

# Public Document Pack



**NEWCASTLE  
UNDER LYME**  
**BOROUGH COUNCIL**

**PLEASE NOTE THAT PRAYERS WILL BE HELD AT 6.50PM BEFORE THE COMMENCEMENT OF THE BUSINESS OF THE COUNCIL.**

**THE MAYOR REQUESTS THAT ANY MEMBER WISHING TO PARTICIPATE IN PRAYERS BE IN ATTENDANCE BY NO LATER THAN 6.45PM.**

## **SUPPLEMENTARY AGENDA**

Dear Sir/Madam,

You are summoned to attend the meeting of the Borough Council of Newcastle-under-Lyme to be held in the **Jubilee 2 - Dance Studio - (Second Floor) - Brunswick Street, Newcastle, Staffs** on **Wednesday, 19th February, 2020** at **7.00 pm**.

### **B U S I N E S S**

- 5 REVENUE AND CAPITAL BUDGETS AND STRATEGIES 2020/21 (Pages 5 - 110)**  
Report to follow.
- 9 QUESTIONS TO THE MAYOR, CABINET MEMBERS AND COMMITTEE CHAIRS (Pages 111 - 112)**

Yours faithfully



Chief Executive

## **NOTICE FOR COUNCILLORS**

### **1. Fire/Bomb Alerts**

In the event of the fire alarm sounding, leave the building immediately, following the fire exit signs..

Fire exits are to be found at the side of the room leading into Queens Gardens.

On exiting the building Members, Officers and the Public must assemble at the statue of Queen Victoria. DO NOT re-enter the building until advised to by the Controlling Officer.

### **2. Attendance Record**

Please sign the Attendance Record sheet on entering the building. This will be located at the reception desk.

### **3. Mobile Phones**

Please switch off all mobile phones before entering the Council Chamber.

### **4. Notice of Motion**

A Notice of Motion other than those listed in Procedure Rule 14 must reach the Chief Executive ten clear days before the relevant Meeting of the Council. Further information on Notices of Motion can be found in Section 5, Standing Order 20 of the Constitution of the Council.

Officers will be in attendance prior to the meeting for informal discussions on agenda items.



This page is intentionally left blank

## NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

### EXECUTIVE MANAGEMENT TEAM'S REPORT TO COUNCIL

19 FEBRUARY 2020

**Report Title:** Revenue and Capital Budgets, Council Tax and Strategies 2020/21

**Submitted by:** Executive Director (Resources and Support Services)

**Portfolio:** Finance and Efficiency

**Wards(s) affected:** All

<p><b><u>Purpose of the Report</u></b></p> <p>This report sets out the recommendations of Cabinet for the Revenue and Capital Budgets for 2020/21 and sets out the recommendations for setting the 2020/21 Council Tax.</p> <p>It also recommends for approval the Flexible Use of Capital Receipts Strategy (updated for 2020/21), the Capital Strategy for 2020/2030, the Treasury Management Strategy for 2020/21 and the Investment Strategy for 2020/21.</p>
<p><b><u>Recommendations</u></b></p> <p><b>That the Council approve the schedule of recommendations set out in Appendix 'A'.</b></p>
<p><b><u>Reasons</u></b></p> <p>A robust, affordable and balanced budget is required to be set for the financial year 2020/21.</p> <p>The Council needs to have an approved Flexible Use of Capital Receipts Strategy for 2020/21, an approved Capital Strategy for 2020/30, an approved Treasury Management Strategy for 2020/21 and an approved Investment Strategy for 2020/21 in place before the start of the 2020/21 financial year.</p>

## 1. **Background**

- 1.1 This report is the culmination of the 2020/21 budget process, which started before the current 2019/20 budget was set. The Cabinet and the Finance, Assets and Performance Scrutiny Committee (FAPSC) have already considered the content of the 2020/21 Budget and the resultant Council Tax which is recommended. Cabinet met on 12 February 2020 and recommend a Council Tax for this Council in 2020/21 of £201.14 (based on Band D), as set out in Appendix B. This is an increase of £5.00 a year from the 2019/20 amount (an increase of 2.55%), which is within the maximum increase permitted without triggering the requirement for a referendum in accordance with the excessive council tax legislation.
- 1.2 The Capital Strategy 2020-30 (Appendix K) sets out how the Council proposes to deploy its capital resources in order to achieve its corporate and service objectives. It takes into account other relevant Council strategies, policies and plans and the views of partners and interested parties with whom the Council is involved. It also takes account of the resources which are likely to be available to the Council to fund capital investment and the effect of that investment on the Council's revenue

budget. It serves as an important point of reference when determining or reviewing the Council's Capital Programme.

- 1.3 The Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice. This requires a report to be prepared and approved by the Council concerning the Treasury Management Strategy (Appendix L) to be followed in carrying out its treasury management activities in the forthcoming financial year, 2020/21.
- 1.4 The Investment Strategy 2020/21 (Appendix M) is compiled according to the Ministry of Housing, Communities and Local Government's Guidance on Local Government Investments ('the Guidance') and the 2017 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ('the CIPFA TM Code') It sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

## **2. Budget 2019/20 – Outturn Forecast**

### **Revenue**

- 2.1 Monthly reports monitoring actual spending against budget have shown adverse variances during the first nine months of the year, the latest reported variance being £0.485m as at the end of December. It is forecast that this adverse variance will be reduced to a balanced year end outturn via management action, as detailed at 2.3. A balanced outturn has been achieved from a similar position in previous years.
- 2.2 The main reasons for this overall adverse variance are:
  - An action plan to reduce the operating deficit at Jubilee 2 is being implemented and has resulted in a significant year-on-year improvement. Nevertheless the centre is still operating at a net deficit due to continuing high levels of staff sickness and a shortfall in income. It is forecast that the deficit will amount to £0.219m at the close of the financial year;
  - Income from car parking is below the budgeted amount due to a combination of historic budget shortfalls and the introduction of parking initiatives designed to drive increased town centre footfall. It is forecast that the income shortfall will amount to £0.191m at the close of the financial year;
  - Income from planning application fees is below the budgeted amount and it is forecast that there will be an adverse variance of £0.214m at the close of the financial year. The number of major planning applications received can fluctuate significantly from year to year. Over the two year period from 2018/19 to 2019/20 income is still expected to be significantly above budget; and;
  - The provision of temporary cover for Senior Management posts in Resources, Legal and Democratic Services and Planning while recruitment is underway – it is forecast that this will amount to £0.240m at the close of the financial year; and,
  - It should be noted that a balanced year end position is forecast for the Waste and Recycling service.
- 2.3 A strategy to address the overspend is being implemented and it is forecast that the actions identified will reduce the adverse variance to a balanced year end outturn. These actions include:
  - Use of additional forecast income from the Staffordshire and Stoke-on-Trent Business Rates Pilot;
  - Savings from reorganisation exercises within the Resources and Support Services Directorate;
  - Appeals relating to the rateable value of disused or demolished Council Assets;

- Continuing action to reduce the Jubilee 2 operating deficit;
  - Grants have been received for a number of areas including Brexit and Air Quality to which significant time spent in these areas can be allocated;
  - A review of expenditure currently allocated to the Repairs and Renewals fund is being undertaken to identify items that can be capitalised; and,
  - Use of the Borough Growth Fund to fund officer time spent on priority projects including digital delivery and commercial development.
- 2.4 The Interim Director of Resources and Support Services informed the Ministry of Housing, Communities and Local Government by letter of the Council's intention to make flexible use of up to £500,000 of capital receipts in each of the financial years 2018/19 and 2019/20 on 5 December 2018 and up to £400,000 for the financial year 2020/21 on 5 December 2019.
- 2.5 Officers have reviewed the 'Statutory Guidance on the Flexible Use of Capital Receipts', and have identified expenditure that meets the eligibility criteria laid out in the guidance document, in that it relates to initiatives that are forecast to generate, or have generated, on-going revenue savings through reducing the costs of service delivery.
- 2.6 The Council's Flexible Use of Capital Receipts Strategy for 2020/21 is included as Appendix H to this report. This is required, by the statutory guidance, to be approved by Council.
- 2.7 The majority of savings incorporated in the 2019/20 budget are on target to be achieved. This means that altogether over the ten years from 2010/11 to 2019/20 £22.104m of 'gaps' will have been met via a combination of savings, efficiencies and additional income. Savings from 2017/18 and 2018/19 regarding the Waste and Recycling review that had not been achieved have now been offset by the successful introduction of the chargeable Green Waste service.

## Capital

- 2.8 The Capital Programme approved by Council in February 2019 (£5,606,298) has been updated to take account of amounts brought forward from 2018/19 where planned expenditure did not occur (£1,341,573). This has been added to the budget for 2019/20 (apart from cases where costs have been reduced or expenditure will no longer be incurred). The revised budget for capital projects in 2019/20 therefore totals £6,947,871.
- 2.9 It is forecast that the Capital Programme outturn for 2019/20 will largely be in line with the budget and there will not be any significant variance to report. It is anticipated that re-profiling of approximately £1,567,377 will be incurred (i.e. 2019/20 projects carried forward to 2020/21).
- 2.10 The Capital Funding required for the 2019/20 programme includes £3,508,298 of capital receipts. These receipts are still expected however it is anticipated that there will be a delay in one of the asset sales which amounts to around £1,000,000. This is due to the Property Team re-advertising the site and achieving a greater value than originally expected. In addition 'Right to Buy' sales have slowed down this year and it is expected that the target will not be reached for 2019/20. The impact of this and the expected re-profiling from the 2019/20 programme is shown below:

Delay in Sale of Asset	£1,000,000
Reduced Right to Buy Receipts	£400,000
Capital Projects Re-Profiling	£1,567,377
<b>Impact on Funding (Surplus)</b>	<b>£167,377</b>

## 3. Revenue Budget 2020/21

- 3.1 Excluding levies for Town and Parish Councils the recommended Borough Council Tax for a Band D property is £201.14, a 2.55% increase compared with 2019/20, based on a Borough Council Tax requirement of £7,520,020, as set out below.

	<b>Estimated Expenditure £</b>	<b>Rate of Council Tax (Band D) £</b>
Total Net Expenditure	15,689,690	419.66
Less: External Support	(8,169,670)	(218.52)
Borough Council Tax requirement	7,520,020	201.14

- 3.2 Appendix B sets out the budget summarised over services. Copies of detailed budgets are available on request.
- 3.3 In addition to the basic Council Tax the Council is required to levy additional charges in the following parishes. These are shown below:

<b>Parish</b>	<b>Rate of Council Tax (Band D) £</b>
Audley	60.83
Betley, Balterley & Wrinehill	27.94
Chapel & Hill Chorlton	23.05
Keele	36.86
Kidsgrove	34.05
Loggerheads	21.08
Madeley	43.62
Maer	20.24
Silverdale	18.98
Whitmore	34.33

The above levies are based on the requirements supplied by the parishes.

- 3.4 Meetings to formally set the precepts from Staffordshire County Council and Staffordshire Commissioner Fire and Rescue Authority are to be held shortly. Accordingly, the amounts shown in the tables in Appendix A are based on provisional notifications provided by these bodies. If any of the provisional amounts change these will be reported to you and the tables in Appendix A will be redone.

#### **4. Medium Term Financial Strategy and Budgets for 2020/21**

- 4.1 The Council's Medium Term Financial Strategy (MTFS) indicates a budget shortfall of £1.249m for 2020/21. Further details of the funding gaps for 2020/21 to 2024/25 are set out in Appendix D.

- £1.249m in 2020/21;
- £1.367m in 2021/22;
- £1.115m in 2022/23;
- £1.106m in 2023/24; and,
- £0.858m in 2024/25.

- 4.2 Previous years' budget shortfalls have been addressed by a combination of measures such as efficiency savings, reductions in expenditure or income increases, consideration of the need for Council Tax increases, the flexible use of capital receipts, and service reviews. Significant progress has been made to meet shortfalls in the years after 2020/21 as shown in the summary below:

<b>Detail</b>	<b>2020/21 £'000</b>	<b>2021/22 £'000</b>	<b>2022/23 £'000</b>	<b>2023/24 £'000</b>	<b>2024/25 £'000</b>
---------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------



<b>Income</b>	135	50	-	-	-
<b>Commercial Strategy</b>	-	250	250	250	250
<b>Digital Strategy</b>	-	150	150	150	150
<b>Staffing Related</b>	495	37	-	-	-
<b>Good Housekeeping</b>	29	13	-	-	-
<b>Tax Base</b>	385	150	152	154	157
<b>Council Tax Increase</b>	187	227	236	244	253
<b>Contributions</b>	18	-	-	-	-
<b>TOTAL SAVINGS</b>	<b>1249</b>	<b>877</b>	<b>788</b>	<b>798</b>	<b>810</b>
<b>UPDATED MTFS GAPS</b>	<b>1249</b>	<b>1367</b>	<b>1115</b>	<b>1106</b>	<b>858</b>
<b>REMAINING GAP (- = surplus)</b>	<b>-</b>	<b>490</b>	<b>327</b>	<b>308</b>	<b>48</b>

4.3 The table below shows the factors which give rise to the £1.249m 'gap' for 2019/20:

<b>Additional Income</b>	<b>£'000</b>
Fees and Charges	120
Business Rates Retention Pool levy	200
New Waste Service	100
<b>Total Additional Income (A)</b>	<b>420</b>
<b>Additional Expenditure and Loss of Income</b>	
Reduction in Government funding	35
Government funding re Business Rates baseline	(77)
New Homes Bonus - revised scheme	347
Provision for Pay Awards (including National Insurance)	342
Incremental pay rises for staff	56
Superannuation increase in employers and lump sum contributions	290
Additional holiday pay	34
Price increases e.g. energy, fuel, rates, insurances, supplies & services	75
Adjustments re. one-off items in 2019/20	(148)
Capital Financing Costs	(45)
Additional staffing resources	126
Borough Growth Fund contribution	250
Jubilee 2 operating deficit	100
Reduction in income from under achieved budgets	215
Reduction in waste income and recycling credits awarded	69
<b>Total Additional Expenditure and Loss of Income (B)</b>	<b>1,669</b>
<b>Net Increase In Base Budget (B-A)</b>	<b>1,249</b>

4.4 A number of savings and funding strategies to address the funding gap for 2020/21 have been identified, via a vigorous Efficiency Board process, and agreed with managers as being both feasible and sustainable. The proposed savings, totalling £1.249m are summarised in the table below and set out in detail in Appendix C:

<b>Category</b>	<b>Amount £'000</b>	<b>Comments</b>
Income	135	Additional sources of income generation and an increased demand for services that the Council charges for.
Staffing Related Efficiencies	495	No redundancies are anticipated to arise from these proposals.
Good Housekeeping Efficiencies, General Other Savings, Changes in Base Budgets	29	Various savings arising from more efficient use of budgets.
Alternative Sources of Finance/ Other Savings	590	Effect of forecast Council Tax Base and Business Rates Base increase, savings from Parish Council concurrent functions

		contributions. An assumed £5 (2.55%) per band D equivalent increase in Council Tax.
<b>Total</b>	<b>1,249</b>	

4.5 As in previous years, the savings plan set out at Appendix C was made available to the Finance, Assets and Performance Scrutiny Committee for scrutiny at its meeting on 16 December 2019. The Committee also scrutinised and approved the recommendations of the 'Revenue and Capital Budgets, Council Tax and Strategies 2020/21' Cabinet report of 15 January 2020 at its meeting on 16 January 2020.

### Borough Growth Fund

4.5 The savings and funding strategies identified in the table above and in Appendix C will enable further investment of £250,000 in the Council's priorities as per the Council Plan 2018-2022 via the Borough Growth Fund. In accordance with the 'Statutory Guidance on the Flexible Use of Capital Receipts', the 'Borough Growth' fund will continue to be used to provide pump-priming investment in initiatives that are forecast to generate on-going revenue savings through reducing the costs of service delivery or through the generation of additional income. The Council's Section 151 Officer will determine whether any proposed use of the fund complies with this guidance on a case by case basis. Priorities for 2020/21 are:

- **£100,000 council modernisation** – embedding digitalisation across all services; introducing artificial intelligence and robotics; developing staff skills and investing in apprenticeship opportunities as part of a 'One Council' Work Force Development Plan.
- **£50,000 building financial sustainability** - the Council's recently appointed Executive Director for Commercial Development and Economic Growth will lead on efforts to embrace commercial working practices to reduce costs and generate income.
- **£50,000 recycling and climate change** – as well as rolling out a new recycling service, the Council will also plant more trees as part of a borough-wide Carbon Capture Parks initiative and also make bids for funding in the next round of the Government's Urban Tree Challenge and Woodland Carbon Guarantee. Develop a Sustainable Environment Strategy that will address the recommendations of the Scrutiny Task and Finish Group.
- **£50,000 town centres** – this will be used to support the Town Deal bids for Newcastle and Kildgrove and Future High Streets Fund bid for Newcastle town centre. It will also support the rejuvenation of Newcastle market and bringing empty council properties back into use and promotion of 'Experience Newcastle'.

### Council Tax and Collection Fund

4.6 A £5 (2.55%) per Band D equivalent property Council Tax increase (this is the referendum limit announced as part of the Provisional Local Government Finance Settlement for 2020/21 on 20 December 2019), is proposed, producing £187,000 of additional income. This increase in Council Tax would equate to the following monetary amounts for residents:

Property Band	Borough Council Tax £ p	Annual Increase £ p	Weekly Increase £ p
A	134.09	3.33	0.06
B	156.44	3.89	0.07
C	178.78	4.44	0.09
D	201.14	5.00	0.10
E	245.84	6.11	0.12

F	290.53	7.22	0.14
G	335.22	8.32	0.16
H	402.28	10.00	0.19

- 4.7 The savings and funding strategy also includes an increase in the Council Tax premium charged for long term empty properties in line with an amendment to the Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Bill which now permits Councils to charge a 100% premium for domestic properties that have been empty for 2-5 years, 200% for those that have been empty for 5-10 years and 300% for properties that have been empty for 10 or more years.
- 4.8 The primary aim of this premium is to encourage owners of these properties to bring them back into use. All domestic properties that have been empty for in excess of 2 years are currently charged a 50% premium by the Council. This proposed amendment will generate around £24,000 per annum in terms of an increased tax base for the Council.
- 4.9 Taking into account the proposed increase in the Council Tax premium and other changes to the Council Tax base (i.e. new properties, discounts and exemptions), the Council Tax base has increased by 270 band D equivalent properties from 37,117 in 2019/20 to 37,387 for 2020/21.
- 4.10 The Council is required to declare its estimated surplus or deficit on the Collection Fund (for both Business Rates and Council Tax) ahead of the financial year end for 2019/20, this surplus or deficit is then shared between the relevant preceptors in 2020/21 (a surplus if paid out to preceptors, including the Council, and a deficit is repaid to the collection fund from preceptors, including the Council).
- 4.11 The Business Rates Collection Fund is estimated to be in a surplus position at 31 March 2020 when compared to the estimates submitted via the NNDR1 form in January 2019. The surplus is estimated to amount to £4.320m, of which the Council will receive £1.728m during 2020/21. This surplus has arisen as a result of significant growth, above that estimated by Central Government, within the Borough since the Business Rates Retention scheme was introduced. In previous years the Business Rates Appeals Provision has been significantly increased via the collection fund which has offset surplus positions that would otherwise have been achieved during these years.
- 4.12 The Council Tax Collection Fund is estimated to be in a deficit position as at 31 March 2020. This deficit is estimated to amount to £0.529m. Performance for 2019/20 is estimated to be as expected, the deficit amount relates to 2018/19 whereby the surplus declared in January 2019 was £0.540m more than the actual surplus calculated at the financial year end due to an increased bad debts provision being calculated at the financial year end in compliance with revised accounting standards. The Council will be required to repay £0.060m to the Collection Fund regarding this deficit in 2020/21.
- 4.13 The net receipt from the Collection Fund to the Council in 2020/21 will therefore be £1.668m (£1.728m surplus re. Business Rates less £0.060m deficit re. Council Tax). This amount will be paid into the Council's earmarked reserves in order to significantly increase the Council's financial resilience and ability to manage funding risks including those arising from the forthcoming Fair Funding Review.
- 4.14 The Final Local Government Finance Settlement for 2020/21 was received on 6 February 2020, this is in line with the Provisional Settlement and the assumptions that had previously been made via the Medium Term Financial Strategy. The Settlement Funding Assessment for the Council increased by £0.061m as opposed to an assumed £0.077m increase in the Medium Term Financial Strategy, this was as a result of the decreased CPI inflation applied (1.6% as opposed to the forecast of 2.1%). However, this has been offset by the receipt of an Affordable Housing Premium awarded to the Council for the introduction of new Affordable Housing within the Borough during 2019/20, this amounts to £0.016m and negates the decrease in Settlement Funding Assessment previously referred to.

