Council Budget and Council Tax 2020-21 and Medium-Term Financial Strategy 2020-21 to 2023-24

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Performance Management Board – 29th January 2020

Cabinet – 10th February 2020

Council – 17th February 2020

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Andy Wright
Chief Executive

CABINET
10th February 2020

Braintree District Council

Council Budget and Council Tax 2020/21 and Medium-Term Financial Strategy 2020/21 to 2023/24	Agenda No:

Portfolio	**Finance and Performance Management**
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:	**Cabinet Member for Finance and Performance Management**
Report prepared by:	**Trevor Wilson, Head of Finance**

Background Papers:	**Public Report**
Council Budget and Council Tax 2019/20 and Medium-Term Financial Strategy 2019/20 to 2022/23 report to Cabinet 11th February 2019 and Full Council 25th February 2019; Medium-Term Financial Strategy 2019/20 to 2022/23 Update report to Cabinet 9th September 2019; The Provisional 2020/21 local government finance settlement – consultation paper published by the Department for Communities and Local Government on 20th December 2019.	**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 9th September 2019.

1.2 On 18th December 2019, the Cabinet received a report providing details of the progress with the updating of the Financial Profile and the Medium-Term Financial Strategy 2019/20 to 2022/23. 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 2020/21, as presented, constituted the initial Budget proposals and that views be sought as appropriate.

1.3 The Council received, on 20th December 2019, detail of the provisional Local Government Settlement Funding Assessment figures for 2020/21. 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 2020/21; a Financial Profile and Medium-Term Financial Strategy for 2020/21 to 2023/24; details of the Council's discretionary business rate relief schemes and discretionary council tax exemptions, discounts and premiums for 2020/21; and Capital, Treasury management and Investment strategies for 2020/21.

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, Springwood Industrial Estate to provide business support programme; Witham Enterprise Centre; Healthcare facility on the former Premdor Site, Sible Hedingham.

2.3 Whilst the Council has been faced with a need to increase income and reduce costs to meet the challenge of becoming grant-free this has been exacerbated with increases in demand on some services and new responsibilities placed on local authorities by Central Government. For example, the Planning service has had to respond to a significant increase in planning applications, many of which are for major developments, and also an increase in work on appeals.

2.4 The level of unallocated balance has consistently remained above £1.5million: the balance at 31st March 2019 was £5.787million and is forecast to increase to £7.419million as at 31st March 2020.

3. Government Funding

3.1 The provisional Financial Settlement for local government was published by the Secretary of State for Housing, Communities and Local Government on 20th December 2019. The provisional settlement is for 2020/21 only and is essentially a roll-forward of the 2019/20 settlement; which was the final year of the four-year funding settlement offered for 2016/17 to 2019/20.

3.2 The Council's provisional allocation of Settlement Funding Assessment (SFA) for 2020/21 is £3,486,929, and this consists solely of retained business rates. This represents a small increase of £55,903 or 1.6% compared to the SFA for 2019/20. The Government has reaffirmed its decision, made in recent years, that no negative Revenue Support Grant adjustment will be applied to any local authority.

3.3 Other grant/subsidy confirmations or announcements for 2020/21 received were:

- Rural Services Delivery Grant - £22,125;
- Homelessness Support and Reduction Grants – total of £319,953;
- Housing Benefit Administration Subsidy – total of £382,724;
- Local Council Tax Support Administration Subsidy – notification expected early February assumed amount of £121,110.

3.4 The Government confirmed that no change would be made to the methodology of calculating the New Homes Bonus (NHB) scheme for 2020/21. The Council is to receive £337,541 for Year 10 of the scheme which will provide a total amount receivable in 2020/21 of £907,204. However, the Government announced that as the Settlement Funding Assessment is for one year only, any funding beyond 2020/21 will be subject to the 2020 Spending Review and potential new proposals to incentivise housing growth, and therefore the NHB allocations in 2020/21 will not result in legacy payments being made in subsequent years on those allocations.

4. New Investments and Unavoidable Budget Demands

4.1 Bids for revenue funding to meet unavoidable budget demands and new investments total £1,384,180 in 2020/21 and £179,930 in 2021/22. Of which £514,000 in 2020/21 and £179,930 in 2021/22 are ongoing requirements and are therefore needed to be added to the base budget. Other requests, totalling £870,180 in 2020/21, and £191,730 in 2021/22, are for one-off budget requirements. The requests were presented in the initial budget proposals.

4.2 The one-off budget requests include two which are to be funded from a new Community Projects reserve created from the People and Places element of the former Community and Housing Investment Partnership (CHIP) Fund:

- Health and Community Services – Two posts for 2 year fixed period, to focus on Health and Leisure development and Community Engagement and Facilities. This will provide additional support to ensure the delivery of projects including: Maltings Lane Community Facility, Leisure Contract Review, Live Well projects, Mental Health Forum and Action Plan, and to

develop community engagement activity. Budget request of £94,730 per annum for 2 years including a project allowance; and

- Education and Skills Board – an allocation of £15,000 to enable the Board to deliver projects to support its aims of bringing education providers and employers together to better understand the skills picture across the District and match the needs of employers with the education provision.

5. Update on Financial assumptions in the current MTFS

5.1 The Financial Profile, agreed in February 2019, included cost reductions and additional income planned for 2020/21 to 2022/23. These have been reviewed and the values have been adjusted to provide net savings of £32,380 in 2020/21, £28,950 in 2021/22 and £14,000 in 2022/23.

5.2 Adjustment to the base budget in 2020/21, for planned priority investments and unavoidable budget changes identified in previous years, is a reduction totalling £1,071,040.

5.3 Following a review of the two unavoidable budget changes identified for 2020/21 onwards, only the anticipated reductions in Council Tax Support and Housing Benefit Administration Subsidy are anticipated at £45,000 per annum for 2021/22 and 2022/23 and are therefore included in the Financial Profile.

5.4 Provision for a pay award on 1st April 2020 of 2% 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 The result of the Triennial Review of the Essex Pension Fund, as at 31st March 2019, was received on 1st November 2019. The review determines the pension fund assets and liabilities applicable for each employer in the fund and sets the deficit contribution and employer contribution rate for the three years 2020/21 to 2022/23.

5.7 The review shows that the Essex Pension Fund has performed very well over the last three year period with this Council's part of the Fund having moved from a funding level of 89.2% to 103.4%. The actuary has calculated that the recovery period for this Council's deficit is 7½ years, which compares to an average of 12 years for all organisations in the Essex Pension Fund. As a result of the performance of the Fund the deficit recovery rate has been re-assessed with the rate required over the next three years being reduced from 5.2% to 1.5%.

5.8 The total value of the deficit payments for the three year is £2,468,311. It is proposed that this is paid in full on 1st April 2020, as the cost would be £112,250 higher if the amount is paid in annual instalments. The accounting requirement for this is that the total payment is accountable in 2020/21; the implication of this is that two thirds of the payment (re 2021/22 and 2022/23) will need to be funded from the unallocated balance in 2020/21 with this resource being repaid over the two following years.

5.9 The ongoing employer contribution rate is set to rise to 20.3% from the current level of 16.5%. This is due principally to changes in the financial assumptions used by the Actuary.

5.10 The impact of these Pension Fund changes on the Financial Profile is a cost reduction of £295,820 in 2020/21; small increases in cost of £10,980 and £11,240 in 2021/22 and 2022/23 respectively; and an addition of cost of £965,490 in 2023/24 required to reinstate the annual deficit payment.

5.11 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 2020/21 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 £523,330 in 2020/21 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 **Fees and Charges** – a schedule of proposed fees, charges and housing rents for 2020/21 is provided following the link: Proposed Fees & Charges 2020/21

6.3 Proposed levels of trade waste charges and environmental permits for 2020/21 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 2020/21.

6.4 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 2020/21 was calculated as at 12th December 2019 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 £42,705,787.

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
- Retail Rate Relief – applicable for 2019/20 and 2020/21.

7.3 With regard to the Retail Rate Relief it is proposed, subject to publication of the necessary guidance from the Government, to increase the level of discount from one-third to half for 2020/21, as announced in the Queen's Speech to Parliament on 19th December 2019.

7.4 The Government undertakes to reimburse councils for the amount of relief granted under the above schemes.

7.5 All fifteen authorities participating in the current Essex Business Rate Pool had confirmed their willingness for the Pooling arrangement to continue for 2020/21. On 18th December 2019 the Secretary of State for Housing Communities and Local Government issued a letter to Essex County Council (lead authority for the Essex Pool) confirming that the Essex Pool will continue for 2020/21. The Cabinet Member for Finance and Performance Management had agreed that this Council should participate in an Essex Pool on the basis that estimated business rates income for 2020/21 will exceed the baseline amount and that on the proposed sharing arrangement the Council could receive an additional amount of business rates of approximately £634,000.

8. Local Council Tax Support Scheme

8.1 On 18th December 2019, the Cabinet determined that it would not propose any changes to the Council's Local Council Tax Support scheme for 2020/21; 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 2020/21 to be recommended for approval by Council can be found on the Council's website at : Proposed Local Council Tax Support Scheme 2020/21

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 2020/21. The other three major precepting authorities have already agreed to continue to provide funding toward these costs for 2020/21.

9. Council Tax – Collection Fund Surplus and Taxbase

9.1 The Council's taxbase for 2020/21, calculated as at 30th November 2019, is 53,373. This was agreed, under delegated authority, by the Corporate Director. This compares to a taxbase of 52,521 for 2019/20; an increase of 852 or 1.62%.

9.2 The Council has exercised its discretionary powers to set the discounts/premiums 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 2020/21.

9.3 The current level of premium charged on properties which have been unoccupied and substantially unfurnished for two years or more is currently set at 100% with increases also agreed for 2020/21 and 2021/22 in accordance with the maximum premiums permitted under the Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Act 2018.

9.4 The premiums applicable for 2020/21 are reaffirmed as:

- 100% will be applied, in addition to the full (100%) charge, for all premises which have been unoccupied and substantially unfurnished (empty) for a period of less than 5 years: and
- 200% if the period is at least 5 years on or after 1st April 2020.

9.5 The Council is required to publish, in at least one local newspaper, notice of the determination before the end of the period of 21 days beginning with the date of the determination.

9.6 It is proposed that the current incentive to owners, to bring their properties back into use, of a refund of the 12 months' additional premium (ie above the original premium of 50%), prior to when the property is brought back into use and occupied, be continued.

9.7 Discussions are currently being held with other Essex billing authorities and Essex County Council regarding the potential introduction of a council tax exemption for care leavers, aged 21 and under, from 1st April 2020. This exemption is currently only mandatory in Wales but can be introduced in England under discretionary powers. If a proposal is agreed in principle by all Essex billing authorities then this will be presented for consideration by Cabinet and Full Council at the earliest opportunity.

9.8 It is estimated that the balance on the Council Tax Collection Fund available for distribution is a surplus of £1,229,000, of which the amount due to this Council is £155,120. It has been agreed that £29,450 of this Council's share of the surplus will be paid to town and parish councils in 2020/21.

9.9 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 referendum principles for 2020/21 have been set at the higher of 2% or up to and including £5. An increase of £4.95 on this Council's Band D council tax for 2020/21 equates to a percentage increase of 2.75%.

9.10 With the anticipated budget shortfalls over the next three years and the uncertainties over the impact of the impending changes to local government

finances in 2021/22, it is proposed that this Council's council tax requirement is increased by £4.95 (2.75%) to £184.68 per annum (at Band D) for 2020/21. This equates to a council tax charge, for a Band D property, for the provision of this Council's services of £3.55 per week; an increase of approximately 9p per week over the current year.

10. Financial Profile

10.1 The budget proposals as presented in this report result in an addition to the unallocated balance of £222,269 in 2020/21. Shortfalls are projected for the following three years of £394,962, £173,680 and £334,165, respectively.

10.2 The shortfalls for 2021/22 onwards have been determined under the current local government funding arrangements, however, these are likely to be subject to significant change pending the outcomes of the Fair Funding and 2020 Spending Reviews, and also the Government's decision regarding the proposed new 75% Business Rate Retention scheme, each of which are now expected to be implemented from 1st April 2021. The Government is expected to consult on elements of both the proposed Fair Funding Review and on the new Business Rate Retention scheme during 2020.

10.3 The approach to address the anticipated budget shortfalls over the period of the MTFS will be the continuation of the workstreams under the Better at Business of:

- Maximising value from third party spend;
- Increasing income including from investments;
- Service efficiency; and
- Contract management

11. Pay Policy 2020/21

11.1 The Pay Policy Statement 2020/21 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 resulting from the proposed 2020/21 Budget is £222,269. This together with the proposed use of the unallocated balance to fund the Pension Deficit payments for 2021/22 and 2022/23 in advance on 1st April 2020, of £1.646m, provide an anticipated balance at 31st March 2021 is £5.981million.

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

13. Capital Resources and Investment

13.1 Proposed capital projects have a total value of £2,746,750 for funding in 2020/21 and £80,000 for 2021/22. The anticipated capital requirement for each of the three subsequent years is £1,981,000 per annum.

13.2 The proposed capital programme can be funded from the estimated capital resource available for 2020/21. In addition, the anticipated capital requirements for 2021/22 to 2023/24 can also be funded but this will be dependent on the sales of assets identified producing the anticipated amount of capital receipts. Proceeds from two 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 Statutory guidance and guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) require 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.

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 2020/21 and the Council's policy for Minimum Revenue Provision which provides the methodology for setting aside resources to repay debt.

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 2020/21 are contained in the annual Treasury Management Strategy Statement.

14.5 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 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 Management 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 allocations of Flexible Homelessness Support and Homelessness Reduction grants, totalling £319,953, for 2020/21 be earmarked for housing purposes;
4. The unavoidable revenue budget demands and new investments added to the Base Budget of £514,000 as detailed in Section 5.2 of the main report;
5. The unavoidable revenue budget demands and new investments required to meet one-off or time-limited expenditure of £870,180 as detailed in Section 5.3 of the main report and to funded as detailed in section 5.4 of the main report:
6. The Pension Fund Deficit payments for the period 2020/21 to 2022/23 due to the Essex Pension Fund be made in a single payment on 1st April 2020, as detailed in section 4.5.7 to the main report;
7. The Braintree District Council's Local Council Tax Support scheme for 2020/21 as detailed on the Council's website: Proposed Local Council Tax Support Scheme 2020/21;
8. 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;
9. The Council's discretionary fees and charges for 2020/21 as detailed in the schedule on the Council's website: Proposed Fees & Charges 2020/21;
10. 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 2020/21;
11. The Council's housing rents are increased by CPI plus 1% for 2020/21, as detailed in the schedule on the Council's website: Proposed Fees & Charges 2020/21;
12. 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;
13. The surplus of £188,955 on the Business Rates Collection Fund be transferred to the Business Rates Retention Reserve;
14. To continue the Council's Discretionary Business Rate Relief schemes, as detailed in section 9 to the main report, for 2020/21;
15. To increase the discount applicable to the Council's existing Retail Relief Scheme from one-third to half for 2020/21, subject to the publication of the necessary guidance and confirmation of funding from the Government;
16. Discretionary council tax discounts and exemptions for 2020/21 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%;
17. Discretionary Council Tax Empty Homes Premiums charged on dwellings vacant for over two-years but less than five-years continue at 100% and on dwellings vacant for over five-years be increased to 200% with effect from 1st April 2020 and that this is duly published in a local newspaper within 21 days of this decision. In addition the refund arrangement, as detailed in section 13.8 of the main report;
18. The Council's Pay Policy for 2020/21 as detailed in Appendix B to the main report;

19. A transfer of £222,269 to the General Fund unallocated balance in 2020/21;
20. The estimated movements on the earmarked reserves as detailed in Appendix E to the main report;

Capital

21. The General Fund Capital bids for 2020/21 listed in Appendix H to the main report;

Capital, Investment and Treasury Management Strategies

22. The Capital Strategy including the authorised borrowing limit, operational borrowing boundary, the policy on Minimum Revenue Provision and prudential indicators as detailed in Appendix I to the main report;
23. The Treasury Management Strategy Statement including the schedule of investment counterparties and limits and prudential indicators as detailed in Appendix J to the main report;
24. Investment Strategy, for 2020/21 as detailed in Appendix K to the main report;

Council Tax

25. The proposed estimates (producing a budget requirement for council tax purposes of £15,225,694) as detailed in Appendix C and the Council Tax for 2020/21 of £184.68 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 G to the main report).

B) That Cabinet agrees to:

24. Delegate authority to the Cabinet Member for Finance and Performance Management 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 2020/21 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 2020/21 includes: unavoidable budget demands and investment of £1,391,480; provision for inflationary increases of £570,660; proposal to pay the total pension deficit payments for 3 years (of £2,468,311) in advance on 1st April 2020; additional income and cost reductions of £555,710; increases in discretionary fees and charges; the Government's provisional Settlement Funding Assessment of £3,486,929; business rates in excess of the baseline of £1,515,639 and a £4.95 (2.75%) increase in council tax for the year. The overall impact is an addition to balances of £222,269 in 2020/21. The estimated positions for 2021/22 to 2023/24 are savings required of £394,962, £173,680 and £334,165. It is, however, very difficult to predict the full extent of the shortfalls for these years as significant change is anticipated from 2021/22 due to the Fair Funding Review, 2020 Spending Review and the Government's proposed introduction of a 75% Business Rates Retention scheme. The approach to address the anticipated budget shortfalls is the continuation of the workstreams developed under the Better at Business. New capital projects with an estimated value of £2.747million are to be added to the capital programme, to be delivered in 2020/21. The estimated total expenditure on capital projects in 2020/21 is £42.664million. Financing of the capital programme is from a mix of resources: capital receipts, capital grants, earmarked reserves and borrowing (external and/or internal). Potential funding requirements of the North Essex Garden Communities project will be the subject of specific reports to Cabinet and Council as required at the appropriate times.
Legal:	<u>Local Government Finance Act 1992 – Section 106</u> 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 2020/21. 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 continue to be considered as part of the management of that project.
Environment and Climate Change:	Following the Council's declaration, on 22nd July 2019, of a "Climate Emergency" with an aim to make Braintree District Council activities, as far as practical, carbon neutral by 2030, a Climate Change working group has been established to develop an action plan to ensure all Council functions and decision making is in line with the shift to carbon neutral by 2030. It is noted that the action plan is to be brought back to Council within 12 months for approval and implementation. The new Corporate Strategy and Annual Plan for next year will continue to prioritise climate change activities in line with our objectives, as outlined in the motion agreed by Council.

Consultation/Community Engagement:	The January edition of the Business Bulletin included an invitation to businesses in the District to comment on the 2020/21 initial budget proposals. The Performance Management Board considered the budget proposals on 27th November 2019 and 29th January 2020. 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 and has been assigned a risk rating of B2. An extract from the Strategic Risk Register is included at Appendix F 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) 2019/20 to 2022/23 was agreed by Full Council on 25th February 2019.

1.2 The annual process of reviewing and rolling the strategy forward by one year commenced with a report to Cabinet on 9th September 2019.

1.3 At the meeting the Cabinet received/agreed:

- An update on the progress of the Government's proposed 75% Business Rate Retention scheme, the Fair Funding Review and 2019 Spending Review;
- An initial review of the assumptions contained in the current MTFS;
- The approach on developing the budget for 2020/21 and rolling the MTFS period forward to cover the period 2020/21 to 2023/24;
- Approaches to addressing the financial shortfalls;
- An option, if the Government offers an opportunity, to participate with Essex authorities to operate an Essex Business Rates pooling arrangement for 2020/21; and
- the timetable to achieve the setting of the council tax and budget for 2020/21 at the meeting of the Full Council on 17th February 2020.

1.4 With the General Election on 12th December 2019, the majority of the business, including the Medium-Term Financial Strategy 2020/21 to 2023/24 report, scheduled for the Cabinet meeting on 2nd December 2019 was postponed until the additional post-election meeting held on 18th December 2019.

1.5 The only 2020/21 Council Budget related issue that was considered at the Cabinet meeting on 2nd December was to agree a recommendation to Council to:

- Approve the allocation of a total of £29,450, of the surplus on the Council Tax Collection Fund surplus, to town/parish councils in 2020/21.

1.6 The report providing details of the progress with the updating of the Financial Profile and the Medium-Term Financial Strategy 2019/20 to 2022/23 was received by the Cabinet on 18th December 2019. 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 that:

- No changes are proposed to the Local Council Tax Support Scheme for 2020/21 and consequently there is no requirement for consultation to be undertaken; and
- The Revenue Budget and Capital Programme for 2020/21, as presented in the report, constitute the initial Budget proposals and that views are sought as appropriate.

