672)	(£35,963)

APPENDIX E

Balance Sheet Projections 2019-24

	Type	2018/19 Actual £000s	2019/20 Budget £000s	2020/21 Budget £000s	2021/22 Budget £000s	2022/23 Budget £000s	2023/24 Budget £000s	2019/24 Change £000s
Non-Current Assets	ASSET	48,376	59,743	72,087	82,938	98,999	100,290	40,547
Equity Investment in Local Authority Company	ASSET	0	225	225	225	225	225	0
Long Term Debtors	CRED	288	288	288	288	288	288	0
Long Term Investment (Company Loan)	LOAN	0	0	675	675	675	675	675
Investments	INV	26,808	23,681	16,701	14,717	10,945	11,489	(12,192)
Borrowing	BOLE	(2,640)	(10,324)	(18,531)	(26,489)	(34,198)	(38,033)	(27,710)
Finance Leases	BOLE	(1,675)	(1,115)	(561)	(32)	(2,795)	(2,329)	(1,213)
Working Capital	CRED	(8,409)	(8,095)	(7,212)	(7,212)	(7,212)	(7,212)	883
Pensions	CRED	(42,747)	(44,930)	(43,948)	(46,448)	(49,096)	(48,239)	(3,309)
TOTAL ASSETS LESS LIABILITIES		**20,001**[2]	**19,474**	**19,725**	**18,663**	**17,832**	**17,154**	**(2,319)**

Unusable Reserves								
Revaluation Reserve	REV	(9,419)	(9,419)	(9,419)	(9,419)	(9,419)	(9,419)	0
Capital Adjustment Account	CAP	(33,970)	(35,741)	(38,137)	(38,643)	(39,236)	(40,205)	(4,464)
Deferred Credits	CRED	(47)	(47)	(47)	(47)	(47)	(47)	0
Pension Scheme	CRED	43,621	44,930	46,278	47,666	49,096	50,569	5,639
Benefits Payable During Employment Adjustment Account	CRED	219	219	219	219	219	219	0
Collection Fund	CRED	(315)	0	0	0	0	0	0
Available for Sale Financial Instruments Reserve	CRED	68	68	68	68	68	68	0
Usable Reserves								
Unapplied Grants and Contributions	UGER	(2,220)	(1,817)	(994)	(969)	(944)	(919)	898
Usable Capital Receipts	UGER	(2,004)	(2,259)	(1,394)	(890)	(341)	0	2,259
Burntwood Leisure Centre Sinking Fund	UGER	(236)	0	0	0	0	0	0
Earmarked Reserves - Unrestricted	UGER	(6,591)	(5,321)	(4,352)	(4,082)	(4,175)	(4,191)	1,130
Earmarked Reserves - Restricted	UGER	(3,798)	(3,663)	(3,891)	(4,099)	(4,306)	(4,483)	(819)
General Fund Balance	GEN	(5,310)	(6,423)	(8,056)	(8,467)	(8,747)	(8,747)	(2,324)
TOTAL EQUITY		**(20,001)**	**(19,474)**	**(19,725)**	**(18,663)**	**(17,832)**	**(17,154)**	**2,319**

Reserves Available to cover Investment Losses	**(11,901)**	**(11,744)**	**(12,408)**	**(12,549)**	**(12,922)**	**(12,938)**	**(1,194)**