## 5. **Budget Consultation**

- 5.1 Public consultation has been undertaken on the budget (Appendix I). The consultation clearly determined that residents again felt that the following services were the most important to them.

- Town Centre regeneration;
- Refuse collection;
- Parks, playgrounds and open spaces;
- Recycling facilities; and,
- Street cleansing.

It also showed that residents feel that services should be protected as far as possible, even if that requires an increase in Council Tax.

- 5.2 The consultation has been reviewed by Cabinet and the views of those residents that have engaged in the consultation have been taken account of, and reflected, in the 2020/21 savings and funding strategy.

## **6. Capital Programme 2020/21 – 2022/23**

- 6.1 The Capital Programme for 2020/21 to 2022/23 (Appendix F) is based on new schemes which are vital to ensure continued service delivery and in assisting the Council to achieve its corporate and service objectives as set out in the Council Plan 2018-22 approved by Cabinet on 19 September 2018. These schemes total £24.624m, of which £12.454m relates to 2020/21.
- 6.2 The Capital Strategy for 2020-30 (Appendix K) meets the requirements of statutory guidance issued by the Government in January 2018. The Council's capital investment is carried out within the statutory framework laid down by the Local Government Act 2003 and regulations under that Act. Accordingly, only expenditure which fits the definition of capital expenditure contained in the Act or Regulations pursuant to it will be capitalised.
- 6.3 The Capital Programme is produced in line with the Capital Strategy for 2020-30. In addition to the Council's corporate and service objectives, as set out in the Council Plan 2018-22, the Capital Programme is also influenced by a number of external parties and factors:
- Central government and its agencies;
  - Legislation requiring capital works;
  - Partner organisations;
  - Businesses and Developers; and,
  - The needs and views of other interested parties, particularly those of Borough residents.
- 6.4 The Capital Programme for 2020/21 includes £3.151m for the refurbishment and reopening of Kidsgrove Sports Centre. This replaces the Kidsgrove Sports Centre scheme previously scheduled to commence in 2023/24 and will enable the provision of leisure facilities within Kidsgrove ahead of the timescale previously planned.
- 6.5 Delivering the capital programme for 2020/21 will require prudential borrowing to be undertaken. The impact of borrowing is included in the MTFs pressures for 2020/21 and future years.
- 6.6 Advice will be sought from the Council's Treasury Management advisors, Arlingclose, as to the most beneficial timing of prudential borrowing. Their current advice is to borrow on a short term basis (up to 4 years) from other local authorities whilst interest rates remain low, particularly in light of the recent increase in the Public Works Loan Board interest rates.
- 6.7 In summary, investment in the capital programme for 2020/21 to 2022/23 totalling £24.624m will be funded by:
- £5.845m External Funding including Disabled Facilities Grant and s106;
  - £6.993m Capital Receipts;
  - £0.150m ICT Development Fund; and,

- £11.636m Vehicle Leasing/Prudential Borrowing.

## **7. Treasury Management Strategy 2020/21 and Investment Strategy 2020/21**

- 7.1 The Treasury Management Strategy for 2020/21 is attached at Appendix L. The Minimum Revenue Provision Policy for 2020/21 is contained in Annex C to the strategy. The financing of capital expenditure and the Minimum Revenue Provision utilised has been reviewed (including the profiling and requirement for projects), the annuity method as opposed to the straight line method for Minimum Revenue Provision (i.e. the principal element or repayments) will now be utilised. This has reduced pressures on the budget during 2020/21 by £0.135m
- 7.2 The Treasury Management Strategy for 2020/21 allows for borrowing. Although not utilised in recent years, the Council has previously considered the option of long-term borrowing from the Public Works Loans Board (PWLB), but the government increased PWLB rates by 1% in October 2019 making it now a relatively expensive option. After the utilisation of capital receipts and internal borrowing, the Council will now look to borrow short term from other local authorities in the first instance and will then review any other sources of funding if required.
- 7.3 The Investment Strategy for 2020/21 is attached at Appendix M. This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and is based on guidance provided by Arlingclose, the Council's treasury management advisors. Quantitative investment indicators are included within the Strategy to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.
- 7.4 The Investment Strategy is informed by and consistent with the Commercial Strategy approved by Cabinet in October 2019 which proposes the establishment of a Revolving Investment Fund of £50m funded from a mix of revenue contributions, capital receipts and prudential borrowing. This fund will be used to finance a commercial asset acquisition programme and a strategic asset development programme.
- 7.5 The overriding objective of the Commercial Asset Acquisition Programme will be to generate and secure a long-term and sustainable income stream for the Council. This will be achieved by investing in assets with a projected minimum level of return of 2% above the cost of borrowing and other holding and management costs. The investments will not be required to meet other Council objectives and priorities e.g. regeneration, economic development or housing, and can be located outside the borough.
- 7.6 Direct investment in commercial property offers a relatively familiar path as the Council already has a diversified property portfolio including office, retail and industrial assets which currently generates a net annual revenue stream. Other potential investment opportunities include renewable energy (for example solar farms and solar bonds) and development of a commercial loan portfolio including loans to registered social landlords within the borough to fund housing development.
- 7.7 The aim of the strategic asset development programme will be to steer and manage development opportunities from the Council's property asset base so as to deliver capital receipts and improved revenue income streams but at the same time securing the regeneration, economic development and housing objectives of the Council. Examples include acquisition and development of strategic town centre sites, housing and industrial sites within the borough (including, for example within the Chatterley Valley Enterprise Zone). Developments may be undertaken on a co-investment basis with public, not for profit and private sector partners.
- 7.8 The MTFs assumes that a return of £250,000 will be generated from these investments from 2021/22, rising to £1m p.a. in 2024/25. This assumption will be validated as initial investment proposals are brought forward for Cabinet approval.
- 7.9 The treasury management strategy has been updated to provide the necessary flexibility to manage this significant programme of acquisitions. Any surplus returns will be recycled to fund future investments.

7.10 The costs of employing specialist commercial advisers, providing training for members and officers involved in investment decisions and undertaking due diligence on early investment opportunities will be met from the Borough Growth Fund. £100,000 of the funds balance has been allocated to support the development of the commercial strategy.

## **8. Balances and Reserves**

8.1 The minimum reserves level was increased as part of the 2019/20 budget setting process to ensure that robust levels were maintained to reflect the levels of risks shown in the budget. A further review of the Council's Balances and Reserves together with a risk assessment informing the levels of these has been undertaken. Details of the risk factors considered and the weightings applied to each are set out at Appendix E.

8.2 The Council currently holds a minimum balance of £100,000 as a Contingency Reserve. It is proposed that this reserve is re-designated as an Income Reserve with a minimum balance of £100,000 in order to provide increased flexibility to manage year-to-year fluctuations in income. If the Income Reserve is used in year it is proposed that this be replenished to a balance of £100,000 during the budget setting process for the following financial year.

8.3 The Council's S151 Officer has undertaken a financial resilience assessment based in part on the recently published CIPFA Financial Resilience Index and has recommended that a minimum level of unallocated reserves and contingencies of £1.548m be held in 2020/21 to reflect the levels of revenue risk shown. Therefore, the Council's Balances and Reserves Strategy for 2020/21 is that there should be a minimum General Fund balance of £1.448m and an Income Reserve of £0.100m.

8.4 The MTFs makes provision for the General Fund balance to be increased to £1.948m over the life of the strategy via annual contributions of £100k commencing in 2021/22. The S151 Officer's recommendation to increase the level of unallocated reserves, together with action already taken to address historic structural budget deficits, is part of continuing action to safeguard the long term financial resilience of the Council and reflects the additional risks that the Council will increasingly be exposed to via the commercial investment strategy over the life of the MTFs.

8.5 Earmarked reserves will be bolstered by £1.668m (per 4.13) to further increase the Council's resilience to risk including that relating to the forthcoming Fair Funding Review.

8.6 The Councils Balances and Reserves (actual at 31 March 2019, and forecast at 31 March 2020 and 31 March 2021) are set out in Appendix E.

## **9. Localised Council Tax Support Scheme 2020/21**

9.1 Section 13A of the Local Government Finance Act 1992, substituted by section 10 of the Local Government Finance Act 2012 requires each billing authority in England to make a Localised Council Tax Reduction scheme, specifying the reductions which are to apply to amounts of Council Tax payable by persons or classes of person whom the authority consider are in financial need.

9.2 Any scheme needs to be approved by the 11<sup>th</sup> March before the start of a new financial year or a default scheme prescribed by regulations will be imposed by the Secretary of State for Communities and Local Government. The scheme for 2020/21 (Appendix J), is intended to remain as per the 2019/20 scheme.

## **10. Legal and Statutory Implications**

10.1 The Council is required to set its Council Tax for 2020/21 by 9 March 2020. It is planned to approve the final budget and council tax rates at this meeting (19 February 2020).

## **11. Risk Statement and Major Risks**

11.1 Section 25 of the Local Government Act 2003 places a duty on the Section 151 Officer to report on the robustness of the budget. The main risks to the Revenue and Capital budgets include:

- Spending in excess of the budget;
- Income falling short of the budget; and,
- Unforeseen elements e.g. changes to legislation or reductions in government grants.

11.2 Such risks require regular and robust monitoring and it is essential that the Council has sufficient useable reserves to call on if required (see Section 8 above). The review and risk assessment indicates that overall unallocated reserves and contingencies are required to be maintained at £1.548m to reflect the levels of risk shown in the revenue budget. In addition a contingency of £1m is required to provide flexibility to manage risks relating to delivery of the capital programme. Earmarked reserves will be bolstered by £1.668m in 2020/21 (per 4.13) to further increase the Council's resilience to risk including that relating to the forthcoming Fair Funding Review.

11.3 The assessment of the Section 151 Officer is that the proposals included in this report are robust and will ensure an adequate level of reserves.

11.4 Treasury management is a major area of risk for the Council in that large amounts of money are dealt with on a daily basis and there are a number of limits and indicators, which must be complied with.

11.5 The overriding consideration in determining where to place the Council's surplus funds is to safeguard the Council's capital. Within this constraint the aim is to maximise the return on capital. Operational procedures, coupled with monitoring arrangements, are in place to minimise the risk of departures from the approved strategy.

## **10. List of Appendices**

- Appendix A: Schedule of Detailed Recommendations
- Appendix B: Revenue Budget 2020/21
- Appendix C: 2020/21 MTFS Funding Strategy
- Appendix D: 2020/21 to 2024/25 MTFS 'Gaps'
- Appendix E: Risk Assessment on Required Balances/Contingency Reserve
- Appendix F: 2020/21 to 2022/23 Capital Programme
- Appendix G: Key Council Achievements in 2019/20
- Appendix H: Flexible Use of Capital Receipts Strategy 2019 to 2022
- Appendix I: 2020/21 Budget Consultation Report
- Appendix J: Local Council Tax Reduction Scheme for 2020/21
- Appendix K: Capital Strategy 2020 to 2030
- Appendix L: Treasury Management Strategy 2020/21
- Appendix M: Investment Strategy 2020/21

## **Appendix A – Schedule of Detailed Recommendations**

The following recommendations set out the decisions needed for the Council to set its own budgets and Council Tax for 2020/21 in addition to the Flexible Use of Capital Receipts Strategy (updated for 2020/21), the Capital Strategy for 2020/2030, the Treasury Management Strategy for 2020/21 and the Investment Strategy for 2020/21.

### **Recommendations**

- (a) That the Revenue Budget for 2020/21 be approved (Appendix B).
- (b) That the updated Medium Term Financial Strategy for 2020/21 to 2024/25 be approved (Appendix C).
- (c) That the Band D Council Tax for 2020/21 be set at £201.14 (a 2.55% increase).
- (d) That the Capital Programme to 2020/21 to 2022/23 be approved (Appendix F).
- (e) That the Capital Strategy for 2020-30 be approved (Appendix K).
- (f) That the updated Flexible Use of Capital Receipts Strategy be approved (Appendix H).
- (g) That the Treasury Management Strategy for 2020/21 be approved (Appendix L).
- (h) That the Investment Strategy for 2020/21 be approved (Appendix M).
- (i) That the Local Council Tax Reduction Scheme for 2020/21 be approved (unchanged from 2019/20) (Appendix J).
- (j) That the un-earmarked minimum balances requirement be confirmed as £1,548,000.
- (k) That it be noted that the Executive Director (Resources and Support Services), under delegated authority assigned by Cabinet on 20 January 2016 and Full Council on 18 May 2016 calculated the following amounts for the year 2020/21:
  - (i) 37,387 being the amount calculated by the Council, in accordance with regulation 3 of the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012, as its council tax base for the whole Council area for the year (Item T in the formula in Section 31B of the Local Government Finance Act 1992, as amended (the “Act”))
  - (ii) For dwellings in those parts of the Council’s area to which a Parish precept relates as in the table below:

<b>Parish/Town Council</b>	<b>Base</b>
Audley	2,576
Betley, Balterley & Wrinehill	595
Chapel & Hill Chorlton	190
Keele	352
Kidsgrove	6,869
Loggerheads	1,948
Madeley	1,486
Maer	267
Silverdale	1,539
Whitmore	870

- (l) That the Council Tax requirement for the Council’s own purposes for 2020/21 (excluding Parish precepts) is £7,520,020.



- (m) That the following amounts be calculated for the year 2020/21 in accordance with Sections 31 to 36 of the Act:
- (i) £76,368,930 being the aggregate of the amounts which the Council estimates for the items set out in Section 31A (2) of the Act taking into account all precepts issued to it by Parish Councils.
  - (ii) £68,254,010 being the aggregate of the amounts which the Council estimates for the items set out in Section 31A (3) of the Act.
  - (iii) £8,114,920 being the amount by which the aggregate at (m)(i) above exceeds the aggregate at (m)(ii) above, calculated by the Council, in accordance with Section 31A (4) of the Act, as its Council Tax requirement for the year. (Item R in the formula in Section 31B of the Act).
  - (iv) £217.05 being the amount at (m)(iii) above (Item R), all divided by Item T (k)(i) above), calculated by the Council, in accordance with Section 31B of the Act, as the basic amount of its Council Tax for the year (including Parish precepts).
  - (v) £594,900 being the aggregate amount of all special items (Parish precepts) referred to in Section 34 (1) of the Act.
  - (vi) £201.14 being the amount at (m)(iv) above less the result given by dividing the amount at (m)(v) above by item T (k)(i) above), calculated by the Council, in accordance with Section 34(2) of the Act, as the basic amount of its Council Tax for the year for dwellings in those parts of its area to which no special item (Parish precept) relates.
  - (vii) **Part of the Council's Area**

<b>Parish/Town Council</b>	<b>£</b>
Audley	261.97
Betley, Balterley & Wrinehill	229.08
Chapel & Hill Chorlton	224.19
Keele	238.00
Kidsgrove	235.19
Loggerheads	222.22
Madeley	244.76
Maer	221.38
Silverdale	220.12
Whitmore	235.47

Being the amounts given by adding to the amount at (m)(vi) above, the amounts of the special item or items relating to dwellings in those parts of the Council's area mentioned above, divided in each case by the amount at (k)(ii) above calculated by the Council in accordance with Section 34(3) of the Act, as the basic amount of its Council Tax for the year for dwellings in those parts of its area to which one or more special items relate.