1.7 The Medium-Term Financial Strategy 2021/22 to 2023/24 report was published, on 19th November 2019, in advance as part of the Performance Management Board 27th November 2019 meeting agenda. Since this date:

- The Cabinet Members for Finance & Performance Management and for Corporate Transformation together with the Deputy Leader of the Council presented, and then with other members of the Cabinet answered questions on, the initial revenue budget and capital programme proposals for 2020/21 at the Performance Management Board on 27th November 2019;
- The recommendation to Council from Cabinet, regarding an allocation of £29,450 to town/parish councils, was approved at the Full Council meeting on 16th December 2019;
- The Government published, on 20th December, detail of the provisional Local Government Settlement Funding Assessment figures and New Homes Bonus allocations for 2020/21; and
- Cabinet Members and Senior Management have undertaken a review of the current levels of the Council's discretionary fees and charges.

1.8 This report consolidates all of this information, including final refinements to the assumptions, resulting in:

- Proposed budgets for revenue and capital for 2020/21;
- The proposed level of council tax (Band D) for 2020/21;
- A Financial Profile and Medium-Term Financial Strategy for 2020/21 to 2023/24; and
- Capital, Treasury Management and Investment strategies for 2020/21.

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 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 (mix of funds investing in equities, property and multi-assets) 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, Springwood Industrial Estate to provide business support programme; Witham Enterprise Centre; Healthcare facility on the former Premdor Site, Sible Hedingham.

2.5 The Council determined from the inception 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 day to day spending. This is providing part of the funding for the projects, and associated project management, in the District Investment Strategy.

2.6 Over the period the Council has had to, and continues to, respond to increasing costs not only from inflationary pressures but also from increased demand on services and new responsibilities. The Planning service has responded to a significant increase in planning applications, many of which are for major developments, and also an increase in work on appeals.

2.7 The level of unallocated balance has consistently remained above £1.5million: the balance at 31st March 2019 was £5.787million. This will increase in the current year mainly due to an allocation from the balance used in April 2017 to pay the Pension Deficit payments for three years in a single payment and is being repaid in 2018/19 and 2019/20 at £1.411million per year. The estimated balance as at 31st March 2020 is £7.419million (based on the second quarter 2019/20 Finance Performance report).

3. Government Funding

3.1 The provisional Financial Settlement for local government was published by the Secretary of State for Housing, Communities and Local Government on 20th December 2019. The provisional settlement is in respect of 2020/21 only and has been subject to statutory consultation; this closed on 17th January 2020. The Ministerial announcement on the final Settlement figures for 2020/21 is, however, awaited at the time of writing this report. A verbal update will be provided at the meeting, as appropriate.

3.2 The provisional 2020/21 Local Government Financial settlement

3.2.1 This single year settlement for 2020/21 is essentially a roll-forward of the 2019/20 settlement; which was the final year of the four-year funding settlement offered for 2016/17 to 2019/20.

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 which it calculates are 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 which was provided in 2016/17 and 2017/18 only). 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	2020/21
	£	£	£	£	£	£
Settlement Funding Assessment	5,804,726	4,793,675	4,033,678	3,626,641	3,431,026	3,486,929
Compensation for under-indexing the business rates multiplier	46,153	46,153	48,915	76,866	111,805	139,757
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	9,247,244	9,561,256
Potential additional Council Tax from £5 referendum principle for all Districts	0	89,103	178,011	184,845	192,355	273,710
New Homes Bonus	2,111,892	2,789,490	2,137,013	1,272,624	1,250,191	907,204
Rural Services Delivery Grant	4,234	21,988	17,754	22,125	22,125	22,125
Transition Grant	0	52,845	52,661	0	0	0
Core Spending Power	**15,904,336**	**16,039,886**	**15,025,691**	**14,069,286**	**14,254,746**	**14,390,981**
Change over the Spending Review period (£'s)						**-1,513,355**
Change over the Spending Review period (% change)						**-9.5%**

3.3.3 The Government's assessment of this Council's Core Spending Power for 2020/21 is £14.391million, a small increase of £136,235 (0.96%) over 2019/20.

3.3.4 The change in the level of the Council's Core Spending Power over the five-year period (four-year Spending Review plus one-year roll forward for 2020/21) is a reduction of £1,513,355 or -9.5%.

3.3.5 The key features of the inter action between the elements of the Core Spending Power over the five-year period are the reductions in the Settlement Funding Assessment (£2.318m) and the New Homes Bonus (£1.204m) which are only partially offset by an assumed increase in council tax (£1.898m)

which includes increases in the council taxbase and the council tax levels 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 (RSG) and Business Rates Baseline.

3.4.2 The table below shows the breakdown of the provisional SFA for the Council for 2020/21 together with the Settlement for the four years of the four-year funding offer (2016/17 to 2019/20), for comparison purposes:

	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Revenue Support Grant (RSG)	£1,602,495	£777,347	£272,481	Nil	Nil
Retained Business Rates - Baseline	£3,191,180	£3,256,331	£3,354,160	£3,431,026	£3,486,929
Total Settlement Funding Assessment	**£4,793,675**	**£4,033,678**	**£3,626,641**	**£3,431,026**	**£3,486,929**
Percentage change year-on - year		-15.85%	-10.09%	-5.39%	+1.6%

3.4.3 The reduction in SFA between 2016/17 and 2020/21 is £1.307million (or 27.3%).

3.4.4 The Government confirmed in the provisional SFA that following consultation it had determined that it would continue to eliminate negative RSG: an issue which would have impacted this Council in 2020/21.

3.4.5 The Homelessness Prevention grant has been rolled into the local government finance settlement since 2013. However, the Government still publishes the funding allocation of Homelessness Prevention grant for each council as part of the analysis of each councils' core spending power. This it says is to signal the priority that it attaches to this issue and to encourage local prioritisation. The allocation for this Council and included within the SFA is £71,268 for 2020/21. Since 2017/18, the Government has in addition issued specific grants to local authorities to help address the issue of homelessness, details of these grants are provided at section 3.9 below.

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. For this Council for 2020/21 this has been assessed at £3,486,929.

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 2019/20 (revised) and 2020/21 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 again maintain this higher level.

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 2020/21, the same as that received since 2018/19.

3.7 New Homes Bonus

3.7.1 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 is not be paid. The Government also retained the option of adjusting the baseline in future years to reflect significant and unexpected housing growth.

3.7.2 The Government has decided not to make any change to the baseline and this will therefore remain at 0.4% for the 2020/21 allocations.

3.7.3 Notification on the Council's entitlement for year 10 of the scheme has been received and is £337,541; making the total amount to be received in 2020/21 of £907,204.

3.7.4 The Council's baseline for the year 10 allocation is 245 dwellings, based on Band D weighting. The actual growth recorded between October 2018 and 2019 was 459. The Council will therefore receive NHB on 214 dwellings based on Band D weighting.

3.7.5 In addition, the Council recorded the completion of 135 affordable homes during the 12-month period and these attract a premium payment of £350 per home. The total amount of NHB calculated is then split: 80% payable to the Council and 20% to Essex CC.

3.7.6 As the Settlement Funding Assessment is for one year only, the Government has announced that any funding beyond 2020/21 will be subject to the 2020 Spending Review and potential new proposals to incentivise housing growth, and therefore the NHB allocations in 2020/21 will not result in legacy payments being made in subsequent years on those allocations.

3.7.7 Detail of the payments for up to year 10 (2020/21) 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 from 2017/18 of reducing the payment period from 6 to 5 and ultimately to 4 years.

New Homes Bonus Summary - 2011/12 to 2020/21

	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	2020/21 £'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			988.5
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	328.7	1,314.8
Year 8 (2018/19)								16.2	16.2	16.3	48.7
Year 9 (2019/20)									224.7	224.7	449.4
Year 10 (2020/21)										337.5	337.5
Total receivable in Year	**509.0**	**981.6**	**1,587.6**	**1,854.5**	**2,101.6**	**2,782.1**	**2,129.2**	**1,272.5**	**1,250.1**	**907.2**	**15,375.5**
Less:											
Allocations Agreed	79.0	79.0	66.4	32.3	99.7	95.7	70.0	70.0	70.0	70.0	732.1
Economic Development & Project Delivery							144.8	144.8	144.8	144.8	579.2
Allocated to District Investment	430.0	152.6	1,521.2	1,822.2	2,001.9	2,072.1					8,000.0
Allocated for Affordable Homes		750.0									750.0
Garden Communities						250.0	250.0	100.0			600.0
Grow-on Units, Springwood							86.8				86.8
Broadband						250.0		356.0			606.0
Premdor site - feasibility								80.0			80.0
Housing Development & Local Plan									500.0		500.0
Strategic Investment Team								1,991.2			1,991.2
Resource Available	**0.0**	**0.0**	**- 0.0**	**0.0**	**- 0.0**	**114.3**	**1,577.6**	**- 1,469.5**	**535.3**	**692.4**	**1,450.2**

3.7.8 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 2020/21 total £214,800 and are principally for staffing in Economic Development and Project Delivery service teams.

3.7.9 The balance available for allocation in 2020/21 is £1.45million. Two proposed allocations, totalling £620,000, are included in this report at section 5.3 below. If these are agreed then the unallocated balance will reduce to £830,200.

3.7.10 The Government reiterated its intention in the Local Government Finance Settlement 2020/21 Technical Consultation (published in October 2019) to look again at the New Homes Bonus and explore the most effective way to incentivise housing growth. The Government has indicated that it will consult widely on proposals prior to implementation.

3.8 Housing Benefit and Local Council Tax Support Administration Subsidy

3.8.1 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 £532,170 allocated to the Council for 2019/20.

3.8.2 Notification of the Housing Benefit administrative subsidy was received from the Department for Work and Pensions (DWP) on 17th January 2020 and provides an allocation of £333,569 for 2020/21. The notification also included two New Burdens grant allocations in respect of: Universal Credit of £11,079 and Other (of which the two main elements are in respect of administration of Discretionary Housing Payments and the Benefit Cap) of £38,076. The total of these three allocations is £19,641 less than that received in 2019/20.

3.8.3 As the number of claimants of working age continue to transfer to universal credit 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 44% of caseload. On this basis the Council can expect a reduction of this element of the subsidy. An estimated reduction of £45,000 per annum is included in the Financial Profile for 2021/22 and 2022/23. The Housing Benefit service has and will continue to proactively manage staffing levels when vacancies have arisen and posts have been/will be deleted from the establishment as workload declines.

3.8.4 The notification of the Local Council Tax Support administration subsidy for 2020/21 is due to be received from the Ministry for Homes, Communities and Local Government (MHCLG) in early February 2020. The amount allocated to this Council for the current year was £129,807. Detail of the allocation will be provided in a verbal update at the meeting, as appropriate.

3.8.5 The reduction in these administrative subsidies between 2019/20 and 2020/21 is estimated to be a total of £28,340, with further reductions of £45,000 anticipated in 2021/22 and 2022/23 as claimants of working age continue to be transferred to universal credit.

3.9 Homelessness Grants

3.9.1 **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.

3.9.2 The Ministry for Housing, Communities and Local Government (MHCLG) published the 2020/21 allocations on 23rd December 2019; this Council has been allocated £198,948, the same figure as that received in the current year.

3.9.3 **Homelessness Reduction Grant**. The Homelessness Reduction Act introduced a number of new duties on local authorities, most notably to prevent and relieve homelessness and to intervene earlier to prevent homelessness (when it is likely that an applicant will become homeless within 56 days instead of the 28 days required under the previous legislation). The MHCLG also published the allocations of this grant for 2020/21 on 23rd December 2019. The amount allocated to this Council is £121,005; this compares to £55,115 received for 2019/20.

3.9.4 It is proposed that both of these Homelessness grants continue to be earmarked for housing purposes; in particular to provide the funding for the

additional members of staff engaged to ensure the requirements of the new duties are met.

3.10 **Brexit Preparations Grant**

3.10.1 Each district council has received a grant of £35,000, two sums of £17,500 in 2018/19 and in the current year, from the Government to 'prepare for an orderly exit from the EU and do appropriate contingency planning'.

3.10.2 Whilst officers had undertaken some contingency planning and participated in joint planning meetings with Essex authorities the costs to-date have only involved allocations of officer time and therefore the full amount of the grant remains available for the Council to use as appropriate over the coming months.

4. Financial assumptions Update

4.1 Review of Budget Savings identified in previous years

4.1.1 The Financial Profile, agreed in February 2019, included movements on cost reductions and additional income planned for the period 2020/21 to 2022/23. These have been reviewed and updated where appropriate. The main changes include the removal of the changes (positive and negative) relating to interest earned from investments as these have been re-assessed based on an updated estimated cashflow over the next four years (included at section 6.4) and the removal of the increase (of £10,000) in sponsorship income.

4.1.2 A summary of the value of the planned savings/additional income and the proposed adjustment required is provided in the table below:

	2020/21 £	**2021/22 £**	**2022/23 £**
Savings/Additional Income Planned	3,620	(56,950)	(61,000)
Less: Proposed Adjustment	(36,000)	28,000	47,000
Revised Value of Savings/Additional Income	(32,380)	(28,950)	(14,000)

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

4.2.1 The Financial Profile includes for 2020/21 the consequences of the planned priority investments and unavoidable budget changes which were identified in previous years.

4.2.2 Of the six planned changes, four were one-off budget requests in 2019/20 and these are therefore being removed from the base budget in 2020/21. Details of these four budget requests are:

- An allocation of £500,000 to the Planning Appeals reserve;
- A provision of £500,000 for Housing Development and Local Growth;
- Surplus on Council Tax Collection Fund – allocation of part of the estimated 2018/19 surplus to town and parish councils in the Braintree District of £21,040; and

- Provision of £50,000 for technical skills and expertise to develop our in-house IT services' knowledge.

4.2.3 The total value of these budget reductions to be made in 2020/21 is £1,071,040.

4.2.4 The two unavoidable budget changes identified for 2020/21 onwards which were expected to impact on the base budget are:

- Council Tax Sharing Agreement with major Essex precepting authorities, based on a proposed revision of the terms of the agreement from 16% in 2018/19 to 14% for 2019/20 and then to 12% for 2020/21, a reduction of £65,730 was anticipated; and
- Council Tax Support and Housing Benefit Administrative Subsidies – anticipated reduction of £88,500 per annum, for 2020/21 and 2021/22, 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.

4.2.5 Discussions have been held with Essex County Council regarding the sharing agreement and the share is to continue at 14% (subject to performance targets being achieved) for 2020/21 and 2021/22. Therefore, the reduction of £65,730 for 2020/21 has been removed. Whilst notification has been received in respect of housing benefit administrative subsidy, the allocation for council tax support is expected in early February. It is estimated that the reduction in administrative subsidies for 2020/21 will be £28,340. It is estimated that the reduction over the following two years will be £45,000 per annum and this update has been 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 £1,190,930, included in the 2019/20 budget.

4.3.2 The outcome of the review is a predicted positive variance for the year of £715,000 (4.9% against the net budget of £14.54million): this is due principally to additional income of £502,000, an underspend against the salaries budget of £21,000 and an underspend on other expenditure budgets of £192,000.

4.3.3 Details of this predicted outturn for 2019/20 were contained in the Quarterly Performance report to Cabinet on 18th December 2019.

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 2020/21. These are included in the Cost Reduction/Additional Income at section 6 below.

4.4 Provision for inflation

4.4.1 **Pay Award.** The Financial Profile includes provision for an annual pay award of 2% which follows the last agreement; two-year pay award agreed in April 2018, providing 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. The actual increase will be determined through negotiation at a national level between the Employers Organisation and the unions. Allowances are provided for annual incremental progression for staff who are not at the top of their grade (payment is subject to achievement of satisfactory performance).

4.4.2 Whilst it is not anticipated that the Council will have any financial consequences from the increase in the National Living Wage from April 2020 with regard to its employees, there is potential for increased costs regarding agency staff. An allowance for an increase of 6.2% or 51p per hour (to £8.72) on the agency staff budget has been included for 2020/21 under Other inflation in the Finance Profile.

4.4.3 **Members Allowances.** A provision of a 2% annual increase has been included in the Finance Profile.

4.5 Pension Fund Contributions

4.5.1 The result of the Triennial Review of the Essex Pension Fund, as at 31st March 2019, was received on 1st November 2019. The review determines the pension fund assets and liabilities applicable for each employer in the fund and sets the deficit contribution and employer contribution rate for the three years 2020/21 to 2022/23. The results of the review are summarised in the table below; showing the Essex Pension Fund as a whole and for Braintree DC's portion together with the results at 31st March 2016 for comparison:

	Braintree DC part of Fund				Essex Pension Fund			
	31st March 2019		31st March 2016		31st March 2019		31st March 2016	
	£m		£m		£m		£m	
Assets	156.652		119.878		6,711		4,993	
Liabilities	-151.454		-134.347		- 6,917		- 5,598	
Net Position (surplus/deficit(-))	5.198		-14.469		-206		-605	
Funding Level		103.4%		89.2%		97.0%		89.2%
Deficit Recovery Period		7.5 years		10.5 years		12 years		15 years
Deficit Recovery Rate		1.5%		5.2%		1.5%		5.2%
Employer Primary Rate		20.3%		16.5%		20.0%		16.3%
Overall Contribution Rate		21.8%		21.7%		21.5%		21.5%

4.5.2 The review shows that the Essex Pension Fund has performed very well over the three year period, between 2019 and 2016, with this Council's part of the Fund having moved from a funding level of 89.2% to 103.4%. This represents a snap shot and is based on a series of assumptions concerning future trends and continued deficit payments are deemed necessary as a contingency against any deterioration to this position. The actuary has calculated that the

recovery period for this Council's deficit is 7½ years, which compares to 12 years on average for all organisations in the Essex Pension Fund. As a result of the performance of the Fund the deficit recovery rate has been re-assessed with the rate required over the next three years being reduced from 5.2% to 1.5%.

4.5.3 The ongoing employer contribution rate (primary rate) is set to rise to 20.3% from the current level of 16.5%. This is due principally to changes in the financial assumptions used by the Actuary (+5.3%) including an increase in the rate of inflation from 2.4% to 2.6% and a reduction in the discount rate from 5.1% to 4.5%, although these were offset partially by a reduction in the estimated life expectancy of members (-1.6%).

4.5.4 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 is increasing the deficit on the Council's part of the Fund has been reduced such that the combined elements are only marginally higher than that at the previous review in 2016: total contribution rate of 21.8% compared to 21.7%. This Strategy has not impacted adversely for the Council on the planned period over which the deficit is to be addressed. The triennial reviews in 2010, 2013 and 2016 determined recovery periods of 20, 14 and 10½ years, respectively. The current review has determined the recovery period has reduced to 7½ years: a reduction in line with the anticipated reduction following 3 years of deficit payments.

4.5.5 The estimated contribution payments to the Pension Fund over the three year period 2020/21 to 2022/23, with the deficit payments proposed to be made on 1st April 2020, are shown in the table below:

	2019 Valuation		
	2020/21 £	**2021/22 £**	**2022/23 £**
Ongoing Rate (estimate)	2,575,100	2,631,780	2,691,280
Deficit Payment	2,468,311		
Total Payment to Fund	5,043,411	2,631,780	2,691,280
Deficit Period	7½ years		

4.5.6 The figures in the table are based on the same payment plan option which the Council agreed for the 2016 Valuation payments i.e. a one-off upfront payment, of all three years' deficit payments, on 1st April of the first year. This produces a saving of £112,250 against the option of paying the deficit payments on the 1st April of each of the three years.

4.5.7 It is recommended that the Council agrees to opt to pay the total deficit payment, of £2,468,311, on 1st April 2020. The accounting requirement for this is that the total payment is accountable in 2020/21; the implication of this is that two thirds of the payment (re 2021/22 and 2022/23) will need to be funded from the unallocated balance in 2020/21 with this resource being repaid over the two following years.

4.5.8 The adjustments required to the Financial Profile in respect of the pension payments detailed above are:

	2020/21 £	2021/22 £	2022/23 £	2023/24 £
Increase for Deficit Payment (3 years' on 1/4/20)	867,610			956,580
Increase for Employer Contribution	482,110	10,980	11,240	8,910
Use of balances to fund years 2 & 3 deficit payments	(1,645,540)			
Net Adjustment	(295,820)	10,980	11,240	965,490

4.5.9 The increase to the budget in 2023/24 provides an estimated deficit payment of £956,580 which is the 2022/23 figure based on the single annual payment option. The actual deficit payment for 2023/24 will be determined by the Triennial Review to be undertaken as at 31st March 2022.

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 2020/21 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 2018/19.

4.7.3 A schedule detailing the proposed levels of discretionary fees and charges for 2020/21 is provided at the following link: Proposed Fees & Charges 2020/21.

4.7.4 Proposed levels of trade waste charges and environmental permits for 2020/21 have not been determined at the current time due to information required from a third party not being available. In addition core leisure charges are determined annually with Fusion, the Council's leisure services partner, by the Cabinet Member for Health and Wellbeing. It is proposed that authority is delegated to the Cabinet Member to determine the level of these fees for 2020/21.

