Council Budget and Council Tax 2019-20 and Medium-Term Financial Strategy 2019-20 to 2022-23

Members are requested to retain this report for use in the following meetings:

Overview and Scrutiny Committee – 6th February 2019

Cabinet – 11th February 2019

Council – 25th February 2019

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For Fees and Charges please visit:
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Andy Wright
Chief Executive

CABINET
11th February 2019

Braintree District Council

Council Budget and Council Tax 2019/20 and Medium-Term Financial Strategy 2019/20 to 2022/23	Agenda No: 5a

Portfolio	**Finance and Performance**
Corporate Outcome:	**A high performing organisation that delivers excellent and value for money services** **Delivering better outcomes for residents and businesses and reducing costs to taxpayers**
Report presented by:	**Councillor David Bebb, Cabinet Member for Finance and Performance**
Report prepared by:	**Trevor Wilson, Head of Finance**

Background Papers:	**Public Report**
Council Budget and Council Tax 2018/19 and Medium-Term Financial Strategy 2018/19 to 2021/22 report to Cabinet 5th February 2018 and Full Council 19th February 2018; Medium-Term Financial Strategy 2018/19 to 2021/22 Update report to Cabinet 26th November 2018; The Provisional 2019/20 Local Government Finance Settlement – consultation paper published by the Department for Communities and Local Government on 13th December 2018.	**Key Decision: No**

Executive Summary:

1. Background and Purpose

1.1 The annual process of reviewing and rolling the strategy forward by one year commenced with a report to Cabinet on 10th September 2018.

1.2 On 26th November 2018, the Cabinet received a report providing details of the progress with the updating of the Financial Profile and the Medium-Term Financial Strategy 2018/19 to 2021/22. This included detail of unavoidable cost pressures and the work on identifying options for revenue cost reductions/additional income to meet the anticipated funding shortfalls over the next four years. The Cabinet agreed that the Revenue Budget and Capital Programme for 2019/20, as presented, constituted the initial Budget proposals and that views be sought as appropriate.

1.3 The Council received, on 13th December 2018, detail of the provisional Local Government Settlement Funding Assessment figures for 2019/20. In addition, Cabinet Members and Senior Management have reviewed the current levels of the Council's discretionary fees and charges.

1.4 This report consolidates all of this information, including final refinements to the assumptions, resulting in: proposed budgets for revenue and capital; the level of council tax (Band D) for 2019/20; and a Financial Profile and Medium-Term Financial Strategy for 2019/20 to 2022/23.

2. Budget Strategy

2.1 The Council's Budget Strategy is to:

- Be a low council tax authority;
- Have plans to deliver a balanced budget over the medium-term; and
- Maintain a minimum level of unallocated balances of £1.5million.

2.2 The approach to meet anticipated shortfalls in funding has been to focus on delivering additional income and cost reductions without impacting on customers and service delivery. Examples include:

- Property purchases providing a rental income stream, including: Connaught House, Colchester; property at Church Lane, Braintree for a doctors surgery; offices at 3 & 4 Century Drive, Freeport Office Village; Doctors surgery, Silver End;
- Office accommodation at Causeway House shared with a mix of four private and public sector organisations producing rental income;
- Responsibility for running the Enterprise Centre, Springwood Industrial Estate, and developed four grow-on units adjacent to the Centre producing a net income (rents less operational costs);
- Invested in solar panels on council property reducing energy costs and producing an income;
- Invested monies in pooled funds achieving an improved return over short-term interest rates;
- Service reviews have delivered cost reductions. Changes have included the combining of the domestic refuse, recycling and trade waste collections across the District; staff reductions resulting from restructures in a number of service areas; reduction to 49 councillors following a Boundary Commission review;
- A District Investment Strategy with development proposals which will deliver benefits over the medium to long-term; including Manor Street re-development; Horizon 120 employment site at Great Notley; I-Construct facility at the Enterprise Centre to provide business support programme; Witham Enterprise Centre; Healthcare facility on the former Premdor Site, Sible Hedingham.

2.3 Over the period the Council whilst faced with a need to increase income and reduce costs this has been intensified with increases in demand on some services and new responsibilities placed on local authorities by Central Government which have had to be managed effectively and efficiently. The Planning service has had to respond to an increase in planning applications, many of which are for major developments, and as a consequence an increase in work on appeals. Also the Housing service has recently received additional responsibilities under the Homelessness Act. Both of these service areas have required an increase in staffing to deliver and meet service demand.

2.4 The level of unallocated balance has remained consistently above the £1.5million (minimum threshold set by the Council): the balance at 31st March 2018 was £2.86million. This will increase as an allocation from the balance was used in April 2017 to pay the Pension Deficit payments for three years in a single payment and will be repaid in 2018/19 and 2019/20 at £1.4million per year.

3. Government Funding

3.1 The provisional Financial Settlement for local government was announced by the Secretary of State for Housing, Communities and Local Government on 13th December 2018. The provisional settlement forms the final year of the four-year funding settlement announced for 2016/17 to 2019/20.

3.2 In addition to the provisional Financial Settlement figures for 2019/20 the paper also provides updates on the future of the local government finance system with two consultations published: on Business Rates Retention and Fair Funding.

3.3 The Council's provisional allocation of Settlement Funding Assessment (SFA) for 2019/20 is £3,431,026, and this consists solely of retained business rates. This represents a reduction of £195,615 or 5.4% compared to the SFA for 2017/18 but this is an improvement on the provisional figure issued last year for 2019/20 as the Government has confirmed the withdrawal of the proposed negative Revenue Support Grant adjustment which would have reduced the Council's SFA by £291,482.

3.4 Notification was received that the Essex bid to pilot 75% Business Rate Retention was not one of the successful 15 approved for 2019/20. However, the fallback option of an Essex Business Rates Pool was agreed for 2019/20 and the Council could receive an estimated share of £646,000.

3.5 Other grant/subsidy confirmations or announcements for 2019/20 received were:

- Rural Services Delivery Grant - £22,125;
- Business Rate Retention – Levy Account Surplus - £52,638;
- Housing Benefit and Local Council Tax Support Administration Subsidies – total of £532,175;
- Homelessness Support and Reduction Grants – total of £254,063;

3.6 The Government confirmed that no change would be made to the New Homes Bonus scheme for 2019/20. The Council is to receive £224,712 for Year 9 of the scheme which will provide a total amount receivable in 2019/20 of £1,250,191.

3.7 On 28th January 2019 the Government announced that local authorities are to receive a grant to help support their preparations for Brexit. District councils are to receive £35,000: to be paid £17,500 in the current year and 2019/20.

4. New Investments and Unavoidable Budget Demands

4.1 Bids for revenue funding to meet unavoidable budget demands and new investments total £2,113,910, in 2019/20 and £261,230 in 2020/21. Of this total,

£847,370 is an ongoing requirement and therefore is needed to be added to the base budget. Other requests, totalling £1,266,540 in 2019/20 and £195,500 in 2020/21, are for one-off budget requirements.

4.2 These bid requests are essentially as presented in the initial budget proposals agreed by Cabinet on 26th November 2018, with the exception of three new additions:

- Councillor Community Grant scheme – the Cabinet agreed following comments received, during the consultation on the initial budget proposals, to revisit the proposed cessation of the grant scheme on 31st March 2019. The outcome of the review is a proposal to continue with the current scheme for a further period of two years, at a cost of £73,500 per annum, and that this is funded from earmarked reserves, nominally the Council's share of the CHIP Fund (Community Projects): which was received from Greenfields Community Housing during 2018. The scheme for 2019/20 will commence in May 2019 following the District elections;
- A provision be created to fund the costs associated with the delivery of housing growth in the District to meet the requirements in the Local Plan. It is proposed that £500,000 be allocated from the unallocated New Homes Bonus; and
- Capital salaries – Budget for the recharge from revenue to capital for members of staff working on capital projects has been higher than actually achieved in recent years. Income budget to be reduced by £60,210.

5. Update on Financial assumptions in the current MTFS

5.1 The Financial Profile, agreed in February 2018, included cost reductions and additional income planned for 2019/20 to 2021/22. These have been reviewed and the values of the planned savings/additional income remain as originally included of £120,010 in 2019/20, £34,530 in 2020/21 and £19,950 in 2021/22.

5.2 Adjustment to the base budget in 2019/20, for planned priority investments and unavoidable budget changes identified in previous years, is a reduction totalling £38,170.

5.3 Three unavoidable budget changes were also identified for 2019/20 onwards: Recycling income (£120,000); Procurement (£25,000 in 2019/20 and £16,000 in 2021/22); and Council Tax Support and Housing Benefit Administration Subsidy (£97,760 in 2019/20 and £88,500 in 2020/21 and 2021/22).

5.4 Provision for a pay award on 1st April 2019 based on the second year of the two-year pay award agreed in April 2018 has been included in the Financial Profile.

5.5 Members Allowances are linked to the annual pay award to the staff and therefore an annual increase of 2% has been provided in the Financial Profile.

5.6 Pension Fund contributions are based on the Triennial Review conducted as at 31st March 2016 which determined the pension fund assets and liabilities applicable for the Council and set the deficit contribution and employer contribution rate for the three years: 2017/18 to 2019/20.

5.7 Allowances for inflationary increases have been provided but only on specific budget headings based on the Office of Budget Responsibility's forecast of the Consumer Prices Index for 2019/20 and forecasts of energy cost increases received from Concept Energy Solutions.

6. Cost Reductions and Additional Income

6.1 Service budgets have been reviewed, with reference to the projected outturn for the current year, and this has identified budget adjustments with a total of £899,720 in 2019/20 and minor adjustments in the three following years. These have been agreed by Management Board as they do not have a direct impact on customers or service delivery.

6.2 In addition, three sources of additional income are proposed that require(d) Member decision:

- Disabled Facilities Grants – proposed increase in the amount taken (by £31,200 from £46,800) from the funding received from the Better Care Fund to meet the costs of running the scheme of £78,000. The amount represents 9% of the current Better Care Fund grant of £863,000;
- Increase of monies invested in pooled funds from £16million to £18million. Following consultation with Arlingclose, Treasury Management advisors, the Cabinet Member for Finance and Performance agreed that £2million be invested in two multi asset pooled funds, which was actioned in late December. Estimated additional net income of £65,000 in 2019/20; and
- Expand the use of Planning Performance Agreements which would generate an estimated £75,000 of additional income in 2019/20. This was agreed at Full Council on 10th December 2018 as part of the request for early approval to increase capacity in the Development Management team.

6.3 **Fees and Charges** – a schedule of proposed fees, charges and housing rents for 2019/20 is provided following the link: Proposed Fees and Charges 2019/20

6.4 Proposed levels of trade waste charges and environmental permits for 2019/20 are not available at the current time due to information required from a third party. In addition, core leisure charges are determined annually with Fusion, the Council's leisure services partner, by the Cabinet Member for Health and Communities. It is proposed that authority is delegated to the appropriate Cabinet Member to determine the level of these fees for 2019/20.

6.5 It is proposed to continue the current arrangement for the appropriate Cabinet Member to have delegated authority to vary some fees and charges to ensure competiveness of Council services.

7. Business Rates Retention Scheme and Business Rate Taxbase

7.1 The Council's Business Rates Taxbase for 2019/20 was calculated as at 21st December 2018 and agreed by the Corporate Director under delegated authority. The net collectable amount, after mandatory and discretionary reliefs, allowances for losses on collection and rating appeals, is £42,782,307.

7.2 It is proposed that a number of Discretionary Business Rate relief schemes agreed previously by Cabinet continue as requested by the Government, these are:

- Supporting Small Businesses – from 1st April 2017 for a maximum period of 5 years;
- Discretionary Business Rates Scheme – from 1st April 2017 for a period of 4years;
- Rural Rate Relief – increase from 50% to 100% from 1st April 2017; and
- Relief to local newspapers – to extend for 2019/20.

7.3 In addition it is proposed that the Council uses its discretionary discount powers to implement a new Retail Relief, announced in the Autumn Budget 2018. Under this relief scheme eligible retailers with a rateable value below £51,000 will receive a one third discount on their business rates bills.

7.4 The Government has given an undertaking to reimburse councils for the amount of relief granted under the above schemes.

7.5 The bid to Pilot 75% Business Rate Retention by fifteen Essex authorities in 2019/20 was not one of the fifteen pilots announced by the Government in the provisional 2019/20 Local Government financial settlement.

7.6 The fifteen authorities had agreed, however, that if the bid was unsuccessful a request would be made to form an Essex Business Rate Pool for 2019/20. The decision made by the Cabinet Member for Finance and Performance to participate in an Essex Pool was based on the assessment that estimated business rates income for 2019/20 will exceed the baseline amount and that on the proposed sharing arrangement the Council could receive an additional amount of business rates of approximately £646,000.

8. Local Council Tax Support Scheme

8.1 On 26th November 2018, the Cabinet determined that it would not propose any changes to the Council's Local Council Tax Support scheme for 2019/20; this was on the basis of limiting the frequency of changes thereby providing a level of stability and continuity in the scheme for claimants – the last agreed changes were effective for 2016/17. With no proposed changes there was no requirement to undertake a consultation exercise.

8.2 Details of the scheme for 2019/20 to be recommended for approval by Council can be found on the Council's website at: [Proposed Local Council Tax Support Scheme 2019/20]

8.3 Since the introduction of the Local Council Tax Support scheme it has been agreed that an Exceptional Hardship Fund would be provided for short-term assistance to households facing exceptional financial difficulties. The process for dealing with requests for assistance from this Fund involves a referral to the Citizens Advice Bureau (CAB) for money advice and an assessment of the claimant's finances. In addition an officer has been employed to work with claimants who experience difficulty in paying their council tax with the objective of offering support and advice and to ultimately gain agreement to pay.

8.4 It is recommended that both of these services together with the Exceptional Hardship Fund are retained for 2019/20. The other three major precepting authorities have already agreed to continue to provide funding for 2019/20.

9. Council Tax – Collection Fund Surplus and Taxbase

9.1 The Council's taxbase for 2019/20, calculated as at 30th November 2018, is 52,521. This was agreed, under delegated authority, by the Corporate Director responsible for Finance. This compares to a taxbase of 51,980 for 2018/19; an increase of 541 or 1.04%.

9.2 The Council has exercised its discretionary powers to set the discounts/premia for empty properties and second homes. The current levels of these discounts are as follows:

- Properties undergoing extensive repair – 0% discount for twelve months;
- Properties unfurnished – 0% discount for 6 months;
- Second homes – 0% discount;

It is not proposed to make any changes to the levels of the discounts for 2019/20.

9.3 The current level of premia charged on properties which have been unoccupied and substantially unfurnished for two years or more is currently set at 50%. However, the Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Act 2018 was enacted on 1st November 2018 which makes changes to the relevant maximum premium that can be applied.

9.4 It is proposed to revise the Council's scheme on long term empty properties to incorporate the new maximum levels with implementation over 3 years commencing on 1st April 2019 as detailed in the Act, however, it is also proposed to refund the 12 months' additional premium (ie above 50%) prior to when the property is brought back into use and is occupied.

9.5 It is estimated that the balance on the Council Tax Collection Fund available for distribution is a surplus of £888,833, of which the amount due to this Council is £113,625. It is has been agreed that £21,040 of this Council's share of the surplus will be paid to town and parish councils in 2019/20.

9.6 The Secretary of State determines the level of increase above which a proposed increase in council tax must be subject to a referendum. For shire district councils the threshold for 2019/20 has been set at the higher of 3% or up to and including £5. An increase of £5.22 on this Council's Band D for 2019/20 equates to a percentage increase of 2.99%.

10. Financial Profile

10.1 The budget proposals as presented in this report result in an addition to the unallocated balance of £127,947 in 2019/20. Shortfalls are projected for the following three years of £539,351, £7,285 and £162,760, respectively.

10.2 The shortfalls for 2020/21 onwards have been determined under the current local government funding arrangements however these are likely to be subject to significant change pending the outcome of the Fair Funding Review and the

Government's decision regarding the proposed new 75% Business Rates Retention scheme both of which are to be implemented from 1st April 2020. The Government is currently consulting on elements of both the proposed Fair Funding Review and of the new scheme post 2020/21. Proposals, and the associated consultation, on the transition to the new scheme are expected over the coming months.

10.3 The approach to address the anticipated budget shortfalls will be the delivery of the 'Roadmap to 2020' which encompasses:

Better at Business
- Commercialisation
- Business Awareness & Skills
- Procurement
- Contract Management

Smart Working
- Service Improvements
- Digital Strategy
- Accommodation Review
- Mobile & Flexible working

Investment Programme
- District Investment Strategy
- Asset Management Strategy
- Treasury Management Strategy

11. Pay Policy 2019/20

11.1 The Pay Policy Statement 2019/20 has been designed to give an overview of the Council's framework regarding pay and rewards for staff within the Council. The framework is based on the principle of fairness and that reward should be proportional to the weight of each role and each individual's performance.

12. Balances and Reserves

12.1 The estimated transfer to balances from the proposed 2019/20 Budget is £127,947. The anticipated balance at 31st March 2020 is £6.546million.

12.2 Detail of the proposed use of earmarked reserves is also provided.

13. Capital Resources and Investment

13.1 Proposed capital projects have a total value of £1,902,000 for funding in 2019/20 and £50,000 for 2020/21 and 2021/22. The anticipated capital requirement for each of the three subsequent years is £1,928,000 per annum.

13.2 The proposed capital programme can be funded from the estimated capital resource available for 2019/20. In addition, the anticipated capital requirements for 2020/21 to 2022/23 can also be funded but this will be dependent on the sales of assets identified producing the anticipated amount of capital receipts. Proceeds from three land sales are conditional on planning permission being granted. The resources also include receipts anticipated from the sales of residential properties on the Manor Street re-development and of serviced plots on Horizon 120.

14. Capital, Investment and Treasury Management Strategies

14.1 New requirements on local government under statutory guidance and guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) are for increased information and for a broadening of definition of investments to ensure that all authorities have clear plans and understanding of the risks of investments in assets as well as investment of cash. Two new strategies, Capital and Investment, are included in the report in addition to the annual Treasury Management Strategy. Strategies include, where appropriate, prudential indicators as required by the CIPFA Prudential Code.

14.2 The Capital Strategy provides a high-level overview of how capital expenditure, capital financing and treasury management activities contribute towards the Council's ability to provide local public services along with an overview of how the associated risks are managed and what the implications are for future financial sustainability. The Capital Strategy includes proposed borrowing limits for 2019/20.

14.3 The Investment Strategy covers 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).

14.4 The Council's borrowing and investment requirements for 2019/20 are contained in the annual Treasury Management Strategy Statement.

14.5 The Council's policy for Minimum Revenue Provision (MRP) provides the methodology for setting aside resources to repay debt is set out in the draft MRP policy statement.

14.6 The Corporate Director (Finance) is satisfied that the proposed capital programme is prudent, affordable and sustainable.

15. Robustness of the estimates and the adequacy of the proposed financial reserves

15.1 Finally, the Corporate Director (Section 151 Officer) provides confirmation of the robustness of the estimates and the adequacy of the proposed financial reserves as presented in this report. Also included is an initial assessment of the financial resilience of the Council's revenue income sources.

15.2 Finally, with regard to Year-End accounting procedures requests to carry forward unspent budgets are required to be agreed by Cabinet. With the requirement to produce draft accounts for external audit by 31st May, carry forward budgets need to be agreed in April. Given the short timescale for the turnaround of the requests it is recommended that authority is delegated to the Cabinet Member for Finance and Performance to agree those unspent budgets to be carried forward to the following year.

Recommended Decision:

A) That it be <u>Recommended To Council</u> that the following be approved:

1. The budget variations to the current base budget as detailed in Section 4 of the main report;
2. The additional income and cost reductions as detailed in Section 6 of the main report;
3. The unavoidable revenue budget demands and new investments added to the Base Budget of £847,370 as detailed in Section 5.2 of the main report;
4. The unavoidable revenue budget demands and new investments required to meet one-off or time-limited expenditure of £1,266,540 as detailed in Section 5.3 of the main report and to be funded as detailed in section 5.4 of the main report:
5. The Braintree District Council's Local Council Tax Support scheme for 2019/20 as detailed on the Council's website: Proposed Local Council Tax Support Scheme 2019/20;
6. The package of support to claimants experiencing difficulties as a result of the Local Council Tax Support scheme as detailed in Section 11.9 of the main report;
7. The Council's discretionary fees and charges for 2019/20 as detailed in the schedule on the Council's website: Proposed Fees and Charges 2019/20
8. Delegated authority is given to the appropriate Cabinet Member to determine the level of charges for Trade Waste collection, Environmental permits and core leisure charges for 2019/20;
9. The Council's housing rents are reduced by 1% for 2019/20, as detailed in the schedule on the Council's website: Proposed Fees and Charges 2019/20;
10. That delegated authority is given to the appropriate Cabinet Member to agree variations to Trade Waste, Town Hall Centre, Building Control and Car Parking fees and charges for commercial purposes;
11. The surplus of £57,034 on the Business Rates Collection Fund be transferred to the Business Rates Retention Reserve;
12. To continue the Council's Discretionary Business Rate Relief schemes, as detailed in section 9 to the main report, for 2019/20;
13. To extend the Council's policy for Discretionary Business Rate Relief (under section 47 of the Local Government Act 1988) to introduce a Retail Relief Scheme for 2019/20 and 2020/21 as recommended and funded by the Government (scheme criteria as detailed at Appendix B to the main report);
14. Discretionary council tax discounts and exemptions for 2019/20 are:
    a. Discount applicable to empty dwellings undergoing major repairs is set at 0% for the twelve month period;
    b. Discount applicable to vacant dwellings is set at 0% for the six month period;
    c. Discount applicable to second homes is set at 0%;
15. Discretionary Council Tax Empty Homes Premium charged on dwellings vacant for over two-years be increased to 100% with effect from 1st April 2019, with further changes to the premia in future years as detailed in section 13.6 of the main report. In addition a refund arrangement, as detailed in section 13.9 of the main report;
16. The Council's Pay Policy for 2019/20 as detailed in Appendix C to the main report;
17. A transfer of £127,947 to the General Fund unallocated balance in 2019/20;

Capital

18. The General Fund Capital bids for 2019/20 listed in Appendix I to the main report;

Capital, Investment and Treasury Management Strategies

19. The Capital Strategy including the authorised borrowing limit, operational borrowing boundary limit and prudential indicators as detailed in Appendix J to the main report;
20. The Treasury Management Strategy Statement including the schedule of investment counterparties and limits and prudential indicators as detailed in Appendix K to the main report;
21. Investment Strategy, for 2019/20 as detailed in Appendices L to the main report;
22. The Policy on Minimum Revenue Provision as recommended in Appendix M to the main report;

Council Tax

23. The proposed estimates (producing a budget requirement for council tax purposes of £14,539,761) as detailed in Appendix D and the Council Tax for 2019/20 of £179.73 for a Band D property, having taking into consideration:

    - The consultation feedback, if any, received and reported verbally at the meeting;
    - The assessment of risks in the budget assumptions;
    - The Equalities Impact Assessments and
    - The Section 151 Officer's report on the robustness of the estimates and the adequacy of balances (Appendix H to the main report).

B) That Cabinet agrees to:

24. Delegate authority to the Cabinet Member for Finance and Performance to agree requests for unspent budgets, at the year-end, to be carried forward to the following year.

Purpose of Decision:

To determine the budget and council tax level proposals for 2019/20 to be submitted to Full Council for consideration, in accordance with the Budget and Policy Framework Procedure Rules contained in the Constitution.

Any Corporate implications in relation to the following should be explained in detail.	
Financial:	The budget proposed for 2019/20 includes: unavoidable budget demands of £2,318,500; provision for inflationary increases of £642,000; additional income and cost reductions of £1,190,930; increases in discretionary fees and charges; the Government's Settlement Funding Assessment of £ 3,431,026; business rates in excess of the baseline of £1,421,951 and a £5.22 (2.99%) increase in council tax for the year. The overall impact is an addition to balances of £127,947 in 2019/20. The estimated positions for 2020/21 to 2022/23 are savings required of £539,351, £7,285 and £162,760. Although for these years it is very difficult to predict as these are after the current Finance Settlement ends and are likely to be subject to significant change including the Fair Funding Review and the Government's decision regarding 75% Business Rates Retention which are to be introduced in 2020/21. The approach to address the anticipated budget shortfalls is to deliver the 'Roadmap to 2020'. Capital projects with an estimated value of £1.902million are to be added to the capital programme, to be delivered in 2019/20. The estimated amount of capital resources available over the period 2020/21 to 2022/23 is sufficient to meet anticipated annual requirements averaging £1.928million. Potential funding requirements of the North Essex Garden Communities project and a Housing Development Company will be the subject of specific reports to Cabinet and Council as required at the appropriate times.
Legal:	Local Government Finance Act 1992 – Section 106 Will any members affected by Section 106 please note that any declarations to that effect should be made on the commencement of the meeting or immediately on arrival if this is later. *Under Section 106 a Member who has not paid an amount due in respect of their Council Tax for at least two months after it became payable is precluded from voting on any matters affecting the level of Council Tax or the arrangements for administering the Council Tax. (The Member is, however, entitled to speak).* Adoption of LCTS is a statutory requirement. Failure to do

	so could lead to a default scheme being imposed by the Government.
Safeguarding:	There are no safeguarding issues raised by this report.
Equalities/Diversity:	It is proposed to continue with the current Local Council Tax Support scheme for 2019/20. The Equalities Impact Assessment produced for the current scheme continues to be relevant. This identified that the scheme provides a positive impact for older people but potential negative impact for people with disabilities. The potential impact is minimised as Disability Benefits are disregarded thereby providing additional support to those with specific long-term conditions. Support for people with mental health issues may be available by means of an exemption from Council Tax liability under SMI (Severely Mentally Impaired) legislation. An equalities impact assessment on the proposed loss of parking spaces at the Manor Street car park during the construction period of the Manor Street Development has been undertaken and is included in the 'Manor Street Regeneration Project – Equalities Impact Assessment' document.
Customer Impact:	Impact on customers has been considered in relation to the proposals, as appropriate. Potential customer impact issues arising from the Manor Street Development will be considered as part of the management of that project.
Environment and Climate Change:	There are no environmental and Climate Change issues raised by this report.
Consultation/Community Engagement:	The January edition of the Business Bulletin included an invitation to businesses in the District to comment on the 2019/20 budget proposals. The Overview and Scrutiny Committee considered the budget proposals on 21st November 2018 and 6th February 2019. All Members of the Council were invited to attend the meetings.
Risks:	The Council's Medium-Term Financial Strategy is identified as a strategic risk. An extract from the Strategic Risk Register is included at Appendix G to the report, giving the vulnerability and the action plan to mitigate the risk.
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1. Background

1.1 The Medium-Term Financial Strategy (MTFS) 2018/19 to 2021/22 was agreed by Full Council on 19th February 2018.

1.2 The annual process of reviewing and rolling the strategy forward by one year commenced with a report to Cabinet on 10th September 2018.

1.3 At the meeting the Cabinet agreed:

- Detail of consultations by Government regarding financial arrangements;
- an initial review of the assumptions contained in the MTFS;
- the approach on developing the budget for 2019/20 and rolling the MTFS period forward to cover the period 2019/20 to 2022/23;
- approaches to addressing the financial shortfalls;
- Options to participate in either a bid by Essex authorities to pilot 75% Business Rate Retention or an Essex Business Rates pooling arrangement for 2019/20;
- request for a capital budget required to deliver revenue savings in 2019/20 and an update on capital resources; and
- the timetable to achieve the setting of the council tax and budget for 2019/20 at the meeting of the Full Council on 25th February 2019.

1.4 On 26th November 2018, the Cabinet received a report providing details of the progress with the updating of the Financial Profile and the Medium-Term Financial Strategy 2018/19 to 2021/22. This included detail of unavoidable cost pressures and the work on identifying options for cost reductions/ additional income to meet the anticipated funding shortfalls over the next four years. The Cabinet agreed:

To recommend to Council approval of:

- A total of £21,040 of the surplus on the Council Tax Collection Fund be allocated to parish/town councils;
- The requested increases, of £231,560, to the staffing and income budgets for Development Management for 2019/20 be agreed to enable the recruitment process to commence in advance of the start of the new financial year; and
- The balances on two earmarked reserves (Business Investment Fund and Community Infrastructure Levy), totalling £600,000, be transferred back to the General Fund unallocated balance;

And that:

- No changes are proposed to the Local Council Tax Support Scheme for 2019/20 and consequently there is no requirement for consultation to be undertaken; and
- The Revenue Budget and Capital Programme for 2019/20, as presented in the report, constitute the initial Budget proposals and that views are sought as appropriate.

1.5 Since the agenda for the Cabinet meeting on 26th November 2018 was published:

- The Cabinet Members for Finance & Performance and for Corporate Services and Asset Management presented and answered questions on the initial revenue budget and capital programme proposals for 2019/20 at the Overview and Scrutiny Committee on 21st November 2018;
- The recommendations to Council from Cabinet were approved at the Full Council meeting on 10th December 2018;
- The Council received, on 13th December, detail of the provisional Local Government Settlement Funding Assessment figures for 2019/20; and
- Cabinet Members and Senior Management have reviewed the current levels of the Council's discretionary fees and charges.

1.6 This report consolidates all of this information, including final refinements to the assumptions, resulting in: proposed budgets for revenue and capital; the proposed level of council tax (Band D) for 2019/20; and a Financial Profile and Medium-Term Financial Strategy for 2019/20 to 2022/23.

2. Budget Strategy

2.1 The Council's Budget Strategy is to:

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- Have plans to deliver a balanced budget over the medium-term; and
- Maintain a minimum level of unallocated balances of £1.5million.