(viii) **Valuation Bands**

<b>Parish/Town Council</b>	<b>Valuation Bands (£)</b>
----------------------------	----------------------------

	A	B	C	D	E	F	G	H
Audley	174.65	203.75	232.86	261.97	320.19	378.40	436.62	523.94
Betley, Balterley & Wrinehill	152.72	178.17	203.62	229.08	279.99	330.89	381.80	458.16
Chapel & Hill Chorlton	149.46	174.37	199.27	224.19	274.01	323.83	373.65	448.38
Keele	158.67	185.11	211.55	238.00	290.89	343.77	396.67	476.00
Kidsgrove	156.79	182.92	209.05	235.19	287.46	339.72	391.98	470.38
Loggerheads	148.15	172.83	197.52	222.22	271.61	320.98	370.37	444.44
Madeley	163.17	190.37	217.56	244.76	299.15	353.54	407.93	489.52
Maer	147.59	172.18	196.78	221.38	270.58	319.77	368.97	442.76
Silverdale	146.75	171.20	195.66	220.12	269.04	317.95	366.87	440.24
Whitmore	156.98	183.14	209.30	235.47	287.80	340.12	392.45	470.94
Other Parts of Borough Area	134.09	156.44	178.78	201.14	245.84	290.53	335.23	402.28

Being the amounts given by multiplying the amounts at (m)(vi) and (m)(vii) above by the number which, in the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation Band D, calculated by the Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

- (n) That it be noted that for the year 2020/21 the major precepting authorities have stated the following amounts in precepts issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992 for each of the categories of dwelling shown below:-

<b>Preceptor</b>	<b>Valuation Bands (£)</b>							
	A	B	C	D	E	F	G	H
Staffordshire County Council	863.97	1007.96	1151.96	1295.95	1583.94	1871.93	2159.92	2591.90
Staffordshire Commissioner Fire & Rescue Authority	51.49	60.08	68.66	77.24	94.40	111.57	128.73	154.48
Office of the Staffordshire Police & Crime Commissioner	150.06	175.07	200.08	225.09	275.11	325.13	375.15	450.18

- (o) That having calculated the aggregate in each case of the amounts at (m)(viii) and (i) above, the Council, in accordance with Section 30(2) of the Act, hereby sets the following amounts as the amounts of Council Tax for the year 2020/21 for each of the categories of dwelling shown below:

<b>Parish/Town Council</b>	<b>Valuation Bands (£)</b>							
	A	B	C	D	E	F	G	H
Audley	1,240.17	1,446.86	1,653.56	1,860.25	2,273.64	2,687.03	3,100.42	3,720.50
Betley, Balterley & Wrinehill	1,218.24	1,421.28	1,624.32	1,827.36	2,233.44	2,639.52	3,045.60	3,654.72
Chapel & Hill Chorlton	1,214.98	1,417.48	1,619.97	1,822.47	2,227.46	2,632.46	3,037.45	3,644.94
Keele	1,224.19	1,428.22	1,632.25	1,836.28	2,244.34	2,652.40	3,060.47	3,672.56
Kidsgrove	1,222.31	1,426.03	1,629.75	1,833.47	2,240.91	2,648.35	3,055.78	3,666.94
Loggerheads	1,213.67	1,415.94	1,618.22	1,820.50	2,225.06	2,629.61	3,034.17	3,641.00
Madeley	1,228.69	1,433.48	1,638.26	1,843.04	2,252.60	2,662.17	3,071.73	3,686.08
Maer	1,213.11	1,415.29	1,617.48	1,819.66	2,224.03	2,628.40	3,032.77	3,639.32
Silverdale	1,212.27	1,414.31	1,616.36	1,818.40	2,222.49	2,626.58	3,030.67	3,636.80
Whitmore	1,222.50	1,426.25	1,630.00	1,833.75	2,241.25	2,648.75	3,056.25	3,667.50
Other Parts of Borough Area	1,199.61	1,399.55	1,599.48	1,799.42	2,199.29	2,599.16	2,999.03	3,598.84

## Appendix B – Revenue Budget 2020/21

Area	2019/20 General Fund		2020/21 General Fund		Note
	Estimate £	Band D Council Tax £	Estimate £	Band D Council Tax £	
Administration Before Recharges	5,384,660	145.07	6,161,680	164.81	
Less Recharges to Services	(5,384,660)	(145.07)	(6,161,680)	(164.81)	
Total Administration Net of Recharges	-	-	-	-	
Holding Accounts Before Recharges	2,377,120	64.04	2,240,390	59.92	
Less Recharges to Services	(2,377,120)	(64.04)	(2,240,390)	(59.92)	
Total Holding Accounts Net of Recharges	-	-	-	-	
Central Services	2,153,090	58.01	2,205,640	58.99	
Cultural Services	3,600,430	97.00	4,269,640	114.20	A
Environmental Services	6,788,170	182.89	6,626,520	177.24	
Planning	1,367,010	36.83	1,579,150	42.24	
Transport	(69,640)	(1.88)	355,290	9.50	A
Housing	1,236,550	33.31	1,126,380	30.13	
<b>Net Cost of Services</b>	<b>15,075,610</b>	<b>406.16</b>	<b>16,162,620</b>	<b>432.30</b>	
Pensions Liabilities Account	412,000	11.10	415,000	11.10	
Investment Properties	443,800	11.96	810,770	21.69	A
Interest and Investment Income	10,170	0.27	(3,330)	(0.09)	
<b>Net Operating Expenditure</b>	<b>15,941,580</b>	<b>429.49</b>	<b>17,385,060</b>	<b>465.00</b>	
Contribution to/(from) Revenue Reserves	821,840	22.14	2,504,050	66.98	B
Contribution to/(from) Capital Reserves	(3,713,400)	(100.04)	(4,199,420)	(112.32)	C
<b>Amount to be met from Government Grant and Local Taxpayers</b>	<b>13,050,020</b>	<b>351.59</b>	<b>15,689,690</b>	<b>419.66</b>	
Revenue Support Grant	-	-	(63,490)	(1.70)	
Other Non-Specific Grants	(934,680)	(25.18)	(603,720)	(16.15)	
Business Rates Retention Funding	(4,893,370)	(131.84)	(5,833,460)	(156.03)	C
Collection Fund Deficit/(Surplus)	58,160	1.57	(1,669,000)	(44.64)	B
<b>Borough Council Tax Requirement</b>	<b>7,280,130</b>	<b>196.14</b>	<b>7,520,020</b>	<b>201.14</b>	
Staffordshire County Council Precept		1,246.23		1,295.95	
Fire Authority Precept		75.73		77.24	
Police Authority Precept		216.56		225.09	
<b>Total Council Tax Requirement</b>		<b>1,734.66</b>		<b>1,799.42</b>	

The Council Tax Base used for 2020/21 in the above table is 37,387.

### Notes

- A greater value of impairment is budgeted to be made during 2020/21. This reflects the increased capital programme that will be undertaken, and is also reflected in the increased contribution from capital reserves.
- Budgeted contributions to revenue reserves will increase for 2020/21. This reflects the establishment of the Borough Growth Fund, a surplus on the Business Rates collection fund and in the amount estimated to be collected during 2020/21 (both of which will be contributed to reserves for resilience purposes).
- Business Rates Retention funding has increased for 2020/21 as per the MTFs funding strategy for 2020/21. An additional amount over that included in the MTFs funding strategy is also estimated to be collected during 2020/21 (as per Note B, this will be contributed to reserves for resilience purposes).
- Budget contributions from capital reserves will increase for 2020/21. This reflects the additional impairment referred to in Note A.

**Depreciation.** The measure of the cost or revalued amount of the benefits of a fixed asset that have been consumed during the year. Consumption includes wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, passage of time or obsolescence. Depreciation charges are offset by a transfer from the Capital Adjustment Account in order to ensure that they do not count against the council tax.

**Impairment.** A reduction in the value of a fixed asset below its carrying amount on the balance sheet. In this case, certain assets will have works of repair or improvement or other work to assets is planned to take place in 2019/20, which might be expected to result in an addition to the balance sheet carrying amount of the same amount as the expenditure incurred. However, it is likely that in fact the value will not be increased because the valuation principles employed do not recognise any increase in the real value of the assets. In such cases, the amount of non-value adding expenditure is classed as impairment and is written off as an impairment charge. These impairment charges are offset by a transfer from the Capital Adjustment Account in order to ensure that they do not count against the council tax.

**Collection Fund.** A fund accounting for Council Tax and Non-Domestic Rates received by the Council and the payments which are made from the fund including precepts to other authorities, the Council's own demand and shares of business rates receipts. The surplus or deficit for the year (essentially the difference between the amounts collected and the amounts paid out of the Fund) must be cleared by a transfer out of or into the Fund in the following year by the Council and the other major precepting authorities.

**Contributions to/(from) Capital Reserves.** Comprises transfers to or from the Capital Adjustment Account. This account is used to eliminate capital transactions, such as depreciation and impairment charges, which have to be debited or credited to the revenue account in order to comply with proper accounting practice but which statutorily cannot count against the council tax.

**Appendix C - 2020/21 MTFS Funding Strategy**

Ref	Service Area	Description	£000's	% of Budget Line(s)	Detail
<b>Income</b>					
I2	Environmental Health	Licensing Income	20	3.8%	Increased demand in licensing requirements from customers
I3	Operational Services	Bereavement Services Income	10	0.7%	Increased memorialisation offer to customers
I4	Housing Regeneration & Assets	Street Naming/ Numbering	20	166.7%	Increased levels of income received during 2018/19 and 2019/20
I5	Recycling and Fleet	New Properties Delivery Charge	16	New	Delivery charge for waste/recycling bins to properties on new developments
I6	Recycling and Fleet	Trade Waste Income	50	10.0%	Increased marketing and sales regarding the trade waste service
I7	Planning and Development	Pre Planning Application Advice	19	76.0%	Increased level of income following review of fee structure
			<b>135</b>		
<b>Staffing Related Efficiencies</b>					
S1	Revenues & Benefits/Customer Services	Restructure	300	TBC	Restructure of Revenues and Benefits and Customer Services
S2	Finance	Car Leasing Scheme	8	72.7%	Car leases not renewed following expiry
S3	Finance	Payroll	25	44.9%	Payroll function to be undertaken by Stoke-on-Trent City Council
S4	All	Vacant Posts, Retirements, Reprioritisation	162	TBC	Vacant posts, service reprioritisation and employees retirement
			<b>495</b>		
<b>Good Housekeeping/General Other Savings/Changes in Base Budgets</b>					
G1	Housing Regeneration & Assets	Bus Station	10	33.4%	Contribution to Banksman post - post ceased
G2	ICT Services	Staffordshire Connects	19	39.6%	Saving in partnership contribution following change of Customer Relationship Manager system
			<b>29</b>		
<b>Alternative Sources of Finance/Other</b>					
A1	Corporate	Council Tax Base	53	0.7%	Increase in Council Tax Base (increase of 270 residential properties), includes the impact of the Empty Homes Premium
A2	Corporate	Business Rates Base	332	7.0%	This additional funding is due to the Business Rates collection fund being in surplus at the end of 2018/19 and is net of additional provision for appeals.
A3	Corporate	Council Tax Increase	187	2.55%	Assumed increase of £5 per Band D equivalent property (2.55%)
A4	Corporate	Parish Council Section 136 Contributions	18	25.0%	Reduction of 25% of the 2016/17 payment made to Parish Councils for concurrent functions as agreed as part of the 2017/18 budget setting process - final reduction
			<b>590</b>		
<b>Grand Total</b>			<b>1,249</b>		

Detail	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Description
<b>Employees:</b>						
Increments	56	46	31	13	6	Employees due an increment in 2020/21
Pay awards	294	301	309	317	324	2.5% pay award assumed for all years
Superannuation increases	60	59	58	56	57	17.1% of increase in salaries
Superannuation lump sum increases	230	74	76	78	80	Increase from the currently discounted figure in 2020/21.
National insurance	48	48	47	45	46	13.8% of increase in salaries
Additional holiday pay	34	1	1	1	1	Holiday pay due on overtime
<b>Premises/Transport</b>						
Business Rates	27	23	24	24	25	Inflationary increase in business rates payable (per CPI)
Utilities	7	7	7	13	7	Inflationary increase in gas and electric (per Department for Business, Energy and Industrial Strategy)
Fuel	6	6	6	12	6	Inflationary increase in fuel (per Department for Business, Energy and Industrial Strategy)
<b>Income:</b>						
Fees and charges	-120	-123	-125	-128	-130	3% increase in fees and charges
New Homes Bonus	347	246	158	192	106	Drop out of New Homes Bonus legacy payments
BRR pilot/pooling - additional income	-200	200	-	-	-	Pooling arrangements ahead of the spending review
Government grant	35	35	35	35	35	Reduction in Housing Benefit /Council Tax Admin grant
Settlement Funding Assessment	-77	-79	-80	-82	-84	Inflationary increase in baseline funding level (per CPI)
Business Rates surplus		-500				
<b>New Pressures:</b>						
Borough growth fund	250	-	-	-	-	Contribution to the borough growth fund
Income pressures	284	169	169	169	169	To enable income budgets to be corrected
Jubilee 2 Operating Deficit	100	50	-	-	-	To remove the current operating deficit of Jubilee 2
Borrowing/leasing costs	-45	246	301	260	217	Revenue costs relating to the capital programme
Waste service	-100	-	-	-	-	£100,000 saving based on initial modelling undertaken
Castle House/facilities management	15	-	-	-	-	Review following full occupancy of Castle House
Asset management system	5	-	-	-	-	Annual maintenance costs of software
Streetscene community payback	25	-	-	-	-	Mainstreaming of community payback Streetscene costs
Rough sleepers service	5	-	-	-	-	Increase in contract costs
Additional staffing resources	101	-	-	-	-	Human Resources, Data Protection, Democratic Services
Britain in Bloom	10	-	-	-	-	Additional resources
Microsoft licenses	-	50	-	-	-	Increase in charges to the Council
Contribution to unallocated reserves		100	100	100	100	To increase resilience of Unallocated Reserves
<b>One off Budget Items:</b>						
Flexible use of capital receipts	252	-	-	-	-	Flexible use of capital receipts undertaken in 2019/20
	-400	400				Flexible use of capital receipts undertaken in 2020/21
<b>TOTAL GAPS</b>	<b>1249</b>	<b>1367</b>	<b>1115</b>	<b>1106</b>	<b>858</b>	

**Appendix E – Risk Assessment on Required Reserve Balances (i) and Actual/Forecast Reserve Balances at 31 March 2019 to 2021 (ii)**

***i. Risk Assessment on Required Reserve Balances***

Note: All these risks relate to the Business Objective ‘To set a balanced, affordable and achievable budget’

**All of the risks fall into the “Finance” Category**

Item	Risk	Potential Consequences	Risk Score I * L	Risk Rating	Specify Existing Control Measures	Final Score I * L	Balance Required (£)	Final Risk Rating	Further Action Required
1	Increase in fees and charges does not result in higher income levels	Shortfall in income leading to overspends	3 x 4	High	Included in calculation of prudent minimum balances.	3 x 3	260,000	High	None
2	Reduced Income due to non-availability of service (e.g. through closure of facilities for repairs)	Shortfall in income leading to overspends	3 x 3	High	Included in calculation of prudent minimum balances.	3 x 3		High	None
3	Income falls short of Budget because of general change in market conditions, e.g. because of demand fluctuations	Shortfall in income leading to overspends	3 x 5	High	Included in calculation of prudent minimum balances.	3 x 3	81,500	High	None
4	Bad debts reduce the Council's income	Shortfall in income leading to overspends Need to top up Bad Debts Provision	3 x 4	High	The Council has a sundry bad debts provision (£275k balance at 31/03/19). £30k contribution to provision included in the base budget.	3 x 3	81,000	High	Increase monitoring of collection performance
5	Employee budgets – The budget is discounted on the assumption there will be vacancies. The impact of 1% vacancy is about £150,000	Vacancies do not occur leading to additional costs	3 x 3	High	The budget assumes a vacancy factor of 2%. This is realistic compared with experience from previous years.	3 x 3	57,000	High	None
6	Employee Budgets - The 2020/21 employee pay settlement results in an increase higher than included in the budget	Additional unbudgeted costs	2 x 1	Low	Pay Spine review known in advance. Balances sufficient to deal with any additional costs, plus reduced job security in economy.	2 x 1	19,000	Low	None
7	Problems with staff recruitment/retention resulting in the payment of market supplements at extra cost	Additional unbudgeted costs	3 x 3	High	Subject to ongoing review.	3 x 3	19,000	High	None

Item	Risk	Potential Consequences	Risk Score I * L	Risk Rating	Specify Existing Control Measures	Final Score I * L	Balance Required (£)	Final Risk Rating	Further Action Required
	Problems with staff sickness/suspensions resulting in the needs to use agency/interim staff at extra cost.	Additional unbudgeted costs	3 x 3	High	Situation subject to ongoing review.	3 x 3	94,000	High	None
9	Council becomes liable to pay compensation or legal fees or other unforeseen commitment arises.	Additional unbudgeted costs	3 x 3	High	Included in calculation of prudent minimum balances	3 x 3	239,500	High	None
10	Inflation relating to supplies and services exceeds the allowance in the budget.	Additional unbudgeted costs	3 x 3	High	Included in calculation of prudent minimum balances	3 x 3	21,700	High	None
11	Existing commitment(s) missed out of budget	Additional unbudgeted costs	3 x 2	Moderate	Budgets subject to checking at several levels. Preparation of standstill budget for comparison.	3 x 2	25,000	Moderate	None
12	Fall in interest rates reduces income to the Council.	Investment income targets not met	2 x 2	Moderate	Rates are very low now. A decrease would make only a relatively small difference. Included in calculation of prudent minimum balances	1 x 2	3,000	Low	None
13	Profile of capital spend differs adversely from that assumed in the investment interest calculation	Investment income targets not met	2 x 2	Moderate	Capital Budgets have been realistically set. Due to low interest rates investment income is no longer significant.	1 x 2		Low	None
14	Fuel costs increase by more than allowed for in budget.	Additional unbudgeted costs	3 x 3	High	Realistic increases included in base budget.	2 x 3	11,000	Moderate	None
15	Energy costs increase by more than allowed for in budget.	Additional unbudgeted costs	3 x 3	High	Realistic increases included in base budget.	2 x 3		Moderate	None
16	Unforeseen major repairs needed to Council properties.	Additional unbudgeted costs	4 x 3	High	Planned maintenance programme in place and stock condition survey.	3 x 2	50,000	Moderate	None
17	Insurances – unexpected increases in premiums.	Additional unbudgeted costs	3 x 3	High	Included in calculation of prudent minimum balances	3 x 3	19,000	High	None



Item	Risk	Potential Consequences	Risk Score I * L	Risk Rating	Specify Existing Control Measures	Final Score I * L	Balance Required (£)	Final Risk Rating	Further Action Required
18	Insurances - high level of excesses to be met by Council or uninsured losses	Additional unbudgeted costs	3 x 3	High	Included in calculation of prudent minimum balances. Insurance Provision established.	3 x 3	56,000	High	Monitor level of Insurance Provision
19	Government increase NI rates during 2020/21. An increase of 1% adds about £100,000 to the Council's costs	Additional unbudgeted costs	3 x 3	High	Included in calculation of prudent minimum balances	3 x 3	45,000	High	None
20	Loss of VAT Exempt Status	Additional unbudgeted costs	3 x 3	High	None	3 x 2	50,000	Moderate	Continue to monitor position regularly
21	Savings built into Budget are not realised	Additional unbudgeted costs	3 x 3	High	Regular Budget Monitoring	3 x 3	37,500	High	None
22	New Legislation imposes extra costs but provides insufficient resources	Additional unbudgeted costs	3 x 3	High	Contingency Reserve available. Included in calculation of prudent minimum balances.	3 x 3	37,500	High	None
23	Partnerships - expenses falling on Council as accountable body	Additional unbudgeted costs	2 x 3	Moderate	Few partnerships in place now. Monitor partnership activities and ensure carried out according to agreements.	2 x 1	7,500	Low	None
24	Civil Emergency	Additional unbudgeted costs	5 x 2	High	Bellwin Scheme will meet 100% of eligible expenditure within 1 month of an emergency (over threshold set- £25k for NBC)	4 x 2	50,500	Moderate	None
25	Investment Counterparty (including own bank re current account, etc) fails to meet its financial commitments	Loss of interest due Ongoing loss of interest owing to loss of capital	2 x 3	Moderate	Use of credit rating agencies Counterparty list based on minimum ratings with CDS overlay. Limits to investments with one counterparty (£7m)	2 x 3	10,500	Moderate	Frequent reviews of investment strategy
26	Municipal Mutual Insurance (MMI) Clawback	Additional unbudgeted costs	4 x 4	Extreme	MMI Provision	4 x 3	37,500	High	Consider increasing amount of provision if

Item	Risk	Potential Consequences	Risk Score I * L	Risk Rating	Specify Existing Control Measures	Final Score I * L	Balance Required (£)	Final Risk Rating	Further Action Required
									reports from administrator indicate it to be necessary
27	Data Protection breach resulting in fine	Additional unbudgeted costs	3 x 3	High	Data Protection Policy Reminders to staff. All staff complete mandatory Data Protection e-learning module.	3 x 3	75,000	High	None
28	Members act against officer advice resulting in cost to the Council	Additional unbudgeted costs	3 x 3	High	Agenda pre-meetings. Liaison with members. Monitoring Officer.	3 x 3	75,000	High	None
29	Volatility in respect of Brexit	Additional unbudgeted costs re supplies and services and utilities	3 x 3	High	Include in calculation of prudent minimum balances.	3 x 3	85,000	High	Monitor

