

## Scrutiny Committee

### *Members of the Scrutiny Committee:*

Mr G Minshull (Chairman)  
Mr T Lewis (Vice Chairman)  
Mr B Bernard  
Mr B Duffin  
Mr C Gould  
Mr L Hornby  
Mr T Palmer  
Mr R Savage  
Mrs J Wilby

**This meeting may be filmed, recorded or photographed by the public; however, anyone who wishes to do so must inform the Chairman and ensure it is done in a non-disruptive and public manner. Please review the Council's guidance on filming and recording meetings available in the meeting room.**

## Agenda

### **Date**

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Wednesday 6 February 2019

### **Time**

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9.30 am

### **Place**

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#### **Colman and Cavell Rooms**

South Norfolk House  
Cygnets Court  
Long Stratton  
Norwich  
NR15 2XE

### **Contact**

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If you have any special requirements in order to attend this meeting,  
please let us know in advance

**Large print version can be made available**

# AGENDA

1. To report apologies for absence and to identify substitute members;
2. Any items of business which the Chairman decides should be considered as a matter of urgency pursuant to Section 100B(4)(b) of the Local Government Act, 1972. Urgent business may only be taken if, "by reason of special circumstances" (which will be recorded in the minutes), the Chairman of the meeting is of the opinion that the item should be considered as a matter of urgency;
3. To Receive Declarations of Interest from Members;  
(Please see guidance form and flow chart attached – page 4)
4. **2019/20 Budget;**  
Members of the Scrutiny Committee are invited to scrutinise the decisions made at Cabinet on 4 February 2019, which will be made available at the meeting. The recommendations of the Scrutiny Committee will be reported to Council on 18 February 2019.
  - a) **Capital Strategy 2019/20 to 2023/24;** (Cabinet report attached at page 6)
  - b) **Revenue Budget, Capital Programme and Council Tax 2019/20;**  
(Cabinet report attached at page 18)
  - c) **Treasury Management Strategy Statement 2019/20;**  
(Cabinet report attached at page 63)
5. Chairman's Update on Collaborative Working;
6. **Scrutiny Work Programme, Tracker and Cabinet Core Agenda;**  
(attached – page 104)

## **Working style of the Scrutiny Committee and a protocol for those attending**

### **Independence**

Members of the Scrutiny Committee will not be subject to whipping arrangements by party groups.

### **Member leadership**

Members of the Committee will take the lead in selecting topics for and in questioning witnesses. The Committee will expect members of Cabinet, rather than officers, to take the main responsibility for answering the Committee's questions about topics, which relate mainly to the Council's activities.

### **A constructive atmosphere**

Meetings of the Committee will be constructive, and not judgmental, accepting that effective overview and scrutiny is best achieved through challenging and constructive enquiry. People giving evidence at the Committee should not feel under attack.

### **Respect and trust**

Meetings will be conducted in a spirit of mutual respect and trust.

### **Openness and transparency**

The Committee's business will be open and transparent, except where there are sound reasons for protecting confidentiality. In particular, the minutes of the Committee's meetings will explain the discussion and debate, so that it could be understood by those who were not present.

### **Consensus**

Members of the Committee will work together and, while recognising political allegiances, will attempt to achieve consensus and agreed recommendations.

### **Impartial and independent officer advice**

Officers who advise and support the Committee will give impartial and independent advice, recognising the importance of the Scrutiny Committee in the Council's arrangements for governance, as set out in the Constitution.

### **Regular review**

There will be regular reviews of how the overview and scrutiny process is working, and a willingness to change if it is not working well.

### **Programming and planning**

The Scrutiny Committee will have a programme of work. Members will agree the topics to be included in the work programme, the extent of the investigation to be undertaken in relation to resources, and the witnesses to be invited to give evidence.

### **Managing time**

The Committee will attempt to conclude the business of each meeting in reasonable time. The order of business will be arranged as far as possible to minimise the demands on the time of witnesses.

## DECLARATIONS OF INTEREST AT MEETINGS

When declaring an interest at a meeting Members are asked to indicate whether their interest in the matter is pecuniary, or if the matter relates to, or affects a pecuniary interest they have, or if it is another type of interest. Members are required to identify the nature of the interest and the agenda item to which it relates. In the case of other interests, the member may speak and vote. If it is a pecuniary interest, the member must withdraw from the meeting when it is discussed. If it affects or relates to a pecuniary interest the member has, they have the right to make representations to the meeting as a member of the public but must then withdraw from the meeting. Members are also requested when appropriate to make any declarations under the Code of Practice on Planning and Judicial matters.

Have you declared the interest in the register of interests as a pecuniary interest? If Yes, you will need to withdraw from the room when it is discussed.

Does the interest directly:

1. affect yours, or your spouse / partner's financial position?
2. relate to the determining of any approval, consent, licence, permission or registration in relation to you or your spouse / partner?
3. Relate to a contract you, or your spouse / partner have with the Council
4. Affect land you or your spouse / partner own
5. Affect a company that you or your partner own, or have a shareholding in

If the answer is "yes" to any of the above, it is likely to be pecuniary.

Please refer to the guidance given on declaring pecuniary interests in the register of interest forms. If you have a pecuniary interest, you will need to inform the meeting and then withdraw from the room when it is discussed. If it has not been previously declared, you will also need to notify the Monitoring Officer within 28 days.

Does the interest indirectly affect or relate any pecuniary interest you have already declared, or an interest you have identified at 1-5 above?

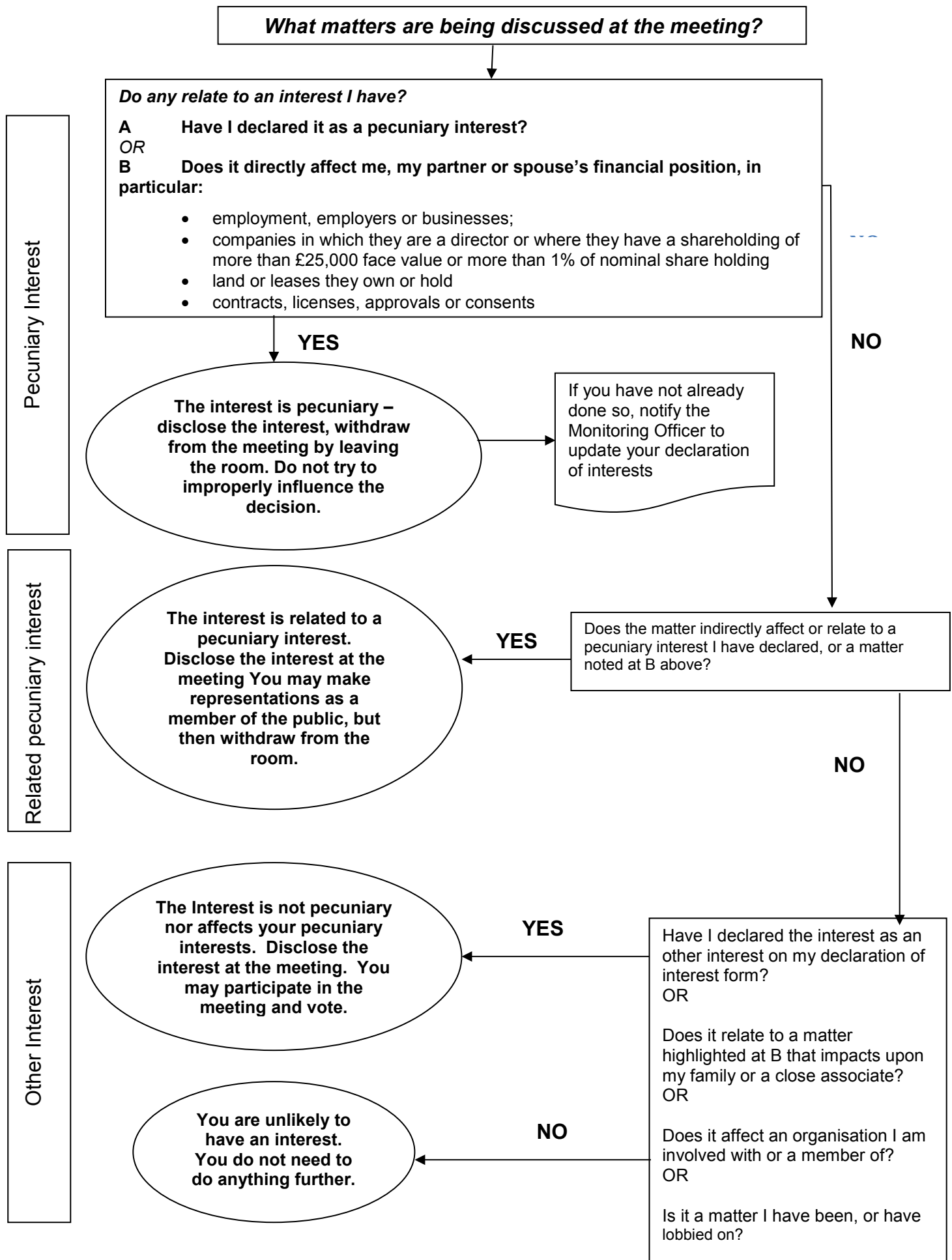
If yes, you need to inform the meeting. When it is discussed, you will have the right to make representations to the meeting as a member of the public, but must then withdraw from the meeting.

Is the interest not related to any of the above? If so, it is likely to be an other interest. You will need to declare the interest, but may participate in discussion and voting on the item.

Have you made any statements or undertaken any actions that would indicate that you have a closed mind on a matter under discussion? If so, you may be predetermined on the issue; you will need to inform the meeting, and when it is discussed, you will have the right to make representations to the meeting as a member of the public, but must then withdraw from the meeting.

**FOR GUIDANCE REFER TO THE FLOWCHART OVERLEAF.  
PLEASE REFER ANY QUERIES TO THE MONITORING OFFICER IN THE FIRST  
INSTANCE**

## DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF



**Cabinet**  
**4 February 2019**

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## **CAPITAL STRATEGY 2019/20 to 2023/24**

**Report Author(s):** Matthew Fernandez-Graham, Accountancy Manager, 01508 533982, [mgraham@s-norfolk.gov.uk](mailto:mgraham@s-norfolk.gov.uk)  
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**Portfolio:** Growth and Resources

**Ward(s) Affected:** All

**Purpose of the Report:** To set the Council's capital strategy for the next 5 years and to outline the steps required to develop a 20-year strategy as now required by CIPFA and MHCLG

### **Recommendations:**

It is recommended that Cabinet recommends to Council:

- i. the approval of this Capital Strategy.
- ii. the approval of the Schedule of Non-Treasury Investments referred to in Section 2.3 and contained in Appendix A.
- iii. to note the further work required to develop a longer-term Capital Strategy

## **1. SUMMARY**

- 1.1 The Capital Strategy is a corporate strategy which is a requirement of The CIPFA Prudential Code for Capital Finance in Local Authorities 2017 and sets out South Norfolk Council's approach to the use of its capital assets and resources. The strategy provides the framework for determining the capital programme, the effective use of the Council's resources and its approach to treasury management and must be reviewed and updated annually. The Prudential Code for Capital Finance permits Councils to determine the appropriate level of capital investment to deliver quality public services, subject to affordability.
- 1.2 The draft Financial Settlement for local government in December 2017 confirmed the Government's intention to continue to reduce central government funding to local authorities. In this context, the Capital Strategy needs to help the Council to achieve financial sustainability in line with the Medium Term Financial Strategy.
- 1.3 The Council's three priority areas are:
  - Economic Growth, Productivity and Prosperity.
  - Place, Communities and Environment.
  - Health, Well-being and Early Help.
- 1.4 This Capital Strategy focuses investment to deliver these priorities while also contributing to the Council's financial sustainability by supporting opportunities to develop more efficient service delivery and to generate additional income. The Council's collaboration with Broadland Council may generate investment opportunities in the future and the strategy is flexible enough to accommodate this.
- 1.5 With low interest rates continuing for the foreseeable future there remains the opportunity to invest monies in property as an alternative to bank deposits if the rate of return exceeds the rate of interest which would be achieved through cash investments. However, members need to be aware that this form of investment is deemed to be capital and under the current guidance therefore if an investment property is sold the sale proceeds will be accounted for as capital receipts and cannot be used for revenue purposes in the future.
- 1.6 Members' involvement is essential in order that the Council can demonstrate that capital expenditure plans are affordable, financing plans are prudent and sustainable, and that treasury decisions are taken in accordance with good practice.
- 1.7 It is intended that this strategy becomes a living document which evolves over time to incorporate ongoing capital liabilities which will need to be met in the future alongside other investment decisions. In order to do this, work will need to be undertaken in the near future to establish exactly what the Council's capital liabilities are likely to be in the longer term. This may include commissioning condition surveys for Council assets and further development of the asset management plan. This work will need to be done in conjunction with the

development of the new Corporate Plan, since the Capital Strategy is a corporate document and requires a cross-Council approach to be effective. The minimum time period suggested by CIPFA that needs to be covered in future versions of the strategy is 20 years.

## 2. CAPITAL ASSETS AND CAPITAL FUNDING

- 2.1 The assets which are likely to present the greatest ongoing capital liability for the Council over the next 20 years are as follows:

<b>Asset</b>	<b>Net Book Value as at 31.3.18</b>
South Norfolk House	£3,205,225
Wymondham Leisure Centre	£10,339,000
Long Stratton Leisure Centre	£3,214,000
Diss Leisure Centre	£2,789,000
Investment Properties	£11,901,473

- 2.2 In addition, the Council currently holds £15,627,000 in loans and equity in its commercial companies. These investments have been made as part of the capital programme and need to be considered as part of this Capital Strategy.
- 2.3 Under the Treasury Management Code, for all non-treasury investments, i.e. commercial activity, the Council is required to approve annually a schedule of existing material investments, subsidiaries and joint ventures and liabilities and its risk exposure. This is contained in Appendix A for approval. The level of risk exposure is taken to be the value of these investments which will vary over time, but are shown as at 31 March 2018.
- 2.4 Under the Prudential Code, Councils determine how much they will borrow as long as any borrowing is affordable and prudent, thus clearly linking the financing of capital with the Treasury Management Strategy and the revenue budgets. The Council can finance its future capital programme from various sources as outlined below:
- Revenue – The Council can utilise its revenue income in year however, the General Fund Revenue Balance Reserve is not used.
  - Revenue Reserves – from time to time existing reserves are used to fund specific projects. However, a number of reserves are earmarked for specific use which does not include capital projects.
  - Capital Receipts from asset disposals – When the Council disposes of any assets it holds, the income it receives can only be used to fund new capital projects. Loans repaid by the Council's companies are also treated as capital receipts if they result in expenditure that would have been classed as capital expenditure if the Council had incurred the expenditure directly. Repayment of short term loans for cashflow and working capital purposes would not be capital receipts.
  - Right to Buy Receipts – as part of the LSVT agreement the Council will continue to receive income from the sale of right to buy properties. The amount per property is reduced on a sliding scale over the next 30 years and an administration fee from Saffron Housing Trust. The amount is paid over in a lump sum in the April following the financial year they relate to, which is subject to the Pooling Levy. Right to Buy receipts are anticipated to increase from the low levels of recent years,



although changes in the housing market and in Right to Buy for social landlords may affect this.

- LSVT Receipt – The Council received £31,659,527 from the transfer. This funding has been used to finance Sewage Treatment Works, Aids and Adaptations, financing replacement vehicles, property developments and the ICT Strategy. At 31<sup>st</sup> March 2018, there was a balance of just over £0.9 million. This balance is earmarked to funding Aids and Adaptations and the ICT Strategy and Digital Transformation and expenditure on these will utilise the majority of these funds by the end of 2019/20, leaving a balance of £100,000 as an ongoing contingency in the event of any insurance claims relating to the LSVT properties.
- Grants – as well as government grants the Council has taken advantage of lottery and any other grants in the past. The Council encourages and supports partner organisations in making applications for external funding, assisting where possible by 'pump priming'.
- Enterprise Zone Grant – As part of the Norwich Research Park Enterprise Zone (EZ) funding, the Council is expecting to receive a grant from the Local Enterprise Partnership.
- Tax Increment Financing (TIF) – This allows local authorities to borrow against predicted growth in their locally raised business rates. The borrowing is used to fund key infrastructure and other capital projects, which will support locally driven economic development and growth. This is the approach being used to drive the development of the EZ.
- Private Finance Initiative/Public Private Partnership – these can be used as a means of finance but so far there has not been a project which makes this a viable proposition and is not expected to be used.
- CIL – This is a form of levy on every property built in the district. A percentage is required to be set aside for local communities to use for their infrastructure requirements. 25% to the local community if they have adopted a local neighbourhood plan reducing to 15% for those communities who have no plan in place. The remainder will be spent on the infrastructure requirements outlined in the LIPP.
- New Homes Bonus – The Government match funds the additional council tax raised on the net growth of new homes and homes brought back into use for a period of four years. An additional sum of £350 per annum is given for each new affordable house, again for a period of four years. The match funding is based on the national average council tax for each band and the District retains 80% with 20% going to the County Council. This scheme began in 2011/12. The funding can be used for either revenue or capital purchases. However, after 2012/13, a large proportion was recycled Revenue Support Grant and therefore not additional money for the Council. The Affordable Homes Premium has been used to finance Affordable Housing in the District and the reserve built up has been earmarked for housing. From 2018/19 onwards, any further Affordable Homes Premium is being used to support the revenue budget.
- Bonds – The Council is a shareholder in the Municipal Bonds Agency (MBA), with an investment of £25,000. The MBA has been set up to issue bonds on behalf of groups of Local Authorities that Capital Market investors would be interested in. The first Bond Issue has been subject to considerable delay and the exact timing is unclear at the present moment.

- Internal borrowing – The Council can use its cash to finance capital expenditure. This reduces the amount available to invest, but avoids the need to borrow externally, and with lower interest rates on cash investments than on external borrowing, it is the most cost-effective form of borrowing.

2.5 Over the next few years the total amount of investments and cash will fall as cash is spent on the capital programme and earmarked reserves are spent. At the start of the current financial year the Council had over £23 million invested as listed below:

<b>Cash and Investments as at 31<sup>st</sup> March 2018</b>	<b>£000</b>	
Long Term Investments	25	Equity in the Municipal Bonds Agency (Excludes investments in Council owned companies of £5.9 million)
Cash	17,803	
Short Term Investments	5,500	
<b>Total</b>	<b>23,328</b>	
<b>Representing:</b>		<b>Used to fund the Capital Programme</b>
Capital Receipts	2,587	Yes
Internal Investments	(1,961)	Yes (this is cover for under borrowing on external borrowing against the Council's CFR)
Usable Reserves (includes earmarked reserves)	21,302	Yes but prudently
General Fund Balance	1,400	No
<b>Total</b>	<b>23,328</b>	

2.6 As part of the budget setting process a review of all usable reserves is undertaken each year. It is important that the authority retains a level of reserves to enable it to cope with the uncertainty around future funding in relation to business rates and New Homes Bonus. There will be a requirement to ensure sufficient levels of reserves are available to respond to this. It is important therefore to retain earmarked reserves for particular risks e.g. volatility of business rates. This means that any volatility in year can be managed through reserves rather than affecting services during that year. This protects service delivery by ensuring that there is no knee jerk reaction whilst allowing time to plan for the future.

2.7 Currently of the £21.3 million of usable reserves above, £10.4 million is earmarked for specific use including the renewals reserve, the infrastructure reserve and the business rates localisation reserve. The remaining £10.9 million relates to the revenue reserve, which has been earmarked to fund part of the capital programme in 2018/19 but may also be needed to support any reduction in funding of the revenue budget in future years.

2.8 As shown above in 2.6 it would not be prudent to use all of the £23 million in investments to finance the capital programme. Of the Useable Reserves, the Renewals Reserve, the Non-Commercial Assets Replacement Reserve, the Car Park Upgrades Reserve, the 3G Pitch Renewal Reserve, the Enterprise Zone Reserve, the Charging Points Maintenance Reserve and the Low Cost Housing

Reserve relate wholly or partly to capital expenditure. The proposed total resources available to finance the current capital programme going forward from 2019/20 and slippage from 2018/19 will be in the region of £82.7 million as set out below:

<b>Resources</b>	<b>£million</b>
Capital Receipts	15.2
Grants	9.3
Revenue Reserves	6.1
S106 Funds	2.8
<i>Subtotal before Borrowing</i>	<i>33.4</i>
Net Internal Borrowing	16.1
External Borrowing	33.2
<b>Total</b>	<b>82.7</b>

- 2.9 The consequence of funding the capital programme with these resources is a reduction in the amount of cash available to invest and therefore a reduction in income from investments which supports the revenue budget. However, this is mitigated by the Council investing in commercial property to achieve revenue income, the cost of which is classed as capital expenditure.
- 2.10 There is internal borrowing of cash from the Council's cash balances. The use of reserves means that the Council's cash is projected to reduce to £6 million by March 2021 and then rise to £20 million by March 2024. This reduction means that further capital expenditure in this period would need to be funded from generating additional resources or external borrowing.

### **3. APPROACH TO BORROWING**

- 3.1 The consequence of the funding position outlined in Section 2 is that the Council will be in a position where it will be required to borrow to finance any additional capital expenditure in the coming period. However, any borrowing must be affordable in line with the requirements of the prudential code.
- 3.2 Under the Prudential Code, Councils are not permitted to borrow more than or in advance of its needs *purely* in order to profit from the investment of the extra sums borrowed. All the Council's commercial investments are within the District and intended to deliver economic and housing regeneration and growth as well as a financial return.
- 3.3 The need to borrow is not based on our levels of investment balances/reserves but on the Council's capital financing requirement (CFR). A

certain level of cash will still be required for the Council's daily cash requirements; this can be held in money market funds, call accounts and short term investments. However, the Council is choosing not to make long term investments beyond 2 years so that it can instead use cash to avoid or delay external borrowing.

- 3.4 The total amount of debt that the Council can take on needs to be affordable. Affordability will be kept under review as part of the Treasury Management Strategy and when setting revenue and capital budgets. There is no single measure of affordability, but it will include the revenue costs of borrowing as a proportion of total expenditure and total debt relative to total income. It will reflect the need for prudence along with the risk appetite of the Council, which is higher than for a typical District Council.
- 3.5 The current interest rate environment means that interest rates are lower for shorter borrowing periods and higher for longer loans. Therefore, the Council could borrow short term even for long life assets, re-borrowing as loans mature. The risk with this approach is if short term rates rise relative to long term rates. It would therefore be prudent to have some longer term loans to guard against this risk.
- 3.6 There are many sources of borrowing available to the Council and it is likely that the Council will utilise a mix of these to spread the risk around loan maturities and future interest rates. Sources include:
- Public Works Loan Board (PWLB)
  - Borrowing from other local authorities
  - Borrowing via the Municipal Bonds Agency (MBA)
  - Borrowing from institutions such as the European Investment Bank and directly from commercial banks
  - Borrowing from the money markets
  - Local Authority stock issues and bills
  - Commercial paper
  - Structured finance

#### **4. PRIORITIES FOR THE CAPITAL PROGRAMME**

- 4.1 Within the funding constraints outlined above, it is necessary to set clear priorities for capital expenditure. All expenditure proposals require a clear business case to justify the expenditure. The policy on capitalisation is included in the Council's annual accounts. Capital expenditure is authorised by Cabinet and Full Council through the budget setting process and monitored on a quarterly basis through reports to Cabinet.
- 4.2 Priorities are determined through a bid submission process from services which is reviewed by senior management in the light of corporate priorities and results in inclusion of projects within the Business Plan and Capital Programme for scrutiny by Members. Inclusion in the capital programme puts aside the required budgets and funding, but final approval for projects is dependent on the agreement of a full business case.
- 4.3 Capital expenditure is categorised into one of three categories. This categorisation clarifies whether the funding for the capital expenditure will

ultimately be repaid from income generated by this expenditure or from general revenue.

1. Commercial: Where the return on investment will exceed the costs of borrowing and pay back over time.
2. Operational: Where the investment is required to ensure continued service delivery.
3. Health and Safety: Where the investment is required to ensure the Council meets its health and safety obligations.

- 4.4 Potential proposals should be assessed in line with the Corporate Plan agreed in December 2015. The table below highlights capital expenditure that is already planned or could be undertaken to meet the Council's priorities:

<b>Economic Growth, Productivity and Prosperity</b>	<b>Health, Well-being and Early Help</b>	<b>Place, Communities and Environment</b>	<b>Improving services through being business-like, efficient and entrepreneurial</b>
Norwich Research Park Enterprise Zone	Leisure Enhancement at Long Stratton	Development/Purchase of Low Cost/Affordable Housing	Delivering the ICT Strategy and Digital Transformation
Property Development at Poringland, Maple Park and Cringleford	Disabled Facilities Grants	Waste Vehicle Replacement	Maintaining the Council's operational buildings
Better Broadband	New/enhanced Leisure facilities in partnership with other bodies	Expansion of Ketteringham Depot	
Commercial Waste Bins	Further enhancement of SNC Leisure Facilities	Toilet Refurbishments	
Further Commercial/Residential Property Development		Waste/Recycling Bin Purchases	
Maintaining the Council's current commercial properties			
Strategic Economic Developments to boost growth			

## 5 FUTURE DEVELOPMENT OF THE CAPITAL STRATEGY

- 5.1 CIPFA's guidance is that a full Capital Strategy needs to cover a time period of at least 20 years and be developed as a Council-wide document. Further work is therefore required to determine the Council's longer-term investment requirements, as part of the development of the new Corporate Plan during 2019/20. Condition surveys of our property portfolio will need to be undertaken to inform this work. This will result in a long term forecast of capital expenditure, investments and disposals and the associated funding and borrowing requirements.