Summary								
Capital Funding	CAP	(33,970)	(35,741)	(38,137)	(38,643)	(39,236)	(40,205)	(4,464)
Revaluation Reserve	REV	(9,419)	(9,419)	(9,419)	(9,419)	(9,419)	(9,419)	0
Borrowing and Leasing	BOLE	(4,315)	(11,439)	(19,091)	(26,520)	(36,993)	(40,362)	(28,923)
Non-Current Assets	ASSET	48,376	59,968	72,312	83,163	99,224	100,515	40,547
Investments	INV	26,876	23,749	16,769	14,785	11,013	11,557	(12,192)
Unapplied Grants & Earmarked Reserves	UGER	(14,848)	(13,060)	(10,630)	(10,039)	(9,766)	(9,592)	3,468
General Reserve	GEN	(5,310)	(6,423)	(8,056)	(8,467)	(8,747)	(8,747)	(2,324)
Long Term Debtors	DEBT	288	288	288	288	288	288	0
Long Term Investment (Company Loan)	LOAN	0	0	675	675	675	675	675
Working Capital & Pensions	CRED	(7,678)	(7,923)	(4,710)	(5,822)	(7,040)	(4,710)	3,213
Total		**0**	**0**	**0**	**0**	**0**	**0**	**0**
Internal Borrowing		**672**	**3,369**	**6,339**	**9,255**	**14,251**	**11,204**	**7,835**

Liability Benchmark							
Capital Financing Requirement (Borrowing)	3,312	13,468	24,645	35,519	48,224	49,012	35,545
Working Capital	(7,322)	(7,923)	(4,710)	(5,822)	(7,040)	(4,710)	3,213
Usable Reserves	(20,158)	(19,483)	(18,686)	(18,506)	(18,513)	(18,339)	1,144
Minimum Level of Investments	10,000	10,000	10,000	10,000	10,000	10,000	0
Total	**(14,168)**	**(3,938)**	**11,249**	**21,191**	**32,672**	**35,963**	**39,902**

[2] The Mid Year Treasury Management Report to Committee on 14 November 2019 showed Total Assets less Liabilities and Total Equity of £21.350m which was the figure prior to Statement of Accounts External Audit adjustments related to Pension valuations of £1.349m

Borrowing Strategy

The Authority currently projects **£10.324 million** of loans at 31 March 2020, an increase of **£7.684 million** on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast above and the Capital Programme shows that the Authority expects to borrow up to **£11.664 million** in 2020/21.

Objectives: The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans, should the 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 2020/21 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

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

Alternatively, the Authority may arrange forward starting loans during 2019/20, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

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

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

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

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

- leasing
- hire purchase
- sale and leaseback

The Authority has previously raised all of its long-term borrowing from the Public Works Loans Board (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: 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 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 interest rate exposure limits in the treasury management indicators.

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

Investment Strategy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In 2020/21, the Authority's investment balance is projected to range between **£21.69 million** and **£36.39 million**.

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

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2020/21. This is especially the case for the estimated **£12 million** that is available for longer-term investment. The majority of the Authority's surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit and money market funds. This diversification will represent a continuation of the new strategy adopted in the last few years.

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

APPENDIX E

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

Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	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 and real estate investment trusts	£4m per fund (previously £2m) Arlingclose recommendation is 10% of maximum investments for the year projected to be £36m plus internal borrowing of £6.3m = £42.3m.				
UK Domiciled Pooled Funds	£5m per fund				

This table must be read in conjunction with the notes below

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

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. See below for arrangements relating to operational bank accounts.

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 generally a lower risk of insolvency, although they are not zero risk. 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 either following an external credit assessment or to a maximum of **£250,000** per company 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 and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England). As providers of public services, they retain the likelihood of receiving government support if needed.

Pooled funds: Shares or units 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 will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the 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.

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

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below **£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.

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 existing investments with the counterparty.

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

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, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the 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.