2.2 With the period of austerity following the global financial crisis the Council anticipated that the shortfalls in its finances would grow due to: annual reductions in Government grant leading eventually to no grant being received; annual inflationary pressures; new responsibilities; and increasing demand for services. In October 2013 the Council requested a Peer Challenge to help it formulate an approach to address the anticipated shortfalls over the medium-term.

2.3 The approach adopted has been to focus on a number of workstreams:

- Commercialisation and 'Better at Business';
- Grow our economy – increase our share of the business rate pot and secure external funds;
- Finance and Investment Strategy;
- Review contracts and procurement;
- Increase our income;
- Management and Service Reviews; and
- Sharing services or joint work.

2.4 The approach has delivered cost reductions and additional income without impacting on customers and service delivery including:

- Property purchases providing a rental income stream, including: Connaught House, Colchester; property at Church Lane, Braintree for a doctors surgery; offices at 3 & 4 Century Drive, Freeport Office Village; Doctors surgery, Silver End;

- Office accommodation at Causeway House shared with a mix of four private and public sector organisations producing rental income;
- Responsibility for running the Enterprise Centre, Springwood Industrial Estate, and developed four grow-on units adjacent to the Centre producing a net income (rents less operational costs);
- Invested in solar panels on council property reducing energy costs and producing an income;
- Invested monies in pooled funds achieving an improved return over short-term interest rates;
- Service reviews have delivered cost reductions. Changes have included the combining of the domestic refuse, recycling and trade waste collections across the District; staff reductions resulting from restructures in a number of service areas; reduction to 49 councillors following a Boundary Commission review;
- Agreed a District Investment Strategy with development proposals which will deliver benefits over the medium to long-term; including Manor Street re-development; Horizon 120 employment site at Great Notley; I-Construct facility at the Enterprise Centre to provide business support programme; Witham Enterprise Centre; Healthcare facility on the former Premdor Site, Sible Hedingham.

2.5 The Council determined from the introduction of the New Homes Bonus scheme, the funding mechanism to support development and delivery of homes, that it would be used for investment in infrastructure projects and affordable homes and not used to support the Council's revenue account. This resource is providing part of the funding for the projects, and associated project management, in the District Investment Strategy and also the development of the North Essex Garden Communities project.

2.6 Over the period the Council has had and continues to respond to increasing costs not only from inflationary and market pressures but also from increased demand on services and new responsibilities placed on local authorities by Central Government. The Planning service has had to respond to an increase in planning applications, many of which are for major developments, and as a consequence an increase in work on appeals. Also the Housing service has recently received additional responsibilities under the Homelessness Act. Both of these service areas have required an increase in staffing to deliver and meet service demand.

2.7 The level of unallocated balance has remained consistently above the £1.5million (minimum threshold set by the Council): the balance at 31st March 2018 was £2.86million. This will increase as an allocation from the balance was used in April 2017 to pay the Pension Deficit payments for three years in a single payment and this will be repaid in 2018/19 and 2019/20 at £1.4million per year. The estimated balance as at 31st March 2019 is £4.407million (based on the second quarter Finance Performance report).

3. Government Funding

3.1 The provisional Financial Settlement for local government was announced by the Secretary of State for Housing, Communities and Local Government on 13th December 2018. The provisional settlement forms the final year of the four-year funding settlement announced for 2016/17 to 2019/20. The provisional settlement was subject to statutory consultation which closed on 10th January 2019. The Ministerial announcement on the final Settlement figures for 2019/20 was, however, awaited at the time of writing this report. A verbal update will be provided at the meeting, as appropriate.

3.2 The provisional 2019/20 local government financial settlement

3.2.1 In addition to the provisional Financial Settlement figures for 2019/20 the paper also provides updates on the future of the local government finance system:

- Alongside the consultation on the Settlement (closing date 10th January 2019) itself, two other consultations have been published: on Business Rates Retention and Fair Funding.
- The **Business Rates Retention Consultation** (closing date 21st February 2019) focuses on:
  - The right balance of risk and reward in the business rates retention system. Local authorities should continue to receive the benefit of growth they achieve in their local areas. In this respect the Government is seeking views on how the baseline figures for authorities should be reset after 2020/21.
  - Summarises the work undertaken to develop options to mitigate volatility in income and address the impact of appeal losses and valuation change on local authorities.
  - The consultation asks whether local areas should be able to set their own local tier split and what is the appropriate balance between Districts and Counties in terms of risk and reward.
- The **Fair Funding Consultation** (closing date 21st February 2019) proposes a funding formula for Districts consisting of a Foundation Formula based on population and with specific formulae only for Legacy Capital Finance and Flood Defence/Coastal Protection. It also proposes an Area Cost Adjustment at District Level reflecting differences in labour costs, premises costs, density and sparsity. It proposes taking account of Council Tax income through using a national average council tax.
- 15 new **Business Rate Retention pilots** were announced. These will pilot the proposed 75% retention scheme.
- **Council Tax referendum principles** are unchanged from 2018/19 for principal local authorities although Police and Crime Commissioners will be allowed to increase the police precept by up £24 in 2019/20 (£12 for the current year).
- **New Homes Bonus** – there is to be no change to the baseline which remains at 0.4% - at a cost of £20m to central government.
- **Other Issues**:
  - £650m for **Adults and Children's Social Care** confirmed as per the Budget Statement.

- £420m for **roads repairs** confirmed as per the Budget Statement.
- £1.5billion for **High Streets**: business rates discount and a £675m Future High Streets Fund.
- **Green paper on Social Care** to be published soon.
- The Government is considering further measures on councils **borrowing for commercial investment**.

3.2.2 Responses to the consultation documents on behalf of the Council will be made by the Cabinet Member for Finance and Performance.

3.3 Core Spending Power

3.3.1 The Government issues a 'Core Spending Power' statement to provide local government with an understanding of the resources available to the whole sector to deliver services.

3.3.2 For district councils the Core Spending Power consists of: Settlement Funding Assessment (SFA); Council Tax; New Homes Bonus and Rural Services Delivery grant (Transition grant was provided in 2016/17 and 2017/18 only). The Core Spending Power figures for this Council are provided in the table below:

CORE SPENDING POWER	2015/16	2016/17	2017/18	2018/19	2019/20
	£	£	£	£	£
Settlement Funding Assessment	5,804,726	4,793,675	4,033,678	3,626,641	3,431,026
Compensation for under-indexing the business rates multiplier	46,153	46,153	48,915	76,866	111,805
Council Tax Requirement excluding parish precepts (including base growth and levels increasing by CPI)	7,937,331	8,246,632	8,557,659	8,886,185	9,290,239
Potential additional Council Tax from £5 referendum principle for all Districts	0	89,103	178,011	184,845	193,250
New Homes Bonus	2,111,892	2,789,490	2,137,013	1,272,624	1,250,191
Rural Services Delivery Grant	4,234	21,988	17,754	22,125	22,125
Transition Grant	0	52,845	52,661	0	0
Core Spending Power	**15,904,336**	**16,039,886**	**15,025,691**	**14,069,286**	**14,298,636**
Change over the Spending Review period (£'s)					**-1,605,700**
Change over the Spending Review period (% change)					**-10.1%**

3.3.3 The Government's assessment of this Council's Core Spending Power for 2019/20 is £14.299million a reduction of £229,350 (1.63%) over 2018/19.

3.3.4 The reduction in the Council's Core Spending Power over the four-year Spending Review period is £1,605,700 or 10.1%.

3.3.5 The key features of the inter action between the elements of the Core Spending Power over the four-year Spending Review period are the reductions in the Settlement Funding Assessment (£2.37m) and the New Homes Bonus (£0.86m) which are only partially offset by an assumed increase in council tax (£1.55m) which provides for an increase in the council taxbase and increases in the council tax level based on the maximum allowable under the referendum principle.

3.4 Settlement Funding Assessment

3.4.1 The Settlement Funding Assessment (SFA) for district councils consists of two elements: Revenue Support Grant and Business Rates Baseline.

3.4.2 The table below shows the breakdown of the provisional SFA for the Council for 2019/20 together with the Settlement for the first three years of the four-year funding offer, for comparison purposes:

	2016/17	2017/18	2018/19	2019/20
Revenue Support Grant	£1,602,495	£777,347	£272,481	Nil
Retained Business Rates - Baseline	£3,191,180	£3,256,331	£3,354,160	£3,431,026
Total Settlement Funding Assessment	**£4,793,675**	**£4,033,678**	**£3,626,641**	**£3,431,026**
Percentage reduction year-on -year		-15.85%	-10.09%	-5.39%

3.4.3 The reduction in SFA between 2016/17 and 2019/20 is £1.36million (or 28.4%).

3.4.4 Homelessness Prevention grant has been rolled into the local government finance settlement since 2013. The Government has however published as part of councils' core spending power the funding allocation of Homelessness Prevention grant for each council. This is to signal the priority the Government attaches to this issue and to encourage local prioritisation. The allocation included within the Council's SFA is £70,126 for 2019/20.

3.5 Business Rates Baseline

3.5.1 The Business Rates Baseline is the Government's assessment of a local authority's spending need which is expected to be funded through the business rates retention scheme.

3.5.2 The actual amount retained by an authority is dependent on actual business rate income collected in the relevant year. An estimate of the business rates to be retained in 2018/19 (revised) and 2019/20 is provided at section 8 below.

3.6 Rural Services Delivery Grant

3.6.1 The Rural Services Delivery Grant recognises that there are additional costs associated with local service delivery in rural areas. In 2018/19, the Government increased the national total of this grant to £81million (from £50million) and it has decided to maintain this higher level in 2019-20.

3.6.2 This funding is distributed to the top-quartile of authorities ranked by super-sparsity: a proxy for rurality which ranks authorities by the proportion of the population which is scattered widely, using Census data and weighted towards the authorities with the sparsest populations.

3.6.3 This Council's allocation is £22,125 for 2019/20, the same as that received in the current year.

3.7 Business Rate Retention – Levy Account Surplus

3.7.1 The Government has determined that there is a £180million surplus on the Levy Account in 2018/19 (based on 2017/18 outturns). This account collects all the levy payments from authorities and from which any safety net payments are made to those authorities who are below their safety net threshold. In previous years this account has been in deficit and has been funded via a top-slice from the Settlement Funding Assessment (SFA).

3.7.2 The surplus is to be distributed pro-rata to local authorities 2013/14 SFA. This methodology has been used as a proxy for the relative need of each authority.

3.7.3 The amount allocated to this Council is £52,638. This payment is not included in the local authority SFA allocations for 2019/20 and will be paid separately.

3.8 New Homes Bonus

3.8.1 The New Homes Bonus (NHB) was introduced in 2011 to provide an incentive for local authorities to encourage housing growth in their areas. From 2017/18 a national baseline was introduced for housing growth of 0.4% of council tax base (weighted by band), below which NHB will not be paid. The Government also retained the option of adjusting the baseline in future years to reflect significant and unexpected housing growth.

3.8.2 The Government has decided not to make any change to the baseline and this will therefore remain at 0.4% for the 2019-20 allocations.

3.8.3 Notification on the Council's entitlement for year 9 of the scheme has been received and is £224,712; making the total amount to be received in 2019/20 of £1,250,191.

3.8.4 The Council's baseline for the year 9 allocation is 244 dwellings, based on Band D weighting. The actual growth recorded between October 2017 and 2018 was 389. The Council will therefore receive NHB on 145 dwellings based on Band D weighting. In addition, the Council recorded the completion of 109 affordable homes during the 12-month period and these attract a premium payment of £350 per home. The amount of NHB calculated is then split: 80% payable to the Council and 20% to Essex CC.

3.8.5 Detail of the payments for up to year 9 (2019/20) is provided in the table below. The shaded areas in the table show the periods when payments will not be made as a consequence of the Government's change for 2017/18 onwards of reducing the payment period from 6 to 5 and ultimately to 4 years.

New Homes Bonus Summary - 2011/12 to 2019/20										
	2011/12 £'000	**2012/13 £'000**	**2013/14 £'000**	**2014/15 £'000**	**2015/16 £'000**	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**	**2019/20 £'000**	**Total £'000**
Year 1 (2011/12)	509.0	509.0	509.0	509.0	509.0	509.0				3,054.2
Year 2 (2012/13)		472.6	472.6	472.6	472.6	472.6				2,363.0
Year 3 (2013/14)			606.0	606.0	606.0	606.0	606.0			3,029.8
Year 4 (2014/15)				266.9	266.9	266.9	266.9			1,067.5
Year 5 (2015/16)					247.1	247.1	247.1	247.1		988.6
Year 6 (2016/17)						680.5	680.5	680.5	680.5	2,722.1
Year 7 (2017/18)							328.7	328.7	328.7	986.1
Year 8 (2018/19)								16.2	16.2	32.4
Year 9 (2019/20)									224.7	224.7
Total receivable in Year	**509.0**	**981.6**	**1,587.6**	**1,854.5**	**2,101.6**	**2,782.1**	**2,129.2**	**1,272.6**	**1,250.1**	**14,468.4**
Less:										
Allocations Agreed	79.0	79.0	66.4	32.3	99.7	95.7	70.0	70.0	70.0	662.1
Economic Development & Project Delivery							144.8	144.8	144.8	434.4
Net Resource for Capital	**430.0**	**902.6**	**1,521.2**	**1,822.2**	**2,001.9**	**2,686.4**	**1,914.4**	**1,057.8**	**1,035.3**	**13,371.8**
Allocated to District Investment	**430.0**	**152.6**	**1,521.2**	**1,822.2**	**2,001.9**	**2,572.1**				**8,500.0**
Allocated for Affordable Homes		**750.0**								**750.0**
Garden Communities							**250.0**	**100.0**		**350.0**
Grow-on Units, Springwood							**86.8**			**86.8**
Broadband								**356.0**		**356.0**
Premdor site - feasibility								**80.0**		**80.0**
Strategic Investment Team								**1,991.2**		**1,991.2**
Resource Available	**0.0**	**-**	**- 0.0**	**0.0**	**- 0.0**	**114.3**	**1,577.6**	**- 1,469.4**	**1,035.3**	**1,257.8**

3.8.6 The table also shows how the New Homes Bonus has been allocated to-date: the majority providing capital resource for the District Investment Strategy, affordable homes, Strategic Investment Team (funding for four-year period), Garden Communities project and the Grow-on units at Springwood Industrial Estate, Braintree. Other sums have been allocated toward the costs of the Local Plan, economic development and project management. Allocations agreed for 2019/20 total £214,800 and are principally for staffing in Economic Development and Project Delivery service teams.

3.8.7 It is noted that the Government indicated in its 'Technical Consultation on the 2019/20 Local Government Finance Settlement', published on 24th July 2018, that further consultation will be undertaken on the NHB scheme after 2019/20 and whether this is the most effective way to incentivise housing growth.

3.9 Housing Benefit and Local Council Tax Support Administration Subsidy

3.9.1 The other significant funding received from Central Government are the administrative subsidies for Local Council Tax Support and Housing Benefit schemes with a total of £629,930 allocated to the Council for 2018/19.

3.9.2 Notification of the Housing Benefit administrative subsidy was received from the Department for Work and Pensions (DWP) on 18th December 2018 and provides an allocation of £336,195 for 2019/20. The notification also included two New Burdens grant allocations in respect of: Universal Credit of £30,569 and Other (of which the two main elements are in respect of administration of Discretionary Housing Payments and the Benefit Cap) of £35,601. The total of these three allocations is £91,056 less than that received in 2018/19.

3.9.3 As the number of claimants of working age transfer to universal credit over the next two years the housing benefit administrative subsidy allocated to the Council will reduce leaving entitlement to the subsidy being in respect of benefit paid to claimants of pensionable age only. Based on current caseload figures, claimants of working age account for 54% of caseload. On this basis the Council can expect a reduction of this element of the subsidy of £177,000 between 2020/21 and 2021/22. The Housing Benefit service has proactively managed staffing levels when vacancies have arisen such that three posts are to be deleted from the establishment with a net budget saving of £90,040. This budget saving is shown in the cost reductions agreed by Management Board and referred to in section 6.3 below.

3.9.4 The notification of the Local Council Tax Support administration subsidy for 2019/20 was received from the Ministry for Homes, Communities and Local Government (MHCLG) on 21st December 2018. The amount allocated to this Council is £129,807 which compares to £136,506 for 2018/19: a reduction of £6,699.

3.9.5 The total reduction in these administrative subsidies between 2018/19 and 2019/20 is £97,755 with further reductions of £88,500 expected over the following two years as all current claimants of working age are transferred to universal credit.

3.10 Homelessness Grants

3.10.1 **Flexible Homelessness Support Grant.** The Government introduced this grant in 2017/18 to allow councils greater flexibility in providing financial support for temporary accommodation for the homeless.

3.10.2 The former Department for Communities and Local Government (DCLG) notified the Council, on 22nd March 2018, that its allocation for 2019/20 would be £198,948, this compares to £169,995 received in 2018/19.

3.10.3 **Homelessness Reduction**. On 16th October 2017 the former DCLG announced allocations of a New Burdens Grant in respect of the implementation of the Homelessness Reduction Act. The Act introduced a number of new duties on local authorities, most notably new duties to prevent and relieve homelessness. The amount allocated to this Council for 2019/20 is £55,115 (previous allocations were £52,355 for 2017/18 and £47,957 for 2018/19).

3.10.4 Both of these grants are earmarked for housing purposes; with the homelessness reduction new burdens grant being used to provide funding toward additional members of staff.

3.11 **Brexit Preparations Grant**

3.11.1 In a written statement, on 28th January 2019, the Secretary of State for Ministry of Housing, Communities and Local Government stated that 'Local Government will play a critical role in making a success of Brexit at the local level. My Department is committed to ensuring councils have the support and the funding they need to prepare for an orderly exit from the EU and do appropriate contingency planning'.

3.11.2 District councils are to receive a grant of £35,000 and this will be paid over two years: £17,500 in the current year and 2019/20.

4. Financial assumptions Update

4.1 **Review of Budget Savings identified in previous years**

4.1.1 The Financial Profile, agreed in February 2018, included cost reductions and additional income planned for 2019/20 to 2021/22. These have been reviewed to ensure that they are still deliverable.

4.1.2 The values of the planned savings/additional income remain as originally included of £120,010 in 2019/20, £34,530 in 2020/21 and £19,950 in 2021/22.

4.2 Review of Priority Investments and Unavoidable budget changes identified in previous years

4.2.1 The Financial Profile includes the consequences of the planned priority investments and unavoidable budget changes for 2019/20 which were identified in previous years.

4.2.2 Of the five priority investments, two were one-off budget requests in 2018/19 and these are therefore being removed from the base budget in 2019/20. Details of these two budgets are:

- Surplus on Council Tax Collection Fund – allocation of part of the 2017/18 surplus to town and parish councils in the Braintree District of £33,170; and
- Provision of £5,000 for preparations for Member induction which will follow the 2019 District elections.

4.2.3 The total value of these budget reductions to be made in 2019/20 is £38,170.

4.2.4 The three unavoidable budget changes identified for 2019/20 onwards which impact on the base budget are:

- Recycling – income due under the disposal of dry recyclable materials contract in 2016/17, of £240,000, was deferred to be received equally in 2017/18 and 2018/19. As the budget was adjusted by £120,000 for these two years this now needs to be reversed in 2019/20;
- Procurement – the cost of this shared service had been covered in previous years by rebate income received through the use of the services' framework agreements. However, this income has been

reducing such that there is now a net cost of the service. The initial budget increase requested for 2019/20 was £36,000, but this has now been revised to £25,000 in 2019/20 with a further increase of £16,000 anticipated for 2021/22; and

- Council Tax Support and Housing Benefit Administrative Subsidies – anticipated reduction of £43,480 per annum as caseload will drop as housing benefit claimants, of working age, are migrated across to Universal Credit; administered by the Department for Work and Pensions. The actual allocations for 2019/20, as referred to in section 3.9 above, have been included in the budget for the year. With a further reduction in subsidy of £177,000 anticipated between 2020/21 and 2021/22.

4.2.5 These budget changes, totalling £204,590 in 2019/20, £88,500 in 2020/21 and £104,500 in 2021/22, are included in the Financial Profile.

4.3 Financial Performance at half-year and predicted Outturn for 2018/19

4.3.1 Service managers have reviewed their budgets against the monies expended and incomes received during the first half of the current financial year and have used this information to predict the outturn for the year. The prediction takes account of the delivery of the planned cost reductions, efficiencies and additional income, totalling £1,028,900, included in the 2018/19 budget.

4.3.2 The outcome of the review is a predicted positive variance for the year of £127,000 (0.9% against the net budget of £14.784million): this is due principally to additional income of £415,000 and an underspend against the salaries budget of £94,000 reduced by an overspend on other expenditure budgets of £382,000.

4.3.3 Details of this predicted outturn for 2018/19 were contained in the Quarterly Performance report to Cabinet on 26th November 2018.

4.3.4 For some service areas the changes in the levels of income and expenditure are expected to be ongoing and therefore budget adjustments are proposed for 2019/20. These are included in the unavoidable budget demands and the Cost Reduction/Additional Income at sections 5.2 and 6, respectively, below.

4.4 Provision for inflation

4.4.1 **Pay Award.** The Financial Profile includes a provision for a pay award on 1st April 2019 based on the second year of the two-year pay award agreed in April 2018. The agreement provides for a 2% increase for the majority of the pay points in the grading structure but higher increases for the lower pay points in order to continue to close the gap with the National Living Wage. In addition, a new national pay spine is to be introduced with effect from 1st April 2019 which has been determined in accord with the principles outlined in the two-year pay award agreement. The changes to the paypoints within the Council's grading structure add an additional cost of £28,000 in 2019/20. An annual increase of 2% has been assumed for 2020/21 to 2022/23.

4.4.2 Allowances are provided for annual incremental progression for staff who are not at the top of their grade (payment is subject to satisfactory performance).

4.4.3 Whilst the Council will not have any financial consequences from the increase in the National Living Wage from April 2019 with regard to its employees, there is potential for increased costs regarding agency staff. An allowance for an increase of 4.85% or 38p per hour (to £8.21) on the agency staff budget has been included for 2019/20 under Pay inflation heading in the Finance Profile.

4.4.4 **Members Allowances.** A provision of 2% per annum has been included in the Finance Profile.

4.5 Pension Fund Contributions

4.5.1 The Triennial Review of the Essex Pension Fund conducted as at 31st March 2016 determined the pension fund assets and liabilities applicable for the Council and set the deficit contribution and employer contribution rate for the three years: 2017/18 to 2019/20.

4.5.2 The Funding Strategy of the Essex Pension Fund endeavours to maintain consistency of overall contributions paid into the fund between triennial reviews. Although the ongoing employer contribution rate increased at the last review, the deficit on the Council's part of the Fund was reduced such that the combined elements are only marginally higher than that at the previous review in 2013: total contribution rate of 31.4% compared to 31.3%.

4.5.3 The Council opted to pay the total deficit payment for the 3-year period, of £4,232,683, on 1st April 2017. Accounting rules required that the total payment was accounted for in 2017/18; the consequential impact of this was that two thirds of the payment (re 2018/19 and 2019/20) would be funded from the unallocated balance in 2017/18 with this source being repaid over the two following years.

4.5.4 The ongoing employer contribution rate was set at 16.5%.

4.5.5 An adjustment of £189,810 to the budget in 2020/21 provides for an estimated deficit payment of £1,600,700; which is the notional 2019/20 deficit figure plus an annual uplift of 3.9%. The actual deficit payment for 2020/21 and the two subsequent years will be determined by the Triennial Review to be undertaken as at 31st March 2019. The outcome of the review is expected in October/ November 2019.

4.6 Other Expenditure

4.6.1 Allowances for inflationary increases have been provided but only on specific budget headings e.g. business rates, contracts, energy, etc. based on the Office of Budget Responsibility's forecast of the Consumer Prices Index for 2019/20 and forecasts of energy cost increases received from Concept Energy Solutions, an energy management and monitoring company engaged by the Council.

4.7 Fees and Charges

4.7.1 The general principle of the Charging Policy for the Council's discretionary fees and charges is that service users should make a direct contribution to the cost of providing services at their point of use.

4.7.2 The majority of the discretionary fees and charges are reviewed annually and this has been undertaken by senior management and the relevant Cabinet Members. An exception is car parking fees and charges which are reviewed on a minimum of a three-year basis and these were increased for the current financial year.

4.7.3 A schedule detailing the proposed levels of discretionary fees and charges for 2019/20 is provided following the link: Proposed Fees & Charges 2019/20.

4.7.4 Proposed levels of trade waste charges and environmental permits for 2019/20 are not available at the current time due to information required from a third party. In addition core leisure charges are determined annually with Fusion, the Council's leisure services partner, by the Cabinet member for Health and Communities. It is proposed that authority is delegated to the appropriate Cabinet Member to determine the level of these fees for 2019/20.

4.7.5 In order for a number of the Council's services to be competitive, authority has in previous years been granted to the appropriate Cabinet Member to vary charges and/or discount rates. The main services which this arrangement applies are Trade Waste, Town Hall lettings, Building Control and Car Parks. It is proposed that this arrangement continues with the appropriate Cabinet Member having delegated authority to agree variations to charges for commercial purposes.

4.8 Rents

4.8.1 Housing rents for the Council's four properties in Bradford Street, Braintree, are to be reduced by 1% (rounded down to ensure a daily rate can be calculated): in line with that prescribed by the Government to Registered Social Landlords. Service charges for these properties are to remain at the current levels. Details of the proposed rents and service charges for 2019/20 are provided in the schedule using this link: Proposed Fees and Charges 2019/20.

4.8.2 Increases in rental income from the Council's commercial and industrial properties are determined by rent reviews, as provided within the lease terms. An assessment of the likely increases which can be expected in 2019/20 to 2021/22 are included in section 6.3 below.

4.9 Third Party Contributions

4.9.1 A significant amount of income is received from Essex County Council under a number of service level agreements and across a number of service areas.

4.9.2 The Inter Authority Agreement for Waste Management is the most significant at £1.921million (2018/19 budget). Other agreements are for Community Transport (£90,330) and for a council tax sharing arrangement (£440,140).

4.9.3 The agreements are for defined periods:

- Inter Authority Agreement, signed in January 2010, is for a period of 25 years;
- Community Transport – the current 2-year agreement terminates on 31st March 2020;
- Council Tax sharing agreement – the 1 year agreement between the three major preceptors (Essex CC, Essex Police and Essex Fire & Rescue) and each of the Essex borough/district/city councils ceases on 31st March 2019. Whilst it had been expected that a new 3 year agreement, commencing on 1st April 2019 would be agreed, Essex CC and the other major preceptors have only offered a further one-year agreement. This provides for a reduction in the share to the districts from 16% to 14% in 2019/20. An estimate of the reduced income to the Council in 2019/20, with a further 2% reduction anticipated for 2020/21, is shown under new demands, section 5.2 below.

5. Unavoidable Budget Demands and New Investments

5.1 Bids for revenue funding to meet unavoidable budget demands and new investments total £2,113,910, in 2019/20 and £261,230 in 2020/21. Of this total £847,370 is an ongoing requirement and therefore is needed to be added to the base budget. Other requests, totalling £1,266,540 in 2019/20 and £195,500 in 2020/21, are for one-off or time-limited budget requirements.

5.2 The bid requests to be added to base for unavoidable budget demands and new investment are:

Environment and Place

- Waste Management – recyclable materials: gate fees charged for disposal are determined quarterly by reference to market indices and these are now higher than the current year budget. Budget request of £176,000;
- Fleet Management – staff restructure creating a new full-time Transport Manager post – net budget request £25,000;
- Streetscene – undertake a 3rd litter pick on the A120 Braintree bypass. Budget request £20,000;
- Fleet – increased cost of diesel fuel anticipated budget overspend in current year. Budget request £50,000;
- Environmental Protection – reduction in level of fees and charges received as fewer businesses are subject to regulative inspection – budget reduces from £18,000 to £15,000;

Corporate Services and Asset Management

- Asset Management – staff structure review as a consequence of growth in property portfolio in particular the management requirements of the starter units at the Enterprise Centre, Springwood Industrial Estate. A budget request of £47,870 for additional hours to make two existing

posts full-time. This has been agreed by Management Board in the current year and funded from the additional rental income received;
- Governance – Land Charges – significant downturn, of £78,000, in the level of search fee income predicted in the current year. The number of full searches are down and free of charge viewings, mainly by personal search companies, have increased.

Economic Development
- Budget provision of £20,000 to provide business support service as a consequence of taking responsibility for the running of the Enterprise Centre, Springwood Industrial Estate;

Finance and Performance
- Council Tax Sharing Agreement – As mentioned at section 4.9.3 above the agreement is to be revised with a reduction in the share back to district councils. The budget implication is a reduction of £65,730 in 2019/20 with a similar reduction also anticipated in 2020/21;
- Council tax and business rates – court costs levied are lower than budget in the current year this is mainly due to proactive action to remind taxpayers of overdue payments and reducing the number receiving a court summons and liability order. Budget reduction of £70,000;
- Capital salaries – Budget for the recharge from revenue to capital for members of staff working on capital projects has been higher than actually achieved in recent years. Income budget to be reduced by £60,210;

Planning and Housing
- Development Management – an increase in the staffing establishment of the service by 1 Principal Planner, 3 Planners and 1 Validation/ Admin/ICT Support Officer, at a budgeted cost of £231,560 for 2019/20, was agreed by Full Council on 10th December 2018. The Council also agreed that the additional staff would enable the use of Planning Performance Agreements (see section 6.4 below) and that the additional income generated together with planning application fee income expected to exceed the current budget level (budget increase included at section 6.3) would provide the funding sufficient to cover the additional staffing cost.

5.3 The bid requests for unavoidable budget demands and new investment, which are one-off or time-limited in nature, are:

Finance and Performance
- Town/Parish Councils – Full Council on 10th December 2018 agreed to allocate £21,040 of the estimated surplus on the Council Tax Collection Fund from 2018/19 to the Town/Parish Councils. Payments to be made in 2019/20.