## 6 ADVICE OF THE SECTION 151 OFFICER

- 6.1 The Section 151 Officer is specifically required to report on the deliverability, affordability and risks associated with the capital strategy.
- 6.2 Deliverability is underpinned through the embedding of capital expenditure within the business planning process and use of specialist advice where required, for example, in assessing the plans to deliver commercial property investments.
- 6.3 The affordability of this strategy can be assessed in a variety of ways. Based on the revised Medium Term Financial Strategy, the estimated gross cost of financing loans of £34 million (interest payments and the Minimum Revenue Provision) would be £1,401,000 annually by 2023/24, which equates to 8.35% of the Council's net revenue expenditure by 2023/24 and £22.83 per dwelling. This compares to a median average of 3% and £9 per dwelling for District Councils in 2014/15, per the National Audit Office and a mean average of 5.5% and £16.68 per dwelling in 2016/17 based on MHCLG statistics. According to the NAO, in 2014/15, Councils in the top 25% of shire districts for debt servicing costs spend 7.1% of revenue expenditure and £23 per dwelling on debt servicing. On this indicator, the Council would be considered to have a larger risk appetite than the average Council, but not so large as to create sustainability issues for financing its plans. It should be borne in mind that the Council is starting from a position of being debt free and the figures for other Districts are expected to rise in future years.
- 6.4 Another indicator used by external lenders is that a Council can take on debt of twice its gross total revenue less its long term debts including the pension liability. Based on the 2016/17 statement of accounts, this would equate to total debt of £22 million, but this has increased for the 2017/18 accounts and would be £25 million, including the pension liability, though it would be £84 million excluding the pension liability. On this measure, the Council would, if it borrowed the full amount as planned, be above what could be considered prudent, by 2021/22. However, it is likely that there will be slippage in the capital programme that will delay the need to borrow so much. By using borrowing to invest in property through its companies, the Council is aiming to increase its gross revenues and strengthen its group balance sheet as property values increase, which makes debt more sustainable in the longer term. This debt will allow the Council to lend to its companies which is expected to generate £2.3 million in interest payments alone over the next 5 years, supporting the revenue budget.
- 6.5 The prudential indicator of net financing costs to net revenue income stream from taxation and central government provides another view of financial sustainability. This is set out in the Treasury Management Strategy elsewhere on this agenda, but it shows that financing costs will be no more than 1.82% of net revenue stream by 2023/24, which is considered sustainable.
- 6.6 The risks in this strategy are as follows:
- **Economic** – Changes in the economy could mean that investments undertaken in line with the strategy do not deliver the anticipated benefits or returns. Prudent assumptions have been made on the level of returns that can be expected.

- **Timing** – Delays incurred during the implementation phase of particular projects could impact on the returns in the short term. Effective project management and monitoring is undertaken to mitigate this risk.
- **Interest Rates** – It has been assumed that interest rates will stay at their current low levels. The exact timing of borrowing will determine the exact interest rates on external debt incurred as part of this strategy. The interest rate outlook is kept under review so that the strategy can be changed should rises in interest rates become probable.
- **Government Policy** – The strategy is aimed to deliver quality services and to improve the sustainability of the Council. Should government policy change in a way that prevents parts of the strategy being implemented, increases its cost or reduces the expected benefits, then the strategy would need to be revised.

## 7 CONCLUSION

- 7.1 This Capital Strategy represents a prudent and affordable approach to investment in the Council's assets to support service delivery and to contribute to the Council's financial sustainability over the next 5 years. The strategy is kept under review and updated each year. Further work is required across the Council to lengthen the time horizon for this Strategy to at least 20 years.

## 8 RECOMMENDATIONS

- 8.1 It is recommended that Cabinet recommends to Council:
- 8.1.1 the approval of this Capital Strategy.
  - 8.1.2 the approval of the Schedule of Non-Treasury Investments referred to in Section 2.3 and contained in Appendix A.
  - 8.1.3 to note the further work required to develop a longer-term Capital Strategy



## APPENDIX A

### Schedule of Non-Treasury Investments

<b>Investment</b>	<b>Value in the Council's Balance Sheet at 31 March 2018</b>
Big Sky Ventures Ltd	£5,730,000
Big Sky Developments Ltd	£5,380,000
Big Sky Property Management Ltd	£2,240,000
Crafton House	£1,361,100
Rectory Road, Dickleburgh - Agricultural Land	£1,347,500
Wym - Ayton Road	£1,315,600
Rushall Road, Harleston - Agricultural land	£1,043,200
Shotesham Road, Poringland - Commercial Development Land	£1,007,500
9-11 Mere Street, Diss	£815,500
Unit 13 Wymondham Business Park	£623,600
Loddon Business Centre	£613,900
Friarscroft Lane, Wymondham - Development Land	£496,800
Unit 18A Harleston	£481,800
Maple Park Commercial Unit/Cygnet House, Long Stratton	£386,373
Wym Town Council Office, Middleton St	£323,200
Gissing - Residential Development	£283,700
Unit 19A Harleston	£206,400
21 Penfold Drive, Gateway 11, Wymondham NR18 0WZ	£187,500
15 Vincess Road, Diss	£185,000
Ketteringham Depot-Unit 1 & 2 Station Lane	£185,000
Dereham Road, Costessey Caravan Site	£182,800
Unit B17 Owen Rd Diss	£178,100
Unit B19 Owen Rd Diss	£178,100
13 Vincess Road, Diss	£166,500
Build Insight Ventures Ltd	£125,000
Unit 5b Owen Road Diss IP22 4ER	£82,800
9 Park Road Diss	£75,300
4 Garages Thomas Manning Road	£71,400
Park Road Diss - Land - Bus Depot Diss	£48,800
3 Garages Chapel Street Diss	£26,300
Friarscroft Lane, Wymondham - Garden Lane Rear of 23-37	£22,500
Eleven Mile Lane, Sutton, Wymondham - Paddock Land	£3,100
Parking Plots in Long Stratton	£1,900
Garden Plot, Station Close, Swainsthorpe	£200
	<hr/>
	<b>£25,376,473</b>

**Cabinet**  
**4 February 2019**

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## **REVENUE BUDGET, CAPITAL PROGRAMME AND COUNCIL TAX 2019/20**

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**Portfolio:** Growth and Resources

**Ward(s) Affected:** All

**Purpose of the Report:** To set out the revenue and capital budgets and the updated Medium Term Financial Strategy so that Members can decide the level of Council Tax for 2019/20.

### **Recommendations:**

- a. It is recommended that Cabinet recommends to Council:
- i. the approval of the base budget; as shown in para 6.1, subject to confirmation of the finalised Local Government finance settlement figures which may, if significant, necessitate an adjustment through the General Revenue Reserve to maintain a balanced budget.
  - ii. the use of the revenue reserves as set out in section 12.
  - iii. that the Council's demand on the Collection Fund for 2019/20 for General Expenditure shall be £7,370,700 and for Special Expenditure be £10,440;
  - iv. that the Band D level of Council Tax be £150.00 for General Expenditure and £0.21 for Special Expenditure.
  - v. that the assumptions on which the funding of the capital programme is based are prudent.
  - vi. the approval of the capital programme for 2019/20 to 2023/24.

- b. It is recommended that Cabinet agrees:
  - i. that future increases to fees and charges will be linked to the September Retail Price Index each year as set out in para 5.1
  - ii. the charges for garden waste as set out in para 5.2
- c. It is recommended that Cabinet notes:
  - i. that pricing changes will be made in accordance with the Charging Policy in section 5
  - ii. the advice of the Section 151 Officer with regard to section 25 of the Local Government Act 2003;
  - iii. the future budget pressures contained in the Medium Term Financial Strategy as set out in Appendix B.

## **1. SUMMARY**

- 1.1 This report covers the revenue budget, the capital budget and the Medium Term Financial Strategy. These are presented in a single report to give Members a comprehensive overview of the Council's financial plans to inform their decisions on the level of Council Tax for 2019/20.
- 1.2 The Revenue Budget is prepared to enable Full Council to set the level of Council Tax for the forthcoming year. The Capital Programme for the financial years 2019/20 to 2023/24 sets out the Council's capital investments in line with the Capital Strategy elsewhere on this agenda. For the ninth year in a row, revenue and capital budgeting and business planning have been carried out together to ensure that planning, activity and budgets are integrated. As in previous years, staff and elected members have had the opportunity to comment and shape the Business Plan which is fully resourced, reflecting savings and additional income. The Medium Term Financial Strategy (MTFS) has been revised and updated, with projected figures through to 2023/24, showing significant levels of savings and additional income required which means that the Council must continue to work proactively to deliver balanced budgets.
- 1.3 The Business Plan which includes the proposed budget is contained elsewhere on the Cabinet agenda. As in previous years both the Business Plan and budgets have been integrated to provide the "golden thread" linking resources with outcomes. In December, all Members were invited to a scrutiny workshop, where they were able to talk to budget managers and discuss and offer suggestions on individual team plans. Plans were amended following this workshop and a revised Business Plan was reviewed by Scrutiny Committee on 23 January 2019, resulting in further changes. On approval from Cabinet the Business Plan will inform the performance review process for each member of staff and will link to their objectives for 2019/20.
- 1.4 As part of the budget setting process the Council has undertaken consultation with both members of the public and businesses. The results of these consultations are reported elsewhere on this agenda.

## **2. BACKGROUND**

- 2.1 In calculating the level of funding it will distribute to local government, the Ministry of Housing, Communities and Local Government (MHCLG) has assumed that District Councils, such as South Norfolk Council, will increase their Council Tax by £5.00 in 2019/20. For District Councils like South Norfolk, the maximum increase which can be applied to Council Tax is £5.00 for a Band D property. Local Authorities that are responsible for Adult Social Care, such as Norfolk County Council, can raise a further 3% to fund this service in addition to a general increase of 3%, provided that they have not already raised an extra 6% from this Adult Social Care Precept, which Norfolk has done. For Police and Crime Commissioners, the maximum rise is limited to £24.00 for a Band D property. Any increases higher than these limits would trigger a referendum. Last year the Council increased its level of Council Tax by £5 to £145 for a Band D property, having frozen Council Tax at £130.68 for seven years out of the previous ten. This year, in the light of the loss of all remaining Revenue Support Grant in the local government settlement 2019/20 and considerable financial

uncertainty for all Councils from 2020/21, an increase of £5 is proposed for 2019/20 to assist in meeting the financial challenge over the five-year period.

- 2.2 This revenue budget proposes a contribution of £865k to the general fund reserve in order to put aside savings already planned, so that they are available to deal with financial pressures over the MTFS period. A thorough review of the revenue reserves has been undertaken and the total level of revenue reserves is still sufficient to:
- finance an element of the capital programme as outlined in this report;
  - give the Council time to move to a lower cost base if the pace of savings and income growth in future years is not sufficient to match reductions in funding;
  - manage its budget in year should the level of income from the localisation of business rates not be achieved;
  - absorb any large increase in the level of Council Tax Support provided to residents;
  - support the commercialisation of specific services;
  - support the Norwich Research Park Enterprise Zone;
  - keep the car parks in the District in good condition and up to date;
  - support development of infrastructure in the District.
- 2.3 The collaboration cost and savings figures detailed in the feasibility study for the agreed work with Broadland are visible in the Medium Term Financial Strategy (MTFS) but the savings have not been recognised in Base Budget calculations, at this stage. Instead, savings have been offset by the proposed creation of a Collaboration Savings Reserve which receives a contribution equal to the amount of gross savings that were outlined in the feasibility report, £427,000 for 2019/20. A Collaboration Costs Reserve is also proposed, which will fund £107,000 of transitional costs for joint working.
- 2.4 Norfolk Councils were successful in their bid to pilot 75% retention of business rates in 2019/20 for one year. Cabinet agreed at its meeting on 7<sup>th</sup> January 2019 to use the one-off benefit from this, estimated at £636,000, to increase General Reserves, which will create more capacity to deal with the impact of the new fair funding formula and the national move to 75% Business Rates and a full reset of business rate baselines, which will all happen in 2020/21.
- 2.5 The Council created an Infrastructure Reserve to finance preparatory work on infrastructure projects. Some of this has been earmarked to fund the development of broadband infrastructure as outlined in the capital programme.
- 2.6 There is an ongoing programme to resurface the Council's car parks and to keep them up to date. Cabinet agreed in February 2017 to create a Car Parks Upgrades Reserve that is being used to manage the timing issues associated with this type of capital expenditure. It is proposed that revenue income from the car parks continues to be used to top up this reserve.
- 2.7 Business rate income from new and expanding businesses within the Norwich Research Park Enterprise Zone (EZ) will be used to repay the initial borrowing that was agreed by Cabinet in May 2016 to bring forward this development. Borrowing has not yet been drawn down. In addition, there is revenue expenditure on, for example, site management and marketing that will also be funded from business rate income. Cabinet agreed in February 2017 to establish an Enterprise Zone Reserve to manage the flows of income and expenditure and

their variable timings to manage the funding which is agreed with all parties to be reinvested into the EZ and to finance the loan to enable the infrastructure to be brought forward. This reserve will be increased from business rates EZ relief grant income from central government.

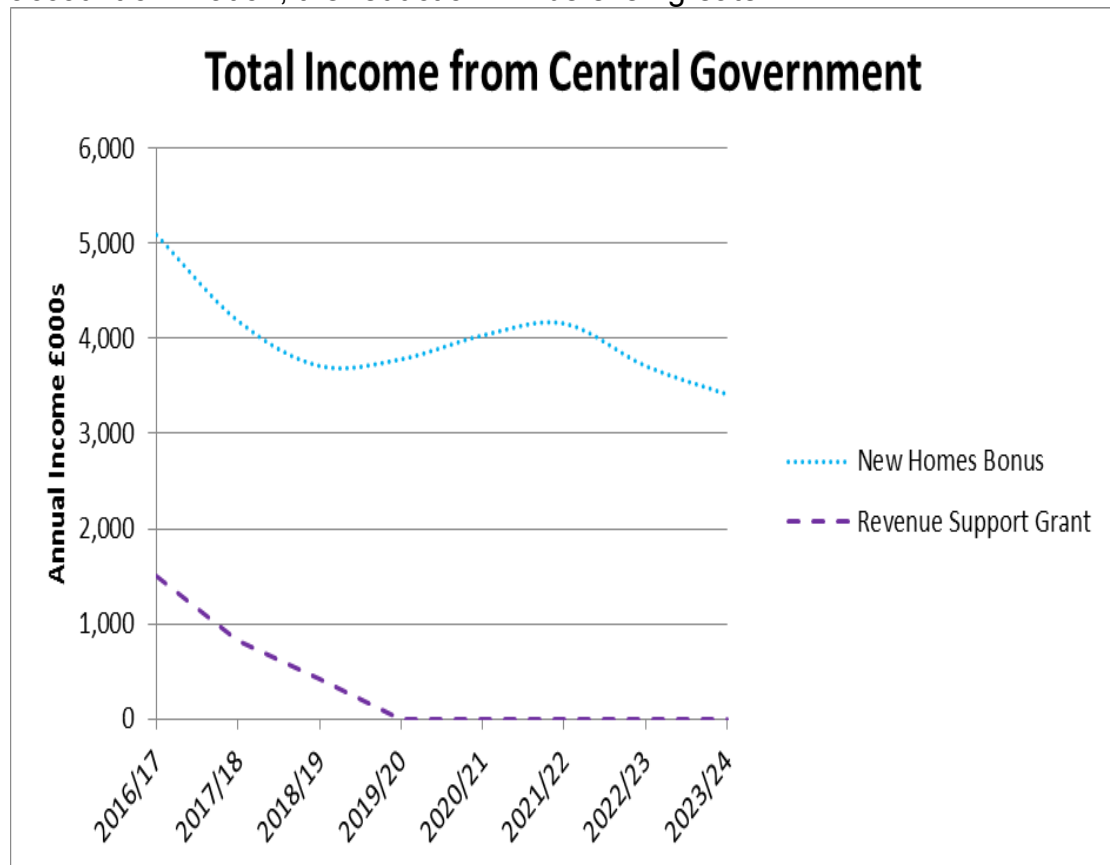
- 2.8 In February 2017 Cabinet agreed to establish a 3G Pitch Renewal Reserve to build up a fund to refurbish the pitch at Long Stratton in approximately nine years' time. It is proposed that revenue income from the pitch continues to be set aside to build up the funds to finance this capital expenditure.
- 2.9 In February 2017, Cabinet agreed to create a Non-Commercial Assets Replacement Reserve, specifically to replace fixed assets that do not directly generate income for the Council. This reserve is being used to finance the capital budget of £531k for the replacement of street lighting, which was agreed by Cabinet at its meeting on 8th January 2018. It is recommended to use this reserve to fund a social enterprise to carry out the conversion of toilets in Long Stratton into toilets plus a catering facility and the conversion of toilets in Loddon into a catering facility. It is proposed to top up this reserve from the revenue budget to allow for future expenditure on non-commercial assets.
- 2.10 Owing to the size of the capital programme, which is partly funded from revenue, there is an overall decrease in revenue reserves of £2.745 million compared to 1st April 2018, leaving a total of £8.193 million in general revenue reserves projected at 31st March 2021.
- 2.11 The provisional financial settlement for local government in December included no new changes to the New Homes Bonus scheme. New Homes Bonus is received for a period of 4 years and a baseline of 0.4% of housing stock is deducted from the calculation of the number of new homes, so that the first 225 homes built do not attract the bonus. South Norfolk's performance is the best in the East of England and 5<sup>th</sup> best of any District nationally.
- 2.12 The final local government financial settlement will be announced by the end of January and officers will provide a verbal update to the Cabinet meeting; it is proposed that any changes from the provisional settlement are managed through reserves, so as not to impact on Council Tax setting.
- 2.13 The Council set itself a £1 million challenge for 2019/20 budgets, to find ongoing savings, efficiencies or additional income of £1 million. As part of this challenge, a detailed review of the establishment was carried out as part of business planning for 2019/20 and vacant posts removed where appropriate. Further opportunities to make savings have been taken, for example saving on hostel maintenance and the handyperson scheme, and higher income is expected from leisure following the enhancement at Long Stratton and from loans to Council companies. This means that the Council can absorb the impact of government funding reductions and set a balanced budget for 2019/20 without the use of reserves.
- 2.14 Officers have examined the measurable budget savings from the South Norfolk Early Help approach and have identified three areas of savings. We have seen the Early Help budget stabilised over the last four years, there has been significant external investment in Early Help and we can see that the work we have completed has a tangible impact on future spend.

- 2.15 Over the last four years there has been a consistent spend per year on Early Help. Despite reductions in public spending resulting in less services and more demand for prevention work, through building a strong Early Help partnership we have been able to increase our capacity to deliver preventative work whilst stabilising expenditure. We have achieved this through targeting specific areas of work such as community safety, debt advice and community support to reduce duplication, ensuring funding is targeted to where it can have the most impact and continuing the shift to online services. This approach has also enabled us to increase our accessibility to residents and reach out to our communities. There will be an increase in budget next year due to a decrease in Government funding, so officers will look to how this can be mitigated through future funding bids and collaboration with Broadland.
- 2.16 The Council will have around £525,000 of external investment to support our preventative work next year. We have been able to attract funding through our innovative approach and our focus on working within a partnership to deliver a holistic service for residents. Through adding value to our work, building partnerships, and acting as an innovation site to develop and test new ideas and ways of working, we have built a partnership that has attracted investment. Through this funding we have been able to demonstrate a tangible impact on future spend in South Norfolk. Housing prevention has seen a decrease in homelessness numbers in South Norfolk, compared with an increase in England. If we look at a predictive five-year model we can see we have generated, on a conservative estimate, demand management savings of £287k so far, and these are projected to be £479k over the next 5 years, when compared to rural Norfolk trends. This figure is specifically in regard to prevention of homelessness, which is a direct impact on South Norfolk Council services and does not include wider system savings to the public purse.
- 2.17 The Capital Programme is underpinned by the Treasury Management Strategy which appears elsewhere on this agenda. The Prudential Code permits Councils to determine the appropriate level of capital investment to properly deliver quality public services, subject to affordability. Members' involvement through the process is essential in order that the Council can demonstrate that capital expenditure plans are affordable and that financing plans are prudent and sustainable.
- 2.18 The Capital Programme is in line with the revised Capital Strategy elsewhere on this agenda. In line with the Prudential Code, the Capital Strategy is now updated annually. The Council will continue its previous strategy to invest in its existing fixed assets and make new property investments to generate income above the returns being earned on cash investments. This will help to support the revenue budget in future years as government funding reduces further.
- 2.19 The Capital Programme for the period April 2019 to March 2024 is set out in Appendix D with expenditure of £82.7 million over the five-year period. This includes possible slippage of £32.1 million from the current year's programme, as outlined in the Q3 performance report elsewhere on this agenda.
- 2.20 It is proposed to utilise revenue reserves as well as capital reserves to fund the capital programme. This is possible because the Council has carefully managed its revenue reserves in the past, enabling it to build up funds. These funds can now be invested in the capital programme which has been formulated to either reduce ongoing revenue expenditure or to generate on-going revenue income.

- 2.21 External borrowing will be required to fund elements of the capital programme, specifically the Norwich Research Park Enterprise Zone and property related investments. The exact amount and timing of this borrowing will be determined by progress on the capital programme and the cash flows for South Norfolk Council and its companies, as well as the interest rate environment. Cabinet in May 2016 approved borrowing of £12.54 million towards the Norwich Research Park Enterprise Zone and in July 2017 Cabinet agreed to provide funding to Big Sky Developments in relation to strategic housing and employment development opportunities. Although indicative figures for further borrowing to fund other property related schemes are set out in this report, specific authority for external borrowing on these schemes will be sought when business cases are presented to Cabinet.
- 2.22 Looking further ahead, in December 2016, the Government confirmed the funding levels for future years up to 2019/20 for Councils that have submitted an Efficiency Plan. South Norfolk Council has produced an Efficiency Plan and therefore benefits from the relative certainty of this multi-year funding settlement. This included ongoing reductions in Revenue Support Grant and the introduction of a “negative subsidy” where the Council would have had to pay central government £47,000 in 2019/20. This “negative subsidy” was reviewed by MHCLG in response to criticism from local government and removed in the provisional settlement. The government has announced that business rates retention will increase from 50% to 75% from 2020/21, which will offset the ending of Revenue Support Grant and Rural Services Delivery Grant, at the same time as a new funding formula is introduced. The impact of these changes is difficult to predict as the government is still consulting on how the formula might work. Central government will carry out a Spending Review during 2019 in which the future of New Homes Bonus beyond 2019/20 will be determined -this is a strategic risk for the Council.
- 2.23 The government is consulting on whether to require all Councils to provide a food waste collection service. Although it is hoped that central government will provide some funding for this new burden, it may well be insufficient and therefore an indicative estimated net cost of £275,000 has been included in the budget from 2021/22 onwards.
- 2.24 In 2019/20 a balanced budget can be achieved as a result of the £1 million challenge, income from existing commercialisation projects and leisure. This would need to be supported by annual increases of £5 per year in Council Tax; even with this level of Council Tax increase over the five-year period, for the last three years of the Medium Term Financial Strategy, there is a funding shortfall forecast, resulting in deficits which are projected to be £0.8 million in 2022/23 and £1.6 million in 2023/24. Savings to be generated by the joint work with Broadland as set out in the feasibility study have been shown with a corresponding increase in an earmarked reserve so that the Council is not dependent on achieving these savings to balance the budget in 2019/20. This allows more time for all these savings to be achieved. A reserve is to be created to reflect the costs arising from collaboration as set out in the feasibility report.
- 2.25 As the graph below demonstrates, in 2019/20 South Norfolk Council will receive £2.8 million less in funding from central government than it did 3 years ago, a real terms reduction of 48%. Central government funding is projected to halve by 2023/24 compared with 2016/17 in cash terms. In real terms, after taking



account of inflation, the reduction will be even greater.



- 2.26 Future income can be boosted in part if the Council can exceed its already high performance in encouraging housing and economic growth within the District to benefit more from 75% business rates retention from 2020/21, attract more New Homes Bonus and to aid general economic prosperity. A Council Tax increase of £5 each year is still necessary to help replace the funding that has been lost. It is also currently the most reliable source of income, given funding uncertainty around New Homes Bonus and Business Rates reform.
- 2.27 There are usually a number of unknown variables at the time of setting the budget. Where this is the case, officers have made prudent estimates based on the most up to date information available. Key assumptions are outlined in Appendix A.
- 2.28 The proposed revenue and capital budgets and the Business Plan seek to advance the Council's three priority areas as set out in the Corporate Plan:
- Economic Growth, Productivity and Prosperity
  - Health, Well-being and Early Help
  - Place, Communities and Environment

It also makes investments in the assets and systems which underpin the Council's strategy of continuous service delivery improvements.