Investment limits: The Authority's revenue reserves available to cover investment losses are forecast to be **£11.218 million** on 31st March 2020. In order that no more than **10%** 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, other Local Authorities and Pooled Funds) will be **£1 million**. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Investment limits

	Approved Cash limit	Recommended Cash Limit	Rationale for the Recommended Change
Any single organisation, except Pooled Funds, UK Central Government and UK Local Authorities	£1m each	£1m each	To reflect recommended increases in pooled fund limits.
UK Domiciled Pooled Funds	£5m each	£5m each	
UK Central Government	unlimited	unlimited	
UK Local Authorities	£2m each	£2m each	
Any group of organisations under the same ownership	£1m per group	£1m per group	
Any group of pooled funds under the same management	£9m per manager	£11m per manager	This needs to reflect the potential total investments with CCLA, Arlingclose recommendation is 25% of maximum investments for the year projected to be £36m plus internal borrowing of £6.3m = £42.3m.
Negotiable instruments held in a broker's nominee account	£12m per broker	£12m per broker	
Foreign countries	£2m per country	£2m per country	
Registered providers and registered social landlords	£5m in total	£5m in total	
Unsecured investments with building societies	£2m in total	£2m in total	
Loans to unrated corporates (excluding the Council's Company)	£2m in total	£2m in total	
Money market funds	£12m in total	£21m in total	Arlingclose recommendation is 50% of maximum investments for the year projected to be £36m plus internal borrowing of £6.3m = £42.3m.
Real estate investment trusts	£5m in total	£5m in total	

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

Related Matters

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

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. 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.

In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Markets in Financial Instruments Directive: The Authority has opted up to **professional client status** with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Head of Finance and Procurement believes this to be the most appropriate status.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Head of Finance and Procurement, having consulted the Cabinet Member for Finance and Democratic Services, 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	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; (however long-term interest costs may be less certain)

Investment Strategy Report 2020/21

Introduction

The Authority invests its money for three broad purposes:

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

This investment strategy is a new report, meeting the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

Treasury Management Investments

The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between **£21.69 million** and **£36.39 million** during the 2020/21 financial year.

Contribution: The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

Further details: Full details of the Authority's policies and its plan for 2020/21 for treasury management investments are covered in a separate document in this report, the treasury management strategy.

Service Investments: Loans

Contribution: The Council lends money to its employees for car loans, inherited housing loans from Birmingham City Council, makes loans to individuals to reduce the risk of homelessness and will lend to its subsidiary to support the development of local housing.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Category of borrower	31.3.2019 actual			2019/20	2020/21
	Balance owing	Loss allowance	Net figure in accounts	Projection	Proposed Limit
Subsidiaries	£0	£0	£0	£0	£675,000
Employees – car loans	£3,927	£0	£3,927	£3,927	£100,000
Housing Loans - secured	£44,320	£0	£44,320	£44,320	£45,000
Housing Loans - unsecured	£2,771	£0	£2,771	£2,771	£3,000
Homelessness Loans	£21,848	(£18,006)	£3,842	£3,842	£50,000
TOTAL	**£72,866**	**(£18,006)**	**£54,860**	**£54,860**	**£873,000**

Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts from 2019/20 onwards will be shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent including placing charges on properties for housing loans (secured) and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: The most significant loan for a service purpose is the **£675,000** loan for **5 years** to the Council Development Company for the provision of housing. The Board of Directors of the Company will initially consist of Council employees and therefore the Council will be able to manage the repayment risk through project due diligence and the monitoring of selected projects.

Commercial Investments: Property

See the Capital Strategy at **APPENDIX B**.

Loan Commitments and Financial Guarantees

See the Capital Strategy at **APPENDIX B**.

Proportionality

See the Capital Strategy at **APPENDIX B**.

Borrowing in Advance of Need

Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Authority has chosen not to follow this guidance and plans to borrow for this purpose to fund the approved Property Investment Strategy. The Authority's policies in investing the money borrowed, including management of the risks, for example, of not achieving the desired profit or borrowing costs will be managed as part of the Authority's overall management of its treasury risks.

Capacity, Skills and Culture

See the Capital Strategy at **APPENDIX B**.

Investment Indicators

The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans.