**Impact (I)**

- 1 - Negligible <£25,000
- 2 - Marginal <£50,000
- 3 - Serious <£250,000
- 4 - Critical <£1m
- 5 - Catastrophic >.£1m

**Likelihood (L)**

- 1 - Extremely Unlikely
- 2 - Remote Chance
- 3 - Possible
- 4 - Probable
- 5 - Frequent / very likely

**Score**

- 1-2
- 3-8
- 9-15
- 16-25

**Risk rating**

- Low Risk
- Moderate Risk
- High Risk
- Extreme Risk

ii. **Actual/Forecast Reserve Balances at 31 March 2019 to 2021**

Reserve	Actual Balance at 31/3/19 (£000's)	Estimated Change in 2019/20 (£000's)	Estimated Balance at 31/3/20 (£000's)	Estimated Change in 2020/21 (£000's)	Estimated Balance at 31/3/21 (£000's)	Purpose
General Fund Balance	1,448	-	1,448	-	1,448	Working balance to cover unforeseen adverse events affecting the budget. Approved minimum balance of £1.448m
Contingency Reserve	100	-	100	-	100	To meet cost of unforeseen contingencies or for any other purpose approved by Council. Approved minimum balance of £0.100m
Equipment Replacement Fund	531	90	621	(139)	482	To pay for the replacement of items of plant and equipment
Renewals & Repairs Fund	-	-	-	-	-	To meet the cost of repairs and maintenance of Council owned buildings and structures
ICT Development Fund	49	(33)	16	(8)	8	To meet the cost of new IT requirements, including capital expenditure
Budget Support Fund	302	94	396	(116)	280	To support the General Fund revenue budget or to meet costs approved by Council
Borough Growth Fund	56	7	63	50	113	To fund investment in corporate priorities
Conservation & Heritage Fund	38	-	38	-	38	To provide repair grants to owners of historic buildings
Mayor's Charity Reserve	9	-	9	-	9	To hold funds on behalf of the Mayor's Charity
Museum Purchases Fund	60	(18)	42	-	42	To purchase, conserve and enhance exhibits
Business Reserve	500	(500)	-	1,668	1,668	To hold surpluses of business rates received per the revenue account and to pay subsequent deficits on the collection fund
Keele Master Plan Reserve	36	(18)	18	(18)	-	To meet the costs of the Keele master planning exercise
Elections Reserve	-	50	50	50	100	To provide budget on a 4 year cycle for Borough Elections
<b>Totals</b>	<b>3,129</b>	<b>(328)</b>	<b>2801</b>	<b>1,490</b>	<b>4,291</b>	

**Appendix F – 2020/21 to 2022/23 Capital Programme (2020/21 shown in detail in second table)**

CAPITAL PROJECTS	Proposed Programme			
	2020/21	2021/22	2022/23	TOTAL
	£	£	£	£
<b>PRIORITY - Local Services that work for Local People</b>				
Service Area - Council Modernisation	380,000	506,000	110,000	996,000
<b>Total</b>	<b>380,000</b>	<b>506,000</b>	<b>110,000</b>	<b>996,000</b>
<b>PRIORITY - Growing our People and Places</b>				
Service Area - Housing Improvements	1,070,000	1,080,000	2,615,000	4,765,000
Service Area - Managing Property & Assets	131,531	101,500	410,846	643,877
<b>Total</b>	<b>1,201,531</b>	<b>1,181,500</b>	<b>3,025,846</b>	<b>5,408,877</b>
<b>PRIORITY - A Healthy, Active and Safe Borough</b>				
Service Area - Environmental Health	10,000	0	0	10,000
Service Area – Street Scene and Bereavement Services	295,600	1,170,600	1,265,600	2,731,800
Service Area - Recycling and Fleet	3,766,000	609,500	351,000	4,726,500
Service Area - Leisure	3,682,000	331,000	687,000	4,700,000
Service Area - Museum	95,000	240,000	40,000	375,000
Service Area - Managing Property & Assets	55,547	40,456	273,403	369,406
Service Area - Engineering	165,873	140,193	806,287	1,112,353
<b>Total</b>	<b>8,070,020</b>	<b>2,531,749</b>	<b>3,423,290</b>	<b>14,025,059</b>
<b>PRIORITY - A Town Centre for All</b>				
Service Area - Managing Property & Assets	1,702,553	1,110,383	81,126	2,894,061
<b>Total</b>	<b>1,702,553</b>	<b>1,110,383</b>	<b>81,126</b>	<b>2,894,061</b>
<b>CONTINGENCY/FEASABILITY STUDIES</b>				
	1,100,000	100,000	100,000	<b>1,300,000</b>
<b>TOTAL</b>	<b>12,454,103</b>	<b>5,429,631</b>	<b>6,740,262</b>	<b>24,623,997</b>

<b>FUNDING</b>				
Capital Receipts C/Fd from 2019/20	2,062,506			<b>2,062,506</b>
Flexible Use of Capital Receipts	-400,000			<b>-400,000</b>
Capital Receipts	4,330,000	500,000	500,000	<b>5,330,000</b>
External Contributions	2,065,000	2,765,000	1,015,000	<b>5,845,000</b>
ICT Development Fund	50,000	50,000	50,000	<b>150,000</b>
Borrowing/Leasing	4,346,597	2,114,631	5,175,262	<b>11,636,491</b>
<b>TOTAL</b>	<b>12,454,103</b>	<b>5,429,631</b>	<b>6,740,262</b>	<b>24,623,997</b>

<b>CAPITAL PROJECTS</b>	<b>Proposed Programme 2020/21 £</b>
<b>PRIORITY - Local Services that work for Local People</b>	
<b><i>Service Area - Council Modernisation</i></b>	
Mobile Technology Roll Out	30,000
Desktop Technology Refresh	10,000
Microsoft LAR Uplifts	50,000
Digital Delivery Integration Costs	20,000
Replacement of Civica APP	30,000
Replacement of Civica Financials	30,000
Implementation of SharePoint	20,000
Recontracting of Wide Area Network links	40,000
Fixed line telephony re-contracting	50,000
Packet Shaper refresh	20,000
E-payments replacement	60,000
Public Service Wi-Fi	20,000
<b>Total (Service Area)</b>	<b>380,000</b>
<b>Total Priority</b>	<b>380,000</b>
<b>PRIORITY - Growing our People and Places</b>	
<b><i>Service Area - Housing Improvements</i></b>	
Disabled Facilities Grants	1,000,000
Empty Homes Grants	40,000
Carbon Management	30,000
<b>Total (Service Area)</b>	<b>1,070,000</b>
<b><i>Service Area - Managing Property &amp; Assets</i></b>	
Stock Condition Survey Works	85,323
Central Depot	46,208
<b>Total (Service Area)</b>	<b>131,531</b>
<b>Total Priority</b>	<b>1,201,531</b>
<b>PRIORITY - A Healthy, Active and Safe Borough</b>	
<b><i>Service Area – Environmental Health</i></b>	
CCTV/Body worn cameras	10,000
<b>Total (Service Area)</b>	<b>10,000</b>
<b><i>Service Area - Streetscene &amp; Bereavement Services</i></b>	
Footpath Repairs	40,000
Play Area Refurbishment	50,000
Railings/Structures Repairs	25,000
Britain in Bloom	25,000
Tree Management System Updates	20,000
Traveller Encroachment	5,000
Memorial Survey	5,000
Town Centres Street Furniture	5,000
Crematorium Monthly Gardens	5,000
Replacement Cremators	50,000
Community Project Match Funding	5,000
Probation Service Community Payback Scheme	15,600
Vehicle Tracking and Route Optimisation	30,000
Grounds Maintenance Invest to Save Programme	15,000
<b>Total (Service Area)</b>	<b>295,600</b>
<b><i>Service Area - Recycling &amp; Fleet</i></b>	

Replacement Bins/Containers	100,000
Wheelie Bins – New Recycling Service	920,000
Paper Recycling Internal Bin Caddie	154,000
Twin Body RCV for New Recycling Service x 7	1,650,000
New Food Waste Collection Service Vehicles x 7	490,000
Corporate Fleet Replacement	352,000
Transfer Station Alterations (New Recycling Service)	100,000
<b>Total (Service Area)</b>	<b>3,766,000</b>
<b>Service Area - Leisure</b>	
Poolside Fitness Equipment	30,000
Floor Cleaning Machine	15,000
Replacement/Increased Seating	1,000
Redecoration/Tiling/Wall Protection	15,000
Carbon Management	40,000
Upgrade Public WiFi	20,000
Kidsgrove Sports Centre	3,151,000
Westlands Tennis Courts LTA Match Funding	210,000
Football Facilities Match Funding	200,000
<b>Total (Service Area)</b>	<b>3,682,000</b>
<b>Service Area - Museum</b>	
HLF Match Funding	75,000
CCTV Replacement/Upgrade	20,000
<b>Total (Service Area)</b>	<b>95,000</b>
<b>Service Area - Managing Property &amp; Assets</b>	
Stock Condition Survey Works	55,547
<b>Total (Service Area)</b>	<b>55,547</b>
<b>Service Area - Engineering</b>	
Ryehills over Marian Platt walkway	150,000
Kidsgrove Loophole Bridge Over Walkway in Park	7,865
St James Closed Churchyard, Newchapel	8,008
<b>Total (Service Area)</b>	<b>165,873</b>
<b>Total Priority</b>	<b>8,070,020</b>
<b>PRIORITY - A Town Centre For All</b>	
<b>Service Area - Managing Property &amp; Assets</b>	
Stock Condition Survey Works	174,827
Midway Car Park, Newcastle	452,726
Demolition of Civic Offices	1,000,000
Car Parking Machines	30,000
Markets	40,000
Bus Shelters	5,000
<b>Total (Service Area)</b>	<b>1,702,553</b>
<b>Total Priority</b>	<b>1,702,553</b>
<b>CONTINGENCY</b>	
	1,000,000
<b>FEASIBILITY STUDIES</b>	
	100,000
<b>TOTAL</b>	<b>12,454,103</b>

## **Appendix G – Key Council Achievements in 2019/20**

### **KEY ACHIEVEMENTS IN 2019/20**

#### **Britain in Bloom**

Newcastle-under-Lyme has achieved its 18<sup>th</sup> consecutive gold award in the regional Heart of England in Bloom campaign, as well as the judges' discretionary award in the Environmental category for Silverdale Country Park and a merit award for one of our local volunteers. Business sponsorship of the campaign achieved cash income of over £60,000 with further "in kind" contributions to a value of over £10,000. Phase 5 of the Public Art programme, a "snowdrops" sculpture, was installed at Northwood Lane Roundabout. A total of 6 of the Borough's strategic parks and cemeteries achieved Green Flag status this year.

#### **Bereavement Services**

The Council's Bereavement Services achieved Gold Standard again in the Charter for the Bereaved and held an annual stakeholder meeting with local Funeral Directors, Memorial Masons and Clergy to discuss future service improvements. A memorial afternoon was held at Keele Cemetery in December for families to remember loved ones.

#### **Environmental Action**

The Council delivered a programme of environmental education and enforcement activities, engaging with 25 schools, and facilitated over 1000 hours of community volunteering activity in local parks, open spaces and neighbourhoods. Successful enforcement action has been delivered in relation to unauthorised traveller encampments and abandoned vehicles. The number of vacant allotment plots has reduced and income from this has increased. Birchenwood Playing Fields and pavilion have been leased to a local community sports club. Capital programme improvement and equipment replacement projects have been successfully delivered in relation to the Council's playground stock, and the SUNRISE partnership project has improved biodiversity at Thistleberry Parkway, Lyme Valley Parkway and Pool Dam Local Nature Reserve.

#### **Streetscene**

As well as delivering the daily Borough-wide street cleansing and grounds maintenance work, the Streetscene team has worked in partnership with the Probation Service Community Payback team to deliver a programme of litter and graffiti clearance, painting of railings, play equipment and planters, and vegetation management at various sites across the Borough. Deterrent measures to protect against unauthorised traveller encampments have been installed at a number of locations and the Council's footpath and railing stock has been repaired at key sites. A contract has been let to progress the large volume of tree work which has been identified as part of the Council's ongoing tree inspection programme, and a Mobile Elevated Work Platform has been purchased to assist in making this work safer and more efficient.

#### **New Garden Waste Service**

Introduced chargeable garden waste service to residents with gardens within the Borough. New service commenced in January 2019, and provides residents with a fortnightly collection service for garden waste for a full twelve months, at the cost of £36 for the year. Nearly 50% of residents signed up for the scheme. The quality of material collected is excellent, and subscriptions have filled a budget hole created by the removal of external funding which helped provide this service in the past.

#### **Our Digital Council**

The introduction of a customer portal and self-service tools for a basket of council services will be a major step forward in the digital delivery of services for residents in Newcastle-under-Lyme. Digital technologies have the potential to improve the way the majority of council customers interact with local authority services whilst at the same time generating significant efficiency savings. Over the next 12 months we will further embrace the digital delivery of other services of the Council to enhance the local services offered, a significant dedicated resource has been committed in order to progress this even further.

Added to this, officers in the Recycling and Waste service are delivering major successes in a drive to get the most out of the Bartec waste management system. The technology is used by more than 60 councils in the UK for scheduling all types of waste collection, monitoring performance and continuous service improvement. Bartec helps teams out on the road to record key service data such as missed bins, contamination, presentation rates and so on.

### **The Council's website**

The Council's website retained its Plain English Crystal Mark – a key factor of this award is accessibility, and supports work to ensure compliance and accessibility requirements as stated in the 2018 regulations for Public Sector websites by 23 September 2020.

### **Leisure**

A new Playing Pitch Strategy produced to support the Joint Local Plan work. Delivery of the strategy, will drive external investment in outdoor sport activities. In partnership with the BID, the Ride Staffs Cycle Race was brought to Newcastle Borough.

### **Jubilee 2**

The Council has made good progress towards addressing long term issues through the appointment of Alliance Leisure to support marketing development and Strategy Solutions to sell advertising space at Jubilee 2 to boost membership and increase income generation.

### **Cultural developments**

A Heritage Lottery Bid to provide funding for the extension to the Brampton Museum was submitted, and is planned to commence in April 2020.

### **Use of Guildhall**

The Council continues to work with Support Staffordshire and a range of partners to ensure that valuable community support can be provided from community and voluntary sector groups based at the Guildhall. A wide range of organisations such as Staffordshire Adult Autistic Society, Shaw Trust-Work and Health Programme and Moneyline are providing their services for the people of the Borough. Friends of the Guildhall Group are providing cover for the reception area.

### **Supporting Retailers and Local Businesses**

Working with partners, the Council continues to support retailers and local business to remain and prosper in the town centres. The annual Business Boost competition, which provides business support and cash prizes is open to Newcastle based businesses some of which are based in our town centres. Working with Newcastle Business Improvement District and Appetite Creative People and Places Programme, we continue to celebrate our local cultural heritage by promoting events which encourage visitors, support local businesses and raise the profile of our towns.

### **Partnership Working and Support**

Co-ordination of a range of partnership activity (including a launch of the town centre Public Space Protection Order) to address Anti-Social Behaviour and Begging in the town centre undertaken, and is ongoing. There has also been a review of the town centre CCTV and creation of a joint framework with SOTCC for a new improved service for 2020 and beyond and worked with Newcastle Bid and gained success with the Purple Flag Accreditation.

Delivery of the Daily Vulnerability Hub continues, as does the MARAC pilot, which co-ordinates the response to vulnerable victims of domestic abuse. Several services to deliver support to vulnerable people were commissioned this year:-Safe Recovery, Financial Inclusion and Children and Young.

In the community, assistance given to community groups to achieve external funding and support for the development of Newcastle Dementia Friendly project. The Council has signed up to the Support Staffordshire VCSE Pledge and celebrated our first £2,000 Lyme Lottery winner.

### **HR Developments**



The HR team has undergone restructure and provided a new shared service for Payroll with Stoke City Council. The team have also worked to reorganise Customer Services, Revenues & Benefits and Customer Services. A new Attendance Policy including Guidance and Toolkit documentation provided for staff and training undertaken in December. In addition, Customer Service, Revenues & Benefits & Customer Service have undergone reorganisation.

## **FUTURE PLANS 2020/21**

### **New Recycling Service**

We will be introducing our new recycling and separate food waste collection service to all residents, with a vastly simpler system to use for residents, collecting a greater range of plastics, and utilising wheelie bins for glass cans and plastic, with a strong bag for paper and card. Collections from residents will be made on a fortnightly basis, and will lead to less litter from collections, and more efficient and effective operations. Plans are also in place to introduce a commercial waste recycling service to business within the Borough of Newcastle under Lyme.

### **Keele University Growth Corridor**

The Council continues to have aspirational plans for the long-term expansion of the area to the west of Newcastle as a result of a significant planning exercise by the Council and its partners, focussing on the former golf course at Keele, parts of Silverdale and land adjacent to Keele University. The Keele University Growth Corridor responds to the borough's housing needs and ambitious plans set out in the Keele Deal which identifies opportunities for significant investment at the university and includes the provision for new housing on the former golf course, a new primary school and a small convenience store. An important feature will be the creation of attractive walking routes within the campus and residential parts of the scheme. Land has also been set aside to help the university meet its sustainability aims with renewable energy provision on the campus.

### **Regeneration of the Newcastle and Kidsgrove Town Centres**

The Council has been successful in the first stage of the Future High Streets Fund and is looking forward to developing exciting new plans for the redevelopment of the Ryecroft site as a key site in Newcastle Town Centre. Working with partners the Council will be developing a Business Case for the next stage of the Future High Street Fund.

Newcastle and Kidsgrove towns have both been selected to bid for Town Deal status, two new Town Deal Boards are being developed and working with a wide range of stakeholders including local businesses the Town Boards will be seeking to develop Investment Plans to ensure long term sustainable development takes place.

### **Re-opening of the Kidsgrove Sports Centre**

The Council is working to improve access to sports and leisure facilities for residents in Kidsgrove and surrounding areas as part of a community led initiative to refurbish and re-open the Kidsgrove Sport Centre. A key focus in the coming year will be building on the considerable preparatory work already completed to effect the transfer of the sports centre from the County Council and bring our ambitious plans to fruition.

### **Britain in Bloom**

Newcastle-under-Lyme will be celebrating its 30<sup>th</sup> year of participation in the regional Heart of England in Bloom campaign. To mark this milestone, a 10 year programme of projects and events will be launched based around 3 themes of public art, parks and youth engagement. 2020 will see Phase 6 of the public art programme being installed on Gallowstree Lane Roundabout, the Borough hosting the regional Heart of England in Bloom awards ceremony at Keele Hall and a refurbishment of the landscaping in the Bearpit (Grosvenor Roundabout) as well as many other community projects. 7 of the Borough's strategic parks and cemeteries will apply for Green Flag status this year.