## REVENUE BUDGET

### 3. CURRENT POSITION

- 3.1 The Quarter 3 Performance, Risk and Finance report elsewhere on the Cabinet agenda reports an anticipated year end favourable variance against the current year budget of £2.2 million. The reasons for this variance are provided in the Quarter 3 report, however in preparing the proposed budget for 2019/20 any recurring savings or additional income have been taken into account along with anticipated slippage requests estimated at around £278k.
- 3.2 The Council has been able to deliver a balanced budget in the current and previous financial years as a result of its twin track approach of increasing income and reducing expenditure.
- 3.3 Through increasing demand in discretionary services the Council has helped to bridge the gap left by the funding reductions. Income has risen in Garden Waste and Commercial Waste and the investment in Leisure has resulted in higher income. The loans to the Council's companies have also increased the level of investment income at a time when income from cash investments is low due to interest rates.
- 3.4 The Council challenged itself to save a further £1 million on its budgets for 2019/20, reviewing vacant posts and taking advantage of its investments in Digital Transformation, such as the new website and mobile working with associated cultural change, to help achieve efficiencies. The impact of the £1 million challenge measures has been incorporated into the budget and its success will be assessed via budget monitoring during the year.
- 3.5 In balancing the 2019/20 budget, recurring savings from the current year have been taken into account and income targets adjusted in line with detailed income projections for 2018/19 outturn. The establishment was reviewed in detail by the Strategic Leadership Team and vacancies removed where appropriate. The investments in the Council's assets and IT systems proposed in the capital programme will assist in delivering further savings and increasing income to help close the funding gap in future years.
- 3.6 The local government provisional settlement was announced on 13 December 2018. The indicative figures originally provided in February 2016 for the NNDR baseline were confirmed while the "negative subsidy" of (£47,000) was removed, meaning that the Council will receive zero Revenue Support Grant, but not have to pay anything back to central government. This still represents a substantial reduction of £417,000 in Revenue Support Grant since last year.
- 3.7 The baseline of homes built before New Homes Bonus is applied was maintained at 0.4% of total stock. This means that the first 225 new homes built do not attract NHB. The Council has delivered a near record total number of 1,145 new homes including a record number of 290 affordable homes attracting the affordable homes premium. As a result of the Council's strong performance, this means that the New Homes Bonus will be £103k higher in 2019/20 than in 2018/19.
- 3.8 All Norfolk District Councils along with Norfolk County Council submitted a joint application to pilot 75% business rate retention in 2019/20, prior to the

national roll out in 2020/21. This means that Councils will retain an additional 25% of business rate growth locally compared to the current 50% retention scheme. This bid has been successful.

- 3.9 The one-off benefit from the additional retention of growth locally is estimated to be £7.758 million for Norfolk as a whole in 2019/20. The actual figure will depend on how much business rates grow during 2019/20. South Norfolk Council's share of this figure is estimated to be £636,000. Given that these are estimated figures and that this is a one-off bonus from a one-year pilot, Cabinet has already agreed, at its meeting on 7<sup>th</sup> January 2019, that the financial benefit from the pilot is added to general reserves in 2019/20 and budgets set on this basis.
- 3.10 The Business Rates Baseline, which determines how much Councils receive before growth, increased slightly in the settlement. Rural Services Delivery Grant was increased to £285k for South Norfolk. As part of the 75% pilot, the Rural Services Delivery Grant will be rolled into the baseline, which ensures that the benefit of it is not lost.
- 3.11 Finalised settlement figures are anticipated at the end of January. Any changes from the provisional settlement will be managed through reserves so as not to impact on Council Tax.

#### **4. EXTERNAL FUNDING**

- 4.1 Revenue Support Grant (RSG) – The total RSG has reduced from £1.5 million in 2016/17 to £830,000 for 2017/18, £417,000 for 2018/19 and now £0.
- 4.2 The Council had funded partly funded homelessness work through a top-slice from Revenue Support Grant, based on an amount indicated in the settlement each year. Now that the Council is receiving zero RSG, MHCLG have clarified that the amount shown within the Council's Core Spending Power for Homelessness Prevention for 2019/20 is purely illustrative and there will be no separate funding allocation. This means that the Council will need to fund more of its homelessness work from its own income. The Council will still receive New Burdens grant funding to continue to implement the Homelessness Reduction Act.
- 4.3 Rural Services Delivery Funding - This is a separate grant to those rural authorities that face increased costs for delivering services owing to the sparsity of their populations. The grant will be £285,000 in 2019/20, but it will be rolled into the Business Rates Baseline as part of the 75% pilot. It is more likely that this will be replaced with a different funding route in 2020/21, as sparsity is proposed to be included within the new funding formula planned for 2020/21. The Council continues to lobby for the higher costs of rural authorities to be reflected in this formula as part of the Fair Funding review.
- 4.4 The Council has received a claim for mandatory business rates relief from a local NHS Trust on the basis of charitable status. No decision to grant relief to the Trust has yet been made and it is subject to ongoing investigation. Other similar claims across England are being challenged nationally through the LGA and South Norfolk Council has agreed to participate in this national approach. Legal action is ongoing, though the Council is not directly involved

in court proceedings. The view of the Council is that the claim is unfounded.

- 4.5 New Homes Bonus – This is now the ninth year the council has received this source of funding and as last year the Council has once again achieved growth well above the national average. The Council has invested this funding to promote growth in the District. For 2019/20 within the provisional funding allocations, the Council will receive a total of £3,941,383, of which £158,760 relates to the Affordable Housing Premium, which is £103,000 more in total than 2018/19. This is made up as follows:

#### **2019/20 New Homes Bonus**

£24,080	Affordable Housing Premium growth 2014/15 (86 properties)
£12,600	Affordable Housing Premium growth 2015/16 (45 properties)
£40,880	Affordable Housing Premium growth 2016/17 (146 properties)
£81,200	Affordable Housing Premium growth 2017/18 (290 properties)
<u>£158,760</u>	<i>Total Affordable Housing Premium</i>
£775,814	Year 4 payment for the growth in 2015/16
£750,747	Year 3 payment for the growth in 2016/17
£1,165,826	Year 2 payment for the growth in 2017/18
£1,090,236	Year 1 payment for the growth in 2018/19
<u>£3,782,623</u>	<i>Total excluding Affordable Housing Premium</i>
<u>£3,941,383</u>	<i>Total New Homes Bonus including Affordable Housing Premium for 2019/20</i>

- 4.6 A proportion of the New Homes Bonus is to be passed over to the Broads Authority for new homes built within its area, reflecting their role as the planning authority.
- 4.7 Housing Benefit Administration Grant – The Council continues to receive a grant for the administration on Housing Benefit, however this is reducing over time as the benefit moves over to Universal Credit.
- 4.8 Community Infrastructure Levy (CIL) – CIL has not been included within the Council's revenue budget as it relates to funding for infrastructure and is accounted for separately to the Council's revenue budget, with the exception of the agreed 5% proportion retained for administration of the scheme by SNC.

## **5 FEES AND CHARGES**

- 5.1 The Council has increased its income in some areas such as Garden Waste, Leisure and Commercial Waste as a result of its commercialisation approach and growth in demand. The Council adopted a new Charging Policy in October 2016 and has been reviewing fees and charges in line with this policy. Last year, where charges did not cover the costs of providing the service, these were increased to recover a greater proportion of the costs. Most other charges were increased by 4.1% in line with inflation. For 2019/20, in line with the policy, charges will be raised to reflect the Retail Price Index for inflation as at December 2018, which was a 2.7% increase. Fees and

charges will continue to be reviewed throughout the year on a service by service basis. Cabinet has already agreed a future pricing structure for leisure at its meeting in December 2018. To facilitate greater certainty in budget setting it is proposed that in future years, the relevant Retail Price Index for fees and charges should be the September RPI measure each year.

### **Garden Waste**

- 5.2 Members are asked to consider revised fees for Garden Waste, in line with the RPI increase and the growth in the service. The garden waste service continues to grow as the number of customers increases, which incurs increased costs in fuel and vehicle wear and tear. The majority of customers pay by Direct Debit. These prices are currently £47.50 per year for Direct Debit payment and £53 for other forms of payment. The rounds reorganisation in November 2018 was carried out successfully and will help to ensure the service is as efficient as possible and has capacity to grow further to cope with rising demand. To reflect inflation and the growth in the service, it is proposed to increase the charges to £49.00 per year for payment by Direct Debit and £55.00 per year for Non Direct Debit payments.

## 6 GENERAL FUND REVENUE BUDGET 2019/20

6.1 The changes to the 2019/20 base budget are as follows:

	£'000
Base budget 2018/19	9,524
Pay award and non-pay inflation	478
Homelessness Prevention Funding Removed	193
Increase in waste costs at Materials Recycling Facility	160
Increase in employer's pension contribution	76
Increase in income earned from investment properties	-9
Increase in income from garden waste fee increase	-46
Increase in income from leisure centre enhancements	-86
New Homes Bonus Increased Funding	-103
Net Reductions in Central Budgets	-154
Net Cost of Borrowing and Repayments	-155
Loan interest and fees from companies	-341
Gross Savings from Collaboration with Broadland Council	-427
Contribution to Reserves from Collaboration Savings (above)	427
Net Savings and Cost Pressures in Directorates	-472
<b>Base Budget 2019/20</b>	<b>9,065</b>
Adjustments for 2019/20 only:	
Contribution to General Revenue Reserve	865
Increase in General Reserve from Business Rates Pilot	636
Increase in Renewals Reserve	555
Contribution to Enterprise Zone Reserve	303
Increase in Non-Commercial Asset Replacement Reserve	250
Creation of Collaboration Costs Reserve	107
District and Parish Elections	160
Use of Elections Reserve (for above)	-160
Share of Business Rates Levy Surplus	-47
Rural Services Delivery Grant (to move to Business Rates)	-285
<b>Total Net Expenditure to be financed in 2019/20</b>	<b>11,449</b>
Revenue Support Grant	0
Business rates (Baseline excluding Rural Grant, plus Retained Growth)	-4,078
<b>Amount to be financed from Council Tax</b>	<b>7,371</b>

## **7 COUNCIL TAX**

- 7.1 The projected tax base for 2019/20 is 49,138 (Band D equivalent households). Officers are confident that the actual tax base will match this. The projected tax base has increased by 1.82% compared to the budgeted tax base in 2017/18, due to near record housing growth in the District and officers working to identify new properties as soon as they are taxable.
- 7.2 The revised Medium Term Financial Strategy in Appendix B assumes the tax base increases by 1.75% per year over the duration of the plan. This growth assists in funding the budgets in future years.
- 7.3 Government funding predictions under the Comprehensive Spending Review are predicated on Council Tax increases of £5.00 per year up to 2019/20. The government is allowing District Councils such as South Norfolk to increase their Council Tax by up to £5.00 without triggering a referendum.
- 7.4 When it set its budget for the current financial year (2018/19), having previously frozen Council Tax for seven out of the last ten years and faced with a significant reduction to government funding, in particular New Homes Bonus, South Norfolk Council increased its Council Tax for a Band D property from £140.00 to £145.00 for 2018/19, with an anticipation that future increases would be £5 year on year. The Council has lost almost half its central government funding, nearly £3 million, compared to 3 years ago. It is therefore proposed that South Norfolk Council increases its Council Tax for a Band D property from £145.00 to £150.00 for 2019/20, based on the Council Tax Requirement of £7.371 million shown in para. 6.1 divided by the Council Tax base of 49,138. South Norfolk Council's increase would therefore be £5.00 (3.45%) for a Band D property, which is within the referendum limit.
- 7.5 The County Council is being recommended to increase its Council Tax by 2.99%. The level of the County Council's Council Tax is subject to approval at its Full Council meeting on 11<sup>th</sup> February.
- 7.6 The Police and Crime Panel will meet on 4<sup>th</sup> February to consider the budget proposed by the Police and Crime Commissioner for 2019/20. The four options under discussion by the Police and Crime Commissioner are for increases ranging from 0% to 10.45% (£24).
- 7.7 We will use the information provided by the preceptors in producing the Council Tax resolution for the Full Council meeting on 18<sup>th</sup> February. Should the level of Council Tax proposed by Norfolk County Council or the Police and Crime Commissioner be different from that assumed in the resolution, then an amended resolution will be circulated at our Full Council meeting.
- 7.8 Under the Localism Act, local communities have the power to decide if a Council Tax rise is excessive. Any authority that wishes to increase its Council Tax beyond a threshold determined by the Secretary of State and approved by the House of Commons will be required to hold a referendum to seek the approval of the electorate. Local people would therefore have the final say on excessive increases; a majority no-vote would mean authorities having to refund their Council Taxpayers. The cost of a referendum is borne by the local authority. The process of holding a referendum would have implications on cash flows and investment interest.

- 7.9 For Council Tax setting for 2019/20, the threshold for District Councils such as South Norfolk is £5.00. The referendum principles for 2019/20 clearly exclude all parishes and towns and the Secretary of State for Housing, Communities and Local Government conditionally decided to not impose referendum limits on any towns or parishes for the three years from 2018/19.
- 7.10 The General Fund Budget Summary is produced at Appendix C. The Summary excludes recharges and capital charges. Final figures will be made available after the Council Tax resolution by Full Council to enable the online Council Tax leaflet and budget book to be produced.

## **8 SPECIAL EXPENSES**

- 8.1 In line with the Localism Act, the Council has been engaging with Parish and Town Councils around the services it provides and assets it manages, and whether they should continue to be delivered in the same way. It is intended that this will involve the transfer of services or assets from the Council to individual Parishes/Town Councils. Where the Parish/Town Council currently requires this Council to run the service then the cost is presently recouped through the special expenses mechanism. Cabinet approved a report on street lighting in January 2018 which outlined an approach to pursue divestment of these assets. Following negotiations, all the affected Parish/Town Councils have agreed to the transfer of street lighting, with the exception of Loddon (33 lights), Gillingham (18 lights) and Costessey (only for 36 lights on private land, the majority of lights will transfer). This means that the special expenses scheme will need to continue for those 3 parishes alone. The Council continues to manage lighting for its own car parks and also for Saffron Housing.
- 8.2 The government's referendum principles include Special Expenses when calculating whether a referendum is required.
- 8.3 It is proposed to amend the level of Special Expenses to reflect the level of running costs expected in individual parishes. When applied only to the three parishes now covered by the special expenses scheme, this would be an amount for a Band D property of £0.80 for Costessey, £4.01 for Loddon and £8.87 for Gillingham, reflecting the different tax bases in the three parishes compared to the number of lights supported. This is an average of £0.21 across the District's tax base as a whole, a reduction of £1.42 compared to the 2017/18 figure (£1.63) due to the transfer of lights to seven parishes.

## **9 PARISH PRECEPTS**

- 9.1 At the time of writing, parish precepts for the Financial Year 2019/20 were still being set. A full list of precepts will accompany the Council Tax report to Full Council. South Norfolk Council has no influence over the level of these precepts.
- 9.2 In previous years, parishes have been awarded a grant to offset the effect of Council Tax Support on their tax base. However, over time, as set out in the Medium Term Financial Strategy, the total funding passed to parishes has been reduced in line with the reduced funding awarded to South Norfolk Council. As the Council will itself receive zero Revenue Support Grant in 2019/20, the grant to parishes has been reduced to zero in 2019/20.



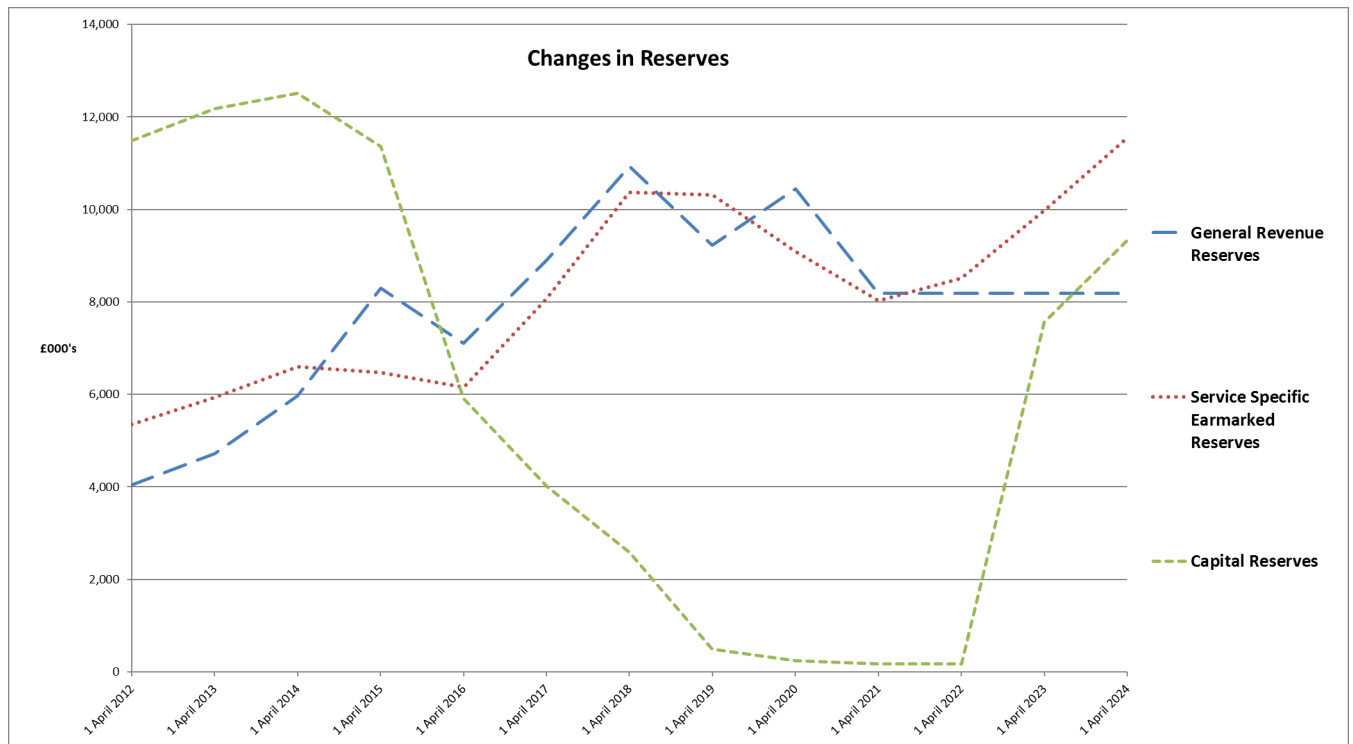
- 9.3 For 2019/20, the Government has again decided not to apply any thresholds for Council Tax increases set by Parish and Town Councils, which if exceeded would trigger a referendum.

## CAPITAL BUDGET

### 10 CAPITAL PROGRAMME

10.1 The Capital Strategy elsewhere on this agenda sets out South Norfolk Council's approach to the use of its capital assets and resources. It is the framework for determining the capital programme and the effective use of the Council's resources.

10.2 The graph below shows the main sources of funding that have been used to fund the capital programme in the recent past and how they are planned to change in future years. The size of the capital programme and the need to be prudent in the use of revenue reserves for capital purposes means that it is necessary to borrow to fund the capital programme over the next 5 years.

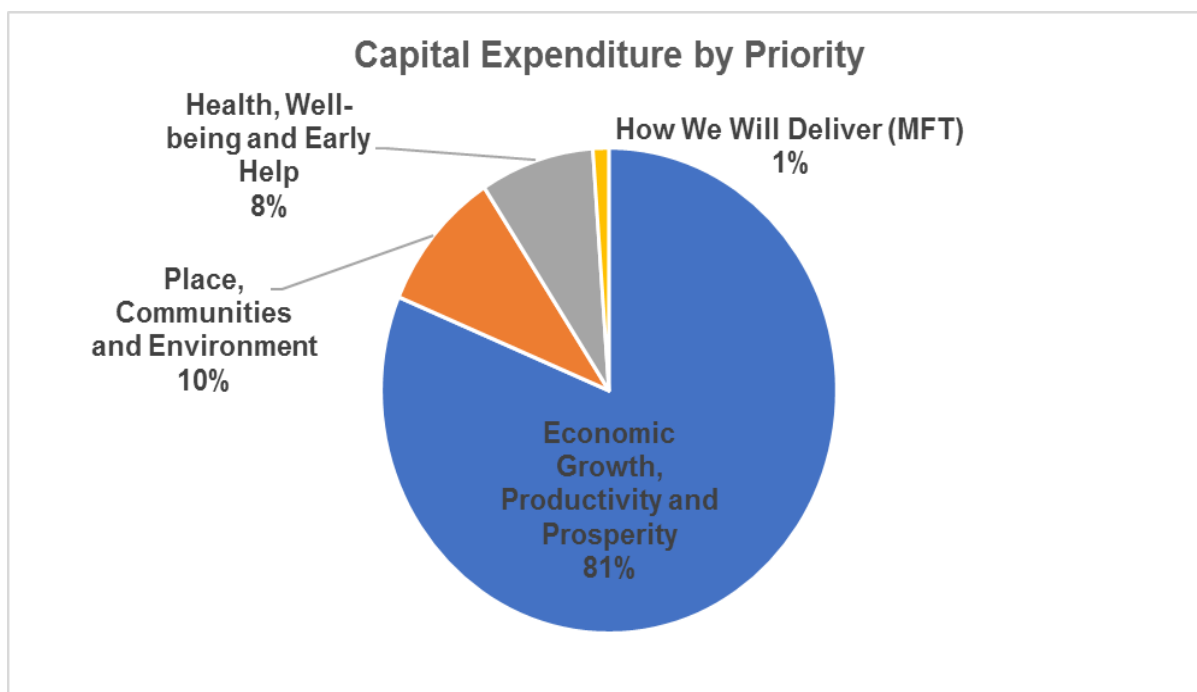


10.3 The Council's three priority areas are:

- Economic Growth, Productivity and Prosperity.
- Place, Communities and Environment.
- Health, Well-being and Early Help.

10.4 The capital programme focuses investment to deliver these priorities while also contributing to the financial sustainability of the Council by supporting opportunities to develop more efficient service delivery and to generate additional income.

10.5 The detailed five-year capital programme is shown in Appendix D and comes to £82.7 million in expenditure, including estimated slippage from 2018/19. The graph below shows how the schemes contribute to the Council's priority areas and the underpinning efficiency work over the next five years.



### **Health, Well-being and Early Help**

#### **Leisure Provision**

- 10.6 In spite of a delayed start owing to inclement weather, work on enhancements to Long Stratton Leisure Centre is expected to be completed in Q4 of 2019. Enhancements include changing room upgrades to support a larger health and fitness offer and an upgraded main sports hall, with the project anticipated to be completed early in 2019. There is also a soft play area for children and a café.
- 10.7 The Lawn Tennis Association is providing funds to refurbish the tennis courts in Long Stratton, with work expected to be completed in 2019.
- 10.8 The installation of air conditioning for the café and reception area at Wymondham Leisure Centre will improve the visitor experience at the centre.

#### **Disabled Facilities Grant**

- 10.9 The Council receives ring-fenced Disabled Facilities Grant funding from the government through the Enhanced Better Care Fund managed by Norfolk County Council. This funding has increased significantly from £410k in 2015/16 to £845k in 2018/19 and is projected to remain at this higher level. It is important that this funding is fully committed in each year to avoid it having to be returned to government. These grants are valuable in keeping people in their own homes.

### **Place, Communities and Environment**

#### **Low Cost Housing**

- 10.10 The Council has been exploring alternative ways to finance providing affordable homes, including starter homes, for example through S106 monies as agreed by Cabinet in December 2017. Therefore, no specific funding is set aside in this capital programme.

## Wheeled Bin Purchases

- 10.11 The total annual budget of £150,000 is split between the purchase of bins for domestic rubbish and recyclables, those for garden waste and bins for commercial waste. Commercial waste is included under the Economic Growth, Productivity and Prosperity priority area. Continued growth in the district, increased customers for garden waste and the ongoing expansion of the commercial waste service means that there is continual demand for new bins. Expenditure has been reviewed and the budget reduced in line with expected requirements.
- 10.12 Cabinet agreed in June 2017 to charge a one-off fee for the supply of domestic and recycling waste collection bins to new residential properties, which will offset some of these costs. This income is being used to add to the Vehicle and Equipment Procurement and Replacement Reserve as a funding source for this expenditure.

## Vehicle and Workshop and Grounds Maintenance Equipment Procurement and Replacement

- 10.13 The renewals reserve was established to finance the purchase of new and replacement vehicles and equipment through direct purchases rather than lease financing. Officers have reviewed the option of leasing and this continues to present worse value for money when compared with direct purchase. Therefore, the Council will continue to fund the programme from its reserves in the medium term, where the revenue impact is the loss of investment interest. This reserve has been topped up from revenue budgets each year, but this will need to cease in 2020/21 due to other pressures on revenue budgets. Income from the new charge for wheeled bins is being added to this reserve from 2018/19 onwards. It is proposed to add an additional £500k to the renewals reserve in 2019/20 to extend the period for which the programme can be funded from reserves and so delay borrowing.

