BROMSGROVE DISTRICT COUNCIL

MEETING OF THE CABINET

WEDNESDAY 13TH MARCH 2019
AT 6.00 P.M.

COMMITTEE ROOM, COMMITTEE ROOM 2 - PARKSIDE

MEMBERS: Councillors G. N. Denaro (Leader), K.J. May (Deputy Leader), B. T. Cooper, M. A. Sherrey, C. B. Taylor and P. J. Whittaker

AGENDA

1. To receive apologies for absence

2. Declarations of Interest

   To invite Councillors to declare any Disclosable Pecuniary Interests or Other Disclosable Interests they may have in items on the agenda, and to confirm the nature of those interests.

3. To confirm the accuracy of the minutes of the meeting of the Cabinet held on 27th February 2019 (Pages 1 - 6)

4. Minutes of the meeting of the Overview and Scrutiny Board held on 11th February 2019 (Pages 7 - 16)

   (a) To receive and note the minutes
   (b) To consider any recommendations contained within the minutes

5. Proposed Changes to the Home Choice Plus allocations policy - consultation (Pages 17 - 22)

6. Finance Monitoring Quarter 3 Report (Pages 23 - 36)

7. Treasury Management and Capital Strategy (Pages 37 - 72)

8. Investment and Acquisition Strategy (Pages 73 - 80)

9. Finance System - Report to follow

10. To consider any other business, details of which have been notified to the Head of Legal, Equalities and Democratic Services prior to the commencement of the meeting and which the Chairman, by reason of special circumstances, considers to be of so urgent a nature that it cannot wait until the next meeting

K. DICKS
Chief Executive

Parkside
Market Street
BROMSGROVE
Worcestershire
B61 8DA

5th March 2019

Bromsgrove District Council
www.bromsgrove.gov.uk

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BROMSGROVE DISTRICT COUNCIL

MEETING OF THE CABINET

27TH FEBRUARY 2019, AT 4.30 P.M.

PRESENT: Councillors G. N. Denaro (Leader), K.J. May (Deputy Leader), B. T. Cooper, M. A. Sherrey, C. B. Taylor and P. J. Whittaker

Officers: Ms. C. Flanagan, Mr C. Forrester, Mr D Riley and Ms. A. Scarce

74/18 **APOLOGIES**

There were no apologies for absence on this occasion.

75/18 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

76/18 **MINUTES**

The minutes of the Cabinet meeting held on 13th February 2019 were submitted.

RESOLVED that the minutes of the Cabinet meeting held on 13th February 2019 be approved as a true record.

77/18 **COUNCIL TAX RESOLUTION (APPENDIX 7 TO THE MEDIUM TERM FINANCIAL PLAN CONSIDERED AT THE MEETING HELD ON 13TH FEBRUARY 2019)**

The Financial Services Manager introduced the report and in so doing explained that the papers before Members were Appendix 7 to the Medium Term Financial Plan report considered at Cabinet on 13th February 2019. The formal resolutions determined the levels of Council Tax for the Council for 2019/20.

An increase of 2.99% was lower than most preceptors, with the exception of the parish councils who were proposing 2.85% full details were provided within the report. The table on page 4 of the supplementary agenda pack provided details of the Valuation Bands. Details of the surplus on the collection fund were provided and payments would be made in ten equal instalments.

Following presentation of the report Members discussed the following points in more detail:

- No single total for the surplus on the Collection Fund and its level. It was confirmed that the level was close to that expected.
- It was confirmed that whilst the Council was not able to increase its Council Tax by more than 3% unless a referendum had been held, the Police Authority had been given special permission to increase its 9.94%.
- It was understood that the increased rate from the Police would be to cover additional officers on the ground.

Councillor B. Cooper, Portfolio Holder for Finance took the opportunity to thank the Executive Director, Finance and Resources and the Financial Services Manager for all their hard work.

RECOMMENDED:

1. That it be noted at its meeting on 16th January 2019 the Cabinet calculated the Council Tax Base 2019/20

   (a) for the whole Council area as 36,714.20 [Item T in the formula in Section 31B of the Local Government Act 1992, as amended (the "Act")]; and

   (b) for dwellings in those parts of its area to which a Parish precept relates the amounts as shown in Column 4 of the attached **Schedule 1**.
2. Calculate the Council Tax requirement for the Council's own purposes for 2019/20 (excluding Parish precepts) is **£8,187,422.53.**

3. That the following amounts be calculated for the year 2019/20 in accordance with sections 31 to 36 of the Act:

   (a) £41,030,713 being the aggregate of the amounts which the Council estimates for the items set out in Section 31A (2) of the Act (taking into account all precepts issued to it by Parish Councils) *(i.e. Gross expenditure)*

   (b) £31,932,165 being the aggregate of the amounts which the Council estimates for the items set out in Section 31A (3) of the Act.
   (i.e. Gross income)

   (c) £9,098,547 being the amount by which the aggregate of 3 (a) above exceeds the aggregate at 3 (b) above, calculated by the Council, in accordance with Section 31A (4) of the Act, as its Council Tax requirement for the year.

(Item R in the formula in Section 31B of the Act).

(d) £247.82 being the amount at 3 (c) above (Item R), all divided by Item T (1(a) above), calculated by the Council, in accordance with Section 31B of the Act, as the basic amount of its Council Tax for the year (including Parish precepts).

(e) £911,125 being the aggregate amount of all special items (Parish precepts) referred to in Section 34 (1) of the Act (as per the attached **Schedule 3**).

(f) £223.00 being the amount at 3 (d) above less the result given by dividing the amount at 3 (e) above by Item T (1 (a) above), calculated by the Council, in accordance with Section 34 (2) of the Act, as the basic amount of its Council Tax for the year for dwellings in those parts of its area to which no Parish precept relates.

(g) The amounts shown in Column 3 of **Schedule 1**. These are the basic amounts of the council tax for the year for dwellings in those parts of the Council's area shown in Column 1 of the schedule respectively to which special items relate, calculated by the Council in accordance with Section 34(3) of the Act. (District and Parish combined at Band D).

(h) The amounts shown in Column 5 of **Schedule 1** being the amount given by multiplying the amounts at 4(g) above by the number which, in the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation band D, calculated by the Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands;

4. It be noted that for the year 2019/20 Worcestershire County Council, Warwickshire and West Mercia Police and Crime Commissioner and Hereford and Worcester Fire and Rescue Authority have issued precepts to the Council in accordance with Section 40 of the Local Government Finance Act 1992 for each category of dwelling in the Council's area as indicated below:

	Valuation Bands							
	A	**B**	**C**	**D**	**E**	**F**	**G**	**H**
	£	**£**	**£**	**£**	**£**	**£**	**£**	**£**
Worcestershire County Council	840.50	980.58	1,120.67	**1,260.75**	1,540.92	1,821.08	2,101.25	2,521.50
Warwickshire and West Mercia Police and Crime Commissioner	144.44	168.51	192.59	**216.66**	264.81	312.95	361.10	433.32
Hereford and Worcester Fire and Rescue Authority	56.23	65.60	74.97	**84.34**	103.08	121.82	140.57	168.68

5. Having calculated the aggregate in each case of the amounts at 4(h) and 5 above, that Bromsgrove District Council in accordance with Sections 30 and 36 of the Local Government Finance Act 1992 hereby sets the amounts shown in **Schedule 2** as the amounts of Council Tax for 2019/20 for each part of its area and for each of the categories of dwellings.

6. That the Executive Director Finance & Resources be authorised to make payments under Section 90(2) of the Local Government Finance Act 1988 from the Collection Fund by ten equal instalments between April 2019 to March 2020 as detailed below:

	Precept £	Surplus on Collection Fund £	Total to pay £
Worcestershire County Council	46,287,427.65	311,464.00	46,598,891.65
Warwickshire and West Mercia Police and Crime Commissioner	7,954,452.97	50,628.00	8,005,080.97
Hereford & Worcester Fire	3,096,473.87	21,040.00	3,117,513.87

7. That the Executive Director Finance & Resources be authorised to make transfers under Section 97 of the Local Government Finance Act 1988 from the Collection Fund to the General Fund the sum of £9,160,375.06 being the Council's own demand on the Collection Fund (£8,187,422.53), Parish Precepts (£911,124.53) together with the distribution of the Surplus on the Collection Fund (£61,828.00).

8. That the Executive Director Finance & Resources be authorised to make payments from the General Fund to the Parish Councils the sums listed on **Schedule 3** by two equal instalments on 1 April 2019 and 1 October 2019 in respect of the precept levied on the Council.

9. That the above resolutions 3 to 5 be signed by the Chief Executive for use in legal proceedings in the Magistrates Court for the recovery of unpaid Council Taxes.

10. Notices of the making of the said Council Taxes signed by the Chief Executive are given by advertisement in the local press under Section 38(2) of the Local Government Finance Act 1992.

78/18 **COUNCIL TAX SUPPORT SCHEME**

The Financial Support Manager presented the report and in so doing highlighted that there was a requirement for the Council to review its Council Tax Support Scheme each year. This report proposed a change to the scheme to provide for increased levels of support for working age claimants to 85% from the current level of 80% and in addition provided additional support for care leaves under the age of 25. It also uprated figures within the scheme to being them in line with national welfare benefits.

Members were reminded that when Council Tax Benefit was abolished in April 2013, Central Government replace the scheme of subsidy for costs with a grant equivalent for 90% of the costs. They were also advised that from modelling carried out and based on existing claimants an increase in expenditure of £96k was suggested. This should be mitigated by the overall costs of the scheme being below 90% of the 2012/13 scheme.

It was noted that whilst Worcestershire County Council (WCC) had responded to the consultation raising concerns about the increase in support to 85% as it would increase the financial burden to them, WCC tax base had been set in January and would have reflected this level of support.

Following presentation of the report Members discussed how, immediately after the abolishment of the Council Tax Benefit scheme the Council had continued to give 100% support, reducing this to 80% after 2 years.

RECOMMENDED:

That the Local Council Tax Support scheme is revised to provide:

1) Increase to maximum level of support for working age claimants from 80% of liability to 85% of liability;

2) Care Leavers under 21 years of age are treated as a protected group and provided 100% Local Council Tax Reduction (LCTR);

3) Care leavers aged 21 years or over and under 25 years of age are treated as a protected group and provided up to 100% LCT;

4) The scheme is uprated in line with national welfare benefits; and

5) Council Tax Hardship Scheme is amended to enable transitional support to be provided to care leavers under 25 whose income results in significant withdrawal of support

The meeting closed at 4.50 p.m.

Chairman

BROMSGROVE DISTRICT COUNCIL

MEETING OF THE OVERVIEW AND SCRUTINY BOARD

11TH FEBRUARY 2019, AT 6.00 P.M.

PRESENT: Councillors L. C. R. Mallett (Chairman), S. A. Webb (Vice-Chairman), C. Allen-Jones, S. R. Colella, R. J. Deeming, C.A. Hotham, R. J. Laight and P.L. Thomas

Observers: Councillor B. T. Cooper and Councillor M. A. Sherrey

Officers: Mr M. Austin, Ms F. Mughal, Ms. J. Pickering, Mr. G. Revans and Ms. A. Scarce

96/18 **APOLOGIES FOR ABSENCE AND NAMED SUBSTITUTES**

The Chairman advised the Board that he had agreed not to put Members name plates out for this meeting as a Member had requested a return to coloured name plates as used at other committee meetings.

Members were reminded that in June 2015 the Board had agreed to use white names plates and sit in alphabetical order at future meetings and this had also been noted in the Board's Annual Report to full Council. The Chairman stated that it was the Board's responsibility to determine their own administrative arrangements.

It was suggested that, for clarity, the Board consider these arrangements again, in order for current Members to put forward their views. The Chairman suggested the following options for the Board to consider:

1. To continue to use white nameplates, with Members seated in alphabetical order;

2. To be a matter for individual Member choice as to whether each Member wished to have a coloured or white name plate; or

3. To adopt the same arrangements as Full Council, so for all Members to have coloured nameplates.

Members discussed whether the use of white or coloured name plates would be appropriate for the Overview and Scrutiny Board. Members felt that as the Overview and Scrutiny Board should be seen as not being party political, it was proposed that the Board continued to display white name plates with Members seated in alphabetical order.

The Chairman and the Senior Democratic Services Officer (Bromsgrove) advised that if Members chose not to adhere to these arrangements, then the matter would be referred to the relevant Group Leader.