### **Bereavement Services**

The Council's Bereavement Services will seek to achieve Gold Standard again in the Charter for the Bereaved and hold 2 stakeholder meetings with local Funeral Directors, Memorial Masons and Clergy to discuss future service improvements. The Council will launch an affordable "Resident Funeral" offer in partnership with local Funeral Directors and explore the potential for a greater choice of memorialisation options in the grounds of Bradwell Crematorium.

### **Environmental Action**

The Council will deliver a programme of environmental education and enforcement activities, engage with schools, and facilitate over 1000 hours of community volunteering activity in local parks, open spaces and neighbourhoods. Successful enforcement action will be delivered in relation to unauthorised traveller encampments and abandoned vehicles. The number of vacant allotment plots will be further reduced through proactive letting. Capital programme improvement and equipment replacement projects will be successfully delivered in relation to the Council's playground stock, and Section 106 agreement funding will be used to improve a range of facilities in line with the aims of the Open Space Strategy.

### **Streetscene**

As well as delivering the daily Borough-wide street cleansing and grounds maintenance work, the Streetscene team will continue to work in partnership with the Probation Service Community Payback team to deliver a programme of litter and graffiti clearance, painting of railings, play equipment and planters, and vegetation management at various sites across the Borough. The Council's footpath and railing stock will be repaired at key sites. A contract to progress the large volume of tree work which has been identified as part of the Council's ongoing tree inspection programme will continue, and monthly clearances of identified "grotspot" areas will take place.

### **ICT Delivery**

The ICT team will play a crucial role in supporting the Council's Digital ambitions from both the external customer perspective and for internal users. The technology and solutions that ICT deliver over the next 12 months will pave the way to fundamentally alter how services are delivered; allowing staff to be more productive and deliver better outcomes for the residents, visitors and businesses within Newcastle under Lyme.

### **HR Developments**

Next year, the team will work on Organisational Development for the Council and implement Career Pathways for all posts within the Council. Also, corporate training on Managing Mental Health in the Workplace is planned for delivery.



# Flexible Use of Capital Receipts 2019 to 2022



## Introduction

In the Spending Review 2015, the Chancellor of the Exchequer announced that to support local authorities to deliver more efficient and sustainable services, the government will allow local authorities to spend up to 100% of their fixed asset receipts (excluding Right to Buy receipts) on the revenue costs of reform projects.

## Power under which the guidance is issued

1. The Local Government Act 2003 ('the Act'), section 15(1) requires a local authority '... to have regard (a) to such guidance as the Secretary of State may issue, and (b) to such other guidance as the Secretary of State may by regulations specify ...'.
2. Two codes of practice issued by the *Chartered Institute of Public Finance and Accountancy (CIPFA)* contain guidance on capital receipts and local authority accounting that complement the DCLG guidance. These publications are:
  - *The Prudential Code for Capital Finance in Local Authorities*
  - *The Code of Practice on Local Authority Accounting*
3. Local authorities are required to have regard to the current edition of *Treasury Management in Public Services: Code of Practice and Sectoral Guidance Notes* by regulation 2 of the *Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146]* and to the *Local Authority Accounting Code* as proper practices for preparing accounts under section 21(2) of the Act.

## Application

4. This guidance applies with effect from 1 April 2016 to 31 March 2022 – i.e. to the financial year 2016-17 and for each subsequent financial year to which the flexible use of capital receipts direction applies.
5. The Council cannot borrow to finance the revenue costs of service reform and can only use capital receipts from the sale of property, plant and equipment received in the years in which this flexibility is offered.

The Council may not use its existing stock of capital receipts to finance the revenue costs of reform.

## Qualifying expenditure

6. The key criteria to use when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate ongoing savings to the authority.
7. A list of types of project that would qualify for the flexible use of capital receipts is shown below. This list is not meant to be prescriptive or exhaustive and individual authorities who have projects that will generate ongoing savings that are not included in the list provided in the guidance can apply the flexibility to fund those projects.

## Accountability and transparency

8. The Council is required to prepare a strategy that includes separate disclosure of the individual projects that will be funded or part funded through capital receipts flexibility and that the strategy is approved by full Council or the equivalent. This strategy can be included as part of the annual budget documentation and approved by full Council or the equivalent at the same time as the annual budget.

## Qualifying expenditure

### Types of qualifying expenditure

9. Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs or to improve the quality of service delivery in future years.
10. Set up and implementation costs of any new processes or arrangements can be counted as qualifying expenditure. The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure.

## Examples of qualifying expenditure

11. There are a wide range of projects that could generate qualifying expenditure and the list below is not prescriptive. Examples of projects include:
  - Sharing back-office and administrative services with one or more other council or public sector bodies
  - Investment in service reform feasibility work, e.g. setting up pilot schemes
  - Collaboration between local authorities and central government departments to free up land for economic use
  - Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation
  - Sharing Chief-Executives, management teams or staffing structures
  - Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible
  - Aggregating procurement on common goods and services where possible, either as part of local arrangements or using Crown Commercial Services or regional procurement hubs or Professional Buying Organisations
  - Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy – this could include an element of staff training
  - Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, through selling services to others)
  - Integrating public facing services across two or more public sector bodies (for example children's social care, trading standards) to generate savings or to transform service delivery.

## Accountability and transparency

### Preparation

12. For each financial year, the Council should ensure it prepares at least one Capital Strategy (“the Strategy”)

### Content

13. As a minimum, the Strategy should list each project that plans to make use of the capital receipts flexibility, that it details the split of up front funding for each project between capital receipts and other sources, and that on a project by project basis, a cost benefit analysis is included to highlight the expected savings. The Strategy should report the impact on the Councils Prudential Indicators for the forthcoming year and subsequent years.
14. From the 2017-18 Strategy and in each future year, the Strategy should contain details on projects approved in previous years, including a commentary on whether the planned savings or service transformation have been/are being realised in line with the initial cost/benefit analysis.
15. The Strategy may also include any other matters considered to be relevant.

### Approval

16. The Strategy should be approved by the full council.

### Timing

17. For any financial year an efficiency Strategy (“the initial Strategy”) should be prepared and approved before the start of the year.

## 2020/21 Strategy

The Council intends to use capital receipts received in 2020/21 to finance qualifying expenditure up to £400,000 in accordance with the Guidance. The projects which will be financed in this way are shown in the table below.

<b>Project</b>	<b>Expenditure</b>	<b>Expected Savings</b>
	<b>£'000</b>	<b>£'000</b>
Digital Delivery Project	100	150*
Recycling and Environmental Action	200	150*
Financial Sustainability	100	100*
<b>Total</b>	<b>400</b>	<b>400</b>

\*Projects which are currently in progress.

The individual projects selected within these categories will be financed entirely from in year capital receipts

## 2019/20 and Previous Years' Flexible use of Capital Receipts

The Council financed qualifying expenditure in 2017/18 and 2018/19 in accordance with the Guidance, and further intends to finance such expenditure in 2019/20, as shown in the table below.

Project	Allocation of Flexible Use of Capital Receipts	Actual Spend	Estimated Savings	Actual One off Savings	Actual Ongoing Saving	Notes
	£'000	£'000	£'000	£'000	£'000	
<b>2017/18</b>						
Castle House Project - Redundancy Costs	80	80	80		80	
<b>2018/19</b>						
Digital Delivery Project	66	66	100		96	Flexible retirements and vacant posts
Chargeable Garden Waste Preparatory Costs	233	233	371		200	CGW income
Waste Recycling Service	142	142	150	150		
Building Efficiency Works Expenditure	59	59	50		50	
<b>2019/20</b>						
Digital Delivery Project	100	TBC	150		145	Payroll Staffordshire Connects
New Recycling Service - Preparatory Costs	120	TBC	100		100	Ongoing project, expect to save circa £100k per annum
Chargeable Garden Waste Preparatory Costs	40	TBC	40		500	CGW income
Building Efficiency Works Expenditure	40	TBC	40		40	
Building for the Future	100	TBC	217			
Restructuring	100	TBC	250		300	Revenues & Benefits, Customer Services and ICT restructure
<b>Total</b>	<b>1080</b>	<b>TBC</b>	<b>1,548</b>	<b>150</b>	<b>1511</b>	

All of these projects are in the process of being completed. The total savings for these projects cannot be totally quantified until their completion, monitoring of these will continue to be provided to Cabinet on a quarterly basis.



## 2020/21 Budget Consultation report

### Headline findings

- 366 responses – three times last year’s responses
  - 98 per cent were residents from the borough
- Five council services by far seen as most important
  - Town centre regeneration
  - Refuse collection
  - Parks, playgrounds and open spaces
  - Recycling facilities
  - Street cleaning
- Non-statutory services that respondents want to be protected:
  - Town centre regeneration **by far** the most important, followed by:
  - Outdoor markets
  - Outdoor leisure facilities
- 65 per cent want to protect services even if it means an increase in Council Tax
- Oldest and youngest age groups were under-represented
- Responses from 20 wards
  - Disproportionately high response rate from Audley
  - No responses from Keele.



## Background

This survey was available online since 7 November via an online form on the Council's Have Your Say web page, and was publicised by the Communications Team on Facebook and Twitter. There were **366** responses – a huge increase on the 124 for last year's survey - but not all respondents answered every question.

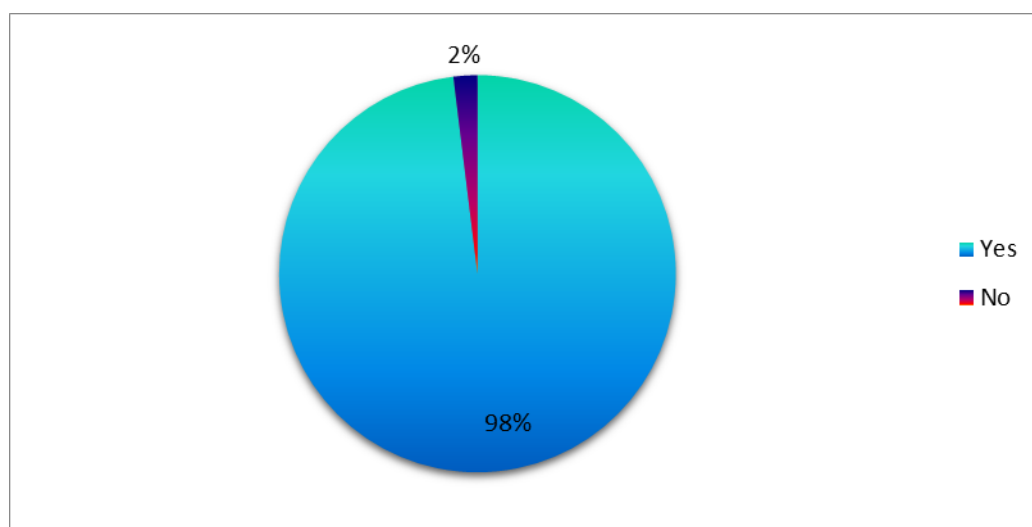
At three different places on the survey, respondents were made aware of the services that were not the responsibility of the Borough Council, but several respondents still recommended that we protected such services from funding cuts.

## Analysis of data

### Q1) Are you a resident of the borough of Newcastle-under-Lyme?

Not everyone answered this question, but, of the 362 who did, 98 per cent of them said that they were a resident. Only six respondents (two per cent) said that they were not.

Figure 1: Q1) Are you a resident of the borough of Newcastle-under-Lyme? 362 respondents



### Q2) What is the single most important thing the Council could do differently to improve the quality of life for your local community?

This was a purely open question – an open text box was provided for respondents to answer, purely unprompted, with no suggested answers to choose from. There was a note on the survey explaining the services that were not the responsibility of the Council, yet there were several mentions of schools, pot holes and police, as the below shows - there were some key themes that were submitted and the following were mentioned by more than five respondents:

- |  |              |
|--|--------------|
| • Improve /regenerate the town centres / more shops:   | 48 responses |
| • Street/paths cleaning of litter  | 29           |
| ○ Better leaf clearing from gutters  | 10           |
| • Weekly recycling collection with tubs  | 26           |
| ○ Free garden waste  | 5            |
| ○ Recycle more items   | 6            |
| • Whalley's Quarry smell   | 22           |
| • Roads/pot holes/road sweeping  | 22           |
| • Free car parking in the town centres   | 16           |
| • Homelessness (including removing rough sleepers and beggars from Newcastle town centre in particular | 15           |
| • Anti-social behaviour (generally youths)   | 12           |
| • Improve Newcastle's market (reduce stall holders rent)   | 12           |
| • Reduce Council Tax / spend money more wisely   | 11           |
| • More police / open the police station  | 10           |
| • Improve bus services, in particular to rural areas   | 10           |
| • Spend money across the borough – not just Newcastle  | 10           |
| • Enforce parking regulations  | 6            |

Figure 2: Word cloud showing key themes from 308 responses



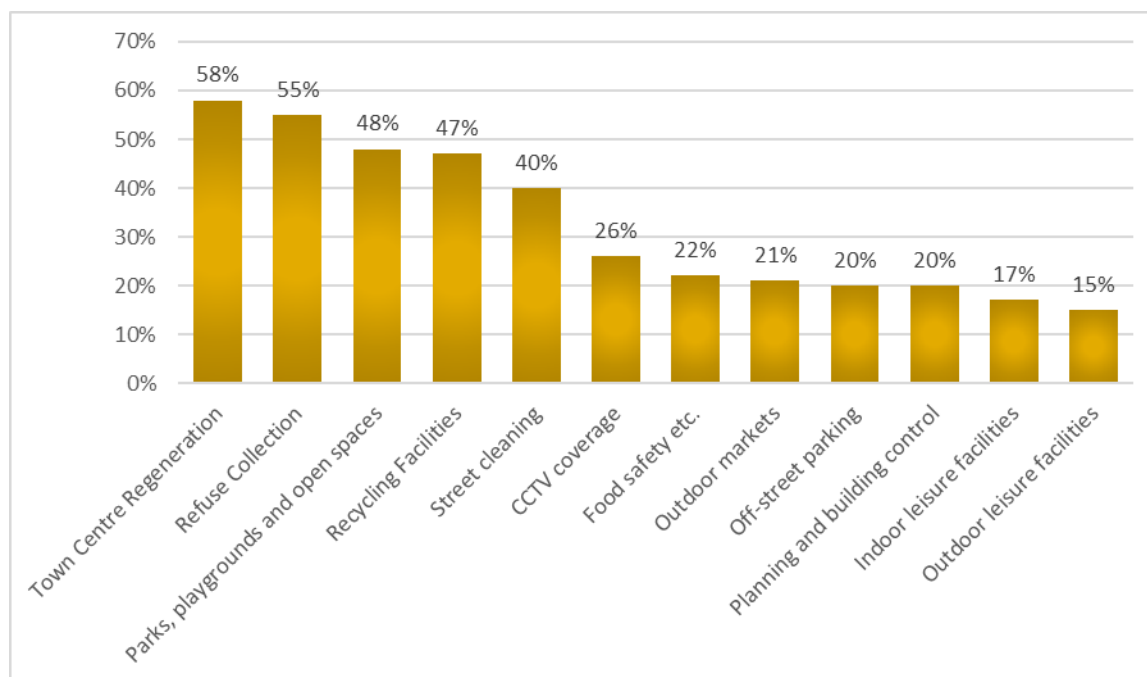
**Q3) Which of these Council services are the most important to you?**

For this question, respondents were asked to choose up to five services from a list of 12 services. As respondents could choose up to five options, totals will add up to more than 100 per cent.

Five services were, by some distance, more popular than the other choices:

- Town Centre Regeneration (chosen by 58 per cent of respondents)
- Refuse collection, (55 per cent)
- Parks, playgrounds and open spaces (48 per cent)
- Recycling facilities (47 per cent)
- Street cleaning (40 per cent)

Figure 3: Which of these Council services are the most important to you? 360 respondents



If you ticked 'other' then please say which service(s) you think are the most important in the box below, remembering that the Council is not responsible for policing, hospitals, the NHS, social care, roads/highways or schools/academies.

Respondents were given the chance to answer 'other' and then to say which other services they considered important, and 13 gave the following responses which are as submitted – only spelling mistakes have been altered:

- On street free parking for short stay (30-60 min).
- Support to the vulnerable and helping residents feel safe in and around the town.
- You have been collecting police increment , we do not have a recognized police presence , only CPSO, but for over 8 years it been going on , also you are now charging extra for garden rubbish on top of council taxes so you have enough money as you do not offer social care anymore.
- I don't feel that this survey is very user friendly - many will be put off by the layout and language used. You need to reach out to every level in the community, young, old, IT literate or not. A simpler score 1-10 might be simpler.
- Partnerships
- Public Toilets in town centre - especially by the multi storey car park Bus services for wheelchair users and better Sunday service Libraries
- Crossing guards at crossings near to schools
- Car parking charges for council car parks: To encourage people to the centre, stop charging. Even if it was one day a week or something, if you are encouraging regeneration, look at the car parks.
- Stop the charge for emptying the green waste bins.
- The environment and carbon reduction
- Improve Youth Services
- Local social groups to learn new skills & get to know other residents but at weekends & evenings not during the day when most people work
- Transport
- Off street parking is vital with the number of houses being built, we've had 3 cars written off so far

- Address parking for the disabled.
- I didn't even know there was a New Vic theatre in Newcastle!
- The disgusting sickening smell from red industries quarry landfill off Cemetery Road.
- Better management of J2
- Environmental health
- Fewer charity shops and fast food outlets; beggars on the streets
- The STINK

**Q4) Out of the following services which the Council is not required by law to provide would you most like to see protected? Please tick up to five boxes.**

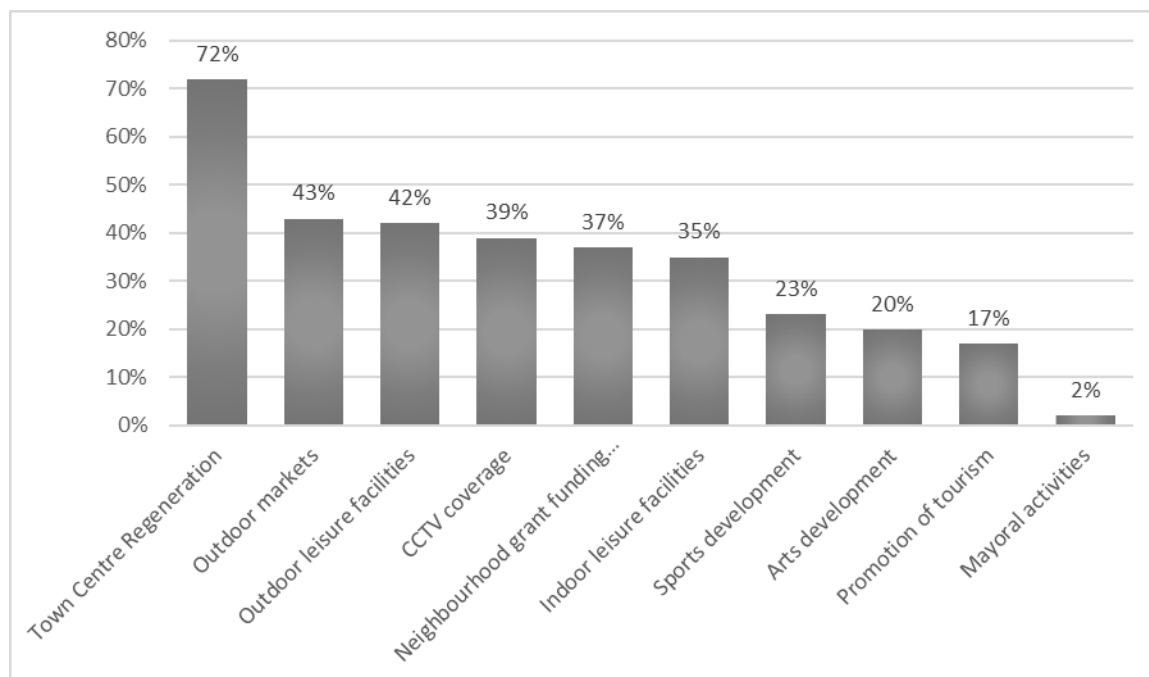
Again, respondents were asked to choose up to five options out of a list of 10 services. There were three services that were significantly more popular than any others, namely:

- Town centre regeneration (72 per cent)
- Outdoor markets (43 per cent)
- Outdoor leisure facilities (42 per cent)

...and four in particular were chosen by relatively few respondents:

- Mayoral activities (2 per cent)
- Promotion of tourism (17 per cent)
- Arts development (20 per cent)
- Sports development (23 per cent)

**Figure 4: Out of the following services which the Council is not required by law to provide would you most like to see protected? 360 responses**



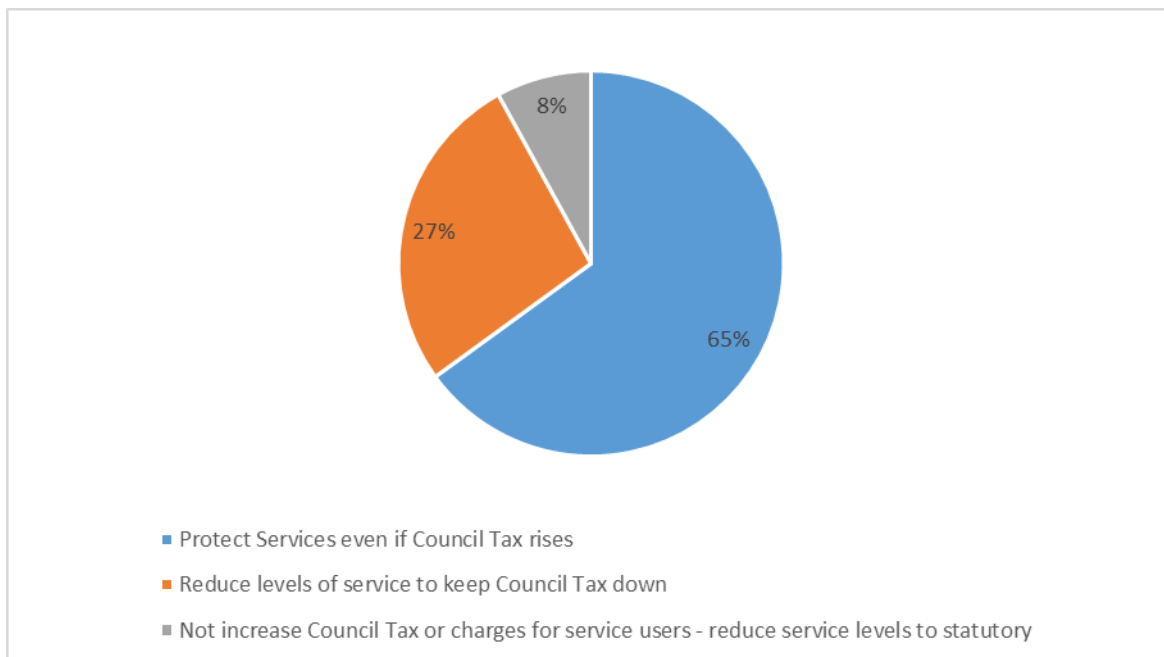
**Q5) When making decisions about spending plans for next year and beyond, should we...**

Respondents were asked to choose from a set list of three options, and they were chosen as follows:

- *Protect services, even if this means we will need to increase Council Tax and charges to service users because of central funding reductions.* This was by far the most popular option, chosen by almost two-thirds (65 per cent) of all respondents.
- *Reduce levels of service to make sure that Council Tax rises and fee increases for service users are kept to a minimum* was the second most popular choice. A little over one-quarter (27 per cent) of respondents chose this option.

- To *not increase Council Tax or charges for service users, but instead look to reduce service levels towards a core statutory offer - that is, excluding those listed in question 3*, was comparatively unpopular, chosen by 8 per cent.

Figure 5: When making decisions about spending plans for next year and beyond, should we...



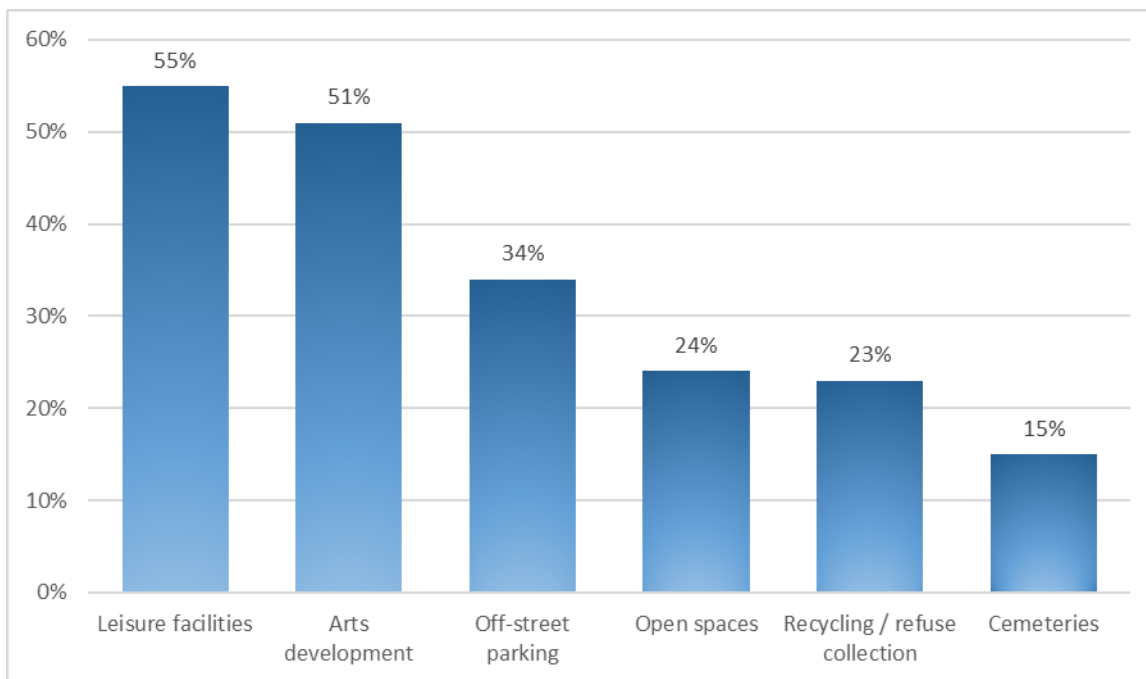
**Q6) Are there any particular service areas where you feel Newcastle-under-Lyme Borough Council should not reduce its funding?**

This was another open comments box where respondents were asked to make suggestions, unprompted. The following themes were mentioned by at least four respondents:

- |   |              |
|---|--------------|
| • Recycling / refuse collection                       | 50 responses |
| • Town centre regeneration                            | 31           |
| • Street cleaning                                     | 24           |
| • Leisure   | 16           |
| • Parks   | 10           |
| • Arts/Brampton                                       | 7            |
| • CCTV  | 5            |
| • Young – but let them choose what they want provided | 5            |
| • Benefit claim processing                            | 4            |
| • Bus routes to the rural villages                    | 4            |
| • New Vic Theatre                                     | 4            |



Figure 7: Out of the following services which the Council is not required by law to provide would you most like to see protected? 354 responses



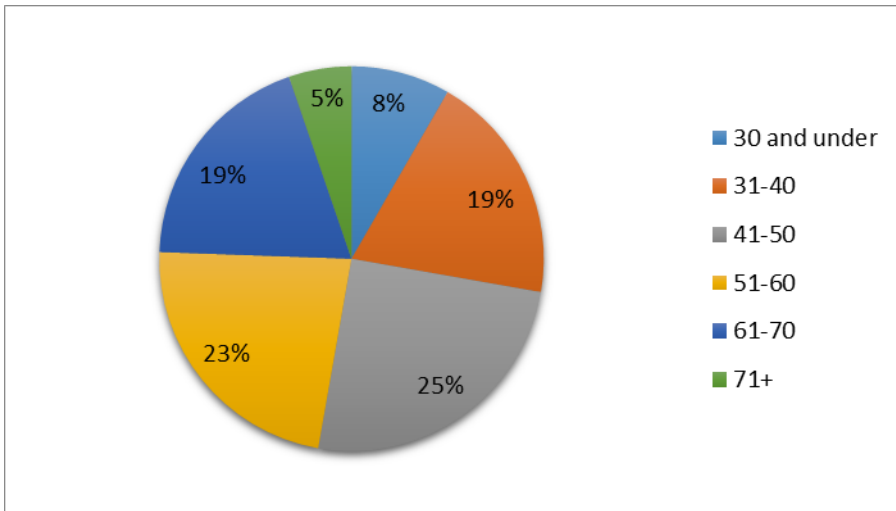
**Q8) Is there anything else you think the Council should consider a priority when setting the budget?**

Another open comments box invited respondents to make unprompted suggestions. As there were so many comments expressing opinions on a massive range of subjects they have not been analysed in the same way as the previous open questions. However, the following word cloud does give some indication of which subjects were mentioned the most:





Figure 9: Age profile of respondents -360 responses



### Location of respondents

Unfortunately, not all respondents did provide valid postcodes. 333 respondents did put something, but as the below table shows there were several incomplete postcodes. There were submissions from 20 wards (with a massive response from Audley) but none from Keele, as follows:

**Table 2: Respondents by ward. 333 respondents**

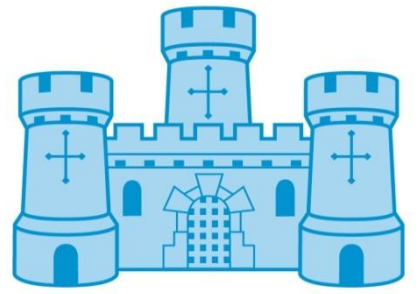
<b>Ward</b>	<b>Respondents</b>
Audley	59
Bradwell	19
Clayton	5
Crackley and Red Street	9
Cross Heath	14
Holditch and Chesterton	10
Keele	0
Kidsgrove and Ravenscliffe	9
Knutton	8
Loggerheads	2
Madeley and Betley	9
Maer and Whitmore	6
May Bank	20
Newchapel and Mow Cop	2
Silverdale	5
Talke and Butt Lane	6
Thistleberry	11
Town	21
Westbury Park and Northwood	18
Westlands	25
Wolstanton	12
<b>Unidentifiable</b>	
Unknown ST4	1
Unknown ST5	32
Unknown ST6	1
Unknown ST7	20
Unknown CW3	2
Unknown TF	1
No postcode provided	34
Outside the borough	4

<b>Claim Type</b>	<b>Council Tax Support Scheme</b>
<b>Pensioner Claimants</b>	
No scope for changes within LCTS	Up to 100% of Council Tax Bill
<b>Working Age Claimants</b>	
Claims will be based on a max of 80% Council Tax Liability (unless in a protected group)	Up to 80% of Council Tax Bill
Properties in bands higher than Band D will be based on 80% Band D Council Tax	Up to 80% of band D rate
Second Adult Rebate will not be retained in the Local Scheme	Nil
Capital Cut off at £6K (non-passported)	No Council Tax Support if capital exceeds £6k
Earnings Disregards	Flat rate of £25 if claimant working
<b>Claimants who are eligible to Severe Disability Premium (SDP)</b>	
May allow up to 100% LCTS as protected group	Up to 100% of Council Tax Bill
<b>Claimants who are eligible to receive War Disablement Pensions, War Widow's Pensions and Armed Forces Compensation Scheme Payments</b>	
May allow up to 100% LCTS as protected group	Up to 100% of Council Tax Bill

### **Discretionary Payments**

The Council has discretion to award Council Tax Support, in excess of the accounts determined by this framework, where it is satisfied that exceptional circumstances exist.

This page is intentionally left blank



**NEWCASTLE  
UNDER LYME**  
BOROUGH COUNCIL

# Capital Strategy 2020 to 2030



# Contents

Introduction	3
Key Objectives and Priorities	4
Factors Influencing the Capital Programme	5
Links with Other Strategies, Policies and Plans	5
External Influences, Partners and Consultation with Other Interested Parties	8
Resources Available to Finance Capital Investment	9
Revenue Implications	11
Appraisal of Investment Proposals	12
Monitoring Arrangements and Project Management	12
Statutory Framework	13
Prudential Indicators	14
Procurement	15
Future Capital Programme	15
<u>Annexes</u>	19
Annex A: Definition of Capital Expenditure	
Annex B: Capital Investment Programme 2020/21 to 2029/30	

## Introduction

The purpose of the Capital Strategy is to set out how the Council proposes to deploy its capital resources in order to assist it to achieve its corporate and service objectives. It takes into account other relevant Council strategies, policies and plans and the views of partners and interested parties with whom the Council is involved. It also takes account of the resources which are likely to be available to the Council to fund capital investment and the effect of that investment on the Council's revenue budget. It will serve as a useful point of reference when determining or reviewing the Council's Capital Programme.

The Council's current detailed capital investment plan is contained in its approved Capital Programme. A Capital Programme totalling £5,606,298 was approved for 2019/20 on 20 February 2019. Of this total £4,606,298 relates to the total cost of new schemes for 2019/20 together with £1,000,000 for schemes funded by external sources (Disabled Facilities Grants). In addition £1,341,573 slippage was incurred in 2018/19, resulting in a total Capital Programme of £6,947,871 for 2019/20. This takes account of slippage coming forward from 2018/19 and is summarised below, showing the constituent categories of projects:

<b>Project Categories</b>	<b>Planned Expenditure £m</b>
Improving Housing in the Borough	1.075
Investing in Community Facilities	2.910
Investing for the Future	0.195
Vehicles, Plant and Equipment	1.768
Capital Contingency	1.000
<b>Total</b>	<b>6.948</b>

Full Council will consider a capital programme to continue investment beyond 2019/20 on 19 February 2020.

The Strategy has been prepared against a background of continuing reductions in funding provided to local authorities by central government and its agencies, arising from the need to restrain public expenditure owing to the ongoing economic conditions and to rebalance public finances. At the same time, the Council's own resources available to finance capital projects have reduced to a low level and will need replenishing before any substantial further capital investments can be made. As a result the Council is considering and consulting upon a programme of asset disposals to address this situation. In addition the Council has also produced a Commercial Strategy with the aim to generate income through commercial activities which can then be reinvested in local priorities.

# Key Objectives and Priorities

The Council's Priorities contained in the Council Plan are:

Local Services that work for Local People
Growing our People and Places
A Healthy, Active and Safe Borough
A Town Centre for All

Capital investment projects will be included in the Council's Capital Programme on the basis that they address issues arising from one or more of these Priority Areas. An indication is shown against each project in the Programme of the area or areas it addresses.

New proposals for capital investment will be assessed against the corporate priorities to ensure that they will contribute towards achieving the aims expressed. This assessment will be carried out as part of the appraisal process for new projects.

The Council will also endeavour, through its programme of capital investment, to maintain its assets to a standard such that they remain fit for purpose, enabling continuity of service delivery. In particular, it will carry out regular surveys of its stock of buildings and structures to ascertain their state of repair and any remedial works which may be necessary. Repair or improvement works arising from such surveys will be carried out subject to the availability of resources and consideration of the role the building plays in service delivery and the need to continue the relevant service in order to contribute to meeting corporate priorities. If a building is no longer required for service delivery, it will either be considered for alternative use by the Council or its partners or disposed of and the proceeds made available for future capital investment in priority areas. All property assets are held to either (i) provide Council services, (ii) provide an investment return or (iii) to further regeneration projects.

A Capital Review Group is in place and chaired by the Cabinet Portfolio Holder for Finance and Efficiency. This Group keeps the Council's capital investment strategy under continuous review, including the prioritisation of projects for inclusion in future capital investment programmes over the medium term. Regular reviews of the property portfolio will be carried out by the group to identify properties or land which could potentially be disposed of, following a consultation process in the case of significant proposals, and a capital receipt obtained from the sale.

Where suitable "Invest to Save" projects can be identified the Council will actively pursue such projects as it recognises the benefits, in the form of reduced costs falling on the General Fund Revenue Account, that can result from such investment.

The Council will seek, where practicable and economically justifiable, to develop its investment projects having regard to principles of sustainability, for example in relation to materials used and environmentally friendly modes of operation once in use, following construction or purchase.



## Factors Influencing the Capital Programme

Projects for inclusion in the capital programme arise from a variety of sources, some of them internally generated and some arising from external factors. The more significant of these can be summarised diagrammatically as follows:

<u>INTERNAL</u>	<u>EXTERNAL</u>
Corporate Priorities, as set out in the Council Plan	Government sponsored programmes, e.g. Disabled Facilities Grants
Investment identified in Strategies, Policies and Plans	Unforeseen Emergency Works
Work needed to maintain Property Assets	Works required to comply with legislation, e.g. re disabled access, health and safety
Vehicles, Plant and Equipment replacement needs	Projects resulting from Partnership Activity
ICT Investment and Replacement	Availability of External Funding
Invest to Save Projects	Public expectation that works should be carried out

These are discussed in greater detail in sections below:

## Links with Other Strategies, Policies and Plans

As well as the Council's Plan and the Capital Programme the Capital Strategy has clear links to many other strategies, policies and plans, the most significant of which are shown in the following table:

<b>Key Strategies:</b>
Economic Development Strategy
Health and Wellbeing Strategy
Stronger and Safer Communities Strategy

<b>Other Strategies:</b>
Asset Management Strategy
Investment Strategy
Medium Term Financial Strategy
Flexible Use of Capital Receipts Strategy
Service and Financial Plans
Procurement Strategy
North Staffs Green Spaces Strategy
Private Sector Housing Renewal Strategy
Housing Strategy
Arts and Cultural Strategy
Customer Access Strategy
Energy Efficiency and Climate Change Strategy and Carbon Reduction Plan
Treasury Management Strategy
Sustainable Community Strategy

An important link is to the Asset Management Strategy (AMS) in that many capital investment projects are related to the Council's fixed assets, such as its stock of buildings. Needs and priorities identified in the AMS will require consideration for inclusion in the Council's Capital Programme and have wider financial consequences. Equally important is the opportunity to generate capital receipts from the disposal of land/property where there is no current or likely future operational need.

The Investment Strategy sets out the Council's policies and practices in relation to commercial investments, for example investments in property and will include information about any such proposals, including funding the expenditure and the effect upon the revenue budget. Expenditure relating to commercial investments will be capital and will be included in the capital programme.

The Medium Term Financial Strategy will take account of the revenue effect of capital investment.