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 increased by CPI as at September 2019 plus 1% (rounded down to ensure a daily rate can be calculated): this is in line with that prescribed by the Government to Registered Social Landlords. Details of the proposed rents and service charges for 2020/21 are provided in the schedule using this link: Proposed Fees & Charges 2020/21.

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 2020/21 to 2022/23 are included in section 6.4 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, across a number of service areas.

4.9.2 The Inter Authority Agreement for Waste Management is the most significant at £1.975million (2019/20 budget). Other agreements are for Community Transport (£90,330) and for a council tax sharing arrangement (£460,000).

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. Whilst no formal confirmation at the time of writing, a new agreement is expected to be agreed with the level of funding frozen at the current level of £90,330 for 2020/21;
- Council Tax sharing agreement – a new 2-year agreement has been agreed between the three major preceptors (Essex CC, Essex Police and Essex Fire & Rescue) and all of the Essex borough/district/city councils covering 2020/21 and 2021/22. The scheme maintains the current share to the districts at 14% but only if performance targets are met, if the targets are not achieved then the share reduces incrementally down to 12%.

5. Unavoidable Budget Demands and New Investments

5.1 Bids for revenue funding to meet unavoidable budget demands and new investments total £1,384,180, in 2020/21 and £179,930 in 2021/22. Just under half of these, £514,000 in 2020/21, and all in 2021/22 are an ongoing

requirement and therefore are needed to be added to the base budget. Nine requests, totalling £870,180 in 2020/21 and £191,730 in 2021/22, are for one-off budget requirements.

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

Corporate Transformation

- Marketing & Communications – Income budgets for advertising are challenging with difficulties experienced in particular in selling space on the Council's refuse vehicles however this is partly mitigated with income generated from providing sales support to Basildon District Council. Budget request of £10,790.

Environment and Place

- Waste Management – recyclable materials: gate fees charged for disposal are determined in part by quarterly reference to market indices and these are now higher than the current year budget. Budget request of £150,000;
- Fleet Management – Comparability of driver's rate of pay to reflect responsibilities for their vehicle, Heavy Goods or Light Goods, included under the Operator's Licence – budget request £20,000;
- Operations – increase in rent payable for the depot/offices at Lakes Road. Budget request £16,000;
- Waste Management – Revenue costs for an additional vehicle and three staff members due to growth in the District. Budget request £155,000 in 2021/22;
- Community Services – the Community Safety Officer post is currently funded from an earmarked reserve. Partners in the Community Safety Partnership, that are able, are prepared to part fund the post from September 2020 when the reserve will be fully expended. Budget request is £9,130 in 2020/21 and £9,130 in 2021/22, which will meet 50% of the full cost;

Finance and Performance Management

- Governance – Elections – Increase contribution to reserve to ensure sufficient resource to fund District Elections in 2023. Budget request of £3,000;
- Governance – Governance and Information Lawyer post was engaged on a two-year fixed term contract to assist with the introduction of the General Data Protection Regulations; however, the workload has not decreased over the period as expected. Work includes advising on and agreeing a significant number of data sharing agreements with partners and other agencies, increased data access requests and the need to meet strict timescales for reporting and managing breaches of data security. Budget requests for £19,110 in 2020/21 and £15,800 in 2021/22;
- Governance – Democratic Services – dedicated Scrutiny Officer to support the three inquiry led scrutiny committees. The work will include research and report preparation as well as overall programme management. Budget request of £42,000;

- Governance – increases to Members Allowances, as recommended by the Independent Remuneration Panel, were agreed by Full Council after the 2019/20 Budget was set. Budget request of £72,000;
- Finance – Insurance premia increase due to higher asset valuations, claims history and inflation. Budget request of £24,000;

Planning

- Sustainable Development – Planning Enforcement – additional Senior Enforcement Officer Post required to meet increasing demand and to enable the service to become more pro-active in enforcement activity and monitoring. Budget request of £56,490;
- Sustainable Development – Landscape Services – increased staffing capacity with an additional Tree & Landscape Officer post and by increasing the part-time Administrative Support post to a full-time basis to meet increased workload on the service, together with an increase in the tree management budget for additional tree management works and to undertake survey work to update the tree data base records. Budget requests of £50,480 for staffing and £30,000 for tree works and survey;
- Sustainable Development – Software package (PlanX) – self-service system for customers to be able to check planning requirements for their proposal. Budget request of £11,000 for annual running costs (a bid for capital funding is included for the initial purchase of the system).

5.3 The bid requests for unavoidable budget demands and new investment, which are one-off or for a defined period, are:

Communities, Culture and Tourism

- Town Hall – Upgrade CCTV system as the existing system is over 10 years old and replacement parts are difficult to obtain. Budget request of £6,000;
- Health and Community Services – Additional support to ensure the delivery of projects including: Maltings Lane Community Facility, Leisure Contract Review, Live Well projects (including BeWell plan), Mental Health Forum and Action Plan, and developing community engagement activity. Two officers for a 2 year fixed period. In addition, a project allowance of £20,000 p.a. to support delivery of projects, communications and engagement activity. Budget request of £94,730 per annum for 2 years – total £189,460 (propose funding from a new Community Projects reserve created from the People and Places element of the former CHIP Fund);

Economic Development and Infrastructure

- Economic Development – Provision to enable the implementation of the North Essex Economic Growth strategy – this is subject to other Councils matching the request and a suitable action plan being approved. Budget request £20,000 (propose funding from unallocated balance of New Homes Bonus);
- Education and Skills Board - The Braintree District Education and Skills Board was launched in 2017, with the aim to bring education providers and employers together to better understand the skills picture across the District and match the needs of employers with the education

provision. Some successful projects funded through this Board include the apprenticeship fair and the careers fair which are popular with employers, students, parents and other prospective employees. Budget request £15,000 to deliver projects (propose funding from a new Community Projects reserve created from the People and Places element of the former Community and Housing Investment Partnership (CHIP) Fund);

Environment and Place

- Waste Management – Undertake a fundamental review of the District's Waste Collection Services, embedding the principles of the circular economy into our activities and consider innovative ways of reducing, reusing and recycling the waste. Identify new collection systems and technologies that actively encourages residents to recycle more of their waste whilst reducing the size of residual waste bins and/or frequency of residual waste collections service. Budget request for £50,000 per annum for 2 years – total £100,000 (propose funding from Corporate Improvement earmarked reserve);

Finance and Performance Management

- Town/Parish Councils – to allocate a proportion of the estimated surplus on the Council Tax Collection Fund from 2019/20, of £155,120, to the Town/Parish Councils. The proportion payable to the Town/Parish Councils is £29,450 and is for 2020/21 only. This proposal was agreed by Council on 16th December 2019.
- Governance – Legal Services – Case Management System is no longer supported by the supplier, propose to review and either upgrade existing system or purchase new system. Budget request of £8,000;

Planning

- Sustainable Development – Infrastructure Project Officer – the role will provide an infrastructure lead for the local authority, working with partners and stakeholders both internally and externally to provide a single liaison point working across the whole of the Growth Directorate. The role would be the lead BDC officer for national highway improvement schemes such as the A120 and A12 as well as smaller community infrastructure schemes with improvements and contributions secured through S106 contributions. Budget request £47,000 per annum for 3 years – total £141,000 propose funding from the Housing Development and Local Plan Growth Reserve; and
- Housing Development and Local Plan Growth – It is proposed that an addition of £600,000 be allocated to the Housing Development and Local Plan Growth reserve. The reserve was established in the current year to meet the costs associated with the delivery of housing growth in the District as required in the Local Plan. In the current year an allocation of £350,000 from the reserve was agreed for phased drawdowns to the North Essex Garden Communities Ltd following formal requests by way of a NEGC Board resolution in accordance with the agreed milestones. The balance of the reserve is to be used to fund the proposed new post of Infrastructure Project officer, as detailed above. It is proposed that the additional allocation is funded from the unallocated New Homes Bonus.

5.4 The proposed funding arrangements for the one-off requests are summarised in the table below:

	General Fund Unallocated Balance	Community Projects Reserve (former CHIP Fund)	Council Tax Collection Fund Surplus	Housing Development and Local Plan Growth Reserve	Corporate Improvement earmarked reserve	Unallocated New Homes Bonus Balance
Town Hall – Upgrade CCTV system	£6,000					
Health and Community Services posts		£94,730 pa for two years				
Economic Development - NE Economic Growth strategy						£20,000
Education and Skills Board		£15,000				
Review of waste collection					£50,000 p.a. for two years	
Town/Parish Councils – share of collection fund surplus			£29,450			
Legal Services – Case Management System	£8,000					
Infrastructure Project Officer				£47,000 p.a. for three years		
Addition to Housing Development and Local Plan Growth Reserve						£600,000

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 review has identified budget adjustments with a total value of £523,330. These have been agreed by Management Board as they do not have a direct impact on customers or service delivery.

6.3 This total has been reduced by £50,000 from that in the initial Budget Proposals. This is due to a review of the increase in the level of the Efficiency Factor, which was initially increasing by £150,000 to £350,000 but in light of the anticipated level to be achieved in the current year the amount of the increase has been reduced to £100,000.

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

Cabinet Portfolio	Business Plan	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Corporate Transformation	Asset Management	33.61	0.86	24.35	
	Marketing & Communications	20.00			
Environment & Place	Operations	55.00			
Finance & Performance Management	Finance	314.72	-93.00	3.00	7.00
	Human Resources	10.00			
	Governance	50.00			
Planning	Sustainable Development	40.00			
	Totals	**523.33**	**-92.14**	**27.35**	**7.00**

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 provisional baseline figure for 2020/21 is £3,486,929; as provided in the Settlement Funding Assessment (section 3.4.2 above).

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% of the baseline amount: any shortfall greater than this will be met from the Essex Pool.

8.4 An assessment of the business rates collectable and collected up to 30th November 2019 has been undertaken and used as the basis to provide a revised estimate for 2019/20 and an estimate for 2020/21 of the amount of business rates to be retained by the Council.

8.5 The revised estimate for 2019/20 and an estimate for 2020/21 are shown in summary below:

	Revised 2019/20 £	**2020/21 £**
Business Rates collectable – due to BDC	16,875,524	17,082,315
Renewable Energy – 100% retained by the Council	-36,109	74,000
Estimated deficit(-)/surplus on business rates collection fund for previous year	57,034	188,955
Transfer from/to (-) Business Rates Retention Reserve	-57,034	-188,955
Retained Business Rates	**16,839,415**	**17,156,315**
Tariff payable to Government	-13,027,512	-13,239,773
Levy payable to Essex Pool	-1,249,341	-1,202,522
Section 31 grants for Small Business Rates Relief and Autumn Statement Reliefs	2,273,751	2,288,548
Estimated value of Retained Business Rates	**4,836,313**	**5,002,568**
Business Rates Baseline	3,431,026	3,486,929
Business Rates Growth above Baseline	**1,405,287**	**1,515,639**

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 2019/20 is £4,836,313, a small decrease of £18,427 against the budgeted figure of £4,854,740.

8.7 For 2020/21, the estimate is determined on the basis of an estimate of the level of appeals against the 2017 Rating List 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, Supporting Small Business Relief and Discretionary Business Rates Relief schemes. The estimated amount of business rates that will be retained by the Council is £5,002,568 i.e. £1,515, 639 more than the provisional Baseline amount.

8.8 The estimated Business Rates Retained for 2020/21 is £63,815 higher than the figure assumed in the Medium-Term Financial Strategy agreed by Council in February 2019.

8.9 The estimated balance on the Business Rates Collection Fund as at 31st March 2020 is a surplus of £188,955. 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 2020/21 is now expected to be the final year of the current Business Rate Retention scheme. This follows the Government's decision to postpone the introduction of the proposed 75% Business Rate Retention from 2020/21 to 2021/22. The new scheme is currently being developed and consultation papers are expected to be published in 2020 regarding the detail of the scheme and also on the Fair Funding Review. The consequences of

the latter will have a direct impact as this will be used to 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 2021/22 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 2021/22 onwards. It is considered that a full reset for 2021/22 indicates that the current level of business rate growth retained (£1.515million estimated in 2020/21) will not be available to the Council. With only a proportion of the growth achieved above the reset baseline in 2021/22 will be retained in that year.

8.12 If correct this would have a significant impact on the Council's finances for the future, particularly for 2021/22. Unfortunately, this will not be determined until the baseline is reset and the detail of the new scheme and any transitional arrangements (which have been used in previous years to phase the level of reduction over a number of years) are published.

8.13 At this time, due to the lack of detail of the new scheme, the estimates of business rates retained for 2021/22 to 2023/24 continue to include the growth above baseline estimated for 2020/21 of £1.515million.

9. Business Rate Taxbase

9.1 The Council's Business Rates Taxbase for 2020/21 was calculated as at 12th December 2019 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 £42,705,787 shown in Appendix A.

9.2 In recent years the Government has announced a number of rate relief schemes which it has asked local authorities to implement by exercising their discretionary discount powers under Section 47(3) of the Local Government Finance Act. The Government has given an undertaking to reimburse local authorities which implement the schemes.

9.2.1 **Rural Rate Relief** – the Government's 2016 Autumn Statement confirmed the doubling of this 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 2020/21.

9.2.2 In the Spring 2017 Budget, the Government announced three business rate reliefs to help businesses most affected by the 2017 Rating Revaluation. The Cabinet agreed, on 9th October 2017, to implement the three schemes. Two of these reliefs continue to be applicable for 2020/21:

- **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; and

- **Discretionary Business Rates Scheme** – from 1st April 2017 for a period of up to four years.

The third, Public House Relief, ceased on 31st March 2019.

9.2.3 **Retail Rate Relief** – 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. The Council agreed on 25th February 2019 to implement a Retail Relief scheme for 2019/20 and 2020/21. The scheme identified that the properties that would benefit from the relief will be occupied hereditaments with a Rateable Value of £51,000 or less and that they are wholly or mainly being used as shops, restaurants, cafes and drinking establishments.

9.3 It was noted that the Queen's Speech to Parliament on 19th December 2019 included reference to the Government extending the business rate relief to retailers, pubs and restaurants and to increase the level of discount from the current level of one-third to one-half. It is proposed that the Council increases the level of the discount on the Retail Rate Relief scheme from one-third to one-half for 2020/21 subject to the receipt of the necessary guidance and confirmation of funding from the Government.

10. Business Rates – Essex Pooling arrangement

10.1 The Council has participated in an Essex Business Rates Pool since 2015/16. Under this arrangement growth in business rates, above an authority's baseline figure, which would normally be passed to the Government is retained and shared between the authorities in the Essex Pool. Over the four years, 2015/16 to 2018/19, the Council has received a total of £2.171million under the Essex Pooling arrangements. The Council has allocated £1.5million of this amount to fund the I-Construct building at Springwood Industrial Estate, Braintree.

10.2 Fifteen authorities are participating in the Essex Pool in 2019/20. This includes Essex County Council, the Essex Police, Fire and Crime Commissioner Fire and Rescue Authority, Southend Unitary Authority as well as all twelve district councils. On 18th December 2019 the Secretary of State for Housing Communities and Local Government issued a letter to Essex County Council (lead authority for the Essex Pool) confirming that the Essex Pool will continue for 2020/21.

10.3 The decision to participate in an Essex Pool was based on the assessment that estimated business rates income for 2020/21 will exceed the baseline amount, as outlined at paragraph 8.7 above, and that on the proposed sharing arrangement the Council could receive an additional amount of business rates of approximately £634,000, i.e. a proportion of the estimated levy of £1,202,522 which will be paid into the Essex Pool.

10.4 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 2019/20 and 2020/21 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 2020/21 this has been estimated to be £7.192million. 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 18th December 2019, the Cabinet determined that it would not propose any changes to the Council's LCTS scheme for 2020/21; 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 2020/21 to be recommended for approval by Council can be found on the Council's website at: Proposed Local Council Tax Support Scheme 2020/21

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 2020.

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 2020/21. The other three major precepting authorities have already agreed to continue to provide funding for 2020/21.

11.10 The value of the Exceptional Hardship Fund for 2020/21 will be £14,384; 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

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 Council Tax 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 £1,229,000. The surplus will be allocated to:

- Essex County Council – £888,303
- Braintree District Council – £155,120
- Essex Police, Fire and Crime Commissioner– Policing & Community Safety – £134,919
- Essex Police, Fire and Crime Commissioner – Fire and Rescue Authority – £50,658

12.3 This Council's proportion of the council tax surplus, to be returned to council taxpayers in 2020/21 is £155,120. It has been agreed that £29,450 of this surplus will be paid to town and parish councils in 2020/21. This compares to the surplus returned to council taxpayers of £113,625 in 2019/20 (of which £21,040 was returned via payments to the town and parish councils).

13. Council Taxbase

13.1 The Council's taxbase for 2020/21, calculated as at 30th November 2019, is 53,373. This was agreed, under delegated authority, by the Corporate Director responsible for Finance. This compares to a taxbase of 52,521 for 2019/20; an increase of 852 or 1.62%.

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/premium 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 vary any of these levels for 2020/21.

13.5 The current level of premium on long-term empty properties is as follows:

- Properties which have been unoccupied and substantially unfurnished for two years or more – 100% premium.

With the following changes agreed for the following two years, as permitted under the Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Act 2018:

- From 1st April 2020, Empty Homes Premiums of:
  - 100% will be applied, in addition to the full (100%) charge, for all premises which have been unoccupied and substantially unfurnished (empty) for a period of less than 5 years: and

- 200% if the period is at least 5 years on or after 1st April 2020

- From 1st April 2021, Empty Homes Premiums of:
  - 100% will be applied, in addition to the full (100%) charge, for all premises which have been unoccupied and substantially unfurnished (empty) for a period of less than 5 years;
  - 200% if the period is at least 5 years but less than 10 years; and
  - 300% if the period is at least 10 years on or after 1st April 2021.

13.6 The determination for a financial year must be made before the beginning of the year. It is also 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.

13.7 It is proposed to reaffirm the Council's decision to increase the premium charged for properties empty for at least 5 years to 200% with effect from 1st April 2020 and that the required advertisement be issued within 21 days of the Council meeting in February 2020.

13.8 As an encouragement to owners of empty properties to bring them back into use the Council introduced, for 2019/20 onwards, an incentive whereby when a property is occupied a refund of the new premium charged (i.e. the amount above the original charge of 50%) for the previous 12 months will be made.

13.9 An analysis of 219 properties being charged the 100% premium shows that 114 will be liable for the 200% premium from 1st April 2020 and that from 1st April 2021 83 would be liable for the 300% premium and 47 liable for the 200% premium. It is noted that 51 of the 219 properties are in Finchingfield and are owned by the Ministry of Defence.

13.10 Discussions are currently being held with other Essex billing authorities and Essex County Council regarding the potential introduction of a council tax exemption for care leavers, aged 21 and under, from 1st April 2020. This exemption is currently only mandatory in Wales but can be introduced in England under discretionary powers. If a proposal is agreed in principle by all Essex billing authorities then this will be presented for consideration by Cabinet and Full Council at the earliest opportunity.

13.11 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.

13.12 It is proposed to maintain the allowance for losses on collection at 1% for 2020/21.

13.13 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		3	3	5/9	1	1
A	6,028	-2,198	3,830	6/9	2,553	2,527
B	17,081	-3,966	13,115	7/9	10,201	10,099
C	19,039	-2,877	16,162	8/9	14,366	14,223
D	9,643	-907	8,736	9/9	8,736	8,649
E	7,292	-498	6,794	11/9	8,304	8,221
F	4,230	-204	4,026	13/9	5,815	5,756
G	2,213	-107	2,106	15/9	3,510	3,475
H	214	-19	195	18/9	391	387
				Add contributions in Lieu		35
	65,740	-10,773	54,967		53,877	53,373
2019/20	*64,785*	*-10,674*	*54,111*		*53,051*	*52,521*

13.14 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 2021/22 onwards. This provides estimated council taxbases of 54,174, 54,987 and 55,812 in 2021/22 to 2023/24 respectively.

14. Council Tax Levels and Referendum Principles

14.1 **Council Tax Referendum principles.** 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. The provisional Financial Settlement for local government for 2020/21 contained the proposal that for shire district councils the referendum principles for 2020/21 be set at the higher of 2% or up to and including £5. An increase of £4.95 (used as divisible by 9 – council tax bands are based on ninths see table at section 13.13) on this Council's Band D for 2020/21 equates to a percentage increase of 2.75%.

14.2 With regard to the Referendum principles for town/parish councils the Government has stated, in the technical consultation paper on the provisional Local Government Finance Settlement 2020/21, the following:

'*In 2018/19, the Government announced it did not intend to set referendum principles for town and parish councils for three years. This was contingent on the sector taking all available steps to mitigate the need for council tax increases and the Government seeing clear evidence of restraint in the increases set by the sector.*

In 2019/20 the average Band D parish precept has increased by 4.9%. This is the same percentage increase as in 2018/19 and compares to an increase of 6.3% in 2015/16. The Government remains concerned about the pressure placed on taxpayers by town and parish councils across England and continues to expect them to exercise even greater restraint in 2020/21.