Total Investment Exposure	31/03/2019 Actual £000	31/03/2020 Forecast £000	31/03/2021 Forecast £000	31/03/2022 Forecast £000	31/03/2023 Forecast £000	31/03/2024 Forecast £000
Treasury Management Investments	£26,876	£23,749	£16,769	£14,785	£11,013	£11,557
Commercial Investments: Property	£4,867	£15,367	£26,867	£38,367	£49,867	£49,867
TOTAL INVESTMENTS	**£31,743**	**£39,116**	**£43,636**	**£53,152**	**£60,880**	**£61,424**
Commitments to Lend	£0	£0	£675	£675	£675	£675
TOTAL EXPOSURE	**£31,743**	**£39,116**	**£44,311**	**£53,827**	**£61,555**	**£62,099**

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

Investments funded by borrowing

Investments Funded by Borrowing (cumulative at year-end)	31/03/2019 Actual £000	31/03/2020 Forecast £000	31/03/2021 Forecast £000	31/03/2022 Forecast £000	31/03/2023 Forecast £000	31/03/2024 Forecast £000
Commercial Investments: Property	£0	£10,500	£22,000	£33,500	£45,000	£45,000
TOTAL FUNDED BY BORROWING	**£0**	**£10,500**	**£22,000**	**£33,500**	**£45,000**	**£45,000**

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Investment rate of return (net of all costs)

Investments Net Rate of Return	31/03/2019 Actual %	31/03/2020 Forecast %	31/03/2021 Forecast %	31/03/2022 Forecast %	31/03/2023 Forecast %	31/03/2024 Forecast %
Treasury Management Investments	0.90%	1.08%	1.27%	1.43%	1.64%	1.97%
Commercial Investments						
Property (excluding valuation changes)	8.30%	8.30%	8.30%	8.30%	8.30%	8.30%
Investment in Property	0.00%	0.00%	1.00%	1.00%	1.00%	1.00%
ALL INVESTMENTS	**9.20%**	**9.38%**	**10.57%**	**10.73%**	**10.95%**	**11.27%**

See the Capital Strategy at **APPENDIX B**.

APPENDIX G

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

Context

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

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.

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.

The Council's aim is to have a prudent level of General Reserves available for unforeseen financial risks. The Council projects available general reserves of **£4,824,000** at 31 March 2020. This is **39%** of the amount to be met from Government Grants and Local Taxpayers in 2020/21 of **£12,284,000**.

The minimum level of Reserves for 2020/21 onwards is **£1,600,000** and has been determined by Risk Assessment**.**

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.

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.

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

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 2020/21 budget and beyond.

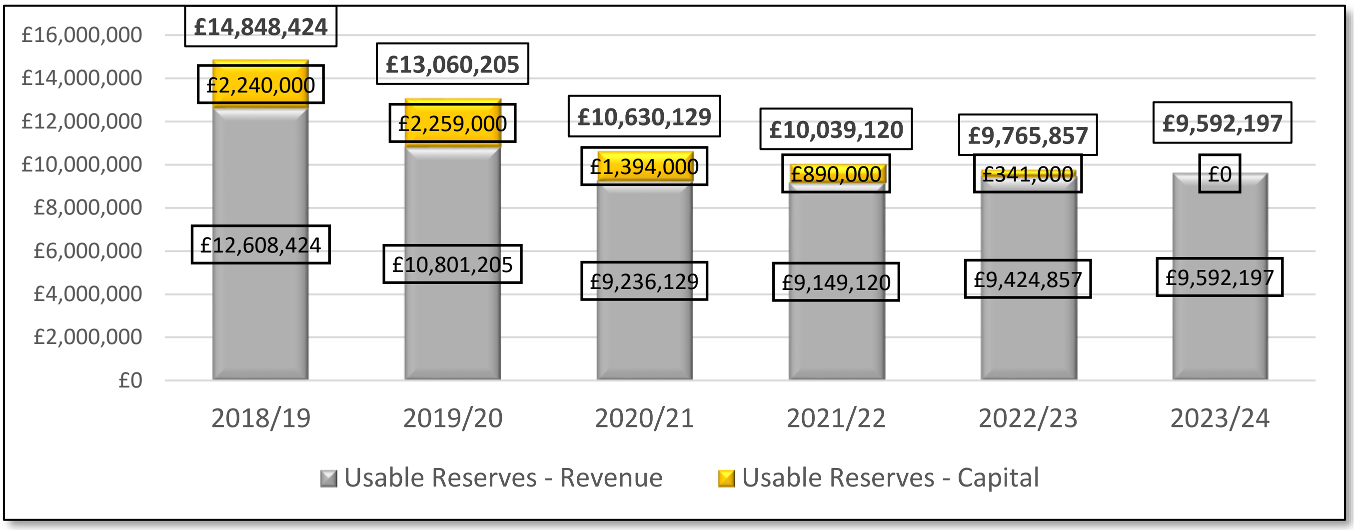
CIPFA provides guidance for determining the minimum level of Reserves. The Council uses the method based on risk assessment. The approach to the risk assessment of Reserves has taken into account CIPFA guidance (LAAP 99) (Guidance note on Local Authority Reserves and Balances).