## Play Areas

- 10.14 This budget is for the use of ringfenced S106 receipts to refurbish specific sites in the District from commuted sums. For 2019/20, the sites are Ryfield Road, Bromedale Avenue and Chapshill Drive in Mulbarton, Ensign Way in Diss and Sancroft Square in Harleston,

## Street Lighting

- 10.15 In line with the report agreed by Cabinet in January 2018, sufficient budget has been included in the programme over 2017/18 and 2018/19 to cover replacement of 312 lights at an estimated total cost of £531,000. The exact cost will depend on the finalisation of the transfer process to Parish and Town Councils that is currently in progress.
- 10.16 Figures for future years cover streetlights to be retained by the Council, i.e. car park lightings, which is to be financed from the Non-Commercial Assets Replacement Reserve and lights managed on behalf of Saffron which will be recharged to Saffron. For the three parishes where lights have not been transferred capital costs of replacements will be recovered over time through special expenses. It is proposed to create a Street Lighting Capital

Replacement Reserve to put aside future funds from Special Expenses for these replacements. This will be funded at a rate of £56 per light per year, totalling £4,872 in 2019/20.

## **Economic Growth, Productivity and Prosperity**

### **Investment Property and Economic Development**

- 10.17 The Council already manages an investment portfolio of £7.2 million with an expected return of around 6% (Gross) for the current financial year which exceeds the return on investments made with bank accounts although the potential risk is greater. Included within the investment portfolio are industrial units, business centres, and shops and Crafton House.
- 10.18 Phase 2 of the commercial development at Poringland is expected to be completed in 2021/22. In addition to rental income, these commercial units will bring benefits to the Council in the form of building control fees and NNDR income and provide a stimulus to the local economy. Big Sky Development Ltd is developing the building which will be transferred to the Council on completion. The Council will retain ownership of all the commercial units.
- 10.19 The development of the land at Cringleford is progressing at pace. Big Sky Developments will be starting on site in the first quarter of 2019/20 with the access road from the Round House Roundabout. In quarter two, it will then begin the first phase of infrastructure and the first phase of residential development. The £6 million balance of the loan for the land will be paid in two tranches in 2019 and 2020.
- 10.20 In July 2017 Cabinet agreed to provide funding to Big Sky Developments in relation to strategic housing and employment development opportunities and the capital programme includes the associated budgets for these developments over the coming years, although the timing of expenditure is dependent upon the speed with which these opportunities are realised and is therefore not entirely within the Council's control.
- 10.21 Big Sky Developments Ltd has projected its cash requirements for the next 5 years in its Business Strategy. This is based on it developing an average of 100 homes per year for market sale (or sale to BSPM) over this period. In order to ensure that BSDL has the necessary cash to deliver this strategy, there will be a requirement for funding from South Norfolk Council of £9.6 million in 2019/20. BSDL cashflow projections are that this funding can be repaid in full by 2022/23 and this has been accounted for in the funding of the capital programme.
- 10.22 Residential properties for market rental are being rented out via Big Sky Property Management Ltd. The rental portfolio is fully let and producing average yields in line with expectations (5.44% gross yield in the 2017/18 accounts, comparing gross rental income to the total loan/equity investment by the Council). Expansion of the portfolio will allow the company to spread its fixed costs further in the future, increasing profitability. The cost of this programme is based on the acquisition of 20 additional homes per year, on a combination of existing and new sites. No budgetary provision is required in 2019/20 as the homes on the Cringleford site will still be under development.

## 10.23 Enterprise Zone

The Council is currently in discussions with the New Anglia LEP and partners about the funding of infrastructure on the Norwich Research Park. It is now expected that the infrastructure investment will be phased over a longer period and therefore the requirement in the next 5 years has been reduced to £5.2 million. The LEP has asked the Council to make a contribution to the funding of the office building on the Enterprise Zone, to be repaid from future business rates and the rental from the building and figures have been included in the capital budget while discussions continue.

10.24 It is anticipated that Norfolk County Council will require the funding that has been put aside for Better Broadband in 2019/20.

10.25 Further strategic investment in a mixture of asset classes over the coming years will yield returns that can support the Council's budget and its Medium Term Financial Strategy. This could be a combination of property development for a variety of uses and the purchase of existing property that meets the Council's investment criteria. These investments would need to provide a suitable return on capital and could, as a secondary goal, contribute to the economic growth and prosperity of the district. The rental income would support the revenue budget and in the future would help to offset borrowing costs. Investing in both residential and commercial property is not entirely risk free as property investments may fall in value with reductions in rents. There is also the possibility that the Council might have to sell a property investment to obtain cash at a lower than market rate. Finally any proceeds from the sale of investment property will be classed as a capital receipt and cannot be used to support the revenue budget. In July 2017 Cabinet agreed to provide funding to Big Sky Developments in relation to strategic housing and employment development opportunities and the capital programme includes the associated budgets for these developments over the coming years, although the timing of expenditure is dependent upon the speed with which these opportunities are realised and is therefore not entirely within the Council's control. Additional funding for any further strategic opportunities that could arise is included in this Capital Programme.

### **Improving services through being business-like, efficient and entrepreneurial**

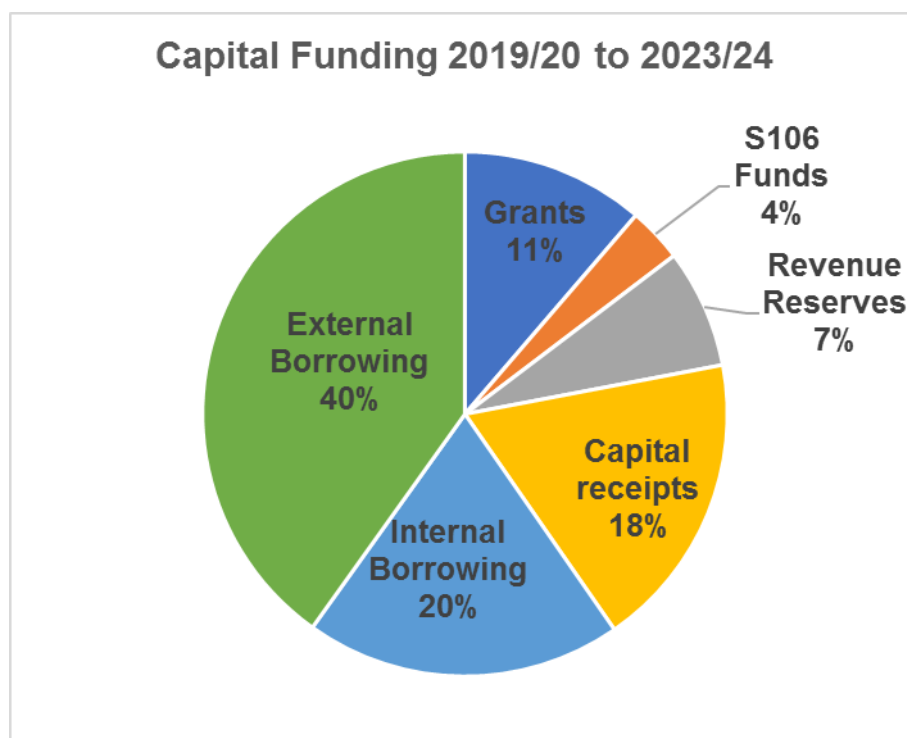
#### ICT and Digital Investment

10.26 The IT Strategy and Digital Strategy were both approved by Cabinet in February 2018 and the capital programme sets aside the capital funding required to deliver these strategies. There are ongoing costs for PC and server replacements and for the purchase of Tablet computers in 2019/20. There is planned investment in IT and Digital in the coming year to support joint working with Broadland Council.

## **11 FINANCING THE CAPITAL PROGRAMME**

11.1 Including agreed external borrowing, the 2018/19 capital programme was originally 36% funded prior to borrowing when the budget was agreed by Cabinet in February 2018. Owing to slippage and increases in funding available, this year's programme is now forecast to be fully funded prior to

borrowing. The new five-year capital programme will be financed from a mixture of revenue and capital reserves, capital receipts, grants and revenue income. Internal borrowing from cash balances and external borrowing will be required over the period. The projected sources of funding are shown in the graph below and Appendix E provides further details.



- 11.2 Revenue – During the five-year programme (including projects which will potentially slip from the current year) £6 million of revenue reserves will be used to fund the programme as shown below:

	£000
General Revenue Reserve	1,298
Vehicle Procurement and Replacement Reserve (Renewals Reserve)	2,975
Car Park Upgrades Reserve	175
Low Cost Housing (New Homes Bonus) Reserve	875
Infrastructure Reserve	570
Non-Commercial Assets Replacement Reserve	167
<b>Total Use of Revenue Reserves</b>	<b>6,060</b>

- 11.3 Capital Receipts from Land Sales - The programme includes repayment of loans back from Big Sky Developments Limited funded by property sales from the development at St Giles Park, Cringleford, and future developments in the District. These are subject to the prevailing housing market conditions at the

time of sale. They could therefore fluctuate which is a risk to the funding of the programme which needs to be managed. It is not currently proposed that the Council's companies buy back the shares that are owned by the Council. If they did so, then this would also constitute a capital receipt. For the time being, this equity capital remains available to the companies for future development. The profile of these capital receipts means that there will be some £9 million available by 2024 and currently uncommitted. The Council could choose to repay external borrowing with these receipts which will reduce interest and Minimum Revenue Provision costs and thereby improve the revenue budget position.

- 11.4 Right to Buy Receipts – as part of the LSVT agreement the Council will continue to receive income from the sale of right to buy properties. The amount per property is reduced on a sliding scale over the next 30 years and an administration fee from Saffron Housing Trust. The amount is paid over in a lump sum in the April following the financial year they relate to, which is subject to a levy on pooling of housing receipts. Right to buy receipts have increased from the low levels of recent years, but are prudently projected to be less than current amounts as the number of properties available for sale decreases over time.
- 11.5 LSVT Receipt – The Council received £31,659,527 from the transfer. Once payments have been made in respect of IT Projects and Aids and Adaptations, it is estimated that there will be a balance at 31 March 2019 of around £413,000. In the five-year capital programme (including slippage), £313,000 of IT expenditure is expected to be funded from the LSVT monies. The LSVT balance is therefore anticipated to be reduced to £100,000 by 31 March 2020, and this will be retained to cover any future costs associated with LSVT properties under the terms of the stock transfer.
- 11.6 Grants – as well as government grants the Council has taken advantage of lottery and any other grants in the past. For 2019/20 the Council is anticipating £7.2 million from Home England's Accelerated Construction Fund to increase the pace of delivery at St Giles Park, Cringleford. It is now expecting grant funding of £2.5 million from the New Anglia Local Enterprise Partnership towards the cost of a joint property development at the Enterprise Zone, to be released in 2019/20 and a grant of £1.5 million towards the cost of infrastructure on the Norwich Research Park. Grant funding totalling £230,000 is anticipated to fund the refurbishment of the tennis courts in Long Stratton and £100,000 from Sport England to help fund a refurbished pool in Long Stratton. The Council encourages and supports partner organisations in making applications for external funding.
- 11.7 CIL – This is a form of levy on every property built in the district. After an administration deduction of 5%, a further percentage is required to be set aside for local communities to use for their infrastructure requirements. 25% to the local community if they have adopted a local neighbourhood plan reducing to 15% for those communities who have no plan in place. The remainder which will be collected will be spent on infrastructure requirements through the Greater Norwich Growth Board (GNGB) and passed over to Norfolk County Council who administer the pooled CIL on behalf of the GNGB. There is a contribution from CIL of £350,000 towards the Long Stratton Swimming Pool.



- 11.8 New Homes Bonus –The Low Cost Housing Reserve, originally funded from New Homes Bonus affordable housing premium, will stand at £875,000 at the end of 2018/19. It is anticipated that this reserve will be sufficient to cover at least the next 5 years of expenditure on whichever housing projects the Council chooses to support. It is anticipated that this will be used to fund more homes for rent via Big Sky Property Management.
- 11.9 Borrowing - As resources reduce, the Council will have a need to borrow to fund capital projects. Cabinet has already approved borrowing of £12.54 million towards the Norwich Research Park Enterprise Zone. In July 2017 Cabinet agreed to provide funding of up to £12 million to Big Sky Developments in relation to strategic housing and employment development opportunities. In order to fund continued investment in property to generate revenue income, external borrowing is anticipated to be required from 2019/20. It is likely that there will be slippage over the life of the programme which could delay the need to borrow. In the first instance, the Council will be able to borrow internally from its own cash balances. The cost of this is the interest foregone from investing the cash with external counterparties. It is anticipated that all current and proposed loans to Big Sky Developments will be fully repaid by 2023/24.
- 11.10 Eventually, as cash balances reduce to the minimum needed for working capital purposes, then the Council will need to borrow externally. To provide an estimate on the impact to the revenue budget, the following is an example of a PWLB loan at current rates of interest (including the 0.2% Certainty Rate reduction provided to Local Authorities that submit their capital plans to MHCLG):
- Principal: £1,000,000, Years: 15
- EIP** (Equal Instalments of Principal) where the principal is paid back over the period equally plus interest would cost £156,928 interest over the 15 years at 1.88%
- Annuity** (where an equal amount is paid back over the period) £158,667 interest over 15 years at 1.9%
- Maturity** (interest only paid until maturity) interest would be £364,500 over the 15 years at 2.43%
- 11.11 For the purposes of the MTFS, an average interest rate of 2.1% has been prudently assumed. Bearing in mind commercial investment property generates a gross return of around 6.0% per annum, the borrowing costs are far exceeded by this over the lifetime of the loan and there would be a net positive effect on the revenue budget, which would help to offset the reductions in government funding which will be ongoing for the foreseeable future. While interest rates remain low there is a case for borrowing on a fixed interest rate basis if the income generated from an investment clearly exceeds the cost of financing.
- 11.12 Although this programme contains indicative figures for internal borrowing of £14 million and further external borrowing of £9 million beyond that already authorised for the Enterprise Zone and Housing/Economic Development, specific authority to borrow externally for particular investments will be sought

at the time that business cases are presented to Cabinet.

- 11.13 The total amount of debt that the Council can take on needs to be affordable. Based on the revised Medium Term Financial Strategy, the estimated gross cost of financing loans of £34 million (interest payments and the Minimum Revenue Provision) would be £1,401,000 annually by 2023/24, which equates to 8.35% of the Council's net revenue expenditure by 2023/24 and £22.83 per dwelling. This compares to a median average of 3% and £9 per dwelling for District Councils in 2014/15, per the National Audit Office and a mean average of 5.5% and £16.68 per dwelling in 2016/17 based on MHCLG statistics. According to the NAO, in 2014/15, Councils in the top 25% of shire districts for debt servicing costs spend 7.1% of revenue expenditure and £23 per dwelling on debt servicing. On this indicator, the Council would be considered to have a larger risk appetite than the average Council, but not so large as to create sustainability issues for financing its plans. It should be borne in mind that the Council is starting from a position of being debt free and the figures for other Districts are expected to rise in future years.
- 11.14 Another indicator used by external lenders is that a Council can take on debt of twice its gross total revenue less its long-term debts including the pension liability. Based on the 2016/17 statement of accounts, this would equate to total debt of £22 million, but this has increased for the 2017/18 accounts and would be £25 million, including the pension liability, though it would be £84 million excluding the pension liability. On this measure, the Council would, if it borrowed the full amount as planned, be above what could be considered prudent, by 2021/22. However, it is likely that there will be slippage in the capital programme that will delay the need to borrow so much. By using borrowing to invest in property through its companies, the Council is aiming to increase its gross revenues and strengthen its group balance sheet as property values increase, which makes debt more sustainable in the longer term. This debt will allow the Council to lend to its companies which is expected to generate £2.3 million in interest payments alone over the next 5 years, supporting the revenue budget.
- 11.15 The prudential indicator of net financing costs to net revenue income stream from taxation and central government provides another view of financial sustainability. This is set out in the Treasury Management Strategy elsewhere on this agenda, but it shows that financing costs will be no more than 1.82% of net revenue stream by 2023/24, which is considered sustainable.

## MEDIUM TERM FINANCIAL STRATEGY

### 12 RESERVES POSITION

12.1 The impact of the proposed revenue budget and the capital programme on the General Revenue Reserve is shown below:

<b>General Revenue Reserve</b>	<b>£'000</b>
<b>Balances as at 1 April 2018</b>	<b>10,938</b>
Projected contribution to reserve due to positive variance against budget as reported in Q3 Risk, Performance and Finance Report elsewhere on this agenda, less positive variance on NNDR income.	1,505
Contribution from Revenue Budget	707
Slippage requests from 2017/18	-333
Use for Charging Points Installation	-50
Funding for Permit Parking Study	-15
Transfers from Earmarked Reserves	152
Projected Funding of capital programme	-3,674
Budgeted use for revenue purposes	0
<b>Projected balances as at 31 March 2019</b>	<b>9,230</b>
Contribution from Revenue Budget	865
Contribution from Business Rates Pilot	636
Projected slippage requests from 2018/19	-278
<b>Projected balances as at 31 March 2020</b>	<b>10,453</b>
Contribution from Revenue Budget	0
Transfer to Vehicle Replacement and Renewals Reserve	-962
Projected Funding of capital programme	-1,298
<b>Projected balances as at 31 March 2021</b>	<b>8,193</b>

12.2 The General Fund Balance is £1.4 million and is slightly above the recommended 10% of net revenue expenditure; however it is advised that the £1.4 million is maintained. It is planned to add £865,000 to the General Revenue Reserve from the revenue budget and £636,000 from the business rates pilot to enable the council to deal with future funding reductions and cost pressures.

12.3 To take forward local infrastructure schemes such as the bypass in Long Stratton, there are capital costs, but also some costs, such as professional fees, that cannot be funded from capital funding streams, e.g. CIL. An earmarked Infrastructure Reserve was created in 2015/16 to be used to support the Council's commitment to developing infrastructure and fostering economic development in the District. There will be revenue costs associated with delivering the Long Stratton bypass and this reserve can be used for this purpose.

12.4 The revenue budget includes movements on earmarked reserves in 2018/19 as follows:

- Broadland/SNC Collaboration Costs Reserve – Creation of this reserve to fund the transitional costs of the collaboration with Broadland District Council as outlined in the feasibility report. These costs are expected to be £107,000

in 2019/20.

- Broadland/SNC Collaboration Savings Reserve – Creation of this reserve to hold the anticipated savings from the collaboration as outlined in the feasibility report. By putting these savings directly to the reserve the net impact on the 2019/20 revenue budget from savings is nil, which reduces the risk should savings not be delivered in the planned timescale.
- Election Reserve – A decrease of £160,000 to reflect the use of this reserve for the 2019 district election. In future years there will be an annual increase in this reserve of £50,000 as a contribution in readiness for the next district election in 2023.
- Vehicle and Equipment Procurement and Replacement Reserve (“Renewals Reserve”) – Increase in reserve of £1,316,000 (including £55,000 of funding from charging for wheeled bins), offset by withdrawal of £1,037,000 from reserve to fund the capital replacement programme, a net increase of £279,000.
- Infrastructure Reserve – Withdrawal of £1,000,000 in revenue funding for non-capital work related to securing the Long Stratton bypass and £570,000 for broadband contribution to Norfolk County Council, a total decrease of £1,570,000.
- Non-Commercial Asset Replacement Reserve – A one-off increase of £250,000 and a recurring increase of £10,472 for street lighting retained by the Council offset by a reduction of £150,000 to fund the purchase of waste bins and £22,000 to fund the balance of decommissioning of street lighting retained by the Council and £92,000 for toilet conversions at Long Stratton and Loddon, resulting in a net decrease of £3,528.
- Street Lighting Capital Replacement Reserve – Creation of this new reserve through transfer of £4,872 from the Special Expenses revenue budget to provide the capital funding for the future replacement of the lights that are being retained at Costessey, Loddon and Gillingham.
- Car Park Upgrades Reserve – An addition to this reserve to be funded from a revenue contribution from car park income of £70,000, offset by £35,000 to fund resurfacing work on car parks, resulting in a net increase of £35,000.
- Charging Points Maintenance Reserve – The creation of this reserve as agreed by Cabinet at its meeting in December 2018 to fund the future maintenance costs of electric vehicle charging points from surpluses generated. £1,000 will be added to this reserve in 2019/20.
- Enterprise Zone Reserve – Additional funding from business rate income of £303,000 in 2019/20, fully offset by use of the reserve for onsite management and marketing of the Enterprise Zone to new businesses and by interest payments on the borrowing for this development. The reserve will build up the funds necessary to repay all loans in full when they are due.
- 3G Pitch Renewal Reserve – Addition to this reserve to be funded from a revenue contribution of £15,000 from income from the Long Stratton 3G Pitch.
- Neighbourhood Grants Reserve – This reserve will be exhausted in 2018/19 and will be closed at year end.
- Local Development Reserve – Withdrawal of £250,000 from this reserve to fund work on developing the Local Plan.
- Land Charges Reserve – Following completion of legal cases, this reserve will be closed and the balance (£152,000) transferred to the General Revenue Reserve at the end of 2018/19.

12.5 Members are asked to recommend to Full Council the reserves as detailed in Appendix F.

### **13 RISK AND SENSITIVITY ANALYSIS AND ADVICE OF THE SECTION 151 OFFICER**

- 13.1 The Local Government Act 2003 places two specific requirements on an authority's Section 151 (S151) Officer in determining the Council's budget and Council Tax. Under section 25, the S151 Officer must advise firstly on the robustness of the estimates included in the budget and secondly on the adequacy of the financial reserves.
- 13.2 *The advice given to the Council on the budget is that the estimates have been produced on a prudent basis, with an emphasis on identifying the existing cost pressures the Council faces and a realistic level of savings and efficiencies. The budget has been constructed so that all known costs are budgeted for, and income budgets reflect the impact from the economy. The budget is therefore constructed on a prudent basis.*
- 13.3 There are a number of potential risks in the robustness of the estimates. Firstly, as part of the budget setting process, there is an assumption that we are able to collect the level of Council Tax planned. The Council has consistently performed well in this area, as proven by the collection fund surplus. As Universal Credit is rolled out, the Council is working to ensure that it can manage any resultant customer debt issues.
- 13.4 Secondly, the Council depends on a number of contractors, suppliers and partners to deliver services. The use of partners is important as a delivery model for certain services, and there is a risk that some of these either contract their activities, or cease to exist altogether. There could be cost implications that arise should this occur. Where it appears likely that this may happen with particular organisations, then the Council will take appropriate contingency measures to mitigate the impact.
- 13.5 Thirdly, there is a risk that the present growth in the economy stalls and growth is not as assumed in the Medium Term Financial Strategy. If this were to occur it would impact on the level of income received by the Council through its fees and charges as well as income from business rates retention. There would also be an impact on the demand on the services provided by the Council such as increasing homelessness and benefit claimants. This in turn would lead to an increase in the savings required in future years and a possible drawing of reserves in the short term.
- 13.6 Fourthly, the expected changes to the formula for council funding and the move to 75% business rates retention from 2020/21 is a source of major uncertainty at the present time, as the impact of measures in the current consultations could have a variety of impacts and the total local government funding envelope for 2020/21 is subject to the outcome of the Spending Review due to take place in 2019. While best estimates have been made, the impact of these changes on the council's funding remain unclear.
- 13.7 The Council has received a very large claim for mandatory business rates relief from a local NHS Trust on the basis of charitable status. No decision to grant relief to the Trust has yet been made and it is subject to ongoing investigation. The view of the Council, shared by the Local Government Association, is that the claim is completely unfounded and therefore no allowance has been made in the Council's budgets for this claim.

- 13.8 Budget estimates have been prepared on a cautious basis, limiting costs and growth where possible and ensuring income expected to be received, both through fees and charges and grant streams are at a level officers are confident can be delivered. There is a risk that this will be overly sensitive.
- 13.9 The Section 151 Officer is also required to report on the adequacy of reserves. There are a number of issues to consider in advising on the adequacy of reserves, which are directly linked - the level of reserves, the dependency on them and future liabilities. At 1st April 2019, the level of reserves are predicted to remain at the level required to finance the medium term financial strategy. The plans in the Capital Programme include using revenue reserves to fund an element of the capital programme over the next five years.
- 13.10 Excluding the General Fund Minimum Balance, the projected level of revenue reserves held by the Council at 31st March 2019 represents 216% of the proposed net revenue base budget, in line with figures of 224% at 1<sup>st</sup> April 2018 and 196% at 1st April 2017, reflecting the Council's success in meeting its own self-imposed budget challenges and increasing income. This level of reserves provides sufficient flexibility should any of the assumptions made in this budget prove too optimistic.
- 13.11 Assuming Cabinet and Council agree the revenue and capital budgets as set out in this report, then the S151 Officer advises that the level of reserves is adequate for known and potential risks at this time.
- 13.12 Section 26 of the Local Government Act 2003 gives the Secretary of State power to fix a minimum level of reserves for which an authority must provide in setting its budget. The Secretary of State has the view that section 26 would only be used "...in which an authority does not act prudently, disregards the advice of its chief finance officer and is heading for serious financial difficulty."
- 13.13 The Section 151 Officer is required by section 114 of the Local Government Finance Act 1988 to report to Members if it appears that the expenditure the authority proposes to incur in a financial year is likely to exceed the resources available to it to meet that expenditure. A section 114 notice was issued by Northamptonshire County Council last year. *The advice of the Section 151 Officer is that the possibility of such a notice being required at South Norfolk Council is very remote at the present time.*

## **14 2020/21 AND BEYOND**

- 14.1 A revised Medium Term Financial Strategy (MTFS) is contained in Appendix B, which projects forward until 2023/24 showing that further savings/income of over £2.4 million will need to be made over the plan period, if reserves are not to be utilised. The figures in the plan are based on the multi-year settlement figures up to 2019/20 that were confirmed in the Local Government Finance Provisional Settlement on 13 December 2018 and a projection for the following 4 years.
- 14.2 The challenge to officers to deliver the £1 million challenge on their budgets has produced increased income, planned efficiencies and savings from staff

reductions plus changes to processes. These are all factored into the MTFS.