Corporate Services and Asset Management
- Business Solutions – Specialist expertise and support to assist with the implementation of new techniques and products including: 1-Drive, Share-point, cloud services and cyber security. A budget allocation of

£50,000 is requested and will be funded from the ICT earmarked reserve;

Health and Communities

- Councillor Community Grant scheme – the Cabinet agreed following comments received, during the consultation on the initial budget proposals with the Overview and Scrutiny Committee on 21st November 2018, to revisit the proposed cessation of the grant scheme on 31st March 2019. The outcome of the review is a proposal to continue with the current scheme for a further period of two years, at a cost of £73,500 per annum, and that this is to be funded from earmarked reserves, nominally the Council's share of the CHIP Fund (Community Projects): which was received from Greenfields Community Housing during 2018. The scheme for 2019/20 will commence in May following the Council elections;
- Town Hall Centre – anticipated reduction in income during the construction of the Manor Street re-development. £49,000 per annum for 2019/20 and 2020/21;

Environment and Place

- Car Parks – anticipated reduction in income during the construction of the Manor Street re-development. £73,000 per annum for 2019/20 and 2020/21;

Planning and Housing

- Planning Appeal costs – Two provisions, of £300,000, were agreed by Council in February 2015 and November 2017. The latter provision will be fully utilised during the current year. It is anticipated that there will be appeals whilst there is no adopted Local Plan and a lack of a five-year supply and therefore it is proposed to replenish the provision with a further sum of £500,000;
- Housing Development and Local Plan Growth – It is proposed that a provision of £500,000 be created to the costs associated with the delivery of housing growth in the District as required in the Local Plan. Funding to be allocated from the unallocated New Homes Bonus.

5.4 In summary it is proposed that the requests above, totalling £1,266,540 in 2019/20 and £195,500 in 2020/21, are funded from:

- Revenue Account - £21,040
- Earmarked Reserves - £123,500 in 2019/20 and £73,500 in 2020/21
- Unallocated Balance - £622,000 in 2019/20 and £122,000 in 2020/21
- Unallocated New Homes Bonus - £500,000

6. Cost Reduction/Additional Income Proposals

6.1 Senior Managers have reviewed their service budgets to identify possible cost reductions and/or additional income generation, in particular with reference to the projected outturn for the current year.

6.2 The reviews have identified budget adjustments with a total value of £899,720 in 2019/20 and minor adjustments in the three following years. These have been agreed by Management Board as they do not have a direct impact on customers or service delivery.

6.3 A summary of the adjustments is provided in the table below:

Cabinet Portfolio	Business Plan	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Corporate Services & Asset Management	Asset Management	277.61			
	Business Solutions	13.00			
	Human Resources			9.00	14.00
Environment & Place	Environmental Services	7.50			
	Operations	89.00	2.00	1.00	1.00
Finance & Performance	Finance	356.05	(40.15)	27.00	46.00
Planning & Housing	Sustainable Development	156.56			
	Totals	**899.72**	**(38.15)**	**37.00**	**61.00**

6.4 In addition to the agreed budget adjustments there are three proposals for additional income which will either have a potential impact on residents or customers or involve policy issues and therefore will require decision by Members. These proposals have a total value of £171,200 in 2019/20 and are as follows:

Environment and Place

- Disabled Facilities Grant (DFG) – proposed increase in the amount taken from the grant allocation to meet the cost of running the scheme. Current arrangement is to charge 10% of the value of each grant approved, up to a maximum of £500. It is proposed to simplify the approach and top slice from the allocation the amount required to cover the Council's costs of administration and management of the scheme, which is calculated to be £78,000, including oncosts. The estimated additional income raised is £31,200. Based on the allocation from the Better Care Fund for DFG's in 2018/19 of £863,000 the amount proposed to be taken to meet the Council's costs represents 9%.

Finance & Performance

- Investment returns – an analysis of the Council's cashflow over the next four years, taking into account the current approved strategic investments, shows that there are sufficient funds available to invest a further sum of £2million in pooled funds. In December 2018, the Cabinet Member for Finance and Performance agreed to invest £2million in two multi-asset pooled funds. This takes the amount invested to £18million (£20million limit agreed by Council). An estimated net increase in income of £65,000 is expected.

Planning and Housing

- Development Management – Full Council on 10th December 2018 agreed to expand the use of Planning Performance Agreements (PPA). A PPA is a bespoke programme agreed with developers to cover all pre-application discussions and a timetable for the determination of the planning application for a 'premium fee'. The forecast additional income of £75,000 is to be used to fund, in part, the additional Development Management staff, see section 5.2 above.

7. Equality Impact Assessment

7.1 The Council has a responsibility for ensuring that an equalities impact assessment is undertaken on the proposals, where appropriate, and that these are taken into account in the decision making process.

7.2 An equalities impact assessment on the proposed loss of parking spaces at the Manor Street car park during the construction period of the Manor Street re-development has been undertaken and is included in the 'Manor Street Regeneration Project – Equalities Impact Assessment' document. It has been determined that no Equalities Impact Assessments are required for the proposed budget changes detailed at section 6 above.

8. Business Rates Retention Scheme

8.1 The Business Rates Retention scheme has been in operation in its current form since April 2013. Under the scheme the Government calculates a baseline amount of business rates which it allows local authorities to retain as part of the Government's funding for local government.

8.2 The Council's provisional baseline figure for 2019/20 is £3,431,026 as provided in the Settlement Funding Assessment (section 3.4.2).

8.3 The amount of business rates actually collected in the year will inevitably vary from the baseline: a higher amount collected will increase the amount that the Council is able to retain whilst a lower amount will require the Council to meet the shortfall up to a maximum of 7.5% (5% for 75% Business Rate Retention pilots) of the baseline amount: any shortfall greater than these will be met by the Government (under the safety net arrangements) or from either the Essex Pilot arrangement or the Essex Pool (as appropriate).

8.4 An assessment of the business rates collectable and collected up to 31st December 2018 has been undertaken and used as the basis to provide a revised estimate for 2018/19 and an estimate for 2019/20 of the amount of business rates to be retained by the Council.

8.5 The revised estimate for 2018/19 and an estimate for 2019/20 are shown in summary below:

	Revised 2018/19 £	**2019/20 £**
Business Rates collectable – due to BDC	16,579,712	17,112,923
Renewable Energy – 100% retained by the Council	97,132	99,000

Estimated deficit(-)/surplus on business rates collection fund for previous year	725,670	57,034
Transfer from/to (-) Business Rates Retention Reserve	-725,670	-57,034
Retained Business Rates	**16,676,844**	**17,211,923**
Tariff payable to Government	-12,763,637	-13,027,512
Levy payable to Essex Pool	-1,023,403	-1,134,012
Section 31 grants for Small Business Rates Relief and Autumn Statement Reliefs	1,722,504	1,802,578
Estimated value of Retained Business Rates	**4,612,308**	**4,852,977**
Business Rates Baseline	3,354,160	3,431,026
Business Rates Growth above Baseline	**1,258,148**	**1,421,951**

A schedule containing more detail of these estimates is provided at Appendix A.

8.6 The estimated amount of business rates to be retained in 2018/19 is £4,612,308, an increase of £100,770 against the budgeted figure of £4,511,538. The increase is mainly as a result of the Government providing additional Section 31 grant to compensate local authorities for the changes to the thresholds of the Small Business Rate Relief scheme and other relief schemes which the Council agreed to introduce in 2018/19.

8.7 For 2019/20, the estimate is determined on the basis that the level of appeals against the new Rating List will be 2.5% and that Section 31 grants will be received from the Government to reimburse the amounts granted under the Small Business Rate Relief, Rural Rate Relief, Local Newspaper Relief, Supporting Small Business Relief and Discretionary Business Rates Relief schemes. The estimated amount of business rates retained by the Council will be £4,852,977 i.e. £1,421,951 more than the Baseline amount.

8.8 The estimated Business Rates Retained for 2019/20 is £532,358 higher than the figure in the Medium-Term Financial Strategy agreed by Council in February 2018. This increase results from a combination of two elements: the adjustment for Negative RSG of £291,482 being withdrawn by the Government and also from additional Section 31 grant expected in respect of the Small Business Rate Relief scheme and other relief schemes receivable from the Government.

8.9 The estimated balance on the Business Rates Collection Fund as at 31st March 2019 is a surplus of £57,034. As the position can vary both in year and between years it is proposed that this surplus is transferred to the Business Rates Retention Reserve. This reserve is held to equalise variations on the Business Rates Collection Fund between years.

8.10 The financial year 2019/20 is expected to be the final year of the current Business Rate Retention scheme as the Government is proposing to introduce 75% Business Rate Retention from 2020/21. The new scheme is currently being developed and as noted at section 3.2 above the Government has recently issued two consultation papers regarding the proposed scheme and also the Fair Funding Review. The consequences of the latter will have a direct impact as this will set the baseline amount of business rates that each authority will be able to retain.

8.11 The Government has indicated that it intends to carry out a full reset of business rate baselines for 2020/21 and that it will consult at a later date on what happens at the transition to the new scheme. Given this position it is extremely difficult to estimate the amount of Retained Business Rates the Council will have for 2020/21 onwards. It is considered that a full reset for 2020/21 indicates that the current level of business rate growth retained (£1.422million estimated in 2019/20) will not be available to the Council. Only a proportion of the growth achieved above the reset baseline in 2020/21 will be retained in that year.

8.12 This could obviously have a significant impact on the Council's finances for the future, particularly for 2020/21. This will not be determinable until the reset baseline together with the detail of the new scheme and any transitional arrangements are known.

8.13 At this time, due to the lack of detail of the new scheme, the estimates of business rates retained for 2020/21 to 2022/23 continue to include the growth above baseline estimated for 2019/20 of £1.422million.

9. Business Rate Taxbase

9.1 The Council's Business Rates Taxbase for 2019/20 was calculated as at 21st December 2018 and agreed by the Corporate Director under delegated authority. The net collectable amount, after mandatory and discretionary reliefs, allowances for losses on collection and rating appeals, is £42,782,307 shown in Appendix A.

9.2 The Government announced, in the Spring 2017 Budget, three business rate reliefs to help businesses most affected by the 2017 Rating Revaluation. The three reliefs were:

- Supporting Small Businesses – from 1st April 2017 for a period of five years or until business pay their full rate charge or their transitional rate charge (calculated in accordance with the Non-Domestic Rating (Chargeable Amounts) (England) Regulations 2016;
- Discretionary Business Rates Scheme – from 1st April 2017 for a period of up to four years;
- Public House Relief – from April 2017 for a one year period (this has been extended for a further year as announced in the Autumn 2017 Budget Statement).

The Cabinet agreed, on 9th October 2017, to implement the three schemes by exercising the Council's discretionary discount powers under Section 47(3) of the Local Government Finance Act. Whilst the first two schemes will continue to apply as appropriate in 2019/20, the third, Pub Relief, ceases on 31st March 2019.

9.3 The 2016 Autumn Statement confirmed the doubling of Rural Rate Relief from 50% to 100% from 1st April 2017. The Government has requested that local authorities continue to use their local discretionary powers to grant 100% Rural Rate Relief to eligible ratepayers. It is proposed that the Council continues to use its discretionary powers to grant 100% Rural Rate Relief in 2019/20.

9.4 The Government announced in the Autumn Budget 2018 that eligible retailers with a rateable value below £51,000 will receive a one third discount on their business rates bills. This scheme is to operate for a time-limited period of two years: 2019/20 and 2020/21. On this basis the Government is not changing the legislation around the reliefs available to properties but instead the Government will, in line with the eligibility criteria set out in guidance Link, reimburse local authorities that use their discretionary relief powers, introduced by the Localism Act (under section 47 of the Local Government Finance Act 1988, as amended) to grant this relief.

9.5 Properties that will benefit from the relief will be occupied hereditaments with a Rateable Value of £51,000 or less that are wholly or mainly being used as shops, restaurants, cafes and drinking establishments.

9.6 It is proposed that the Council develops and implements a Retail Relief scheme for 2019/20 and 2020/21 under its discretionary relief powers. Detail of the proposed scheme, including eligibility criteria, is provided at Appendix B.

9.7 The Autumn 2018 Budget also included an announcement that the Relief to Local Newspapers of £1,500 would be extended to 2019/20. It is proposed that the Council uses its discretionary powers to grant relief, of £1,500, to local newspapers in 2019/20.

10. Business Rates – Essex Bid to Pilot 75% Business Rate Retention and Essex Region pooling arrangement

10.1 The bid to Pilot 75% Business Rate Retention by fifteen Essex authorities in 2019/20 was not one of the fifteen pilots announced by the Government in the provisional 2019/20 Local Government financial settlement.

10.2 This is the second year running that a bid to pilot business rate retention by the fifteen Essex authorities has been unsuccessful. It is extremely disappointing as it was estimated that this latest bid would enable additional business rates of £27.21million to be retained across Essex. Of this amount Braintree could have received estimated sums of £646,000 (amount if a pooling arrangement had been in place); £86,000 (allocation for financial resilience); and a share of £4.26million allocated to the three north Essex districts: Colchester BC, Tendring DC and Braintree DC, (investment pot for growth).

10.3 It is believed that the decision of Thurrock Council not to participate severely weakened the chances of success of the Essex bid as one of the initial criteria required was for the proposed arrangements to operate across a functional economic area.

10.4 The fifteen authorities had agreed, however, that if the bid was unsuccessful a request would be made to form an Essex Business Rate Pool for 2019/20.

10.5 The Council has participated in an Essex Business Rates Pool since 2015/16. Under this arrangement growth in business rates, above a baseline figure, which would normally be passed to the Government is retained and shared between the authorities in the Essex Pool. For the three years, 2015/16 to 2017/18, the Council has received a total of £1.515million from the Essex Pooling arrangements. The fifteen authorities are currently participating in an Essex Pool for 2018/19. Whilst final shares for 2018/19 will not be determined until early October 2019 it is anticipated that the Council could receive approximately £560,000.

10.6 The decision to participate in an Essex Pool was based on the assessment that estimated business rates income for 2019/20 will exceed the baseline amount, as outlined at paragraph 8.5 above, and that on the proposed sharing arrangement the Council could receive an additional amount of business rates of approximately £646,000, i.e. a proportion of the estimated levy of £1,134,012 which will be paid into the Essex Pool.

10.7 The determination and receipt of the actual amount of the shares due from the Pool will be made after the Business Rate year-end returns have been collated from each of the authorities. Due to a level of uncertainty regarding the overall performance of the Essex Pool the anticipated shares for both 2018/19 and 2019/20 are not included in the Finance Profile.

11. Local Council Tax Support Scheme

11.1 The Council has operated a Local Council Tax Support (LCTS) scheme since 1st April 2013. The scheme retains a significant proportion of the principles and elements of the previous Council Tax Benefit scheme. The main elements of the scheme, which applies to claimants of working age only, are as follows:

- The calculation of support is based on 76% (reduced from 80% for 2015/16) of the Council Tax liability rather than the full amount as under council tax benefit;
- An upper limit on the council tax banding, on which support will be calculated, is set at Band D;
- Child Benefit for the first child only will be excluded from the assessment of a claimant’s income;
- The deduction for non-dependants in the household is set at £10.00 per week;
- The period of backdating a claim (with good cause) is one month;
- The amount of earnings excluded from a claimant’s overall income is set at £40.00 per week with an additional earnings allowance for those claimants in receipt of working tax credit (where working a minimum of 30 hours) set at £5.00 per week;
- The full amount of War Widows pension is excluded from the assessment of the claimant’s income;

- The limit on savings held by the claimant is £16,000. Savings above this limit precludes the claimant from support under the scheme;
- Minimum level of income for claimants who are self-employed is set at National Living Wage; and
- Removal of the Family Premium for new claims after 1st May 2016.

11.2 Support given to claimants of pensionable age continues to be calculated using the rules as existed under the former Council Tax Benefit scheme.

11.3 The LCTS scheme is accounted for as a discount rather than a benefit: with the Council's council taxbase being reduced by an estimate of the amount of support that will be awarded each year. For 2019/20 this has been estimated to be £7.104million. The variation between the actual and estimated amount awarded is reflected in the balance on the Council Tax Collection Fund at the year-end.

11.4 On 26th November 2018, the Cabinet determined that it would not propose any changes to the Council's LCTS scheme for 2019/20; this was on the basis of limiting the frequency of changes thereby providing a level of stability and continuity in the scheme for claimants – the last agreed changes were effective for 2016/17. With no proposed changes there was no requirement to undertake a consultation exercise. Details of the scheme for 2019/20 to be recommended for approval by Council can be found on the Council's website at: Proposed Local Council Tax Support Scheme 2019/20

11.5 The Equalities Impact Assessment produced for the current scheme continues to be relevant. This identified that the scheme provides a positive impact for older people but potential negative impact for people with disabilities. The potential impact is minimised as Disability Benefits are disregarded thereby providing additional support to those with specific long-term conditions. Support for people with mental health issues may be available by means of an exemption from Council Tax liability under SMI (Severely Mentally Impaired) legislation.

11.6 Since the introduction of the Local Council Tax Support scheme it has been agreed that an Exceptional Hardship Fund would be provided for short-term assistance to households facing exceptional financial difficulties. The Fund is financed from contributions from the major precepting authorities; in proportion to individual council tax precept levels.

11.7 The Council's process for dealing with requests for assistance from the Fund involves a referral to the Citizens Advice Bureau (CAB) for an assessment of the claimant's finances. Detail of the process is contained in the 'Council Tax – Discretionary Reduction in Liability Policy'. The Council currently has a service level agreement with the Citizens Advice Bureau for this money advice service until 31st March 2019.

11.8 In addition to the money advice service provided by the CAB the Council has employed an officer to work with claimants who experience difficulty in paying their council tax with the objective of offering support and advice and to ultimately gain an arrangement to pay.

11.9 The combination of these approaches has been beneficial to those claimants experiencing exceptional financial hardship and for the Council in maintaining a good collection rate and it is recommended that both of these services together with the Exceptional Hardship Fund are retained for 2019/20. The other three major precepting authorities have already agreed to continue to provide funding for 2019/20.

11.10 The value of the Exceptional Hardship Fund for 2019/20 will be £14,208; set at 0.2% of the estimated value of council tax support for the year; this provides a consistent approach across all Essex authorities and has been agreed with the major preceptors.

12. Council Tax – Collection Fund – Surplus/Deficit

12.1 The budget setting process includes estimating the amount of council tax expected to be collected. Variation from the estimate results in either a surplus or deficit on the Collection Fund which must be either returned to or requested from council taxpayers in the following year. The surplus or deficit is allocated between the four major preceptors: Essex County Council, Braintree District Council and Essex Police, Fire and Crime Commissioner for Policing & Community Safety and for Fire and Rescue Authority.

12.2 It is estimated that the balance on the Collection Fund available for distribution is a surplus of £888,833. The surplus will be allocated to:

- Essex County Council – £648,195
- Braintree District Council – £113,625
- Essex Police, Fire and Crime Commissioner– Policing & Community Safety – £89,673
- Essex Police, Fire and Crime Commissioner – Fire and Rescue Authority – £37,340

12.3 This Council's proportion of the council tax surplus, to be returned to council taxpayers in 2019/20 is £113,625. It has been agreed that £21,040 of this surplus will be paid to town and parish councils in 2019/20. This compares to the surplus returned to council taxpayers of £181,609 in 2018/19 (of which £33,170 was returned via payments to the town and parish councils).

13. Council Taxbase

13.1 The Council's taxbase for 2019/20, calculated as at 30th November 2018, is 52,521. This was agreed, under delegated authority, by the Corporate Director responsible for Finance. This compares to a taxbase of 51,980 for 2018/19; an increase of 541 or 1.04%.

13.2 The council taxbase takes into account estimated allowances for discounts and exemptions; including the local council tax support scheme, single persons discount and for losses on collection.

13.3 The Council has exercised its discretionary powers to set the discounts/premia for empty properties and second homes.

13.4 The current levels of these discounts are as follows:

- Properties undergoing extensive repair – 0% discount for twelve months;
- Properties unfurnished – 0% discount for 6 months;
- Second homes – 0% discount;

It is not proposed to make any changes to the levels of the discounts for 2019/20.

13.5 The current level of premia charged on properties which have been unoccupied and substantially unfurnished for two years or more is currently set at 50%.

13.6 The Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Act 2018 was enacted on 1st November 2018. This Act makes changes to the relevant maximum premium that can be applied, under Section 11B of the Local Government Finance Act 1992 (higher amount for long-term empty dwellings: England), as follows:

- For the financial year beginning on 1st April 2019 the “relevant maximum” is 100%;
- For the financial year beginning on 1st April 2020 the “relevant maximum” is 100% if the period is less than 5 years and is 200% if the period is at least 5 years;
- For financial years beginning on or after 1st April 2021 the “relevant maximum” is 100% if the period is less than 5 years; is 200% if the period is at least 5 years but less than 10 years; and is 300% if the period is at least 10 years.

13.7 The Council may make a determination varying or revoking a determination under section 11B for a financial year, but only before the beginning of the year. In addition, it is a requirement that if a determination is made then notice of this must be published in at least one newspaper circulating in the District and do so before the end of the period of 21 days beginning with the date of the determination.

13.8 An analysis of the properties which are currently being charged the 50% premium shows that of the total of 201: as at 1st April 2019, 76 properties will have been empty between 2 and 5 years, 44 between 5 and 10 years, and 81 over 10 years. In addition it is noted that 47 of the total empty properties are in Finchingfield and are owned by the Ministry of Defence.

13.9 The reason for the introduction of the premium, in 2016/17, was to encourage owners to bring the property back into use. At that time there were 271 empty properties and whilst this has reduced to 201 properties it is proposed to implement the relevant maximum as detailed at section 13.6 above and commencing on 1st April 2019. However, it is also proposed that when a property is brought back into use and occupied a refund of the new premium charged (i.e. the amount above 50%) for the previous 12 months will be made.

13.10 The Council also has discretionary power, under section 13A 1c of the Local Government Finance Act 1992, to enable it to reduce council tax liability where statutory discounts, exemptions and reductions do not apply. Current policy is to consider each application on its merit. The cost of an award under the policy has to be met from the General Fund. No changes or amendments to this policy are proposed.

13.11 It is proposed to maintain the allowance for losses on collection at 1% for 2019/20.

13.12 A summary of the taxbase calculation is provided in the table below:

Band	Total number of Dwellings	Discounts and exemptions including local council tax support	Equivalent no. of dwellings after discounts, exemptions, etc.	Multiplier	Relevant amount (equivalent amount x multiplier)	Taxbase at assumed collection rate of 99.0%
AR		1	1	5/9	1	1
A	5,994	-2,182	3,812	6/9	2,541	2,516
B	16,831	-3,925	12,906	7/9	10,038	9,938
C	18,888	-2,868	16,020	8/9	14,240	14,097
D	9,377	-907	8,470	9/9	8,470	8,385
E	7,146	-475	6,671	11/9	8,152	8,071
F	4,134	-195	3,939	13/9	5,690	5,633
G	2,203	-105	2,098	15/9	3,497	3,462
H	212	-18	194	18/9	388	384
				Add contributions in Lieu		35
	64,785	-10,674	54,111		53,051	52,521
2018/19	*64,292*	*-10,817*	*53,475*		*52,471*	*51,980*

13.13 With the anticipated housing growth in the District over the coming years the allowance, included in the financial profile, for growth in the council taxbase is set at 1.5% per annum for 2020/21 onwards. This provides estimated council taxbase's of 53,309, 54,109 and 54,921 in 2020/21 to 2022/23 respectively.

14. Council Tax Levels and Referendums

14.1 **Council Tax Referendums.** The Localism Act 2011 gives local communities the power to decide whether to accept an excessive council tax increase. The Secretary of State determines the level of increase above which a proposed increase in council tax must be subject to a referendum. For shire district councils the threshold for 2019/20 has been set at the higher of 3% or up to and including £5. An increase of £5.22 on this Council's Band D for 2019/20 equates to a percentage increase of 2.99%.

14.2 With regard to Referendum limit and town/parish councils the Government has stated in the provisional Local Government Finance Settlement – consultation paper:

'*In 2018-19 the Government decided to defer the setting of referendum principles for town and parish councils for three years. However, this was conditional upon:*

- *the sector taking all available steps to mitigate the need for council tax increases, including the use of reserves where they are not already*

earmarked for other uses or for "invest to save" projects which will lower on-going costs; and
• the Government seeing clear evidence of restraint in the increases set by the sector.

In 2018-19, the average band D parish precept increased by 4.9% (£3.02). This compares to a 6.3% increase (£3.63) in 2017-18, and is the lowest year-on-year increase in parish precepts since 2015-16.

The Government has decided to continue the deferral of setting referendum principles for town and parish councils subject to the conditions above, but encourages parish councils to continue this downward trend, and will keep this area under active review'.

14.3 **Council Tax Levels**. With the referendum limit being confirmed by the Government at the current level it is proposed that the council tax increase for 2019/20 be £5.22 (at Band D). This equates to a council tax charge, for a Band D property, for the provision of this Council's services of £3.46 per week; an increase of approximately 10p per week over the current year.

14.4 This is considered necessary to help address the anticipated budget shortfalls over the medium-term and the uncertainty of the impacts of the introduction of the proposed 75% Business Rate Retention scheme and the Fair Funding and 2019 Spending Reviews.

14.5 The table below identifies the estimated budget shortfall to be addressed in 2018/19 to 2021/22. For financial planning purposes increases in council tax of between 1.95% and 1.97% per annum are assumed for the years 2020/21 and 2022/23 respectively, i.e. based on the former threshold limit of 2%.

Year	Council Tax at Band D	Percentage increase	Estimated budget shortfall to be addressed
2019/20	£179.73	2.99%	0*
2020/21	£183.24	1.95%	£539,351
2021/22	£186.84	1.96%	£7,285
2022/23	£190.53	1.97%	£162,760

Note: * An addition to balances, of £127,947, for 2019/20 will result from the proposals in this report

15. Budget Consultation

15.1 Overview and Scrutiny Committee

15.1.1 The Overview and Scrutiny Committee, on 21st November 2018, received a presentation from the Cabinet Members for Finance and Performance and Corporate Services and Asset Management on the Council's priorities for 2019/20 and the initial budget position. This was the first of two opportunities for the Committee to review the budget proposals. All Members were invited to attend and participate in the meeting.

15.1.2 Scrutiny of the Budget will continue at the Overview and Scrutiny Committee meeting scheduled for 6th February 2019 at which this finance report and budget proposals will be considered. As with the first meeting all Members are invited to attend the meeting. Recommendations and/or comments from that meeting will be circulated at tonight's Cabinet meeting.

15.2 Businesses in the Braintree District

15.2.1 The January edition of the Business Bulletin included an invitation to businesses in the District to comment on the 2019/20 Budget proposals. Comments received will be circulated at tonight's Cabinet meeting.

16. Staffing and Pay Policy

16.1 Impact on Staffing Establishment.

16.1.1 The proposed budget for 2019/20 presented in this report provides for:

- the deletion of three Housing Benefit Officer posts which have been held vacant in the current year. The reduction is linked to the transition for claimants of working age from housing benefit to universal credit;
- the deletion of a Trainee Revenues and Systems Officer which has been held vacant in the current year;
- a new full-time Fleet Manager post following a restructure of Fleet management responsibilities;
- additional capacity in the Asset Management service by means of additional hours on an existing Administrative Officer post and a new part-time surveyor post. The additional cost is funded from the rental income received from taking responsibility for the Enterprise Centre, Springwood;
- three Workshop Fitters will transfer to the Council under TUPE arrangements from the current vehicle maintenance contractor, RTR, as the vehicle maintenance workshop and service is being brought back in-house from April 2019. In addition, one new Technical Administrative post is to be created. The return of the delivery of the service produces a net saving compared to the current contract; and
- five new full-time posts in the Development Management service required to help process and determine the increased volume and complexity of major planning applications. The additional cost is to be funded from the additional planning application fee income.

16.1.2 The Council's Management of Change process is used for all staff restructuring proposals.

16.2 Pay Policy for 2019/20

16.2.1 Section 38 (1) of the Localism Act 2011 requires the Council to produce a pay policy statement for each financial year.

16.2.2 The Pay Policy statement:
- Must be approved formally by Full Council
- May be amended during the course of the financial year
- Must be published on the Council's website
- The statutory pay policy statement must include the Council's policy on:

- The level and elements of remuneration for each Chief Officer
- The remuneration of its lowest-paid employees (together with its definition of 'lowest paid employees' and its reasons for adopting that definition)
- The relationship between the remuneration of its Chief Officers and other Officers
- Other specific aspects of Chief Officers' remuneration: remuneration on recruitment, increases and additions to remuneration, use of performance-related pay and bonuses, termination payments and transparency

16.2.3 Remuneration is defined widely, to include not just pay but also charges, fees, allowances, benefits in kind, increases, enhancement of pension entitlements and termination payments.

16.2.4 The Pay Policy Statement 2019/20 has been designed to give an overview of the Council's framework regarding pay and rewards for staff within the Council. The framework is based on the principle of fairness and that reward should be proportional to the weight of each role and each individual's performance.

16.2.5 The information contained within the Pay Policy Statement detailed in Appendix C reflects the Council's current pay position.

17. Financial Profile 2019/20 to 2022/23

17.1 An updated Financial Profile for 2019/20 to 2022/23 taking account of the proposed savings and revised assumptions is provided at Appendix D.

17.2 A summary, analysed by business plan, of the controllable budgets for 2018/19 is provided at Appendix E.

17.3 The updated financial profile 2019/20 to 2022/23 shows for:

2019/20 – addition to Balances of £127,947;
2020/21* – shortfall of £539,351;
2021/22* – shortfall of £7,285; and
2022/23* – shortfall of £162,760.