The table below shows the financial risk assessment made for **2020/21**:

Explanation of Risk / Justification of Balances	Severity of Risk	2020/21 Reserve Amounts £	2019/20 Reserve Amounts £	Change £
Capital Strategy Risk Assessment	Material	£149,000	£117,000	£32,000
Business Rates (Gross Risk £1.062m less Volatility Reserve £0.831m)	Severe	£231,000	£599,000	(£368,000)
Leisure Centre Outsourcing Bid	Tolerable	£37,000	£36,000	£1,000
Reduction in customer income/Savings not achieved	Material	£592,000	£355,000	£237,000
Higher inflation	Material	£233,000	£155,000	£78,000
Increase in demand led services	Material	£90,000	£90,000	£0
Collection performance	Material	£129,000	£115,000	£14,000
Civil Contingency	Tolerable	£127,000	£127,000	£0
Other small risks	Tolerable	£12,000	£6,000	£6,000
		£1,600,000	**£1,600,000**	**£0**

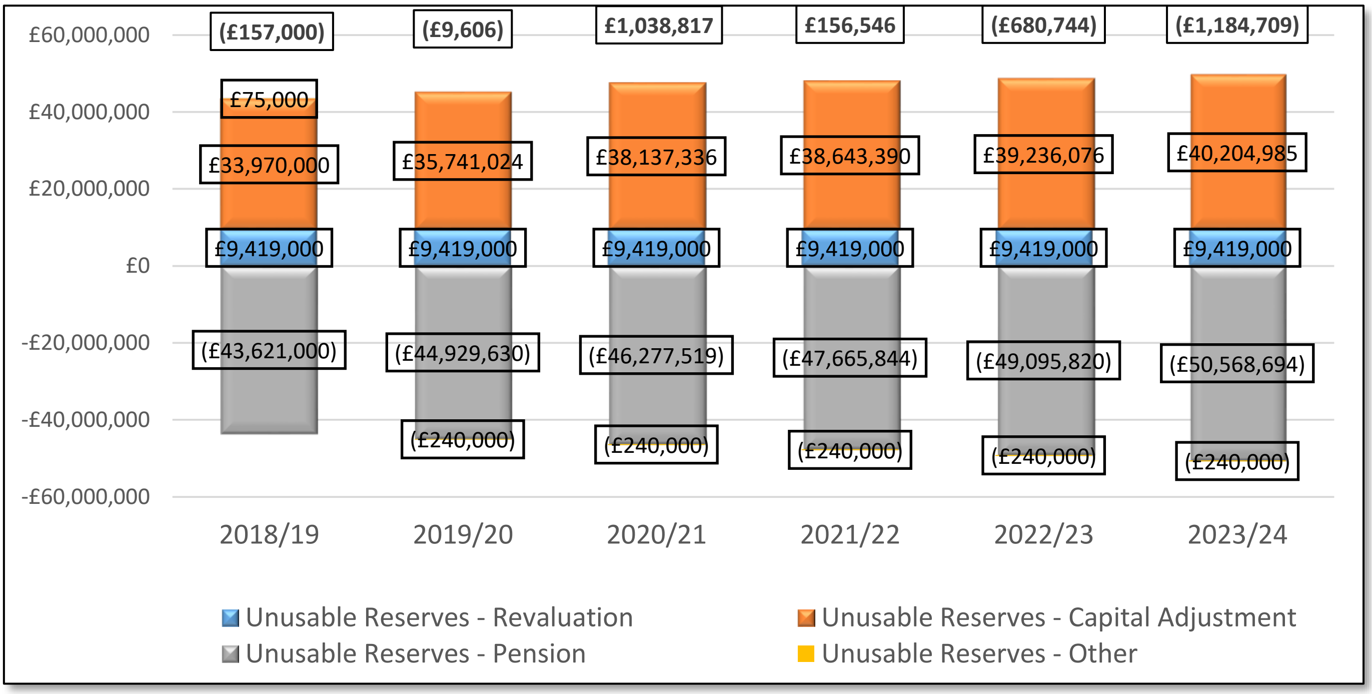
Other Reserves (in addition to General Reserves)