The proposal was put to the vote and Members unanimously agreed to continue using white names plates and in alphabetical seating order for all future meetings of the Board. Members were in agreement that this approach had worked well at previous meetings and there was no reason why it should not continue.

RESOLVED that the use of white names plates and an alphabetical seating order be adopted at future meetings of the Board.

Apologies for absence were received on behalf of Councillor M. Glass and M. Thompson.

97/18 **DECLARATIONS OF INTEREST AND WHIPPING ARRANGEMENTS**

There were no declarations of interest or whipping arrangements.

98/18 **TO CONFIRM THE ACCURACY OF THE MINUTES OF THE MEETING OF THE OVERVIEW AND SCRUTINY BOARD HELD ON 14 JANUARY 2019**

The minutes of the Overview and Scrutiny Board meeting held on 14th January, 2019 were submitted for Members' consideration.

RESOLVED that the Minutes of the Overview and Scrutiny Board held on 14th January, 2019 be approved as an accurate record.

99/18 **COUNCIL TAX SUPPORT SCHEME REVIEW**

The Executive Director of Finance and Resources provided a verbal update in relation to the Council Tax Support Scheme Review. Members were reminded that in September, 2018, the Board had received a report that outlined the new scheme and proposed a formal consultation with the major preceptors and the public. The elements for consultation were the increase of support to 85% and 100% discount for care leavers.

Members were informed that the number of responses received to the consultation had been very low and the Executive Director, Finance and Resources had therefore asked for a further consultation to take place over a two week period. This had commenced and a targeted approached had been used where text messages had been sent to both residents and those in receipt of this particular benefit. Over 100 responses had already been received, which was significantly higher than the original consultation. The findings of the consultation and supporting report would need to be brought to Council and a special Cabinet meeting on 27th February 2019.

The Executive Director, Finance and Resources was keen for the Board to consider this report prior to those meetings, but unfortunately due to timescales it would be difficult to schedule in an additional meeting of the Board. It was suggested that the Finance and Budget Working Group could meet to carry out this work. It was further suggested that as a high response had already been received to the consultation that the closing date be brought forward to Friday 15th February, which would allow for the report to be included in the agenda papers within the appropriate timescales rather than it be marked to follow.

The Board was in agreement for this approach to be taken and as the Finance and Budget Working Group were meeting directly after this meeting, they would make arrangements to hold a meeting prior to Council on 27th February in order to consider the matter and if appropriate make recommendations to be considered at that meeting.

100/18 **ENVIRONMENTAL SERVICES - THREE BUSINESS CASES**

The Environmental Services Manager and Head of Environmental Services presented a report in respect of the Environmental Business Cases in relation to the Domestic Waste Collection, Commercial Services and Place Team Resources.

The proposed Business Cases had been produced to show the current pressures on Environmental Services across Bromsgrove District, and to consider a number of options to secure the service areas for the future. The Board was reminded that the report had been prepared following significant disruption to waste collection services in September, 2018.

It was reported that the Domestic Waste Collection Service and Place Team had seen an increase in demand on their services generated by increased housing growth and limited capacity to provide the service in full and to cover sickness and annual leave.

The summary of the proposals and recommendations were detailed in the report:

- The Domestic Waste Collection Business Case and the allocation of £156,646 revenue funding to Environmental Services to fund three members of staff, vehicle maintenance costs, and running costs to support the service.

- The additional revenue funding for the Domestic Waste Service and the approval of Capital Investment of £137,000 for one new Collection Vehicle, which would also incur annual borrowing costs of £21,823 from 2020/21 on the corporate financing revenue account.

- The Commercial Waste Business Case and the allocation of £184,558 additional revenue funding to Environmental Services to fund six additional members of staff, vehicle maintenance and running costs to support the service and the generation of additional income for the Council.

- The additional revenue funding for the Commercial Waste Service and the Capital Investment of £340,000 for 2 new Collection Vehicles, which would also incur annual borrowing costs of £54,162 from 2020/21 on the corporate financing revenue account.

- The Future Delivery of Place Team Working Business Case and £166,697 additional revenue funding to Environmental Services to fund six additional members of staff to support the service on a phased implementation over the next three years.

Each Business Case required additional vehicles to achieve the benefits of the extra staffing and to ensure the services were fit for purpose.

In response to Members questions, the following points were highlighted:

- Members noted the expenses and forecast income associated with the three Business Cases, which showed the Net Revenue impact on the Council. The combined revenue impact was £30,923 for 2019/20, £81,480 for 2020/21 and £57,371 for 2021/22.
- The investment in recruiting additional permanent staff would reduce the risk of ongoing overspend on agency and temporary staff. Although this was not identified as a saving it would prevent an overspend on the Environmental Services budget in respect of agency staff going forward.
- Whether Council Tax Income covered the cost of the service provided. It was confirmed that it was not considered in the proposed business cases, which were based on the forecast of the number of new houses expected to be built in the district, as detailed in the Local Plan.
- The Council did not have the responsibility to collect plastic from farms. It was explained that this was a specialist area and could potentially increase the operational costs as some of these types of plastic may contain chemicals and therefore be more costly to dispose of.
- Members alluded to the disruption of the waste collection as being a one off occasion with no previous issues and therefore questioned why it was felt there was a need for a proposed business case for the Waste Collection Services.
- Members noted the agency staffing cost to cover annual leave and sick leave and the impact on the budget position.
- Approximately 20,000 households were affected by the disruption. The problems had occurred due to staff leave and

exceptionally high sickness absence. It was noted that this was on top of an already overstretched work force.

- The recommended option would provide the resources required to reflect requirements of the service over the next two years.
- The proposed plan was prepared for short/medium term with the option to consider a model that would be best for services in the long term. A model to look at what was suitable for the long term would be dependent on the outcome of the proposed National Waste Strategy that the Government was introducing. This included the introduction of food waste collection and that the garden waste collection service should be free. This would have an impact on the Council's financial position as it received a significant income currently from this service.

RESOLVED that the Environmental Business Cases in relation to the Domestic Waste Collection, Commercial Services and Place Team Resources be noted.

101/18 **PAY POLICY STATEMENT - PRE- SCRUTINY**

The Executive Director of Finance and Resources introduced the Pay Policy which would be included as an appendix to the Medium Term Financial Plan report to be considered by Cabinet on 13th February 2019. It was explained that under the Localism Act it was a requirement that local authorities produced a Pay Statement, which needed to be approved by full Council. The introduction of the proposed national pay model, which had previously been discussed by the Board would be implemented by the 1st April, 2019 and was, as Members were aware, subject to consultation. Members were informed that the Trades Unions supported the revised scheme.

An explanation was provided in respect of the Council's pay and grading structure as agreed by the National Joint Council for 2019.

All Council posts were allocated to a grade within this pay structure, based on the application of a Job Evaluation process. Posts at Managers and above were evaluated by an external assessor using the Hay Job Evaluation scheme. This scheme identified the salary for these posts based on a percentage of Chief Executive's Salary. It was noted that previously the Hay Grade post would had received an increase and that the Chief Executive post had not.

With regards to the cost of the senior management team, 50% of the overall cost was in line with the Shared Service agreement with Redditch Borough Council. This was something which it had been suggested needed to be reviewed and the Board were keen for this review to be carried out.

In response to a Member question, whether the Head of Customer Access and Financial Support was a fair spilt cost between the two authorities, as it was believed that Redditch maintained more housing stock compared to Bromsgrove. The Executive Director of Finance and Resources stated that the Housing Revenue in Redditch had their own reception who would deal with any issues related to Redditch.

RESOLVED that the Pay Policy Statement be noted.

102/18 **INVESTMENT AND ACQUISITION STRATEGY REPORT UPDATE - PRE-SCRUTINY**

Members were informed that the Investment and Acquisition Strategy Report was deferred to the next meeting on 4th March, 2019 or to the Finance and Budget Working Group for Members consideration and would go to the Cabinet meeting on 6th March 2019.

103/18 **FINANCE AND BUDGET WORKING GROUP - VERBAL UPDATE**

Councillor Mallett provided a verbal update and advised the Board that the Finance and Budget Working Group had met on 11th February, 2019 and had discussed the Medium Term Financial Plan for the next four years. A main concern had been the uncertainly around a number of areas but in particular, in respect of the New Homes Bonus Grant.

The Group had requested further information in respect of a number of areas, including more detail in order to understand the savings made and the use of balances in future years to produce a balanced budget.

104/18 **CORPORATE PERFORMANCE WORKING GROUP - VERBAL UPDATE**

Councillor Webb informed the Board that at the meeting held on 7th February, 2019, the Group considered the performance report in respect of 'Help me find somewhere to live in my locality'. Members asked for further clarification in relation to a number of areas within the report. Members were further advised that the next meeting had been arranged to take place in March, 2019.

105/18 **TASK GROUP - VERBAL UPDATES**

The Senior Democratic Services Officer (Bromsgrove) provided the following updates:

- Bromsgrove Sporting Football Club Task Group – first meeting to be arranged and an update to be provided at the next meeting of the Board;
- Business Rates Relief Short Sharp Review – as previously advised, the Group had held two meetings and its third would be held in early March and an update would be provided at the next meeting of the Board.

106/18 **CABINET WORK PROGRAMME**

Members considered the Cabinet Leader's Work Programme from the 1st March to 30th June, 2019. The Senior Democratic Services Officer (Bromsgrove) provided the following update:

- Finance System Report to be presented to the Finance and Budget Working Group for Members' consideration;
- Corporate Performance Report to be presented to the Corporate Performance Working Group;
- Bromsgrove Enterprise Park – Build out to be presented to the Overview and Scrutiny Board in March 2019.

RESOLVED that the Cabinet Leader's Work Programme from 1st March to 30th June, 2019 be noted.

107/18 **TOPIC PROPOSAL REPORT - EFFECTS OF THE WCC LTP4 ON BROMSGROVE DISTRICT (COUNCILLOR S. COLELLA)**

The Board considered a proposal that had been received from Councillor S. Colella for a scrutiny review in respect of an investigation into the effect of WCC LTP4 on the District of Bromsgrove. Members were asked to consider whether this would be a suitable topic for further scrutiny.

Councillor S. Colella informed the Board that the main issues were in relation to the Transport Infrastructure System in Bromsgrove and problems with congestion, the lack of investment and the impact on air quality. He provided examples of this and the issues which had been discussed at Council in respect of the Wyre Forest District Plan and the Council's response.

The Board were reminded that it was anticipated that the Transport Review Report that it had requested from the Strategic Planning Manager would come before the Board at its March meeting, which may be an opportunity to discuss some of the areas raised in this topic proposal in more detail before the Board reached a decision on this matter.

The Senior Democratic Services Officer (Bromsgrove) also informed Members that the Head of Planning and Regeneration had been invited to attend the Overview and Scrutiny meeting in March and that this subject matter could be discussed at that meeting.

Members agreed that it would be helpful to receive further information on the subject before making a decision on what further action, if any to take. It was, therefore, agreed that the Head of Planning and Regeneration be invited to discuss the matter further at the meeting held in March.

RESOLVED that the Head of Planning and Regeneration be invited to attend the Board's March meeting to discuss the subject matter as detailed in the preamble above.

108/18 **SUGGESTED AREA FOR SCRUTINY INVESTIGATION - CUSTOMER SERVICE RESPONSE PROTOCOL**

The Board considered a verbal proposal that had been brought forward by Councillor S. Colella for a scrutiny review in respect of the Customer Services Response Protocol. In particular, reference was made to the process for customers logging an issue (and the response timescales) and for the Council to look at the potential introduction of an electronic system. Members were asked to consider whether this would be a suitable topic for further scrutiny.

It was suggested that Members may wish to consider inviting the relevant officer to discuss the process of customer services. Councillor Webb informed the Board that the Corporate Performance Working Group had reviewed the customer services and that information was available on the Corporate Measures Dashboard.

It was concluded that the Customer Support Manager be invited to attend a future meeting of the Board to discuss the matter further. It was also suggested that some examples of where Members felt the service had not responded adequately or in a timely manner would be useful in order for the Customer Support Manager to be able to understand the areas of concern.

RESOLVED that the Customer Support Manager be invited to attend a future meeting of the Board to discuss the process in respect of Customer Services.