Note: these years are likely to be subject to significant changes once the outcomes are known of the Fair Funding Review and the Government's decision regarding the proposed new 75% Business Rates Retention scheme both of which are to be implemented from 1st April 2020.*

17.4 The approach to address the anticipated budget shortfalls will be the delivery of the 'Roadmap to 2020'. The 'Roadmap to 2020' incorporates the Action Plan developed following the Peer Review in October 2013, which was focussed on the Council being grant free over the medium-term.

17.5 The 'Roadmap 2020' encompasses:

Better at Business

- Commercialisation
- Business Awareness & Skills
- Procurement
- Contract Management

Smart Working

- Service Improvements
- Digital Strategy
- Accommodation Review
- Mobile & Flexible working

Investment Programme

- District Investment Strategy
- Asset Management Strategy
- Treasury Management Strategy

17.6 Estimated revenue income and expenditure implications of the projects agreed in the Investment Programme are included in the budget and financial profile. Other projects currently outlined in the Investment Programme are being developed and will be included in the budget and financial profile as and when the projects and the cashflow projections are agreed by the Council.

18. Balances and Reserves

18.1 The Unallocated General Fund balance as at 31st March 2018 was £2.86million.

Agreed and anticipated movements on the balances are:

	£'000
General Fund	
Planned addition to balances in setting 18/19 Budget	228
Anticipated surplus in 2018/19	127
Planned repayment re Pension Deficit	1,411
Supplementary Budget approval	(219)
Transfer from Earmarked Reserves	600
Estimated Balance as at 31st March 2019	5,007
Planned repayment re Pension Deficit	1,411
Estimated transfer to Balances in 2019/20	128
Estimated Balance as at 31st March 2020	6,546

18.2 The estimated transfer to balances for 2019/20 is £127,947, as shown in Appendix D. In February 2016 the Council agreed to pay the annual pension deficit for the three years 2017/18 to 2019/20 in a single payment of £4.2million to the Essex Pension Fund on 1st April 2017. The payment in advance for the two years 2018/19 and 2019/20 has been funded by the temporary use of the unallocated balance and consequently the unallocated balance will be reimbursed in each of these years. The movements in 2019/20 provide an anticipated balance at 31st March 2020 of £6.546million.

18.3 Earmarked reserves are established to either meet specific requirements/ purposes in the future or to make provision for issues that are likely to occur but the timing is not predictable. The total amount of money in earmarked reserves as at 31st March 2018 was £21.482million.

18.4 A schedule detailing the planned use of the earmarked reserves over the four-year period of the MTFS is provided in Appendix F. The schedule classifies the earmarked reserves as either for revenue or capital and by Cabinet Portfolio.

18.5 A summary of planned movements is provided in the table below:

	2018/19 £'000	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**
Earmarked Reserves - Revenue	9,001	7,746	7,665	7,080	6,612
Additions/Withdrawals(-)	-1,255	-81	-585	-468	-84
Balance at Year End	**7,746**	**7,665**	**7,080**	**6,612**	**6,528**
Earmarked Reserves - Capital	12,480	13,315	7,011	4,512	4,097
Additions/Withdrawals(-)	835	-6,304	-2,499	-415	-386
Balance at Year End	**13,315**	**7,011**	**4,512**	**4,097**	**3,711**

19. Risk Assessment

19.1 Providing projections on the Council's finances into the future is subject to a high degree of uncertainty, which makes it important that an assessment of the risks is undertaken.

19.2 A review of risks on the budget proposals has been undertaken by Management Board. A summary of the risks, controls and mitigation identified is provided at Appendix G.

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20. Robustness of the Estimates and the Adequacy of the Proposed Financial Reserves

20.1 The Local Government Act 2003 (Part 2, sections 25 and 26) require the Chief Financial Officer (as defined under Section 151 of the Local Government Act 1972) to report on the robustness of the estimates and the adequacy of the proposed financial reserves. Members are required to have regard to the report when making decisions on the budget. The report is detailed at Appendix H.

20.2 An analysis of the income received by the Council to fund delivery of services is included in the above report. This enables an assessment of the Council's reliance on each of the revenue income streams to fund the estimated expenditure of £30.52million in 2019/20:

- Council Tax - £9.44million (30.9%)

- Sales, fees and charges - £5.37million (17.6%)
- Retained Business Rates - £4.96million (16.3%)
- Rents - £3.44million (11.3%)
- Other grants and reimbursements - £2.75million (9.0%)
- Joint financing contributions – £1.96million (6.4%)
- Interest – £1.0million (3.3%)
- Government grants – £0.83million (2.7%)
- Miscellaneous – £0.76million (2.5%)
- Revenue Support Grant - Nil

It is important that there is an understanding of the level of reliance on each of these different sources as this helps assess the financial resilience of the Council. The initial assessment provided in the report will be supported by further work over the coming months and the lead into the commencement of the 2020/21 budget process in June/July 2019.

20.3 The report refers to Year-End accounting procedures which include requests to carry forward unspent budgets. These requests are agreed by Cabinet. With the requirement to produce draft accounts for external audit by 31st May, carry forward budgets need to be agreed in April. Given the short timescale for the requests to be submitted, endorsed by Management Board and agreed by Cabinet it is recommended that authority is delegated to the Cabinet Member for Finance and Performance to agree those unspent budgets to be carried forward to the following year.

21. Capital Programme

21.1 Capital Resources 2019/20 to 2022/23

21.1.1 The anticipated resources consist of:

- Share of Right to Buy sales income from Greenfields Community Housing;
- Capital receipts from the sale of assets, including: a proportion of the proceeds from the sale of land assembled east of High Street, Halstead; sale of the site of the former Bramston Sports Centre, Witham; land off Maldon Road, Witham, sale of residential properties on Manor Street re-development and sale of serviced land at Horizon 120;
- Borrow monies to finance capital projects. If borrowing is to be used then it is important that the capital project is income generating in order to cover the loan repayment costs;
- Capital grant through the Better Care Fund for Disabled Facilities Grants;
- Earmarked reserves, including District Investment Strategy reserve; and
- Section 106 contributions – where identified to a specific project which meets the requirements specified in the relevant Section 106 agreement.

21.1.2 In addition to the anticipated resources, identified above, the Council is able to use:

- unallocated balances, subject to maintaining a minimum level of £1.5million (in accordance with policy);
- the balance of unallocated Section 106 monies, of £1.945million, but this is only available for projects that meet the requirements specified in the relevant Section 106 agreement;
- the balance of the Community and Housing Investment Partnership (CHIP) Fund of £2.718m, which has been received from Greenfields Community Housing and is earmarked for affordable housing purposes;
- Business Rates Reserve – shares received from membership of Essex Business Rates Pool; and
- The unallocated New Homes Bonus monies.

21.2 New Homes Bonus

21.2.1 Detail of the New Homes Bonus receivable is provided at paragraph 3.8 above. This shows that the Council will receive £1.25million in 2019/20 and will have a cumulative unallocated balance of £1.258million as at 31st March 2020.

21.2.2 A key principle in the Council's approach in utilising the New Homes Bonus is to act as a catalyst to attract investment from others in the public and private sectors and to support economic and housing growth.

21.3 Asset Management Plan

21.3.1 The Council's Asset Management Plan details the objectives for property in the short to medium term as:

- Contribute to the economic and physical regeneration of the District and provide opportunity to increase job prospects and support business.
- Support the delivery of our services and our overall community and corporate objectives;
- Wherever possible be used as a joint resource with our partners to deliver better public services on the most efficient basis possible;
- Be environmentally sustainable and be energy and carbon efficient;
- Be efficient in their running costs;
- Not consume any more capital than is absolutely necessary for the delivery of our objectives and to release capital from the portfolio to support the Council's capital programme; and
- Identify investment opportunities.

21.4 Capital Programme

21.4.1 Details of the proposed capital projects are contained at Appendix I. The total value of the projects in 2019/20 is £1,902,000 and £50,000 in 2020/21 and 2021/22.

21.4.2 The schedule also includes anticipated requirements of £1,928,000 per annum for 2020/21 to 2022/23.

21.5 Capital Funding Summary

21.5.1 A summary showing the capital resources and the proposed capital schemes for 2019/20 and the anticipated requirements for 2020/21 onwards is provided below:

Capital Summary 2018/19 to 2022/23						
	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**Provisions**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Resources						
Capital Receipts - Balance B/Forward	10.913	12.935	16.201	18.200	17.908	17.667
Anticipated Capital Receipts	3.433	6.006	17.19	6.649	6.948	
Capital Grants & Contributions - B/Forward	2.718					
Anticipated Grants & contributions	1.040	2.375	0.863	0.863	0.863	
Reserves	1.573	6.539	2.500	0.000	0.000	
Borrowing	6.309	18.687	-2.755	-4.684	-2.354	
Total Resources	**25.986**	**46.542**	**33.999**	**21.028**	**23.365**	**17.667**
Programme						
Approved:						
Housing Services	0.708	1.330				
Other Services	3.766	0.611	0.000	0.000	0.000	1.942
Strategic Investments	8.37	26.291	13.614	0.935	3.563	3.000
Capital Salaries	0.207	0.207	0.207	0.207	0.207	
Proposed:						
Other services		0.939	0.05	0.05		
Housing Services		0.963				
Anticipated future bids - Housing			0.963	0.963	0.963	
Anticipated future bids - Other Services			0.965	0.965	0.965	
Total Programme Expenditure	**13.051**	**30.341**	**15.799**	**3.120**	**5.698**	**4.942**
Resources Balance C/Forward	**12.935**	**16.201**	**18.200**	**17.908**	**17.667**	**12.725**

21.5.2 The summary shows that the proposed capital programme can be funded from the estimated capital resource available for 2019/20. In addition the anticipated capital requirements for 2020/21 to 2022/23 can also be funded but this will be dependent on the sales of assets identified producing the anticipated amount of capital receipts. It should be noted that the majority of the anticipated balance of resources, at the end of 2022/23 and after taking account of provisions, of £12.725million is dependent on income from planned sales of a number of assets being received, these include: land east of High Street, Halstead; land off Maldon Road, Witham; former Bramston Sports Centre site, Witham; residential properties on the Manor Street re-development and serviced land on Horizon 120.

22. Long-Term Investments

22.1 Feasibility work continues in respect of the Garden Communities and a Housing Development Company, opportunities which would have significant impacts, both cost and reward, on the Council's finances over the long-term i.e. thirty years plus.

22.2 Reports will be presented to Members as the projects progress and decisions on next stages are required to be made. Detail of the current funding allocations agreed by the Council are provided below.

22.3 **Garden Communities**

22.3.1 The Council is working together with Colchester BC, Tendring DC and Essex CC on the North Essex Garden Communities project. The project is to establish the feasibility and funding requirements of delivering three garden communities across North Essex.

22.3.2 Each of the four councils has agreed contributions totalling £600,000 toward the cost of the development of the North Essex Garden Communities project. This Council agreed to fund its contributions from unallocated New Homes Bonus (NHB).

22.3.3 It is anticipated that a report on the North Essex Garden Communities – Business Plan 2019/20 will be presented to the four councils for consideration and agreement in March 2019.

22.4 **Housing Development Company**

22.4.1 A full business case relating to the establishment of a Housing Development Company (HDC) is in progress.

22.4.2 A Housing Development Company has the potential to bring forward a robust delivery programme of new homes across the District, to include a range of tenures, such as private sale, affordable rent, private rent, keyworker and starter homes. It would also contribute to wider objectives, including the generation of a financial return, the development of under-utilised Council-owned land and the stimulation of economic growth through the provision of high-quality training and employment opportunities through on-site developments.

22.4.3 An allocation of £130,000 was agreed for the feasibility work. In addition, Council on 23rd July 2018 approved a budget of £495,980 for preparatory work to enable design and planning applications for residential development on five Council-owned sites. This enables a twin-track approach, with the potential for the sites to be transferred to a future Council-owned Housing Development Company, subject to Cabinet approval of a full business case. Alternatively, the Council could realise a financial return by selling the sites with the benefit of residential planning permissions.

23. Capital Strategy Treasury Management Strategy and Investment Strategy 2019/20

23.1 New requirements on local government under statutory guidance and guidance from CIPFA are for increased information and for a broadening of definition of investments to ensure that all authorities have clear plans and understanding of the risks of investments in assets as well as investment of cash.

23.2 Local authorities are now required to determine on an annual basis the following:

- **Capital Strategy** - This 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. The strategy includes detail of the Council's borrowing requirements for 2019/20 onwards and includes proposed increases to the Council's limits regarding external debt as follows:
    - Authorised limit increase to £50million from £25million; and
    - Operational boundary limit increase to £35million from £11million.

  Detail of the capital strategy is provided at Appendix J.

- **Treasury Management Strategy Statement** (TMSS). The Strategy covers the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has invested substantial sums of money, and holds some legacy borrowing and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management. The strategy includes detail of the Council's approved investment counterparties and limits
    - no changes are proposed for 2019/20.

  Detail of the strategy is provided at Appendix K.

- **Investment Strategy**. This is a new report for 2019/20, meeting the requirements of statutory guidance and focuses on lending to third parties (service investments) and investments in property and other assets to earn income (commercial investments). Detail of the strategy is provided at Appendix L; and

- **Minimum Revenue Provision** policy – this details the Council's policy on the methodology to be used for making provision for the repayment of debt. Detail of the policy is provided at Appendix M.

23.2 The Governance Committee considered the draft copy of the TMSS at its meeting on 23rd January 2019. A reference from the Governance Committee will be included on this Cabinet meeting agenda.

23.3 The indicators, limits and strategies have been drawn up based on the revenue and capital plans set out within this report for 2019/20 and over the medium term. It is noted however that at this stage the potential financing implications of the proposed North Essex Garden Communities and Housing Development Company have not been reflected. Any future changes required to these strategies will be based on decisions yet to be taken by Full Council.

24. Virement Levels and Policy Framework

24.1 The Council's Constitution requires that Members agree annually the Policy Framework and virement levels used for financial control. The Finance Procedure rules, which incorporate the virement levels, were reviewed and adopted by Full Council on 6th December 2010. Following review it is considered that these limits continue to be appropriate and are detailed at Appendix N.

Council Budget and Council Tax 2019/20 and Medium-Term Financial Strategy 2019/20 to 2022/23

Appendices

A	Business Rates Retention scheme – Revised 2018/19 Estimate and 2019/20 Estimate
B	Discretionary Rate Retail Relief Scheme – 2019/20 and 2020/21
C	Pay Policy Statement 2019/20
D	Revenue Profile 2019/20 to 2022/23
E	2019/20 Controllable Budget by Business Plan
F	Earmarked Reserves
G	Strategic risk
H	Statement on the Robustness of the Estimates and the Adequacy of the Proposed Financial Reserves
I	Capital Schemes/Projects for inclusion in the Capital Programme
J	Capital Strategy 2019/20 to 2022/23
K	Treasury Management Strategy Statement 2019/20
L	Investment Strategy 2019/20
M	Minimum Revenue Provision (MRP) Policy Statement
N	Virement Levels

BUSINESS RATE RETENTION SCHEME

APPENDIX A

	Outturn NNDR3 16/17 £	**Outturn NNDR1 17/18 £**	**Budget NNDR1 18/19 £**	**Latest 2018/19 £**	**Forecast 2019/20 £**
Gross Yield	**49,746,149**	**51,117,611**	**53,526,937**	**52,539,078**	**53,983,000**
Mandatory Reliefs					
Add Yield to fund Small Business Rate Relief	1,093,080	886,404	921,000	890,621	915,000
Cost of Small Business Rate Relief (SBRR)	-3,485,508	-4,970,796	-4,703,000	-5,361,882	-5,335,000
Cost of relief to Charities/CASC/Rurals	-3,002,308	-3,009,812	-3,131,300	-3,253,084	-3,318,000
Cost of relief partly occupied	-29,498	-1,031	0	0	0
Cost of relief for empty premises	-1,485,851	-1,309,903	-1,559,200	-1,463,785	-1,530,000
Total Mandatory Reliefs	**-6,910,085**	**-8,405,138**	**-8,472,500**	**-9,188,130**	**-9,268,000**
Discretionary Reliefs					
Cost of relief to Charities/Non Profit/CASC/Rurals	-264,207	-285,040	-270,000	-260,611	-268,000
New empty property relief (New Start)	-8,991	7,901			
Long-term empty property relief (Fresh Start)	-26,194	448			
Flooding relief				2,787	
Localism Act Discounts	-14,662				
Retail relief	-4,639	5,000		1,500	
Discretionary rural relief (doubling 50% mandatory)		-10,383	-9,300	-12,253	-13,000
Local newspaper offices relief		-1,500	-1,500	-1,500	-2,000
Supporting small businesses		-25,108	-22,100	-17,567	-18,000
Discretionary business rate scheme		-284,300	-139,400	-130,176	-57,000
Public house relief		-60,436	-57,000	-56,416	
Discretionary transitional relief	-4,418				
Total Discretionary Reliefs	**-323,110**	**-653,418**	**-499,300**	**-474,236**	**-358,000**
Net Rates Payable	**42,512,954**	**42,059,055**	**44,555,137**	**42,876,712**	**44,357,000**
Amounts written off	-232,388	-72,160		-180,034	
Estimated losses on collection (prov)	81,602	-40,174	-276,000	-95,966	-243,000
Losses on collection	**-150,786**	**-112,334**	**-276,000**	**-276,000**	**-243,000**
Change in provision for rating appeals	2,390,000	-344,580	-2,094,000	-941,708	-1,109,000
Collectable Rates	**44,752,169**	**41,602,141**	**42,185,137**	**41,659,004**	**43,005,000**

BUSINESS RATE RETENTION SCHEME

APPENDIX A

	Outturn NNDR3 16/17 £	Outturn NNDR1 17/18 £	Budget NNDR1 18/19 £	Latest 2018/19 £	Forecast 2019/20 £
Transitional protection - due to/ -due from	-78,480	-101,794	104,400	184,911	172,000
Amounts disregarded - renewable energy properties	-183,890	-219,177	-204,600	-201,828	-206,000
Allowance for cost of collection	-194,671	-192,687	-192,808	-192,808	-188,693
Non-Domestic Rating Income	**44,295,128**	**41,088,483**	**41,892,129**	**41,449,279**	**42,782,307**
Braintree DC Share	17,718,051	16,435,393	16,756,852	16,579,712	17,112,923
Amount retained - renewable energy properties	93,933	122,339	97,100	97,132	99,000
Tariff paid to Government	-13,013,536	-12,364,197	-12,832,242	-12,763,637	-13,027,512
Levy Payment due to Government/ Essex Business Rate Pool	-1,115,866	-1,169,647	-1,041,562	-1,023,403	-1,134,012
S31 Grants for SBRR and Autumn Statement measures	792,236	1,610,321	1,531,390	1,722,504	1,802,578
Est. Collection Fund surplus/ -deficit for tax setting	-411,135	432,142	725,670	725,670	57,034
Transfer -to/from Business Rate Retention Reserve	411,135	-432,142	-725,670	-725,670	-57,034
TOTAL GENERAL FUND	**4,474,818**	**4,634,209**	**4,511,538**	**4,612,308**	**4,852,977**

Discretionary Business Rates Retail Relief Scheme for 2019/20 and 2020/21

1. Background

1.1 The Government announced in the Budget on 29th October 2018 that it will provide a business rates Retail Discount scheme for occupied retail properties with a rateable value of less than £51,000 in each of the years 2019/20 and 2020/21. The value of discount should be one third of the bill, and must be applied after mandatory reliefs and other discretionary reliefs funded by section 31 grants have been applied. Where an authority applies a locally funded relief, for instance a hardship fund, under section 47 this is must be applied after the Retail Relief.

1.2 As this is a measure for 2019/20 and 2020/21 only, the Government is not changing the legislation around the reliefs available to properties. Instead the Government will, in line with the eligibility criteria set out in guidance (click Guidance), reimburse local authorities that use their discretionary relief powers, introduced by the Localism Act (under section 47 of the Local Government Finance Act 1988, as amended) to grant relief. It is for individual local billing authorities to adopt a local scheme and determine in each individual case when, having regard to the guidance, to grant relief under section 47. Central government will fully reimburse local authorities for the local share of the discretionary relief (using a grant under section 31 of the Local Government Act 2003). The Government expects local government to apply and grant relief to qualifying ratepayers from the start of the 2019/20 billing cycle.

1.3 Central government will reimburse billing authorities and those major precepting authorities for the actual cost to them under the rates retention scheme of the relief that falls within the definitions in the guidance. Local authorities are to be asked to provide an estimate of their likely total cost for providing the relief in their National Non-Domestic Rate Return 1 (NNDR1) for 2019/20 and 2020/21. Central government will provide payments to authorities to cover the local share, as per the usual process.

1.4 As required in the NNDR3 guidance notes, the former categories of discretionary relief prior to the localism act (i.e. charitable/CASC/rural etc. top up and not for profit) are to be applied first in the sequence of discretionary reliefs and, therefore, before the retail discount.

2. Which properties will benefit from relief?

2.1 Properties that will benefit from the relief will be occupied hereditaments with a rateable value of less than £51,000, that are wholly or mainly being used as shops, restaurants, cafes and drinking establishments.

2.2 Shops, restaurants, cafes and drinking establishments are considered to include:

i) Hereditaments that are being used for the sale of goods to visiting members of the public:

- Shops (such as: florists, bakers, butchers, grocers, greengrocers, jewellers, stationers, off licences, chemists, newsagents, hardware stores, supermarkets, etc)
- Charity shops
- Opticians
- Post offices
- Furnishing shops/ display rooms (such as: carpet shops, double glazing, garage doors)
- Car/ caravan show rooms
- Second hand car lots

- Markets
- Petrol stations
- Garden centres
- Art galleries (where art is for sale/hire)

ii) Hereditaments that are being used for the provision of the following services to visiting members of the public:

- Hair and beauty services (such as: hair dressers, nail bars, beauty salons, tanning shops, etc)
- Shoe repairs/ key cutting
- Travel agents
- Ticket offices e.g. for theatre
- Dry cleaners
- Launderettes
- PC/ TV/ domestic appliance repair
- Funeral directors
- Photo processing
- Tool hire
- Car hire

iii) Hereditaments that are being used for the sale of food and/ or drink to visiting members of the public:

- Restaurants
- Takeaways
- Sandwich shops
- Coffee shops
- Pubs
- Bars

2.3 To qualify for the relief the hereditament should be wholly or mainly being used as a shop, restaurant, cafe or drinking establishment. In a similar way to other reliefs (such as charity relief), this is a test on use rather than occupation. Therefore, hereditaments which are occupied but not wholly or mainly used for the qualifying purpose will not qualify for the relief.

2.4 The list above sets out the types of uses that will be considered to be retail for this purpose. The list is not intended to be exhaustive as it would be impossible to list the many and varied retail uses that exist. There will also be mixed uses. However, it is intended to be a guide as to the types of uses that the Council considers to be retail for the purpose of this policy.

2.5 The list below sets out the types of uses that are not considered to be retail use for the purpose of this relief.

Hereditaments that are being used for the provision of the following services to visiting members of the public:

- Financial services (e.g. banks, building societies, cash points, bureaux de change, payday lenders, betting shops, pawn brokers)
- Other services (e.g. estate agents, letting agents, employment agencies)

- Medical services (e.g. vets, dentists, doctors, osteopaths, chiropractors)
- Professional services (e.g. solicitors, accountants, insurance agents/ financial advisers, tutors)
- Post office sorting offices

Hereditaments that are not reasonably accessible to visiting members of the public.

2.6 Generally the Council does not consider other assembly or leisure uses beyond those listed at paragraph 2.2 to be retail uses for the purpose of the relief. For example, cinemas, theatres and museums are outside the scope of the scheme, as are nightclubs and music venues which are not similar in nature to the hereditaments described at paragraph 2.2(iii) above. Hereditaments used for sport or physical recreation (e.g. gyms) are also outside the scope of the discount.

2.7 Where there is doubt, the Council will exercise its discretion with reference to the above and knowledge of the local tax base.

3. How much relief is available?

3.1 The total amount of government-funded relief available for each property for 2019/20 and 2020/21 under this scheme is one third of the bill, after mandatory reliefs and other discretionary reliefs funded by section 31 grants have been applied, excluding those where local authorities have used their discretionary relief powers introduced by the Localism Act which are not funded by section 31 grants. There is no relief available under this scheme for properties with a rateable value of £51,000 or more.

3.2 The eligibility for the relief and the relief itself will be assessed and calculated on a daily basis. The relief will be applied against the net bill after all other reliefs.

3.3 Ratepayers that occupy more than one property will be entitled to relief for each of their eligible properties, subject to State Aid De Minimis limits *(the De Minimis Regulations allow an undertaking to receive up to €200,000 of De Minimis aid in a three year period consisting of the current financial year and the two previous years)*.

APPENDIX C

PAY POLICY STATEMENT 2019/20

Introduction

This Pay Policy Statement is produced in accordance with Chapter 8 of the Localism Act 2011. The Policy will be considered for approval by a meeting of Braintree District Council on 25th February, 2019. It is made available on the Council's website together with other separately published data on salary and pensions relating to Directors, Heads of Service and other Senior Managers.

Managing Remuneration

1. Remuneration of Employees

1.1 For employees subject to the 'National Agreement on Pay and Conditions of Service of the National Joint Council for Local Government Services' (commonly known as the 'Green Book'), the Council uses a pay spine that commences at national Spinal Column Point (SCP) 1 and ends at locally agreed SCP 2115 (Senior Management Grade - SMG 2). This pay spine is divided into 7 pay grades. Grade 1 is the lowest and SMG 2 is the highest of these pay grades. Posts are allocated to a pay band through a process of job evaluation using the national scheme.

1.2 For the purpose of this Policy Statement, employees on Grade 1 are defined as our lowest-paid employees. This is because no employee of the Council is paid at a SCP that is lower than a point contained in Grade 1. The bottom of Grade 1 is national SCP 1 and the top is national SCP 6. The Council's lowest paid employees are currently paid at SCP 6. At 1st April 2019, the full-time equivalent (FTE) annual values of SCPs 1 and 6 are £17,538 and £19,365 respectively.

1.3 The values of the SCPs in these pay grades are uprated by the pay awards notified from time to time by the National Joint Council for Local Government Services.

1.4 The Council also benchmarks and reviews salary profiles within the job market

2. Remuneration of Chief Officers

2.1 Chief Executive

2.1.1 The Chief Executive is the Council's Head of Paid Service. As at 1st April 2019, the annual FTE range for the grade of this post is £127,500 - £136,986. There is an option to convert £5,000 p.a. of the salary for the purpose of accessing the Council's lease car scheme. Business mileage is paid at the locally agreed lease car rate, currently 16p per mile.

2.1.2 National advice states that a Chief Executive’s salary range should not be more than 20X the FTE salary range of a Grade 1 ‘Green Book’ employee. It is the Council’s policy that the FTE salary range for the post of Chief Executive will not be greater that the nationally advised level. The Chief Executive’s salary is well within this multiple – currently 7X.

2.1.3 Notwithstanding 2.1.2, the value of the SCPs in the Chief Executive’s grade will be uprated by the pay awards notified from time to time by the Joint Negotiating Committee for Chief Executives of Local Authorities.

2.1.4 The Chief Executive also receives a Returning Officer fee in respect of District Council, County Council, Parliamentary and European elections and for other national and local referenda. The fee for undertaking this role in respect of District and Parish Councillors is calculated by reference to the Scale of Fees and Expenses which is approved by Full Council. In respect of the election of County Councillors, reference is made to the Scale of Fees and Expenses supplied by Essex County Council. Fees for conducting Parliamentary and European elections and national referenda are determined by way of Statutory Instrument.

2.2 Corporate Directors

2.2.1 The Corporate Directors report to the Chief Executive. As at 1st April 2019, the annual FTE range for the grade of this post is £98,388 - £108,033. There is an option to convert £4,000 p.a. for the purpose of accessing the Council’s lease car scheme. Business mileage is paid at the locally agreed lease car rate, currently 16p per mile.

2.2.2 It is the Council’s policy that the FTE salary range for the post of Corporate Director will normally be no greater than between 75% and 80% of the FTE salary range of the Chief Executive. The current differential is 79% at the top of the grade.

2.2.3 Notwithstanding 2.2.2, the value of the point range in the Corporate Director Grade will be uprated by the pay awards notified from time to time by the Joint Negotiating Committee for Chief Officers of Local Authorities.

2.2.4 The Council’s Section 151 Officer is one of the Corporate Directors and receives no additional remuneration for this responsibility.

2.3 Heads of Service and Senior Managers

2.3.1 Heads of Service and Senior Managers are not subject to the Conditions of Service determined by the Joint Negotiating Committee for Chief Officers of Local Authorities, as they are ‘Green Book’ employees.

2.3.2 Because they are 'Green Book' employees, our various Head of Service and Senior Manager posts are job evaluated using the national scheme before a pay band is allocated. As at 1st April 2019, Head of Service and Senior Manager posts are on: Grade SMG 3 (SCPs 3105 – 3115, £55,110 - £60,336 p.a. FTE), SMG 4 (SCPs 4001– 4006, £62,943 - £69,201 p.a. FTE) or SMG 5 (SCPs 5001 – 5006, £69,234 - £75,534 p.a. FTE).

2.3.3 The Heads of Service and Senior Managers report to a Corporate Director.

2.3.4 The values of the SCPs in these pay grades are uprated by the pay awards notified from time to time by the National Joint Council for Local Government Services.

2.3.5 Two of the Council's Heads of Service receive an additional remuneration of £2,000 p.a. for specific responsibilities: the Head of Governance as the Council's Monitoring Officer and the Head of Finance as deputy Section 151 Officer.