After consideration of the responses to the technical consultation, the Government proposes to continue with no referendum principles for town and

parish councils in 2020/21. The Government will keep this matter under active review for future years'.

14.3 **Council Tax Levels**. It is proposed that this Council's council tax requirement is increased by £4.95 (2.75%) to £184.68 per annum (at Band D) for 2020/21. This equates to a council tax charge, for a Band D property, for the provision of this Council's services of £3.55 per week; an increase of approximately 9p per week over the current year.

14.4 Whilst this proposal results in an estimated addition to balances of £222,269 in 2020/21 this level of increase 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 2020 Spending Reviews. It is also noted that whilst the proposed budget includes a provision for the annual pay award for staff for 2020/21, the actual amount is still subject to agreement between the Employers Organisation and the unions.

14.5 The table below identifies the estimated budget shortfall to be addressed in 2020/21 to 2023/24. For financial planning purposes only, increases in council tax of between 1.96% and 2.00% per annum are assumed for the years 2021/22 and 2023/24 respectively, i.e. based on the lower threshold limit of the referendum principle.

Year	Council Tax at Band D	Percentage increase	Estimated budget shortfall to be addressed
2020/21	£184.68	2.75%	0*
2021/22	£188.37	2.00%	£394,962
2022/23	£192.06	1.96%	£173,680
2023/24	£195.84	1.97%	£334,165

Note: * An addition to balances, of £222,269, for 2020/21 will result from the proposals in this report

15. Budget Consultation

15.1 Performance Management Board

15.1.1 The Performance Management Board, on 27th November 2019, received a presentation from the Deputy Leader of the Council and the Cabinet Members for Finance and Performance Management and Corporate Transformation on the Council's priorities for 2020/21 and the initial budget position. This was the first of two opportunities for the Board 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 Performance Management Board meeting scheduled for 29th January 2020 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 2020/21 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 2020/21 presented in this report provides for:

- Community Safety Officer – post is currently funded from an earmarked reserve. Proposal to add to base budget with 50% of cost to be funded by partners in the Community Safety Partnership;
- Governance and Information Lawyer – post is currently on two-year fixed term contract, proposal to add to permanent establishment;
- Additional capacity in Democratic Services with a new dedicated Scrutiny Officer to support the Council's three inquiry led scrutiny committees;
- Additional capacity in Planning Enforcement with an additional Senior Enforcement officer post to enable the service to become more pro-active in enforcement activity and monitoring;
- Additional capacity in Landscape Services with an additional Tree and Landscape Officer post and increase part-time Administrative Support post to full-time to meet increased workload on the service;
- A new post of Infrastructure Project Officer in the Sustainable Development service. It is proposed that the post will provide a single liaison point working across the whole growth directorate and will be the Council's lead officer for national improvement schemes as well as smaller community infrastructure schemes;
- Fleet Management – ensuring comparability of pay for drivers of both Heavy Goods and Light Goods vehicles included under the Operator's Licence; and
- Additional capacity in Health and Community with two new posts focussing on health and leisure development and community engagement and facilities, on fixed two-year contracts.

16.2 Pay Policy for 2020/21

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 2020/21 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 B reflects the Council's current pay position.

17. Financial Profile 2020/21 to 2023/24

17.1 An updated Financial Profile for 2020/21 to 2023/24 taking account of the proposed savings and revised assumptions is provided at Appendix C.

17.2 A summary, analysed by business plan, of the controllable budgets for 2020/21 is provided at Appendix D.

17.3 The updated financial profile 2020/21 to 2023/24 shows for:

2020/21 – addition to Balances of £222,269;
2021/22* – shortfall of £394,962;
2022/23* – shortfall of £173,680; and
2023/24* – shortfall of £334,165.

Note: these years are likely to be subject to significant changes once the outcomes are known of the Fair Funding and 2020 Spending Reviews and also the Government's decision regarding the proposed new 75% Business Rates Retention scheme, each of which are expected to be implemented from 1st April 2021.*

17.4 The approach to address the anticipated budget shortfalls over the period of the MTFS will be the continuation of the workstreams under the Better at Business of:

- Maximising value from third party spend;
- Increasing income including from investments;
- Service efficiency; and
- Contract management

17.5 In addition, a cross-disciplinary project team has recently been created to support heads of service reviewing their services. The team, under the direction of the relevant head of service, will apply a structured approach designed to provide consistency to the process while reducing the resource impact to each service. The project team will identify the right tools to meet

the specific challenges of each area and will work with service team members to ensure an understanding of:

- Customer expectations and how they are met
- Whether the current demand for the service is resourced appropriately, and if there are opportunities to create efficiencies in the current delivery model?
- Whether the service could be delivered collaboratively with other departments or other organisations?
- How technology could play a greater part in delivery of services? and
- Whether smarter working could be effectively used?

The information collected will then be analysed, with the project team and potential cost savings identified which could be achieved.

17.6 Estimated revenue income and expenditure implications of the projects agreed in the Strategic 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 2019 was £5.787million.

Agreed and anticipated movements on the balances are:

	£'000
General Fund	
Planned addition to balances in setting 19/20 Budget	128
Anticipated surplus in 2019/20 (based on Q2)	715
Planned repayment re Pension Deficit	1,411
Planned use to meet one-off expenditure in 2019/20	(622)
Estimated Balance as at 31st March 2020	**7,419**

18.2 The estimated transfer to balances for 2020/21 is £222,269, as shown in Appendix C. It is proposed that the Council agrees to pay the annual pension deficit for the three years 2020/21 to 2022/23 in a single payment of £2.468million to the Essex Pension Fund on 1st April 2020. The payment in advance for the two years 2021/22 and 2022/23 is to be funded by the temporary use of the unallocated balance and consequently the unallocated balance will be reimbursed in each of these years. The estimated movements on the anticipated balance over the three years are:

	£'000
General Fund	
Estimated Balance as at 31st March 2020	**7,419**
Proposed addition to balances in setting 20/21 Budget	222

Drawdown for Pension deficit payment on 1/4/20	(1,646)
Planned use to meet one-off expenditure in 2020/21	(14)
Estimated Balance as at 31st March 2021	**5,981**
Planned repayment of Pension Deficit re 21/22	823
Estimated Balance as at 31st March 2022	**6,804**
Planned repayment of Pension Deficit re 22/23	823
Estimated Balance as at 31st March 2023	**7,627**

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 2019 was £22.625million.

18.4 A schedule detailing the planned use of the earmarked reserves over the four-year period of the MTFS is provided in Appendix E. 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:

	2019/20 £'000	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**
Earmarked Reserves - Revenue	9,504	9,408	9,778	9,217	8,770
Additions/Withdrawals(-)	-96	370	-561	-447	-267
Balance at Year End	**9,408**	**9,778**	**9,217**	**8,770**	**8,503**
Earmarked Reserves - Capital	13,121	11,485	4,376	3,972	3,725
Additions/Withdrawals(-)	-1,636	-7,109	-404	-247	-288
Balance at Year End	**11,485**	**4,376**	**3,972**	**3,725**	**3,437**

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 F.

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 G.

20.2 **Financial Resilience**

20.2.1 The budget proposals include estimates of income receivable from a variety of sources to finance the cost of delivering the Council's services in 2020/21. The total estimated income, excluding Housing Benefit Subsidy, is £31.80million. It is important to have an understanding of the level of reliance on each of these different sources. A breakdown of the sources is provided below:

- Council Tax - £9.86million (31.0%)
- Sales, fees and charges - £6.11million (19.2%)
- Retained Business Rates - £5.19million (16.3%)
- Rents - £3.48million (11.0%)
- Other grants and reimbursements - £2.61million (8.2%)
- Joint financing contributions – £1.90million (6.0%)
- Interest – £1.09million (3.4%)
- Government grants – £0.90million (2.8%)
- Miscellaneous – £0.66million (2.1%)
- Revenue Support Grant - Nil

20.2.2 The summary shows that council tax is the largest revenue source, £9.86million (31.0%), and this is considered the most stable of the revenue sources.

20.2.3 The second and third largest sources are sales, fees and charges (£6.11million or 19.2%) and Retained Business Rates (£5.19million 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 2021/22 together with the resetting of the baseline and the potential loss of the element of growth currently retained means that 30% of this source is at risk. Whilst at this time, detail of the proposed scheme and the outcomes of the Fair Funding Review and 2020 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. In addition the Business Rates Retention Reserve (currently £1.44million) is held to equalise fluctuations in the amount of business rates retained between years.

20.2.4 Estimated rental income from commercial property is £3.48million (11.0%): this is received in accord with the terms of the leases. Other grants and reimbursements total £2.61million (8.2%): 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 £1.90million (6.0%) 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 £1.09million (3.4%) and whilst this

is subject to fluctuations in the global equity and money markets and UK property market a specific reserve (currently £985,400) is held to manage fluctuations in interest received against budget.

20.3 The Robustness 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 Management to agree those unspent budgets to be carried forward to the following year.

21. Capital Programme

21.1 Capital Resources 2020/21 to 2023/24

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 balance of New Homes Bonus monies received.

21.2 New Homes Bonus

21.2.1 Detail of the New Homes Bonus receivable is provided at paragraph 3.7 above. This shows that the Council will receive £0.907million in 2020/21 and will have a cumulative unallocated balance of £0.930million as at 31st March 2021, assuming the two proposed allocations totalling £520,000 are agreed (section 5.4).

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 H. The total value of the projects in 2020/21 is £2,746,750 and £80,000 in 2021/22.

21.4.2 The schedule also includes anticipated requirements of £1,981,000 per annum for 2021/22 to 2023/24.

21.5 Capital Funding Summary

21.5.1 A summary showing the capital resources and the proposed capital schemes for 2020/21 and the anticipated requirements for 2021/22 onwards is provided below:

Capital Summary 2019/20 to 2024/25							
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	Provisions
	£m	£m	£m	£m	£m	£m	£m
Capital Resources							
B/fwd	18.561	18.478	10.596	15.690	14.587	14.880	15.173
Anticipated capital receipts	3.417	14.17	8.52	6.196	4.711	4.711	1.070
Capital grants & contributions	1.197	2.387	0.931	0.931	0.931	0.931	
Earmarked reserves	2.153	7.169	0.05	0.05	0.05	0.05	
Borrowing (internal/ external)	4.233	11.056	5.457	-3.07	-1.589	-2.256	
Total Resources	**29.561**	**53.260**	**25.554**	**19.797**	**18.690**	**18.316**	**16.243**
Capital Programme							
Approved programme:							
Housing	1.348	1.036	0	0	0	0	
Other Services	2.711	1.028	0.050	0	0	0	0.636
Strategic Investments	5.645	33.373	6.332	0	0	0	
Vehicle Replacement Programme	1.006	0	0	0	0	0	
Capital salaries	0.373	0.400	0.228	0.207	0.207	0.207	
Proposed/ bids							
Housing		0.931					
Other Services		1.816	0.080				
Anticipated (incl. recurring items)							
Housing			1.031	1.031	1.031	1.031	
Other Services			0.950	0.950	0.950	0.950	
Strategic Investments		2.492	0.610	2.881	0.000	0.000	4.471
Vehicle Replacement Programme		1.588	0.583	0.141	1.622	0.955	
Total Expenditure	**11.083**	**42.664**	**9.864**	**5.210**	**3.810**	**3.143**	**5.107**
C/fwd	**18.478**	**10.596**	**15.690**	**14.587**	**14.880**	**15.173**	**11.136**

21.5.2 The summary shows that the proposed capital programme can be funded from the estimated capital resource available for 2020/21. In addition the anticipated capital requirements for 2021/22 to 2023/24 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 2023/24 and after taking account of provisions, of £11.136million 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; residential properties on the Manor Street re-development and serviced land on Horizon 120.

22. Long-Term Investments – Garden Communities

22.1 Feasibility work continues in respect of the Garden Communities an opportunity 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 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 The Council has previously agreed to contribute £950,000 toward the cost of the development of the North Essex Garden Communities project and this contribution has been funded from New Homes Bonus.

22.4 Cabinet considered and agreed the 2019/20 Interim Business Plan and Budget of North Essex Garden Communities Ltd at its meeting on 9th September 2019. The report highlighted that assuming the Local Plans, for the authorities, are approved, and then adopted, additional funding in the range of £16m to £20m will be required over the subsequent two years in order to progress master planning, preparation for land acquisitions and set-up the preferred delivery vehicle.

22.5 Funding options are currently being explored. If external funding is not secured to meet all or part of these costs then the four authorities would need to fund the estimated cost of between £16m and £20m, through a loan arrangement, in full or part. A report in respect of funding requirements and financing options for this medium-term will be presented at a future Cabinet meeting.

23. Capital Strategy Treasury Management Strategy and Investment Strategy 2020/21

23.1 From 2019/20 new requirements on local government were introduced under statutory guidance and guidance from CIPFA 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 required to determine on an annual basis the following:

- **Capital Strategy** - This report for 2020/21, gives 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 details of the Council's borrowing requirements for 2020/21 onwards, the approach as to how capital resources will be applied, the Council's Minimum Revenue Provision policy and includes the Council's proposed limits regarding external debt as follows:
    - Authorised limit maintained at £50million; and
    - Operational boundary reduced to £30million from £35million.

  Detail of the capital strategy is provided at Appendix I.

- **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 invests 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 2020/21.

Detail of the strategy is provided at Appendix J.

- **Investment Strategy**. This report for 2020/21 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 K; and

23.3 The Governance Committee considered the draft copy of the TMSS (as provided at Appendix J) at its meeting on 16th January 2020 and agreed to endorse the Strategy with one comment suggesting clarification on one matter.

23.4 The indicators, limits and strategies have been drawn up based on the revenue and capital plans set out within this report for 2020/21 and over the medium term. It is noted however that at this stage the potential financing implications of the proposed North Essex Garden Communities 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 L.

Council Budget and Council Tax 2020/21 and Medium-Term Financial Strategy 2020/21 to 2023/24

Appendices

A Business Rates Retention scheme – Revised 2019/20 Estimate and 2020/21 Estimate

B Pay Policy Statement 2020/21

C Revenue Profile 2020/21 to 2023/24

D 2020/21 Controllable Budget by Business Plan

E Earmarked Reserves

F Strategic risk

G Statement on the Robustness of the Estimates and the Adequacy of the Proposed Financial Reserves

H Capital Schemes/Projects for inclusion in the Capital Programme

I Capital Strategy 2020/21 to 2023/24

J Treasury Management Strategy Statement 2020/21

K Investment Strategy 2020/21

L Virement Levels

BUSINESS RATE RETENTION SCHEME

APPENDIX A

	Outturn NNDR3 18/19 £	Budget NNDR1 19/20 £	Latest 2019/20 £	Forecast 2020/21 £
Gross Yield	**52,253,333**	**53,940,351**	**54,230,804**	**55,195,500**
Mandatory Reliefs				
Add Yield to fund Small Business Rate Relief	883,313	915,000	902,590	902,300
Cost of Small Business Rate Relief (SBRR)	-5,490,497	-5,335,000	-5,892,397	-5,798,100
Cost of relief to Charities/CASC/Rurals	-3,124,218	-3,318,000	-3,373,364	-3,401,700
Cost of relief partly occupied	-27,893	0	0	0
Cost of relief for empty premises	-1,156,709	-1,530,000	-1,474,426	-1,495,600
Total Mandatory Reliefs	**-8,916,004**	**-9,268,000**	**-9,837,597**	**-9,793,100**
Discretionary Reliefs				
Cost of relief to Charities/Non Profit/CASC/Rurals	-261,775	-268,000	-277,685	-279,250
Flooding relief	2,787	0	0	0
Retail relief	1,500	-1,165,074	-817,463	-830,782
Discretionary rural relief (doubling 50% mandatory)	-12,216	-13,500	-9,454	-9,628
Local newspaper offices relief	-1,500	-1,500	-1,500	0
Supporting small businesses	-17,567	-18,000	-13,880	-14,106
Discretionary business rate scheme	-129,985	-57,000	-44,264	-8,200
Public house relief	-54,811	0	2,000	0
Discretionary transitional relief	-24	0	0	0
Total Discretionary Reliefs	**-473,591**	**-1,523,074**	**-1,162,246**	**-1,141,966**
Net Rates Payable	**42,863,738**	**43,149,277**	**43,230,961**	**44,260,434**
Amounts written off	-245,518	0	-131,381	
Estimated losses on collection (prov)	83,856	-243,000	-93,420	-229,700
Losses on collection	**-161,662**	**-243,000**	**-224,801**	**-229,700**
Change in provision for rating appeals	-394,338	-1,080,000	-870,448	-1,106,700
Collectable Rates	**42,307,738**	**41,826,277**	**42,135,712**	**42,924,034**
Transitional protection - due to/ -due from	219,413	214,649	315,452	154,700
Amounts disregarded - renewable energy properties	-201,828	-206,000	-73,662	-186,000
Allowance for cost of collection	-192,808	-188,693	-188,693	-186,947
Non-Domestic Rating Income	**42,132,515**	**41,646,233**	**42,188,809**	**42,705,787**

Braintree DC Share	16,853,006	16,658,493	16,875,524	17,082,315
Renewable energy properties retained	97,132	99,000	-36,109	74,000
Tariff	-12,735,653	-13,027,512	-13,027,512	-13,239,773
Levy on growth	-1,232,088	-1,139,812	-1,249,341	-1,202,522
S31 grants for relief schemes	1,917,355	2,268,987	2,273,751	2,288,548
Est. Collection Fund surplus/ -deficit for tax setting	725,670	57,034	57,034	188,955
Transfer -to/from Business Rate Retention Reserve	-725,670	-57,034	-57,034	-188,955
TOTAL GENERAL FUND	**4,899,752**	**4,859,156**	**4,836,313**	**5,002,568**

APPENDIX B

PAY POLICY STATEMENT 2020/21

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 17th February, 2020. 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 2020, 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 2020, 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 2020, 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 2020, 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 2021/22 and will be submitted to Full Council for approval by 31st March 2021.

5.2 If it should be necessary to amend this 2020/21 Statement during the year that it applies, an appropriate resolution will be made by Corporate Management Board or Full Council whichever is most appropriate.

Note * the figures quoted do not include the National pay award effective from 1st April 2020 as this is currently pending.