109/18 **OVERVIEW AND SCRUTINY BOARD WORK PROGRAMME**

Members considered the Overview and Scrutiny Work Programme. The Senior Democratic Services Officer (Bromsgrove) provided the following update:

- Investment and Acquisition Strategy Report to be considered in March, 2019;
- Bromsgrove Market update to be considered in April, 2019;
- Customer Services update to be provided in April, 2019;
- Staff Survey – Councillor S. Colella raised the issue of the Staff Survey, which had been the subject of a Joint Scrutiny Task Group with Redditch. He had been appointed as the Staff Champion for Bromsgrove and it had been agreed that he and/or the Board would be involved in any future staff surveys. It was understood that a survey was due to be circulated to staff in the near future and it was agreed that the Executive Director, Finance

and Resources would look into this further and report back to the Board.

RESOLVED

a) that the Overview and Scrutiny Work Programme be noted; and

b) that the Overview and Scrutiny Board Work Programme be amended subject to the pre-amble above.

110/18 **TO CONSIDER, AND IF CONSIDERED APPROPRIATE, TO PASS THE FOLLOWING RESOLUTION TO EXCLUDE THE PUBLIC FROM THE MEETING DURING THE CONSIDERATION OF ITEM(S) OF BUSINESS CONTAINING EXEMPT INFORMATION:-**

RESOLVED that under Section 100 I of the Local Government Act 1972, as amended, the public be excluded from the meeting during the consideration of the following item–of business on the grounds that it involves the likely disclosure of exempt information as defined in Part I of Schedule 12A to the Act, as amended.

111/18 **EXEMPT INFORMATION IN RESPECT OF ITEM 5 ABOVE - ENVIRONMENTAL SERVICES BUSINESS CASES**

Members were provided with full details in respect of the costs associated with the Commercial Waste Business Case. Officers then responded to a number of questions from Members, which covered the following areas:

- The surplus costs for 2018/19 and those estimated for 2020/21 and 2021/22 were noted.
- The Council would potentially look at having permanent vehicles in the longer term which they could hire out to other authorities. A business case in respect of viability vehicle would need to be prepared.
- The government was proposing to introduce harmonisation in vehicles which may be a significant cost to the authority.
- The Council does operate its Commercial Waste Services outside the Council's District boundaries.

(During consideration of this item Members discussed matters that necessitated the disclosure of exempt information. It was therefore agreed to exclude the press and public prior to any debate on the grounds that information would be revealed relating to financial or business affairs matters. However, there was nothing exempt in this record of the proceedings.)

The meeting closed at 7.35 p.m.

Chairman

BROMSGROVE DISTRICT COUNCIL

CABINET 6th March 2019

Home Choice Plus Allocations Policy Permission to Consult

Relevant Portfolio Holder	Cllr Kit Taylor
Portfolio Holder Consulted	Yes
Relevant Head of Service	Judith Willis – Head of Community Services
Wards Affected	All
Ward Councillor Consulted	No
Key Decision	

1. SUMMARY OF PROPOSALS

1.1 This report outlines the proposed changes to the Home Choice Plus Allocations Policy following amendments made to the legislation concerning Homelessness i.e.; (the Homelessness Reduction Act 2017) and other statutory instruments / guidance around allocations.

2. RECOMMENDATIONS

That Cabinet **RESOLVE**:-

2.1 That the Allocation Policy changes outlined in this report are consulted upon with Members, Stakeholders and Households on the Housing Register for a period of six weeks.

2.2 Authority be delegated to the Deputy Chief Executive & Executive Director for Leisure, Environment & Community Services in conjunction with the Legal Service Manager to make any future amendments to the Council's Housing Allocations Policy that are deemed to be necessary to comply with Government guidance and which do not trigger the statutory obligation to consult the persons affected by the changes pursuant to section 168(3) of the Housing Act 1996.

3. KEY ISSUES

3.1 Local Housing Authorities (LHA) are required by s.166A of the Housing Act 1996 to have an allocation scheme for determining priorities and for defining the procedures to be followed in allocating social housing accommodation and they must allocate in accordance with that scheme.

3.2 The Homelessness Reduction Act 2017 (HRA 2017) enhanced the Council's duties for applicants who were facing homelessness by preventing or relieving homelessness at an earlier stage. There are now up to three stages in this process which depending on the customer's circumstances may include:

- 56 day prevention duty
- 56 relief duty where the customer is actually homeless
- Full Homelessness Duty where a decision about what further duty the applicant is owed

At the time the legislation came into force the Officers were unsure of how this might impact on the Allocations Policy and how access to social housing would be affected but officers committed to reviewing the policy after the first six months of operations.

3.3 In October 2018 the Government wrote to Local Housing Authorities to advise them it was making changes to the Homelessness Code of Guidance around people with terminal illness. This came into effect on 1 November 18, making it clear that those applicants:

- with a terminal illness should be treated as having a priority need
- that accommodation should be suitable and;
- that terminally ill intentionally homeless applicants should be given extra consideration around the length of time they are accommodated for whilst they try to secure their own accommodation.

Whilst these changes relate to the Homelessness Code of Guidance officers believe it would be appropriate to make our treatment of terminally ill homeless applicants explicit in the allocations policy.

3.4 In November 2018 the Government wrote to Local Authorities outlining new statutory guidance around improving access to social housing for victims of domestic abuse in refuges and other forms of temporary accommodation. Whilst our allocations policy is already compliant with the statutory guidance it would be appropriate to make the statutory guidance more explicit in the policy, particularly around the award of medical banding for victims who are suffering from physical and mental health issues as a result of the domestic abuse (either directly or indirectly).

3.5 In January 2019 the Government published a consultation paper on improving access to social housing for members of the Armed Forces, Veterans and their families. The suggested changes go beyond what our current allocations policy encompasses and so it would be appropriate at this time to consult on these proposed changes. The consultation runs until 8 March 2019.

4. **Proposed Changes**

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4.1 **Relief Duty banding -** The HRA 2017 has increased the length of time that BDHT Housing Options Team are working with applicants due to the introduction of prevention and relief duties. As a consequence applicants in temporary accommodation may be in this type of accommodation for longer periods.

4.2 Prior to the HRA 2017 applicants could have a decision accepting a duty to rehouse issued relatively quickly from when they approached as homeless. This would then entitle them to access the housing register in priority band and were usually housed within 4 – 6 weeks unless they had very specific housing needs.

4.3 Under the HRA 2017 we have to accommodate those who we believe may be eligible, homeless and in priority need in temporary accommodation under the relief duty for at least 56 days unless the duty is brought to end, for instance by rehousing. Only after the 56 days has expired can Local Authorities make a decision regarding whether to accept the full housing duty During the relief stage applicants are currently placed in the Gold Plus band.

4.4 This may delay applicants under relief duty being rehoused and this may create additional pressures on temporary accommodation and may lead to applicants having to be placed in alternative temporary accommodation, such as Bed & Breakfast

4.5 **Proposal - I**t is proposed that those applicants who the Council is satisfied it has a duty to relieve homelessness (s.189B) and the Council has validated as being unintentionally homeless and has a priority need will be placed into the Priority Band.

4.6 **Prevention Duty Banding**: Applicants whom the Council have accepted a duty under prevention will be in Gold Plus band. This band also includes all other applicants in a reasonable preference category. Due to the number of applicants already awarded this band it has a detrimental effect on the officer's ability to offer social housing to prevent someone's homelessness in a timely fashion due to the competition for properties from within this group. If a customer cannot be helped within the 56 days and they then become homeless, the relief duty arises and in some circumstances the Council may have a duty to provide temporary accommodation.

4.7 **Proposal - Prevention Duty Additional Waiting Time**: The proposed allocations policy will seek to give prevention cases an additional six months waiting time so they are prioritised within the band. This recognises the requirement to continue to assist other groups in housing need whilst also giving some priority to those that we owe the prevention duty to.

4.8 **Local Connection Qualifying Criteria**: Applicants must have;

- a two year local connection to the Home Choice Plus Partnership area or ;
- have been in permanent paid employment in the Partnership area for six months or
- have a close family member who has lived in the area for a minimum of the last five years.

There are some exceptions to the local connection qualification criteria, for example ex service personnel and there is a need to add to this list for certain properties secured through a section 106 where a different residency criteria is included. This is most likely to be rural exception sites.

4.9 **Proposal:** It is proposed that where a property has been secured through a section 106 agreement that requires specific residency criteria, allocations to these properties will be exempt from the qualification criteria.

4.10 **Reduced Banding:** Currently households with an income, of more than £35,000 or equity / savings / capital of more than £50k will be placed into the reduced banding unless they are in receipt of means tested benefits. This ensures that those applicants who do not have the means to access housing in the private sector will have preference. Income levels and house prices have risen since the levels were set.

4.11 **Proposal**: It is proposed to increase the income level to £38,000 which is based on an increase at CPI for the last 5 years. The entry price for a one bedroom flat has increased so for those applicants unable to get a mortgage and on a fixed income (e.g. pensioners) it is proposed to have a maximum of £95k for equity / savings / capital which will give a more realistic price for someone needing to purchase a property where they are unable to obtain a mortgage e.g. an older person or pensioner.

4.12 **Children in flats:** The current policy allows families in flats above ground floor, where they have a child under 10, to be awarded Gold Band. This was to recognise that flats aren't ideal for children as they have more limited safe outdoor space to play in. However the policy is seen as unfair to those families occupying flats on the ground floor without gardens.

4.13 **Proposal:** It is proposed to change the policy so all families, with children under 10, without a garden will be placed in the gold band.

4.14 It is proposed to clarify the treatment of homeless households with a terminal illness or victims of domestic abuse in relation to banding definitions as outlined in 3.4 and 3.5 above.

4.11 It is proposed amending the allocations policy in line with the consultation paper regarding armed forces so that we exempt divorced and separated spouses or civil partners of Services personnel who are required to leave Ministry of Defence accommodation, from the Local Connection criteria.

5. **FINANCIAL IMPLICATIONS**

5.1 Any changes made to the policy following consultation may require funding to alter the Home Choice Plus system depending on the type and scale of changes proposed. If changes are required there may be a delay to the implementation. These costs will be split across the six Home Choice partners. Officers can confirm that this cost can be met by existing budgets.

6 **LEGAL AND POLICY IMPLICATIONS**

6.1 Local Authorities must consult with relevant stakeholders and households on the Housing Register under the Housing Act 1985 and 1996 on changes to the Allocations Policy that will potentially affect applicants. In addition to consulting with members and those on Home Choice Plus we will consult with Registered Providers who utilise the system to let their housing stock.

6.2 The Council is expected to give due consideration to changes to the Homelessness Code of Guidance and to implement statutory guidance. Recent changes to guidance need to be incorporated into the Allocations Policy.

7 **EQUALITY IMPACT NEEDS ASSESSMENT**

The Home Choice Plus Steering Group will review the Equalities Impact Assessment as part of the consultation process.

8. **RISK MANAGEMENT**

8.1 There is a requirement to have an Allocation Policy in place and to revise the policy from time to time in line with statutory guidance to avoid the risk posed by a legal challenge. The proposed changes to this policy and its operation mitigate against that risk.

9. **CONSULTEES**

Applicants on Home Choice Plus
Members

Registered Providers
The general public

10 **APPENDICES**
Home Choice Plus Allocation Policy 2019

11. Background Papers
Letter regarding Homelessness Code of Guidance for Local Authorities – Terminally Ill Homeless People
Statutory guidance on improving access to social housing for victims of domestic abuse in refuges or other types of temporary accommodation.
Consultation paper on “Improving access to social housing for members of the Armed Forces, Veterans and their families”.

AUTHOR OF REPORT

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CABINET

13th March 2019

Finance Monitoring Quarter 3 2018/19

Relevant Portfolio Holder	Councillor Brian Cooper, Portfolio Holder for Finance and Enabling Services
Relevant Head of Service	Jayne Pickering, Executive Director Finance and Corporate Resources
Non-Key Decision	

1. Purpose and Summary

To report to Cabinet on the Council's financial position for Revenue and Capital for the financial period April 2018 – December 2018.

2. Recommendations

That Cabinet is asked to resolve

2.1 That Cabinet note the current financial position in relation to revenue and capital budgets for the period April – December 2018/19 as detailed in the report.

2.2 Approve the virement of £23k in 2018/19 from Economic Development to the Bromsgrove Centres Management budget required to meet the Shared service agreement with NWEDR.