- 14.3 Work to deliver the savings envisaged from the collaboration with Broadland District Council will ensure that the projected remaining funding gap in the MTFS is addressed. It would also be prudent for the Council to continue to identify opportunities for additional income and savings that it can make on its own, e.g. in services that are unlikely to be shared in the short term, such as leisure centres.
- 14.4 The Council will not receive any Revenue Support Grant in 2019/20. The Spending Review in 2019 will determine whether the Council will continue to be a major beneficiary of the New Homes Bonus. Combined with uncertainty and volatility around funding from business rates income and overall local government funding from 2020/21 onwards, this means there is scope for significant pressure on the Council's budget over the medium term and potentially longer. The Medium Term Financial Strategy therefore includes future Council Tax increases of £5.00 a year which is the maximum increase permitted for District Councils like South Norfolk without a referendum being triggered.
- 14.5 From 2020/21, the government plans to devolve 75% of business rates to local government. As with the present system there will be mechanisms to redistribute this income between local authorities and a new funding formula will be introduced at the same time. All Norfolk District Councils along with the County Council will be piloting 75% business rates retention in 2019/20. The Council will be responding to the current consultation on the business rates proposals and to the current consultation on the design of the new funding formula. At present there are no specific details available on how the new formula would affect individual local authorities. This level of detail is only expected in late spring of 2019.
- 14.6 Current initiatives to expand the Council's income from investment property, pre-application advice, leisure centres and commercial waste are an important source of additional revenue to underpin the plan over the next five years. Loans to the Council's wholly owned companies are expected to generate £2.3 million in interest payments over the next five years to support the revenue budget.
- 14.7 The transition to Universal Credit will affect the Housing Benefit service currently provided. The Department of Works and Pensions is managing this and plans to take on existing Housing Benefit claimants in a phased manner. Details on how the Housing Benefit administration grant, the Council currently receives, will be reduced have not been provided. Following the announcement of delays in the full introduction of Universal Credit, it is now assumed that there will be significant impact from 2020/21. Based on experience elsewhere, it is probable that the reduction in the grant will not mirror the reduction in claimants causing an additional cost pressure and this is reflected in the MTFS.
- 14.8 The government is consulting on whether to require all Councils to provide a food waste collection service. An indicative estimated net cost of £275,000 has been included in the budget from 2021/22 onwards. Further work to clarify the cost implications for this Council will be required once the consultation has been completed.

- 14.9 The level of New Homes Bonus which can be delivered will greatly influence the Medium Term Financial Strategy due to the significant size of this funding. Therefore, the reforms to this funding stream have a large impact on the Council's future financial strategy. The near record number of new homes in the last year, combined with higher projections for house building in the Greater Norwich area, means that reductions in future years are not expected to be quite as severe as previously anticipated, but this assumes that this funding stream continues after the Spending Review, which is a major risk to the Council's finances.
- 14.10 Future years' capital programmes will be funded partly through borrowing, this will initially be internal borrowing from the Council's own cash balances; any external borrowing must be affordable within the context of the revenue budget. Nevertheless, while interest rates remain low there is a case for borrowing on a fixed interest rate basis if the income generated from an investment clearly exceeds the cost of financing. The exact timing of borrowing depends upon the progress and phasing of the Capital Programme and the level of revenue reserves.

## **15 OTHER OPTIONS**

- 15.1 Cabinet can propose an alternative revenue budget, capital programme and Council Tax to Council, subject to the advice of the Section 151 Officer on its prudence and robustness of budgets.

## **16 ISSUES AND RISKS**

- 16.1 **Resource Implications** – these budget proposals will need to be delivered by staff during 2019/20
- 16.2 **Legal Implications** – the Council has a legal duty to set a balanced budget
- 16.3 **Equality Implications** – the budget presented for Members contains reductions in spending that have been realised as a result of challenging officers to streamline internal processes and realise efficiency savings and additional income, without impacting on the level of service that our residents presently receive. There are also increases in fees and charges, with discounts available for some services to residents on low incomes. The Council is implementing its digital engagement strategy and is enhancing online services and information to provide residents with increased access. Officers therefore believe that this budget presents no negative impact on those who share protected characteristics as defined in the Equality Act 2010.
- 16.4 **Environmental Impact** - the budget will allow the Council to deliver its statutory duties in respect of the environment
- 16.5 **Crime and Disorder**- no implications

## **17 CONCLUSION**

- 17.1 The Business Plan includes the integration of the budget against the activities



and outcomes planned for the year ahead. The balanced revenue budget has no calls on general revenue reserves and includes a contribution to general revenue reserves to prepare for future cost pressures and funding reductions. As a consequence of significant and sustained reductions in government funding, the Council Tax is proposed to increase from £145.00 for a band D property to £150.00 for 2019/20. Further increases of £5.00 each year are assumed in future years for the purposes of the Medium Term Financial Strategy.

- 17.2 Fees and charges have been increased for service areas and commercial activities and will be reviewed again in 2019/20 in line with the Charging Policy.
- 17.3 The proposed budget includes funding for performance related pay of £100,000 (0.78% of payroll), reflecting the amended scheme to apply in future years, and a cost of living rise of £378,000 has been set aside in line with the national pay offer of 2% for 2019/20, including the impact of the National Living Wage.
- 17.4 The level of Government funding will continue to decrease in future years and Revenue Support Grant will cease to be received in 2019/20. The combined level of additional income that is already expected to be generated from commercial activities to offset this decrease in funding from 2019/20 to 2023/24 is almost £3.3 million. Over the five-year period, the Council will have to find further additional income and savings on an annual basis by 2023/24 to prevent an annual deficit in 2022/23 of £0.8 million rising to £1.6 million in 2023/24, which is £2.4 million in total.
- 17.5 There is increased financial risk while future changes to the funding formula and further localisation of business rates are still under discussion. The amount of the New Homes Bonus beyond 2018/19 is subject to any further government reforms and the successful delivery of sufficient new homes and remains a major risk.
- 17.6 The Capital Programme for 2019/20 to 2023/24 is £82 million, including estimated slippage from 2018/19. It is funded from a combination of capital receipts and reserves and revenue reserves. It is anticipated that external borrowing will be required dependent on the delivery of the programme, the realisation of capital receipts during the period and the level of revenue reserves. The total level of external borrowing required from 2019/20 to 2023/24 would be just over £33 million which is towards the higher end of what can be considered sustainable for a single District Council of South Norfolk's size.

## **18 RECOMMENDATIONS**

- 18.1 It is recommended that Cabinet recommends to Council:
  - 18.1.1 the approval of the base budget; as shown in para 6.1, subject to confirmation of the finalised Local Government finance settlement figures which may, if significant, necessitate an adjustment through the General Revenue Reserve to maintain a balanced budget.
  - 18.1.2 the use of the revenue reserves as set out in section 12.

- 18.1.3 that the Council's demand on the Collection Fund for 2019/20 for General Expenditure shall be £7,370,700 and for Special Expenditure be £10,440;
- 18.1.4 that the Band D level of Council Tax be £150.00 for General Expenditure and £0.21 for Special Expenditure.
- 18.1.5 that the assumptions on which the funding of the capital programme is based are prudent.
- 18.1.6 the approval of the capital programme for 2019/20 to 2023/24.
- 18.2 It is recommended that Cabinet agrees:
- 18.2.1 that future increases to fees and charges will be linked to the September Retail Price Index each year as set out in para 5.1
- 18.2.2 the charges for garden waste as set out in para 5.2
- 18.3 It is recommended that Cabinet notes:
- 18.3.1 that pricing changes will be made in accordance with the Charging Policy in section 5
- 18.3.2 the advice of the Section 151 Officer with regard to section 25 of the Local Government Act 2003;
- 18.3.3 the future budget pressures contained in the Medium Term Financial Strategy as set out in Appendix B.

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## **Background Papers**

Draft Business Plan 2019/20

## APPENDIX A BUDGET AND MTFS ASSUMPTIONS

	<b>Assumptions in the Medium Term Financial Strategy February 2018</b>	<b>Assumptions in the Proposed Budget 2019/20 and Revised Medium Term Financial Strategy February 2019</b>
<b>Pay</b>		
Pay award and National Insurance	A 2% pay award has been assumed in 2018/19 in line with the national employers' offer, and in future years. The performance related pay award budget has been reduced to £107k for 2018/19 reflecting the agreed amendments to the performance related pay scheme. The MTFS includes an estimate of the apprenticeship levy, estimated at £50k in 2018/19, based on it being 0.5% of payroll less an allowance of £15,000.	A 2% pay award has been assumed in 2019/20 in line with the national employers' offer, and in future years. The performance related pay award budget has been reduced to £100k for 2019/20 reflecting the agreed amendments to the performance related pay scheme. The MTFS includes an estimate of the apprenticeship levy, estimated at £50k in 2019/20, based on it being 0.5% of payroll less an allowance of £15,000.
Pension	The MTFS includes final figures for the annual lump sum payments, which are £184k lower than the estimated figures over the next 3 years. The Norfolk Pension Fund has advised that, based on current projections, a substantial increase will be required in 2020/21 and an initial estimate of £300k has been included in that year. The actual figure required will be determined through the next triennial valuation due in March 2019.	As per Medium Term Financial Strategy (MTFS) February 2018.  The Norfolk Pension Fund has advised that, based on current projections, a lower increase than originally anticipated will be required in 2020/21 and therefore a revised estimate of £135k has been included in that year.
<b>Non-Pay</b>		
Inflation	An assumption of inflation running at 3% per annum for rates, 2.5% per annum for utilities and for contracts an inflation budget of £60k based on present increases.	Each utility budget has been reviewed and inflation applied as applicable. Inflation on contracts has only been included where appropriate. For 2020/21 and future years, an assumption of inflation running at 2.5% per annum for utilities, 3% for rates and for contracts an inflation budget of £60k based on present increases.

	<b>Assumptions in the Medium Term Financial Strategy February 2018</b>	<b>Assumptions in the Proposed Budget 2019/20 and Revised MTFS February 2019</b>
Cost Pressures	<p>There have been general cost pressures across all Directorates. These have been more than offset by savings in non-pay and staffing budgets across all Directorates and increases in income from greater activity.</p> <p>A sum has been included in each future year for potential unknown cost pressures. For 2018/19 there were particular cost pressures in the areas of:</p> <ul style="list-style-type: none"> <li>• domestic waste collection costs following the implementation of the new MRF contract</li> <li>• garden waste costs as the service continues to expand</li> <li>• investment income due to reduced reserves as capital funding is spent.</li> </ul>	<p>There have been general cost pressures across all Directorates. These have been more than offset by savings in non-pay and staffing budgets across all Directorates and increases in income from greater activity.</p> <p>A sum has been included in each future year for potential unknown cost pressures.</p> <p>A net cost estimate of £275k for providing a food waste collection service has been included for 2021/22 in anticipation of this becoming a statutory requirement under government policy.</p> <p>For 2019/20 there were particular cost pressures in the areas of:</p> <ul style="list-style-type: none"> <li>• domestic waste collection costs following changes in the recycling market affecting the MRF contract and additional costs for clinical waste collection</li> </ul>
<b>Income</b>		
Increase in income	<p>Since the RPI measure of inflation rose by 4.1% in December 2017, this increase will be applied from 1<sup>st</sup> April to all fees that are not approved by Cabinet or subject to an ongoing review or set by national government.</p> <p>The planning service has reduced its income budgets to reflect the reversal of the one-off impact of the Long Stratton bypass planning application for 2017/18. The longer national timescale for implementation of the change to land charges administration means the reduction in land charges income is now expected to impact in 2019/20.</p> <p>It is assumed that income from fees and charges will increase by 3.3% for 2019/20 and by 3% in future years in Licensing, Garden Waste Collection, Grounds Maintenance and other Environmental Services.</p>	<p>Since the Retail Price Index measure of inflation rose by 2.7% in December, this increase will be applied from 1<sup>st</sup> April to all fees that are not approved by Cabinet or subject to an ongoing review or set by national government.</p> <p>The change to land charges administration is reflected in a reduction in land charges income budgets for 2019/20.</p> <p>Based on official forecasts for RPI, it is assumed that income from fees and charges will increase by 3% for 2020/21 and 2021/22, 3.1% for 2022/23 and 3.2% for 2023/24 in the following areas; Garden Waste Collection, New Domestic Waste Bin Charges, Housing, Street Naming and Numbering, Grounds Maintenance and other Environmental Services.</p>

	<b>Assumptions in the Medium Term Financial Strategy February 2018</b>	<b>Assumptions in the Proposed Budget 2019/20 and Revised MTFS February 2019</b>
Housing Benefit Administration Subsidy	A decrease of £100k in Housing Benefit overpayments recovery income has been included in the MTFS for 2021/22 to reflect an expected decrease in recovery income as claimants move onto Universal Credit.	A decrease in Housing Benefit overpayments recovery income has been included in the MTFS to reflect an expected decrease in recovery income as claimants move onto Universal Credit. of £100k in 2021/22 and a further £300k in 2022/23.
Leisure Centre Income	Income is expected to increase by £101k in 2018/19, reflecting the continuing positive impact of the enhancement scheme at Wymondham Leisure Centre, Kids Camp and the 3G pitch and the impact of the revised pricing strategy. Additional net income from the enhancement of Long Stratton Leisure centre is anticipated from 2019/20.	Income is expected to increase by £101k in 2019/20, reflecting the continuing positive impact of the enhancement scheme at Long Stratton Leisure Centre, the new arrangements for the Spa at Wymondham Leisure Centre and the Ketts Park 3G pitch and the impact of the revised pricing strategy.
Investment Interest and Income from Property Investment	<p>Reduced income from lower reserves is expected to reduce interest earned by a further £25k in 2018/19.</p> <p>It is estimated that the Council will benefit by a total of £2,050k over the next 5 years up to 2022/23 from its developments at Poringland and Long Stratton, through a combination of rental income from commercial units and recharges and interest on loans to its wholly owned companies. Interest will reduce as the loan to Big Sky Developments is repaid. It is assumed that profits made by these companies will be retained for future investments.</p>	<p>Increased interest rates are expected to offset reduced income from lower reserves, therefore the 2019/20 budget is unchanged from 2018/19.</p> <p>It is estimated that the Council will benefit by a total of £2.3m in interest payments over the next 5 years up to 2023/24 from its property developments, through interest on loans to its wholly owned companies. Interest will eventually reduce as loans to Big Sky Developments are repaid. It is assumed that profits made by these companies will be retained for future investments. The Council will also benefit from a combination of rental income from commercial units and recharges</p>
New Homes Bonus	The introduction of a deadweight figure of 0.4% of the housing stock which means that the first 220 of any new homes built do not attract New Homes Bonus. Payment of New Homes Bonus per property has reduced to 4 years in 2018/19. The affordable homes element has been included in revenue budgets from 2018/19 onwards. Further reductions are likely in future years, but these are projected to be less than anticipated due to the record number of new homes built in 2017/18 and upwardly revised projections of housing growth within the GNGB area.	The deadweight figure of 0.4% of the housing stock means that the first 225 of any new homes built do not attract New Homes Bonus. Payment of New Homes Bonus per property reduced to 4 years in 2018/19. The affordable homes element has been included in revenue budgets from 2018/19 onwards. Further reductions are likely in later years of the plan, but these are projected to be less than anticipated due to the near record number of new homes built in the last year and upwardly revised projections of housing growth within the GNGB area.

	<b>Assumptions in the Medium Term Financial Strategy February 2018</b>	<b>Assumptions in the Proposed Budget 2019/20 and Revised MTFS February 2019</b>
<b>Savings</b>		
<b>Savings</b>	<p>The medium term plan is based on the provisional Government settlement figures provided in December 2017. The significant savings and income identified for 2017/18 are being delivered and will assist the Council to balance its budget in 2018/19 and 2019/20.</p> <p>Further savings and income generation of £2.5 million will need to be identified in order to balance the budget in 2020/21 and 2021/22 and 2022/23.</p>	<p>Additional savings were identified through the £1 million challenge process including removal of non-pay budgets which were no longer required and reductions in posts where changes to processes meant efficiencies could be made. This means that funding can be redirected to other areas to reflect the Council's priorities. The savings also helped to offset the steep reductions in government funding from New Homes Bonus and Revenue Support Grant.</p> <p>The MTFS is based on the provisional Government settlement figures provided in December 2018.</p> <p>Further savings and income generation of £2.4 million will need to be identified in order to balance the budget in 2022/23 and 2023/24.</p>
<b>Items not in base</b>		
Development of Local Plan	Work on developing the next Local Plan has begun and it is anticipated that this will be funded from the Local Development Reserve.	As per Medium Term Financial Strategy (MTFS) February 2018.
Use of Earmarked Reserves	Specific earmarked reserves will be used to fund elements of the capital programme.	As per MTFS February 2018.
One-off grants	The Council will continue to use one-off grants for one-off items of expenditure and will not build them into the base budget.	As per MTFS February 2018.

	<b>Assumptions in the Medium Term Financial Strategy February 2018</b>	<b>Assumptions in the Proposed Budget 2019/20 and Revised MTFS February 2019</b>
<b>Funding</b>		
RSG/NNDR	The December provisional settlement figures for 2018/19 confirmed the figures that had been assumed in February 2017 with the exception that Rural Services Delivery Grant was maintained at the 2017/18 figure rather than being reduced.	The December provisional settlement figures for 2019/20 confirmed the figures that had been assumed in February 2018 with the exception that Rural Services Delivery Grant was increased to £285k. The Council is not receiving specific funding for Homelessness Prevention, which means a reduction of £193k in income budgets.
Council Tax	The proposed budget includes an increase in Council Tax for 2018/19 from £140.00 to £145.00 and the MTFS assumes a further increase of £5.00 every year thereafter. This is not, in itself, enough to offset fully the reductions in central government funding.	The proposed budget includes an increase in Council Tax for 2019/20 from £145.00 to £150.00 and the MTFS assumes a further increase of £5.00 every year thereafter. This is not, in itself, enough to offset fully the reductions in central government funding.
Tax base	<p>The projected tax base for 2018/19 is 2.42% higher than the 2017/18 budgeted tax base due to record housing completions.</p> <p>An increase in the tax base of 2% per annum is assumed for 2019/20 and future years. This is prudent based on previous years' growth and planned housing growth shown in the Joint Core Strategy.</p>	<p>The projected tax base for 2019/20 is 1.82% higher than the 2018/19 budgeted tax base due to near record housing completions.</p> <p>An increase in the tax base of 1.75% per annum is assumed for 2020/21 and future years. This is prudent based on previous years' growth and planned housing growth shown in the JCS.</p>

	Approved Budget 2018/19 £000	Projected 2019/2020 £000	Projected 2020/2021 £000	Projected 2021/2022 £000	Projected 2022/2023 £000	Projected 2023/24 £000
Base Budget	8,654	9,524	9,065	9,621	10,871	12,342
Inflation & Net Cost Pressures	501	235	871	1,195	1,151	822
Net Income from Commercial Activities and Fees						
Big Sky/BI	-159	-341	-21	-190	-160	213
Leisure Activities	-101	-86	-48	0		
Trade Waste	-123	0	0	0		
Investment properties	-97	-9	0	-40		
Movement in New Homes Bonus	551	-103	-235	-126	447	298
Net Cost of Borrowing and Repayments	506	-155	599	411	33	7
Efficiency Plan to meet Funding Gap:						
Remove Contribution to Renewals Reserve			-611			
Efficiencies and Process Reviews	-208					
BDC Gross Collaboration Savings		-427	-341	-305	-303	-298
Contribution to Reserves from BDC Savings		427	341	305	303	298
<b>BASE BUDGET</b>	<b>9,524</b>	<b>9,065</b>	<b>9,621</b>	<b>10,871</b>	<b>12,342</b>	<b>13,681</b>
Adjustments not included in base budget						
One off adjustments	-30	-47	50	50	50	0
Reserve Movements	388	555	0	0	0	0
Big Sky	-225	0	0	0	0	0
Rural Delivery Grant	-229	-285	0	0	0	0
Increase in Infrastructure Reserve						
Increase in Asset Replacement Reserve	450	250				
Contribution to Enterprise Zone Reserve	260	303	342	321	287	257
Contribution to Collaboration Costs Reserve		107	189	101	101	101
Contribution to General Revenue Reserve from Business Rates Pilot		636				
Contribution to General Revenue Reserve	638	865				
<b>NET EXPENDITURE</b>	<b>10,776</b>	<b>11,449</b>	<b>10,202</b>	<b>11,343</b>	<b>12,780</b>	<b>14,039</b>
FUNDED BY:						
Government Support - RSG	-417	0	0	0	0	0
Government Support - NNDR Baseline	-3,003	-3,071	-3,071	-3,071	-3,071	-3,071
Government Support - RSG/NNDR Total	-3,420	-3,071	-3,071	-3,071	-3,071	-3,071
NNDR Growth Retained after Levy	-358	-1,007	-379	-387	-396	-404
Council Tax	-6,998	-7,371	-7,750	-8,140	-8,541	-8,954
<b>FUNDING FROM RSG/BUSINESS RATES/COUNCIL TAX</b>	<b>-10,776</b>	<b>-11,449</b>	<b>-11,200</b>	<b>-11,598</b>	<b>-12,008</b>	<b>-12,429</b>
Band D Council Tax - £5.00 annual increase	£ 145.00	£ 150.00	£ 155.00	£ 160.00	£ 165.00	£ 170.00
Taxbase	48,259	49,138	49,998	50,873	51,763	52,669
<b>Budget Deficit/ (Surplus)</b>	<b>£0</b>	<b>£0</b>	<b>-£998</b>	<b>-£256</b>	<b>£772</b>	<b>£1,610</b>



## Revenue Budget 2019/20

Business Plan Theme	Expenditure	Income	Net Expenditure
Economic Growth, Productivity and Prosperity	£5,516,925	-£4,254,302	£1,262,623
Health, Well-being and Early Help	£33,970,045	-£31,458,666	£2,511,379
Place, Communities and Environment	£11,836,058	-£5,584,732	£6,251,326
How we deliver (MFT)	£809,980	-£63,000	£746,980
Service Costs Funded Centrally	£1,861,402	£0	£1,861,402
Parish Support	£0	£0	£0
<b>Total General Expenditure</b>	<b>£53,994,410</b>	<b>-£41,360,700</b>	<b>£12,633,710</b>
Street Lighting	£10,440	£0	£10,440
Parish Precepts	£3,577,565	£0	£3,577,565
<b>Total Special Expenditure</b>	<b>£3,588,005</b>	<b>£0</b>	<b>£3,588,005</b>
Capital financing and other transfers	£359,030	-£959,800	-£600,770
<b>Movement on Reserves:</b>			
Contribution to General Reserves	£864,650	£0	£864,650
Use of Neighbourhood Reserve	£0	£0	£0
Use of Elections Reserve	£0	-£160,000	-£160,000
Enterprise Zone Reserve	£303,000	£0	£303,000
3G Pitch Renewals Reserve	£15,000	£0	£15,000
Car Park Upgrades Reserve	£70,000	£0	£70,000
Creation of Collaboration Costs Reserve	£107,000	£0	£107,000
Creation of Collaboration Savings Reserve	£427,000	£0	£427,000
Contribution to Business Rates Reserve	£636,000	£0	£636,000
Contribution to Asset Replacement Reserve	£260,472	£0	£260,472
Contribution to Renewals Reserve	£1,166,200	£0	£1,166,200
<b>Total Reserve Movements and Transfers</b>	<b>£4,208,352</b>	<b>-£1,119,800</b>	<b>£3,088,552</b>
<b>Total Net Expenditure</b>	<b>£61,790,767</b>	<b>-£42,480,500</b>	<b>£19,310,267</b>
<b>Financed By:</b>			
Revenue Support Grant			£0
Business Rates			-£4,124,976
Rural Services Delivery Grant			-£285,203
New Homes Bonus			-£3,941,383
District Council Demand on Council Tax Collection Fund			-£7,370,700
Special Expenses Demand on Council Tax Collection Fund			-£10,440
Parish Precepts			-£3,577,565
<b>Total Financing</b>			<b>-£19,310,267</b>
<b>Balanced Budget 2019/20</b>			<b>£0</b>

	2018/19	2019/20
General tax base for Council Tax Band D Average	48,259	49,138
District Expenditure Council Tax	£145.00	£150.00
Street Lighting Council Tax	£1.63	£0.21
Parish Precepts	£74.13	£72.81
% Increase in District Council Tax	3.57%	3.45%
% Increase in District Council Tax plus Special Expenses	3.53%	2.38%

Budget figures shown are before central departmental and capital financing recharges are input. These have no overall effect on the Council Tax requirement. Parish Precepts have yet to be finalised but net off to zero in the budget.