The Flexible Use of Capital Receipts Strategy sets out the conditions and arrangements in place to flexibly use Capital Receipts for qualifying expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs or to improve the quality of service delivery in future years.

Appraisal, procurement and management of capital projects needs to be carried out with regard to the objectives, methodologies the principles and practices set out in the Procurement Strategy.

The various service based strategies will inform the Council's capital investment process through their identification of areas for action and of priorities within individual service areas.

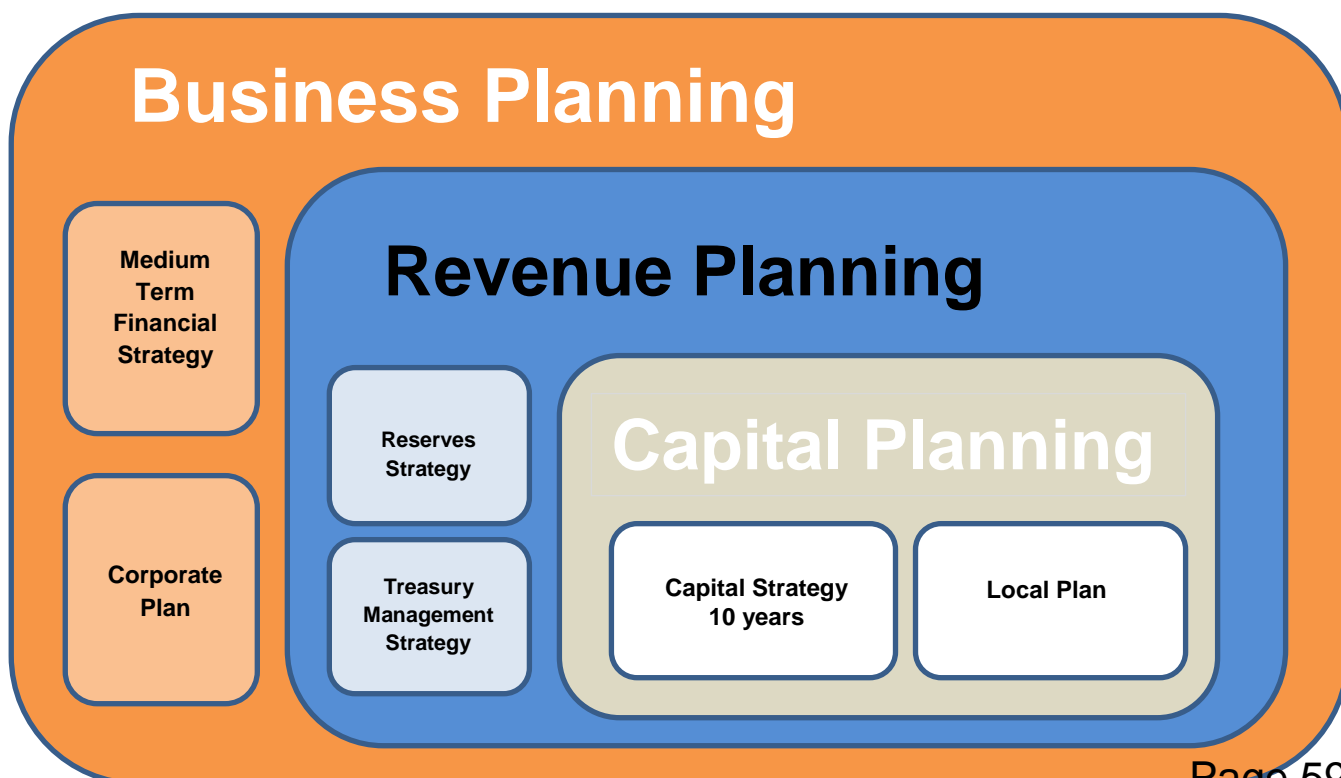
The Treasury Management Strategy needs to reflect planned capital spend, particularly with regard to setting limits for tying up money over the longer term and the limits relating to the amount of permitted borrowing.

In addition the Capital Strategy will be influenced by the results of any Service Reviews which have been carried out by the Council, either as part of the budget preparation process or as one-off exercises. Where these reviews identify areas of service which are to be discontinued, this may give rise to assets which will be available for disposal and possibly generate a capital receipt which will be available for funding further capital investment. Alternatively reviews may identify areas for investment, including potential “invest to save” projects, some of which may be capital investment.

The Council plans to set up a Revolving Investment Fund to assist in the generation of capital receipts and help fund future capital investments. A revolving fund is a fund or account that remains available to finance an organisation’s continuing operations without any fiscal year limitation, because the organisation replenishes the fund by repaying money used from the account from additional revenues or savings generated from investments. The Council proposes to set up a fund with an initial value of £1m which will be used to fund projects which will have an investment return. There are many different project areas which this fund could be applied to such as:-

- Digital Delivery Programme
- Asset Disposal
- Economic Growth
- Housing Growth Programme

## Simple Business Planning Model



## External Influences, Partners and Consultation with Other Interested Parties

The Council's capital investment plans are influenced by a number of external parties and factors: central government and its agencies, legislation requiring capital works, partner organisations, businesses, developers and by the needs and views of other interested parties, particularly those of Borough residents

Government sponsored initiatives and programmes will influence the projects which the Council will include in its capital investment plans. In particular, its Housing Investment Programme in which the Council participates with regard to Disabled Facilities Grants, this is a major area of investment where funding is provided by Government to meet a proportion of the costs of some of these activities. This funding currently consists mainly of grant payments to partially meet the cost of disabled facilities grants payable to eligible applicants.

Where it may be required by legislation to carry out works of a capital nature, such as to comply with the Disablement Disability Act or Health and Safety requirements, or anti-pollution regulations, the Council will consider the most effective way to discharge its obligations and appropriate provision will be made in its Capital Programme once it has determined that it shall carry out the necessary work and that this should be capitalised.

The Council works with a wide range of partners from the public, private, voluntary and community sectors, all of which have an influence over its spending priorities. Relationships with partners, including those concerning capital matters, will be governed by the Council's Partnerships Code of Practice. Wherever possible the Council will seek to work in partnership with others to deliver its capital investment programme in order to provide facilities which meet its own and partners' needs. When working with the private sector, the objective will be to maximise the benefits to the Council and the community from any projects, both in terms of outputs and in relation to obtaining funding for the project.

The Council is a participant in the Local Strategic Partnership (LSP) and will have regard to the content of its Sustainable Community Strategy together with any other elements of the partnership which relate to capital investment and may be able to use the capital programme as a means of fulfilling some of its obligations to the LSP.

Projects for consideration for inclusion in the Capital Programme may arise from the Council's participation in the Staffordshire and Stoke on Trent Local Enterprise Partnership (LEP) or similar sub-regional partnerships which seek to stimulate economic growth.

The Council has established a Town Centre Partnership, together with relevant parties such as representatives of retailers and businesses in the town centres of Newcastle and Kidsgrove. The partnership may identify proposals for town centre improvements which could place demands upon future

capital programmes where such works align with the Council’s economic development objectives. It may also present an opportunity for costs to be shared between the parties likely to benefit from their implementation.

The availability of external funding will also influence the projects which the Council will include in its capital investment plans. This is referred to in the following section of the Strategy.

Regard will be given to the Council’s obligations under Disabled Access requirements in putting forward proposals for capital investment and in the design of any facilities which are proposed.

Wherever possible the principles of financial and environmental sustainability will be incorporated into any capital projects.

## Resources Available to Finance Capital Investment

The following diagram shows the main sources of funding which are available to the Council to finance its capital investment. Individual projects may be financed solely by one of these or by a combination of a number of them.

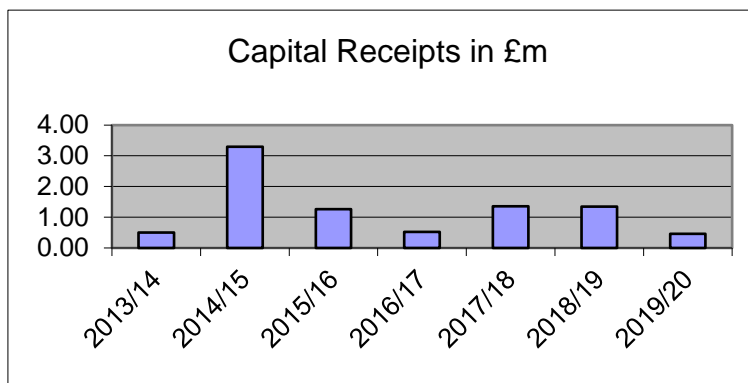
<u>INTERNAL</u>	<u>EXTERNAL</u>
Capital Receipts in Hand	Government Grants
Reserves	Other Grants, e.g. Heritage Lottery Fund
New Capital Receipts from Asset Sales	Contributions from Partners
Revenue Contributions	Other Contributions
	Borrowing

More details of these funding sources are given in the following paragraphs:

Capital Receipts have been the major source of funding for the Capital Programme in recent years. The amount of useable capital receipts in hand at 1 April 2019 was £2m. The majority of capital receipts are committed to finance the currently approved Capital Programme. Additional capital projects may be financed from capital receipts obtained by asset sales or other new capital streams.

A previously significant source of capital receipts has been the Council’s continuing right to a share of receipts arising from tenants of Aspire Housing under the Right to Buy legislation. However, Right to Buy sales have diminished from historically high levels, both because of the present depressed property market and there being fewer potential purchasers as time goes by. Future sales income is projected to be in the range of £0.3m to £0.5m per annum.

Capital receipts from sales of land and property (including covenant release payments) have been relatively modest in recent times.



The Asset Management Strategy sets out expected sales over the next ten years. It is anticipated that receipts from sales will increase in the medium term, enabling some increase in financing of capital investment from this source. The Capital Review Group meets on a bi-monthly basis and is responsible for the formulation of strategies in respect of income generation relating to asset disposals.

The ICT Development Fund is specifically earmarked for meeting the costs of ICT development, both capital and revenue. The balance on the Fund at 1 April 2019 was £0.49m. This balance is fully committed to financing projects included in the current ICT Development Programme plus certain ongoing revenue costs. Accordingly, the revenue budget provides for an annual contribution of £0.05m to be made to the Fund in order to replenish it. There are no other reserves currently available to finance capital investment.

The use of capital receipts and reserves to finance new capital projects has an effect upon investment income receipts and hence the General Fund Revenue Account. At current investment interest rates of around 0.5%, every £100,000 of such capital receipts or reserve balances used will cost £500 to the revenue account on an ongoing basis. The use of capital receipts and reserves to finance the Capital Programme 2019/20 was taken account of in the Medium Term Financial Strategy and in the 2019/20 Revenue Budget. Any receipts generated from the sale of assets will be invested until they are required to finance capital expenditure.

Wherever Government grants are available to meet all or part of the cost of capital projects the Council will ensure that these are applied for and used to maximise the amount of investment which can be made and the benefit which will result from that investment.

Funding will be sought towards the cost of capital projects from external parties wherever possible and appropriate. These will include property developers, central government and government agencies, funding bodies such as the National Lottery or the Football Foundation and partner organisations that may join with the Council to bring forward particular projects of mutual benefit. In the current climate, however, the Council may find such sources of funding to be limited.

As a result of changes to the treatment of business rates collected by councils (as implemented by the Local Government Finance Act 2012), which allow part of the amount collected to be retained by them, a Stoke on Trent and Staffordshire Business Rates Pool has been established to pool retained rates relating to a number of Staffordshire authorities, including Newcastle Borough Council. This has benefits with regard to maximising the total amount retained, with the additional amount gained by pooling being available to participating authorities in a number of ways. One of the features of the pooling arrangement is the establishment of an investment fund to finance projects which will contribute to economic regeneration within the areas of the participating authorities.

The Council is presently debt free, having no long term loans outstanding. Its current policy, expressed in its Treasury Management Strategy for 2019/20, approved by Council on 20 February 2019, is:

*“Previously borrowing has not been used to fund the capital programme because the Council has had sufficient reserves and useable capital receipts to finance capital expenditure. There will be a requirement to fund some capital expenditure by means of borrowing during the interim period before a permanent means of finance becomes available, for example whilst awaiting a capital receipt. Projections of the need for capital investment in projects necessary to ensure operational continuity over the next few years, together with projections of likely capital receipts arising from asset sales and the availability of reserves to finance this expenditure indicate that there will be an adverse gap between expenditure and resources to finance it. This increases the likelihood of borrowing being used, particularly as an interim measure to bridge the gap between expenditure being incurred and funds from asset sales being realised.”*

The capital investment programme set out in Annex B will require a significant amount of borrowing if it is to be carried out in its entirety.

There is no intention to charge any capital investment directly to the General Fund Revenue Account.

The Council does not presently intend to consider the use of Private Finance Initiative type arrangements or tax increment financing to meet the cost of capital investment.

The Executive Director (Resources and Support Services) will prepare estimates of the resources which are presently in hand plus those likely to be available in future to finance capital investment. She will keep these estimates up to date and periodically report upon them to Cabinet and Council, particularly when the Capital Programme is being considered. The Council will decide on the appropriate form of financing for projects included in the Capital Programme based on advice from the Executive Director as to availability and the consequences and costs of use of the various options.

The need to have available liquid funds to be used to pay for capital projects will be considered when drawing up the Council’s Treasury Management Strategy. An appropriate limit will be placed on long term investments based on predictions of the capital spending profile over the period covered by the Strategy so that there are likely to be enough readily available easily cashable investments to meet requirements.

## Revenue Implications

The impact, if any, upon the General Fund Revenue Account arising from capital investment proposals will be calculated and considered at the time projects are placed before Cabinet or Full Council for inclusion in the Approved Capital Programme or for specific approval. Such impact may be in the form of reduced interest receipts, where projects are to be financed from capital receipts or reserves, borrowing costs, if loan finance is to be employed, or additional running costs arising from the provision of a new or altered facility. Offset against these costs will be any savings which might accrue, for example from “invest to save” projects.

The Council will always have regard to the affordability of its proposed capital investments, in terms of the revenue implications arising.

The revenue implications of the capital programme will be taken account of in the Council’s Medium Term Financial Strategy.

## Appraisal and Prioritisation of Investment Proposals

In accordance with the Council's Financial Regulations proposals for new capital investment estimated to cost more than £20,000 will be subject to an appraisal process, whereby a business case will be made out for the proposal, considering its contribution towards meeting corporate objectives and service priorities, its outputs and milestones, its cost and sources of and its effect, if any, upon the revenue budget in future years. Less significant projects costing below £20,000 will be subject to a simplified process. All new capital investment proposals must be considered by the Capital Programme Review Group prior to specific Cabinet approval being requested. Before any project may be commenced Specific Cabinet approval must be obtained and the project will only be included in the approved Capital Programme, after considering its priority relative to other proposed projects and the overall level of resources available to fund the Capital Programme as a whole.

Work is being undertaken to develop the project prioritisation process further during 2019/20 in order to provide a robust, transparent and impartial basis for determining the relative merits of individual projects proposed for inclusion in the capital programme. No projects should be considered in isolation. They must be required to be measured against all other competing projects to determine which should go forward. This process should also apply to any projects which are proposed subsequent to the approval of the programme, to ensure that only those projects with a high priority are proceeded with and funds are not diverted to projects of a lesser priority.

A Risk Assessment, in the approved corporate format, will be completed for capital projects over £20,000.

## Monitoring Arrangements and Project Management

Progress in relation to individual projects will be monitored through the Council's arrangements for the monitoring of capital projects, which entail quarterly monitoring reports to be received by the Cabinet. The Capital Programme Review Group will also review project progress and corrective action will be initiated where projects fall behind schedule, appear likely to overspend or otherwise give cause for concern. Individual Project Forms will be maintained in respect of each project by the Executive Director (Resources and Support Services) which will track the progress of projects and be available to officers and members with an interest in reviewing progress of those projects.

All projects will be assigned to a named officer who will be responsible for overseeing the project, including project monitoring and control and implementing exception reports and, where appropriate, corrective action if the project deviates from its planned progress or cost.

Where complex major projects are to be carried out, consideration will be given to employing the Prince2 project management methodology.

All capital projects will be subject to Internal Audit review to ensure correct procedures have been followed and sums have been paid out in accordance with Financial Regulations and Standing Orders as they relate to contracts. Where projects have received funding from government or quasi-governmental sources, the expenditure will also be subject in many cases to external audit. European Union funded projects may also be subject to audit by auditors on behalf of that body. Where monitoring returns or claims for reimbursement of expenditure are required to be sent to funding bodies, these will



be completed and forwarded promptly to the relevant body in compliance with any deadlines laid down by them.

All capital investment proposals and project progress and management are subject to the Council's scrutiny arrangements.

## Statutory Framework

The Council's capital investment is carried out within the statutory framework laid down by the Local Government Act 2003 and regulations under that Act. Accordingly, only expenditure which fits the definition of capital expenditure contained in the Act or Regulations pursuant to it will be capitalised.

Capital expenditure is defined by the 2003 Act as that which falls to be capitalised in accordance with proper practices, which means in accordance with the Code of Practice on Local Authority Accounting, published by the Chartered Institute of Public Finance and Accountancy (CIPFA), applicable to all local authorities. Annex A sets out a summarised version of the definition provided by the Code. In addition there are a number of other types of expenditure that have been defined by Regulations as being treatable as capital in nature. Generally these do not apply to this Council.

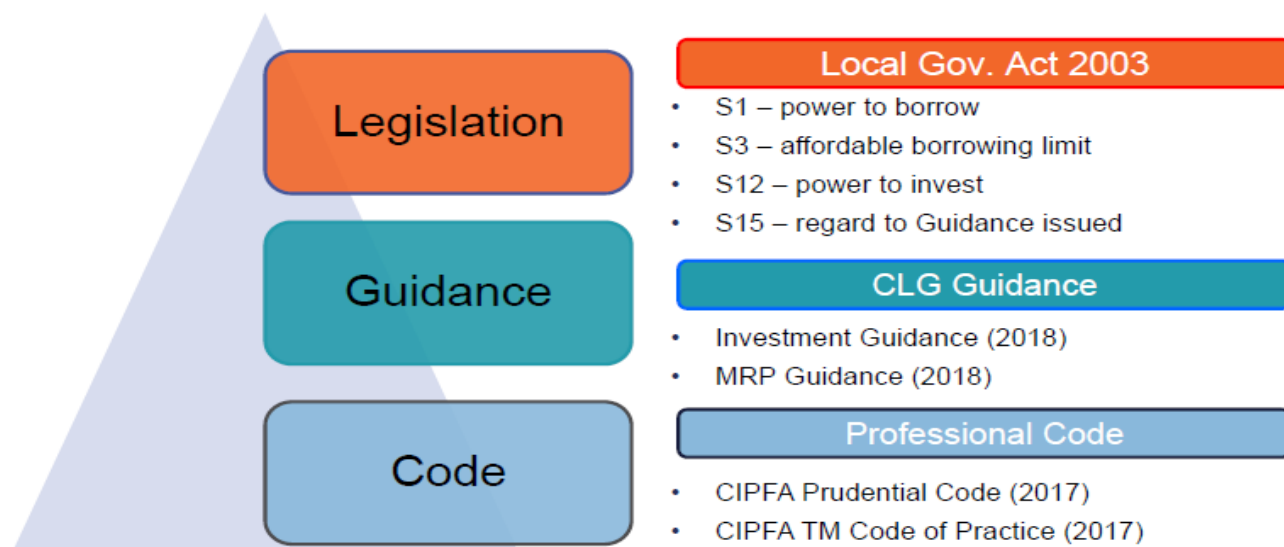
It should be noted that the Act and Regulations are framed in a permissive way, allowing local authorities to capitalise expenditure which fits the definition but not forcing them to capitalise such expenditure. The Council will decide, therefore, whether to include a project meeting the capital definition in its capital programme or to meet its cost from a revenue account.