3. General Principles Applying to Remuneration of all Employees

3.1 On recruitment, individuals will be placed on the appropriate SCP within the pay grade for the post that they are appointed to. Access to appropriate elements of the Council's Relocation Scheme may also be granted in certain cases, when new starters need to move to the area.

3.2 Individuals will normally receive an annual increment, subject to the top of their grade not being exceeded. In exceptional circumstances (e.g. examination success), individuals will receive accelerated increments. Again, this is subject to the top of their grade not being exceeded.

3.3 The minimum point of a pay grade will not be lower than the maximum point of the preceding pay grade.

3.4 On ceasing to be employed by the Council, individuals will only receive compensation:
(a) in circumstances that are relevant (e.g. redundancy) and
(b) that is in accordance with our flexible retirement policy. This details how the Council exercises the various employer discretions provided by the Local Government Pension Scheme (LGPS), and/or
(c) that complies with the specific term(s) of a compromise agreement.

3.5 Any decision to re-employ an individual, who was previously employed by the Council and, on ceasing to be employed, was in receipt of a severance or redundancy payment, will be made on merit. The Council will not, however, normally engage such an individual under a contract for services.

3.6 Any Market Supplement that is paid will be in accordance with the procedure detailed in the Council's Total Reward Policy.

3.7 If it is appropriate for an honorarium to be paid, this will be in accordance with the procedure detailed in the Council's Total Reward Policy.

3.8 The Council operates a lease car scheme in accordance with the Lease Car Policy.

3.10 The Council pays Lease and Casual Car User allowances in appropriate circumstances. These allowances are determined locally.

3.11 Any excess travelling allowance that is paid will be in accordance with the procedure detailed in the Council's Total Reward Policy

3.12 Subsistence allowances are not paid to any employees of the Council.

4. Transparency

4.1 The Council's Annual Statement of Accounts includes a detailed analysis of the pay and pension entitlements for Corporate Directors and Heads of Service. It also includes details of the number of staff earning more than £50,000 p.a. and a summary of the number and value of exit packages in the year, analysed by cost banding.

4.2 The Council will continue to publish this information on an annual basis and it is readily available to view on the Council's website www.braintree.gov.uk

5. Review

5.1 The Localism Act 2011 requires relevant authorities to prepare a Pay Policy Statement for each subsequent financial year. Our next Statement is scheduled to be for 2020/21 and will be submitted to Full Council for approval by 31st March 2020.

5.2 If it should be necessary to amend this 2019/20 Statement during the year that it applies, an appropriate resolution will be made by Corporate Management Board or Full Council whichever is most appropriate.

General Fund Revenue Profile 2018/19 to 2022/23

Appendix D

	2018/19 £	2019/20 £	2020/21 £	2021/22 £	2022/23 £
Base Budget brought forward from previous year	16,599,330	12,419,820	14,189,390	14,924,719	15,158,524
Inflation:					
Pay - annual award and incremental progression	415,400	517,720	461,020	427,160	391,660
Other Expenditure Inflation	76,650	109,510	114,180	105,030	109,880
Income Inflation	-13,470	0	0	0	0
Pension Fund and National Insurance contribution adjustments	13,460	14,770	201,780	12,840	13,100
Pension Fund Deficit - Triennial payment adjustment	-4,232,670		1,410,890		
New Demands:					
Allowance for Reduced Income/Increased costs previously profiled	117,120	204,590	88,500	104,500	0
Priority Investment - one-off provision	-184,820	1,245,500	-1,050,000	-188,500	-2,000
New Budget Pressures	657,720	868,410	44,690	0	0
Reductions:					
Savings/Additional Income agreed previously profiled	-1,028,900	-120,010	-34,530	-19,950	
New Savings/Additional Income - Management		-899,720	38,150	-37,000	-61,000
New Savings/Additional Income - Members		-171,200	0	0	0
Manor Street Development				-162,990	155,610
Additional Savings Required	**0**	**0**	**-539,351**	**-7,285**	**-162,760**
Updated Base Budget	**12,419,820**	**14,189,390**	**14,924,719**	**15,158,524**	**15,603,014**
Addition to Balances - Base budget	228,072	127,947			
Addition to Balances - Pension Fund Deficit - Triennial payment adjustment	1,410,890	1,410,890			
Contribution from Balances for one-off New Investment		-622,000	-122,000		
Contribution from/to Earmarked reserves	725,670	-566,466	-73,500		
Budget Requirement	**14,784,452**	**14,539,761**	**14,729,219**	**15,158,524**	**15,603,014**
Government Grant - Revenue Support Grant	-272,480	0	0	0	0
Retained Business Rates - Baseline amount	-3,354,160	-3,431,026	-3,516,802	-3,604,722	-3,694,840

General Fund Revenue Profile 2018/19 to 2022/23

Appendix D

	2018/19 £	2019/20 £	2020/21 £	2021/22 £	2022/23 £
- Growth above baseline	-1,157,378	-1,421,951	-1,421,951	-1,421,951	-1,421,951
Rural Services grant	-22,125	-22,125	-22,125	-22,125	-22,125
Levy Account Adjustment (2019/20 only)		-52,638			
Collection Fund Balance - Business Rates (Surplus)/Deficit	-725,670	-57,034			
Collection Fund Balance - Council Tax (Surplus)/Deficit	-181,609	-115,388			
BDC Requirement from Council Taxpayers	**9,071,030**	**9,439,599**	**9,768,341**	**10,109,726**	**10,464,098**
Tax base (+1.5% for 2019/20 onwards and collection rate of 99%)	51,980	52,521	53,309	54,109	54,921
Council Tax (Band D)	£174.51	£179.73	£183.24	£186.84	£190.53
Council Tax per week	£3.36	£3.46	£3.52	£3.59	£3.66
Percentage Increase	2.97%	2.99%	1.95%	1.96%	1.97%
Increase per week	£0.20	£0.10	£0.06	£0.07	£0.07

APPENDIX E

GENERAL FUND BUDGETS 2019/20 - BUSINESS PLAN SUMMARY

	Controllable Budgets							
	Base Budget 2018/19 (Updated)	Budget Variations & Requests for Funding	Reductions and Savings	Pay, Pension Fund, Inflation & Recharges	Other Budget Changes	Proposed Controllable Budget 2019/20	Reversal Use of Earmarked Reserves	Planned Spend 2019/20
	£	£	£	£	£	£	£	£
Business Plan								
Asset Management	(2,137,450)	47,870	(284,130)	10,770	0	(2,362,940)	0	(2,362,940)
Business Solutions	1,541,410	50,000	(13,000)	47,100	(50,000)	1,575,510	62,100	1,637,610
Community Services	350,220	74,620	(4,000)	14,530	(73,500)	361,870	109,040	470,910
Corporate Management Plan	1,374,480	0	0	14,800	0	1,389,280	11,890	1,401,170
Economic Development	157,350	20,000	0	9,610	0	186,960	159,000	345,960
Environment & Leisure	842,620	52,140	(48,720)	57,630	0	903,670	9,110	912,780
Finance	1,535,690	192,760	(411,050)	90,510	0	1,407,910	71,980	1,479,890
Governance	922,190	73,000	0	31,020	0	1,026,210	250,410	1,276,620
Housing Services	868,680	0	0	20,840	0	889,520	(27,490)	862,030
Human Resources	340,950	0	0	5,290	0	346,240	32,690	378,930
Marketing & Communications	524,410	0	(20,000)	24,160	0	528,570	32,600	561,170
Operations	5,136,270	462,740	(87,480)	224,140	0	5,735,670	101,900	5,837,570
Strategic Investment	11,200	0	0	(240)	0	10,960	357,820	368,780
Sustainable Development	675,890	731,560	(231,560)	71,600	0	1,247,490	223,550	1,471,040
COST OF SERVICES	**12,143,910**	**1,704,690**	**(1,099,940)**	**621,760**	**(123,500)**	**13,246,920**	**1,394,600**	**14,641,520**
Corporate Financing	311,986	625,940	(10,000)	20,240	4,597,433	5,545,599		5,545,599
Corporate Efficiency Provision	(200,000)	0	0	0	0	(200,000)		(200,000)
Parish and Town Council Grants	114,160	(12,130)	(80,990)	0	0	21,040		21,040
Transfer to/(from) Earmarked Reserves	775,434	0	0	0	(5,766,073)	(4,990,639)	(1,394,600)	(6,385,239)
Contribution to/(from) Balances	1,638,962	0	0	0	(722,125)	916,837		916,837
BRAINTREE BUDGET	**14,784,452**	**2,318,500**	**(1,190,930)**	**642,000**	**(2,014,265)**	**14,539,757**	**0**	**14,539,757**
Revenue Support Grant	(272,480)	0	0	0	272,480	0		0
Retained Business Rates	(4,511,538)	0	0	0	(394,077)	(4,905,615)		(4,905,615)
Rural Services grant	(22,125)	0	0	0	0	(22,125)		(22,125)
Collection Fund Surplus - Business Rates	(725,670)	0	0	0	668,640	(57,030)		(57,030)
Collection Fund Surplus - Council Tax	(181,609)	0	0	0	66,221	(115,388)		(115,388)
AMOUNT TO BE MET FROM COUNCIL TAX PAYERS	**9,071,030**	**2,318,500**	**(1,190,930)**	**642,000**	**(1,401,001)**	**9,439,599**	**0**	**9,439,599**

Earmarked Reserves 2018/19 to 2022/23

APPENDIX F

	2018/19				2019/20			2020/21			2021/22			2022/23		
	Opening Balance 2018/19	Movements in Year 2018/19	Trf between reserves/ back to balances	Proj Closing Balance 2018/19	Opening Balance 2019/20	Movements in Year 2019/20	Proj Closing Balance 2019/20	Opening Balance 2020/21	Movements in Year 2020/21	Proj Closing Balance 2020/21	Opening Balance 2021/22	Movements in Year 2021/22	Proj Closing Balance 2021/22	Opening Balance 2022/23	Movements in Year 2022/23	Proj Closing Balance 2022/23
EARMARKED RESERVES (REVENUE)																
Corporate Strategy & Direction																
Approved Carry Forwards	23,370	-5,470	0	17,900	17,900	-11,890	6,010	6,010	-5,710	300	300	0	300	300	0	300
Corporate Improvement programme	270,134	-90,020	0	180,114	180,114	11,730	191,844	191,844	-630	191,214	191,214	6,310	197,524	197,524	0	197,524
Member Support & Development	33,880	-7,500	0	26,380	26,380	-7,500	18,880	18,880	-7,500	11,380	11,380	-7,500	3,880	3,880	-3,880	0
	327,384	**-102,990**	**0**	**224,394**	**224,394**	**-7,660**	**216,734**	**216,734**	**-13,840**	**202,894**	**202,894**	**-1,190**	**201,704**	**201,704**	**-3,880**	**197,824**
Environment & Place																
Approved Carry Forwards	36,640	-19,050	0	17,590	17,590	0	17,590	17,590	0	17,590	17,590	0	17,590	17,590	0	17,590
Green Heart Initiatives	45,742	-17,000	0	28,742	28,742	0	28,742	28,742	0	28,742	28,742	0	28,742	28,742	0	28,742
Carbon Management	42,158	4,731	0	46,889	46,889	0	46,889	46,889	0	46,889	46,889	0	46,889	46,889	0	46,889
House Survey (Private)	19,013	3,000	0	22,013	22,013	3,000	25,013	25,013	3,000	28,013	28,013	3,000	31,013	31,013	3,000	34,013
Unmet Taxi Demand Survey	20,081	1,000	0	21,081	21,081	2,500	23,581	23,581	2,500	26,081	26,081	2,500	28,581	28,581	2,500	31,081
Operations	5,498	0	0	5,498	5,498	0	5,498	5,498	0	5,498	5,498	0	5,498	5,498	0	5,498
Recycling Reward Scheme	32,224	-32,224	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Flooding Relief	21,401	0	0	21,401	21,401	0	21,401	21,401	0	21,401	21,401	0	21,401	21,401	0	21,401
Commuted Maintenance	410,658	28,937	0	439,595	439,595	-98,110	341,485	341,485	-98,110	243,375	243,375	-98,110	145,265	145,265	-98,110	47,155
	633,414	**-30,606**	**0**	**602,808**	**602,808**	**-92,610**	**510,198**	**510,198**	**-92,610**	**417,588**	**417,588**	**-92,610**	**324,978**	**324,978**	**-92,610**	**232,368**
Planning & Housing																
Approved Carry Forwards	53,075	-29,523	0	23,551	23,551	-23,551	0	0	0	0	0	0	0	0	0	0
Local Plan	363,392	20,000	0	383,392	383,392	-200,000	183,392	183,392	-100,000	83,392	83,392	-80,000	3,392	3,392	0	3,392
Housing Needs Survey	45,982	-30,000	0	15,982	15,982	0	15,982	15,982	0	15,982	15,982	0	15,982	15,982	0	15,982
Local Council Tax Support	301,534	0	0	301,534	301,534	0	301,534	301,534	0	301,534	301,534	0	301,534	301,534	0	301,534
Unilateral Undertakings	543,863	0	0	543,863	543,863	0	543,863	543,863	0	543,863	543,863	0	543,863	543,863	0	543,863
Housing Welfare Reforms	4,730	-4,730	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Planning Appeals	287,462	-287,462	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Community Infrastructure Levy	100,000	0	-100,000	0	0	0	0	0	0	0	0	0	0	0	0	0
Homelessness Funds	350,146	92,733	0	442,879	442,879	27,493	470,372	470,372	-235,450	234,922	234,922	-243,020	-8,098	-8,098	0	-8,098
	2,050,183	**-238,982**	**-100,000**	**1,711,201**	**1,711,201**	**-196,058**	**1,515,143**	**1,515,143**	**-335,450**	**1,179,693**	**1,179,693**	**-323,020**	**856,673**	**856,673**	**0**	**856,673**
Economic Development																
Discretionary Business Rate Relief	68,084	0	0	68,084	68,084	0	68,084	68,084	0	68,084	68,084	0	68,084	68,084	0	68,084
Portas Pilot Reserve	3,969	-3,969	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Business Investment Fund	500,000	0	-500,000	0	0	0	0	0	0	0	0	0	0	0	0	0
Economic Development and Town Centre Improvements	217,921	-10,000	0	207,921	207,921	-50,000	157,921	157,921	-50,000	107,921	107,921	-20,000	87,921	87,921	0	87,921
	789,975	**-13,969**	**-500,000**	**276,005**	**276,005**	**-50,000**	**226,005**	**226,005**	**-50,000**	**176,005**	**176,005**	**-20,000**	**156,005**	**156,005**	**0**	**156,005**
Health & Communities																
Member Grant Scheme	37,837	-37,837	147,000	147,000	147,000	-73,500	73,500	73,500	-73,500	0	0	0	0	0	0	0
Localism Reserve	11,407	0	0	11,407	11,407	0	11,407	11,407	0	11,407	11,407	0	11,407	11,407	0	11,407
Public Health Agenda	93,149	-10,914	0	82,235	82,235	-14,610	67,625	67,625	-15,920	51,705	51,705	-38,480	13,225	13,225	0	13,225
Community Projects	68,695	-3,502	0	65,193	65,193	-35,540	29,653	29,653	0	29,653	29,653	0	29,653	29,653	0	29,653
Leisure	323,186	-125,000	0	198,186	198,186	0	198,186	198,186	0	198,186	198,186	0	198,186	198,186	0	198,186
	534,274	**-177,253**	**147,000**	**504,021**	**504,021**	**-123,650**	**380,371**	**380,371**	**-89,420**	**290,951**	**290,951**	**-38,480**	**252,471**	**252,471**	**0**	**252,471**
Finance & Performance																
Approved Carry Forwards	54,800	-13,880	0	40,920	40,920	-34,100	6,820	6,820	0	6,820	6,820	0	6,820	6,820	0	6,820
Insurance Fund	139,893	-9,860	0	130,033	130,033	-9,856	120,177	120,177	-9,856	110,321	110,321	-9,856	100,465	100,465	-9,856	90,609
Management Training & Org. Development	49,255	0	0	49,255	49,255	-2,420	46,835	46,835	-5,280	41,555	41,555	-5,810	35,745	35,745	630	36,375
Treasury Management	771,799	27,600	0	799,399	799,399	4,300	803,699	803,699	3,800	807,499	807,499	3,300	810,799	810,799	2,800	813,599
Benefits Overpaid & Adpens	1,100,780	0	0	1,100,780	1,100,780	0	1,100,780	1,100,780	0	1,100,780	1,100,780	0	1,100,780	1,100,780	0	1,100,780
Business Rate Retention Scheme Equalisation	1,905,802	1,310,670	-1,500,000	1,716,472	1,716,472	703,034	2,419,506	2,419,506	0	2,419,506	2,419,506	0	2,419,506	2,419,506	0	2,419,506
Pension Deficit Equalisation	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Modern Apprenticeships	57,281	10,230	0	67,511	67,511	-45,440	22,071	22,071	0	22,071	22,071	0	22,071	22,071	0	22,071
Marketing & Communications	49,096	-7,600	0	41,496	41,496	-7,600	33,896	33,896	-7,600	26,296	26,296	-7,600	18,696	18,696	-7,600	11,096
Partnership & Developer contributions	80,160	-11,026	0	69,135	69,135	0	69,135	69,135	0	69,135	69,135	0	69,135	69,135	0	69,135

Earmarked Reserves 2018/19 to 2022/23

APPENDIX F

	2018/19				2019/20			2020/21			2021/22			2022/23		
	Opening Balance 2018/19	Movements in Year 2018/19	Trf between reserves/ back to balances	Proj Closing Balance 2018/19	Opening Balance 2019/20	Movements in Year 2019/20	Proj Closing Balance 2019/20	Opening Balance 2020/21	Movements in Year 2020/21	Proj Closing Balance 2020/21	Opening Balance 2021/22	Movements in Year 2021/22	Proj Closing Balance 2021/22	Opening Balance 2022/23	Movements in Year 2022/23	Proj Closing Balance 2022/23
	4,208,866	**1,306,134**	**-1,500,000**	**4,015,000**	**4,015,000**	**607,918**	**4,622,918**	**4,622,918**	**-18,936**	**4,603,982**	**4,603,982**	**-19,966**	**4,584,016**	**4,584,016**	**-14,026**	**4,569,990**
Corporate Services & Asset Management																
District Elections	224,896	20,033	0	244,929	244,929	-163,000	81,929	81,929	27,000	108,929	108,929	27,000	135,929	135,929	27,000	162,929
Planned Maintenance (Revenue)	73,115	0	0	73,115	73,115	0	73,115	73,115	0	73,115	73,115	0	73,115	73,115	0	73,115
Procurement Hub	73,344	-21,864	0	51,480	51,480	-12,180	39,300	39,300	-12,180	27,120	27,120	0	27,120	27,120	0	27,120
Approved Carry Forwards	86,060	-42,490	0	43,570	43,570	-43,570	0	0	0	0	0	0	0	0	0	0
	457,414	**-44,320**	**0**	**413,094**	**413,094**	**-218,750**	**194,344**	**194,344**	**14,820**	**209,164**	**209,164**	**27,000**	**236,164**	**236,164**	**27,000**	**263,164**
TOTAL - EARMARKED RESERVES (REVENUE)	**9,001,510**	**698,014**	**-1,953,000**	**7,746,524**	**7,746,524**	**-80,810**	**7,665,714**	**7,665,714**	**-585,436**	**7,080,278**	**7,080,278**	**-468,266**	**6,612,012**	**6,612,012**	**-83,516**	**6,528,496**
EARMARKED RESERVES (CAPITAL)																
Capital Reserve (General)	1,021,855	-50,000	-147,000	824,855	824,855	-50,000	774,855	774,855	-50,000	724,855	724,855	-50,000	674,855	674,855	-50,000	624,855
Capital Reserve (District Investment)	8,968,401	-1,178,087	0	7,790,315	7,790,315	-4,528,000	3,262,315	3,262,315	-2,500,000	762,315	762,315	0	762,315	762,315	0	762,315
Capital Reserve (I Construct)	0	0	1,500,000	1,500,000	1,500,000	-1,500,000	0	0	0	0	0	0	0	0	0	0
Financial systems replacement	83,924	0	0	83,924	83,924	0	83,924	83,924	0	83,924	83,924	0	83,924	83,924	0	83,924
Vehicle and Plant replacement	223,126	-100,740	0	122,386	122,386	151,450	273,836	273,836	151,450	425,286	425,286	151,450	576,736	576,736	151,450	728,186
Discovery Centre All Weather Pitch	135,740	19,500	0	155,240	155,240	-155,240	0	0	0	0	0	0	0	0	0	0
Opportunity Purchase Fund	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Corporate Technology Requirements	253,334	0	0	253,334	253,334	-50,000	203,334	203,334	0	203,334	203,334	0	203,334	203,334	0	203,334
New Homes Bonus (Unallocated)	1,793,845	791,024	0	2,584,869	2,584,869	-172,609	2,412,260	2,412,260	-100,136	2,312,124	2,312,124	-516,848	1,795,276	1,795,276	-487,288	1,307,988
TOTAL - EARMARKED RESERVES (CAPITAL)	**12,480,225**	**-518,302**	**1,353,000**	**13,314,923**	**13,314,923**	**-6,304,399**	**7,010,524**	**7,010,524**	**-2,498,686**	**4,511,838**	**4,511,838**	**-415,398**	**4,096,440**	**4,096,440**	**-385,838**	**3,710,602**

Strategic Risk Register including Management Action Plans (where appropriate) **APPENDIX G**

Medium-Term Financial Strategy
Risk Rating B2 (C2 March 18)
Management Board Owner – Corporate Director (CF)

Vulnerability	Trigger	Consequence
The Council accepted the Government's offer of a four-year settlement (2016/17 to 2019/20). The provisional Settlement Funding Assessment (SFA) allocation to the Council for 2019/20 was received on 13th December 2018. The reduction between 2016/17 and 2019/20 is £1.36m, or 28.4% and includes the Council receiving no Revenue Support Grant in 2019/20. The New Homes Bonus scheme was changed for 2017/18 which results in local authorities receiving reduced allocations and the Government has announced that it is to review how housing delivery is incentivised after 2019/20. Whilst not using NHB to support revenue this does mean less money for investment in infrastructure and affordable homes across the District. Whilst Local Government has had some certainty over funding for this four-year period there is fundamental change to Local Government funding planned for 2020/21 as the Government proposes to introduce 75% Business Rates Retention and implement the outcomes of the Fair Funding Review and the Government's 2019 Spending Review which are currently in progress. There is also uncertainty over the impact of the UK leaving the European Union in 2019 on Local Government finances.	The Council's financial plans are adversely impacted by: • Circumstances change which render the planned cost reductions/additional income unachievable • Other financial assumptions prove incorrect. Including significant income budgets not being achieved e.g. interest receivable on £18m invested in equity, multi-asset and property funds. • Other organisations which provide significant contributions to the Council face their own funding pressures and may require greater reductions than expected. • Economic conditions and market fluctuations cause changes at or before contract renewal. • Capital receipts not received as planned and capital resources insufficient to finance capital programme. • Business rates collected less than expected due to successful appeals being greater than the provision made. • Business Rates baseline reset for 2020/21, as determined by the Fair Funding Review, does not enable the Council to retain business rates growth achieved prior to reset (estimate of £1.4m in 2019/20). • Future Spending Reviews and Autumn Statement(s) require further savings from local government.	• Shortfall in resources both in year and following years. • Financial savings are not achieved; balances used more than planned. • Priorities and projects are not delivered. • Cuts necessary to services • Rushed decisions to find other savings • Staff unsettled and de-motivated. • Assets not fit for purpose • Satisfaction levels with the Council fall • Section 114 notice issued by the Corporate Director (Finance) that it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure.

Action/controls already in place	Required management action/control	Responsibility for action	Critical success factors & KPI's	Review frequency	Key dates	Progress to-date
Robust budget review and setting process involving Management Board and Cabinet Members developed over a number of years Unallocated balances significantly exceed minimum level of £1.5m. Regular Budgetary Control and monitoring processes. Council policy to use New Homes Bonus to fund infrastructure project delivery and affordable homes. Utilised borrowed monies, of £6m, to fund investments (e.g. commercial property and solar panels) to achieve improved rate of return over the medium-term. Monitoring of investment counter-parties and returns on investments by Arlingclose, the Council's Treasury Management advisor.	Delivery against the workstreams contained in the Roadmap 2020. Monitor financial viability of key contract partners and commercial property tenants. Participate in consultation as proposals for the new 75% Business Rates Retention scheme and the Fair Funding Review are published. Monitor the disposal of assets against planned timescale for receipt of sale proceeds. Continue work on development of financial resilience indicators.	Corporate Director (CF)	Cost reductions and increased income delivered on time and as budgeted. Setting a balanced base budget and having plans to meet funding shortfalls in subsequent years of MTFS. Service and performance levels delivered as planned. Collection rates of council tax and business rates achieve planned levels. Budget variations reported in timely manner with explanation and action plan, as appropriate.	Monthly	Feb. 2019 – Full Council sets council tax and budgets for 2019/20	MTFS provided a balanced base budget for 2019/20 including a 2.99% increase in council tax up to £179.73 (Band D). For planning purposes council tax increases in future years are at the previous referendum threshold of 2% for 2020/21 onwards. Planned approach to addressing the estimated shortfalls in 2020/21 to 2022/23. Investment Strategy reviewed with maximum investment in equity and property funds increased to £20m. Member Strategic Investment Group established to consider all proposed investments. An Investment Evaluation Tool used to assess all investment opportunities.

Robustness of the Proposed 2018/19 Estimates and Adequacy of the Level of Reserves

1. Introduction

Under Section 25 of the Local Government Act 2003 the Council's Chief Financial Officer is required to report to the Council on:

- The robustness of the estimates made for the purposes of the budget requirement calculations, and
- The adequacy of the proposed financial reserves

The Council must have regard to this report when making decisions on the budget requirement calculations.

In addition, Sections 32 and 43 of the Local Government Finance Act 1992 also require authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the net budget requirement.

2. Robustness of the Proposed Budgets

The proposed budgets have been subject to detailed review, both at officer and Member level. Allowance has been made for any known additional demands, including provision for the second year of the two-year pay award agreed nationally in April 2018. Incremental progression has also been provided, where appropriate. Provisions have been made for inflationary factors across the services, including business rates, insurances, and interest rates payable and receivable, as detailed in the Medium Term Financial Strategy. Pension liabilities are included as determined by the results of the Triennial Review of the Essex Pension Fund. Where planned savings for 2019/20 and future years had previously been identified these have been reviewed and adjustments made where necessary. Allowance has been made for £205,320 of budget reductions and £865,600 of increased income following the detailed budget review process. Other provisions for increased costs or reduced income have been made where these are considered unavoidable or reflect past experience. Taking all these factors into consideration, together with the level of unallocated reserves, the budgets as proposed are considered to be robust.

However, the preparation of any budget for the future inevitably involves assumptions that may prove to be inaccurate. The potential risks are further detailed in this report when considering the adequacy of reserves.

3. Risk Management

Risk Registers are in operation, providing details of operational, strategic and project risks identified. For each risk identified there is: an assessment of likelihood of occurrence and impact; control measures in place; control measures proposed with timescale for implementation and accountability.

Strategic Risks have been identified by Management Board and validated by the Cabinet. The risks are normally reviewed twice per year to ensure that they remain current and that those with a high risk rating are being actively managed.

Individual risk registers are maintained for the major capital projects.

Identification and management of risks form an integral part of the business planning process with details of operational risks being identified and included in all business plans.

Reports to Committees include an assessment and consideration of the risks involved, as appropriate,

4. Adequacy of Reserves and Balances

Reserves can be held for three main purposes:-

- A working balance to help cushion the impact of uneven cash flow and avoid unnecessary temporary borrowing
- A contingency to cushion the impact of unexpected events or emergencies
- Earmarked reserves to meet known or predicted liabilities

The Medium Term Financial Strategy currently recommends that General Fund unallocated balances should not fall below £1.5million.

The unallocated General Fund balance as at 31st March 2018 was £2.286million. The budget for 2018/19 was based on an addition to balances of £228,072. The current projection of net expenditure in 2018/19 as reported in the Performance Monitor for Quarter 2 shows an expected increase in balances of £127,000. In December 2018, Full Council agreed to transfer a total of £600,000 back to the unallocated balance from two earmarked reserves that were no longer required for their original purpose.
In February 2017, the Council agreed to utilise £2.822million of the unallocated balance to provide temporary funding for the upfront payment of the pension deficit for the three years, 2017/18 to 2019/20, on 1st April 2017. The first repayment (£1.411million) to the unallocated balance was made in 2018/19.

Taking the above into account this will provide an unallocated balance of approximately £5.007million by the end of this year.

In addition, the proposed budget for 2019/20 provides for an addition to balances of £127,947, a result of actions that the Council has taken to help address the predicted revenue budget shortfalls over the medium-term.

In order to assess the adequacy of unallocated balances when setting the budget, the Council needs to take account of the strategic, operational and functional risks facing the Council.