Capital Project	Estimated Outturn 2018-19	Expected slippage from 18-19	Estimate 2019/20 including slippage from 2018-19	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24	Total Capital Programme (2019/20 to 2023/24)
				£	£	£	£	£
Long Stratton Leisure Centre Improvements	1,760,182	-	-	-	-	-	-	-
Further Works at Wymondham Leisure Centre	62,700	116,691	251,691	170,465	-	20,000	-	442,156
Further Works at Diss Leisure Centre	65,200	-	75,000	120,000	10,000	-	330,000	535,000
Further Works at Long Stratton Leisure Centre	-	-	40,000	10,000	-	10,000	40,000	100,000
Framingham Earl High School	-	-	-	300,000	-	-	-	300,000
Ketts Park 3G Pitch	880,000	387,000	387,000	-	-	-	-	387,000
Ketts Park Kitchen	-	-	25,000	-	-	-	-	25,000
Long Stratton Pool	-	-	450,000	-	-	-	-	450,000
Refurbishments of Tennis Courts behind Long Stratton LC	-	230,000	230,000	-	-	-	-	230,000
Aids/Adaptations	127,072	-	-	-	-	-	-	-
Disabled Facilities Grants	942,340	-	845,000	845,000	845,000	845,000	845,000	4,225,000
Diss Heritage Triangle	10,000	-	-	-	-	-	-	-
<b>Total Priority: Health, Well-being and Early Help</b>	<b>3,847,494</b>	<b>733,691</b>	<b>2,303,691</b>	<b>1,445,465</b>	<b>855,000</b>	<b>875,000</b>	<b>1,215,000</b>	<b>6,694,156</b>
Wheeled Bin Purchase - Domestic Rubbish and Recycling	75,000	-	80,000	80,000	80,000	80,000	80,000	400,000
Wheeled Bin Purchase - Garden Waste	20,000	-	30,000	30,000	30,000	30,000	30,000	150,000
Vehicle Procurement and Replacement	1,092,590	-	687,000	868,945	748,000	748,000	748,000	3,799,945
Waste Route Optimisation System	-	-	125,000	-	-	-	-	125,000
Grounds Maintenance Equipment	-	46,000	75,000	61,000	-	-	15,000	151,000
Workshop Equipment	32,000	-	-	-	-	-	-	-
Ketteringham Depot - Expanding facilities	-	211,500	211,500	-	-	-	-	211,500
Play Area Refurbishments - Sites <u>with</u> Commuted Sums	57,356	-	136,750	72,385	-	25,150	113,973	348,258
Sums for Affordable Housing Financed by S106 Contributions	-	-	-	2,420,000	-	-	-	2,420,000
Toilet Refurbishments	215,000	-	105,000	-	-	-	-	105,000
Street Lighting	531,000	-	34,440	29,340	24,240	24,240	24,240	136,500
<b>Total Priority: Place, Communities and Environment</b>	<b>2,022,946</b>	<b>257,500</b>	<b>1,484,690</b>	<b>3,561,670</b>	<b>882,240</b>	<b>907,390</b>	<b>1,011,213</b>	<b>7,847,203</b>
Norwich Research Park Enterprise Zone Infrastructure	-	12,540,000	2,100,000	-	3,100,000	-	-	5,200,000
Norwich Research Park Enterprise Zone Office	-	5,000,000	2,000,000	3,000,000	-	-	-	5,000,000
Strategic Economic/Property Development Opportunities	-	-	4,150,000	-	-	-	-	4,150,000
Commercial Waste Service - Bin Purchase	35,000	-	40,000	40,000	40,000	40,000	40,000	200,000
Better Broadband	-	-	570,000	-	-	-	-	570,000
Car Park Improvements	20,000	21,348	56,348	35,000	35,000	35,000	35,000	196,348
Installation of Electric Car Charging Points	67,852	-	-	-	-	-	-	-
Wymondham Tourism App	76,550	-	-	-	-	-	-	-
Other Property/Economic Development Investment	-	5,000,000	5,000,000	5,000,000	-	-	-	10,000,000
Maple Drive (Cygnets House) Commercial	1,700,000	-	-	-	-	-	-	-
Cringleford	6,000,000	-	3,000,000	3,000,000	-	-	-	6,000,000
BSPM Rental Homes on new sites	1,158,000	3,321,998	-	4,000,000	4,000,000	4,000,000	3,321,998	15,321,998
Funding to finance BSD's 5 year strategy	-	-	9,589,038	-	-	-	-	9,589,038
Poringland Phase 2 Commercial	-	750,000	-	-	1,632,000	-	-	1,632,000
Park Rd, Diss	-	-	-	408,000	-	-	-	408,000
Strategic Economic Development	-	4,468,000	7,202,000	1,798,000	-	-	-	9,000,000
<b>Total Priority: Economic Growth, Productivity and Prosperity</b>	<b>9,057,402</b>	<b>31,101,346</b>	<b>33,707,386</b>	<b>17,281,000</b>	<b>8,807,000</b>	<b>4,075,000</b>	<b>3,396,998</b>	<b>67,267,384</b>
New IT Projects	247,092	-	125,000	125,000	125,000	125,000	125,000	625,000
Data Cleanse Software	22,000	16,000	16,000	-	-	-	-	16,000
Digital	61,000	19,392	100,000	50,000	25,000	25,000	25,000	225,000
Telephony	65,000	-	-	-	-	-	-	-
South Norfolk House - Roofing Asphalt Replacement	36,000	-	-	-	-	-	-	-
South Norfolk House - Replacement of Boilers	-	-	-	-	-	50,000	-	50,000
South Norfolk House -Uninterruptable Power Supply	28,832	-	-	-	-	-	-	-
South Norfolk House -Replacement of the Felt on the Roof	-	-	-	-	-	20,000	-	20,000
<b>Total: Improving services through being business-like, efficient and entrepreneurial</b>	<b>459,924</b>	<b>35,392</b>	<b>241,000</b>	<b>175,000</b>	<b>150,000</b>	<b>220,000</b>	<b>150,000</b>	<b>936,000</b>
<b>Total Capital Programme</b>	<b>15,387,766</b>	<b>32,127,929</b>	<b>37,736,767</b>	<b>22,463,135</b>	<b>10,694,240</b>	<b>6,077,390</b>	<b>5,773,211</b>	<b>82,744,743</b>

### Commercial Activities in green

Capital Expenditure	Estimated Outturn 2018/19	Expected slippage from 18/19	Estimate 2019/20 including slippage from 2018/19	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24	Total Capital Programme (2019/20 to 2023/24)
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Services	6,495	28,056	25,108	15,015	5,022	2,037	2,411	49,594
Commercial activities	8,893	4,072	12,629	7,448	5,672	4,040	3,362	33,151
<b>Total</b>	<b>15,388</b>	<b>32,128</b>	<b>37,737</b>	<b>22,463</b>	<b>10,694</b>	<b>6,077</b>	<b>5,773</b>	<b>82,745</b>

## APPENDIX E

		2018/19 Estimated Outturn £000	2019/20 Revised Budget £000	2020/21 Forward Budget £000	2021/22 Forward Budget £000	2022/23 Forward Budget £000	2023/24 Forward Budget £000	5 Years Total £000
<b>Capital Programme Expenditure</b>		<b>15,388</b>	<b>37,737</b>	<b>22,463</b>	<b>10,694</b>	<b>6,077</b>	<b>5,773</b>	<b>82,744</b>
<b>Financed by:</b>								
<b>Grants Total</b>	Grants	1,560	4,424	2,357	857	857	857	<b>9,352</b>
<b>S106 Funds Total</b>	S106 Funds	451	162	2,492	-	25	114	<b>2,793</b>
<b>Revenue Total</b>	Revenue	5,535	1,756	3,305	795	102	102	<b>6,060</b>
<b>Capital Receipts Total</b>	Capital Receipts	7,842	854	475	4,064	5,093	4,700	<b>15,186</b>
<b>Grand Total</b>	<b>Total Capital Resources Available</b>	<b>15,388</b>	<b>7,196</b>	<b>8,629</b>	<b>5,716</b>	<b>6,077</b>	<b>5,773</b>	<b>33,391</b>
	<b>Borrowing Requirement For Year</b>	<b>-</b>	<b>30,541</b>	<b>13,834</b>	<b>4,978</b>	<b>-</b>	<b>-</b>	<b>49,353</b>
	Internal Borrowing	-	16,154	-	-	-	-	16,154
	External Borrowing	-	14,387	13,834	4,978	-	-	33,199
	% Funded prior to borrowing	100.00%	19.07%	38.41%	53.45%	100.00%	100.00%	

Name of Reserve	Actual Balance 31 March 2018 £'000	Transfers in £'000	Transfers Out £'000	Projected Balance 31 March 2019 £'000	Transfers in £'000	Transfers Out £'000	Projected Balance 31 March 2020 £'000
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## Corporate Reserves

New Homes Bonus contained within General Revenue Reserve	0	0	0	0	0	0	0
Balance of General Revenue Reserve excluding New Homes Bonus	10,938	2,364	(4,072)	9,230	1,501	(278)	10,453
<b>Total General Revenue Reserve</b>	<b>10,938</b>	<b>2,364</b>	<b>(4,072)</b>	<b>9,230</b>	<b>1,501</b>	<b>(278)</b>	<b>10,453</b>
General Fund Balance	1,400	0	0	1,400	0	0	1,400
<b>Total Corporate Reserves</b>	<b>12,338</b>	<b>2,364</b>	<b>(4,072)</b>	<b>10,630</b>	<b>1,501</b>	<b>(278)</b>	<b>11,853</b>

## Service Specific Reserves

Broadland/SNC Collaboration Costs Reserve	0	0	0	0	107	(107)	0
Broadland/SNC Collaboration Savings Reserve	0	0	0	0	427	0	427
Infrastructure Reserve	3,525	0	(118)	3,407	0	(1,570)	1,837
Non-Commercial Assets Replacement Reserve	593	450	(761)	282	260	(264)	278
Street Lighting Replacement Reserve	0	0	0	0	5	0	5
Localisation of Business Rates Reserve	2,489	695	0	3,184	0	0	3,184
Localisation of Council Tax Benefit	500	0	0	500	0	0	500
Neighbourhood Grants	22	0	(22)	0	0	0	0
District and Parish Elections	142	40	0	182	0	(160)	22
Land Charges	152	0	(152)	0	0	0	0
Local Development Reserve	855	0	0	855	0	(250)	605
Vehicle and Equipment Procurement and Replacement Reserve	949	1,021	(1,255)	715	1,316	(1,037)	994
Low Cost Housing (New Homes Bonus)	876	0	0	876	0	0	876
Car Park Upgrades Reserve	0	70	(20)	50	70	(35)	85
Charging Points Maintenance Reserve	0	0	0	0	1	0	1
Enterprise Zone Reserve	59	301	(301)	59	303	(303)	59
3G Pitch Renewal Reserve	11	15	0	26	15	0	41
Communities and Localism Reserve	191	0	(10)	181	0	0	181
<b>Total Service Specific Reserves</b>	<b>10,364</b>	<b>2,592</b>	<b>(2,639)</b>	<b>10,317</b>	<b>2,504</b>	<b>(3,726)</b>	<b>9,095</b>

<b>Total Revenue Reserves</b>	<b>22,702</b>	<b>4,956</b>	<b>(6,711)</b>	<b>20,947</b>	<b>4,005</b>	<b>(4,004)</b>	<b>20,948</b>
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<b>General Reserves</b>	<b>21,302</b>	<b>4,956</b>	<b>(6,711)</b>	<b>19,547</b>	<b>4,005</b>	<b>(4,004)</b>	<b>19,548</b>
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## Capital Reserves

<b>Usable Capital Receipts</b>							
General Receipts	1,652	5,880	(7,532)	0	475	(475)	0
Longwater Lane Capital Receipt	0	75		75			75
IT Replacement LSVT	708		(395)	313		(241)	72
LSVT Capital Receipt	0		0	0		0	0
Aids & Adaptations	127		(127)	0		0	0
Insurance	100			100			100
Capital Grants Unapplied Account	0			0			0
<b>Total Capital Reserves</b>	<b>2,587</b>	<b>5,955</b>	<b>(8,054)</b>	<b>488</b>	<b>475</b>	<b>(716)</b>	<b>247</b>
<b>Total Usable Reserves</b>	<b>25,289</b>			<b>21,435</b>			<b>21,195</b>

Name of Reserve	Transfers in £'000	Transfers Out £'000	Projected Balance 31 March 2021 £'000	Transfers in £'000	Transfers Out £'000	Projected Balance 31 March 2022 £'000
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## Corporate Reserves

New Homes Bonus contained within General Revenue Reserve	0	0	0	0	0	0
Balance of General Revenue Reserve excluding New Homes Bonus	0	(2,260)	8,193	0	0	8,193
<b>Total General Revenue Reserve</b>	<b>0</b>	<b>(2,260)</b>	<b>8,193</b>	<b>0</b>	<b>0</b>	<b>8,193</b>
General Fund Balance	0	0	1,400	0	0	1,400
<b>Total Corporate Reserves</b>	<b>0</b>	<b>(2,260)</b>	<b>9,593</b>	<b>0</b>	<b>0</b>	<b>9,593</b>

## Service Specific Reserves

Broadland/SNC Collaboration Costs Reserve	189	(189)	0	101	(101)	0
Broadland/SNC Collaboration Savings Reserve	768	0	1,195	1,073	0	2,268
Infrastructure Reserve	0	(1,000)	837	0	0	837
Non-Commercial Assets Replacement Reserve	10	(37)	251	10	(12)	249
Street Lighting Replacement Reserve	5	0	10	5	0	15
Localisation of Business Rates Reserve	0	0	3,184	0	0	3,184
Localisation of Council Tax Benefit	0	0	500	0	0	500
Neighbourhood Grants	0	0	0	0	0	0
District and Parish Elections	50	0	72	50	0	122
Land Charges	0	0	0	0	0	0
Local Development Reserve	0	0	605	0	0	605
Vehicle and Equipment Procurement and Replacement Reserve	1,037	(1,080)	951	55	(748)	258
Low Cost Housing (New Homes Bonus)	0	(875)	1	0	0	1
Car Park Upgrades Reserve	70	(35)	120	70	(35)	155
Charging Points Maintenance Reserve	1	0	2	1	0	3
Enterprise Zone Reserve	342	(342)	59	321	(321)	59
3G Pitch Renewal Reserve	15	0	56	15	0	71
Communities and Localism Reserve	0	0	181	0	0	181
<b>Total Service Specific Reserves</b>	<b>2,487</b>	<b>(3,558)</b>	<b>8,024</b>	<b>1,701</b>	<b>(1,217)</b>	<b>8,508</b>

<b>Total Revenue Reserves</b>	<b>2,487</b>	<b>(5,818)</b>	<b>17,617</b>	<b>1,701</b>	<b>(1,217)</b>	<b>18,101</b>
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<b>General Reserves</b>	<b>2,487</b>	<b>(5,818)</b>	<b>16,217</b>	<b>1,701</b>	<b>(1,217)</b>	<b>16,701</b>
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## Capital Reserves

<b>Usable Capital Receipts</b>						
General Receipts	475	(475)	0	4,064	(4,064)	0
Longwater Lane Capital Receipt		0	75		0	75
IT Replacement LSVT		(72)	0		0	0
LSVT Capital Receipt		0	0		0	0
Aids & Adaptations		0	0		0	0
Insurance			100			100
Capital Grants Unapplied Account			0			0
<b>Total Capital Reserves</b>	<b>475</b>	<b>(547)</b>	<b>175</b>	<b>4,064</b>	<b>(4,064)</b>	<b>175</b>
<b>Total Usable Reserves</b>			<b>17,792</b>			<b>18,276</b>

Name of Reserve	Transfers in £'000	Transfers Out £'000	Projected Balance 31 March 2023 £'000	Transfers in £'000	Transfers Out £'000	Projected Balance 31 March 2024 £'000
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## Corporate Reserves

New Homes Bonus contained within General Revenue Reserve	0	0	0	0	0	0
Balance of General Revenue Reserve excluding New Homes Bonus	0	0	8,193	0	0	8,193
<b>Total General Revenue Reserve</b>	<b>0</b>	<b>0</b>	<b>8,193</b>	<b>0</b>	<b>0</b>	<b>8,193</b>
<b>General Fund Balance</b>	<b>0</b>	<b>0</b>	<b>1,400</b>	<b>0</b>	<b>0</b>	<b>1,400</b>
<b>Total Corporate Reserves</b>	<b>0</b>	<b>0</b>	<b>9,593</b>	<b>0</b>	<b>0</b>	<b>9,593</b>

## Service Specific Reserves

Broadland/SNC Collaboration Costs Reserve	101	(101)	0	101	(101)	0
Broadland/SNC Collaboration Savings Reserve	1,376	0	3,644	1,674	0	5,318
Infrastructure Reserve	0	0	837	0	0	837
Non-Commercial Assets Replacement Reserve	10	(12)	247	10	(12)	245
Street Lighting Replacement Reserve	5	0	20	5	0	25
Localisation of Business Rates Reserve	0	0	3,184	0	0	3,184
Localisation of Council Tax Benefit	0	0	500	0	0	500
Neighbourhood Grants	0	0	0	0	0	0
District and Parish Elections	50	0	172	0	(170)	2
Land Charges	0	0	0	0	0	0
Local Development Reserve	0	0	605	0	0	605
Vehicle and Equipment Procurement and Replacement Reserve	55	(55)	258	55	(55)	258
Low Cost Housing (New Homes Bonus)	0	0	1	0	0	1
Car Park Upgrades Reserve	70	(35)	190	70	(35)	225
Charging Points Maintenance Reserve	1	0	4	1	0	5
Enterprise Zone Reserve	287	(287)	59	257	(257)	59
3G Pitch Renewal Reserve	15	0	86	15	0	101
Communities and Localism Reserve	0	0	181	0	0	181
<b>Total Service Specific Reserves</b>	<b>1,970</b>	<b>(490)</b>	<b>9,988</b>	<b>2,188</b>	<b>(630)</b>	<b>11,546</b>

<b>Total Revenue Reserves</b>	<b>1,970</b>	<b>(490)</b>	<b>19,581</b>	<b>2,188</b>	<b>(630)</b>	<b>21,139</b>
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<b>General Reserves</b>	<b>1,970</b>	<b>(490)</b>	<b>18,181</b>	<b>2,188</b>	<b>(630)</b>	<b>19,739</b>
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## Capital Reserves

<b>Usable Capital Receipts</b>						
General Receipts	12,475	(5,093)	7,382	6,475	(4,700)	9,157
Longwater Lane Capital Receipt		0	75		0	75
IT Replacement LSVT		0	0		0	0
LSVT Capital Receipt		0	0		0	0
Aids & Adaptations		0	0		0	0
Insurance			100			100
Capital Grants Unapplied Account			0			0
<b>Total Capital Reserves</b>	<b>12,475</b>	<b>(5,093)</b>	<b>7,557</b>	<b>6,475</b>	<b>(4,700)</b>	<b>9,332</b>
<b>Total Usable Reserves</b>			<b>27,138</b>			<b>30,471</b>

## **Treasury Management Strategy Statement 2019/20**

<b>Report Author(s):</b>	Matthew Fernandez-Graham, Accountancy Manager, 01508 533892, mgraham@s-norfolk.gov.uk
<b>Portfolio:</b>	Growth and Resources
<b>Ward(s) Affected:</b>	All
<b>Purpose of the Report:</b>	This strategy outlines the authority's approach to management of its borrowing, investments and cash flows, its banking, money market and capital market transactions; and the effective control of the associated risks and performance.

### **Recommendations:**

Cabinet is recommended to approve the following and recommend these to Council:

- a) The Treasury Management Strategy Statement
- b) The Prudential Indicators and Limits for the next 3 years contained within Section 4 and Appendix A of the report, including the Authorised Limit Prudential Indicator.
- c) The Minimum Revenue Provision (MRP) Statement (section 3D) that sets out the Council's policy on MRP.
- d) The Annual Investment Strategy (section 5) contained in the Treasury Management Strategy, including the delegation of certain tasks to the Section 151 Officer
- e) The Treasury Management Policy Statement (Appendix E).

## **1. SUMMARY**

- 1.1 This report sets out the Treasury Management Strategy for 2019/20 and associated policies. It is a regulatory requirement that this be approved annually by Full Council, but at South Norfolk Council it is first brought to Cabinet for detailed review.

## **2. BACKGROUND**

- 2.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 2.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 2.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
- 2.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as "non-treasury" activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.
- 2.5 CIPFA defines treasury management as:
- "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*
- 2.6 Revised reporting is required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater



reporting requirements surrounding commercial activity undertaken under the Localism Act 2011. The capital strategy was updated in 2018/19 in anticipation of these changes and has been further updated. In view of the increased importance placed by CIPFA on this strategy, it is now reported separately on this agenda, though there are clear links to this Treasury Management Strategy.

## **Reporting requirements**

### **Capital Strategy**

- 2.7 The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019/20, all local authorities to prepare a capital strategy report, which provides the following:
- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
  - an overview of how the associated risk is managed
  - the implications for future financial sustainability
- 2.8 The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.
- 2.9 While there is strict separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset, there is a strong relationship between “non-treasury” capital activities and treasury management.
- 2.10 The capital strategy shows:
- The corporate governance arrangements for these types of activities;
  - Service objectives relating to the investments;
  - The expected income, costs and resulting contribution;
  - The debt related to the activity and the associated interest costs;
  - The payback period (MRP policy);
  - For non-loan type investments, the cost against the current market value;
  - The risks associated with each activity.
- 2.11 Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.
- 2.12 Where the Council has borrowed to fund any non-treasury investment which is purely for profit, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.
- 2.13 If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy. To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

## **Treasury Management reporting**

- 2.14 The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.
- a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
    - the capital plans, (including prudential indicators);
    - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
    - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
    - an investment strategy, (the parameters on how investments are to be managed).
  - b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.
  - c. **An annual treasury report** – This is a backward looking review document and provides details of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.
- 2.15 The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by Cabinet.

## **Treasury Management Strategy for 2019/20**

- 2.16 The strategy for 2019/20 covers two main areas:

### **Capital issues**

- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

### **Treasury management issues**

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

- 2.17 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

### **Training**

- 2.18 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training will be undertaken for members following the District elections in May 2019. The training needs of treasury management officers are periodically reviewed.

### **Treasury management consultants**

- 2.19 The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review.
- 2.20 The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments require specialist advisers, and the Council has access to specialist property advice via its Big Sky companies.

### 3. THE CAPITAL PRUDENTIAL INDICATORS 2019/20 to 2023/24

- 3.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

#### A. Capital expenditure

- 3.2 This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital Expenditure	Estimated Outturn 2018/19	Expected slippage from 18/19	Estimate 2019/20 including slippage from 2018/19	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24	Total Capital Programme (2019/20 to 2023/24)
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Services</b>	6,495	28,056	25,108	15,015	5,022	2,037	2,411	49,594
<b>Commercial activities</b>	8,893	4,072	12,629	7,448	5,672	4,040	3,362	33,151
<b>Total</b>	<b>15,388</b>	<b>32,128</b>	<b>37,737</b>	<b>22,463</b>	<b>10,694</b>	<b>6,077</b>	<b>5,773</b>	<b>82,745</b>

\* Commercial activities / non-treasury investments relate to areas such as capital expenditure on investment properties, loans to council companies, and commercial waste

- 3.3 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of total capital expenditure	Estimated Outturn 2018/19	Estimate 2019/20 including slippage from 2018/19	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24
	£000	£000	£000	£000	£000	£000
<b>Total Capital Expenditure</b>	15,388	37,737	22,463	10,694	6,077	5,773
<b>Capital receipts</b>	-7,842	-854	-475	-4,064	-5,093	-4,700
<b>Capital grants</b>	-1,560	-4,424	-2,357	-857	-857	-857
<b>S106 Funds</b>	-451	-162	-2,492	0	-25	-114
<b>Revenue</b>	-5,535	-1,756	-3,305	-795	-102	-102
<b>Net financing need for the year (borrowing required)</b>	<b>0</b>	<b>30,541</b>	<b>13,834</b>	<b>4,978</b>	<b>0</b>	<b>0</b>

- 3.4 The net financing need for commercial activities / non-treasury investments included in the above table against expenditure is shown below:

Financing of commercial activities capital expenditure	Estimated Outturn 2018/19	Estimate 2019/20 including slippage from 2018/19	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24
	£000	£000	£000	£000	£000	£000
<b>Capital Expenditure</b>	8,893	12,629	7,448	5,672	4,040	3,362
<b>Capital receipts</b>	-5,184	0	0	-3,794	-4,040	-3,362
<b>Capital grants</b>	0	0	0	0	0	0
<b>S106 Funds</b>	0	0	0	0	0	0
<b>Revenue</b>	-3,709	-40	-2,213	0	0	0
<b>Net financing need for the year (borrowing required)</b>	<b>0</b>	<b>12,589</b>	<b>5,235</b>	<b>1,878</b>	<b>0</b>	<b>0</b>
Percentage of total net financing need	0%	41%	38%	38%	0%	0%

## **B. The Council's borrowing need (the Capital Financing Requirement)**

- 3.5 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.
- 3.6 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.
- 3.7 The CFR includes any other long-term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes within the CFR.