That Cabinet recommend to Council

2.3 Approval of the virement of £120k in 2018/19 for replacement parking machines currently held within the vehicle replacement programme budget. This is to ensure clarity of the current spend under these project headings.

2.4 Approval of an increase in the 2018/19 Capital Budget of £102k for the Disabled Facilities Grant budget. This is due to additional grant funding being received following the budget announcement in December 2018.

2.5 Approval of an increase in the 2018/19 Capital Budget of £390k for a Bromsgrove combined Footpath and Cycle Way Network funded from a grant from Worcestershire County Council.

2.6 Approval of an increase in the 2019/20 Capital Budget of £346k for the demolition of the Dolphin Centre to be funded from Capital Receipts (£202k) and balances (£144k) following receipt of tender quotations.

3. Revenue budgets

3.1 This report provides details of the financial performance of the Council. The purpose of this report is to ensure officers and members have the relevant information necessary to consider the overall financial position of the Council. The report reflects the finances across all of the Strategic Purposes to enable Members to be aware of the level of funding attributed to each area and how this compares to budget. The summary at 3.3 shows the financial position for revenue funding for the period April – December 2018/19.

3.2 Financial reports are sent to budget holders on a monthly basis. As part of this process a detailed review is undertaken with support from the finance team to ensure that all issues are considered and significant savings or cost pressures are addressed. This report aims to focus on the key variances from budgets to ensure that these are addressed appropriately during the year.

3.3 The £10.988m original budget as included in the table below is made up of the budget approved in February 2018 of £10.583m, which is then adjusted to reflect the approved transfers from reserves of £327k along with the community group funding £79k.

In addition, the Revised Budget 2018/19 of £11.320m includes a net transfer from reserves of £297k (which is shown in appendix 1) and use of balances of £35k.

Revenue Budget summary
Financial Year 2018/19 – Overall Council

Please note figures have been rounded

Strategic Purpose	Original Budget 2018/19 £'000	Revised budget 2018/19 £'000	Budget to date 2018/19 £'000	Actuals 2018/19 £'000	Variance 2018/19 £'000	Projected outturn 2018/19 £'000	Projected Variance 2018/19 £'000
Keep my place safe and looking good	4,406	4,323	3,083	3,232	149	4,514	191
Help me run a successful business	-559	-553	-388	-415	-27	-569	-15
Help me be financially independent	154	99	570	582	12	132	33
Help me to live my life independently	-8	-8	-6	-75	-69	-96	-88
Help me find somewhere to live in my locality	725	794	646	620	-26	762	-33
Provide Good things for me to see, do and visit	660	759	574	533	-41	722	-37
Enable others to work/do what they need to do (to meet their purpose)	5,609	5,905	4,392	4,269	-124	5,697	-208
Total	**10,988**	**11,320**	**8,873**	**8,746**	**-126**	**11,163**	**-157**
Corporate Financing	-10,988	-11,320	-12,946	-13,045	-98	-11,436	-116
Grand Total	**0**	**0**	**-4,074**	**-4,298**	**-224**	**-273**	**-273**

Financial Commentary:

There are a number of variances across the strategic purposes. The summary above shows the overall 2018/19 revenue position for the Council and the main variations are as a result of:

Keep my place safe and looking good (£191k overspend)
These budgets include those relating mainly to environmental services, planning, lifeline, CCTV and other activities to deliver against the purpose ensuring an area is both safe and attractive for the community.

Having reviewed the variance position, the below explains the variances:

- It is projected that Bereavement services will receive less income than expected from the burial fees by the end of 2018/19 and therefore show a year end variance for the service of **£18k.**
- Shortfall in income from Building Control of **£23k**. Building Control operates in an increasingly competitive marketplace and whilst all opportunities are explored it is clear that the number of competitors is rising. Unlike its competitors, Local Authority Building control is required by law to operate solely on a cost neutral basis and its performance and charging regimes are publically accountable.
- Whilst a significant growth in income has been achieved within Core Waste services (trade and garden waste), there have been additional costs required for running the domestic waste services. This is currently under review and therefore projecting an overspend by the end of 2018/19 of **£51k**.
- There are additional costs amounting to **£49k**, which are made up of additional costs in relation to agency staff required in the Place teams covering long term sickness and additional repairs and maintenance costs.
- A projected shortfall in planning application income of **£161k.** There have been a low number of applications approved in 2018/19 and also major applications on strategic sites have been delayed due to highway considerations.
- There have been savings projected of **£18k** for 2018/19 within Core Environmental operations on vehicle hire and repairs and maintenance budgets.
- Depot, Engineering and Environmental services management services have some small underspends on repairs and maintenance of vehicles along with temporary salary savings of **£59k**
- Trees and woodland management also have some salary savings of **£30k** while the service is under review.

Help me run a successful business (£15k saving)

The budgets within the strategic purpose include economic development, car parking, all licenses and costs associated with the town and other centres within the District.

- There are no significant variances in the quarter 3 to report.

Help me be financially independent (£33k overspend)

The strategic purpose includes all costs relating to the support of benefits and the administration and delivery of Council Tax services in the District.

- The variance projected of **£33k** mainly relates to additional resources required in the Revenues and Benefits teams to ensure the service can meet all the demands it faces at present.

Help me to live my life independently (£88k saving)

There are a number of budgets relating to the delivery of the strategic purpose including; Lifeline, Community Transport and Disabled Facilities Grants.

- There has been significant additional income received within the Lifeline service due to a new contract that has been procured with Cannock Chase District Council. This has been reflected in 2019/20 budgets.

Help me find somewhere to live in my locality (£33k saving)

The costs associated with homeless prevention, housing strategy and land charges are all included in the strategic purpose.

- Housing strategy and enabling services have an underspend due to salary savings and savings on other general supplies and services of **£33k.**

Provide Good things for me to see, do and visit (£37k saving)

The majority of budgets within this purpose relate to Leisure and Culture services.

- The variance projected is due to a shortfall in income of **£8k** within Business Development. This is due to a low interest this year on road island sponsorship
- This is offset by salary savings within parks and green spaces and sports services due to a new service structure implementation **£42k.**

Enable others to work/do what they need to do (to meet their purpose) (£208k saving)

All support services and corporate overheads are held within the enabling purpose. These include; IT, HR, Finance, Management team and other support costs.

- Accounts and Financial Management have saving of **£34k** which are due to vacant posts being held whilst the impact of the new financial system is considered.
- There are a number of unallocated savings that sit within the corporate / enabling services. Service savings have been identified during the year and have been allocated to reduce the figure at quarter 3. It is anticipated that the projected balance of **£102k** will be offset by further service savings during the final quarter of the year as detailed with savings monitoring at point 4 below.
- There is a projected underspend of **£91k** within Customer Services centre due to a one off business rate refund and salary vacancies.
- There are other salary vacancies within Equalities & Policy, Financial support, ICT and Legal Services projected **£176k** by the end of 2018/19.

It is worth noting that a vacancy management savings has been included in the 2019/20 budgets to offset the impact of vacant posts during the year.

Corporate Financing

- The projected outturn variance shown within Corporate Financing relates to two main factors. The Council have received a £85k discount for the advanced payment of Pension Contributions and there is small budget saving of £10k relating to minimum revenue provision.

3.4 Virement

The request for the virement from Economic Development to the Bromsgrove Centres Management budget of £23k detailed in 2.1 relates to consolidating the budgets associated with the Shared service agreement with NWEDR to ensure the allocation of funding is within one cost area.

4. Savings Monitoring

4.1 The medium term financial plan included £580k of savings identified to be delivered during 2018/19 and it is anticipated that these savings will be delivered during 2018/19 as detailed in Appendix 2.

4.2 In addition the £454k of unidentified savings for 2018/19, which sit within the corporate / enabling service as highlighted in the table above are also expected to be delivered based on current projections.

4.3 The year projected overall saving of £157k relates to further savings as detailed in the narrative above.

5. Cash Management

5.1 The financial position in relation to borrowing at the start of the financial year and year to date positions are shown in the table below:

Date	£m	Position
As at 31st March 2018 (Actual)	13.0	Borrowing
As at 31st December 2018	1.0	Borrowing

5.2 Borrowing

Outstanding as at the 31st December 2018 are £1m in short term borrowing with associated borrowing costs within the quarter of £0.5k.

An interest payable budget has been set of £71k for 2018/19 due to expenditure relating to current capital projects.

5.3 Investments

At 31st December 2018 there were no investments held.

CABINET

13th March 2019

6. Capital Budgets

Capital Budget summary
Financial Year 2018/19 – Overall Council

Please note figures have been rounded

Strategic Purpose	Original Budget 2018/19 £'000	Revised budget 2018/19 £'000	Budget to date 2018/19 £'000	Actuals 2018/19 £'000	Variance 2018/19 £'000	Projected outturn 2018/19 £'000	Projected Variance 2018/19 £'000
Keep my place safe and looking good	2,238	2,238	1,706	1,236	-470	1,264	-974
Help me be financially independent	6	6	4	1	-3	1	-5
Help me to live my life independently	1,257	1,257	943	543	-400	808	-449
Provide good things for me to see, do and visit	566	1,167	976	269	-706	355	-812
Enable others to work/do what they need to do (to meet their purpose)	96	96	72	69	-3	92	-4
Totals	**4,163**	**4,763**	**3,700**	**2,118**	**-1,583**	**2,520**	**-2,243**

Finance commentary:

Keep my place safe and looking good

- The variance for quarter 2 relates to the following two projects;
  - Infrastructure works at the Bromsgrove depot - it is unlikely this will be spent this financial year due to the detailed design required for the works to be undertaken.
  - Vehicle replacement budget - there are delays on the vehicle replacement programme due to specification delays it is therefore anticipated that a request to carry forward the budget into next financial year 2019/20 will be made.

Help me be Financially independent

- The variance relates to funding originated from a grant obtained from the government by Warmer Worcestershire via WCC to be spent on Park Homes insulation within the Bromsgrove District however there are currently no suitable projects to spend this grant on therefore officers request that the budget is retained until suitable projects are available.

Help me to live my life independently

- The underspend projected relates to a number of projects ;
  - Energy Efficiency installations. This fund has been unable to be spent this year due to the need to procure the energy advice service prior to restarting the Bromsgrove Energy Efficiency Fund. The energy advice service will be procured with a 3 year contract April 2019 - March 2022.
  - Discretionary home repairs assistance which is due to a lack of applications being received

despite advertising.
- o There will be a request to carry forward an underspend on the Disabled Facilities Grants due to delays in referrals from occupational therapists.

Provide Good things for me to see, do and visit

- The underspend projected relates to a number of projects ;
  - o The project in relation to the Dolphin centre demolition is expected to be undertaken in the spring of 2019. Therefore the budget of £734k will be requested to be carried forward into the new financial year 2019/20.
  - o The project providing £62k towards refurbishment of the Barnt Green Millennium Park - Toilets, remains under review by the Parish Council and it is likely it will be requested to be carried forward into the 2019/20 budget.

Enable others to work/do what they need to do (to meet their purpose)

- There are no significant individual variances in the quarter 3 to report. It is projected that all schemes will be completed by the end of the financial year 2018/19.

6.1 **Parking Machines**
The request for the virement of £120k for replacement parking machines currently held within the vehicle replacement programme budget as detailed in 2.3. This is to disaggregate the current programme to ensure clarity of the current spend under these project headings.

6.2 **Disabled Facilities Grants**
The request for approval of an increased budget £102k at 2.4 is due to an additional £55m for Disabled Facilities Grant being distributed to all relevant authorities for the ministry of Housing, Communities and Local Government. The £102k allocated to Bromsgrove district council is planned to be used for the delivery of agreed joint plans between Adult Social Care, Clinical Commissioning Groups and the Housing authorities across the county.

6.3 **Footpath and Cycle Network**
The request for approval of an increased budget £390k at 2.5 is due to a scheme that is worth £3.4 million to Worcestershire County Council funded through a Department for Transport initiative, (NPIF) National Productivity Investment Fund, which forms part of the wider transport and highways plan for the area and will see an additional six walking and cycling pathways being introduced over the next couple of years. This Capital Project is being designed by Bromsgrove District Council's Engineering and Design Services. It is a combined Footpath/Cycle Way link through Sanders Park from Whitford Road to Kidderminster Road. The construction works are programmed to commence Spring 2019, and are being undertaken to ensure that the Parks planned activities are inconvenienced as little as possible. Sanders Park is the largest scheme in the area and is to be completed by Spring 2020.