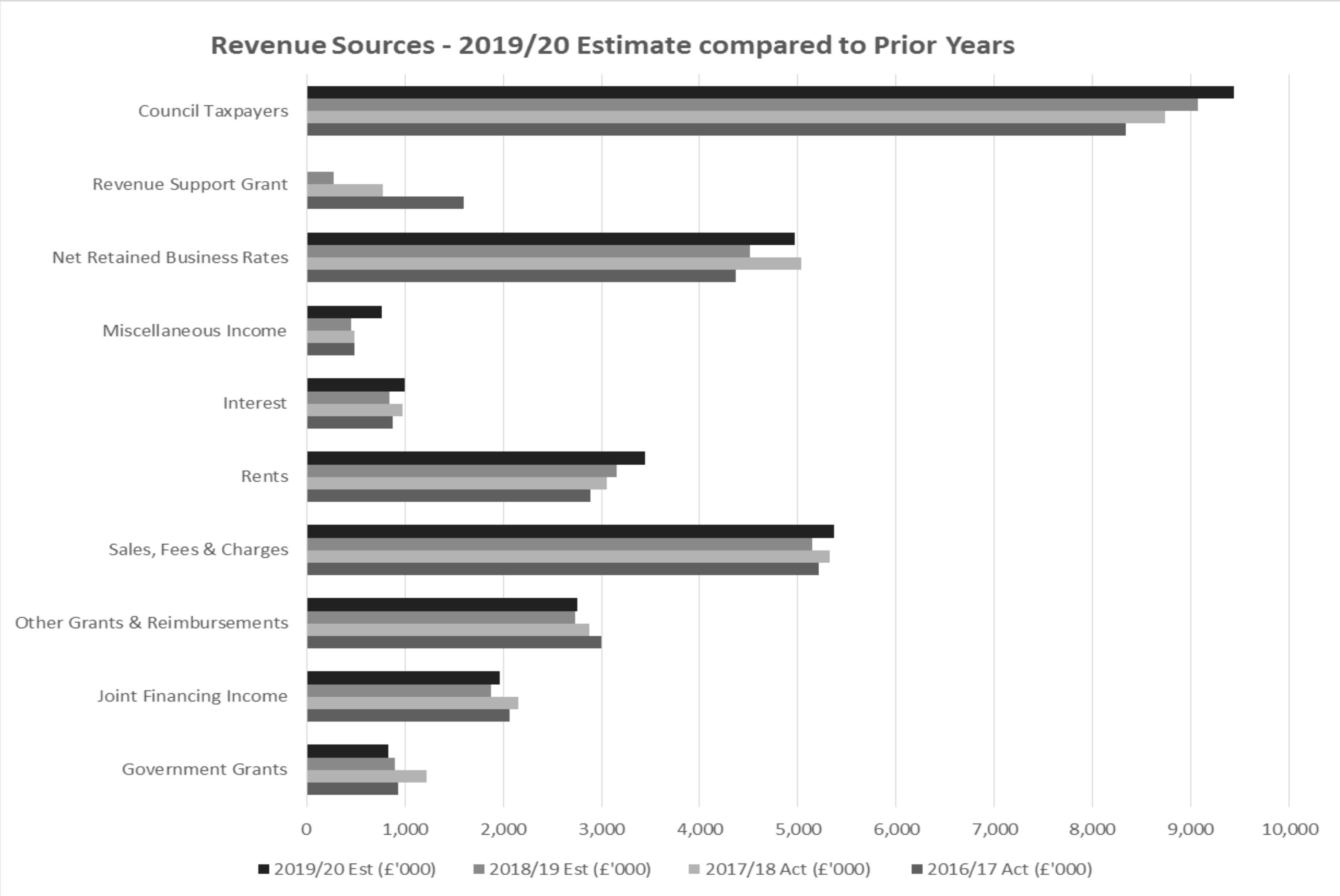
There is little guidance on what is considered to be an adequate level of balances, but the Chartered Institute of Public Finance Accountancy (CIPFA) states the following factors should be taken into account, when considering the overall level of reserves.

- Financial resilience of Revenue income
- Assumptions regarding inflation and interest rates
- Estimates of the level and timing of capital resources
- Treatment of demand led pressures
- Treatment of savings
- Risks inherent in any new partnerships and major capital developments
- Availability of other funds
- Financial standing of the Council (i.e. level of borrowing, debt outstanding)
- Track record in budget management
- Capacity to manage in year budget pressures
- Virement and year end procedures in relation to under and overspends
- The adequacy of insurance arrangements

Comments on each of these are detailed below:

5. <u>Financial Resilience of Revenue income</u>

The budget includes estimates of income from a variety of sources to finance the cost of delivering its services (£30.59million in 2019/20 excludes Housing Benefit subsidy). It is important to have an understanding of the level of reliance on each of these different sources. The chart below shows the revenue sources for 2019/20 with comparisons of actuals for 2016/17 and 2017/18 and original estimate for 2018/19:



The chart shows that council tax is the largest revenue source, £9.44million or 30.9%, and this is considered the most stable of the revenue sources. The second and third largest sources are sales, fees and charges (£5.37million or 17.6%) and Retained Business Rates (£4.96million or 16.3%). Fees and charges are relatively stable as the Council sets the majority of the levels and these are directly linked to service delivery. Retained business rates has also been a relatively stable source over recent years however the Government's proposed introduction of a 75% Business Rates Retention scheme for 2020/21 together with the resetting of the baseline and the expected loss of the element of growth currently retained means that approximately one third of this source is at risk. Whilst at this time, detail of the proposed scheme and the outcomes of the Fair Funding Review and 2019 Spending Review are unknown there will be consultation before implementation and also transitional arrangements have been promised to phase potentially large reductions over a number of years. Estimated rental income from property is £3.44million or 11.3%: these are received in accord with the terms of the leases. Other grants and reimbursements total £2.75million or 9%: the main items include recycling credits from Essex County Council under the Inter Authority Agreement and the recovery of housing benefit overpayments. Joint financing arrangements £1.96million or 6.4% includes arrangements with Essex County Council for a council tax sharing agreement and for the food waste collection service, the latter is also undertaken through the Inter Authority Agreement. Interest earned from investments is estimated to be £1million or 3.3% and whilst this is subject to fluctuations in the global equity and money markets a specific reserve (currently £799,399) is held to manage fluctuations in interest received against budget.

6. Treatment of Inflation and Interest Rates

The budget provides for the second year of the two year pay award agreed by the Employers Organisation in April 2018. Allowances for contractual inflation, business rate increases and inflation on specific budget heads have been made on the basis of consumer price indices increases and, where relevant, the advice of the Council's energy management advisors.

Changes to the levels of some of the Council's discretionary fees and charges are proposed following review. For some services the charge levels are being changed to reflect recovery of the cost of provision and others are to be increased in line with a forecast rate of increase in the Retail Price Index for 2019/20 of 2.4%. Planning Application fees were increased by 20% from 17th January 2018; this follows the Council's acceptance of the Government's offer to allow local authorities to increase the fees by 20% on condition that the increased resource is used only on planning functions.

Strategic investments totalling £18 million in a combination of equity, multi-asset and property Pooled Funds is estimated to yield an average return over the long-term of around 4.6% or £825,000 per annum, albeit returns (as well as market valuations) on these funds are likely to be more volatile over the short-term. The residual balance of cash for investment will comprise capital and revenue reserves earmarked for spending in the short-medium term, and in-year cash flows. Under the current interest rate environment these funds are estimated to yield a return of around 0.75% or £171,000 per annum as these funds will be concentrated in investments of relatively short periods, for example, call accounts, money market funds, and held with Lloyds Bank, the Council's banking services provider. The overall return expected on investments can be volatile due to both changes in financial markets but also variations in the level of cash balances from that anticipated. The Treasury Management earmarked reserve, however, provides a means of managing some of this volatility over the medium-term and retain some budget stability. The estimated balance on the reserve as at 31st March 2018 is £799,399.

7. Estimates of the Level and Timing of Capital Resources

The capital programme anticipates significant capital receipts from the disposal of surplus assets, residential properties built for sale, serviced commercial land and share of Right to Buy sale income. Each of these is subject to possible variation to either the estimated amount and/or timing of the receipt.

A negative variation from or a delay in the estimated sum receivable would not impact on the programme for 2019/20 due to capital receipts in hand and the levels of the Special Capital Reserve and New Homes Bonus Reserve. However, a reduction of the estimated receipts, if significant, would have an impact on the resources available for the programme in later years. In this instance, action would involve a review of the future programme and possible alternative funding options.

Significant capital receipts (£23.196million) are anticipated from sales in 2019/20 and 2020/21 which include land assembled for re-development to the east of High Street, Halstead, the former Bramston Sports Centre site, residential property on Manor Street Development and serviced plots of land on Horizon 120.

Capital resources also include Central Government grants, in particular, New Homes Bonus. There is no issue over the timing of receipt of this grant as the New Homes Bonus allocation for 2019/20 is to be paid by regular monthly instalment during the year. The majority of the New Homes Bonus received up to 31st March 2019 has been allocated to part fund the District Investment Strategy, for affordable housing, contributions for the development of the Garden Communities project, the Strategic Investment Team and as contributions toward costs of the local plan, economic development and project management. The Government has indicated that it will be consulting on the New Homes Bonus scheme after 2019/20 and whether the scheme is the best way of incentivising housing growth. The impact of any potential change will be limited for the Council as its financial plans do not anticipate future receipts of New Homes Bonus.

Capital resources and spend is monitored with reports; monthly to service managers; quarterly to Management Board and the Cabinet; and to the Cabinet Member for Efficiency and Resources, as necessary.

8. Treatment of Demand Led Pressures

Estimates are based on the latest budgetary information available, with changes made to the base estimates carried forward from 2018/19 as appropriate.

Housing Benefit costs represent a significant amount of demand led cost, albeit substantially funded from government subsidy. The costs and anticipated subsidy are monitored closely during the year.

The Local Council Tax Support scheme for 2019/20 will be presented for approval to the Full Council on 25th February 2019. No changes are proposed to be made to the scheme from that operating in 2018/19. The scheme is based on working age claimants paying a minimum amount of 24% of their council tax liability. The amount of support awarded to-date in the current year is approximately £90,000 less than budgeted. The estimated level of support to be awarded in 2019/20, of £7.104million, has been used in the calculation of the Council Taxbase. The amount of support awarded will be regularly monitored and if the level exceeds estimate then consideration may be given to changing the scheme criteria for 2020/21.

Business rates – a provision is included for a reduction in the amount of business rates collectable as a result of successful appeals against the Council's Valuation List. Part of the provision is an allowance for refunds of previous years' business rates, as appropriate, as a number of appeals are still outstanding against the 2010 Valuation List. The provision also covers anticipated appeals against the new Rating List following the 2017 Revaluation which was implemented from 1st April 2017. The estimated value of appeals on the 2017 Valuation List has been calculated at 2.5% based on local experience. Information is usually received from the Valuation Office Agency (VOA) on a monthly basis of the appeals against the 2010 List, decisions made and appeals outstanding. A new process (Check, Challenge and Appeal) for businesses to appeal against their rateable values was introduced for the 2017 List. Information is to be provided by the VOA on the Challenge element and by the Tribunal on the outcomes of the Appeals element. Information as and when received is used in the monitoring of business rates income and ultimately the amount of business rates retained by the Council.

The Council has agreed to participate, with fourteen other Essex authorities, in an Essex Business Rates Pool for 2019/20. This will enable growth in business rates to be retained by the Essex authorities, rather than be paid as a levy to the Government.

Based on initial estimates the Council's share could be around £646,000, however, as the amount will be not be finalised until after the year-end position for the Pool has been determined, no estimated share has been included in the Financial Profile.

9. Treatment of Planned Efficiency Savings

All posts included in the Council's staffing establishment are budgeted for; however, historically a financial allowance has been made to recognise staff turnover, vacancies and other staffing efficiencies. The allowance, to be achieved during the course of the year, was increased from £150,000 to £200,000 for 2018/19. The allowance is expected to be achieved in the current year and therefore the increased level has been retained for 2019/20. The position will continue to be closely monitored and reported to Members in the quarterly performance monitor report.

A procurement income target, to be achieved through rebates received from the use of the Hub's framework agreements, is included within the financial arrangements for the Essex Procurement Hub: which the Council runs on behalf of six Essex district councils. The use of the Hub's frameworks is demand led and up until the last couple of years the income target had been exceeded. However, with more frameworks being created by competitors the use of the Hub's frameworks and consequently rebate income has declined. A reserve created in the early years of the Hub has been reducing. It has therefore been agreed, with all of the Hub members, that a contribution is payable to cover the shortfall in rebate income and ultimately pay for the procurement service each member receives. The Hub membership will reduce from 1st April 2019 as Colchester BC has given notice. The Procurement Consultant currently responsible for this member will be transferred to Colchester BC under TUPE arrangements.

The MTFS includes for each year a schedule of planned savings and efficiencies. The delivery of the plans is monitored by means of the quarterly performance report to Members.

10. Risks Inherent in Partnership Arrangements, Capital Developments, etc.

The Council entered into a partnership arrangement with Fusion for leisure management in September 2012. The Council receives a net income per annum under the leisure management contract. The payment has been averaged across the term of the contract. The Council has funded the investment in the gymnasiums at Braintree Leisure Centre and Braintree Swimming Pool in return for a higher income stream from Fusion. The income from Fusion is provided in the financial profile.

The Council's partnership with Capita for ICT services ceased on 31st March 2017. The service was brought in-house with effect from 1st April 2017 and is being delivered within the budget provided.

The Council receives significant financial contributions, over £1.921million per annum, from Essex County Council (ECC), mainly in respect of Waste Management but also a Council Tax sharing arrangement and for the Community Transport service. The current agreements for the Council Tax sharing agreement and Community Transport cease on 31st March 2019 and 31st March 2020, respectively. A one-year extension has been agreed for the Council Tax sharing agreement for 2019/20.

The Council has agreed an ambitious Investment Strategy, of up to £100million, which is to be delivered over the next few years. This includes a redevelopment project in Braintree town centre, the purchase and development of employment land (Horizon 120), a proposed Housing Development Company to deliver homes on land currently owned by the Council (see detail below) and A120 access improvements. Funding has been identified with the majority to be by means of borrowing along with cash backed allocations from the New Homes Bonus and unallocated Balance. However, elements of some schemes proposed include a proportion of development costs being repaid from future sales therefore peak debt during the development period will be higher than the long-term borrowing requirement of the scheme.

The Council reduced the amount of space it needed to occupy at Causeway House, Braintree. The available space was initially rented to Essex County Council however it reduced its requirement in June 2017. New tenants have subsequently moved in and the building is now fully occupied with four tenants (3 private sector businesses and Essex County Council).

The proposed Capital Programme also provides for a number of projects/schemes including provision for disabled facility grants, works to a number of council owned properties and land, and a replacement all-weather pitch surface. Financing of these is mainly from capital receipts, as previously mentioned. The revenue account takes account of the consequential impact of the use of capital receipts.

The Council is currently working on two projects which would have significant cost and reward should either or both be agreed and undertaken:

The Council is working together with Colchester Borough Council, Tendring District Council and Essex County Council on the North Essex Garden Communities project. On 29th November 2016 the Cabinet considered a report which set out the mechanisms that would be needed should the Garden Communities developments be agreed and proposals whereby the Councils could take a much more direct approach to ensuring that the proposed Garden Communities are delivered and that they met the high standards expected of them. Based on the financial modelling undertaken to date, and assuming the participating local authorities are the only funders, this commitment of the Council would cover a potential peak debt requirement of up to £145million across the two garden communities within the Braintree District and overall financing requirement for a period of around 50 years. It will be open for the Council to consider a range of funding sources for its share of the funding commitment, which could include prudential borrowing. This will be subject to a detailed decision of the Council at the relevant time.

The Council has also allocated resources to develop a full business case relating to the establishment of a Housing Development Company (HDC). Initial indications suggest that the potential HDC programme would require funding of approximately £40million, together with the transfer of Council-owned land. It is expected that the business plan will propose that the Council on-lend to the HDC at a market interest rate, generating a return on financing.

The financial implications including borrowing requirements for these projects will be based on decisions yet to be taken by Full Council.

11. Availability of Other Funds

In addition to unallocated balances and capital receipts, the Council has a number of earmarked reserves set up for a number of reasons:

- To provide a source of capital funding;
- To manage risks;
- To provide medium term financial stability;
- To provide funds for efficiency reviews and “invest to save” schemes; and
- To fund service improvements without ongoing base budget implications.

Details of the balances and expected movements are shown in Section 18 of the main report.

12. Overall Financial Standing (Borrowing, Debt and Collection Rates)

The Council’s external debt consists of two loans totalling £6million at 31st March 2019. The average rate of interest payable on the debt is 4.7% for 2019/20. Variation of the rate of interest rests with the Lender. If the Lender requests an increase in the rate the Council can refuse and repay the loans. The Council can seek to negotiate repayment with the Lender. With interest rates expected to remain low for the foreseeable future it is unlikely that the lender will exercise their option. As such the Council agreed and entered into a variety of investment opportunities to achieve improved returns which will be used to offset the interest payable on the loans. The budgets of the income generated from the investments are shown net of the annual repayment of the principal sum used to finance the schemes.

The amount available for investment fluctuates during the course of the year, such that the Council's average investments are expected to be circa £40.75million during 2019/20; with estimated investments at the beginning of the year of £34million and £26million at the year end. Current projections show that the level of investments is expected to vary over the medium-term. However, this forecast is subject to a high degree of fluctuation as they depend on a complex mix of revenue and capital cash flows and levels of related balances and reserves. A total of £18million has been invested in Pooled Funds: within the limit of £20million set by Full Council. The balance of monies available for investment will be placed for relatively short periods in call accounts, money market funds or deposited with Lloyds Bank, the Council's banking services provider.

The Council Taxbase for 2018/19 was calculated with the allowance for variation set at 1.0% which allowed for a number of changes including the Local Council Tax Support scheme, reduced discounts on empty dwellings and for second homes. The estimated balance on the Council Tax Collection Fund as at 31st March 2019 is a positive balance of £888,833. This balance is to be returned to council taxpayers in 2019/20. After review it is considered appropriate to maintain the Council Taxbase allowance for 2019/20 at 1%.

The In-Year collection rates of Council Tax and Business Rates are expected to achieve the target for 2018/19 of 98.3% and 98.6%, respectively. Current year performance of both income sources is monitored and reported to the Cabinet Member for Finance and Performance on a monthly basis, Cabinet on a quarterly basis in the Performance monitoring report and to each meeting of the Governance Committee.

The collection of ground rents, leases, charges for services and housing benefit overpayments and other debts has improved in recent years as action has been taken to target recovery of longer term debts and prompt attention given to new debt raised. The balance outstanding on housing benefit overpayments has plateaued over the last year. A member of the Recovery team continues to focus on the recovery of this debt type. The level of debts outstanding is reported at each meeting of the Governance Committee.

The Financial Profile includes the provisional allocation of Business Rates Baseline for 2019/20; however, the Government is to introduce a change to the funding arrangements of local government for 2020/21 onwards. This proposes that 75% of business rates will be retained by local government. In addition the Government is undertaking a Fair Funding Review which will establish local authorities' needs and which will be reflected in the resetting of the Business Rates Baseline for 2020/21. The details of the new arrangements, how this will be shared and whether new responsibilities are imposed on local authorities, are yet to be agreed and as such the estimates provided in the Financial Profile continue to be based on the current business rate retention scheme. This introduces a high degree of uncertainty 2020/21 and subsequent years. The position will be kept under review and will be updated as the new arrangements are determined.

13. Track Record in Budget Management

The Council has consistently been commended by the external auditor for its sound financial management. The Annual Audit Letter for 2017/18 from Ernst & Young, the External Auditor, records that unqualified opinions were issued for both the financial statements and the value for money conclusions.

For many years the year-end outturn has been within approved budget levels. Expenditure budgets have generally been on target and whilst in the past some income budgets, particularly those demand led services, have proved difficult to achieve, more recently with the improving economic climate the Council has seen an upturn in a number of its major income streams. However, budgets continue to be closely monitored, with remedial action taken as appropriate, during the year and any ongoing impact, positive or negative, is taken into account when planning for the following year's budgets.

14. Capacity to Manage In-year Budget Pressures

All budgets are profiled across the year and budgetary information is supplied to managers seven working days after the end of the month. Full monitoring reports are produced each quarter with a projected outturn for the year. Where necessary the Council has shown in the past that it can apply appropriate controls on discretionary spending where in-year projections have forecast a shortfall to bring about corrective action on the budget.

15. Virement and Year End Procedures in Relation to Under and Overspends

The virement procedure, was reviewed and updated in December 2010, is detailed in the Constitution. A procedure of carrying forward underspends is in place, but only if there is a specific proposal and date for the delayed spend. Other underspends are added to balances. Overspends will be met from balances with reasons for the over spends being reported to the Cabinet. Following the determination of the financial outturn for a year, the current year's budgets are reviewed to assess whether any variances in the previous year's outturn are ongoing and will impact on those budgets. Budget adjustments are also made in year, as necessary, as a result of the quarterly financial monitoring reports.

16. Adequacy of Insurance Arrangements

All major identified risks are covered by insurance and minor risks could be met from the Insurance Fund. The level of cover is reviewed annually.

The Council arranged specific insurance following the housing stock transfer to cover risks associated with property title/ land searches and environmental pollution in relation to the land and property subject to the transfer.

Requests for Capital Funding 2019-20 **APPENDIX I**

Date Produced: 7th January 2019

	Portfolio	Project Description	Project Drivers	Project Achievements	Capital Cost (gross of external funding) 2019/20	2020/21	2021/22	2022/23	External Funding
1	Corporate Services & Asset Management	**IDOX Scanners** - Replace the main scanners used to input paper mail into the main IDOX repository	The current scanners were installed in May 2011. Although no problems have been reported with them, 8 years is considered to be a long time in the life of these scanners. There are 6 A3 scanners and 2 larger scanners used for scanning of large A0 plans (especially critical for the Planning teams). Scanner failures could result in queues for the working scanners and delay to input of the paper mail to IDOX.	Uninterrupted document scanning facility	40,000				
2	Corporate Services and Asset Management	**Computer Equipment** - Annual technology replacement programme.	Our hardware and software estate needs to be kept up to date to ensure that it can continue to be supported by our ICT service provider and continues to be fit for purpose.	Hardware and software that meets the needs of users and is up-to-date and secure.	40,000	40,000	40,000	40,000	
3	Corporate Services and Asset Management	**Planned Maintenance of Council Properties 2019/20**. The annual investment required to maintain those properties owned, leased and managed by the Council where the Council has a repairing obligation.	The Council reviews and updates the condition surveys relating to those properties where it has a repairing obligation by the 31st August each year. These surveys identify the priority planned maintenance works required to be carried out in following financial year. The identified investment is required to ensure that the Council's properties are maintained to a good standard to support service delivery and sustain or improve the physical condition, rental income and value of the asset.	• Sustain and improve the rental income achieved from the Council's property investment portfolio to support the delivery of Council services. Income levels can be compared year on year. • Ensure that income is maximised to help reduce the Council's revenue deficit and contribute to the corporate target to be financially self-sufficient by 2020. • Prevent the build-up of a significant level of backlog maintenance in the future which the Council may not be able to afford to fund. This could result in buildings deteriorating and not being fit for purpose, negatively impact on service delivery and lead to a loss of income.	425,000	425,000	425,000	425,000	

Requests for Capital Funding 2019-20 **APPENDIX I**

Date Produced: 7th January 2019

	Portfolio	Project Description	Project Drivers	Project Achievements	Capital Cost (gross of external funding) 2019/20	2020/21	2021/22	2022/23	External Funding
4	Planning & Housing	**IDOX Mobile Working Apps and IDOX Enterprise**. Procurement of the new IDOX Mobile Working Apps for Development Management and Planning Enforcement. Procurement of the IDOX Enterprise system for Development Management.	IDOX Mobile Working Apps and Tablets To enable case officers to undertake site visits (required for all planning applications, applications for listed building consent, and advertisement consent etc.) without having to take a paper file and copies of printed plans/documents on site. To enable officers to take notes, site photographs and annotate plans and documents while on site on a tablet, which can then be synched and uploaded to IDOX DMS on return to the office. To enable officers to attend pre-application meetings and Planning Committee with case files on a tablet, without having to rely on paper files and documents. IDOX Enterprise To automate the system to provide a workflow and performance management solution that enables the service to monitor and balance staff workload and performance to ensure key milestones and deadlines are met. To reduce the reliance on individual officer spreadsheets and paper files	• To improve the use of ICT within Development Management. • To improve efficiency and throughput of planning applications and reduce the cost and time spent on the production of paper files and documentation. • Enable the service to work towards paperless working and reduce the amount of paper files and the need to print plans and documentation to enable officers to undertake site visits. • To ensure processes and key milestones in the determination of planning applications are consistently achieved and if not that these are flagged to management at an early stage in the process. • To improve performance.	35,000				
5	Environment & Place	**Housing Renovation Grant**	A proposed minor change to the MHG process will increase the range of funding from heating and hot water systems to include unsafe electrics. This is part of a wider review of the housing grant policy. The current Landlord Grant is not being taken up so a revised grant may be offered following consultation with the Housing department. A request is therefore made to increase HRG from £60k to £100k.		100,000	100,000	100,000	100,000	

Requests for Capital Funding 2019-20 **APPENDIX I**

Date Produced: 7th January 2019

	Portfolio	Project Description	Project Drivers	Project Achievements	Capital Cost (gross of external funding) 2019/20	2020/21	2021/22	2022/23	External Funding
6	Environment & Place	**Disabled Facilities Grant** (Better Care Grant funded)	The Council has a legal duty to manage and provide disabled facilities grants in accordance with Part 1 of the Housing Grants, Construction and Regeneration Act 1996. The aim of the grant is to provide financial assistance to the applicant in order to provide suitable adaptations to their properties, as far as is practical, to meet their specific needs.	Ensure that there are sufficient funds to cover the increasing demand on the budget and ensure our residents have access to adaptations to their properties.	863,000	863,000	863,000	863,000	-£863,000 Better Care Fund p.a.
7	Environment & Place	**Footpath Resurfacing on Public Open Space**	Some existing paths and hard-standings at our public open spaces are currently in a condition which only meet the minimum standards for Health and Safety. It is anticipated that a cold winter with ice/snow would have a detrimental impact on these footways and therefore, repair/resurfacing work is required to prevent further deterioration.	The scheme will result in a better and safer environment for visitors to our Open Spaces, Sports Grounds and Cemeteries.	50,000	50,000	50,000		
8	Environment & Place	**Play Area Refurbishments**	The routine inspection carried out this year has identified the following sites for equipment upgrades and/or enhancement: 1. St. Mary's Road, Rivenhall (last refurbished in 1995); 2. Ashpole Road, Bocking (equipment installed in 2005); 3. Mill Chase, Halstead (last refurbishment in 2004); and 4. Clare Road, Braintree (part refurbished in 2004).	Play equipment and safety surfacing at the sites will comply with current National Playing Field Association standards and European Standards EN 1176 + EN 1177.	80,000				
9	Environment & Place	**Public Open Spaces** - provision of earth bunds/ditches in conjunction with fencing at the most vulnerable areas to deter and mitigate the risk of further unauthorised access being obtained.	During the summer of 2018, the fencing work at two prominent public open spaces were 'breached' and Section 61 notices served by Essex Police on the illegal encampments to move them on. In other cases action has been taken through Magistrates Courts which has taken time, causing inconvenience to local residents in nearby properties.	Greater security against illegal Traveller encampment. Reduction in property damage and clearing costs. Reduction in inconvenience and disruption for local residents.	50,000				

Requests for Capital Funding 2019-20 **APPENDIX I**

Date Produced: 7th January 2019

	Portfolio	Project Description	Project Drivers	Project Achievements	Capital Cost (gross of external funding) 2019/20	2020/21	2021/22	2022/23	External Funding
10	Environment & Place	**Replacement of park benches** at various locations	The Council owns and maintains a number of public benches throughout its formal parks, these benches have been in place for a number of years and have on more than one occasion been repaired and are now reaching the end of their life and require replacement.	To ensure the damaged/unrepairable benches are replaced to maintain facilities within the formal parks. To reduce any risk to injury to the general public who may be using the benches and claims against the council. To improve the image of the formal parks and the reputation of the council. To reduce the ongoing maintenance costs incurred with repairing older benches.	15,000				
11	Environment & Place	**Cemetery Memorial Repairs**. To commission structural surveys of memorials in our cemeteries and carryout repairs and/or dispose of unsafe structures as appropriate.	Compliance with H&S duty of care to the general public who visit our cemeteries.	Minimise the risk of personal injury claims	25,000				
12	Environment & Place	**Artificial Grass Pitch at Gt Notley Country Park**. Refurbishment of AGP at Gt Notley Country Park including replacement of the carpet.	The facility was opened in 2009 and the artificial pitch surface had a life expectancy of 10 years, which is due for replacement in 2019. Over the past nine years BDC has received a contribution from Great Notley Football Club of £1.5k pa and has contributed £18k annually to a reserve (sinking) fund to refurbish the AGP including the replace artificial surface. By March 2019 the reserve will stand at £155k.	To ensure the surface/accessories are in good condition for different sports organisations to use the facility and to comply with the various Clubs and League requirements.	155,000				-£155,000 Earmarked Reserve
13	Health & Communities	**Pool Pod**. Installation of a further pool pod at Witham Swimming pool.	Health & Safety and the various disabled groups making the most of the accessible features of Witham pool such as; Sport for Confidence, Disability access forum, Southview special school, Braintree District Mencap, Brainwave and Age UK.	Fusion will pay 50% of the cost as it will benefit their staff not having to keep moving the existing pool pod between the two pools.	24,000				-£12,000 Fusion contribution
14		Allowance for bids in future years				500,000	500,000	500,000	
				Totals	**1,902,000**	**1,978,000**	**1,978,000**	**1,928,000**	**- 1,030,000**

APPENDIX J

Draft Capital Strategy 2019/20

1. Introduction

1.1 The capital strategy provides a high-level overview of how capital expenditure, capital financing and treasury management activities contribute towards the Council's ability to provide local public services along with an overview of how the associated risks are managed and what the implications are for future financial sustainability.

1.2 The Council is required by legislation to comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities (the CIPFA Code) when assessing the affordability, prudence and sustainability of its capital investment plans.

1.3 Fundamental to the prudential framework is the requirement to set a number of indicators which collectively give Members an overview of the impact over time of the Council's capital expenditure plans upon its revenue budget, borrowings, and investments. These indicators are included in this strategy.