A review of the level of Earmarked Reserves has been undertaken as part of the annual Budget preparation. The projected levels are shown below – revised estimate transfer to general reserves:



Ongoing review of Earmarked Reserves takes place as part of the Money Matters Reports in line with the approved earmarked reserves policy to ensure we are only holding funds for known and essential purposes.

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 below:



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 2019 and the draft budget was completed in December 2019 prior to the Provisional Financial Settlement for Local Government 2020/21. This enabled formal scrutiny of the budget making process in January 2020. The final budget is due to be set at Council on 18 February 2020, well within the statutory deadline.[3]

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 2019 to Mid-January 2020, 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, Cabinet and the Scrutiny process itself.

Localism Act - Right to approve or veto excessive Council Tax rises - The Secretary of State has determined a **2%** or **£5.00** (whichever is the higher) limit for Council Tax increases for 2020/21. 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 2019/20 outturn and 2020/21 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.

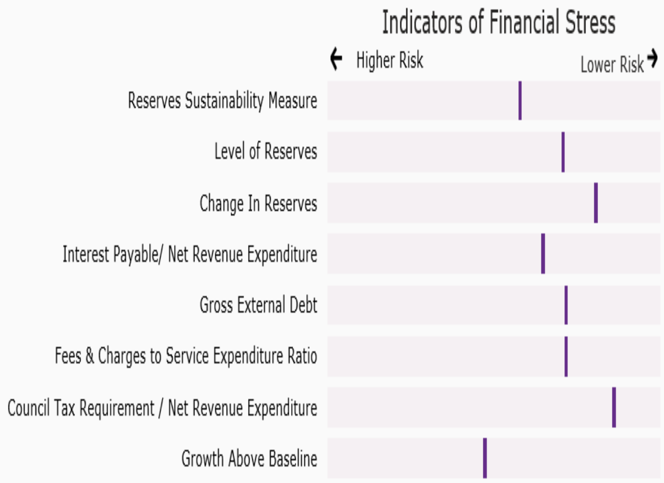
The CIPFA Resilience Index

CIPFA published the first release of its Resilience Index in December 2019. The selection of indicators has been informed by the extensive financial resilience work undertaken by CIPFA over the past four years, public consultation and technical stakeholder engagement. The index shows this Council's position on a range of measures associated with financial risk with the results breakdown summarised below:

[3] Statutory deadline date for setting Council Tax is by 11 March 2020.