General Fund Revenue Profile 2019/20 to 2023/24

	2019/20	2020/21	2021/22	2022/23	2023/24
	£	£	£	£	£
Base Budget brought forward from previous year	12,419,820	14,189,390	17,496,240	14,668,148	14,950,598
Inflation:					
Pay - annual award and incremental progression	517,720	438,030	458,490	453,190	414,310
Other Expenditure Inflation	109,510	120,660	115,700	121,680	122,750
Income Inflation	0	0	0	0	0
Pension Fund adjustments (added years)	14,770	11,970	12,840	13,100	13,360
Pension Fund Deficit - Triennial payment adjustment					
Base Budget provision		1,600,700	-2,468,310		956,580
Increase to allow one-off payment in year to Pension Fund		867,610			
Increase in Employer pension contributions (from 16.5% to 20.3%)		482,110	10,980	11,240	8,910
New Demands:					
Allowance for Reduced Income/Increased costs previously profiled	1,073,000	7,300	61,000	45,000	
Priority Investment - one-off provision	1,245,500	-1,050,000	-188,500	-2,000	
New Budget Pressures - add to base budget		514,000	179,930	0	90,000
New Budget Pressures - one-off provision		870,180	-678,450	-144,730	-47,000
Reductions:					
Savings/Additional Income agreed previously profiled	-1,190,930	-32,380	-28,950	-14,000	
New Savings/Additional Income - Management		-523,330	92,140	-27,350	-7,000
Ongoing net change in income/expenditure identified in 2017/18					
New Savings/Additional Income - Members		0	0	0	0
Additional Savings Required	**0**	**0**	**-394,962**	**-173,680**	**-334,165**
Updated Base Budget	**14,189,390**	**17,496,240**	**14,668,148**	**14,950,598**	**16,168,343**
Addition to Balances - Base budget	127,947	222,269			
Use of Balances - Pension Fund Deficit - Triennial payment adjustmen	1,410,890	-1,645,540	822,770	822,770	
Contribution from Balances for one-off New Investment	-622,000	-136,000			
Net contributions from/to Earmarked reserves	-566,466	-711,275	-191,730	-47,000	
Budget Requirement	**14,539,761**	**15,225,694**	**15,299,188**	**15,726,368**	**16,168,343**

General Fund Revenue Profile 2019/20 to 2023/24

	2019/20	2020/21	2021/22	2022/23	2023/24
	£	£	£	£	£
Government Grant - Revenue Support Grant					
Retained Business Rates - Baseline amount	-3,431,026	-3,486,929	-3,556,668	-3,627,801	-3,700,357
- Growth above baseline	-1,423,714	-1,515,639	-1,515,639	-1,515,639	-1,515,639
Transition and Rural Services grants and returned funding	-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	-57,034	-188,955			
Collection Fund Balance - Council Tax (Surplus)/Defict	-113,625	-155,120			
BDC Requirement from Council Taxpayers	**9,439,599**	**9,856,926**	**10,204,756**	**10,560,803**	**10,930,222**
Tax base (+1.5% for 2021/22 onwards and collection rate of 99%)	52,521	53,373	54,174	54,987	55,812
Council Tax (Band D)	£179.73	£184.68	£188.37	£192.06	£195.84
Council Tax per week	£3.46	£3.55	£3.62	£3.69	£3.77
Percentage Increase	**2.99%**	**2.75%**	**2.00%**	**1.96%**	**1.97%**
Increase per week	£0.10	£0.09	£0.07	£0.07	£0.08

APPENDIX D

GENERAL FUND BUDGETS 2020/21 - BUSINESS PLAN SUMMARY

	Controllable Budgets							
	Base Budget 2019/20 (Updated)	Budget Variations & Requests for Funding	Reductions and Savings	Pay, Pension Fund, Inflation & Recharges	Other Budget Changes	Proposed Controllable Budget 2020/21	Reversal Use of Earmarked Reserves	Planned Spend 2020/21
	£	£	£	£	£	£	£	£
Business Plan								
Asset Management	-2,452,010	0	-39,640	18,320	0	-2,473,330	0	-2,473,330
ICT & Facilities	1,570,100	-50,000	0	74,940	50,000	1,645,040	10,080	1,655,120
Community Services	362,970	56,490	0	21,260	-47,360	393,360	139,000	532,360
Corporate Management Plan	1,374,180	0	0	77,250	0	1,451,430	0	1,451,430
Economic Development	186,960	35,000	0	11,220	-35,000	198,180	194,000	392,180
Environment & Leisure	901,900	53,370	-13,500	87,400	-47,370	981,800	25,620	1,007,420
Finance	1,419,650	52,340	-193,850	153,120	0	1,431,260	39,400	1,470,660
Governance	1,026,350	144,110	-50,000	50,230	0	1,170,690	30,800	1,201,490
Housing Services	889,520	0	0	34,570	0	924,090	-111,950	812,140
Human Resources	345,780	0	0	14,230	0	360,010	-9,890	350,120
Marketing & Communications	538,570	10,790	-25,000	32,520	0	556,880	33,000	589,880
Operations	5,807,280	236,000	-59,000	338,070	-50,000	6,272,350	148,110	6,420,460
Strategic Investment	10,470	0	0	10,270	0	20,740	111,810	132,550
Sustainable Development	1,241,310	-305,030	-40,000	106,090	-47,000	955,370	226,780	1,182,150
COST OF SERVICES	**13,223,030**	**233,070**	**-420,990**	**1,029,490**	**-176,730**	**13,887,870**	**836,760**	**14,724,630**
Corporate Financing	5,569,489	-500,000	-34,720	23,280	3,671,617	8,729,666		8,729,666
Corporate Efficiency Provision	-200,000	0	-100,000	0	0	-300,000		-300,000
Parish and Town Council Grants	21,040	8,410	0	0	0	29,450		29,450
Transfer to/(from) Earmarked Reserves	-4,990,635	600,000	0	0	-1,171,386	-5,562,021	-836,760	-6,398,781
Contribution to/(from) Balances	916,837	0	0	0	-2,476,108	-1,559,271		-1,559,271
BRAINTREE BUDGET	**14,539,761**	**341,480**	**-555,710**	**1,052,770**	**-152,607**	**15,225,694**	**0**	**15,225,694**
Revenue Support Grant	0	0	0	0	0	0		0
Retained Business Rates	-4,907,378	0	0	0	-95,190	-5,002,568		-5,002,568
Rural Services grant	-22,125	0	0	0	0	-22,125		-22,125
Collection Fund Surplus - Business Rates	-57,034	0	0	0	-131,921	-188,955		-188,955
Collection Fund Surplus - Council Tax	-113,625	0	0	0	-41,495	-155,120		-155,120
AMOUNT TO BE MET FROM COUNCIL TAX PAYERS	**9,439,599**	**341,480**	**-555,710**	**1,052,770**	**-421,213**	**9,856,926**	**0**	**9,856,926**

Earmarked Reserves 2019/20 to 2023/24 (Projections)

APPENDIX E

	2019/20				2020/21			2021/22			2022/23			2023/24		
	Opening Balance 2019/20	Movements in Year 2019/20	Trf between reserves/ back to balances	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	Opening Balance 2023/24	Movements in Year 2023/24	Proj Closing Balance 2023/24
EARMARKED RESERVES (REVENUE)																
Corporate Strategy & Direction																
Approved Carry Forwards	22,600	-16,890	0	5,710	5,710	0	5,710	5,710	0	5,710	5,710	0	5,710	5,710	0	5,710
Corporate Improvement programme	191,284	13,170	0	204,454	204,454	-49,040	155,414	155,414	-43,690	111,724	111,724	0	111,724	111,724	0	111,724
District Elections	281,399	-183,126	0	98,273	98,273	30,000	128,273	128,273	30,000	158,273	158,273	30,000	188,273	188,273	30,000	218,273
Member Support & Development	33,880	-7,500	0	26,380	26,380	0	26,380	26,380	0	26,380	26,380	0	26,380	26,380	0	26,380
	529,163	**-194,346**	**0**	**334,816**	**334,816**	**-19,040**	**315,776**	**315,776**	**-13,690**	**302,086**	**302,086**	**30,000**	**332,086**	**332,086**	**30,000**	**362,086**
Environment & Place																
Approved Carry Forwards	85,150	-37,750	0	47,400	47,400	0	47,400	47,400	0	47,400	47,400	0	47,400	47,400	0	47,400
Green Heart Initiatives	45,742	0	0	45,742	45,742	0	45,742	45,742	0	45,742	45,742	0	45,742	45,742	0	45,742
Carbon Management	45,296	-7,500	0	37,796	37,796	0	37,796	37,796	0	37,796	37,796	0	37,796	37,796	0	37,796
House Survey (Private)	22,013	3,000	0	25,013	25,013	3,000	28,013	28,013	3,000	31,013	31,013	3,000	34,013	34,013	3,000	37,013
Unmet Taxi Demand Survey	21,081	2,500	0	23,581	23,581	2,500	26,081	26,081	2,500	28,581	28,581	2,500	31,081	31,081	2,500	33,581
Operations	55,894	-26,589	0	29,305	29,305	0	29,305	29,305	0	29,305	29,305	0	29,305	29,305	0	29,305
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	637,608	-105,610	0	531,998	531,998	-105,610	426,388	426,388	-105,610	320,778	320,778	-105,610	215,168	215,168	-105,610	109,558
	934,185	**-171,949**	**0**	**762,236**	**762,236**	**-100,110**	**662,126**	**662,126**	**-100,110**	**562,016**	**562,016**	**-100,110**	**461,906**	**461,906**	**-100,110**	**361,796**
Planning																
Approved Carry Forwards	391,551	-26,551	-365,000	0	0	0	0	0	0	0	0	0	0	0	0	0
Local Plan	431,178	-150,000	0	281,178	281,178	-86,280	194,898	194,898	-66,280	128,618	128,618	13,720	142,338	142,338	13,720	156,058
Development Control	0	-60,000	365,000	305,000	305,000	-86,000	219,000	219,000	-86,000	133,000	133,000	-86,000	47,000	47,000	0	47,000
Housing Development & Local Growth	0	-350,000	500,000	150,000	150,000	553,000	703,000	703,000	-47,000	656,000	656,000	-47,000	609,000	609,000	0	609,000
Unilateral Undertakings	537,441	0	0	537,441	537,441	0	537,441	537,441	0	537,441	537,441	0	537,441	537,441	0	537,441
	1,360,170	**-586,551**	**500,000**	**1,273,619**	**1,273,619**	**380,720**	**1,654,339**	**1,654,339**	**-199,280**	**1,455,059**	**1,455,059**	**-119,280**	**1,335,779**	**1,335,779**	**13,720**	**1,349,499**
Housing																
Approved Carry Forwards	40,000	-31,000	0	9,000	9,000	0	9,000	9,000	0	9,000	9,000	0	9,000	9,000	0	9,000
Housing Needs Survey	45,982	0	0	45,982	45,982	0	45,982	45,982	0	45,982	45,982	0	45,982	45,982	0	45,982
Local Council Tax Support	376,558	-24,880	0	351,678	351,678	0	351,678	351,678	0	351,678	351,678	0	351,678	351,678	0	351,678
Homelessness Funds	505,148	115,653	0	620,801	620,801	111,950	732,751	732,751	-214,970	517,781	517,781	-194,300	323,481	323,481	-201,010	122,471
	967,688	**59,773**	**0**	**1,027,461**	**1,027,461**	**111,950**	**1,139,411**	**1,139,411**	**-214,970**	**924,441**	**924,441**	**-194,300**	**730,141**	**730,141**	**-201,010**	**529,131**
Economic Development																
Approved Carry Forwards	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
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
Economic Development and Town Centre Improvements	293,346	-50,000	0	243,346	243,346	-50,000	193,346	193,346	-20,000	173,346	173,346	-87,190	86,156	86,156	0	86,156
	361,430	**-50,000**	**0**	**311,430**	**311,430**	**-50,000**	**261,430**	**261,430**	**-20,000**	**241,430**	**241,430**	**-87,190**	**154,240**	**154,240**	**0**	**154,240**
Health & Wellbeing																
Approved Carry Forwards	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Public Health Agenda	103,636	29,638	0	133,274	133,274	16,250	149,524	149,524	-37,180	112,344	112,344	-6,320	106,024	106,024	0	106,024
Leisure	108,671	0	0	108,671	108,671	0	108,671	108,671	0	108,671	108,671	0	108,671	108,671	0	108,671
	212,308	**29,638**	**0**	**241,946**	**241,946**	**16,250**	**258,196**	**258,196**	**-37,180**	**221,016**	**221,016**	**-6,320**	**214,696**	**214,696**	**0**	**214,696**
Communities Culture & Tourism																
Councillor Grants Scheme	147,000	-73,500	0	73,500	73,500	-73,500	0	0	0	0	0	0	0	0	0	0
Approved Carry Forwards	0	0	0	0	0	0	0	0	0	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
Community Projects	55,298	-35,540	204,460	224,218	224,218	-127,870	96,348	96,348	-94,730	1,618	1,618	0	1,618	1,618	0	1,618
	213,705	**-109,040**	**204,460**	**309,125**	**309,125**	**-201,370**	**107,755**	**107,755**	**-94,730**	**13,025**	**13,025**	**0**	**13,025**	**13,025**	**0**	**13,025**
Finance & Performance																
Approved Carry Forwards	173,143	-930	0	172,213	172,213	-18,230	153,983	153,983	0	153,983	153,983	0	153,983	153,983	0	153,983
Insurance Fund	130,033	-23,493	0	106,540	106,540	-9,860	96,680	96,680	-9,860	86,820	86,820	-9,860	76,960	76,960	-9,860	67,100
Management Training & Org. Development	68,991	-2,420	0	66,571	66,571	-5,280	61,291	61,291	-5,810	55,481	55,481	0	55,481	55,481	0	55,481
Treasury Management	985,399	4,300	0	989,699	989,699	1,600	991,299	991,299	1,200	992,499	992,499	800	993,299	993,299	400	993,699
Benefits Overpaid & Adpens	1,077,258	0	0	1,077,258	1,077,258	0	1,077,258	1,077,258	0	1,077,258	1,077,258	0	1,077,258	1,077,258	0	1,077,258
Business Rate Retention Scheme Equalisation	2,095,615	723,857	0	2,819,472	2,819,472	748,955	3,568,427	3,568,427	0	3,568,427	3,568,427	0	3,568,427	3,568,427	0	3,568,427
Modern Apprenticeships	75,213	-45,440	0	29,773	29,773	-4,400	25,373	25,373	0	25,373	25,373	0	25,373	25,373	0	25,373
Procurement Hub	61,728	-12,180	0	49,548	49,548	-18,370	31,178	31,178	0	31,178	31,178	0	31,178	31,178	0	31,178
Partnership & Developer contributions	45,331	-1,443	0	43,887	43,887	0	43,887	43,887	0	43,887	43,887	0	43,887	43,887	0	43,887
	4,712,711	**642,251**	**0**	**5,354,961**	**5,354,961**	**694,415**	**6,049,376**	**6,049,376**	**-14,470**	**6,034,906**	**6,034,906**	**-9,060**	**6,025,846**	**6,025,846**	**-9,460**	**6,016,386**
Corporate Services & Asset Management																
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
Marketing & Communications	41,496	-14,113	0	27,383	27,383	-8,000	19,383	19,383	-8,000	11,383	11,383	-8,000	3,383	3,383	0	3,383

Earmarked Reserves 2019/20 to 2023/24 (Projections)

APPENDIX E

	2019/20				2020/21			2021/22			2022/23			2023/24		
	Opening Balance 2019/20	Movements in Year 2019/20	Trf between reserves/ back to balances	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	Opening Balance 2023/24	Movements in Year 2023/24	Proj Closing Balance 2023/24
Approved Carry Forwards	98,314	-51,676	0	46,638	46,638	-11,670	34,968	34,968	0	34,968	34,968	0	34,968	34,968	0	34,968
	212,925	**-65,789**	**0**	**147,136**	**147,136**	**-19,670**	**127,466**	**127,466**	**-8,000**	**119,466**	**119,466**	**-8,000**	**111,466**	**111,466**	**0**	**111,466**
TOTAL - EARMARKED RESERVES (REVENUE)	**9,504,283**	**-446,014**	**704,460**	**9,762,730**	**9,762,730**	**813,145**	**10,575,875**	**10,575,875**	**-702,430**	**9,873,445**	**9,873,445**	**-494,260**	**9,379,185**	**9,379,185**	**-266,860**	**9,112,325**
EARMARKED RESERVES (CAPITAL)																
Capital Reserve (General)	661,116	-90,567	-204,460	366,089	366,089	-50,000	316,089	316,089	-50,000	266,089	266,089	-50,000	216,089	216,089	-50,000	166,089
Capital Reserve (District Investment)	7,727,236	-1,501,962	0	6,225,275	6,225,275	-5,719,610	505,665	505,665	0	505,665	505,665	0	505,665	505,665	0	505,665
Capital Reserve (I Construct)	1,447,189	-8,482	0	1,438,707	1,438,707	-1,438,707	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	152,696	134,630	0	287,326	287,326	0	287,326	287,326	0	287,326	287,326	0	287,326	287,326	0	287,326
Discovery Centre All Weather Pitch	155,240	-155,240	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	0	253,334	253,334	0	253,334	253,334	0	253,334	253,334	0	253,334
New Homes Bonus (Allocated)	2,417,266	-914,538	214,800	1,717,529	1,717,529	-76,010	1,641,519	1,641,519	-248,200	1,393,319	1,393,319	-304,810	1,088,509	1,088,509	-168,509	920,000
New Homes Bonus (Unallocated)	222,595	1,250,191	-714,800	757,986	757,986	72,404	830,390	830,390	26,152	856,542	856,542	154,712	1,011,254	1,011,254	-70,000	941,254
TOTAL - EARMARKED RESERVES (CAPITAL)	**13,120,596**	**-1,285,967**	**-704,460**	**11,130,169**	**11,130,169**	**-7,211,923**	**3,918,247**	**3,918,247**	**-272,048**	**3,646,199**	**3,646,199**	**-200,098**	**3,446,101**	**3,446,101**	**-288,509**	**3,157,592**

Strategic Risk Register including Management Action Plans (where appropriate)

Medium-Term Financial Strategy – 1
Risk Rating B2 (B2 October 2018)
Management Board Owner – Corporate Director (CF)

Vulnerability	Trigger	Consequence
The current financial year is the final year of the Government's four-year settlement (2016/17 to 2019/20) for Local Government. Fundamental change to Local Government funding was planned for 2020/21 with the Government proposing to introduce 75% Business Rates Retention and implement the outcomes of the Fair Funding Review and the 2019 Spending Review. This change has been delayed until 2021/22 with the provisional Funding Settlement for 2020/21 being for a single year and based on rolling forward the 2019/20 settlement, and was received on 20th December. The Government had previously announced that the New Homes Bonus (NHB) scheme was to be reviewed for 2020/21. This has also been postponed for one year and the allocation for 2020/21 is for one-year only with no legacy payment for the following three years. Whilst the Council does not use NHB to support day to day revenue expenditure this does mean less money for investment in infrastructure and affordable homes across the District. There is also uncertainty over the impact of the UK leaving the European Union 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 the investments 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 2021/22, as determined by the Fair Funding Review, does not enable the Council to retain business rates growth achieved prior to reset (estimate of £1.515m in 2020/21). • 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 balance significantly exceeds minimum level of £1.5m - estimated £7.4m as at 31st March 2020. Earmarked reserves to meet potential fluctuations: Estimated Business Rate Retention reserve (£1.45m) and Treasury Management (£0.99m). 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, Treasury Advisors.	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 targets. Budget variations reported in timely manner with explanation and action plan, as appropriate.	Monthly	Feb. 2020 – Full Council sets council tax and budgets for 2020/21	Budget and MTFS proposals provide a balanced base budget for 2020/21 including a 2.75% increase in council tax to £184.68 (Band D). For planning purposes council tax increases in future years are at the core referendum threshold of 2% for 2021/22 onwards. Planned approach to addressing the estimated shortfalls in 2021/22 to 2023/24. Member Strategic Investment Group established to consider all proposed investments. Investment Evaluation Tool used to assess all investment opportunities. External Auditors, BDO LLP, reported in their 2018/19 Annual Audit Letter that they did not identify any significant issues and concluded that the Council has appropriate arrangements in place to ensure that it can sustainably deploy resources in the medium term.

Robustness of the Proposed 2020/21 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 incremental progression for staff not at top of their grade. Provisions have been made including for a pay award for staff, which when agreed will be effective from 1st April 2020, and for inflationary factors across the services, including business rates, insurances, and interest rates payable and receivable. Pension liabilities are included as determined by the results of the Triennial Review of the Essex Pension Fund conducted as at 31st March 2019. Where planned savings for 2020/21 and future years had previously been identified these have been reviewed and adjustments made where necessary. Allowance has been made for £337,220 of budget reductions and £218,490 of increased income in 2020/21 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 Members attending a Member Development evening on 21st November 2019 and validated by the Cabinet. This was the only review conducted during 2019/20 due to the District elections in May 2019 and subsequent member induction programme. The risks are, however, 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 2019 was £5.787million. The budget for 2019/20 was based on an addition to balances of £127,947 and a withdrawal of £622,000 from balances for one-off expenditure budget requirements. The

current projection of net expenditure in 2019/20 as reported in the Performance Monitor for Quarter 2 shows an expected increase in balances of £715,000.
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 second and final repayment (£1.411million) to the unallocated balance was made in 2019/20.

Taking the above into account this will provide an unallocated balance of approximately £7.419million by the end of this year.

In addition, the proposed budget for 2020/21 provides for an addition to balances of £222,269, 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.