2. Capital Expenditure and Financing

2.1 Capital expenditure is where the Council spends money on assets which will give benefits for more than one year, such as land and property, vehicles and plant, computer systems, and other equipment. These may be held for either service delivery; rental to others; or for administrative purposes. Capital expenditure can also include spending by the Council on assets owned by other bodies but used by the Council for services, or by giving loans or grants to other third parties enabling them to buy or improve assets, e.g. via the Council's disabled facilities grant programme.

2.2 The Council has some limited discretion on what counts as capital expenditure, for example, assets costing below £10,000 are not capitalised and are charged to revenue in year. In certain circumstances the Council can capitalise interest costs on major investment projects, which would otherwise be charged to the General Fund revenue account. Details of the Council's policy on capitalisation can be found in the Statement of Accounts [here].

2.3 Over the medium-term the Council's planned capital expenditure is shown in the table below:

Table 1: Estimates of Capital Expenditure

	2017/18 Actual £m	2018/19 Forecast £m	2019/20 Forecast £m	2020/21 Forecast £m	2021/22 Forecast £m	2022/23 Forecast £m
Other Services	2.714	3.766	1.550	1.015	1.015	0.965
Housing	0.860	0.708	2.293	0.963	0.963	0.963
District Investment Strategy	1.010	8.370	26.291	13.614	0.935	3.563
Capital Salaries	0.268	0.207	0.207	0.207	0.207	0.207
Total	**4.852**	**13.051**	**30.341**	**15.799**	**3.120**	**5.698**

2.4 The above forecasts include projects both already approved, as well as some 'pipeline' schemes within the overall District Investment Strategy programme.

2.5 **Governance**: The Corporate Director (Section 151 Officer) is responsible for preparing the annual capital programme and medium-term forecasts. Service managers will prepare bids, supported by the necessary business case, for projects which they are proposing should be included. Bids are collated by the central finance team who calculate any associated financing. The Council's Management Board will appraise all bids based on a comparison of service priorities and make recommendations to the Cabinet. The final capital programme is presented to Full Council in February each year as part of the overall Budget and Medium Term Financial Strategy.

2.6 Changes may be made to the capital programme in-year following the decision making process set out in the Council's Financial Procedure Rules and related limits as set out in the Council's Constitution which is available on the Council's website [here].

2.7 All capital projects will have a nominated project sponsor and project manager. In-year monitoring of projects is undertaken via the Council's corporate performance monitoring and budgetary control processes, and reported on a quarterly basis to the Cabinet. For major projects officer and Member reference groups are established to oversee delivery.

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

Table 2: Capital financing

	2017/18 Actual £m	2018/19 Forecast £m	2019/20 Forecast £m	2020/21 Forecast £m	2021/22 Forecast £m	2022/23 Forecast £m
External sources	-1.555	-1.040	-2.375	-0.863	-0.863	-0.863
Own resources	-2.968	-5.702	-9.279	-14.936	-2.257	-4.835
Borrowing	-0.329	-6.309	-18.687			
Total	**-4.852**	**-13.051**	**-30.341**	**-15.799**	**-3.120**	**-5.698**

2.9 Borrowing is only a temporary source of finance, since loans (and leases) must be repaid, and this is therefore replaced over time by other financing. A number of the Council's major investment projects are expected to generate capital receipts from the sale of serviced land and dwellings, which it is planned to use to repay related debt. Any other borrowing will need to be financed by an annual charge to the General Fund revenue account, referred to as Minimum Revenue Provision (MRP).

2.10 Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of debt finance

	2017/18 Actual £m	2018/19 Forecast £m	2019/20 Forecast £m	2020/21 Forecast £m	2021/22 Forecast £m	2022/23 Forecast £m
Capital receipts				-2.755	-4.684	-2.354
Annual MRP	-0.329	-0.379	-0.382	-0.417	-0.666	-0.667
Annual lease payments	-0.340	-0.355	-0.308	-0.219	-0.063	-0.004
Total Own Resources applied	**-0.669**	**-0.734**	**-0.690**	**-3.391**	**-5.413**	**-3.025**

2.11 In accordance with statutory guidance, the Council is required to determine its policy for MRP which it considers meets the requirement to provide for debt on a prudent basis. Where MRP is required the Council's policy is to set aside a sum based on a period which is commensurate with that for which the related capital expenditure provides benefit. MRP may not be provided where assets are acquired or developed for sale, as the future capital receipt will be available to finance the related debt. A full policy statement is included within the Council's overall budget setting report, considered and approved annually by Full Council in February [here].

2.12 The Council's underlying need to borrow for past capital expenditure is measured by the Capital Financing Requirement (CFR), a balance sheet derived indicator. The CFR increases when the Council incurs capital spending which it does not finance from its own resources or is not met by some form of external support (e.g. grants and contributions), and reduces as MRP and/ or capital receipts are set aside to replace debt. Based on the above figures for expenditure and financing, the Council's estimated CFR is expected to increase over the medium term as follows:

Table 4: Estimates of Capital Financing Requirement

	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	31.3.23 Forecast £m
Capital Financing Requirement (CFR)	**8.79**	**12.37**	**30.36**	**26.97**	**21.56**	**18.53**

2.13 The table above makes provision for borrowing to fund elements of the Council's District Investment Strategy to the extent schemes have been formally approved or pipeline schemes have been developed with sufficient detail to provide an estimate of likely future borrowing needs. However, as some schemes are still evolving and are based on a number of key assumptions, future forecasts could be subject to significant change.

2.14 **Asset management:** To ensure that capital assets continue to be of long-term use, the Council has in place an asset management strategy which seeks to ensure that the Council's property will support its overall corporate strategy and key priorities, which has developed into the following property objectives:

- Assets must be fit for purpose meeting the needs of those that use them, whether service providers or users;
- Assets must be affordable, which includes sharing their use with other organisations wherever appropriate;
- Commercial assets should generate revenue income that can be used to support the Council's wider service delivery;
- Assets must be safe and comply with the law

- Assets must be sustainable, and running costs should be minimised; and
- Assets that are no longer required by the Council should realise capital receipts which can then be re-invested by the Council.

2.15 **Planned Maintenance**: The Council keeps under review the planned maintenance requirements for all its property through commissioning of regular condition surveys. The annual survey provides the focus for the forthcoming capital programme for which a recurring provision of £425,000 per annum is currently included over the medium-term. Exceptional spending requirements that cannot be met from this annual provision will be subject to a separate business case and needs assessment.

2.16 **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 used to repay debt. Repayments of capital grants, loans and certain investments also generate capital receipts, as well as arrangements in place with Greenfields Community Housing for sharing right-to-buy receipts and VAT savings on specified development works. The table below shows anticipated capital receipts over the medium term:

Table 5: Capital receipts

	2017/18 Actual £m	**2018/19 Forecast £m**	**2019/20 Forecast £m**	**2020/21 Forecast £m**	**2021/22 Forecast £m**	**2022/23 Forecast £m**
Asset sales	0.000	0.136	4.253	2.291	0.000	0.000
Asset sales (District Investment)	0.000	0.000	0.723	13.869	5.619	5.918
Housing transfer further receipts	2.459	3.250	1.000	1.000	1.000	1.000
Grants and loans repaid	0.054	0.047	0.030	0.030	0.030	0.030
Total	**2.513**	**3.433**	**6.006**	**17.190**	**6.649**	**6.948**

2.17 The table above includes a number of potential asset sales which, whilst contracts have been exchanged, are still subject to the purchaser gaining satisfactory planning consents and therefore there remains risks over the exact timing of receipts being received. Assets derived from District Investment are based on “develop for sale” assets, which may during the progress of schemes switch to alternative long-term rental opportunities. In these circumstances the Council would not realise a capital receipt, which if being used to repay debt would trigger annual financing charges, including MRP, which would need to be covered by the rental income to avoid any negative impact on the General Fund revenue account.

3. Treasury Management

3.1 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 typically has higher cash balances in the short-term as revenue income (including local taxes collected) is received before it is spent or paid to the major precepting bodies, coupled with sums held in relation to reserves and balances. The Council's investment plans anticipate future new borrowing to provide cash for its longer term capital expenditure. In the meantime revenue cash surpluses can be offset against capital cash shortfalls to both reduce and defer the overall borrowing requirement and reduce investment risks (referred to as 'internal borrowing').

3.2 The Council currently has £6million of outstanding external borrowing at an average interest rate of 4.70% and is estimating in the current financial year an average investment balance in excess of £50million of treasury investments earning an average rate of circa 2%.

3.3 **Borrowing strategy:** The Council's main objectives when borrowing will be 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 will need to strike a balance between cheap short-term loans and long-term fixed rate loans where the future cost is known but is higher.

3.4 Projected levels of the Council's total outstanding debt (which comprises borrowing, and leases are shown below, compared with the CFR (see above).

Table 6: Gross Debt and the Capital Financing Requirement

	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	31.3.23 Forecast £m
Debt (incl. leases)	-9.86	-8.51	-20.36	-20.47	-20.12	-19.84
CFR	8.79	12.37	30.36	26.97	21.56	18.53
Internal (-over) borrowing	**-1.07**	**3.86**	**10.01**	**6.50**	**1.43**	**-1.30**

3.5 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 requirement over the medium term. Currently debt is higher than the CFR due to legacy borrowing incurred in 2002, at a time when borrowing was commonly used to fund the capital programme, particularly spending on the stock of social housing dwellings held at that time.

3.6 **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 required. This assumes that cash and investment balances are kept to a minimum level of £10m at each year-end, to maintain liquidity. The following table shows the liability benchmark for 2019/20 and medium-term

Table 7: Borrowing and the Liability Benchmark

		31.3.20 Forecast £m	**31.3.21 Forecast £m**	**31.3.22 Forecast £m**	**31.3.23 Forecast £m**
Borrowing	[redacted]	18.16	18.49	18.21	17.92
Liability benchmark		2.21	2.63	-3.23	-7.08
Difference		**15.95**	**15.87**	**21.44**	**25.00**

3.7 The table above shows that the Council expects to remain borrowed above its liability benchmark. This is because a deliberate decision has been made to borrow at a time when interest rates are expected to remain low so as to secure cost certainty over the long-term financing requirement of some of the Council's major investments where it expects to generate, similarly, long-term commercial rent streams.

3.8 **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: Authorised limit and operational boundary for external debt

		2018/19 Limit	2019/20 Limit	2020/21 Limit	2021/22 Limit	2022/23 Limit
Authorised Limit	[redacted]	25.00	50.00	50.00	50.00	50.00
Operational Boundary	[redacted]	11.00	35.00	35.00	35.00	35.00

3.9 Further details on borrowing are in the Treasury Management Strategy Statement.

3.10 The Limits set above take account a number of the Council's major investment projects; however, no allowance has been made for borrowing to on-lend to a potential housing development company. In the event that the Council establishes a company a revision to the above limits will be required and which will be detailed in a future report to the Full Council.

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

3.12 The Council's policy on treasury investments is to prioritise security and liquidity over yield and 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 the longer-term, for example because it represents the Council's reserves and balances, is invested more widely in a mix of pooled funds (property, equity, diversified) 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.

Table 8: Treasury management investments

	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	31.3.23 Forecast £m
Near-term investments	25.34	16.43	7.95	7.87	13.44	17.00
Longer-term investments	16.00	18.00	18.00	18.00	18.00	18.00
Total Investments	**41.34**	**34.43**	**25.95**	**25.87**	**31.44**	**35.00**

3.13 Further details on treasury investments are set out in the Treasury Management Strategy Statement.

3.14 **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Corporate Director (Finance) and staff, who must act in line with the treasury management strategy approved by Full Council. A monthly report is made to Finance Management and the Cabinet Member for Finance and Performance. Details of treasury management activities is presented to the Governance Committee as part of a suite of key financial indicators; and also reported in the Council's Quarterly Performance report to Cabinet. The Governance Committee is responsible for scrutinising the treasury management policy and strategies.

4. <u>Investments for Service Purposes</u>

4.1 The Council occasionally lends money to third parties to support particular service objectives and/ or stimulate local economic growth. Such loans are made on terms that require repayment with an agreed interest rate, reflecting the circumstances of the loan and third party involved. Where possible, security for a loan will be sought, e.g. mortgage or charge over assets. Whilst the Council established a Business Growth Loan fund in 2015, to date only one loan has been advanced under this scheme and which is due to be repaid in 2019/20. Following changes in accounting rules, the funds set aside for the Business Growth Loan Fund have been transferred back to the unallocated General Fund balance as agreed by Full Council on 10 December 2018. For any loans advanced in the future, the Council will need to recognise immediately an impairment provision based on the 'expected loss' model of accounting.

4.2 **Governance:** Decisions on service investments are made by the relevant service manager in consultation with the Corporate Director (Finance) and relevant Cabinet Member(s), and must meet the criteria and limits laid down in the loan scheme and/ or Council's investment strategy.

4.3 Further details on service investments are detailed in the Investment Strategy.

5. <u>Commercial Activities</u>

5.1 The Council has for many years invested in property, but with central government financial support for local public services declining, the Council has sought over recent years to adopt a more commercial approach to protect front line services by maximising the potential to generate income. This has included looking at opportunities to build a stronger commercial property portfolio.

5.2 In May 2016, the Cabinet approved a District Investment Strategy to provide the necessary infrastructure and investment across the District to support the level of anticipated growth. Since then the Council has embarked on an ambitious programme exploring a wide range of commercial and housing related projects which has culminated in the Council's launch of a £100 million investment plan targeted at four key themes: health, homes, journey and jobs. The overriding objective is to bring about significant benefits to residents and businesses, but also where possible generate income to the Council.

5.3 Property held purely for investment were valued at £34.367 million at 31 March 2018, and generated an overall return of around 6%. The portfolio consists of industrial land and units, offices, shops, and health facilities.

5.4 With financial return being the main objective, the Council accepts higher risk on these commercial investments than with treasury investments. Revenue income could be put at risk through voids/ lease renewals, as well as from tenant default through non-payment and/ or bankruptcy or insolvency. It is quite common for businesses to approach landlords in times of business difficulties to seek to agree changes in rent levels. The majority of the Council's investment property portfolio has been financed in the past and therefore there is no specific outstanding debt which would need to be financed in the event of a reduction in rental income. However, this income is taken into account by the Council for budget setting and therefore fluctuations will have an impact on the revenue account.

5.5 The capital value of the investment portfolio is assessed annually by an external professional valuer as part of the year-end accounting process. Such valuations are also subject to independent review by the external auditor. Capital values can fall as well as rise, and will be influenced by many external factors, although such fluctuations will not have a direct impact on lease rentals. The Council's intention over recent years has been to retain investment assets and therefore a drop in capital value is not an immediate problem. By maintaining a fairly diversified portfolio this helps to manage the inherent risks.

5.6 However, as the Council's normal intention is to hold such assets for the long-term, these fluctuations in market values do not have an immediate impact on the Council's finances and will not effect rent levels.

5.7 **Governance:** Decisions on commercial investments are made in accordance with the Council's normal financial procedures and limits. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme.

5.8 Further details on commercial investments and limits on their use are in the Investment Strategy.

6. Liabilities

6.1 In addition to the Council's liabilities for debt as detailed above, the Council is also committed to making future payments to cover its pension fund deficit (last valued at £14.457million at 31 March 2016).

6.2 The Council has contingent liabilities relating to guarantees given for pension fund admissions for the leisure management contract and museum service. The risk of these liabilities being called is considered relatively low and therefore the Council has not set aside any specific financial provision.

6.3 Provision has been made to cover the risk associated with outstanding business rate appeals. At 31 March 2018 a sum of £2.695million was set aside, of which £1.078million is the Council's share, with the balance held on behalf of the government and major precepting bodies.

6.4 **Governance:** Decisions on incurring new discretional liabilities are taken as part of any business case approved in accordance with the Council's decision making process. The risk of liabilities crystallising and requiring payment is monitored by the finance team.

6.5 Further details on liabilities and guarantees can be found in the Council's Statement of Accounts [here]

7. Revenue Budget Implications

7.1 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 9: Proportion of financing costs to net revenue stream

	2017/18 Actual £m	**2018/19 Forecast £m**	**2019/20 Forecast £m**	**2020/21 Forecast £m**	**2021/22 Forecast £m**	**2022/23 Forecast £m**
Financing costs	0.265	0.164	0.086	0.136	0.517	0.366
Proportion of net revenue stream	1.84%	1.11%	0.59%	0.92%	3.41%	2.34%

7.2 Whilst the above table shows that after an initial drop, the proportion of financing cost is forecast to increase in the last two years of planning horizon. This increase will, however, be offset by commercial rental income which the underlying assets are expected to generate.

7.3 **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 40 years into the future.

7.4 All major capital projects are subject to a detailed financial appraisal informed by the Council’s in-house Strategic Investment Team and other professional services, supported by external specialists. The Council maintains a rolling Medium Term Financial Strategy, which includes plans to meet future funding shortfalls. Balances and reserves continue to remain significant, and a number of reserves exist specifically to manage risks and provide medium-term financial stability. Capital resources are regularly reviewed with close monitoring undertaken of progress on achieving asset sales against the planned timescales for receipt of proceeds. Where projects anticipate future borrowing the project appraisal will ensure that sufficient resources are generated from sources that have a strong covenant to meet the ongoing revenue financing costs. Sensitivity analysis is undertaken to ‘stress test’ key project variables, and all major projects include pre-defined trigger points/ milestones that require certain conditions to be met before any further progress and financial commitment can be made.

7.5 On the basis of the above, the Corporate Director (Finance) is satisfied that the proposed capital programme is prudent, affordable and sustainable.

8. Knowledge and Skills

8.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.

8.2 To ensure the Council can deliver its ambitious District Investment Strategy, the Council is introducing a permanent structure to its Strategic Investment Team, including a Head of Strategic Investment, supported by a number of project directors and managers, drawn from the development sector (both private and public).

8.3 Where specialist knowledge and skills are still required, use will continue to be made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers, and will engage appropriate expert advisors for its commercial activities. This approach is more cost effective than employing all such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

8.4 The Council actively promotes training and development of all its staff. This is reinforced by the mandatory requirement for continuing professional development amongst those qualified members of staff involved in the Council's capital, commercial investments, and treasury management activities.

8.5 The Corporate Director (Finance) will ensure that elected members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

8.6 Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively. The Governance Committee undertake an annual self-assessment which is aimed at measuring their effectiveness and from which any future training needs are identified.

8.7 The Council also has a Member Development Group (a sub-committee of the Cabinet), which is responsible for leading, managing and reviewing elected Member development for the organisation, including identifying the appropriate training required as relevant to the various roles undertaken by Members.

APPENDIX K

Treasury Management Strategy Statement 2019/20

1. Introduction

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

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

1.3. Investments held for service purposes or for commercial profit are considered in the Council's Investment Strategy (which will form part of the Council's overall budget report for 2019/20).

2. Treasury Management Policy and Practices

2.1. The CIPFA Code recommends that all public service organisations maintains a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities. The following statements set out the Council's policy:

- The Council defines its treasury management activities as the management of its investments and cash flows, its banking, money market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

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

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

2.2. The manner in which the Council will seek to achieve its policies and objectives for treasury management are set out in a number of Treasury Management Practices (TMPs), along with supporting schedules – see **Appendix A** for a list of TMPs that are currently maintained by the In-house treasury management team.

3. External Context

3.1. **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 Council's treasury management strategy for 2019/20.

3.2. UK Consumer Price Inflation (CPI) for October was up 2.4% year/year, slightly below the consensus forecast and broadly in line with the Bank of England's (BoE) November Inflation Report. The most recent labour market data for October 2018 showed the unemployment rate edged up slightly to 4.1% while the employment rate of 75.7% was the joint highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.3% as wages continue to rise steadily and provide some pull on general inflation. Adjusted for inflation, real wages grew by 1.0%, a level still likely to have little effect on consumer spending.

3.3. The rise in quarterly Gross Domestic Product (GDP) growth to 0.6% in Q3 from 0.4% in the previous quarter was due to weather-related factors boosting overall household consumption and construction activity over the summer following the weather-related weakness in Q1. At 1.5%, annual GDP growth continues to remain below trend. Looking ahead, the BoE, in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK's exit from the EU is relatively smooth.

3.4. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy has been made since. However, the Bank expects that should the economy continue to evolve in line with its November forecast, further increases in Bank Rate will be required to return inflation to the 2% target. The Monetary Policy Committee continues to reiterate that any further increases will be at a gradual pace and limited in extent.

3.5. While US growth has slowed over 2018, the economy continues to perform robustly. The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the current 2.25%-2.50% in December. The Fed stated the strength of the US economy, expected to grow 3% in 2018 ,justified the increase and that any future increases would come at a slower pace given concerns over slowing global growth.

3.6. **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.

3.7. The Bank of England released its latest report on bank stress testing, illustrating that all entities included in the analysis were deemed to have passed the test once the levels of capital and potential mitigating actions presumed to be taken by management were factored in. The BoE did not require any bank to raise additional capital.

3.8. 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.

3.9. The European Commission announced in December a series of temporary measures it has started to implement in case the UK leaves the EU without a plan. The measures are aimed at limiting disruption in some key areas, such as finance, with some financial services regulations being recognised as equivalent to the EU’s for one to two years.

3.10. **Interest rate forecast:** Following the increase in Bank Rate to 0.75% in August 2018, the Council’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.

3.11. 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. The possibility of a "no deal" Brexit still hangs over economic activity and as such, the risks to the interest rate forecast are considered firmly to the downside.

3.12. 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 1.7% and 2.2% respectively over the interest rate forecast horizon, however volatility arising from both economic and political events are likely to continue to offer borrowing opportunities.

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

3.14. For the purpose of setting the budget, it has been assumed that new short-term investments will be made at an average rate of 0.75%. The Council is currently using a project rate of 2.9% where new long-term borrowing may be implied.

4. Local Context

4.1. The following table shows the actual and forecast balances derived from the Council's Balance Sheet that relate to its treasury management activities:

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	31.3.23 Forecast £m
Capital Financing Requirement (CFR)	**8.79**	**12.37**	**30.36**	**26.97**	**21.56**	**18.53**
Less: Other debt liabilities	-3.86	-2.51	-2.20	-1.98	-1.92	-1.91
Loan CFR	**4.93**	**9.86**	**28.17**	**24.99**	**19.64**	**16.62**
Less: External borrowing	-6.00	-6.00	-18.16	-18.49	-18.21	-17.92
Internal (-Over) Borrowing	**-1.07**	**3.86**	**10.01**	**6.50**	**1.43**	**-1.30**
Less: Usable reserves	-38.16	-39.58	-37.97	-34.06	-34.25	-34.73
Less: Working capital	-2.11	1.31	2.01	1.69	1.37	1.03
Investments	**41.34**	**34.42**	**25.95**	**25.87**	**31.44**	**35.00**

4.2. 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 Council has an increasing CFR due to its capital programme, which it is currently expecting to meet in part by increased external borrowing over the forecast period. However, this strategy is supplemented by keeping external borrowing and investments below their underlying levels, by also using what is referred to as ‘internal borrowing’. The main advantage of this strategy is that it lowers exposure to external debt, and at the same time, lowers investment risks, including counterparty risk, supporting the principle that security is the primary objective. However, no strategy is risk free, and internal borrowing can only be a temporary arrangement as at some time in the future the cash being used will be required. This approach is based on the expectation that capital receipts will be generated from a number of major projects which will then be used to finance the expenditure incurred. The risk is that should the capital receipts not be realised, the Council could be forced to borrow at a time which is less favourable to current conditions.

4.3. CIPFA’s *Prudential Code for Capital Finance in Local Authorities* recommends that the Council’s total debt should be lower than its highest forecast CFR over the next three years. Table 1 confirms that the Council expects to comply with this recommendation.

4.4. **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 future borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £10million at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 2: Liability benchmark

		31.3.20 Forecast £m	31.3.21 Forecast £m	31.3.22 Forecast £m	31.3.23 Forecast £m
Loan CFR	[redacted]	**28.17**	**24.99**	**19.64**	**16.62**
Less: Usable reserves	[redacted]	-37.97	-34.06	-34.25	-34.73
Less: Working capital	[redacted]	2.01	1.69	1.37	1.03
Plus: minimum investments	[redacted]	10.00	10.00	10.00	10.00
Liability Benchmark	[redacted]	**2.21**	**2.63**	**-3.23**	**-7.08**

4.5. This approach would minimise the level of external borrowing required over the medium-term, but would require the Council to reduce its strategic investments in pooled funds (currently £18million is invested), which in turn would have a negative impact on the revenue account.

4.6. The Corporate Director (Finance) will, within the limits approved by Council, have flexibility to adjust the balance between borrowing and investments to respond to changing circumstances.

5. Borrowing Strategy

5.1. The Council currently holds £6million of legacy debt incurred in March 2002, with a maturity date of March 2042, subject to lender options (see below). The balance sheet forecast in table 1 shows that the Council expects to increase its borrowing in 2019/20 and over the medium-term as it undertakes major capital investment. The Council may also borrow additional sums in any year to pre-fund future years' financing requirements, providing this does not exceed the authorised limit for borrowing.

5.2. **Objectives:** The Council's chief objective will be to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

5.3. **Strategy:** The Council's future borrowing strategy will 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.

5.4. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council 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. This approach will be taken in the context that for the Council's investment programme a finance project rate of 2.9% has been assumed.

5.5. Alternatively, the Council 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.

5.6. **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

5.7. **Other sources of debt finance:** In addition, capital finance may be raised by the leasing (or other similar financing) which is not classed as borrowing but treated as other debt liabilities.

5.8. **LOBOs:** The Council's current external borrowing is in the form of two loans of £3million each on LOBO (Lender's Option, Borrower's Option) terms, where the lender has six-monthly options to propose an increase in the interest rate, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. Whilst the Council understands that the lender is unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Currently it is not anticipated that any future borrowing will be on LOBO terms.

5.9. **Short-term and variable rate loans**: Whilst these may be used as part of any future borrowing, these loans leave the Council exposed to the risk of short-term interest rate rises and will therefore be subject to exposure limits reflected in a future financing strategy.

5.10. **Debt rescheduling:** The lender of the LOBOs may be prepared to negotiate premature redemption terms. The Council may take advantage of this where this is expected to lead to an overall cost saving and/ or a reduction in risk.

6. Investment Strategy

6.1. The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the current year, the Council's investment balances are expected to average around £55million. In the medium-term these levels are expected to reduce as the Council implements its capital investment plans, with the annual average reducing to around £40million.

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

6.3. **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.

6.4. **Strategy:** Given the risk and very low returns from short-term unsecured bank investments, the Council will maintain its diversification towards higher yielding asset classes through longer-term investments. A portion of the Council's surplus cash will continue to be invested in short-term unsecured bank deposits, money market funds (MMFs), loans to other local authorities, and the UK Government via the Debt Management Office.

6.5. **IFRS9 Business model:** Under the new International Financial Reporting Standard (IFRS) 9, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, these investments will continue to be accounted for at amortised cost.

6.6. IFRS9 also requires the Council to account for changes in the fair value of its pooled fund investments, the result of which could have been to introduce significant volatility into the Council's budget setting. However, in November 2018, the Government issued regulations which will provide a statutory override mitigating the impact on the General Fund revenue account. These regulations will apply for a period of five years commencing from 1 April 2018.

6.7. **Approved counterparties:** The Council 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

Counterparty or Credit Rating	**Financial Institutions: Unsecured**	**Financial Institutions: Secured**	**Government**	**Registered Providers (Housing)**
UK Government			£ unlimited 50 years	
UK Local Authorities			£5m per authority	

<table>
<tr><th>Counterparty or Credit Rating</th><th>Financial Institutions: Unsecured</th><th>Financial Institutions: Secured</th><th>Government</th><th>Registered Providers (Housing)</th></tr>
<tr><td></td><td></td><td></td><td>5 years</td><td></td></tr>
<tr><td>Supranational bodies with rating of at least AA+</td><td></td><td></td><td>£5m per body
25 years</td><td></td></tr>
<tr><td>AA+ or AAA</td><td>£3m
5 years</td><td>£5m
10 years</td><td></td><td rowspan="6">£5m
5 years</td></tr>
<tr><td>AA- or AA</td><td>£3m
3 years</td><td>£5m
4 years</td><td></td></tr>
<tr><td>A+</td><td>£3m
2 years</td><td>£5m
3 years</td><td></td></tr>
<tr><td>A</td><td>£3m
13 months</td><td>£5m
2 years</td><td></td></tr>
<tr><td>A-</td><td>£3m
6 months</td><td>£4m
2 years</td><td></td></tr>
<tr><td>Unrated Building Societies</td><td>£1m
6 months</td><td></td><td></td></tr>
<tr><td>MMFs, Pooled Funds, and Real Estate Investment Funds</td><td colspan="4">£5m per fund</td></tr>
</table>

This table must be read in conjunction with the notes below

6.8. **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.

6.9. **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.

6.10. **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.

6.11. **Government:** Loans, bonds and bills issued or guaranteed by the UK Government 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. Also includes lending to other UK local authorities.

6.12. **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 and as providers of public services, they retain the likelihood of receiving government support if needed.

6.13. **Money Market Funds/ Pooled funds:** Shares or units in diversified investment vehicles consisting of any of the above investment types, plus for some funds, 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.

6.14. **Bond, equity and property funds** offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. 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 Council's investment objectives will be monitored regularly.

6.15. **Real estate investment trusts (REITs):** 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.

6.16. **Operational bank accounts:** The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore normally be kept at/ around £1 million (net); although for specific cash flow purposes higher balances maybe held for short periods. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

6.17. **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Council'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.

6.18. 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 at short notice 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.

6.19. **Other information on the security of investments**: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management 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.

6.20. In the event of deteriorating financial market conditions which is affecting the creditworthiness of all organisations that is not reflected in credit ratings, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, 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.