District Councils

Results Breakdown



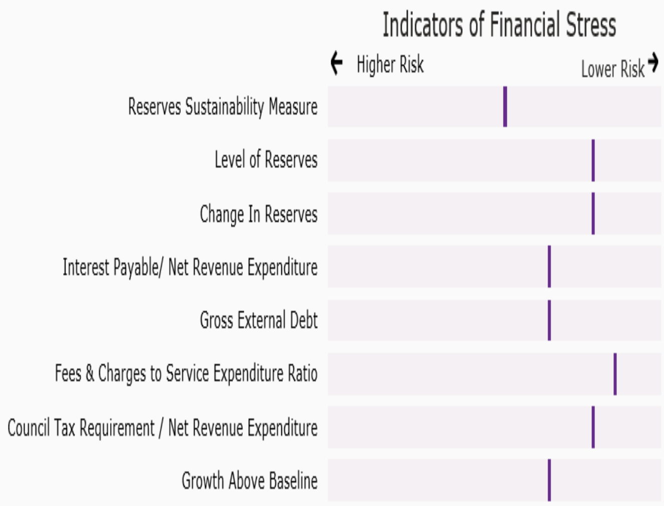
Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	2.86	100.00	100.00
Level of Reserves	23.28%	173.29%	300.00%
Change In Reserves	-51.16%	57.77%	490.83%
Interest Payable/ Net Revenue Expenditure	-7.13%	0.64%	525.04%
Gross External Debt	£0k	£4,314k	£1,212,343k
Fees & Charges to Service Expenditure Ratio	1.58%	29.76%	70.32%
Council Tax Requirement / Net Revenue Expenditure	36.95%	89.42%	100.00%
Growth Above Baseline	-129.00%	68.00%	287.00%

Auditors VfM Assessment

Unqualified

Nearest Neighbours

Results Breakdown



Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	14.99	100.00	100.00
Level of Reserves	59.40%	173.29%	256.25%
Change In Reserves	-16.67%	57.77%	164.32%
Interest Payable/ Net Revenue Expenditure	0.00%	0.64%	27.90%
Gross External Debt	£0k	£4,314k	£104,047k
Fees & Charges to Service Expenditure Ratio	6.93%	29.76%	39.98%
Council Tax Requirement / Net Revenue Expenditure	48.62%	89.42%	100.00%
Growth Above Baseline	52.00%	68.00%	270.00%

Auditors VfM Assessment

Unqualified

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.

Revenue Budget – 25 Year Model (1 to 10 years, 15 years, 20 years and 25 years)

Key Assumptions													
Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**15**	**20**	**25**
Council Tax Base	38,011	39,032	39,717	40,627	41,487	41,999	41,999	42,330	42,661	42,992	44,647	46,302	47,957
Projected Residential Growth - LHN							331	331	331	331	331	331	331
Projected Council Tax Base							**42,330**	**42,661**	**42,992**	**43,323**	**44,978**	**46,633**	**48,288**
Council Tax Band D	£175	£180	£185	£190	£195	£199	£203	£207	£211	£215	£238	£262	£289
Modelled Council Tax Increase	£5.00	£5.00	£5.00	£5.00	£5.00	1.99%	1.99%	1.99%	1.99%	1.99%	1.99%	1.99%	1.99%
LG Futures Property Based Unit Cost	£53	£54	£55	£56	£57	£58	£59	£61	£62	£63	£70	£77	£85
Core Budget Inflation Allowance						2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Funding and Pension Inflation Allowance						2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%