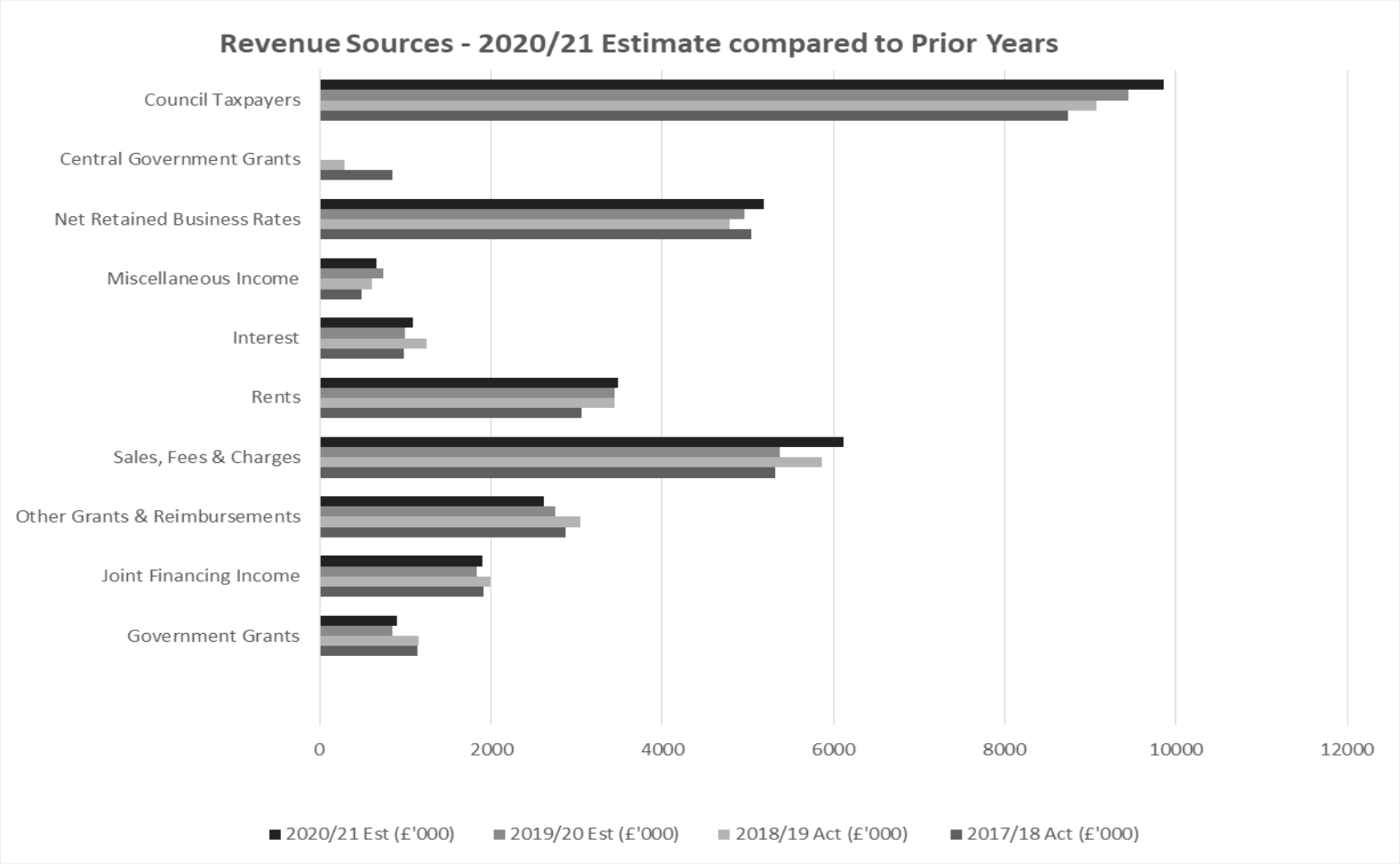
There is little guidance on what is considered to be an adequate level of balances, but the Chartered Institute of Public Finance Accountancy (CIPFA) states the following factors should be taken into account, when considering the overall level of reserves.

- 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. Financial Resilience of Revenue income

The budget includes estimates of income from a variety of sources to finance the cost of delivering its services (£31.80million in 2020/21 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 2020/21 with comparisons of actuals for 2017/18 and 2018/19 and original estimate for 2019/20:



The chart shows that council tax is the largest revenue source, £9.86million or 31.0%, and this is considered the most stable of the revenue sources. The second and third largest sources are sales, fees and charges (£6.11million or 19.2%) and Retained Business Rates (£5.19million 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 2021/22 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 2020 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 £3.48million or 11.0%: these are received in accord with the terms of the leases. Other grants and reimbursements total £2.61million or 8.2%: 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 £1.90million or 6.0% 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 £1.09million or 3.4% and whilst this is subject to fluctuations in the global equity and money markets a specific reserve (currently £985,399) is held to manage fluctuations in interest received against budget.

6. Treatment of Inflation and Interest Rates

The budget provides an allowance for an estimated pay award of 2% which when agreed by the Employers Organisation and the unions will be effective from 1st April 2020. 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 2020/21 of 2.4%.

Strategic investments totalling £20million (£19million invested as at 14th January 2020 a further £1million agreed by the Member Strategic Investment Group to be invested before 31st March 2020) in a combination of equity, multi-asset and property Pooled Funds is estimated to yield an average return over the long-term of around 4.45% or £890,000 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 £196,000 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 2019 is £985,399.

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 2020/21 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 (£22.69million) are anticipated from sales in 2020/21 and 2021/22 which include land assembled for re-development to the east of High Street, Halstead, land off of Maldon Road, Witham, 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 2020/21 is to be paid by regular monthly instalment during the year. The majority of the New Homes Bonus received up to 31st March 2020 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 2020/21 and whether the scheme is the best way of incentivising housing growth. It has also announced that the payment for year-10 will only be paid in 2020/21 with no legacy

payments in the following three years. 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 2019/20 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 2020/21 will be presented for approval to the Full Council on 17th February 2020. No changes are proposed to be made to the scheme from that operating in 2019/20. 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 £228,000 less than budgeted. The estimated level of support to be awarded in 2020/21, of £7.192million, 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. The Check, Challenge and Appeal process for businesses to appeal against their rateable values was introduced for the 2017 List. Information is 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 2020/21. 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 £634,000, 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 to £200,000 for 2018/19 and this level was maintained for 2019/20. The allowance is expected to be over-achieved in the current year and therefore the allowance is to be increased to £300,000 for 2020/21. 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 five 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 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 10-year 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 receives significant financial contributions, over £1.975million 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 both the Council Tax sharing agreement and Community Transport cease on 31st March 2020. A new two-year arrangement has been agreed for the Council Tax sharing agreement for 2020/21 and 2021/22.

The Council has agreed an ambitious Investment plans 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) 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 schemes.

The Council reduced the amount of space it needed to occupy at Causeway House, Braintree. The available space in the building is 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. 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 a project which would have significant cost and reward should it be agreed and undertaken:

The Council is working together with Colchester Borough Council, Tendring District Council and Essex County Council on the potential for three garden communities in North Essex. To date partners have provided grant funding towards the project alongside government capacity funding. In January 2017, North Essex Garden Communities Ltd (NEGC Ltd) was established by the authorities (the company shareholders), which is the current strategic delivery vehicle for the project. Longer-term delivery options are currently being explored, including the potential for setting up a locally led development corporation(s). On 9th September 2019, Cabinet agreed the 2019/20 Interim Business Plan and Budget of NEGC Ltd. The business plan highlighted that assuming the Local Plans, for the planning authorities, are approved, and then adopted, additional funding in the range of £16m to £20m will be required over a two-year period in order to progress master planning, preparation for land acquisitions and set-up the preferred delivery vehicle. Funding options are currently being explored, but if external funding is not secured to meet all or part of these costs then the four authorities would need to fund these estimated costs through a loan arrangement, in full or part. After this time, it

is envisaged that long-term funding for delivery of the garden communities would become available from external sources and councils would only provide further funding if they choose to do so as an investment.

A report in respect of funding requirements and financing options for the medium-term will be presented at a future Cabinet meeting.

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 2020. The average rate of interest payable on the debt is 4.7% for 2020/21. 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 £46.14million during 2020/21; with estimated investments at the beginning of the year of £44.18million and £20million 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 £19million has been invested in Pooled Funds, with a further £1million agreed in principle by the Member Strategic Investment Group to be invested at a time to be agreed: which will take the investments to 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 2019/20 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 2020 is a positive balance of £1,229,000. This balance is to be returned to council taxpayers in 2020/21. After review it is considered appropriate to maintain the Council Taxbase allowance for 2020/21 at 1%.

The In-Year collection rates of Council Tax and Business Rates are expected to achieve the target for 2019/20 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 Management on a monthly basis, Cabinet on a quarterly basis in the Performance monitoring report and to each meeting of the Corporate Governance Group.

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 Corporate Governance Group.

The Financial Profile includes the provisional allocation of Business Rates Baseline for 2020/21; however, the Government is to introduce a change to the funding arrangements of local government for 2021/22 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 2021/22. 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 2021/22 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 2018/19 from BDO LLP, 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 2020-21
Date Produced: 22nd January 2020

	Portfolio	Project Description	Project Drivers	Project Achievements	Capital Cost (gross of external funding)				External Funding
					2020/21	2021/22	2022/23	2023/24	
1	Health & Wellbeing	**Resurfacing of the 3G Artificial Grass Pitch at Braintree Sports & Health Club** Remove existing artificial grass surface at Braintree Sports & Health Club and replace with 3G 60mm FIFA Quality carpet.	The current 3G AGP surface is now over 10 years old and has significant footfall from community use in the evenings and weekends and also for school curricular use. The carpet is now in need of replacement as the seams are starting to rise, creating a trip hazard. Significant repairs have been made in the last 18months costing Fusion and the Academy over £13k.	• Improved playing surface that is safe and fit for use for all bookings and the Academies curricular use. • Increased revenue for the facility through affiliated match use especially at weekends during the winter months when grass pitches are un-playable • Support the Council to meet the demand for football pitches able to accommodate match day fixtures as highlighted in the FA's football facility strategy	260,000				
2	Health & Wellbeing	**Hammer and Discus Cage Adaptations, Braintree Athletic Facility, Braintree Sport & Health Club**	The Hammer & Discus Cage at Braintree Sports & Health Athletic facility is over 25 years old and is in need of essential refurbishment to ensure the Braintree & District Athletics club, the primary user, can continue to develop and compete in the eastern region league. Following a potentially serious incident at another venue, UK Athletics has introduced a new specification for all hammer and discus cages. For the cage to be used it MUST be replaced or modified to meet IAAF specification.	• B&DAC can continue to have a throws section within the club • B&DAC can continue to host UKA eastern region competition • Improved facilities for club training and athlete development	15,000	-			
3	Health & Wellbeing	**Athletics Track Surface Refurbishment, Braintree Sport & Health Club** Repair and refurbishment of the Athletics Track at Braintree Sport & Health Club to include repairs to the cracks in the surface, over-spraying the inside lane and the main straight and re-marking the track.	The Braintree Athletic track facility at Braintree Sport & Health Club is over 25 years old and is in need of essential refurbishment to ensure the Braintree & District Athletics club, the primary user, can continue to develop and compete in the eastern region league. To do this, the track facility needs to meet "Trackman Level 2 standard" as part of the "UK Athletics facility standard scheme".	• Ensures the track meets Trackman Level 2 accreditation so BDAC can continue to host Eastern region fixtures which brings important revenue to both the club and Fusion • Improves Health & Safety and ensures pay & play and other casual club use of the track can continue • Ensures continued use of the track for schools District Sports events	35,000				
4	Corporate Transformation	**Server Room Review** Server Room Review and Feasibility Study (Consultants Fees) - conduct review of server room and infrastructure to identify whether to upgrade or move to Cloud. Implement recommendations in 2021/22.	Braintree District Council (BDC) have a number of physical servers located in the server room at Causeway House. Some of these have been upgraded but there are 8 which will go end of life (EOL) in August 2021 and the 4 hosts that constitute the computing virtual environment go EOL in June 2021.	• More efficient computing capacity and throughput	10,000	80,000			

Requests for Capital Funding 2020-21
Date Produced: 22nd January 2020

	Portfolio	Project Description	Project Drivers	Project Achievements	Capital Cost (gross of external funding)				External Funding
					2020/21	2021/22	2022/23	2023/24	
5	Environment & Place	**CCTV Camera Upgrade** Replace the obsolete CCTV cameras, replace analogue cameras with digital ones where appropriate and upgrade the fibre-optic links.	BDC have a number of CCTV cameras located in Braintree Town Centre, Halstead Town Centre and Causeway House. Some of these cameras have been in place since the installation of CCTV in the council. A number of the older cameras are now starting to fail and some of them are irreparable as there no spare parts for them. They have reached end of life (EOL) status. Technology has also moved on and modern cameras use digital technology instead of analogue giving improved imaging thereby making the CCTV more effective and useful to the authorities.	• Improved CCTV images • More effective policing • Improved perception of safety and security in the District	30,000				
6	Corporate Transformati on	**Digital Services** Upgrading web platform.	Web accessibility regulations from September 2020. Current platform cannot meet new regulation requirements. Upgrading will provide more functionality to accommodate new requirements.	Future proof platform. Ensure Accessibility Regulations are met.	60,000				
7	Corporate Transformati on	**Planned Maintenance of Council Properties 2020/21** 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.	578,750	410,000	410,000	410,000	
8	Corporate Transformati on	**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	
9	Environment & Place	**Housing Renovation Grant**	Providing financial support through a repayable grant scheme to ensure those under financial pressure can afford to adequately heat their homes and when it is impractical to carry out disabled adaptions to a property, offer the occupier a relocation grant to enable them to move to a more suitable (adapted) property. Balance of funding available to meet demand in 2020/21.	Health benefits for those living in substandard housing which will be improved through the repayable grant scheme. To provide adequate heating for the most vulnerable, including raising those occupiers out of fuel poverty and improving energy efficiency of the housing stock. Ensuring that occupiers live in the best suitable accommodation that meets their needs.	-	100,000	100,000	100,000	

Requests for Capital Funding 2020-21
Date Produced: 22nd January 2020

	Portfolio	Project Description	Project Drivers	Project Achievements	Capital Cost (gross of external funding)				External Funding
					2020/21	2021/22	2022/23	2023/24	
10	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.	931,000	931,000	931,000	931,000	-£931,000 Better Care Fund p.a. (Based on 2019/20 allocation)
11	Environment & Place	**New footpath & re-surfacing rear of Rivenhall Village Hall** To improve accessibility to community facilities through the construction of a formal footpath linking Albert Moss car park to the Village Hall and playing fields in Rivenhall.	The Rivenhall Playing Fields Association (RPFA) have requested that the Council improves the access from Albert Moss Playing Field car park to Rivenhall Village Hall car park which is located on BDC land. The village hall was transferred to the RPFA a number of years ago, however, the Council retained ownership of the adjoining open space including the access. The existing access is a well-used informal track which is not suitable for elderly and disabled users and really needs to be upgraded. The RPFA and Rivenhall Parish Council has agreed to offer funding of £14,000 toward the overall cost of the works.	• The open space is much valued and the provision of a formal footpath would bring significant benefit to the local community including those with disabilities. • It would reduce the risk of personal injury to users of the existing track from trips and falls and thus potential claims to the Council. • It will enhance the open space by facilitating easier access and improving the aesthetics of the local area.	30,000				- 14,000
12	Environment & Place	**Protection of Public Open Spaces (Illegal encampments)** To date, some 19 open spaces have been protected through the use of either knee rail fencing or earth bunds and a further 4 sites have been identified as vulnerable: • Wentworth Crescent, Braintree • Gershwin Boulevard, Witham • Honeysuckle Way, Witham • Bocking and Blackwater Nature Reserve and Open Space, Braintree	To protect the most vulnerable public open spaces from unauthorised encampments.	• Reduction in damage to the asset and avoidable clearance costs • Reduced inconvenience and disruption for local residents • Maintenance of public open space for its intended purpose	50,000				

Requests for Capital Funding 2020-21
Date Produced: 22nd January 2020

	Portfolio	Project Description	Project Drivers	Project Achievements	Capital Cost (gross of external funding)				External Funding
					2020/21	2021/22	2022/23	2023/24	
13	Environment & Place	Partial refurbishment/equipment upgrades at the following play area sites: • Albert Moss Recreational Gdns, Rivenhall (installed in 2003). • Bramble Road, Witham (equipment installed in 1997). • Braintree Public Gardens, Braintree (part refurbished in 2009). • Notley Community Hall, Notley Green (equipment installed in 1999).	The Council has 52 play areas around the District. All of the play areas are visually inspected on a monthly basis by trained staff and annually by an independent external assessor. The refurbishment programme ensures a high standard at our play areas for our residents and visitors to enjoy, as well as meeting the health and safety requirements for the equipment.	• Attractive, good quality and safe play equipment will encourage young people to participate in physical activity and thus contribute to their health and wellbeing. • Play areas are regarded as valuable community facilities that contribute to people's quality of life. They form an important part of the open space network in the Braintree District and create a sense of pride in local areas. • Having high quality and well maintained play areas helps to improve the Council's reputation and creditability through securing nationally recognized awards such as National Playing Fields Association, whilst also demonstrating a commitment to maintaining recreational open space for all to enjoy.	80,000				
14	Environment & Place	**Cordon's Farm Waste Transfer Station** **Resurfacing and Drainage Works** • Reinforcement to the hard standing area located to the left of the Portacabin on entering the site • Widening of the drainage channel that runs across the centre of the site between the Sweepings Bay and the Green Waste Recycling Bay, to allow for an improved flow rate for surface water drainage into the interceptors on site, reducing the risk of flooding.	This work is necessary in order to maintain compliance with the environmental permit issued by the Environment Agency. Improved site drainage and repaired concrete surface area at the site, will also result in: • an improved drainage infrastructure • reduced flooding in front of the green waste bay during wet weather • the ability to accurately record the payloads of green waste leaving the site (currently excess surface water is absorbed by the green waste, making it heavier) • improved quality of green waste (pooling of water in this area causes it to decompose more quickly than if kept dry) • reduced trip hazards on site • improved safety for vehicles manoeuvring, as well as Reversing Assistants and site staff carrying out their duties • improved safety for pedestrians visiting site • physically and aesthetically improve the overall condition of the site • improved safety for road users by not transferring unwanted detritus and debris from the Transfer Station to the public highway and neighbouring businesses.	• Maintain compliance with the environmental permit and reduce the risk of any potential accidents in relation to the poor surface area by site staff, contractors and other visitors to the site.	17,000				

Requests for Capital Funding 2020-21
Date Produced: 22nd January 2020

	Portfolio	Project Description	Project Drivers	Project Achievements	Capital Cost (gross of external funding)				External Funding
					2020/21	2021/22	2022/23	2023/24	
15	Environment & Place	**Depot Refurbishment Works** Refurbish the Male toilets to provide additional facilities at Unit 4 and replace the redundant heating in the area used by front-line operational staff.	The proposal will double existing provision to cater for the increase in male staff based at Unit 4 and visitors. In some periods over the winter the temperature falls below that which is required for the workplace under statutory guidance.	• Meet the employer duty of care for the health, safety and welfare of its staff • Improved working environment and better facilities for staff and visitors to Unit 4 • Improved morale and motivation for male staff	50,000				
16	Environment & Place	**Gardens of Remembrance in our Cemeteries** To provide opportunities for memorials (Infrastructure costs - footpaths, fencing, seating, etc.) within a Garden of Remembrance which will generate ongoing income to the Council.	This is an 'invest to save' project to create Gardens of Remembrance and sell memorial space (either a one-off cost or leased over periods of time e.g. 5-10 years) to relatives or friends of the deceased. It will discourage the sporadic placement of memorials throughout our cemeteries which is difficult to control given the sensitivity of the subject matter.	• Enhanced facilities for customers of our Cemeteries Service who will be able to enjoy quiet, peaceful contemplation and reflection in a high quality, well maintained public space. • Invest to Save opportunity for the Council (Income generation from year 2)	50,000	-			
17	Planning	**Purchase & Set-up of new software called PlanX to assist with duty Planning.** Proposed procurement of PlanX1 for Development Management, to provide an online self-service system for Customers to check whether they require planning permission for a particular proposal.	Currently a Duty Planning Service is operated on two mornings per week. The Service is resourced by a Planning Officer . The Duty Planner provides informal advice on whether planning permission is required, assistance with the completion of planning application forms and the plans that need to be submitted with a formal application, and general information and advice on national and local planning policy and processes. The Duty Planner does not give a view on the acceptability of the proposal. Customers are instead directed towards the Council's Pre-application service.	Improve the duty planner service for customers. o Customers would be able to resolve many enquiries themselves, 24 hours a day making the service more accessible. o Help customers to understand the process o Reduces the sense of subjectivity behind advice. • Reduce pressure on Planning Officers, allowing more of their time to be focused on the assessment of planning applications and pre-applications. • More consistency and removes the risk of 'human error'. • Provides a clear audit trail for the Customer and the Local Planning Authority.	10,000				
18	Economic Development	**Pedestrianisation of Braintree Town Centre** Pedestrianisation scheme to convert existing highway into a valuable, high-quality and multipurpose place that would have the flexibility to adapt to the modern needs of locals and visitors.	The surface quality of the High Street is very poor and demands full reconstruction to carriageways, footways and drainage. A bid for funding has been submiited to the Department for Transport 'Challenge Funds'. In addition ECC are in the process of confirming the full extent of their investment. At its meeting in December the Cabinet agreed to the use some of the existing Town Centre Improvement budget and request for an additional sum of £500k. This will meet our contribution to the highway improvements and also deliver a range of public realm enhancements and also extend key elements of the project along Fairfield road outside the Town Hall as well as public realm adjacent to the Museum.	The aim is to increase footfall; increase visitor dwell time; increase the regularity with which people visit; to positively influence spend in the town, improve its value to the community and help it evolve.	500,000				
		Allowances for future years				500,000	500,000	500,000	
				Totals	**2,746,750**	**2,061,000**	**1,981,000**	**1,981,000**	**- 946,000**

Capital Strategy 2020/21 to 2023/24

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. Capital and treasury management decisions will have financial consequences to the Council over many years and as such are subject to both a national regulatory framework and to a local policy framework, as summarised in this strategy report.

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 third parties enabling them to buy or improve assets, e.g. 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. The Council's capital programme comprises the following programme areas:

- Housing – which includes projects that assist registered social landlords to provide affordable housing schemes; disabled facilities grants to individuals; and other home improvement schemes.