6.4 **Dolphin Centre Sports Hall**
As Members are aware the sports hall has been closed due to a number of health, safety and security issues. In addition approval was given in July 2018 to continue with the demolition of the site following members consideration of alternative hall provision and agreeing that the associated costs were prohibitive. Over the last few months officers have

continued to work with BAM and Everyone Active to secure an agreement on the use of the school hall. The Heads of Terms are agreed and the draft contract is currently with BAM. It is worth noting that agreements have to be approved at County and BAM Board and these decisions can often take a significant period of time.

6.4.1 Following member decision to demolish the site our professional advisors (MACE) formally tendered for the works for both demolition and the associated car park works. Everyone Active have discussed the impact that the current car parking arrangements and the visibility of the new centre with the old site and hoarding has on their customers and therefore the demolition and associated works is becoming increasingly urgent.

6.4.2 In total 7 contractors provided a submission for the works and the successful tender in terms of price and quality is at a value of £1.050m. This is £346k more than the current budget allocation of £734k which was based on previous estimated costs. Officers have been advised that this additional cost is due to a number of issues including; additional scaffolding and duration of demolition period following additional surveys, building works inflation (currently at approx. 7.5% pa), securing building contracts during a time of significant redevelopment across the Country and the disaggregation from the initial contract that was to be undertaken by Morgan Sindell which reduced the savings from using one contractor for the whole development.

6.4.3 It is proposed that the £346k is released from balances to fund the associated costs. Liaison will be undertaken with the school to ensure the demolition is undertaken outside of exam time to mitigate the impact on the students.

6.4.4 Officers have requested a further valuation on the remaining enabling land as it is expected that this will have increased from the original value of £1.8m and therefore this can offset the related increase in costs.

7. Earmarked Reserves

7.1 The position as at 31st December 2018 is shown in Appendix 1. The position at the 1st April 2018 was £3m and at the end of quarter 3 includes £2.6m that have been transferred to reserves. The majority of this relates to setting aside section 31 Business rate grant/estimated Business rate surplus to provide funding for future risks.

8. General Fund Balances

8.1 The General Fund Balance as at the 31th March 2018 was £4.789m. A balanced budget was approved in February 2018 to include identified savings which have been built into individual budget allocations. This also included a planned use of balances for 2018/19 of £9k.

During 2018/19 there has been a further approval of a use of balances of £600k towards the demolition of the Dolphin centre and implementation of additional car parking. Therefore, the current level of balances is £4.179m.

9. Legal Implications

9.1 No Legal implications have been identified.

10. Service/Operational Implications

10.1 Managers meet with finance officers on a monthly basis to consider the current financial position and to ensure actions are in place to mitigate any overspends.

11. Risk Management

11.1 Effective budget monitoring supports any risks associated with the Council.

APPENDICES

Appendix 1 - Earmarked Reserves 2018/19
Appendix 2 - Savings Monitoring 2018/19

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FINANCIAL RESERVES STATEMENT 2018/19

Appendix 1

Please note these figures have been rounded

Description	Balance b/fwd 1/4/2018	Budgeted Release 2018/19	Revised Balance b/fwd 1/4/2018	Transfers in existing reserve 2018/19	Transfers out existing reserve 2018/19	New Reserve 2018/19	C/fwd 31/3/2019	Comment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Building Control	(7)	0	(7)	0	0	0	**(7)**	To Fund the mobile working project
Building Control Partnership	(57)	0	(57)	0	0	(12)	**(69)**	Partnership income has to be reinvested back in to the service.
Business Transformation	(11)	0	(11)	11	0	0	**(0)**	Towards organisational development following the staff survey
Commercialism	(41)	0	(41)	3	0	0	**(38)**	To help fund costs in relation to commercialism projects
Community Safety	(30)	0	(30)	30	0	0	**0**	Grant funding received to fund associated community projects
Community Services	(40)	0	(40)	0	0	0	**(40)**	To help towards a district network feasibility study
Economic Regeneration	(501)	0	(501)	26	0	0	**(475)**	To fund the Economic Development opportunities across the District
Election Services	(98)	0	(98)	9	(11)	0	**(100)**	To support the delivery of individual electoral registration and to set aside a reserve for potential refunds to government
Environmental Services	(13)	0	(13)	0	0	0	**(13)**	To help towards the unauthorised trespass prevention scheme, Tree works, and single use plastic project within the district
Financial Services	(813)	0	(813)	0	(37)	(2,653)	**(3,503)**	The reserve includes the small business rate relief grant that will offset the loss on Business rates collection and appeals in 2019/20. In addition a number of reserves / grants have been set aside to support residents through the changes to welfare reform
Housing Schemes	(450)	0	(450)	119	0	0	**(330)**	To support the feasibility and implementation of housing schemes across the
ICT/Systems	(122)	0	(122)	10	0	0	**(112)**	To provide for replacement ICT systems
Leisure/Community Safety	(277)	0	(277)	167	0	0	**(110)**	Grant received and reserves set aside to support a number of leisure and well being schemes across the District
Litigation Reserve	(5)	0	(5)	0	0	0	**(5)**	To provide funding for any potential legal challenges
Local Development Framework	(142)	0	(142)	0	0	0	**(142)**	To fund the costs associated with the Core Strategy
Local Neighbourhood Partnerships	(16)	0	(16)	0	0	0	**(16)**	Grant received in relation to liveability schemes
Other	(90)	21	(69)	0	0	0	**(69)**	To support apprentices, set up costs and other general reserves
Regulatory Services (Partner Share)	(42)	0	(42)	0	0	0	**(42)**	BDC Share of WRS grant related reserves
Replacement Reserve	(339)	325	(14)	0	0	0	**(14)**	To fund replacement vehicles and plant
Shared Services Agenda incl Joint CE	(311)	0	(311)	0	0	0	**(311)**	To fund potential redundancy and other shared costs
Grand Total	**(3,405)**	**346**	**(3,059)**	**375**	**(48)**	**(2,665)**	**(5,397)**	

BROMSGROVE - SAVINGS & ADDITIONAL INCOME FROM 18-19 BUDGET ROUND **APPENDIX 2**

Department	Description of saving	2018-19 £'000	Comments	Quarter 3: On target Y/N	Quarter 3: Additional (add to to in yr savings) £'000	Quarter 3: below target Y/N	Quarter 3: Pressure £'000
Business Transformation	Annual Revenue Budget Saving	-123	Saving from efficiencies and contract reviews	Y			
Community Services	acommodation charges	-12	Already included in support recharges	Y			
Community Services	telephone charges	-6	Savings from new contract	Y			
Community Services	staff savings from reduced mileage and reduced hours	-3	Savings from staff member reducing working hours	Y			
Community Services	removal of budget historical DFG monies	-7	Review of budget efficiencies	Y			
Community Services	acommodation charges	-12	Already included in support recharges	Y			
Community Services	various	-28	Review of budget efficiencies	Y			
Corporate Resources	Reduction in External Audit Costs	-16	Reduced as per new contract arrangements	Y			
Corporate Resources	Appeals in Asset of Community	-20	Savings to be offered, subject to any future appeals to be drawn down from balances	Y			
Customer Access & Financial Support	Reduction in Hrs	-5	Savings from staff member reducing working hours	Y			
Environmental Services	Utillities	-36	More efficent lighting and boiler	Y			
Environmental Services	Maintenance	-9	Saving on Depot Maintenance	Y			
Environmental Services	Additional Garden Waste income	-54	Price increase to £45 in 18/19	Y			
Environmental Services	Fuel and Vehicle R&M	-117	Fuel and R&M due to more efficent working and lower fuel costs.	Y			
Environmental Services	Domestic Bin Replacements	-53	Revenue saving achieved by moving replacement of bins to capital.	Y			

Department	Description of saving	2018-19 £'000	Comments	On target Y/N	Additional (add to to in yr savings) £'000	below target Y/N	Pressure £'000
Environmental Services	Trade Bin Replacements	-10	Revenue saving achieved by moving replacement of bins to capital.	Y			
Environmental Services	Garden Waste Bin Replacements	-3	Revenue saving achieved by moving replacement of bins to capital.	Y			
Leisure & Cultural Services	Efficiency Saving	-5	Review of budget efficiencies	Y			
Leisure & Cultural Services	Savings on accomodation costs	-8	Review of budget efficiencies	Y			
Leisure & Cultural Services	NNDR on George House	-18	Savings following demolition of building	Y			
Leisure & Cultural Services	R & M for Parkside Building	-25	This saving relates to the repairs and maintenance of the building that are less than initially. This will be used to offset the income pressure against Parkside Hall which has been difficult to achieve but additional marketing will aim to mitigate the shortfall	Y			
Planning & Regeneration	Additional cross boundary partnership working	-2	Additional income generated following marketing of service.	N		Y	2
Planning & Regeneration	Reduction in car mileage costs	-8	Review of budget efficiencies	Y			
		-580			0		2

BROMSGROVE DISTRICT COUNCIL

CABINET **13th March 2019**

Capital Strategy 2019/20 incorporating Treasury

Management Strategy and half year treasury update

Relevant Portfolio Holder	Councillor Brian Cooper
Portfolio Holder Consulted	Yes
Relevant Head of Service	Jayne Pickering – Exec Director Finance and Resources
Wards Affected	All Wards
Non-Key Decision	

1. SUMMARY OF PROPOSALS

This report is a new report for 2019/20, required by changes in CIPFA and the Ministry of Housing, Communities and Local Government (MHCLG) guidance. The strategies set limits and indicators that embody the risk management approach that the Council believes to be prudent. The strategies are set against the mid-term financial strategy, the context of the UK economy and projected interest rates.

The new report sets treasury investment criteria and limits which are largely unchanged. The investment strategy pulls together information on commercial property and loans to explicitly show the Councils risk management approach in that area.

2. RECOMMENDATIONS

The Cabinet is asked to RECOMMEND that

i) the Capital Strategy as an appropriate overarching strategy for the Council be approved and the flexible use of capital receipts as per appendix E

ii) the full Council approve the Treasury Management Strategy for 2019/20 and the associated limits, MRP policy and treasury management policy (appendixes C and D) and specific indicators included in this report.

The Cabinet is asked to note

i) The half year treasury update

3. KEY ISSUES

Financial Implications

3.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public services (the CIPFA TM Code) and the Prudential Code require local authorities to set the Treasury Management Strategy Statement (TMSS) and Prudential Indicators each financial year.

3.2 CIPFA has defined Treasury Management as:

"the management of the organisation's investments, 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."

3.3 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Treasury management risks are identified in the Council's approved Treasury Management Practices and include:

- Liquidity Risk (Adequate cash resources)
- Market or Interest Rate Risk (Fluctuations in the value of investments)
- Inflation Risks (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risks (Impact of debt maturing in future years)
- Legal & Regulatory Risk (Compliance with statutory and regulatory requirements)

3.4 The guidance requires investment strategies to comment on the use of treasury management consultants and on the investment of money borrowed in advance of spending needs.

3.5 In formulating the Treasury Management Strategy and the setting of the Prudential Indicators, the Council adopts the Treasury Management Framework and Policy recommended by CIPFA.

Legal Implications

3.6 This is a statutory report under the Local Government Act 2003.

Service/Operational Implications

3.7 None as a direct result of this report.

Customer / Equalities and Diversity Implications

3.8 None as a direct result of this report.

4. RISK MANAGEMENT

Failure to manage the Treasury Management function effectively to ensure the delivery of maximum return within a secure environment. Controls in place to mitigate these risks are as follows:

- Regular monitoring of the status of the organisations we invest with
- Daily monitoring by internal officers of banking arrangements and cash flow implications.

AUTHOR OF REPORT

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Treasury Management Strategy Statement 2019/20

Bromsgrove District Council

Introduction

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

External Context

Economic background: The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2019/20.

Following a weak reading in the first quarter of 2018 attributed to weather-related factors, UK GDP growth rebounded in the second quarter to 0.4%, but at an annual rate of only 1.2% this remains below trend. As economic growth had evolved broadly in line with its May Inflation Report forecast, the Bank of England's Monetary Policy Committee (MPC) voted unanimously for a rate rise of 0.25% in August, taking Bank Rate to 0.75%. In November 2018 the MPC maintained Bank Rate at 0.75% while the Inflation Report showed that compared to the August report further interest rate increases may be required to bring inflation down to the 2% target over the forecast horizon.