3.8 The Council is asked to approve the CFR projections below:

Capital Financing Requirement	Estimated Outturn 2018/19	Estimate 2019/20 including slippage from 2018/19	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24
	£000	£000	£000	£000	£000	£000
<b>Services</b>	0	17,952	26,429	29,267	28,997	28,718
<b>Commercial activities</b>	0	12,589	17,728	19,379	19,119	18,852
<b>Total CFR</b>	0	30,541	44,157	48,646	48,116	47,570
<b>Movement in CFR</b>	0	30,541	13,616	4,489	-530	-546

Movement in CFR represented by	Estimated Outturn 2018/19	Estimate 2019/20 including slippage from 2018/19	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24
<b>Net financing need for the year (see 3.3)</b>	0	30,541	13,834	4,978	0	0
<b>Less MRP and other financing movements</b>	0	0	-218	-489	-530	-546
<b>Movement in CFR</b>	0	30,541	13,616	4,489	-530	-546

3.9 A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures and the details above demonstrate the scope of this activity and, by approving these figures, elected members consider the scale proportionate to the Authority's remaining activity.

### C. Core funds and expected investment balances

- 3.10 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year Resources	End Estimate 2019/20	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24
Fund balances / reserves	20,948	17,617	18,101	19,581	21,139
Capital receipts	247	175	175	7,557	9,332
<b>Total core funds</b>	21,195	17,792	18,276	27,138	30,471
Working capital	4,000	4,200	4,200	4,200	4,200
(Under)/over borrowing	-16,154	-15,936	-15,447	-14,917	-14,371
<b>Expected investments</b>	9,041	6,056	7,029	16,421	20,300

\*Working capital balances shown are estimated year-end; these may be higher mid-year

### D. Minimum revenue provision (MRP) policy statement

- 3.11 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).
- 3.12 MHCLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

From 1 April 2008 for all unsupported borrowing (including finance leases) the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations

These options provide for a reduction in the borrowing need over approximately the asset's life.

Repayments included in annual finance leases are applied as MRP.

**MRP Overpayments** - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to

be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2019 the total VRP overpayments were £0.

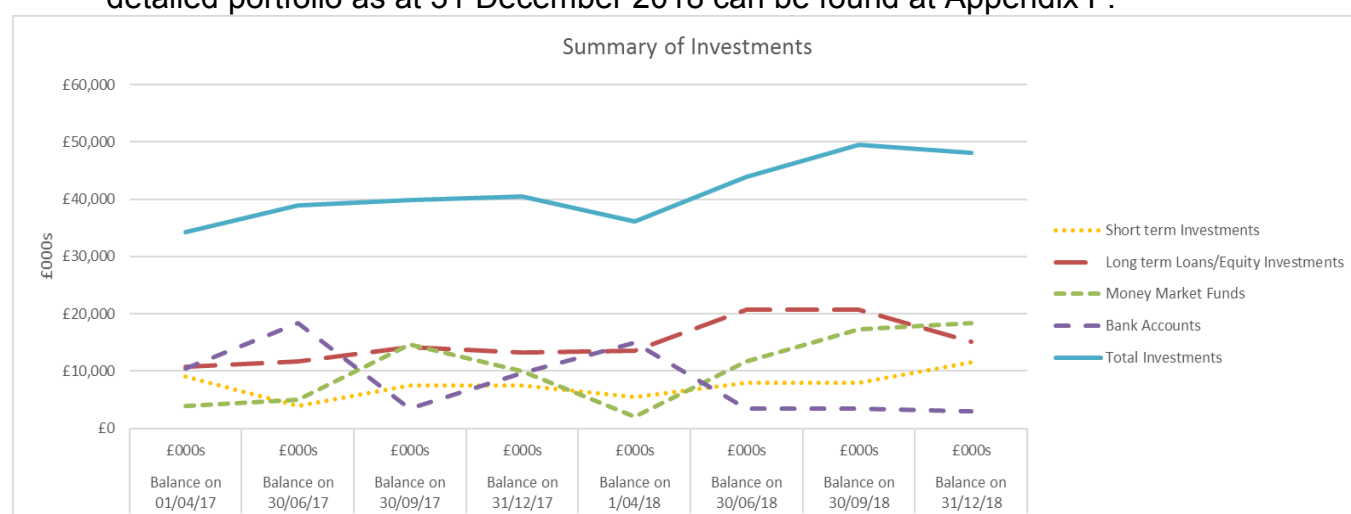
- 3.13 The Authority has established a number of wholly owned companies ((Big Sky Developments Ltd, Big Sky Property Management Ltd) and has provided loans from the Authority to the companies on a commercial basis. With the exception of the overdraft for Big Sky working capital purposes, the cash advances will be used by the companies to fund capital expenditure and should therefore be treated as capital expenditure and a loan to a third party. The Capital Financing Requirement (CFR) will increase by the amount of loans advanced. Once funds are repaid to the Authority, the returned funds are classed as a capital receipt, off-set against the CFR, which will reduce accordingly. As the Council is expecting to borrow externally in future to fund these investments, MRP will be prudently set aside for repayment of this debt in accordance with the general policy outlined above. It is expected that the funds will be returned in full, allowing the externally borrowing to be completely repaid at this point.

## 4. BORROWING

- 4.1 The capital expenditure plans set out in Section 3 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

### Current portfolio position

- 4.2 The historic position on the overall treasury management portfolio and the position as at 31 December 2018 are shown below for investments. The detailed portfolio as at 31 December 2018 can be found at Appendix F.



- 4.3 The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting that the Council will be under borrowing by £16 million in 2019/20 as it will use its cash instead of incurring external debt (internal borrowing). The cost of



internal borrowing is the interest foregone from cash investments, but this is less than the interest rates the Council would pay on external borrowing. Both internal and external borrowing have to be repaid over time and both therefore require a Minimum Revenue Provision to be made in line with the MRP Policy.

External Debt	Estimated Outturn 2018/19	Estimate 2019/20	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24
	£000	£000	£000	£000	£000	£000
External Debt at 1 April	0	0	14,387	28,221	33,199	33,199
Expected change in External Debt	0	14,387	13,834	4,978	0	0
Other long-term liabilities (OLTL)	0	0	0	0	0	0
Expected change in OLTL	0	0	0	0	0	0
Actual gross external debt at 31 March	0	14,387	28,221	33,199	33,199	33,199
The Capital Financing Requirement	0	-30,541	-44,157	-48,646	-48,116	-47,570
(Under) / over borrowing	0	-16,154	-15,936	-15,447	-14,917	-14,371

- 4.4 Within the above figures the level of debt relating to commercial activities / non-treasury investment is shown below. The figures are in line with the Council's strategy of seeking where possible to borrow externally only when there are returns from its investments that can compensate for the interest cost.

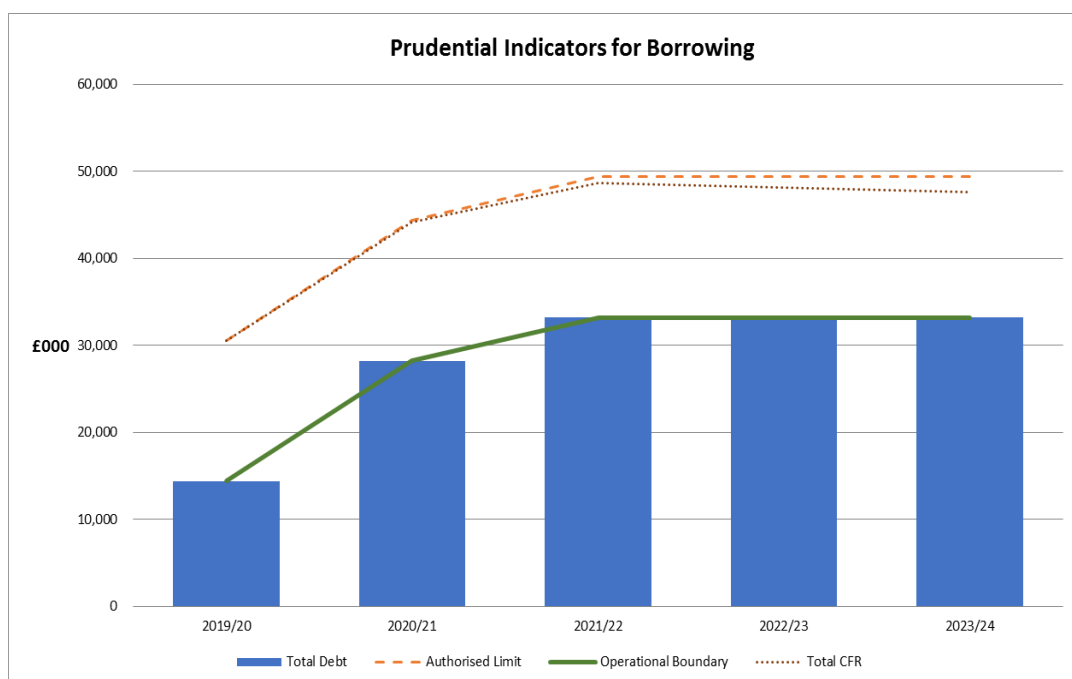
External Debt for Commercial Activities	Estimated Outturn 2018/19	Estimate 2019/20	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24
	£000	£000	£000	£000	£000	£000
Actual debt at 31 March	0	12,589	17,824	19,702	19,702	19,702
Percentage of total external debt %	0%	85%	62%	59%	59%	59%

- 4.5 Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.
- 4.6 The S151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

## Treasury Indicators: limits to borrowing activity

- 4.7 **The operational boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.
- 4.8 **The authorised limit for external debt.** This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
- 4.9 The Council is asked to approve all the indicators set out in the table below and summarised in the graph.

<b>Prudential Indicators for Borrowing</b>						
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000	£000	£000
General Fund CFR	0	17,952	26,429	29,267	28,997	28,718
Commercial activity	0	12,589	17,728	19,379	19,119	18,852
<b>Total CFR</b>	<b>0</b>	<b>30,541</b>	<b>44,157</b>	<b>48,646</b>	<b>48,116</b>	<b>47,570</b>
External Borrowing	0	14,387	28,221	33,199	33,199	33,199
Other long term liabilities	0	0	0	0	0	0
<b>Total Debt</b>	<b>0</b>	<b>14,387</b>	<b>28,221</b>	<b>33,199</b>	<b>33,199</b>	<b>33,199</b>
<b>Authorised Limit</b>	51,761	30,541	44,375	49,353	49,353	49,353
<b>Operational Boundary</b>	33,235	14,387	28,221	33,199	33,199	33,199



## Prospects for the economy and interest rates

- 4.10 The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Link's central view along with that of Capital Economics who are an independent forecaster.

PWLB (Includes Certainty Rate)					Forward Rates			
1y	5y	10y	25y	50y	3M/3M FWD	3M/6M FWD	3M/9M FWD	6M/12M FWD
1.49	1.63	2.01	2.61	2.47	0.87	0.93	0.96	1.09
Interest Rate Forecasts								
Bank Rate	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Link	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%
Cap Econ	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%	2.00%	2.00%
5Y PWLB RATE								
Link	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%
Cap Econ	2.00%	2.20%	2.40%	2.70%	2.70%	2.80%	2.80%	2.90%
10Y PWLB RATE								
Link	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%
Cap Econ	2.40%	2.60%	2.80%	3.10%	3.10%	3.10%	3.10%	3.10%
25Y PWLB RATE								
Link	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%
Cap Econ	3.00%	3.10%	3.30%	3.60%	3.50%	3.50%	3.40%	3.40%
50Y PWLB RATE								
Link	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%
Cap Econ	2.80%	2.90%	3.20%	3.40%	3.40%	3.40%	3.40%	3.40%

- 4.11 **UK.** After weak economic growth of only 0.1% in January to March 2018, growth picked up to 0.4% in April to June and to 0.6% in July to September. However, uncertainties over Brexit look likely to cause growth to have weakened again towards the end of 2018. After the Monetary Policy Committee (MPC) raised Bank Rate from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. In the event of a disorderly exit, the MPC have said that rates could go up or down, though it is probably much more likely to be down so as to support growth. Nevertheless, the MPC does have concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.3%, (excluding bonuses), in the three months to October 2018. The main issue causing this is a lack of suitably skilled people due to the continuing increase in total employment and unemployment being near to 43 year lows.

Correspondingly, the total level of vacancies has risen to new highs.

- 4.12 As for CPI inflation itself, this has been on a falling trend, reaching 2.3% in November. However, in the November Bank of England Inflation Report, the latest forecast for inflation over the two year time horizon was raised to being marginally above the MPC's target of 2%, indicating a slight build up in inflationary pressures.
- 4.13 The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 1%, i.e. a real terms increase. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.
- 4.14 In the political arena, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, Link's central position is that Prime Minister May's government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in 2019, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.
- 4.15 **USA.** President Trump's massive easing of fiscal policy in 2018 fuelled a (temporary) boost in consumption in 2018 which generated an upturn in the strong rate of growth. The strong growth in employment numbers has fed through to an upturn in wage inflation which hit 3.1% in November. However, CPI inflation overall fell to 2.2% in November and looks to be on a falling trend to drop below the Fed's target of 2% during 2019. The Fed increased rates another 0.25% in December to between 2.25% and 2.50%, this being the fifth increase in 2018 and the ninth in this cycle. However, they did also reduce their forecast for further increases from three to two. This latest increase compounded investor fears that the Fed is over doing the rate and level of increases in rates and that it is going to cause a US recession as a result. There is also much evidence in previous monetary policy cycles of the Fed's series of increases doing exactly that. Consequently, we have seen stock markets around the world plunging under the weight of fears around the Fed's actions, the trade war between the US and China, an expectation that world growth will slow, Brexit etc.
- 4.16 **EUROZONE.** Growth fell in July to September but this is likely to be a one off blip caused primarily by a one off fall in car production. The ECB forecast growth in 2018 to be 1.9% falling to 1.7% in 2020. The ECB ended its programme of quantitative easing purchases of debt in December, which now means that the central banks in the US, UK and EU have all now ended the phase of post financial crisis expansion of liquidity supporting world financial markets.
- 4.17 **CHINA.** Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

- 4.18 From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.
- 4.19 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

### **Investment and borrowing rates**

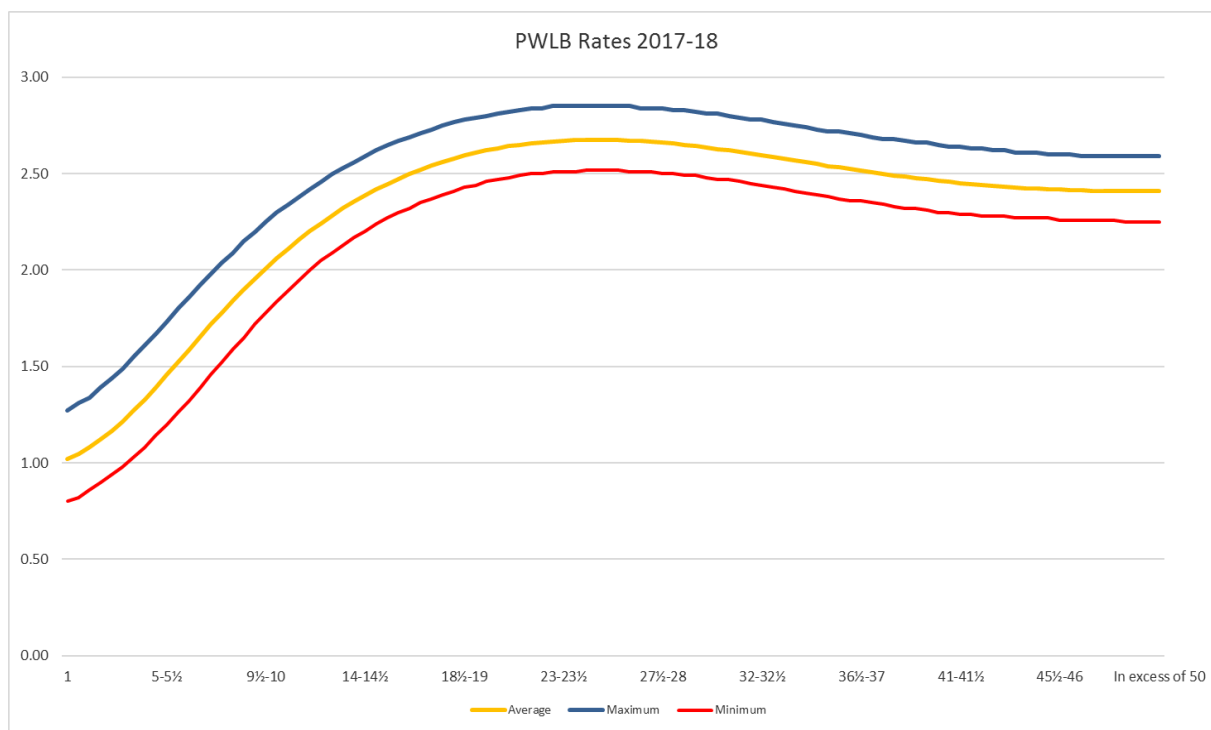
- 4.20 Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.
- 4.21 Borrowing interest rates have been volatile so far in 2018-19 and have increased modestly since the summer. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.
- 4.22 There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

### **Borrowing strategy**

- 4.23 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with external loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.
- 4.24 Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The Section 151 Officer Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:
- If there was a significant risk of a sharp FALL in long and short-term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed unless there is a particular requirement for certainty in interest rates for specific borrowing, e.g. regarding the Enterprise Zone.
  - If there was a significant risk of a much sharper RISE in long and short

term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

- 4.25 Where these risks develop, then any decisions will be reported to the appropriate decision-making body at the next available opportunity.
- 4.26 As stated above the Authority is currently debt free but its capital expenditure plans necessitate a borrowing requirement. Initially, the borrowing required can be internal from the Council's cash balances, the cost of which will be the interest foregone on cash investments with counterparties. In May 2016 Cabinet approved borrowing of up to £12.54 million for the Norwich Research Park Enterprise Zone and, in July 2017, a further £12 million to fund strategic housing and economic development investments. Further external borrowing is recommended to finance the property investment plans of the Authority as set out in the budget report also on this agenda.
- 4.27 The funding of the capital programme from 2019/20 to 2023/24 requires £6.2m in external borrowing for the EZ, £6m in external borrowing for Cringleford, around £9m in external borrowing for strategic housing and economic development, the repayment of £21.6 million in loans from Big Sky Developments Ltd (which would retain share capital of £3.58 million), and £12.4m in further external borrowing along with internal borrowing from our cash balances of £16.2m which would result in SNC cash balances reducing to around £6 million by the end of 2020/21, rising to £20 million by the end of 2023/24. The minimum prudent level of cash balance is set by the Section 151 Officer at £4 million.
- 4.28 The interest rate curve shown below for PWLB interest rates this year reflects the historic pattern since the financial crisis where short-term interest rates are lower than long term rates. There are therefore revenue advantages in borrowing a proportion of funds short term and rolling loans forward. To mitigate the risk of future interest rate rises it is not recommended that all borrowing be short term and longer term funding of up to 40 years will also be utilised.



### Policy on borrowing in advance of need

- 4.29 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. All the Council's commercial investments are within the District and intended to deliver economic and housing growth as well as a financial return. Any decision to borrow in advance will be within the approved Capital Financing Requirement and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.
- 4.30 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

### Municipal Bond Agency

- 4.31 It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority will review the impact of the first bond issue and then consider participating in future issues as and when appropriate.

## 5 ANNUAL INVESTMENT STRATEGY

### Investment policy – management of risk

- 5.1 The MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This section of the report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy reported elsewhere on this agenda.
- 5.2 The Council’s investment policy has regard to the following: -
- MHCLG’s Guidance on Local Government Investments (“the Guidance”)
  - CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (“the Code”)
  - CIPFA Treasury Management Guidance Notes 2018
- 5.3 The Council’s investment priorities will be security first, portfolio liquidity second and then yield (return).
- 5.4 The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -
- Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
  - Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.
  - Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
  - This authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in Appendix B under the categories of ‘specified’ and ‘non-specified’ investments.
  - *Specified investments* are those with a high level of credit quality and subject to a maturity limit of one year.



- *Non-specified investments* are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.
  - *Lending limits*, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 5.12.
  - *Transaction limits* are set for each type of investment in appendix C.
  - This authority will set a limit for the amount of its investments which are invested for longer than 365 days, (see paragraph 5.22).
  - Investments will only be placed with counterparties from countries with a specified minimum sovereign rating, (see paragraph 5.10).
  - This authority has engaged external consultants, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
  - All investments will be denominated in sterling.
- 5.5 This authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.
- 5.6 As a result of the change in accounting standards for 2018/19 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. The Ministry of Housing, Communities and Local Government has issued a temporary 5-year override to allow English local authorities time to adjust their portfolio of investments and has committed to reviewing whether the override period will be extended beyond 5 years.

### **Creditworthiness policy**

- 5.7 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:
- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
  - It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.
- 5.8 The Section 151 Officer will maintain a counterparty list in compliance with

the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

5.9 Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

5.10 The criteria for providing a pool of high quality investment counterparties, (both specified and non-specified investments) is:

- Banks 1 - good credit quality – the Council will only use banks which:
  - i. are UK banks; and/or
  - ii. are non-UK and domiciled in a country which has a minimum sovereign Long Term rating of AA, matching the UK's rating.

and have, as a minimum, the following Fitch, Moody's and Standard &

Poor's credit ratings (where rated):

	<b>Fitch</b>	<b>Moody's</b>	<b>Standard &amp; Poors</b>
Short Term	F1	P1	A-1
Long Term	A-	A3	A-

- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland ring-fenced operations. This bank can be included provided it continues to be part nationalised or it meets the ratings in Banks 1 above.
- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested. The Council's provider of banking services is Barclays Bank PLC. Barclays Bank now meets the minimum ratings for investments for all the main rating agencies, it has passed the latest round of bank stress tests and is considered to be a suitable counterparty for up to 18 months duration. Funds in the day to day Barclays account can be transferred to investment accounts as appropriate to obtain a return on balances. The investment counterparty limit for Barclays excludes balances on non-interest bearing day to day accounts.

- Bank subsidiary and treasury operation -. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Building societies. The Council will use all societies which meet the ratings for banks outlined above
- Money Market Funds (MMFs) CNAV – AAA
- Money Market Funds (MMFs) LVNAV – AAA
- Money Market Funds (MMFs) VNAV – AAA
- UK Government (including gilts, Treasury Bills and the DMADF)
- Local authorities, parish councils etc subject to due diligence
- Housing associations subject to due diligence
- The Authority may also invest cash with other organisations, for example by making loans to small businesses. Because of the higher perceived risk of unrated businesses, such investments may provide considerably higher rates of return. They will however only be made following a favourable external credit assessment, on the specific advice of the Authority's treasury management adviser and on the provision of appropriate security, e.g. through a charge on assets.

5.11 *Use of additional information other than credit ratings.* Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.

*Time and monetary limits applying to investments.*

5.12 The proposed criteria for specified and non-specified investments are shown in Appendix B for approval. The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

	<b>Fitch Long term Rating (or equivalent)</b>	<b>Money Limit</b>	<b>Time Limit</b>
<b>Banks 1 higher quality</b>	<b>AA-</b>	<b>£12.5m</b>	<b>2 years</b>
<b>Banks 1 medium quality</b>	<b>A</b>	<b>£10m</b>	<b>18 months</b>

<b>Banks 1 lower quality</b>	<b>A-</b>	<b>£7.5m</b>	<b>1 year</b>
<b>Banks 2 – part nationalised</b>	<b>N/A</b>	<b>£12.5m</b>	<b>2 years</b>
<b>Limit 3 category – Council’s banker (not meeting Banks 1)</b>	<b>N/A</b>	<b>£12.5m</b>	<b>6 months</b>
<b>Other institutions limit</b>	<b>-</b>	<b>£5m</b>	<b>1 year</b>
<b>DMADF</b>	<b>UK sovereign rating</b>	<b>unlimited</b>	<b>2 years</b>
<b>Local authorities</b>	<b>N/A</b>	<b>£5m</b>	<b>2 years</b>
<b>Housing associations higher quality</b>	<b>AA</b>	<b>£10m</b>	<b>2 years</b>
<b>Housing associations medium quality</b>	<b>A</b>	<b>£7.5m</b>	<b>1 year</b>
<b>Housing associations lower quality</b>	<b>A-</b>	<b>£5m</b>	<b>1 year</b>
	<b>Fund rating</b>	<b>Money and % of Fund Net Asset Value Limit</b>	<b>Time Limit</b>
<b>Money Market Funds CNAV</b>	<b>AAA</b>	<b>£7m / 2.0%</b>	<b>liquid</b>
<b>Money Market Funds LVNAV</b>	<b>AAA</b>	<b>£7m / 2.0%</b>	<b>liquid</b>
<b>Money Market Funds VNAV</b>	<b>AAA</b>	<b>£7m / 2.0%</b>	<b>liquid</b>

## UK banks – ring fencing

- 5.13 The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.
- 5.14 Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.
- 5.15 While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

## Other limits

- 5.16 Due care will be taken to consider the exposure of the Council’s total investment portfolio to non-specified investments, countries, groups and sectors.
- a) **Country limit.** The Council has determined that it will only use approved counterparties from countries with a **minimum sovereign credit rating of AA** from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix C. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.
- b) **Other limits.** In addition:
- no more than £5 million of total cash will be placed with any non-UK country at any time;
  - limits in place above will apply to a group of companies;
  - sector limits will be monitored regularly for appropriateness.

## Investment strategy

- 5.17 Cash investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow and to fund the Council’s capital programme, where cash sums can be identified that could be invested for

longer periods, the value to be obtained from longer term investments will be carefully assessed.