6.21. **Investment limits**: The Council's revenue reserves available to cover investment losses are forecast to be circa £26 million on 31st March 2019. To protect the impact on these reserves in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5 million. A group of banks under the same ownership will be treated as a single organisation. Limits will also be placed on fund managers, foreign countries and industry sectors as shown in the table below.

Table 4: Investment limits

	Cash limit
Any single organisation/ fund, except the UK Central Government	£5m each
UK Central Government	unlimited
Any group of pooled funds under the same management organisation	£10m per manager
Pooled funds (held for the long-term)	£20m in total
Foreign countries (if not via pooled/ money market fund)	£5m per country
Registered providers and registered social landlords	£5m in total
Unsecured investments with building societies	£5m in total
Money market funds	£25m in total
Real estate investment trusts	£5m in total

6.22. **Liquidity management**: The Council prepares a medium-term cash flow forecast to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council’s medium-term financial plan and cash flow forecast. A detailed in-year cash flow statement is maintained to manage short-term liquidity.

7. Treasury Management Indicators

7.1. Exposure to treasury management risks is measured and managed using the following indicators.

7.2. **Security:** Exposure to credit risk is measured by monitoring the value-weighted average credit rating of the 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. The target average credit rating adopted is to aim to maintain the Council’s portfolio at an overall rating of at least A.

7.3. **Interest rate exposures**: This indicator is set to control the Council's exposure to interest rate risk. Whilst the Council has an anticipated increase in borrowing requirement, it still has a significant investment portfolio meaning that at present a 1% increase in rates would have a net beneficial impact on the Council.

7.4. Conversely, a 1% reduction in interest rates would have an overall negative impact due to a reduction in investment income. Therefore, the upper limit on the one-year revenue impact of a 1% fall in interest rates is £750,000.

7.5. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates +/-1%.

7.6. **Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. At present the only borrowing the Council has is its LOBO debt which means the earliest date of repayment could be within 12 months if the lender exercised their options at the first available date. The Council's medium-term plans imply new borrowing in future and at which point any future refinancing risks will be addressed.

7.7. **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments (excluding pooled funds which although being held for the long-term can still be accessed at relatively short notice). 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	£10m	£8m	£5m

8. Related Matters

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

8.2. **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).

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

8.4. 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.

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

9. Financial Implications

9.1. The budget for investment income in 2019/20 is £0.996million, based on an average investment portfolio of £40.75million, which equates to an overall return of circa 2.4%. This comprises £825,000 of estimated dividend income from the Council's pooled funds (a return of 4.6%), and £171,000 of estimated interest from short-term investments (equivalent to a return of 0.75%). Interest on debt to be paid in 2019/20 and charged to the General Fund revenue account is estimated at £282,000, based on an average debt portfolio of £6million and average interest rate of 4.7%. A number of major projects are also expected to incur additional financing cost during 2019/20 of £387,000, which the Council is proposing to capitalise as development interest and which will form part of the overall project cost to be financed from either capital receipts and/ or long-term borrowing. The latter will be repaid from future commercial rental income. Estimated interest of £111,000 is also payable on assets acquired through lease type arrangements, the cost of which is budgeted within the relevant service. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

10. Other Options Considered

10.1. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Corporate Director (Finance), having consulted the Cabinet Member for Finance and Performance, 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 new borrowing by increasing internal 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 – Treasury Management Practices (TMPs)

TMP1	Risk management
TMP2	Performance measurement
TMP3	Decision making and analysis
TMP4	Approved instruments, methods and techniques
TMP5	Organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP6	Reporting requirements and management information arrangements
TMP7	Budgeting, accounting and audit arrangements
TMP8	Cash and cash flow management
TMP9	Money laundering
TMP10	Training and qualifications
TMP11	Use of external service providers
TMP12	Corporate governance

Appendix B – Arlingclose Economic & Interest Rate Forecast December 2018

Underlying assumptions:

- Our central interest rate forecasts are predicated on there being a transitionary period following the UK's official exit from the EU.
- 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 that: 1) tight labour markets will prompt inflationary pressure in the future, 2) ultra-low interest rates result in other economic problems, and 3) higher Bank Rate will be a more effective policy weapon if downside risks to growth crystallise.
- Both our projected outlook and the increase in the magnitude of political and economic risks facing the UK economy means we maintain the significant downside risks to our forecasts, despite the potential for slightly stronger growth next year as business investment rebounds should the EU Withdrawal Agreement be approved. The potential for severe economic outcomes has increased following the poor reception of the Withdrawal Agreement by MPs. We expect the Bank of England to hold at or reduce interest rates from current levels if Brexit risks materialise.
- The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in the middle quarters of 2018, but more recent data suggests the economy slowed markedly in Q4. 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 are easing but inflation is forecast to remain above the Bank's 2% target through most of the forecast period. Lower oil prices have reduced inflationary pressure, but the tight labour market and decline in the value of sterling means inflation may remain above target for longer than expected.
- Global economic growth is slowing. Despite slower growth, the European Central Bank is conditioning markets for the end of QE, the timing of the first rate hike (2019) and their path thereafter. More recent US data has placed pressure on the Federal Reserve to reduce the pace of monetary tightening – previous hikes and heightened expectations will, however, slow economic growth.
- Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

APPENDIX K

Forecast:

- The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon, but recent events around Brexit have dampened interest rate expectations. Our central case is for Bank Rate to rise twice in 2019, after the UK exits the EU. 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 central case that the UK will enter a transitionary period following its EU exit in March 2019. However, our projected weak economic outlook and 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**	**0.75**	**1.00**	**1.00**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.13**
Downside risk	0.00	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	**-0.85**
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	**0.90**	**0.95**	**1.10**	**1.30**	**1.40**	**1.40**	**1.40**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.27**
Downside risk	-0.20	-0.45	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	**-0.76**
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	**1.15**	**1.25**	**1.35**	**1.50**	**1.70**	**1.60**	**1.50**	**1.40**	**1.35**	**1.35**	**1.35**	**1.35**	**1.35**	**1.40**
Downside risk	-0.35	-0.50	-0.60	-0.80	-0.90	-0.90	-0.90	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	**-0.77**
5-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**1.15**	**1.25**	**1.35**	**1.50**	**1.50**	**1.40**	**1.35**	**1.35**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	**1.33**
Downside risk	-0.50	-0.60	-0.65	-0.80	-0.80	-0.70	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	**-0.66**
10-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**1.50**	**1.65**	**1.70**	**1.80**	**1.80**	**1.75**	**1.75**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**
Downside risk	-0.55	-0.70	-0.70	-0.80	-0.80	-0.75	-0.75	-0.70	-0.70	-0.70	-0.70	-0.70	-0.70	**-0.71**
20-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**2.00**	**2.10**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.20**	**2.18**
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
50-yr gilt yield														
Upside risk	0.25	0.30	0.30	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.37**
Arlingclose Central Case	**1.90**	**1.95**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**1.99**
Downside risk	-0.60	-0.70	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**

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

APPENDIX L

Draft Investment Strategy 2019/20

1. Introduction

1.1 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 principally by lending to third parties (**service investments**); and
- to earn investment income (known as **commercial investments** where this is the main purpose).

1.2 This investment strategy is a new report for 2019/20, meeting the requirements of statutory guidance and focuses on the second and third of these categories.

2. Treasury Management Investments

2.1 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 and collects local taxes on behalf of other local authorities and central government. These activities lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA). The amount of treasury management investments will inevitably fluctuate during the year but is estimated to average around £41million during the 2019/20 financial year.

2.2 **Contribution:** The contribution that these investments make to the objectives of the Council is to support effective treasury management activities, including generating a return for the Council which helps support the overall budget position.

2.3 **Further details:** Full details of the Council's policies and strategy for its treasury management investments are covered in a separate document, the Treasury Management Strategy Statement, an appendix to the annual budget report approved by Full Council each February.

3. <u>Service Investments: Loans</u>

3.1 **Contribution:** The Council occasionally lends money to third parties to support particular service objectives and/ or stimulate local economic growth. In the past, such loans have typically been targeted at supporting housing, e.g. providing mortgages to individuals to help them buy former council houses, or to housing associations supporting development of affordable housing schemes. Until recently, the Council provided a cash-backed indemnity to assist first time home buyers through the Braintree Local Authority Mortgage Scheme (LAMS) in partnership with Essex County Council. Since 2015, the Council has also had a Business Growth Loan Fund scheme in place to provide repayable business loans to small-medium sized enterprises, helping support economic and employment growth in the District.

3.2 At 31 March 2018, the value of all service loans outstanding was £2.352million, including £2m in respect of the Braintree LAMS, which has since been repaid.

3.3 **Security:** The main risk to the Council when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. The Corporate Director (Finance) will advise on whether the aggregate financial exposure of existing and any proposed new loan(s) is proportionate to the size of the Council, after taking into account any allowance required to be charged to the General Fund revenue account for potential non-payment using the ‘expected loss’ model of accounting, now required under the CIPFA Accounting Code of Practice from April 2018.

3.4 Wherever possible the Council will seek to secure loans on the assets of the borrower or seek some form of guarantee. In the event of non-payment the Council has credit control arrangements in place to seek recovery using all appropriate means.

3.5 **Risk assessment:** The Council assesses the risk of loss before entering into a loan and keeps this under review during the term of the loan. Lending criteria was approved by the Cabinet for the Business Growth Loan Fund. Applications seeking loans of up to £50,000, are assessed by officers and approved by the Corporate Director (Finance). Applications for funding above £50,000 are approved by the Cabinet Member for Economic Development, in consultation with the Corporate Director and Cabinet Member for Finance and Performance.

3.6 For all other loans appropriate due diligence is undertaken by officers and decisions taken in accordance with the Council's decision-making rules set out in the Constitution and Financial Procedures. The Council may also seek advice and support from third party experts where significant financial support is being requested and/ or proposed by a service in furtherance of the Council's corporate priorities.

4. Service Investments: Shares

4.1 **Contribution:** Another form of potential support by the Council can be through the purchase of shares in a corporate body which has been established or exists to pursue activities which support the Council's corporate strategy and priorities. Currently, the only company in which the Council holds shares is the North Essex Garden Communities Ltd, a joint strategic entity owned in equal shares by the Council along with Essex County Council, Colchester Borough Council and Tendring District Council. The purpose of NEGC Ltd is to support the local authorities in the development and delivery of three potential garden communities in North Essex. The Council's current shareholding is limited to 25 Ordinary Shares at £1 each (£25) and funding provided so far has been to the wider NEGC project in the form of revenue contributions. As a shareholder the Council has representation on the NEGC Ltd Board, and certain reserved matters can only be progressed by the approval of shareholders taking matters through each council's own decision making process.

4.2 In future, a business case is likely to be presented to the Council where it may be asked to consider a more formalised funding arrangement with NEGC Ltd. This could seek lending directly to NEGC Ltd (or a new local development corporation) and/ or providing some form of loan guarantee to third party funder(s). Any such request will be subject to appropriate due diligence and would need the approval of Full Council.

4.3 **The Council may** consider other opportunities to invest in the share capital of a corporate entity. Such opportunities would again be subject to due diligence and consideration by Full Council, including the associated risks.

5. Commercial Investments: Property

5.1 **Contribution:** The Council has a commercial property portfolio from which it seeks to generate income and/ or to contribute towards the Council's wider economic and regeneration agenda. Where property is held solely to earn income and/ or for capital appreciation they are classified as Investment Property and reported as such on the Balance Sheet of the Council's annual accounts. Other property not meeting the strict definition, but which are partially held to generate income along with other wider objectives are included in the Balance Sheet category Property, Plant and Equipment (PPE) as Other Land and Buildings.

5.2 At 31 March 2018, the assessed value of the Council's commercial property portfolio was £35.014million as analysed in Table1:

Table 1: Commercial Property Market Value

	Actual 31.3.18 £m
Investment Property	
Industrial Land	9.897
Industrial Units	4.057
Shops	2.037
Offices	15.773
Health Facilities	1.904
Other	0.699
Sub-total Investment Property	**34.367**
Held as Land & Buildings under PPE	0.647
Commercial Property	**35.014**

5.3 The Council's existing commercial portfolio has been developed over many years, with much of its origin in the support of economic development (e.g. industrial land and units) or the provision of ancillary facilities to serve housing estates (e.g. shops). More so now, however, is that much of this property is being retained for the income yield. Over time the Council has also diversified into offices and other commercial assets, and in recent years has bought-out head leases on property held on Council land resulting in greater control over sites as well as increasing overall value and income. With the exception of one office block, all property in the portfolio are contained within the boundary of the district. Through the District Investment Strategy the Council will continue to expand the number and range of commercial property holdings.

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

5.5 A fair value assessment of the Council's investment property portfolio is made annually at the end of each financial year which enables the Council to assess whether the underlying asset provides security for the capital investment. Where the fair value of the underlying assets is no longer sufficient to provide security against a loss, mitigating actions will be considered, to ensure that appropriate action is taken to protect the capital sum invested. However, the Council's main strategic objective for its commercial property portfolio is to retain assets for the purposes of income generation, rather than looking to realise capital appreciation, although this may be considered in certain circumstances. Consequently, holding property (even if fair values fall below purchase cost due to fluctuating property market conditions) is likely to be most appropriate course of action taken by the Council.

5.6 **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding property investments by carrying out due diligence as part of a full business case, including an assessment of the risks both in terms of the immediate acquisition/ development of an asset, and for its longer-term operation (e.g. lifecycle costs, prospective tenant covenants etc.). Each proposed investment will have a financial appraisal which considers all costs and income over an appropriate time span using a range of assumptions that will be tested through sensitivity analysis. Investments are subject to the Council's Investment Toolkit appraisal methodology (see below).

5.7 Where investments are funded from borrowing, the cost of servicing the related debt will fall on the General Fund and is included in the investment appraisal and, if approved, ultimately reflected in the Council's revenue budget. A prerequisite for a project to proceed will be its ability to service this debt and also, where appropriate, make a positive contribution towards the Council's wider service objectives and/ or financial resources. However, it needs to be recognised that commercial activities do carry risks, particularly where debt is being financed over the long-term and future lease arrangements are not guaranteed. The Corporate Director (Finance) will keep under review the quantum of debt which is subject to financing from rental income to ensure that it is proportionate in the context of the Council's overall revenue resources.

5.8 The Council employs the expertise of an in-house Strategic Investment Team and Asset Management Service, who will also be supported by relevant external specialists experienced in the relevant market for which the Council is seeking to invest. Where external advice is sought this will be procured through the Council's normal contract procedure rules.

5.9 **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. However, as referred to above, the Council's strategic objective is to hold assets for their long-term rental income.

6. Loan Commitments and Financial Guarantees

6.1 Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council.

6.2 Currently the Council has not entered into any loan commitments, and the only guarantees relate to pension fund admission agreements for the leisure management contract and museum service where the Council would be called upon to meet any unpaid liabilities owed to the Pension Fund as result of default.

6.3 The Council is a Scheme Creditor in an arrangement for the administration of the former Municipal Mutual Insurance Ltd, which became insolvent in the early 1990's. Under the arrangement the Council is liable for clawback of insurance claims previously settled amounting to £198,712. This amount is based on the gross payments subject to the arrangement, less a protected sum of £50,000, and after deduction of the amount already paid by the Council following imposition of a 25% levy. At present there is no indication that the administrators will be imposing a further levy.

6.4 The Council will approach any request for loan commitment or financial guarantee in the same way it does all investment decisions, carrying due diligence and a full financial and risk appraisal.

7. Proportionality of the Council's Investments

7.1 Income from the Council's investment activities contributes towards achieving a balanced revenue budget. Table 2 below shows how the extent to which the Council is reliant on achieving this income to fund services over the period of the current Medium Term Financial Strategy is increasing, as expressed as a proportion of Net Revenue Stream.

Table 2: Proportionality of Investments

	2017/18 Actual £m	2018/19 Latest £m	2019/20 Forecast £m	2020/21 Forecast £m	2021/22 Forecast £m	2022/23 Forecast £m
Commercial Property income	2.668	2.959	3.028	3.034	3.791	3.613
Treasury Management income	0.837	0.970	0.996	0.952	0.979	1.025
Total investment income	**3.504**	**3.929**	**4.024**	**3.986**	**4.770**	**4.638**
As % of Net Revenue Stream	24%	27%	28%	27%	31%	30%

Net Revenue Stream = Budget Requirement funded from council tax and retained business rates

7.2 Commercial property income is derived from contractual leasing arrangements and is therefore easier to predict, subject to assumptions regarding future lease renewals, allowances for void periods, and the solvency of tenants.

7.3 Treasury management income will be more susceptible to economic and market sentiment, which will influence interest rates and other investment returns. A significant proportion of the treasury income is from the Council's pooled fund investments in a mix of property, equity and diversified funds. These funds are largely dependent upon corporate dividends and will display volatility in terms of their market valuations.

7.4 The Corporate Director (Finance) will continue to monitor the proportionality of all investments to ensure that the budget does not become exposed to an excessive level of risk when compared to overall financial resources. As part of the annual budget setting process the Corporate Director (Finance) will report on the robustness of the budget and medium-term plans taking into account the level of investment income assumed and any related financing costs.

8. Borrowing in Advance of Need

8.1 Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Council's current borrowing is above its Capital Financing Requirement (or CFR) – a measure of the Council's need to borrow for capital purposes – and which could be construed as indirectly borrowing for investment purposes. However, this position exists due to legacy debt incurred at a time when the Council had a positive borrowing requirement for its capital programme. Looking ahead the Council is planning to increase its capital investment in the District leading to an increase in its CFR. The current plans assume this increase in CFR will be matched in part by additional new external borrowing with the balance funded from internal borrowing the latter reducing the Council's overall investment balances. On this basis borrowing will clearly be for capital purposes and not purely for investment.

9. Capacity & Skills

9.1 **Officers**

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.

9.2 Treasury management investments are undertaken by the Council's Finance team, supported with expert advice from Arlingclose Ltd, a firm of treasury management advisors to the public sector.

9.3 The Strategic Investment Team is responsible for the delivery of the Council's development programme across residential and commercial projects. In October 2018, a permanent structure for the team was approved, including the appointment of a Head of Strategic Investment, who will be supported by a number of project directors and managers. The expectation is that these positions will be recruited from the development sector (private and public). The team is also supported by both in-house and external specialists in areas such as finance, legal, design, development, etc., and where necessary interim consultants will be used to manage fluctuating workloads as the team respond to emerging opportunities.

9.4 The Council's Asset Management Team is responsible for the day-to-day management of the Council's investment and other commercial property portfolio. This includes ensuring that the property portfolio is maintained through responsive and planned maintenance, and that assets remain fit-for purpose, including meeting all regulatory requirements. The Team will keep under review both opportunities for further property investment as well recommending where assets no longer contribute to the Council's objectives and disposal can realise greater value.

9.5 Strategic leadership at officer level for the Council's investment programme is through the District Growth Officer Group, which includes the Chief Executive, Directors, and other representatives from across the Council's professional and technical services. The aim of this group is to provide strategic leadership over the District Investment Strategy and ensure that all investment opportunities are reviewed and prioritised at an early stage. The group will also monitor the development and delivery of schemes.

9.6 **Members**

The Council has a number of Cabinet sub-committees that are directly involved in its investment and commercial development activities:

9.7 The Strategic Investment Programme Group (SIPG) has overall oversight of the strategic investment programme co-ordinating the range of projects as well as considering and evaluating new and emerging projects, and scoring them against the Corporate Investment Toolkit. The group also supports decision making around the Council's long-term treasury management investments in pooled funds.

9.8 Reporting to the SIPG are a number of Project Reference Groups which have been formed to support the relevant Cabinet Portfolio Holder and officers in the management and development of specific projects. The reference groups provide advice and guidance as well as holding projects to account ensuring that they deliver in accordance with the approved scope. Project reference groups have been established/ proposed for the development of the strategic employment site at Great Notley (Horizon 120); the review and establishment of a housing development company; and for the Manor Street regeneration project.

9.9 The project groups are supplementary to the on-going roles of the Overview and Scrutiny Committee and the Governance Committee.

9.10 Skills Training

The Council actively promotes training and development of all its staff. This is reinforced by the mandatory requirement for continuing professional development amongst those qualified members of staff involved in the Council's capital, commercial investments, and treasury management activities.

9.11 The Corporate Director (Finance) will ensure that elected members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

9.12 Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively. The Governance Committee undertake an annual self-assessment which is aimed at measuring their effectiveness and from which any future training needs are identified.

9.13 The Council also has a Member Development Group (a sub-committee of the Cabinet), which is responsible for leading, managing and reviewing elected Member development for the organisation, including identifying the appropriate training required as relevant to the various roles undertaken by Members.

10. Decision Making

10.1 To evaluate investment opportunities the Council has adopted a Corporate Investment Toolkit which seeks to balance the different elements of a potential investment or project. This is illustrated by the following diagram:

Financial Capital/ implementation costs, capital income, on-going revenue impact, return on investment Weighting 35%*	**Corporate Strategy** Contribution towards the Council's corporate strategy and key priorities, and those of partners Weighting 25%*
Impact Assessment Customers, organisation, environmental, stakeholders, legal etc. Weighting 20%*	**Risk** Associated risks, risk rating (probability/ impact), mitigation Weighting 20%*

* Typical weightings but can be revised depending on nature of opportunity being assessed

10.2 Each element of the appraisal tool is given a score of between 1 and 10, before an overall weighted score is calculated. The Council has established a benchmark weighted score of 6 as being the 'norm' for acceptable schemes, although in exceptional circumstances a score below this might be accepted where there are other factors not specifically addressed in the toolkit.

10.3 Scoring will be confirmed/ approved by the Strategic Investment Programme Group and which will then form part of the formal decision making report which will be considered by the Cabinet and Full Council in accordance with the Council's normal decision-making process for capital expenditure/ investments.

11. Funding of Investments

11.1 Where an investment constitutes capital expenditure then financing can be from a range of capital resources, including: the Council's own resources (capital receipts, reserves and revenue contributions), from third party grants and contributions, or from prudential borrowing.

11.2 Government guidance suggests that local authorities should demonstrate how investments are funded. Decision around actual borrowing will be taken as part of the Council's overall treasury management activities, which will inform when and how it is appropriate to borrow. As such the Council may not associate particular assets with particular liabilities. However, the following investments could be described as being funded by borrowing:

11.3 **Investment Property** – The Council acquired an investment property in 2014/15 and although no new external borrowing was incurred for the purchase, the Council effectively utilised the cash backed element of its "over-borrowed" position which existed at that time. Consequently, annual minimum revenue provision (MRP) is being charged to revenue and as at 31 March 2018 the outstanding amount still to be financed was £3.011million.

11.4 **Other Commercial Property** – a number of projects approved as part of the Council's District Investment Strategy were proposed to be funded either in part or wholly from future new borrowing. These projects include the Manor Street regeneration scheme, and the proposed development of a health centre, both of which will generate commercial rental income that will be used to meet the associated financing costs (interest and MRP). As yet neither scheme has progressed to the stage where actual borrowing has been incurred. An employment site, Horizon 120, recently acquired for future development is also to be funded from borrowing to be repaid from the sale of serviced land. As this project progresses alternative options for long-term leasing arrangements may be considered which would extend the period of borrowing the associated financing costs of which would become repayable from the rents receivable. The initial land acquisition costs for Horizon 120 are being temporarily funded by internal borrowing. Over the medium-term the estimated amount of new borrowing in respect of all of these projects totals around £25million; however, this is subject to consideration by the Corporate Director (Finance) of the Council's overall capital resources that might be available at the time any firm financing decisions need to be taken.

11.5 **Treasury Management investments** - At 31 March 2018, the Council's actual borrowing exceeded its Capital Financing Requirement by £1.08million, which means that cash available for investment purposes was higher. The Council has had an "over-borrowed" position for many years due to legacy debt for which the opportunity to repay early on terms acceptable to the Council has not arisen. However, from 2018/19 this over-borrowed position is expected to reverse as, whilst the CFR increases, external borrowing is planned to increase at a lower rate.

11.6 Other than as explained above, the remainder of the Council's investments are derived from balances and reserves and income received in advance of expenditure (in-year cashflows).

12. Rate of return received

12.1 The rate of return on investment property and treasury management investments is shown in the table below:

	2017/18 Actual £m	2018/19 Latest £m	2019/20 Forecast £m	2020/21 Forecast £m	2021/22 Forecast £m	2022/23 Forecast £m
Investment Property	6.2%	6.2%	6.6%	6.6%	6.6%	6.5%
Treasury Management	1.5%	1.9%	2.4%	2.7%	2.5%	2.3%
Total	3.3%	3.6%	4.3%	4.6%	4.4%	4.1%

APPENDIX M

Draft Minimum Revenue Provision (MRP) Policy Statement

1. Where a local authority has financed capital expenditure by debt, it is required to consider what revenue resources need to be set aside to repay that debt in later years. The amount charged to the revenue budget (and hence against Council Tax) is referred to as Minimum Revenue Provision (or MRP) and it is this requirement that means local authorities must ensure borrowing is affordable and sustainable.

2. Statutory guidance issued by the Ministry for Housing, Communities and Local Government (MHCLG) requires that the Council sets an annual policy with regards to the basis on which MRP is to be determined. The broad aim of the Guidance is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits (or where borrowing is supported by Government funding, MRP is aligned with the period over which grant will be received). There are different methodologies for calculating MRP depending upon the circumstances and it is for each Council, in conjunction with its external auditor, to determine what MRP is prudent to make. **Taking into account the MHCLG Guidance the following methods of providing MRP are those that will be applied by this Council:**

3. **Regulatory method** – this applies Regulations to any pre-2008 capital expenditure. As the Council's CFR on pre-2008 expenditure is negative there is no requirement for MRP to be made on this past expenditure (i.e. effectively the Council has over provided for past debt).

4. **Asset life method** – this is for new unsupported borrowing (i.e. borrowing which does not attract any government financing). MRP will be determined by charging the expenditure over the expected useful life of the relevant assets. This may be on an equal instalment basis or annuity basis. MRP on purchases of freehold land will be charged over a maximum of 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over a maximum of 20 years. The Council may calculate MRP on a period shorter than the expected life of an asset where it considers this to be more prudent and/ or is part of an investment appraisal where the Council is seeking a specified payback period.

5. **Lease life method** – this is for assets acquired using lease arrangements. MRP will match the portion of the annual lease payment used to write-down the lease liability.

6. **Capital loans and advances** – where capital loans/ advances are made to other bodies and there remains an expectation that the sums advanced are to be repaid through either a formal loan repayment agreement or a planned future sale of an asset then no MRP will be charged. Such arrangements will be kept under review and MRP may be charged where doubt is raised over repayment of all or part of the sum advanced.

7. **Assets developed or acquired for sale (including investment properties)** – where the Council has borrowed to fund the acquisition and/ or development of assets and there is a plan for a future sale from which the capital receipt is intended to reduce/ repay this borrowing, then no MRP will be charged. In the event that it is expected that there will be a significant delay in realising the capital receipt, in line with the plan, an appropriate level of MRP will be charged (e.g. with reference to asset life).

8. MRP will normally be charged in the financial year following the one in which the capital expenditure is incurred. However, MRP may be deferred beyond this period whilst an asset is under development and has not yet become operational (or available for sale if relevant).

9. The Council may make voluntary MRP and/ or apply capital receipts in lieu of MRP as part of a strategy to reduce future revenue costs.

FINANCIAL LIMITS

The following Authority wide limits were originally approved by Council on 6th December 2010.

Revenue Virement

The levels of authorisation for budget head revenue virements are:

	Virement to be approved by:				
Financial Limits	Chief Officer (notification to Head of Finance)	Corporate Director (Finance)	Cabinet Portfolio Member	Cabinet	Council
Up to £10,000	Y	Y	Y	Y	Y
£10,001-£25,000		Y	Y	Y	Y
£25,001-£50,000			Y	Y	Y
£50,001-£100,000				Y	Y
Over £100,001					Y

Note: These limits apply to the budget head (this means CIPFA subjective budget group total e.g. employees, supplies and services, etc.), which is being increased.

In addition, virements are subject to the following requirement:-

If more than one virement action is required on a single budget head in a financial year, then the accrued value of such virement action shall be in line with the level of authorisation as detailed above.

The exceptions to the above framework are that:

a) Virement is not permitted in relation to capital finance charges on service committees or where a proposal would adversely affect the long term revenue commitments of the Council.

b) The Cabinet approval is not required when the virement is between an income head and an expenditure head which are directly related and is approved by the Corporate Director (Finance).
c) These virement rules are not applicable between the General and Housing Revenue Funds or between the revenue accounts and the capital programme.

An approved income/expenditure head will be defined each year as part of the budget approval.

Capital Virement

The levels of authorisation for virement of capital programme provision are:

	Virement to be approved by:			
Current Limits	Corporate Director (Finance)	Cabinet Portfolio Member	Cabinet	Council
Up to £50,000	Y	Y	Y	Y
£50,001 to £100,000		Y	Y	Y
£100,001 to £250,000			Y	Y
Over £250,001				Y

Note: The limits apply to the programme head being increased.

Debts and Stock Write-offs

Chief Officers shall submit a request to write off a debt and materials surplus to a department's requirements, subject to the limits and approvals prescribed below. The Corporate Director (Finance) shall issue procedures for the authorisation and recording of the debts to be written off.

	Write off to be approved by:			
Current Limits	Corporate Director (Finance)	Cabinet Portfolio Member	Cabinet	Council
Up to £25,000	Y	Y	Y	Y
£25,001 to £50,000		Y	Y	Y
£50,001 to £100,000			Y	Y
Over £100,001				Y

The exception to the above framework is that:

The Corporate Director (Finance) has delegated authority to write off debts for reason of bankruptcy, insolvency and ceased trading without limit.