The headline rate of UK Consumer Price Inflation fell back to 2.4% year-on-year in September 2018 from 2.7% in August, as higher import and energy prices continued to hold inflation above the BoE target. Labour market data is positive. The ILO unemployment rate fell to 4%, its lowest level since 1975. The 3-month average annual growth rate for pay excluding bonuses rose to 3.1% in August providing some evidence that a shortage of labour is supporting wages. However, adjusting for inflation this means real wages were only up by 0.7% and only likely to have a moderate impact on household spending.

While external inflationary pressures from energy costs and import prices are expected to subside, domestic pressures are projected to build over the forecast horizon with the balance of these effects likely to keep inflation above the Bank of England's target throughout most of their forecast horizon, meaning that strong real income growth is unlikely to materialise any time soon.

As the US economy has continued to perform well, the Federal Reserve maintained its monetary tightening stance and pushed up its target range for the Fed Funds Rate in September 2018 by 0.25% to 2% - 2.25%. One further rise is expected in 2018 and two more in 2019.

The fallout from the US-China trade war continues which, combined with tighter monetary policy, risks contributing to a slowdown in global economic activity in 2019. Despite slower growth in the region, the European Central Bank has started conditioning markets for the end of quantitative easing as well as the timing of the first interest rate hike, currently expected in 2019, and the timing and magnitude of increases thereafter.

Credit outlook: The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ringfencing legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the ringfenced banks that now only conduct lower risk retail banking activities. Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the ringfenced banks generally being better rated than their non-ringfenced counterparts.

European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions.

Interest rate forecast: Following the increase in Bank Rate to 0.75% in August 2018, the Authority's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.

The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. Whilst assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity. As such, the risks to the interest rate forecast are considered firmly to the downside.

Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on Arlingclose's interest rate projections, due to the strength of the US economy and the ECB's forward guidance on higher rates. 10-year and 20-year gilt yields are forecast to remain around 1.5% and 2% respectively over the interest rate forecast horizon, however volatility arising from both economic and political events are likely to continue to offer borrowing opportunities.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.75%, and that new long-term loans will be borrowed at an average rate of 0.75%.

Local Context

On 10th December 2018, the Authority held £1m of external borrowing and £0m of investments. This is set out in further detail at ***Appendix B***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.18 Actual £m	31.3.19 Estimate £m	31.3.20 Forecast £m	31.3.21 Forecast £m	31.3.22 Forecast £m
General Fund CFR	19	22.6	28.3	35.3	42.6
Less: External borrowing	(13)	0	0	0	0
Internal (over) borrowing	**6.0**	**22.6**	**28.3**	**35.3**	**42.6**
Less: Usable reserves	(8.8)	(8.5)	(7.2)	(5.5)	(3.7)
Less: Working capital	**(3.1)**	**(3.1)**	**(3.1)**	**(3.1)**	**(3.1)**
Investments (or New borrowing)	(5.9)	(11)	(18)	(26.7)	(35.8)

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Authority has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to £35.8m over the forecast period.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2019/20.

Liability benchmark: To compare 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 table 1 above, but that cash and investment balances are kept to a minimum level of £0.2 m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 2: Liability benchmark

	31.3.18 Actual £m	31.3.19 Estimate £m	31.3.20 Forecast £m	31.3.21 Forecast £m	31.3.22 Forecast £m
CFR	19	22.6	28.3	35.3	42.6
Less: Usable reserves	(8.8)	(8.5)	(7.2)	(5.5)	(3.7)
Less: Working capital	(3.1)	(3.1)	(3.1)	(3.1)	(3.1)
Plus: Minimum investments	0.2	0.2	0.2	0.2	0.2
Liability Benchmark	**7.3**	**11.2**	**18.2**	**26.9**	**36**

Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark assumes capital expenditure funded by borrowing each year, minimum revenue provision on new capital expenditure based on a 50 year asset life and income, expenditure and reserves all increasing by inflation of 2.5% a year. This is shown in the chart below:

Borrowing Strategy

The Authority currently holds £1 million of loans, a decrease of £12 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority expects to borrow up to £16m in 2019/20. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £30 million.

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 / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. 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 2019/20 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

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 further 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 Worcestershire 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
- Private Finance Initiative
- sale and leaseback

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 joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

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

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 the past 12 months, the Authority’s investment balance has ranged between £0 and £7.5 million, and similar levels are expected to be maintained in the forthcoming year.

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 2019/20, 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 diversify into more secure and/or higher yielding asset classes during 2019/20. All of the Authority’s surplus cash is currently invested in short-term unsecured bank deposits, or with the DMADF. This diversification will represent a substantial change in strategy over the coming year.

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.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 3: 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	£2.5m 5 years	£2.5m 20 years	£2.5m 50 years	£2.5m 20 years	£1m 20 years
AA+	£2.5]m 5 years	£2.5m 10 years	£2.5m 25 years	£2.5m 10 years	£1m 10 years
AA	£2.5m 4 years	£2.5m 5 years	£2.5m 15 years	£2.5m 5 years	£1m 10 years
AA-	£2.5m 3 years	£2.5m 4 years	£2.5m 10 years	£2.5m 4 years	£1m 10 years
A+	£2.5m 2 years	£2.5m 3 years	£2.5m 5 years	£2.5m 3 years	£1m 5 years
A	£2.5m 13 months	£2.5m 2 years	£2.5m 5 years	£2.5m 2 years	£1m 5 years
A-	£2.5m 6 months	£2.5m 13 months	£2.5m 5 years	£2.5m 13 months	£1m 5 years
None	£1m 6 months	n/a	£3m 25 years	£1m 5 years	£500k 5 years
Pooled funds and real estate investment trusts	£2.5 m per fund or trust				

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 £500,000 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), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). 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 the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

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

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 all other existing investments with the affected counterparty.

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

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 £8.8 million on 31st March 2019. In order that no more than 30% 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) will be £2.5 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.

Table 4: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£2.5 m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£2.5 m per group
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker
Registered providers and registered social landlords	£2.5m in total
Unsecured investments with building societies	£2.5m in total
Loans to unrated corporates	£1m in total
Money market funds	£11 m in total
Real estate investment trusts	£2.5m in total

Liquidity management: The Authority uses cashflow forecasting in 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 Authority's medium-term financial plan and cash flow forecast.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

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

Credit risk indicator	Target
Portfolio average credit rating	*A*

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

Liquidity risk indicator	Target
Total cash available within 3 months	£2.5m

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

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£500,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	£500,000

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

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

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above *Use additional periods above 10 years if there is a large amount of debt in this period*	100%	0%

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

Principal sums invested for periods longer than a year: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2019/20	2020/21	2021/22
Limit on principal invested beyond year end	£1.5m	£1.0m	£0.5m

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.

Markets in Financial Instruments Directive: The Authority has retained retail client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a smaller range of services but with the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Executive Director of Finance believes this to be the most appropriate status.

Financial Implications

The budget for investment income in 2019/20 is £38k, based on an average investment portfolio of £5 million at an interest rate of 0.75%. The budget for debt interest paid in 2019/20 is £137k, based on an average debt portfolio of £18.3 million at an average interest rate of 0.75%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Executive Director of Finance, having consulted the Cabinet Member for Finance, 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

Appendix A – Arlingclose Economic & Interest Rate Forecast October 2018

Underlying assumptions:

- The MPC left Bank Rate unchanged at the September meeting, after voting unanimously to increase Bank Rate to 0.75% in August.

- Our projected outlook for the UK economy means we maintain the significant downside risks to our interest rate forecast. The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in Q2 2018, but the annual growth rate of 1.2% remains well below the long term average. Our view is that the UK economy still faces a challenging outlook as the country exits the European Union and Eurozone economic growth softens.

- Cost pressures were projected to ease but have risen more recently and are forecast to remain above the Bank's 2% target through most of the forecast period. The rising price of oil and tight labour market means inflation may remain above target for longer than expected. This means that strong real income growth is unlikely in the near future.

- The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. We believe that MPC members consider both that: 1) ultra-low interest rates result in other economic problems, and 2) higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise and cuts are required.

- The global economy appears to be slowing, particularly the Eurozone and China, where the effects of the trade war has been keenly felt. Despite slower growth, the European Central Bank is adopting a more strident tone in conditioning markets for the end of QE, the timing of the first rate hike (2019) and their path thereafter. Meanwhile, European political issues, mostly lately with Italy, continue.

- The US economy is expanding more rapidly. The Federal Reserve has tightened monetary policy by raising interest rates to the current 2%-2.25% range; further rate hikes are likely, which will start to slow economic growth. Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon. Our central case is for Bank Rate is to rise twice in 2019. The risks are weighted to the downside.

- Gilt yields have remained at low levels. We expect some upward movement from current levels based on our interest rate projections, the strength of the US economy and the ECB's forward guidance on higher rates. However, volatility arising from both economic and political events will continue to offer borrowing opportunities.

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.17**
Arlingclose Central Case	**0.75**	**1.00**	**1.00**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.17**
Downside risk	0.00	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	**0.65**
3-mth money market rate														
Upside risk	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	**0.17**
Arlingclose Central Case	**0.80**	**1.00**	**1.10**	**1.20**	**1.30**	**1.30**	**1.25**	**1.20**	**1.20**	**1.20**	**1.20**	**1.20**	**1.20**	**1.17**
Downside risk	0.20	0.50	0.60	0.70	0.80	0.80	0.75	0.75	0.75	0.75	0.75	0.75	0.75	**0.68**
1-yr money market rate														
Upside risk	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.33**
Arlingclose Central Case	**1.05**	**1.25**	**1.35**	**1.40**	**1.50**	**1.45**	**1.40**	**1.40**	**1.40**	**1.40**	**1.40**	**1.40**	**1.40**	**1.37**
Downside risk	0.35	0.50	0.60	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	**0.69**
5-yr gilt yield														
Upside risk	0.15	0.20	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.32**
Arlingclose Central Case	**1.15**	**1.20**	**1.25**	**1.35**	**1.40**	**1.40**	**1.35**	**1.35**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**
Downside risk	0.30	0.35	0.45	0.50	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.54**
10-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.32**
Arlingclose Central Case	**1.60**	**1.65**	**1.65**	**1.70**	**1.75**	**1.75**	**1.75**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**
Downside risk	0.30	0.45	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.55**
20-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.32**
Arlingclose Central Case	**1.90**	**1.95**	**1.95**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**1.98**
Downside risk	0.30	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	**0.43**
50-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.32**
Arlingclose Central Case	**1.80**	**1.85**	**1.85**	**1.90**	**1.90**	**1.90**	**1.90**	**1.90**	**1.90**	**1.90**	**1.90**	**1.90**	**1.90**	**1.88**
Downside risk	0.30	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	**0.43**

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix B – Existing Investment & Debt Portfolio Position

	10/12/18 **Actual Portfolio** **£m**	10/12/18 **Average Rate** **%**
External borrowing: Local authorities **Total external borrowing**	**1**	**0.6**
Total gross external debt	1	0.6
Total treasury investments	0	0
Net debt	1	0.6

Appendix C

TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION AND BACKGROUND

1.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

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

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities

- Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3 The Council (i.e. full Council) will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

1.4 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Full Council and for the execution and administration of treasury management decisions to Executive Director of Finance and Resources, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.5 The Council is responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1 The Council defines its treasury management activities as:

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

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

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

2.4 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk.

2.5 The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yield earned on investments remain important but are secondary considerations.

Appendix D

ANNUAL MINIMUM REVENUE PROVISION STATEMENT 2019-20

Background

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 the Authority to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the CLG Guidance) most recently issued in 2018.

The broad aim of the CLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The CLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance and a locally determined approach to loans to third parties.

For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate 4%, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

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 will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate,

Capital expenditure incurred during 2019/20 will not be subject to a MRP charge until 2020/21.

Based on the Authority's latest estimate of its Capital Financing Requirement on 31st March 2019, the budget for MRP has been set as follows:

	31.03.2019 Estimated CFR £m	**2019/20 Estimated MRP £**
Capital expenditure before 01.04.2008	0	0
Supported capital expenditure after 31.03.2008	0	0
Unsupported capital expenditure after 31.03.2008	22,595	816
Total	**22,595**	**816**

Treasury Management Report half year update 2018/19

Introduction

In March 2010 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.

The Authority's treasury management strategy for 2018/19 was approved at a meeting on the February 2018. The Authority has borrowed substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Authority's treasury management strategy.