- Vehicle replacement programme – a rolling programme of operational vehicle acquisitions and replacements to maintain service delivery.
- Other Services – which includes capital expenditure on planned maintenance; ICT and other digital investment; waste management and recycling; and leisure and community facilities; etc.

- District Investment Strategy – includes major strategic projects designed to support the Council's ambition to invest across the district and target four key themes: health, homes, journey and jobs.

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

Table 1: Estimates of Capital Expenditure

	2018/19 Actual £m	2019/20 Forecast £m	2020/21 Forecast £m	2021/22 Forecast £m	2022/23 Forecast £m	2023/24 Forecast £m
Housing	0.937	1.348	1.967	1.031	1.031	1.031
Vehicle Replacement Programme	0.631	1.006	1.588	0.583	0.141	1.622
Other Services	2.569	2.711	2.844	1.080	0.950	0.950
District Investment Strategy	7.104	5.645	35.865	6.942	2.881	0.000
Capital Salaries	0.354	0.373	0.400	0.228	0.207	0.207
Total	**11.595**	**11.083**	**42.664**	**9.864**	**5.210**	**3.810**

2.5. The above forecasts includes projects and schemes approved, as well as some 'pipeline' schemes within the overall District Investment Strategy programme, and other provisions for recurring items of capital expenditure e.g. planned maintenance, grant schemes, and ICT refresh.

2.6. Commitments made by the Council to support additional capital investment in Witham and Halstead, subject to appropriate schemes being developed, along with cost contingencies on existing programme spend means a further £5.107 million of expenditure could be incurred over the forecast period.

2.7. **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 costs. 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.

2.8. 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].

2.9. All capital projects have a nominated project sponsor and project manager. In-year monitoring of projects is undertaken as part of 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.

2.10. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves, or capital receipts) or debt (borrowing or leasing). The planned financing of the expenditure set out in Table 1 is as follows:

Table 2: Capital Financing

	2018/19 Actual £m	2019/20 Forecast £m	2020/21 Forecast £m	2021/22 Forecast £m	2022/23 Forecast £m	2023/24 Forecast £m
External sources	-1.503	-2.004	-2.387	-0.931	-0.931	-0.931
Own resources	-3.923	-4.846	-29.221	-3.476	-7.349	-4.468
Borrowing (internal/ external)	-6.169	-4.233	-11.056	-5.457	3.070	1.589
Total	**-11.595**	**-11.083**	**-42.664**	**-9.864**	**-5.210**	**-3.810**

2.11. A further £5.107 million is potentially committed (as referred to in paragraph 2.6) to be met from Own resources.

2.12. The Corporate Director (Finance) will consider the most cost effective way to finance each year's capital expenditure in light of the Council's financial circumstances prevailing at the time, adopting as a general strategy the following order in which capital resources will be applied:

- S106 planning contributions and other similar restricted capital grants – these will be applied first whenever the Council is able to fully comply with their associated conditions;
- Capital receipts generated from any source; and
- Revenue (including earmarked reserves and other revenue contributions). To the extent that amounts have been approved for financing capital expenditure, the amount approved will be transferred and held as general capital resources to be used as necessary according to this overall funding strategy.

2.13. The Corporate Director (Finance) may defer any planned external borrowing and instead use the Council's own resources, either on a permanent or temporary basis (internal borrowing), where this approach is deemed to be financially beneficial to the Council and having considered all appropriate risks.

2.14. 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).

2.15. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of Debt Finance

	2018/19 Actual £m	2019/20 Forecast £m	2020/21 Forecast £m	2021/22 Forecast £m	2022/23 Forecast £m	2023/24 Forecast £m
Capital receipts					-3.070	-1.589
Annual MRP	-0.379	-0.379	-0.523	-0.785	-1.118	-1.139
Annual lease payments	-0.363	-0.305	-0.216	-0.062	-0.004	-0.002
Total Own Resources applied	**-0.742**	**-0.684**	**-0.739**	**-0.847**	**-4.192**	**-2.730**

2.16. 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 commensurate with that for which the related capital expenditure provides benefit. MRP may not be provided

where assets are acquired or developed specifically for sale, as the future capital receipt will finance the related debt. A full policy statement is included as an **Annex** to this strategy report**.**

2.17. The Council's underlying need to borrow for 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 either its own resources or external support (e.g. third party grants and contributions). The CFR 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

	31.3.19 Actual £m	31.3.20 Forecast £m	31.3.21 Forecast £m	31.3.22 Forecast £m	31.3.23 Forecast £m	31.3.24 Forecast £m	31.3.25 Forecast £m
Capital Financing Requirement	**12.215**	**15.764**	**26.081**	**30.691**	**26.499**	**23.769**	**20.309**

2.18. The table above makes provision for unfinanced 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 estimates. However, as some schemes are still evolving and are based on a number of key assumptions, future forecasts could be subject to significant change.

2.19. **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 property will support its overall corporate strategy and key priorities, and 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.

2.20. **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 and informs the immediate capital expenditure requirement. However, recognising this as a rolling programme of works, a recurring annual provision is included for future years. Exceptional spending requirements that cannot be met from this annual provision will be subject to a separate business case and needs assessment.

2.21. **Asset Disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as a capital receipt, can be spent on new assets or used to repay debt. Repayments of capital grants, loans and certain investments also generate capital receipts. Since a housing stock transfer in 2007, the Council has had 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

	2018/19 Actual £m	2019/20 Forecast £m	2020/21 Forecast £m	2021/22 Forecast £m	2022/23 Forecast £m	2023/24 Forecast £m
Asset sales	2.656	1.317	1.800	0.000	0.000	0.000
Asset sales (District Investment)	0.000	0.000	10.720	6.919	4.646	3.211
Housing transfer further receipts	4.090	2.100	1.650	1.600	1.550	1.500
Grants and loans repaid	0.079	0.000	0.000	0.000	0.000	0.000
Total	**6.825**	**3.417**	**14.170**	**8.519**	**6.196**	**4.711**

2.22. 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 the District Investment Strategy 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.

These would need to be met from the related rental income to avoid any negative net 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. During any financial year, the Council typically holds higher cash balances in the first half of the year as revenue income (including local taxes collected) is received before it is spent or paid to the major precepting bodies. This increases the core level of cash 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. However, by adopting sound and proactive treasury management, short-term cash surpluses can be used to reduce and/ or defer this borrowing requirement, referred to as 'internal borrowing'. This approach also mitigates against the risks associated with investing externally on the money markets.

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 £59million 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

	31.3.19 Actual £m	31.3.20 Forecast £m	31.3.21 Forecast £m	31.3.22 Forecast £m	31.3.23 Forecast £m	31.3.24 Forecast £m	31.3.25 Forecast £m
Debt (incl. leases)	-9.861	-8.499	-8.194	-11.613	-10.861	-7.912	-7.910
CFR	12.215	15.764	26.081	30.691	26.499	23.769	20.309
Internal (-over) borrowing	**2.354**	**7.265**	**17.887**	**19.078**	**15.639**	**15.857**	**12.399**

3.5. Statutory guidance states 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. Unfinanced capital expenditure (measured by the CFR) is in excess of actual and estimated debt indicating a strategy of internal borrowing.

3.6. **Liability Benchmark:** To compare the Council's actual borrowing (excluding leases) 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 (rather than £20m) at each year-end, to maintain liquidity:

Table 7: Borrowing and the Liability Benchmark

	31.3.21 Forecast £m	31.3.22 Forecast £m	31.3.23 Forecast £m	31.3.24 Forecast £m	31.3.25 Forecast £m
Borrowing	9.635	8.944	6.000	6.000	6.000
Liability benchmark	-0.365	-1.056	-4.596	-5.852	-7.584
Difference	**10.000**	**10.000**	**10.596**	**11.852**	**13.584**

3.7. The table above shows that under this scenario the Council would still be borrowing above its liability benchmark. However, this approach can be justified at a time when interest rates are low so as to secure cost certainty over any longer-term financing of major investment projects where the Council also expects to generate, similarly, long-term commercial rent streams. However, under this scenario investment balances would fall below the amounts held in long-term pooled funds and which, if funds are withdrawn, would have an overall adverse impact on income to the General Fund Revenue Account as the return on these funds exceeds the current cost of borrowing.

3.8. No strategy is entirely risk free. Internal borrowing runs the risk that cash is required for its original intended purpose and the Council is then forced to borrow when interest rates and other conditions are less favourable. The Corporate Director (Finance) will retain flexibility to adjust the balance between borrowing and investments to respond to changing circumstances.

3.9. **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.

Table 8: Authorised Limit and Operational Boundary for External Debt

	2019/20 Limit	2020/21 Limit	2021/22 Limit	2022/23 Limit	2023/24 Limit	2024/25 Limit
Authorised Limit	50.00	50.00	50.00	50.00	50.00	50.00
Operational Boundary	35.00	30.00	30.00	30.00	30.00	30.00

3.10. Under the Council's banking services contract with Lloyds Bank Plc, current account facilities are provided across multiple accounts which operate on a net and gross basis. An overdraft limit has been agreed on a net basis of £100,000, with a maximum gross limit on any one account of £20 million. The limits set out above are based on the Council operating within the net overdraft limit as typically day-to-day balances across all the Council's current accounts are maintained at/ around £1.5 million for liquidity purposes. The arrangement with Lloyds is subject to a formal set-off agreement authorised by the Corporate Director (Finance) which provides that Lloyds can offset any assets and liabilities of the Council that is held with the bank.

3.11. Further details on borrowing are set out in the Treasury Management Strategy Statement.

3.12. The limits above take into account a number of the Council's major investment projects. No allowance has been made for any future borrowing that might be incurred in relation to supporting development of garden communities as progress on this matter is still dependent upon the Local Plan process.

3.13. **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.

3.14. 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 9: Treasury Management Investments

	31.3.19 Actual £m	31.3.20 Forecast £m	31.3.21 Forecast £m	31.3.22 Forecast £m	31.3.23 Forecast £m	31.3.24 Forecast £m
Near-term investments	28.527	24.177	0.000	0.000	0.596	1.852
Longer-term investments	18.000	20.000	20.000	20.000	20.000	20.000
Total Investments	**46.527**	**44.177**	**20.000**	**20.000**	**20.596**	**21.852**

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

3.16. **Governance:** All decisions on treasury management policy and the setting of the annual strategy are determined by Full Council. This means that all matters relating to borrowing, investments and debt requirements are determined by Full Council. The Corporate Governance Group is responsible for scrutinising the treasury management policy and strategies prior to their recommendation to Full Council by the Cabinet.

3.17. Day-to-day decisions on treasury management investment and borrowing activities are delegated to the Corporate Director (Finance) and other officers, 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 Management. Details of treasury management activities are presented to the Corporate Governance Group as part of a suite of key

financial indicators; and activity is also reported in the Council's Quarterly Performance report submitted to Cabinet. A mid-year report and an annual report on treasury management activities are also received by Full Council (after first being considered by the Corporate Governance Group and Cabinet).

3.18. The objective of the treasury management strategy is to establish a framework under which the Corporate Director and other officers can carry out their role; however, the control framework established is supplemented by operational controls set out in treasury management practices. This means that whilst something may be permitted in the strategy, current market conditions may dictate that a certain activity is not undertaken. The Corporate Director (Finance) will at all times act in the best interest of the Council's finances.

4. Investments for Service Purposes

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. The Council may take more risk regarding a loan where such an investment has other non-financial benefits; although even in such circumstances an investment should at least break-even. The Council will also need to be mindful of any state-aid implications regarding the provision of financial support to a third party.

4.2. **Governance:** Proposals on service investments are initially made by the relevant service manager who will also consult with the Corporate Director (Finance) and relevant Cabinet Member(s). Subject to the amounts involved, a proposal may require formal approval by the Cabinet and/ or Full Council. Any proposal must satisfy the Council's overall investment strategy.

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

5. Commercial Activities

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 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. At 31 March 2019, the assessed value of the Council's commercial property portfolio was £42.103 million. The portfolio consists of industrial land and units, offices, shops, and health facilities. In addition, the Council generates rental income from other properties, e.g. Braintree Enterprise Centre used for encouraging start-up businesses, and surplus areas within Causeway House which are let to third parties.

5.4. With financial return being the main objective, the Council accepts higher risk on its commercial investments than that with treasury investments. Revenue income could be put at risk through breaks in tenancies/ voids, 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 financial difficulties to seek changes in rent levels as part of Company Voluntary Arrangement (CVA) or similar. The majority of the Council's investment property portfolio has been financed in the past and therefore currently 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 and ability to set a balanced budget.

5.5. In terms of the Council's District Investment Strategy the overriding objectives are to bring about significant benefits to residents and businesses, but also where possible to generate income to the Council. At 31 March 2019, the value of works in progress on projects amounted to £8.109 million, including land acquisition costs. Currently, the two most significant projects within this programme are the regeneration of the Braintree Town Centre; and Horizon 120, a proposed new employment site.

5.6. 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. Also, by maintaining a diversified portfolio this helps to manage the inherent risks.

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 meet its pension fund obligations. The position has recently been reviewed (as at March 2019), and whilst this shows the Council having a small surplus, there is still a requirement to make additional payments to the fund over the next three years, as a contingency against any deterioration to this position.

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 2019 a sum of £3.090 million was set aside, of which £1.236 million represents the Council's share of this risk, 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 and interest 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

	2018/19 Actual £m	2019/20 Forecast £m	2020/21 Forecast £m	2021/22 Forecast £m	2022/23 Forecast £m	2023/24 Forecast £m
Financing costs (net)	-0.008	-0.071	0.087	0.271	0.499	0.511
Proportion of net revenue stream	-0.05%	-0.49%	0.58%	1.79%	3.21%	3.20%

7.2. The above table shows the proportion of financing cost is expected to increase over the medium-term, however, this will be offset by additional commercial rental income generated from the underlying assets.

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.

8.3. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers, and will engage appropriate expert advisors for its commercial activities. This approach is more cost effective than employing such staff directly, and ensures that the Council has the necessary 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. The Council actively supports staff studying towards professional qualifications or otherwise undertaking some form of job-related development.

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 Corporate Governance Group 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.

Capital Strategy Annex – Minimum Revenue Policy

1. Where the Council 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 is charged to the revenue budget (and hence against Council Tax) and is referred to as Minimum Revenue Provision (or MRP). It is this requirement which means borrowing needs to be 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. There are different methodologies for calculating MRP depending upon the circumstances and it is for the Council, in conjunction with its external auditor, to determine what constitutes prudent provision. 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 1 April 2008 capital expenditure. As the Council's CFR on this expenditure is negative there is no requirement for MRP to be made on this past expenditure.

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 starting in the year after the asset becomes operational. 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 using a period shorter than the expected life of an asset where it considers this to be more prudent and/ or is part of any 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** – for loans made to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply these repayments to reduce the CFR. In years where there is no principal

repayment, MRP will be charged in accordance with the Asset Life method, including where appropriate, delaying MRP until the relevant assets become operational.

7. **Assets developed or acquired specifically for sale (including investment properties)** – where the Council has incurred capital expenditure on the acquisition and/ or development of assets for sale and the capital receipt generated will be used to repay any related debt then no MRP will be charged. In the event that there is a significant delay in realising the capital receipt compared to the original plan, MRP will be charged in accordance with the Asset Life method.

The Council may make voluntary MRP and/ or set aside capital receipts to reduce the CFR as part of an overall strategy to reduce future revenue costs.

Treasury Management Strategy Statement 2020/21

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 substantial sums of money invested, and holds legacy borrowing, meaning it is exposed to a range of 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 2020/21).

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.

2.3. Arlingclose Ltd have been re-appointed as treasury management advisors to the Council for a three-year period commencing on 10 November 2019.

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 2020/21. The General Election has removed some uncertainty within financial markets, however, following the expected Withdrawal Bill, uncertainties around the future trading relationship with the EU remain.

3.2. Gross Domestic Product (GDP) growth rose by 0.4% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its historical trend rate to 1.1% from 1.2%. Services, construction and production added positively to growth, by 0.5%, 1.2% and 0.1% respectively, while agriculture recorded a fall of 0.1%. Looking ahead, the Bank of England's Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment helping GDP reach 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.

3.3. The headline rate of UK Consumer Price Inflation (CPI) remained the same in November 2019 at 1.5% year-on-year, the same as October, however still continuing to fall from earlier highs of 2.1% as accommodation services and transport continued to contribute to a level of inflation below the Bank of England's target of 2%. Labour market data continues to be positive. The unemployment rate continues to hold at historic lows at 3.8%, its lowest level since 1975. The 3-month

average annual growth rate for pay excluding bonuses rose to 3.5% in November providing some evidence that a shortage of labour is supporting wages. However, adjusting for inflation real wage growth is only likely to have a moderate impact on household spending.

3.4. Domestic inflationary pressures have abated, as gas and electricity price freezes have taken effect until 2020. The price of oil has fallen through the year, despite a rise in prices in December. The limited inflationary pressure from real wages will keep inflation below the Bank of England's target. The Bank Rate was maintained at 0.75% in November following a 7-2 vote by the Monetary Policy Committee (MPC). Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal.

3.5. The US economy has continued to perform relatively well compared to other developed nations; however, the Federal Reserve has started to unwind its monetary policy tightening through 2019. The Federal Reserve has cut rates three times to 1.50-1.75% to stimulate growth as GDP growth has started to fall (to 2.1%).

3.6. The fallout from the US-China trade war continues, which risks contributing to a slowdown in global economic activity 2019. There have been recent suggestions of an initial compromise and potential unwinding of tariffs; however, the position is one that could change quickly. Slow growth in Europe, combined with changes in leadership at the European Central Bank and International Monetary Fund has led to a change of stance in 2019. Quantitative easing has continued and been extended.

3.7. **Credit outlook:** The recent Bank of England stress test assessed all seven UK banking groups. The test scenarios included deep simultaneous recessions in the UK and global economies more severe overall than the previous global financial crisis, combined with large falls in asset prices and a separate stress of misconduct costs. All seven banks passed the test on both a common equity tier (CET1) ratio and a leverage ratio basis as the banks have steadily increased their capital for many years now. However, there are a number of shortcomings in the Bank's approach, namely: timeliness as the results are over 11 months out of date when published and based on end-2018 balance sheets; impact of ringfencing, as the tests ignore the restrictions on transferring capital between ringfenced "retail" banks and non-ringfenced "investment" banks within the larger groups; and coverage – the tests should be expanded to cover a wider range of UK banks and building societies.

3.8. The Bank of England will seek to address some of these issues in 2020, when Virgin Money/ Clydesdale will be added to the testing group and separate tests will be included of ringfenced banks.

3.9. Challenger banks hit the news headlines in 2019 with Metro Bank and TSB Bank both suffering negative publicity and falling customer numbers.

3.10. Looking forward, the potential for a "no-deal" Brexit and/ or global recession remain the major risks facing banks and building societies in 2020/21, and therefore a cautious approach to bank deposits is being maintained.

3.11. **Interest rate forecast:** The Council's treasury management adviser, Arlingclose, is forecasting that Bank Rate will remain at 0.75% until end of 2022 with the risks to this forecast deemed to be weighted towards the downside. The Bank of England, having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Monetary Policy Report and through its Bank Rate decision that the MPC now believe this is less likely even with a deal being agreed.

3.12. Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected based on Arlingclose's interest rate projections. The central case is for 10-year and 20-year gilt yields to rise to around 1.00% and 1.40% respectively over the time horizon, with broadly balanced risks to both the upside and downside. However, short-term volatility arising from both economic and political events over the period is a near certainty.

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 external borrowing is 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

	31.3.19 Actual £m	31.3.20 Forecast £m	31.3.21 Forecast £m	31.3.22 Forecast £m	31.3.23 Forecast £m	31.3.24 Forecast £m
Capital Financing Requirement (CFR)	**12.22**	**15.76**	**26.08**	**30.69**	**26.50**	**23.77**
Less: Other debt liabilities	-2.50	-2.19	-1.98	-1.92	-1.91	-1.91
Loan CFR	**9.72**	**13.57**	**24.10**	**28.78**	**24.59**	**21.86**
Less: External borrowing	-6.00	-6.00	-9.64	-8.95	-6.00	-6.00
Internal Borrowing	**3.72**	**7.57**	**14.47**	**19.83**	**18.59**	**15.86**
Less: Usable reserves	-47.48	-47.62	-31.80	-36.84	-35.87	-34.06
Less: Working capital	-2.76	-4.65	-2.67	-2.99	-3.31	-3.65
Investments	**46.53**	**44.70**	**20.00**	**20.00**	**20.59**	**21.85**

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 that support investment balances. The Council has an increasing CFR due to its capital programme suggesting a need to borrow for the purposes of capital expenditure. However, in line with a strategy of keeping external borrowing and investments below their underlying levels this increased need to borrow is projected to be met largely by using internal borrowing. This strategy is based on the assumption that significant capital receipts will be generated from a number of the Council's strategic projects with the main risk being that should these receipts not be realised or are delayed, the Council could be forced to borrow at a time which is less favourable to current market 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 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 £10 million at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 2: Liability benchmark

	31.3.21 Forecast £m	31.3.22 Forecast £m	31.3.23 Forecast £m	31.3.24 Forecast £m
Loan CFR	**24.10**	**28.77**	**24.59**	**21.86**
Less: Usable reserves	-31.80	-36.84	-35.88	-34.06
Less: Working capital	-2.67	-2.99	-3.31	-3.65
Plus: minimum investments	10.00	10.00	10.00	10.00
Liability Benchmark	**-0.37**	**-1.06**	**-4.60**	**-5.85**

4.5. As the table above shows, this approach would eliminate the need for any additional external borrowing over the medium-term (reflected by a negative liability benchmark), although this also implies a level of investments at year-end below the Council's current long-term pooled fund holdings, which would result in a net reduction in income to the General Fund Revenue Account as the return on pooled funds exceeds current borrowing costs.