- 5.18 For its cash flow generated balances, the Council will seek to utilise instant access and notice accounts, money market funds and short-dated deposits, (overnight to 364 days), in order to benefit from the compounding of interest.
- 5.19 If there is a risk that the Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable. Conversely, if the risk is that Bank Rate is likely to fall significantly within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

### **Investment returns expectations and budget**

- 5.20 Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by March 2022.
- 5.21 The budget for cash investments was £104,000 for 2018/19 and the outturn is forecast to be £123,000. Returns are improving due to higher interest rates, but cash is being used to fund the capital programme via internal borrowing. It is therefore proposed that the budget for 2019/20 be set at £104,000.
- 5.22 *Investment treasury indicator and limit* - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.
- 5.23 The Council is asked to approve the following treasury indicator and limit:

<b>Upper limit for principal sums invested for longer than 365 days</b>					
	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Principal sums invested for longer than 365 days	15,000	15,000	15,000	15,000	15,000

### **Investment risk benchmarking**

- 5.24 In order to ensure security, the Council will use appropriate benchmarks. These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report. The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.1% (1 in 1000) historic risk of default when compared to the whole portfolio.
  - This benchmark is an average risk of default measure and would not constitute an expectation of loss against a particular investment.
- 5.25 Liquidity – in respect of this area the Council seeks to maintain:
- Bank overdraft - £0m
  - Liquid short-term deposits of at least £4m available with a week's notice.
- 5.26 Yield - local measures of yield benchmarks are:
- Investments – internal returns above the 7-day LIBID rate

## 6 ISSUES AND RISKS

- 6.1 **Resource Implications** – The risks in the strategy are discussed in the report but cover risks around security, liquidity and yield on the Council's cash investments. The strategy delivers revenue income for the Council and helps to minimise the costs of borrowing to fund the Council's Capital Strategy.

## 7 CONCLUSION

- 7.1 The Council's objective in this financial year is the security of its cash above the liquidity of the investment which is secondary though important to avoid unnecessary borrowing, with the rate of return being the tertiary consideration.
- 7.2 Following the rate rise in August 2018 to 0.75%, it is forecast that the Bank of England will raise its bank rate in June 2019 at the earliest. The Council needs to use cash to fund its capital programme. It is therefore recommended to keep the majority of investments short and within the agreed counterparties in Appendix C. Money Market Funds and Enhanced Money Market Funds are also to be utilised as well as custody accounts for the ability to invest in Treasury Bills and Certificates of Deposits. Borrowing will be for housing and economic development purposes, with benefits for local residents and businesses. Borrowing will be a mixture of short and longer term borrowing, balancing revenue cost against the need to mitigate interest rate risk.
- 7.3 The Investment Strategy remains a prudent one that reflects the Council's risk appetite and legal obligations.

## 8 RECOMMENDATIONS

- 8.1 Cabinet is recommended to approve the following and recommend these to Council:

a) The Treasury Management Strategy Statement

- b) The Prudential Indicators and Limits for the next 3 years contained within Section 4 and Appendix A of the report, including the Authorised Limit Prudential Indicator.
- c) The Minimum Revenue Provision (MRP) Statement (section 3D) that sets out the Council's policy on MRP.
- d) The Annual Investment Strategy (section 5) contained in the Treasury Management Strategy, including the delegation of certain tasks to the Section 151 Officer
- e) The Treasury Management Policy Statement (Appendix E).



## APPENDIX A THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2019/20 – 2023/24 AND MRP STATEMENT

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

### 1.1.1 Capital expenditure

Capital Expenditure	Estimated Outturn 2018/19	Expected slippage from 18/19	Estimate 2019/20 including slippage from 2018/19	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24	Total Capital Programme (2019/20 to 2023/24)
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Services	6,495	28,056	25,108	15,015	5,022	2,037	2,411	49,594
Commercial activities	8,893	4,072	12,629	7,448	5,672	4,040	3,362	33,151
<b>Total</b>	<b>15,388</b>	<b>32,128</b>	<b>37,737</b>	<b>22,463</b>	<b>10,694</b>	<b>6,077</b>	<b>5,773</b>	<b>82,745</b>

### 1.1.2 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

#### Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs including Minimum Revenue Provision for repayment of borrowing, net of investment income), against the net revenue stream from taxation and central government. The estimates of financing costs include current commitments and the proposals in this budget report. This indicator shows that the net costs of borrowing are sustainable in comparison to the core income of the Council and that commercial activities generate more investment income than they cost in borrowing.

Ratio of Financing Costs to Net Revenue Stream	Estimated Outturn 2018/19	Estimate 2019/20	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24
<b>Services</b>	-0.71%	-0.44%	1.21%	2.01%	2.02%	2.00%
<b>Commercial activity</b>	-3.53%	-3.52%	-1.38%	-0.78%	-1.59%	-0.18%
<b>Total</b>	<b>-4.24%</b>	<b>-3.96%</b>	<b>-0.17%</b>	<b>1.24%</b>	<b>0.43%</b>	<b>1.82%</b>

### 1.1.3 Maturity structure of borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits. The Council is asked to approve the following treasury indicators and limits:

<b>Maturity structure of fixed and variable interest rate borrowing 2019/20</b>		
	<b>Lower Limit (Cumulative)</b>	<b>Upper Limit (Cumulative)</b>
Under 12 months	0%	20%
12 months to 2 years	0%	80%
2 years to 5 years	0%	90%
5 years to 10 years	0%	95%
10 years and above	0%	100%

## **APPENDIX B TREASURY MANAGEMENT PRACTICE (TMP1) CREDIT AND COUNTERPARTY RISK MANAGEMENT**

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council has adopted the Code and applies its principles to all investment activity. In accordance with the Code, the Section 151 Officer has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

**Annual investment strategy** - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

**Specified investments** – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. A local authority, housing association, parish council or community council.
3. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 3 this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's and / or Fitch rating agencies.
4. A body that is considered of a high credit quality (such as a bank or building society). For category 4 this covers bodies with a minimum Short Term rating of A- (or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch rating agencies .

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are set out in the report in Section 5.

**Non-specified investments** –are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

	<b>Non Specified Investment Category</b>	<b>Limit (£)</b>
a.	<b>Gilt edged securities</b> with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. The value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	£5 million
b.	<b>The Council's own banker</b> if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	£12.5 million
c.	Any <b>bank or building society</b> that has a minimum long term credit rating of A-, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£10 to £12.5 million depending on the institution
d.	Any <b>non-rated subsidiary</b> of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to the same criteria as for the parent company and assurance on the robustness of the group structure.	As per parent company, but total limit not to be exceeded
e.	<b>Share capital</b> in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies. See note 1 below.	£10 million
f.	<b>Loan capital</b> in a body corporate. See note 1 below.	£20 million
g.	<b>Bond funds.</b> See note 1 below.	
h.	<b>Property funds</b> – The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using.	

NOTE 1. This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.

Within categories b and b, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies. These criteria are set out in Section 5 of the main report.

**The monitoring of investment counterparties** - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly) On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Section 151 Officer, and if required new counterparties which meet the criteria will be added to the list.

## APPENDIX C APPROVED COUNTRIES AND COUNTERPARTIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

Maximum to be invested in any one overseas country £5 million.

### ***Based on lowest available rating***

#### AAA

- Australia
- Canada
- Denmark
- Germany
- Netherlands
- Singapore
- Sweden
- Switzerland
- U.S.A.

#### AA+

- Finland

#### AA

- Abu Dhabi (UAE)
- France
- U.K.

### **For Instruments limited to Term Deposits / CDs / Call Accounts**

Country/ Domicile	Counterparty	Maximum Counterparty Limit	Maximum Term for New Investments
UK	Bank of Scotland (Lloyds Banking Group)	£10 million	18 months
UK	Lloyds Bank Corporate Markets Plc (Lloyds Banking Group)	£10 million	18 months
UK	Lloyds Bank Plc (Lloyds Banking Group)	£10 million	18 months
UK	Barclays Bank UK Plc	£10 million	18 months
UK	HSBC Bank Plc	£12.5 million	2 years
UK	Coventry Building Society	£10 million	18 months
UK	Leeds Building Society	£7.5 million	1 year

UK	Nationwide Building Society	£10 million	18 months
UK	Skipton Building Society	£7.5 million	1 year
UK	Yorkshire Building Society	£7.5 million	1 year
UK	NatWest (RBS Group)	£10 million	18 months
UK	Royal Bank of Scotland (RBS Group)	£10 million	18 months
UK	Standard Chartered Bank	£10 million	18 months
UK	Goldman Sachs International	£10 million	18 months
UK	Sumitomo Mitsui Banking Corporation Europe	£10 million	18 months
UK	UBS Ltd	£12.5 million	2 years
UK	Close Brothers Limited	£10 million	18 months
UK	Local Authorities	£5 million	2 years
UK	Other Building Societies credit rated in investment grade category	£5 million	12 months
Australia	Australia and New Zealand Bank Group	£5 million	2 years
Australia	Commonwealth Bank of Australia	£5 million	2 years
Australia	Macquarie Bank	£5 million	18 months
Australia	National Australia Bank	£5 million	2 years
Australia	Westpac Banking Corporation	£5 million	2 years
Canada	Bank of Montreal	£5 million	2 years
Canada	Bank of Nova Scotia	£5 million	2 years
Canada	Canadian Imperial Bank of Commerce	£5 million	2 years
Canada	National Bank of Canada	£5 million	18 months
Canada	Royal Bank of Canada	£5 million	2 years
Canada	Toronto-Dominion Bank	£5 million	2 years

Denmark	Danske Bank	£5 million	18 months
Finland	Nordea Bank	£5 million	2 years
France	BNP Paribas	£5 million	18 months
France	Credit Agricole Corporate and Investment Bank	£5 million	18 months
France	Credit Agricole S.A.	£5 million	18 months
France	Credit Industriel et Commercial	£5 million	18 months
France	Societe Generale	£5 million	18 months
Germany	DZ Bank	£5 million	2 years
Germany	Landesbank Hessen-Thueringen Girozentrale	£5 million	18 months
Germany	Landwirtschaftliche Rentenbank	£5 million	2 years
Germany	NRW Bank	£5 million	2 years
Netherlands	ABN AMRO Bank	£5 million	18 months
Netherlands	Bank Nederlandse Bank	£5 million	2 years
Netherlands	ING	£5 million	18 months
Netherlands	Rabobank	£5 million	2 years
Singapore	DBS Bank Ltd	£5 million	2 years
Singapore	Oversea-Chinese Banking Corp	£5 million	2 years
Singapore	United Overseas Bank	£5 million	2 years
Sweden	Skandinaviska Enskilda Banken	£5 million	2 years
Sweden	Svenska Handelsbanken	£5 million	2 years
Sweden	Swedbank	£5 million	2 years
Switzerland	Credit Suisse AG	£5 million	18 months
Switzerland	UBS AG	£5 million	2 years

U.A.E.	First Abu Dhabi Bank PJSC	£5 million	2 years
U.S.A.	Bank of America	£5 million	2 years
U.S.A.	Citibank	£5 million	18 months
U.S.A.	The Bank of New York Mellon	£5 million	2 years
U.S.A.	JP Morgan Chase Bank	£5 million	2 years
U.S.A.	Wells Fargo Bank	£5 million	2 years

- *\*\*Please note this list could change if, for example, a counterparty is regraded, and meets other creditworthiness tools.*
- Group Limits - For institutions within a banking group, the total amount invested cannot exceed the highest individual limit of a single bank within that group, i.e. there is no aggregation of limits.
- Term limits are based on advice from our Treasury Management advisors and the judgement of the Council's Section 151 officer. They are reviewed regularly during the year as market conditions change, and will be revised accordingly during the year.
- The limits above are the maximum that the Council could go to and operationally a more cautious approach will be adopted if deemed necessary.



## **APPENDIX D TREASURY MANAGEMENT SCHEME OF DELEGATION**

### **(i) Full council**

- approval of annual strategy.
- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;

### **(ii) Cabinet**

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- receiving and reviewing reports on treasury management policies, practices and activities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

## THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

### The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe of at least 20 years
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following: -
  - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
  - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*

- *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*
- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*
- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

## **APPENDIX E TREASURY MANAGEMENT POLICY STATEMENT**

### **1. INTRODUCTION AND BACKGROUND**

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

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

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities, including policies where the Council has commercial investments held for financial return.
- Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3 The Council will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, half yearly reviews and an annual report after its close, in the form prescribed in its TMPs.

1.4 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Cabinet and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the Council's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.5 The Council nominates Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

### **2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES**

2.1 The Council defines its treasury management activities as:

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

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

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

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

2.6 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

2.6 Where the Council has made commercial investments in property, in wholly owned companies or in joint ventures, the performance of these investments will be monitored and reported in line with the overall Treasury Management policy.

**MONIES INVESTED AS AT:**
**31 December 2018**
**APPENDIX F**

Date Invested	Borrower	Amount Invested £000
<b>INVESTMENT BANK ACCOUNTS</b>		
28/03/12	HSBC	2,500
28/05/12	Barclays	500
<b>Total Bank Accounts</b>		<b>3,000</b>
<b>FIXED TERM INVESTMENTS</b>		
<b>Investments Fixed for up to 6 months</b>		
16/10/2018	Lloyds	3,000
15/11/2018	Standard Chartered	1,000
06/09/2018	Standard Chartered	5,000
		<b>9,000</b>
<b>Investments Fixed from 6 Months to 1 Year</b>		
10/12/2018	Goldman Sachs via Links	2,000
		<b>2,000</b>
<b>Total Fixed Term Investments</b>		<b>11,000</b>
<b>MONEY MARKET FUND INVESTMENTS</b>		
	Aberdeen Asset	6,000
	Federated Investors (UK)	6,000
	Invesco	1,505
	CCLA Investment Management	4,914
		<b>18,419</b>
<b>Total Money Market Fund Investments</b>		<b>18,419</b>
<b>CASH</b>		
<b>SUMMARY</b>		
	Investment Bank Accounts	3,000
	Fixed Term Investments	11,000
	Money Market Funds	18,419
<b>Total Cash</b>		<b>32,419</b>
<b>EQUITY INVESTMENTS</b>		
	Municipal Bonds Agency	25
	Build Insight Ventures	0
	Big Sky Ventures Ltd	1,020
	Big Sky Ventures Ltd	3,580
	Big Sky Ventures Ltd	336
	Big Sky Ventures Ltd	152
	Big Sky Ventures Ltd	80
	Big Sky Ventures Ltd	308
	Big Sky Ventures Ltd	90
	Big Sky Ventures Ltd	164
	Big Sky Ventures Ltd	197
	Big Sky Ventures Ltd	265
<b>Total Equity Investments</b>		<b>6,217</b>
<b>LOANS TO COUNCIL COMPANIES</b>		
	Big Sky Property Management Ltd	545
	Big Sky Developments Ltd	6,000
	Big Sky Developments Ltd	500
	Big Sky Property Management Ltd	228
	Big Sky Property Management Ltd	504
	Big Sky Property Management Ltd	120
	Big Sky Property Management Ltd	462
	Big Sky Property Management Ltd	135
	Big Sky Property Management Ltd	246
	Big Sky Property Management Ltd	297
	Big Sky Property Management Ltd	398
<b>Total Loans to Companies</b>		<b>9,435</b>
<b>TOTAL FUNDS INVESTED</b>		<b>48,071</b>

**Split by Counterparty (including forward dated commitments)**

<b>Counterparty</b>	<b>Max Limit</b>	<b>Invested</b>
Lloyds TSB		3,000,000
Lloyds Banking Group	10,000,000	3,000,000
Barclays Call AC		500,392
Total Barclays	12,500,000	500,392
HSBC	12,500,000	2,500,000
Standard Chartered Bank	7,500,000	6,000,000
Goldman Sachs International	7,500,000	2,000,000
Aberdeen Asset	6,000,000	6,000,000
Federated	6,000,000	6,000,000
Invesco	6,000,000	1,505,410
CCLA Investment Mgmt	6,000,000	4,913,668
Municipal Bonds Agency		25,000
Build Insight Ventures		2
Big Sky Ventures Ltd		1,020,000
Big Sky Ventures Ltd		3,580,000
Big Sky Property Management Ltd		545,000
Big Sky Developments Ltd		500,000
Big Sky Ventures Ltd		336,000
Big Sky Property Management Ltd		504,000
Big Sky Property Management Ltd		120,000
Big Sky Property Management Ltd		228,000
Big Sky Ventures Ltd		152,000
Big Sky Ventures Ltd		80,000
Big Sky Property Management Ltd		462,000
Big Sky Property Management Ltd		135,000
Big Sky Ventures Ltd		308,000
Big Sky Ventures Ltd		90,000
Big Sky Property Management Ltd		246,000
Big Sky Ventures Ltd		164,000
Big Sky Ventures Ltd		197,000
Big Sky Developments Ltd		6,000,000
Big Sky Property Management Ltd		297,000
Big Sky Property Management Ltd		663,000
<b>Total Invested</b>		<b>48,071,472</b>

## Scrutiny Committee – Work Programme

In setting future Scrutiny **TOPICS**, the Committee is asked to consider the following: **T**imely – **O**bjective – **P**erformance – **I**nterest – **C**orporate Priority

**T** Is this the right **time** to review this issue and is there sufficient **Officer time** and resource to conduct the review? What is the **timescale**?

**O** What is the reason for review; do officers have a clear **objective**?

**P** Can **performance** in this area be improved by input from Scrutiny?

**I** Is there sufficient **interest** (particularly from the public)? The concerns of local people should influence the issues chosen for scrutiny.

**C** Will the review assist the Council to achieve its **Corporate Priorities**?

Date of meeting	Topic	Organisation / Officer / Responsible member	Objectives
6 Feb 2019	2019/20 Budget	Assistant Director – Resources & Cllr M Edney	Scrutiny Committee to consider the Council's 2019/20 budget and the recommendations of Cabinet. The Committee should formulate a recommendation to Council regarding the budget for consideration at its meeting on 18 February 2019.
20 Feb 2019	<i>To be held in the event of a call-in only</i>		
10 April 2019	<i>No items scheduled</i>		
28 June 2019 (Friday)			
7 Aug 2019	<i>To be held in the event of a call-in only</i>		
25 Sept 2019	Review of commercialisation Strategy Priority Opportunities	Director of Business Development and Growth & Cllr M Edney	<p>The Committee to review progress on the Priority Opportunities outlined in the Council's Commercialisation Strategy 2017-2021 and what the outcome of this work has been. Committee members to also consider this in relation to the objectives set out in the "How we will measure success" section of the strategy. Members should also consider the work planned in relation to medium/longer-term activities.</p> <p>Members to make comments and any recommendations regarding the future direction of the Strategy in light of this.</p>
30 Oct 2019	<i>No items scheduled</i>		
27 Nov 2019	<i>No items scheduled</i>		



## Scrutiny Recommendation Tracker 2018/19

Date	Topic	Responsible Officer	Resolution and Recommendations	Progress	Outcome
27 June 2018	COLLABORATIVE WORKING – THE FEASIBILITY REPORT	Head of Business Transformation	<ol style="list-style-type: none"> <li>1. The Scrutiny Committee recommends that Cabinet approve recommendations 1 and 2 as outlined in paragraphs 8.3.1 and 8.3.2 of the report; and</li> <li>2. The Committee records its thanks to officers for their considerable work in putting together the Feasibility Report.</li> </ol>	Cabinet resolved to approve the recommendations 1 and 2 set out in the report	<p>Consideration of this report gave Scrutiny Committee the opportunity to pre-scrutinise the future of collaborative working, before a final decision by Cabinet.</p> <p>Members raised questions regarding various aspects of the feasibility report and were satisfied that progressing the collaboration with Broadland District Council was advantageous and in the best interests of South Norfolk Council.</p>
27 June 2018	LEISURE SERVICE PERFORMANCE	Head of Leisure and Health Services	To note the report and commend officers on the successes achieved.	n/a	Members were able to consider the performance across the Council's Leisure Centres and also comment on the future delivery of the in-house service. This is in light of major investments over the last few years.
26 Sept 2018	REVIEW OF COMMERCIALISATION STRATEGY PRIORITY OPPORTUNITIES	Director of Growth & Business Development	<ol style="list-style-type: none"> <li>1. To note the progress made on the priority opportunities as set out in the Commercialisation Strategy;</li> <li>2. That a further review, containing more financial information and data relating to the income generated, and greater detail on Big Sky Developments,</li> </ol>	<p>Further item has been added to the work programme.</p> <p>Officers supported the proposal regarding cabinet</p>	Members were able to consider progress made on the priority opportunities as set out in the Commercialisation Strategy.

Date	Topic	Responsible Officer	Resolution and Recommendations	Progress	Outcome
			<p>should take place in 12 months; and</p> <p>3. To recommend that Cabinet members are involved in service reviews relating to their portfolio.</p>	members being involved in service reviews.	The Committee made comments on various aspects of the Strategy, however felt that they needed more financial information to consider the outcomes and a further update in 12 months' time will enable further consideration
21 Nov 2018	MEMBER-LED FUNDING	Head of Early Help	<p>To <b>Recommend to Cabinet</b> that:</p> <ol style="list-style-type: none"> <li>1. Proposals relating to the ground rules review, introduction of restrictions to funding to town and parish councils, ensuring the proper utilisation of funding, and increased support to members from the Communities Team be agreed;</li> <li>2. The proposal to reduce the member ward fund allocation from £1,000 per member to £500 be rejected and that Cabinet agree to retain the current allocation of £1,000; and</li> <li>3. All underspend of the Member Ward Fund budget is transferred to the Community Action Fund budget. If the underspend is less than £10,000 the underspend should be rolled over to the next financial year to avoid the need for the CAF Panel to meet to allocate small amounts of money.</li> </ol>	<p>This was further approved by Cabinet</p> <p>The proposal was approved by officers and Cabinet</p> <p>Cabinet agreed to Continue with the current policy, that any underspend is transferred to the Community Action Fund budget, but if less than £10,000, this is absorbed as a saving at the end of the year.</p>	The Scrutiny Committee was able to review proposed changes to the Member-led funding ahead of consideration by Cabinet and make further recommendations. The recommendations were largely based on members' experience of the grants.

Date	Topic	Responsible Officer	Resolution and Recommendations	Progress	Outcome
23 Jan 2019	DRAFT BUSINESS PLAN 2019 - 2020	Business Improvement Lead	Scrutiny Committee noted the Business Plan and recommends that Cabinet approve the Plan	n/a	Members reviewed the Business Plans and were happy with the planned direction of the Council in 2019/20. The Committee was pleased to commend the Plans to Cabinet.
23 Jan 2019	A REVIEW OF NORWICH CITY COUNCIL'S DECISION TO ADOPT A COMMUNITY INFRASTRUCTURE LEVY (CIL) EXCEPTIONAL CIRCUMSTANCES RELIEF POLICY	Head of Planning	<p>Scrutiny Committee recommended that:</p> <ol style="list-style-type: none"> <li>1. representations are made to Norwich City Council to amend the Exceptional Circumstances Policy to enable the Greater Norwich partners to consider and contribute to the assessment of the wider regeneration benefits and exceptional circumstances associated with any claim for CIL relief received by Norwich City Council.</li> <li>2. the Scrutiny Chairman liaises with the Broadland District Council's Scrutiny Committee Chairman and Norfolk County Council's Committee Chairman for Environment, Development and Transport.</li> </ol>	The scrutiny Chairman is currently liaising with the Leader and others as per the Committee's recommendation	The Committee was able to review the situation regarding Norwich City Council's decision to adopt a Community Infrastructure Levy (CIL) exceptional circumstances relief policy and make recommendations to secure involvement of SNC and other partners when considering claims for CIL relief received by NCC.

# CABINET CORE AGENDA 2019

	<b>Decisions: Key, Policy, Operational</b>	<b>Key Decision/Item</b>	<b>Lead Officer</b>	<b>Cabinet Member</b>	<b>Exempt Y/N</b>
<b>4 Feb</b>	O	Performance, Risks, Revenue and Capital Budget Position Report for Quarter Three 2018/19	E Pepper/M Fernandez-Graham/ E Goddard	M Edney	N
	K	2019/20 Business Plan	E Pepper	M Edney	N
	O	Budget Consultation 2019/20	J Brown	M Edney	N
	K	Revenue Budget, Capital Programme and Council Tax 2019/20	M Fernandez-Graham	M Edney	N
	K	Treasury Management and Capital Strategy 1 April 2019 to 31 March 2022	M Fernandez-Graham	M Edney	N
	O	Treasury Management Strategy	M Fernandez-Graham	M Edney	N
	K	Waste Re-optimisation	D Lorimer	K Kiddie	N
	O	Empty Properties	S Bessey	M Edney	N
	O	Discretionary Rate Relief Guidelines	P Chapman	M Edney	N
	K	Council Tax Care Leavers Discount	S Bessey	M Edney	N
<b>Council 18 February 2019</b>					
<b>Special Council 28 February 2019</b>					
<b>25 Mar</b>					
<b>Council 22 May 2019</b>					
<b>10 June</b>		Performance, Risks, Revenue and Capital Budget Position Report for the Financial Year 2017/18	E Pepper / M Fernandez-Graham/ E Goddards		

Key decisions are those which result in income, expenditure or savings with a gross full year effect of £100,000 or 10% of the Council's net portfolio budget whichever is the greater which has not been included in the relevant portfolio budget, or are significant (e.g. in environmental, physical, social or economic) in terms of its effect on the communities living or working in an area comprising two or more electoral divisions in the area of the local authority.