Following consultation in 2017, CIPFA published new versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Treasury Management Code of Practice but has yet to publish the local authority specific Guidance Notes to the latter. In England MHCLG published its revised Investment Guidance which came into effect from April 2018.

The updated Prudential Code includes a new requirement for local authorities to provide a Capital Strategy, which is to be a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority will be producing its Capital Strategy later in 2018-19 for approval by full Council.

External Context

Economic background: Oil prices rose by 23% over the six months to around $82/barrel. UK Consumer Price Inflation (CPI) for August rose to 2.7% year/year, above the consensus forecast and that of the Bank of England's in its August *Inflation Report*, as the effects of sterling's large depreciation in 2016 began to fade. The most recent labour market data for July 2018 showed the unemployment rate at 4%, its lowest since 1975. The 3-month average annual growth rate for regular pay, i.e. excluding bonuses, was 2.9% providing some evidence that a shortage of workers is providing support to wages. However real wages (i.e. adjusted for inflation) grew only by 0.2%, a marginal increase unlikely to have had much effect on households.

The rebound in quarterly GDP growth in Q2 to 0.4% appeared to overturn the weakness in Q1 which was largely due to weather-related factors. However, the detail showed much of Q2 GDP growth was attributed to an increase in inventories. Year/year GDP growth at 1.2% also remains below trend. The Bank of England made no change to monetary policy at its meetings in May and June, however hawkish minutes and a 6-3 vote to maintain rates was followed by a unanimous decision for a rate rise of 0.25% in August, taking Bank Rate to 0.75%.

Having raised rates in March, the US Federal Reserve again increased its target range of official interest rates in each of June and September by 0.25% to the current 2%-2.25%. Markets now expect one further rise in 2018.

The escalating trade war between the US and China as tariffs announced by the Trump administration appeared to become an entrenched dispute, damaging not just to China but also other Asian economies in the supply chain. The fallout, combined with tighter monetary policy, risks contributing to a slowdown in global economic activity and growth in 2019.

The EU Withdrawal Bill, which repeals the European Communities Act 1972 that took the UK into the EU and enables EU law to be transferred into UK law, narrowly made it through Parliament. With just six months to go when Article 50 expires on 29th March 2019, neither the Withdrawal Agreement between the UK and the EU which will be legally binding on separation issues and the financial settlement, nor its annex which will outline the shape of their future relationship, have been finalised, extending the period of economic uncertainty.

Financial markets: Gilt yields displayed marked volatility during the period, particularly following Italy's political crisis in late May when government bond yields saw sharp moves akin to those at the height of the European financial crisis with falls in yield in safe-haven UK, German and US government bonds. Over the period, despite the volatility, the bet change in gilt yields was small. The 5-year benchmark gilt only rose marginally from 1.13% to 1.16%. There was a larger increase in 10-year gilt yields from 1.37% to 1.57% and in the 20-year gilt yield from 1.74% to 1.89%. The increase in Bank Rate resulted in higher in money markets rates. 1-month, 3-month and 12-month LIBID rates averaged 0.56%, 0.70% and 0.95% respectively over the period.

Credit background: Reflecting its perceived higher risk, the Credit Default Swap (CDS) spread for non-ringfenced bank NatWest Markets plc rose relatively sharply over the period to around 96bps. The CDS for the ringfenced entity, National Westminster Bank plc, has held steady below 40bps. Although the CDS of other UK banks rose marginally over the period, they continue to remain low compared to historic averages.

The ringfencing of the big four UK banks - Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc – is complete, the transfer of their business lines into retail (ringfenced) and investment banking (non-ringfenced) is progressing and will need to be completed by the end of 2018.

There were a few credit rating changes during the period. Moody's downgraded Barclays Bank plc's long-term rating to A2 from A1 and NatWest Markets plc to Baa2 from A3 on its view of the credit metrics of the entities post ringfencing. Upgrades to long-term ratings included those for Royal Bank of Scotland plc, NatWest Bank and Ulster Bank to A2 from A3 by Moody's and to A- from BBB+ by both Fitch and Standard & Poor's (S&P). Lloyds Bank plc and Bank of Scotland plc were upgraded to A+ from A by S&P and to Aa3 from A1 by Moody's.

Our treasury advisor Arlingclose will henceforth provide ratings which are specific to wholesale deposits including certificates of deposit, rather than provide general issuer credit ratings. Non-preferred senior unsecured debt and senior bonds are at higher risk of bail-in than deposit products, either through contractual terms, national law, or resolution authorities' flexibility during bail-in.

Arlingclose's creditworthiness advice will continue to include unsecured bank deposits and CDs but not senior unsecured bonds issued by commercial banks.

Local Context

On 31st March 2018, the Authority had net borrowing of £13m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.18 Actual £m
General Fund CFR	19.0
External borrowing	13.0
Internal borrowing	
Less: Usable reserves	8.8
Less: Working capital	4.2

The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

The treasury management position at 30th September 2018 and the change during the period is show in Table 2 below.

Table 2: Treasury Management Summary

	31.3.18 Balance £m	**Movement £m**	**30.9.18 Balance £m**	**30.9.18 Rate %**
Short-term borrowing	13.0	8.0	5.0	0.7
Total borrowing	**13.0**	**8.0**	**5.0**	
Long-term investments	0	0	0	0

Short-term investments Cash and cash equivalents	0 0	0 0	0 0	0 0
Total investments	**0**	**0**	**0**	
Net (borrowing)	**13.0**	**8.0**	**5.0**	

Borrowing Strategy during the period

At 30th September 2018 the Authority held £5.0m of loans, a decrease of £8.0m to 31st March 2018, as part of its strategy for funding previous years' capital programmes. Outstanding loans on 30th September are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.18 Balance £m	Q1 Net Movement £m	30.9.18 Balance £m	30.9.18 Weighted Average Rate %	30.9.18 Weighted Average Maturity (years)
Local authorities (short-term)	13	8.0	5.0	0.7	Less than 1
Total borrowing	**13**	**8.0**	**5.0**	**0.7**	

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

With short-term interest rates remaining much lower than long-term rates, the Authority considered it to be more cost effective in the near term to use internal resources or borrowed rolling temporary / short-term loans instead. The net movement in temporary loans is shown in table 3 above.

Treasury Investment Activity

From time to time the Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the six-month period, the Authority's investment balance ranged between £0 and £7.5 million due to timing differences between income and expenditure. These investments were placed with the Debt Management Office Deposit Facility [DMADF] or other local authorities.

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The Authority had no investments on 30th September 2019.

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum 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.

Non-Treasury Investments

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

The Authority holds £0m of such investments.

Compliance

The Executive Director for Finance reports that all treasury management activities undertaken during the year to date complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 8 below.

Table 7: Debt Limits

	H1 Maximum	30.9.18 Actual	2018/19 Operational Boundary	2018/19 Authorised Limit	Complied?
Borrowing	13	0	30	40	Yes

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Table 8: Investment Limits

	H1 Maximum	30.9.18 Actual	2018/19 Limit	Complied?
Any single organisation, except the UK Government	2.5	0	2	No (a)
Any group of organisations under the same ownership	**0**	**0**	**2**	No
Any group of pooled funds under the same management	**0**	**0**	**5**	Yes

Negotiable instruments held in a broker's nominee account	**0**	**0**	**5**	Yes
Money Market Funds	**0**	**0**	**11**	Yes

(a) This investment was placed with the Police and Crime Commission for Essex, as their creditworthiness is viewed in the same light as that of central government, this investment was placed to maximise the return for the council.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

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

	H1 2018/19 Actual	**2018/19 Target**	**Complied?**
Portfolio average credit score	A	A	Yes

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period.

	30.9.18 Actual	**2018/19 Target**	**Complied?**
	£m	£m	
Total cash available within [3] months	3	3	Yes
Total sum borrowed in past [3] months without prior notice	0	0	Yes

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed was:

	30.9.18 Actual	2018/19 Limit	Complied?
Upper limit on fixed interest rate exposure	100	100	Yes
Upper limit on variable interest rate exposure	0	50	Yes

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	30.9.18 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	0	15	0	Yes
12 months and within 24 months	0	15	0	Yes
24 months and within 5 years	0	35	0	Yes
5 years and within 10 years	0	100	0	Yes
10 years and above	0	100	0	Yes

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

Outlook for the remainder of 2018/19

Having raised policy rates in August 2018 to 0.75%, the Bank of England's Monetary Policy Committee (MPC) has maintained expectations of a slow rise in interest rates over the forecast horizon.

The MPC has a definite bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. While policymakers are wary of domestic inflationary pressures over the next two years, it is believed that the MPC members consider both that (a) ultra-low interest rates result in other economic problems, and that (b) higher Bank Rate will be a more effective weapon should downside Brexit risks crystallise and cuts are required.

Arlingclose's central case is for Bank Rate to rise twice in 2019. The risks are weighted to the downside. The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in Q2 2018, but the annual growth rate of 1.2% remains well below the long term average

	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Ca	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Downside risk	0.00	0.00	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

The view is that the UK economy still faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Central bank actions and geopolitical risks, such as prospective trade wars, have and will continue to produce significant volatility in financial markets, including bond markets.

Capital Strategy Report 2019/20

Bromsgrove District Council

Introduction

This capital strategy is a new report for 2019/20, giving a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

Capital Expenditure and Financing

Capital expenditure is where the Council spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10k are not capitalised and are charged to revenue in year.

In 2019/20, the Council is planning capital expenditure of £7.3m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
	£000	£000	£000	£000	£000
General Fund services	7,533	4,362	2,257	1,800	1,370
Investments	0	0	5,000	7,000	8,000
TOTAL	7,533	4,362	7,257	8,800	9,370

The main General Fund capital projects in 19/20 include the replacement of fleet vehicles, £1,071k and Disabled Facilities Grants Funding £750k. The Council also plans to incur £20m of capital expenditure on investments over the next three years, which are detailed later in this report in the commercial activities paragraph.

Governance: Service managers bid annually in November to include projects in the Council's capital programme. Bids are collated by corporate finance who calculate the financing cost (which can be nil if the project is fully externally financed). The final capital programme is then presented to Cabinet in February and to Council in February each year.

All capital expenditure must be financed, either from external sources (government grants and other contributions including S106), the Council's own resources (revenue, reserves and capital receipts) or borrowing. The planned financing of the above expenditure is as follows:

Table 2: Capital financing

	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
	£000	£000	£000	£000
External sources	1,371	800	800	800
Own resources	198	0	0	0
Borrowing	2,793	6,457	8,000	8,570
TOTAL	**4,362**	**7,257**	**8,800**	**9,370**

Borrowing is only a temporary source of finance, since loans must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP is as follows:

Table 3: Replacement of debt finance

	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget	Total
	£000	£000	£000	£000	£000
Own resources	487	816	1,081	1,325	3,710

- The Council's full minimum revenue provision statement is in appendix 1.

The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £5.7m during 2019/20. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
		£000	£000	£000	£000
General Fund services	18,978	22,595	23,286	23,307	22,728
Capital investments	0	0	5,000	11,947	19,821
TOTAL CFR	**18,978**	**22,595**	**28,286**	**35,254**	**42,549**

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2021/22. At present there is only one planned service transformation where this flexibility is planned to be used, that being the implementation of the Enterprise Resource Planning System. This will be particularly helpful for the ability to utilise capital receipts for the revenue implementation costs of the project. Repayments of capital grants, loans and investments also generate capital receipts. The Council is not currently expecting any capital receipts to be received over the amounts already in reserves.

- The Council's Flexible Use of Capital Receipts Policy is available here: appendix 2

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Due to capital expenditure decisions taken in the past, there has been an underlying need to borrow for capital purposes which has in recent years been met through short-dated borrowing. The Council currently has a £1m short-dated loan outstanding {date}; borrowing is expected to rise to £14.8m by 31/3/2019.

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

Projected levels of the Council's total outstanding debt are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
	£000	£000	£000	£000	£000
Borrowing	13,022	14,841	21,456	29,191	37,517
Capital Financing Requirement	18,978	22,595	28,286	35,254	42,549

The above table incorporates the borrowing the Council intends to take.

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term.

Liability benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £0.2m at each year-end.