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

5. Borrowing Strategy

5.1. The Council currently has £6 million of debt, which it incurred in March 2002, and has a maturity date of March 2042, subject to lender options (see below). The balance sheet forecasts show that borrowing is expected to increase in the near term during 2020/21 and 2021/22, subject to the progress made on delivering a number of the Council's strategic investment projects. Additional sums may be borrowed in any year to pre-fund future years' financing requirements, providing this does not exceed the authorised limit for borrowing.

5.2. **Objectives:** The main objective when borrowing is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the plans change is a secondary objective.

5.3. **Strategy:** The 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.

5.4. By adopting this strategy both net borrowing costs and overall treasury risk can be reduced. 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 break-even analysis, the output from which may determine whether additional sums are borrowed at long-term fixed rates sooner than expected if this demonstrates longer-term benefit, even if there are some short-term additional costs.

5.5. Alternatively, forward starting loans might be used during 2020/21, 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. Whilst the PWLB would normally have been the main source of any new borrowing, since October 2019 the cost of borrowing from the Board has increased by 1% (i.e. borrowing rates are now set at gilt yield +1.8% margin), making it a relatively more expensive source of finance. Consequently, at the point there is need to arrange new borrowing full consideration will be given to the alternative sources available at the time.

5.8. Other sources of debt finance: In addition, capital finance may be raised by leasing (or other similar credit arrangement) which is technically not classed as borrowing but treated as other debt liabilities.

5.9. **LOBOs:** Current external borrowing is in the form of two loans of £3 million 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 new borrowing will be on LOBO terms.

5.10. **Short-term and variable rate loans**: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to interest exposure limits. Financial derivatives may be used to manage this interest rate risk (see Section 8).

5.11. **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. Working capital requirements during the year also increase the amount of cash available for investment purposes. The following table shows the average investment balance including forecasts over the medium-term:

Table 3: Average investment balances

	2018/19 Actual £m	2019/20 Forecast £m	2020/21 Forecast £m	2021/22 Forecast £m	2022/23 Forecast £m	2023/24 Forecast £m
Pooled Funds (long-term)	16.54	18.50	20.00	20.00	20.00	20.00
Short-term investments	41.81	40.90	26.14	13.79	14.08	15.01
Total Average Investment balance	**58.34**	**59.40**	**46.14**	**33.79**	**34.08**	**35.01**

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, 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 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. **Investment business model:** the accounting arrangements for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed short-term treasury investments by collecting contractual cash flows and so these investments are accounted for at amortised cost, i.e. principal and interest, the latter based on the effective interest rate method.

6.6. For investments in long-term pooled funds, the accounting rules require the Council to account for changes in fair value (or market value) as well as any dividend income. However, currently regulations provide a statutory override mitigating the impact this would normally have on the General Fund revenue account. These regulations apply for a period of five years ending on 31st March 2023. Without any further extension to the regulations, after this time the Council will have to take into account changes in fair value when setting budgets and council tax.

6.7. **Criteria for selecting approved investment counterparties:** The Council may invest its surplus funds with any of the counterparty types in table 4 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 4: Approved investment counterparties and limits

Counterparty or Credit Rating	**Banks Unsecured**	**Banks Secured**	**Government**	**Registered Providers (Housing)**
UK Government			£ unlimited 50 years	
UK Local Authorities			£5m/ 5 years per authority	
Supranational bodies with rating of at least AA+			£5m per body 25 years	
AA+ or AAA	£3m 5 years	£5m 10 years		£5m 5 years
AA- or AA	£3m 3 years	£5m 4 years		
A+	£3m 2 years	£5m 3 years		
A	£3m 13 months	£4m 2 years		
A-	£3m 6 months	£3m 2 years		
Unrated Building Societies	£1m 6 months			
MMFs, Pooled Funds, and REITs	£5m per fund			

This table should 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, multilateral development banks, and UK local authorities. 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.

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. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

6.16. **Operational bank accounts:** The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services. These are not classed as investments, but are still subject to the risk of a bank bail-in or counterparty default. Normally balances will be kept at/ around £1.5 million (net); although for specific cash flow purposes it may be necessary to hold higher balances 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 Arlingclose, who will notify the Council of 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 Arlingclose. 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, investments will be restricted to those organisations of higher credit quality along with a reduction in duration limits. 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 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 balances and reserves available to cover investment losses are forecast to be around £28 million at 31st March 2020, but reduce to around £20 million over the medium-term. To protect the impact on these reserves in the case of default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5 million (£3 million where the investment is unsecured and held with a single bank). 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 5: Investment limits

	Cash limit
Any single organisation/ fund, except the UK Central Government	£5m each
UK Central Government	Unlimited
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	£3m in total
Any group of pooled funds under the same management organisation*	£10m per manager
Pooled funds (held for the long-term)*	£20m in total

Money market funds (low volatility, cash+ funds)*	£25m in total
Real estate investment trusts*	£5m in total

* Based on the initial principal amounts invested

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 being forced to borrow on unfavourable terms to meet financial commitments. Limits on long-term investments are set by reference to medium-term financial plans and cash flow forecasts. 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 by Arlingclose 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**: 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.

7.5. **Maturity structure of borrowing:** This indicator is set to control exposure to refinancing risk. At present the only borrowing the Council has is its LOBO debt which means that there is exposure to refinancing risk of £6 million at a frequency of 6 months. Liquid funds are normally held which mitigate this along with ready access to refinancing if necessary via the PWLB, LA to LA lending, or financial markets. Any new external borrowing incurred will be arranged so as to manage the future refinancing risk.

7.6. **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). The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Table 6: Investment beyond one year limits

Price risk indicator	2020/21	2021/22	2022/23
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 by adjusting risk exposure (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. In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

8.6. **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 where requested to confirm status, allowing 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 following table sets out the actual and forecast investment income over the medium-term:

Table 6: Investment Income

	2018/19 Actual £m	2019/20 Forecast £m	2020/21 Forecast £m	2021/22 Forecast £m	2022/23 Forecast £m	2023/24 Forecast £m
Dividend and Interest income:						
Pooled Funds (long-term)	0.866	0.841	0.890	0.890	0.890	0.890
Short-term investments	0.292	0.306	0.196	0.103	0.106	0.113
Total	**1.158**	**1.147**	**1.086**	**0.993**	**0.996**	**1.003**
Income return %:						
Pooled Funds (long-term)	5.24%	4.55%	4.45%	4.45%	4.45%	4.45%
Short-term investments	0.70%	0.75%	0.75%	0.75%	0.75%	0.75%
Total	**1.98%**	**1.93%**	**2.35%**	**2.94%**	**2.92%**	**2.86%**

9.2. Annual interest payable on current borrowing is £282,000 (equivalent to an average interest rate of 4.7%). Whilst a number of strategic investment projects in the capital programme include provision for additional capitalised interest, the strategy is to mitigate this by using internal resources where this is shown to be most beneficial. The Corporate Director (Finance) will keep this position under review in conjunction with Arlingclose. Estimated interest of £99,000 per annum is also payable on assets acquired through lease type arrangements, the cost of which is budgeted within the relevant service.

9.3. 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 Management, 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.

Table 8: Alternative Strategies and Impact

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

Annex 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

Annex B – Arlingclose Economic & Interest Rate Forecast December 2019

Underlying assumptions:

- The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased.
- Some positivity on the trade negotiations between China and the US has prompted worst case economic scenarios to be pared back. However, information is limited, and upbeat expectations have been wrong before.
- The General Election has removed some uncertainty within financial markets, however, following the expected Withdrawal Bill, uncertainties around the future trading relationship with the EU remain.
- UK economic growth has stalled despite Q3 2019 GDP of 0.4%. Monthly figures indicate growth waned as the quarter progressed and survey data suggest falling household and business confidence. Election promises suggest substantial fiscal easing, which should help support growth.
- The weaker external environment severely limits potential upside movement in Bank Rate, while the slowing UK economy will place pressure on the MPC to loosen monetary policy. Indeed, two MPC members voted for an immediate cut in November 2019.
- Inflation is running below target at 1.5%. While the tight labour market risks medium-term domestically-driven inflationary pressure, slower global growth should reduce the prospect of externally driven pressure, although political turmoil could push up oil prices.
- Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- Although we have maintained our Bank Rate forecast at 0.75% for the foreseeable future, there remains substantial risks to this forecast.
- Arlingclose judges that the risks are weighted to the downside.
- Gilt yields have risen but remain low due to the soft UK and global economic outlooks. US monetary policy and UK government spending will be key influences alongside UK monetary policy.
- We expect gilt yields to remain at relatively low levels for the foreseeable future and judge the risks to be broadly balanced.

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.21**
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
3-month money market rate														
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	**0.25**
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
1yr money market rate														
Upside risk	0.10	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.30	0.30	0.30	0.30	**0.23**
Arlingclose Central Case	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**
Downside risk	-0.30	-0.50	-0.55	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	**-0.60**
5yr gilt yield														
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.45	0.45	0.45	**0.37**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.55**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.57**
Downside risk	-0.35	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	**-0.56**
10yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**0.75**	**0.75**	**0.80**	**0.80**	**0.85**	**0.85**	**0.90**	**0.90**	**0.95**	**0.95**	**1.00**	**1.00**	**1.00**	**0.88**
Downside risk	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.45**
20yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**1.20**	**1.20**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.30**	**1.35**	**1.35**	**1.35**	**1.40**	**1.40**	**1.30**
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**
50yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**1.20**	**1.20**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.30**	**1.35**	**1.35**	**1.35**	**1.40**	**1.40**	**1.30**
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 1.80%

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

Investment Strategy

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 meets 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 fluctuates during the year but is estimated to average around £46 million across the 2020/21 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 which helps to support the overall budget.

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, included within the suite of appendices that accompany the annual budget report approved by Full Council in February.

3. Service Investments: Loans

3.1. **Contribution:** The Council occasionally lends money to third parties to support particular service objectives and/ or stimulate local economic growth.

3.2. At 31 March 2019, the amount outstanding on all service loans was £325,507. This amount will reduce significantly by 31 March 2020 as loans amounting to £246,660 have 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 expected loss allowance required to be charged to the General Fund revenue account.

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 approved by the Cabinet will be applied to any applications under the Council's Business Growth Loan Fund scheme. Applications seeking loans of up to £50,000, will be assessed by officers and approved by the Corporate Director (Finance). Applications for funding above £50,000 are to be approved by the Cabinet Member for Economic Development and Infrastructure, in consultation with the Corporate Director and Cabinet Member for Finance and Performance Management.

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

3.7. As the provision of service loans is an infrequent activity of the Council it is not considered appropriate to set limits for different loan types, rather an individual assessment will be made on a case by case basis, which will take into account the overall aggregate exposure at any point in time and the financial resources available to manage the inherent risks.

4. Service Investments: Shares

4.1. **Contribution:** Another form of potential support by the Council is the purchase of shares in a corporate body which has been established or exists to pursue activities which supports 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. These shares were acquired at nominal value. The purpose of NEGC Ltd is to support the authorities in the development and delivery of three potential garden communities in North Essex. As a shareholder the Council has representation on the NEGC Ltd Board, and certain reserved matters can only be progressed by NEGC Ltd with the approval of shareholders obtained through each council's own formal decision making process.

4.2. The Council may consider other opportunities to invest in the share capital of a corporate entity. Such opportunities would be subject to a business case and due diligence, including an assessment of risks, for the consideration and agreement of Full Council.

4.3. As the acquisition of share capital is an infrequent activity of the Council it is not considered appropriate to set limits for different categories of companies, rather an individual assessment will be made on a case by case basis, which will take into account the Council's overall aggregate exposure and financial resources available to manage the inherent risks.

5. Commercial Investments: Property

5.1. The Council has accumulated significant land and property asset holdings from its activities over many years. More recently, with reductions in central government financial support and the need to maintain a balanced budget and sustainable medium-term financial plan, the Council has actively pursued further commercial opportunities, particularly where these are

aligned with its wider corporate strategy.

5.2. **Contribution:** The Council has a mixed commercial property portfolio from which it seeks to generate income, although historically the original purpose for acquiring assets supported the Council's wider economic development role. In recent years the Council has sought to increase property utilisation, for example, by letting parts of it administrative offices at Causeway House to other third parties, generating rental income and sharing running costs.

5.3. At 31 March 2019, the assessed value of the Council's commercial property portfolio was £42.103 million as analysed in the following table:

Table 1: Commercial Property Market Value

	No. of Assets*	**Actual 31.3.19 £m**
Industrial Land and Buildings	42	18.215
Shops	8	2.082
Offices	4	14.655
Health Facilities	1	1.904
Council offices let space	1	1.503
Other Property	15	3.745
Commercial Property	**71**	**42.104**

* Nb. some asset held for accouting purposes comprise multiple properties/ leases

5.4. The Council is currently embarking on an ambitious strategic investment programme comprising a wide range of projects 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 to generate income to the Council. At 31 March 2019, the value of works in progress on these projects amounted to £8.109 million, including where relevant land acquisition costs. The two most significant projects within this programme are currently:

- **Braintree Town Centre Regeneration**: a project which contributes to a wider vision of improvement to the town centre utilising an area which represents the Council's most significant land holding in the town. By taking a longer-term view, the Council is better able to invest where so far the private sector has failed. The development will create an asset with multiple use providing a mix of commercial, residential, health, transport, and public realm assets which will generate economic, social and environmental improvements to the town as well as an income stream for the Council.

- **Horizon 120** – Includes land that has been purchased in order to develop what will be the largest new employment site in the District. Whilst the site had been allocated in the 2011 Core Strategy, no proposals were being brought forward from the private sector for its development despite an obvious need for employment land. The Council has developed a vision for the site and will provide the key infrastructure required in order to create serviced land which can then be sold on to private developers.

5.5. With the exception of one office block, all property in the portfolio are contained within the boundary of the district.

5.6. **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.

5.7. 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 continues to provide security for the capital investment. Where the fair value of any asset 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 core commercial property portfolio is to retain assets for 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 still likely to be most appropriate course of action taken by the Council.

5.8. **Risk assessment:** The Council assesses the risk of loss before entering into 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 or development, and over an assets 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 period of time 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). Once an investment has been made, risks associated with holding an asset will be monitored as part of the on-going asset management role.

5.9. The Council will fund commercial investments by utilising the most appropriate and efficient funding strategy available at the time of purchase or development. Options include prudential borrowing, capital receipts, reserves and other third party grants and contributions. Financing decisions will link to the Medium Term Financial Strategy and Treasury Management Strategy Statement. Capital receipts may be obtained through portfolio rationalisation and/ or from assets developed/ acquired for sale.

5.10. Where investments are funded from borrowing, the cost of servicing the related debt will fall on the General Fund revenue account and is included in any investment appraisal. Unless wider service objectives are met, a prerequisite for a project to proceed will be its ability to service any related debt and also make a positive contribution towards the Council's wider financial position. However, it is recognised that commercial activities carry risks, particularly where any related increase in debt is being financed over the long-term and beyond the period over which any third party lease arrangements are contracted. 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.

5.11. The Council employs the expertise of an in-house Strategic Investment Team and Asset Management Service, who are also 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.

5.12. **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 will usually be 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, and subject to the assets and liabilities of the company, the Council is liable for clawback of insurance claims previously settled amounting to £198,712, less a protected sum of £50,000.

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

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 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, as expressed as a proportion of the Budget (i.e. the amount required by the Council to be met from Council Tax and business rates).

Table 2: Proportionality of Investments

	2018/19 Actual £m	2019/20 Latest £m	2020/21 Forecast £m	2021/22 Forecast £m	2022/23 Forecast £m	2023/24 Forecast £m
Commercial Property Net Income*	2.309	2.444	2.513	2.515	2.531	2.523
Treasury Investments Net Income*	1.106	1.099	1.029	0.935	0.937	0.942
Total Net Investment Income	**3.416**	**3.542**	**3.542**	**3.450**	**3.468**	**3.465**
As % of Budget	**23%**	**24%**	**24%**	**23%**	**22%**	**22%**

* After deduction of direct costs and share of apportioned overheads

7.2. Commercial property income is largely derived from lease rentals 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 investment income is more susceptible to economic and market conditions, which will influence interest rates. A significant proportion of treasury income is derived from pooled fund investments in a mix of property, equity and diversified (multi-asset) funds. Income from these funds are dependent upon corporate dividends paid, and fair values will increase or decrease based on fluctuating market conditions.

7.4. Failure to achieve the above income targets will mean the Council will either have to drawdown on its unallocated General Fund balances and/ or achieve savings in other areas of its activities.

7.5. 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 and anticipated borrowing is maintained below its CFR which is defined in the Prudential Code as the authority's underlying need to borrow. Any external investments are

the result of normal in year cash flows and maintenance of balances, provisions and reserves underpinning prudent financial management.

9. Capacity & Skills

Officers

9.1. 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 major development programme of commercial and residential projects. At present the team is largely resourced by a number of interim / short-term appointments drawing in the necessary capacity and experience to ensure progress on a number of scheme is maintained. In the meantime, the Council is also seeking to recruit to a number of permanent roles. 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. Where necessary, interim consultants will be used to manage fluctuating workloads and priorities as the team responds 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 monitors the development and delivery of schemes.

Members

9.6. It is imperative that all Members are fully aware of the Council's activities taking place under this strategy and that they are fully informed of, and involved as appropriate, in decision making, performance monitoring, and risk management.

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

9.8. 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.

9.9. 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.

9.10. The project groups are supplementary to the Council's on-going Scrutiny functions which are now delivered through four separately focused Groups: the Performance Management Board; the Corporate Governance Group; the Community Development Group; and the Partnership Development Group.

10. Skills Training

10.1. 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.

10.2. 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.

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

10.4. 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.

10.5. The Council is currently undertaking a self-assessment using the Portfolio, Programme, and Project Management Maturity Model (P3M3), which provides a framework to assess and benchmark current performance for delivery of the Council's strategic investment programme. Using this model the areas where changes and improvements to current organisational arrangements and processes are identified will be considered and implemented where appropriate.

11. Decision Making

11.1. 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

11.2. 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.

11.3. 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.

12. Funding of Investments

12.1. 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.

12.2. 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, 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:

12.3. **Investment Property** – In 2014/15 the Council acquired an investment property (Connaught House) and although no new external borrowing was incurred for the purchase, the Council effectively utilised the cash from borrowing incurred in 2002 that is not due to be repaid until 2042, subject to the lender exercising their options. Consequently, annual minimum revenue provision (MRP) is being charged to revenue and as at 31 March 2019 the amount still to be financed was £3.011million.

12.4. **Other Commercial Property** – a number of projects contained within the Council's District Investment Strategy are to be funded either in part or wholly from future new borrowing. These projects include the Braintree Town Centre regeneration scheme, and the proposed development of a health centre in Sible Hedingham, 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 necessary. The Council recently acquired land to be developed for employment, branded as Horizon 120. This scheme is currently being financed entirely from internal borrowing which the Council expects to repay from the sale of serviced land plots. The requirement for new external borrowing in respect of these projects will be subject to ongoing review by the Corporate Director (Finance) of the Council's available capital resources that can be used to optimise the overall financial position of the Authority.

12.5. 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 being incurred.

13. Rate of return received

13.1. The rate of return achieved and anticipated on commercial property and treasury management investments is shown in the table below:

Table 3: Rate of Return

	2018/19 Actual £m	2019/20 Latest £m	2020/21 Forecast £m	2021/22 Forecast £m	2022/23 Forecast £m	2023/24 Forecast £m
Commercial Property	5.76%	5.80%	5.97%	5.97%	6.01%	5.99%
Treasury Investments	1.90%	1.85%	2.23%	2.77%	2.75%	2.69%
Total Income Return	**3.47%**	**3.49%**	**4.01%**	**4.55%**	**4.55%**	**4.49%**

FINANCIAL LIMITS

The following Authority wide limits were originally approved by Council on 6th December 2010. These have been reviewed annually and still considered appropriate.

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.