	Medium Term Financial Strategy					**Additional Projections**							
	2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2033/34**	**2038/39**	**2043/44**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**15**	**20**	**25**
Modelled Total Expenditure	**10,934**	**10,823**	**11,134**	**11,708**	**11,986**	**11,807**	**12,374**	**12,657**	**13,094**	**13,542**	**15,847**	**18,673**	**21,950**
Inflation and Budget Variations													
Provision for Pay and Other Inflation	0	(3)	(2)	0	3	295	300	317	325	336	393	464	545
Budget Pressure - Residential Growth						30	20	20	20	21	23	25	28
Budget Variations	(340)	870	(265)	(220)	(104)	(149)							
Revenue Implications of Capital Bids	0	229	(30)	(85)	19	(3)							
Sub Total	**10,594**	**11,919**	**10,837**	**11,403**	**11,904**	**11,980**	**12,693**	**12,994**	**13,439**	**13,899**	**16,263**	**19,162**	**22,523**
Other Projections													
Annual Increase in Past Service Pensions						100	102	104	106	108	120	132	146
Treasury Management	0	(97)	(97)	(97)	(97)								
MRP for Burntwood LC completed										(136)			
FGLC short term running costs end							(135)						
Replacement for FGLC Debt Costs						294	(4)	(4)	(4)	(4)	(4)	(4)	(4)
Total Modelled Expenditure	**10,594**	**11,822**	**10,740**	**11,306**	**11,807**	**12,374**	**12,657**	**13,094**	**13,542**	**13,867**	**16,379**	**19,290**	**22,665**

APPENDIX H

	Medium Term Financial Strategy					Additional Projections							
	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	2033/34 £000	2038/39 £000	2043/44 £000
Retained Business Rates													
Baseline Funding Level	(2,083)	(2,117)	(2,168)	(2,211)	(2,255)	(2,300)	(2,346)	(2,393)	(2,441)	(2,490)	(2,749)	(3,035)	(3,351)
Fair Funding - Negative RSG principles	0	0	477	491	506	516	526	537	548	559	617	681	752
Retained Growth - full & phased resets	(746)	(903)	(89)	(116)	(123)	(100)	(102)	(104)	(106)	(108)	(120)	(132)	(146)
New Homes Bonus / Replacement													
New Homes Bonus - total receipt	(1,278)	(1,771)	(911)	(680)									
New Homes Bonus - Replacement					(300)	(200)	(100)	0	0	0	0	0	0
Council Tax and Other Funding													
Collection Fund and one off funding	(945)	(464)	(86)	(109)	(35)	(35)	(35)	(35)	(35)	(35)	(35)	(35)	(35)
Council Tax	(6,655)	(7,029)	(7,350)	(7,722)	(8,093)	(8,356)	(8,589)	(8,829)	(9,074)	(9,326)	(10,685)	(12,225)	(13,969)
Total Modelled Funding	**(11,707)**	**(12,284)**	**(10,127)**	**(10,347)**	**(10,300)**	**(10,475)**	**(10,646)**	**(10,824)**	**(11,108)**	**(11,400)**	**(12,972)**	**(14,746)**	**(16,749)**

Modelled Funding Gap/(General Reserves)	**(1,113)**	**(462)**	**613**	**959**	**1,507**	**1,899**	**2,011**	**2,270**	**2,434**	**2,467**	**3,407**	**4,544**	**5,917**

Memorandum Item	**Legacy Payments**				**New Scheme**			
New Homes Bonus - Base Budget	(700)	(600)	(500)	(400)	(300)	(200)	(100)	0

	Medium Term Financial Strategy					Additional Projections							
Available General Reserves Year Start	**3,710**	**4,823**	**6,456**	**6,867**	**7,147**	**7,147**	**7,147**	**7,147**	**7,147**	**7,147**	**7,147**	**7,147**	**7,147**
Contributions from Revenue Account	1,003	462											
New Homes Bonus in excess of the 'Cap'	110	1,171	411	280									
Available General Reserves Year End	**4,823**	**6,456**	**6,867**	**7,147**	**7,147**	**7,147**	**7,147**	**7,147**	**7,147**	**7,147**	**7,147**	**7,147**	**7,147**

Available General Reserves assuming no Savings/income identified	**4,823**	**6,456**	**6,253**	**5,575**	**4,068**	**2,168**	**158**