Table 7: Borrowing and the Liability Benchmark in £ millions

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
	£m	£m	£m	£m	£m

Outstanding borrowing	19.0	22.6	28.3	35.3	42.5
Liability benchmark	**7.3**	**11.2**	**18.2**	**26.9**	**36**

The table shows that the Council expects to remain borrowed above its liability benchmark. This is because cash outflows to date have been below the assumptions made when the loans were borrowed.

Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt

	2018/19 limit	**2019/20 limit**	**2020/21 limit**	**2021/22 limit**
	£000	£000	£000	£000
Authorised limit – borrowing	30,000	30,000	40,000	45,000
Authorised limit – PFI and leases	500	500	500	500
Authorised limit – total external debt	30,500	30,500	40,500	45,500
Operational boundary – borrowing	25,000	25,000	35,000	41,000
Operational boundary – PFI and leases	500	500	500	500
Operational boundary – total external debt	25,500	25,500	35,500	41,500

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

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

Investments for Commercial Activities.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Executive Director of Finance and staff, who must act in line with the treasury management strategy approved by council. Quarterly reports on treasury management activity are presented to council. The audit committee is responsible for scrutinising treasury management decisions.

Investments for Service Purposes

The Council makes investments to assist local public services, including making loans to. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to at least break even after all costs.

Governance: Decisions on service investments are made by the relevant service manager in consultation with the Executive Director of Finance and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

Commercial Activities

With central government financial support for local public services declining, the Council is planning to invest in commercial property purely or mainly for financial gain. The Council does not currently have such investments.

With financial return being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. The principal risk exposures include falls in capital values, void periods, unforeseen capital expenditure and damage. These risks are planned to be managed by an in house team whose remit is to mitigate these risks. In order that commercial investments remain proportionate to the size of the authority, these are subject to an overall maximum investment limit of £20m.

Table 9: Investments for Commercial Activities

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
	£000	£000	£000	£000	£000
Longer-term investments	0	0	5,000	7,000	8,000
TOTAL	**0**	**0**	**5,000**	**7,000**	**8,000**

These investments are designed to generate a return to the authority, and are likely to be in commercial property.

Governance: Decisions on commercial investments are made in line with the criteria and limits approved by council in the investment strategy. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme.

- Further details on commercial investments and limits on their use are in the investment strategy

Liabilities

In addition to debt of £13m detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £34.1m). It has also set aside £1.6m to cover risks of business rates appeals, £1.3m, employee benefits, £183k and insurance provision £67k.

Governance: Decisions on incurring new discretional liabilities are taken by Heads of Service in consultation with the Executive director of Finance. The risk of liabilities crystallising and requiring payment is monitored by corporate finance and reported as appropriate.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 10: Prudential Indicator: Proportion of financing costs to net revenue stream

	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
Financing costs (£000)	566	1,028	1,892	2,601
Proportion of net revenue stream	5%	9%	16%	22%

- Further details on the revenue implications of capital expenditure are in the 2019/20 revenue budget

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Executive Director of Finance is satisfied that the proposed capital programme is prudent, affordable and sustainable because of the current MTFP forecasts which show that the council is financially sustainable taking it into account.

Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Executive Director of Finance is a qualified accountant with more than 30 years' experience. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA and AAT.

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. 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.

Appendix E

Policy for Flexible use of Capital Receipts Purpose

1. This report reviews the statutory guidance on the flexible use of Capital Receipts and its application within this authority. Background

2. Capital receipts can only be used for specific purposes and these are set out in Regulation 23 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 made under Section 11 of the Local Government Act 2003. The main permitted purpose is to fund capital expenditure and the use of capital receipts to support revenue expenditure is not permitted by the regulations.

3. The Secretary of State is empowered to issue Directions allowing expenditure incurred by local authorities to be treated as capital expenditure. Where such a direction is made, the specified expenditure can then be funded from capital receipts under the Regulations.

4. The Secretary of State for Communities and Local Government has issued guidance in March 2016, giving local authorities greater freedoms with how capital receipts can be used to finance expenditure. This Direction allows for the following expenditure to be treated as capital,

“expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners.”

5. In order to comply with this Direction, the Council must consider the Statutory Guidance issued by the Secretary of State. This Guidance requires authorities to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy with the initial strategy being effective from 1st April 2016 with future Strategies included within future Annual Budget documents.

6. There is no prescribed format for the Strategy, the underlying principle is to support local authorities to deliver more efficient and sustainable services by extending the use of capital receipts to support the revenue costs of reform projects

7. The Statutory Guidance for the Flexible Use of Capital Receipts Strategy states that the Strategy should include a list of each project which plans to make use of the capital receipts flexibility, together with the expected savings that the project will realise. The Strategy should also include the impact of this flexibility on the affordability of borrowing by including updated Prudential Indicators.

8. The Flexible Use of Capital Receipts Strategy is set out below

Flexible Use of Capital Receipts Strategy

9. Government has provided a definition of expenditure which qualifies to be funded from capital receipts. This is: “Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future

years for any of the public sector delivery partners. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility."

10. The Council's intends to use the following use of capital receipts to fund the following transformation projects should a new ERP system be approved to go ahead:

Project Description	2019/20
	£000
Restructure costs as part of ERP Programme	50
Total	50

11. The savings generated by these projects are set out in the table below.

Project Description	2019/20
	£000
Restructure costs as part of ERP Programme	10
Total	10

12. Impact on Prudential Indicators

13. The guidance requires that the impact on the Council's Prudential Indicators should be considered when preparing a Flexible Use of Capital Receipts Strategy.

14. The indicators that will be impacted by this strategy are none. The scheme is currently funded from capital receipts and the new planned use of capital receipts will be funded from capital receipts which are currently unallocated.

15. The Prudential Indicators show that this Strategy is affordable and will not impact on the Council's operational and authorised borrowing limits.

CABINET **13th March 2019**

Investment Strategy Report 2019/20

Relevant Portfolio Holder	Councillor Brian Cooper
Portfolio Holder Consulted	Yes
Relevant Head of Service	Jayne Pickering – Exec Director Finance and Resources
Wards Affected	All Wards
Non-Key Decision	

1. **SUMMARY OF PROPOSALS**

The Council invests its money for three broad purposes:

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

This investment strategy is a new report for 2019-20, meeting the requirements of statutory guidance issued by the Government in January 2018, and focuses on the second and third of these broad purposes.

2. **RECOMMENDATIONS**

The Cabinet is asked to RECOMMEND that

i) The Investment Strategy Report 2019/20 be approved and adopted

3. **KEY ISSUES**

Financial Implications

3.1 The Council 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. These activities, plus the timing of borrowing decisions, leads to a cash surplus, which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA).

3.2 Any investments undertaken will be expected to make the minimum returns as specified in this report.

Legal Implications

3.3 This is a statutory report as per the updated guidance issued in January 2018, as per Local Government Act 2003.

Service/Operational Implications

3.4 None as a direct result of this report.

Customer / Equalities and Diversity Implications

3.5 None as a direct result of this report.

4. RISK MANAGEMENT

Failure to manage the investment strategy effectively to ensure the delivery of maximum return within a secure environment. Controls in place to mitigate these risks are as follows:

- Regular monitoring of the status of any investments undertaken
- Looking to wider market information from treasury advisors

AUTHOR OF REPORT

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Investment Strategy Report 2019/20

Bromsgrove

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 for 2019/20, 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 £0m and £7.5m during the 2019/20 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 2019/20 for treasury management investments are covered in a separate document, the treasury management strategy and capital strategy.

Service Investments: Loans

Contribution: The Council currently does not lend money to its subsidiaries, however it may do so in the next financial year to support local public services and stimulate local economic growth. Envisaged loans would be to the potential new housing company which may purchase and manage for rental properties built on the Burcot Lane site. No loans will be made at lower than market rate.

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:

Table 1: Loans for service purposes in £ millions

Category of borrower	31.3.2018 actual			2019/20
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
	£m	£m	£m	£m
Subsidiaries	0	0	0	5
TOTAL	**0**	**0**	**0**	**5**

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 2018/19 onwards will be shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: The Authority assesses the risk of loss before entering into and whilst holding service loans by using specialist advice to understand the market and the potential future demands of the market and the customers in it. It will also use benchmarking data from the market to determine future potential risks which need to be planned for.

Commercial Investments: Property

Contribution: The Council is planning to invest in local (within the council's operating area boundary) commercial and residential property with the intention of making a surplus that will be spent on local public services. As yet the council has not made any investments. It is currently reviewing a number of potential investments in commercial property to ensure that the proposed investment makes a return and the risks of the investment are fully understood.

Table 3: Property held for investment purposes in £ millions

Property	Actual	31.3.2018 actual		31.3.2019 expected	
	Purchase cost	Gains or (losses)	Value in accounts	Gains or (losses)	Value in accounts
Property – to be purchased in 2019	5 (planned)	0	0	-	-

Security: In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

Risk assessment: The Authority assesses the risk of loss before entering into and whilst holding property investments by involving specialist advisors with expertise in the type of property being purchased, looking at historic data and speaking to other councils undertaking similar activities.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Authority ensures that properties purchased are in an active market where there is demonstrable demand to ensure that the authority does not purchase assets which it will not be able to sell on at a later date.

Proportionality

The Authority does not plan to become dependent on profit generating investment activity to achieve a balanced revenue budget.

Capacity, Skills and Culture

Elected members and statutory officers: Member training will take place annually as part of the induction process. External advisors will provide reports to support investment decisions with officers ensuring that they fully understand them and can relate them to the strategic objectives and the risk profile of the authority.

Commercial deals: KPMG have developed a modelling tool for the authority to use when assessing potential purchases as a precursor to engaging with external consultants to ensure that potential purchases are likely to make sense from the perspective of the authority before incurring advisor costs. The minimum net yield on a purely for return investment is to be set at 0.75%. If there are regeneration and redevelopment benefits which will flow from the investment then these can be taken into account in the development of the business case, so if the net investment yield falls below 0.75% it can still proceed if these benefits are deemed to outweigh the lower than target yield. No investment can take place if the net yield is lower than 0.1%.

Corporate governance: when investment decisions are to be made, they are to be led by the Council's Executive Director of Finance in consultation with the Corporate Management Team. They will assess the potential investment opportunity, consulting NWEDR and using the KPMG finance appraisal model, and should they decide it presents a strong opportunity for the authority and complies with the relevant criteria a conditional offer can be made. A business case will then be developed and presented ensuring that once greater detail is included, it makes a satisfactory income yield and/or economic redevelopment and regeneration impact. When the business case is completed, if it is still compliant with the council criteria, it will be presented to Executive for approval before purchase is completed.

Investment opportunity identified

↓

Initial screening (NWEDR/KPMG model)

↓

High level opportunity assesment (NWEDR/Finance)

↓

Pre offer evaluation (KPMG model/Savills initial report)

↓

Conditional offer (Executive Director of Finance)

↓

Full business case (Presented to Finance & Budget Working Group)

↓

Full business case (Presented to Cabinet)

↓

Member approval (Cabinet)

↓

Proceed

Once a purchase has been made the Executive Director of Finance will provide quarterly updates, in line with budget monitoring reports, on the status of the investment.

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.

Table 4: Total investment exposure in £millions

Total investment exposure	**31.03.2018 Actual**	**31.03.2019 Forecast**	**31.03.2020 Forecast**
	£m	£m	£m
Treasury management investments	0	0	0
Service investments: Loans	0	0	0
Commercial investments: Property	0	0	5
TOTAL INVESTMENTS	0	0	5
TOTAL EXPOSURE	0	0	5

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.

Table 5: Investments funded by borrowing in £millions

Investments funded by borrowing	**31.03.2018 Actual**	**31.03.2019 Forecast**	**31.03.2020 Forecast**
	£m	£m	£m
Treasury management investments	0	0	0
Service investments: Loans	0	0	0
Commercial investments: Property	0	0	5
TOTAL FUNDED BY BORROWING	0	0	5

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.

Table 6: Investment rate of return (net of all costs)

Investments net rate of return	**2017/18 Actual**	**2018/19 Forecast**	**2019/20 Forecast**	**Minimum return**
	%	%	%	%
Treasury management investments	0	0	0	0.4
Service investments: Loans	0	0	0	0.75
Commercial investments: Property	0	0	0.75	0.75
ALL INVESTMENTS	0	0	0.75	0.62

Table 7: Other investment indicators

Indicator	**2017/18 Actual**	**2018/19 Forecast**	**Limit**
Debt to net service expenditure ratio	0	0	200%
Commercial income to net service expenditure ratio	0	0	3%

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