The Council does not set a minimum amount for the capitalisation of expenditure (*de minimis* level). Accordingly, any expenditure complying with the above definition may be capitalised.

Capital Finance Regulations stipulate that amounts of less than £10,000 may not be treated as capital receipts. Accordingly, any such sums received, although otherwise capital in nature will be credited to a revenue account.

The Council will consider the flexible use of capital receipts as announced by the Chancellor of the Exchequer in the 2015 Spending Review. The government will allow local authorities to spend up to 100% of their fixed asset receipts (excluding Right to Buy receipts) on the revenue costs of reform projects to allow local authorities to deliver more efficient and sustainable services. The Flexible Use of Capital Receipts Strategy provide further details.

# Legal and Regulatory Requirements



## Prudential Indicators

The Council shall ensure that all of its capital expenditure, investments and borrowing decisions are prudent and sustainable. In doing so it will take into account its arrangements for the repayment of debt and consideration of risk and the impact, and potential impact, on the Council's overall fiscal sustainability. The Council's prudential indicators (shown in Annex C) are as follows:-

- Estimates of capital expenditure

The Council will make reasonable estimates of the total of capital expenditure that it plans to incur during the forthcoming financial year and at least the following two financial years.

- Actual capital expenditure

After the year end, the actual capital expenditure incurred during the financial year will be recorded.

- Estimates of capital financing requirement

The Council will make reasonable estimates of the total capital financing requirement at the end of the forthcoming financial year and the following two years.

- Actual capital financing requirement

After the year end, the actual capital financing requirement will be calculated directly from the Council's balance sheet.

- Ratio of financing costs to net revenue streams

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs.

- Authorised limit on external borrowing

The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. excluding investments) for the Council. This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

- Operational boundary for external debt

This indicator refers to the means by which the authority manages its external debt to ensure it remains within the statutory authorised limit. It differs from the authorised limit in as far as it is based on the most likely scenario, in terms of capital spend and financing during the year.

- Gross debt and capital financing requirement

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

Where the gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual treasury management strategy.

## Procurement

Regard will be given to the contents of the Council's Procurement Strategy when considering the delivery of capital projects.

Where estimated project contract costs exceed the relevant statutory threshold, the appropriate EU or other tendering procedures will be followed.

Standing Orders relating to contracts will apply to all contracts proposed to be let in relation to capital projects, together with Financial Regulations and the provisions of the Council's scheme of Delegation.

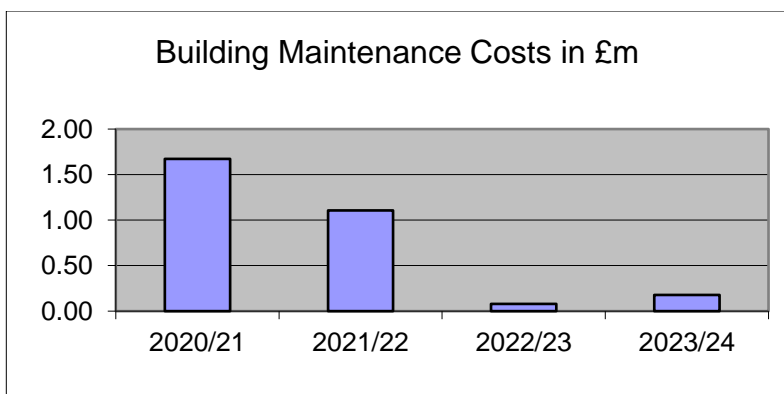
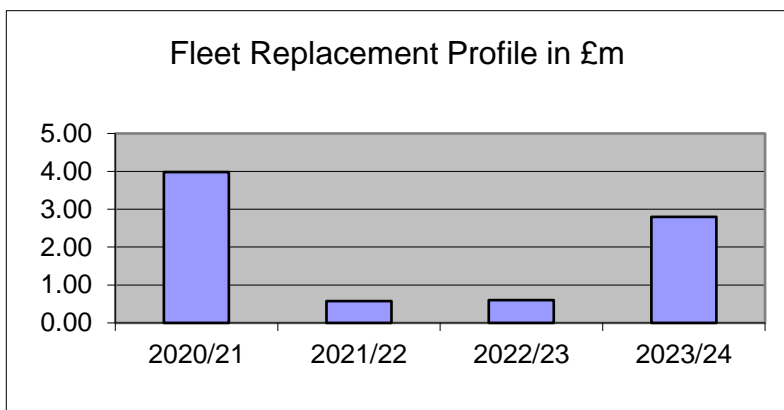
The achievement of Value for Money will be a guiding principle in the procurement of capital works and services and in managing contracts.

## Future Capital Programme

Capital investment needs have been assessed over a ten year period (2020/21 to 2029/30) and are set out in Annex B.

During this period, there will be a need for some items of capital investment to be made in order to ensure continued service delivery or to comply with statutory requirements or to ensure health and safety of staff and public. Examples of these include: operational building repairs and maintenance; replacement of vehicles, plant and equipment required to deliver services; disabled facilities grants.

The following charts illustrate the scale of expenditure which the Council will need to fund over the next few years, in respect of fleet replacement, where existing items reach the end of their allotted life and in respect of operational building maintenance works, based on stock condition surveys carried out.



It may be possible to extend the lives of some of the vehicles, if they are in a fit condition when their replacement date is reached. Similarly some of the maintenance/improvement works to the Council's operational properties may be capable of being deferred; periodic stock condition surveys will inform any decisions in this regard. Additionally, some properties may be deemed surplus to operational requirements and eligible for disposal in their current condition.

In addition to the essential works outlined above, there are significant amounts of expenditure which need to be incurred:

- in respect of the commercial portfolio in order to keep properties in a state of repair such as to continue to obtain a reasonable rental income
- to maintain various engineering structures such as walls, bridges, drains, and reservoirs to ensure safety to the public

- to enable agreed actions in relation to approved policies and strategies to be progressed and to meet other Council commitments.

Over the period 2020/21 to 2029/30 it is estimated that £3.6m (commercial properties), £2.4m (engineering structures) and £62.6m (in respect of policy and strategy commitments or similar) need to be spent.

Funding will depend on capital receipts from asset sales. There will be insufficient capital receipts arising from these planned sales to meet all of the costs of the investment programme. Accordingly, it is estimated that around £14.716m of expenditure will have to be funded from borrowing over the ten year period if the programme is to delivered in its entirety.

In addition, £15.182m of fleet replacement costs will need to be financed, either by leasing or prudential borrowing. For the purposes of completeness, Annex B assumes that these costs will be funded from prudential borrowing. However, this will be subject to a detailed appraisal to determine the most cost effective financing method.

The £15.182m of fleet replacement costs for the 10 year period are shown in the table below:-

Description	20/21 £m	21/22 £m	22/23 £m	23/24 £m	24/25 £m	25/26 £m	26/27 £m	27/28 £m	28/29 £m	29/30 £m	Total £m
Pest Control Vans					0.054					0.063	0.117
Leisure Vehicle					0.018					0.021	0.039
Facilities Management Vehicle					0.018					0.021	0.039
Mayors Car							0.080				0.080
Streetscene Vans	0.100	0.260	0.120		0.018	0.060	0.304	0.264		0.021	1.147
Streetscene Mowers	0.144			0.017	0.180				0.203	0.020	0.564
Streetscene Sweepers			0.124	0.392	0.152	0.157	0.140	0.440			1.405
Streetscene Tractors								0.335			0.335
Streetscene Tools	0.075	0.075			0.019	0.025	0.159	0.041			0.394
Streetscene Trailers			0.007		0.007	0.007		0.008		0.008	0.037
Waste Refuse Fleet	0.015	0.174		2.390		0.414		0.207		2.855	6.055
Waste Recycling Fleet – New Service	2.140						2.560				4.700
Waste JCB Diggers						0.085	0.088				0.173
Waste Van	0.018					0.079					0.097
<b>Total</b>	<b>2.492</b>	<b>0.509</b>	<b>0.251</b>	<b>2.799</b>	<b>0.466</b>	<b>0.827</b>	<b>3.331</b>	<b>1.295</b>	<b>0.203</b>	<b>3.009</b>	<b>15.182</b>

There will be a consequent cost to the revenue budget which will have to be included in the MTFS projections. Based on the expenditure shown in Annex B and forecasts of the amount and timing of receipts and current capital financing costs, the additional costs to the revenue budget will be around £8.171m over 10 years, with the costs in each year 2020/21 to 2029/30 being as shown below.

<b>Year</b>	<b>Total £m</b>
2020/21	0.04
2021/22	0.29
2022/23	0.59
2023/24	0.85
2024/25	1.07
2025/26	1.09
2026/27	1.10
2027/28	1.13
2028/29	1.15
2029/30	0.88
<b>Total</b>	<b>8.17</b>

A capital programme for 2020/21 to 2022/23 totalling £24.624m will be recommended to Full Council on 19 February 2020, consistent with the detail shown in Annex B. The prudential indicators that will apply for this 3 year period are set out at Annex C.

Funding for 2020/21 expenditure is likely to be available from the following sources:

- Further capital receipts from asset sales
- Right to Buy capital receipts
- Government grants
- Other external contributions
- Borrowing/Leasing

All of the above funding sources are likely to be limited so the programme only includes affordable projects.

As described earlier, current estimates of the amount required to be invested in projects to ensure continued service delivery and meet commitments compared with forecasts of likely receipts from asset sales and other available resources indicate that there will be insufficient resources available to fund all of these requirements. If forecast receipts from sales of assets cannot be achieved within this timeframe, the Council may have to review its stance with regard to borrowing, if this proves to be the only practical means of funding necessary investment, particularly if a major unforeseen item of capital expenditure were to materialise, for example major repairs to enable an operational building to continue to be used or new legislation requiring capital spending.

### **DEFINITION OF CAPITAL EXPENDITURE INCLUDED IN THE CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING IN THE UNITED KINGDOM**

All expenditure that can be directly attributed to the acquisition, creation or enhancement of items of property, plant and equipment or the acquisition of rights over certain longer-term intangible benefits is accounted for on an accruals basis and capitalised as a non-current asset. It must be probable that the future economic benefits or service potential associated with the item will flow to the Council - the Council does not have to own the item but it must be more than likely that it has gained the right to use the item in the provision of services or to generate cash from it. In addition it must be possible to measure the cost of the item reliably.

Expenditure that should be capitalised will include expenditure on the:

- Acquisition, reclamation or laying out of land
- Acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures
- Acquisition, installation or replacement of movable or immovable plant, machinery, apparatus, vehicles and vessels

In this context, the definition of enhancement contained in the previous Code of Practice (SORP) is still applicable and means the carrying out of works which are intended to:

- Lengthen substantially the useful life of the asset, or
- Increase substantially the market value of the asset, or
- Increase substantially the extent to which the asset can or will be used for the purpose or in conjunction with the functions of the local authority concerned.

Under this definition, improvement works and structural repairs should be capitalised, whereas expenditure to ensure that the fixed asset maintains its previously assessed standard of performance should be recognised in the revenue account as it is incurred. Expenditure on existing fixed assets should be capitalised in three circumstances:

- Enhancement - see above
- Where a component of the fixed asset that has been treated separately for depreciation purposes and depreciated over its individual useful life is replaced or restored
- Where the subsequent expenditure relates to a major inspection or overhaul of a fixed asset that restores the benefits of the asset that have been consumed by the authority and have already been reflected in depreciation

Assets acquired on terms meeting the definition of a finance lease should be capitalised and included together with a liability to pay future rentals.

Where an asset is acquired for other than cash consideration or where payment is deferred the asset should be recognised and included in the balance sheet at fair value.

**2020/21 to 2029/30 Capital Programme**

**Annex B**

CAPITAL PROJECTS	2020/21 to 2029/30 Proposed Programme										
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	TOTAL
	£	£	£	£	£	£	£	£	£	£	£
<b>PRIORITY - Local Services that work for Local People</b>											
Service Area - Council Modernisation	380,000	506,000	110,000	102,000	15,000	653,000	40,000	29,000	15,000	550,000	2,400,000
<b>Total</b>	<b>380,000</b>	<b>506,000</b>	<b>110,000</b>	<b>102,000</b>	<b>15,000</b>	<b>653,000</b>	<b>40,000</b>	<b>29,000</b>	<b>15,000</b>	<b>550,000</b>	<b>2,400,000</b>
<b>PRIORITY - Growing our People and Places</b>											
Service Area - Housing Improvements	1,070,000	1,080,000	2,615,000	2,625,000	2,675,000	2,775,000	2,975,000	3,500,000	5,125,000	3,125,000	27,565,000
Service Area - Managing Property & Assets	131,531	101,500	410,846	14,922	2,135	2,804	0	216,174	273,525	0	1,153,437
<b>Total</b>	<b>1,201,531</b>	<b>1,181,500</b>	<b>3,025,846</b>	<b>2,639,922</b>	<b>2,677,135</b>	<b>2,777,804</b>	<b>2,975,000</b>	<b>3,716,174</b>	<b>5,398,525</b>	<b>3,125,000</b>	<b>28,718,437</b>
<b>PRIORITY - A Healthy, Active and Safe Borough</b>											
Service Area - Environmental Health	10,000	0	0	60,000	0	12,000	0	0	0	0	82,000
Service Area - Streetscene and Bereavement Services	295,600	1,170,600	1,265,600	990,600	735,600	220,600	165,600	95,600	55,600	70,600	5,066,000
Service Area - Recycling and Fleet	3,766,000	609,500	351,000	2,899,500	565,500	1,026,500	3,431,000	1,395,000	303,000	3,109,000	17,456,000
Service Area - Leisure	3,682,000	331,000	687,000	17,000	17,000	150,000	0	0	0	0	4,884,000
Service Area - Museum	95,000	240,000	40,000	0	0	0	0	0	0	0	375,000
Service Area - Managing Property & Assets	55,547	40,456	273,403	220,498	89,622	819,395	215,754	219,340	329,716	0	2,263,731
Service Area - Engineering	165,873	140,193	806,287	1,287,105	0	0	0	0	0	0	2,399,457
<b>Total</b>	<b>8,070,020</b>	<b>2,531,749</b>	<b>3,423,290</b>	<b>5,474,703</b>	<b>1,407,722</b>	<b>2,228,495</b>	<b>3,812,354</b>	<b>1,709,940</b>	<b>688,316</b>	<b>3,179,600</b>	<b>32,526,189</b>
<b>PRIORITY - A Town Centre for All</b>											
Service Area - Managing Property & Assets	1,702,553	1,110,383	81,126	183,250	20,800	144,920	159,198	165,229	65,777	10,000	3,643,235
<b>Total</b>	<b>1,702,553</b>	<b>1,110,383</b>	<b>81,126</b>	<b>183,250</b>	<b>20,800</b>	<b>144,920</b>	<b>159,198</b>	<b>165,229</b>	<b>65,777</b>	<b>10,000</b>	<b>3,643,235</b>
<b>CONTINGENCY/FEASIBILITY STUDIES</b>	1,100,000	100,000	100,000	0	0	0	0	0	0	0	1,300,000
<b>TOTAL</b>	<b>12,454,103</b>	<b>5,429,631</b>	<b>6,740,262</b>	<b>8,399,875</b>	<b>4,120,657</b>	<b>5,804,219</b>	<b>6,986,552</b>	<b>5,620,343</b>	<b>6,167,619</b>	<b>6,864,600</b>	<b>68,587,861</b>
<b>FUNDING</b>											
Capital Receipts C/Fd from 2019/20	2,062,506										2,062,506
Flexible Use of Capital Receipts	-400,000										-400,000
Capital Receipts	4,330,000	500,000	500,000	500,000	8,000,000	8,000,000	8,000,000	8,000,000	500,000	500,000	38,830,000
External Contributions	2,065,000	2,765,000	1,015,000	1,025,000	1,015,000	1,025,000	1,015,000	1,015,000	1,025,000	1,015,000	12,980,000
ICT Development Fund	50,000	50,000	50,000	50,000	15,000	50,000	40,000	29,000	15,000	50,000	399,000
Borrowing/Leasing	4,346,597	2,114,631	5,175,262	6,824,875	-4,909,343	-3,270,781	-2,068,448	-3,423,658	4,627,619	5,299,600	14,716,355
<b>TOTAL</b>	<b>12,454,103</b>	<b>5,429,631</b>	<b>6,740,262</b>	<b>8,399,875</b>	<b>4,120,657</b>	<b>5,804,219</b>	<b>6,986,552</b>	<b>5,620,343</b>	<b>6,167,619</b>	<b>6,864,600</b>	<b>68,587,861</b>



## Annex C – Prudential Indicators

### Capital Prudential Indicators

#### *Actual and Estimate of Capital Expenditure*

<b>31/03/19 Actual (£000's)</b>	<b>31/03/20 Estimate (£000's)</b>	<b>31/03/21 Estimate (£000's)</b>	<b>31/03/22 Estimate (£000's)</b>	<b>31/03/23 Estimate (£000's)</b>
2,980	7,250	12,454	5,429	6,740

#### *The Capital Financing Requirement (The Councils Borrowing Need)*

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 underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR projections are below:

<b>31/03/19 Actual (£000's)</b>	<b>31/03/20 Estimate (£000's)</b>	<b>31/03/21 Estimate (£000's)</b>	<b>31/03/22 Estimate (£000's)</b>	<b>31/03/23 Estimate (£000's)</b>
4,405	4,405	8,752	10,867	16,042

The amounts shown above from 2020/21 onwards allow the Council to borrow during those years to finance capital expenditure which cannot be funded from other revenue or capital resources. However, the likelihood of individual schemes, the timings and the amounts involved cannot be assessed with certainty at this point.

The sale of Council assets for capital receipts will have a significant impact upon the CFR, if sales are made the Council's borrowing requirement will be reduced, if not the Council's borrowing requirement will be greater.

## Affordability Prudential Indicators

Page 74

### **Actual and Estimates of the 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 net of investment income) against the net revenue stream.

Financing Costs comprise the aggregate of: interest payable, interest receivable and investment income; the amount charged as MRP; depreciation and impairment charges that have not been reversed out of the revenue account.

Net Revenue Stream is defined as the 'amount to be met from government grants and local taxpayers'. This is the Council's 'budgetary requirements' figure shown in the General Fund Revenue Budget, being the net expenditure for the year before deducting government grants (Revenue Support and Business Rates Retention) and adjusting for the Collection Fund surplus/deficit. The relevant figures for this Council are set out in the table below:

	<b>2018/19 Actual (£000's)</b>	<b>2019/20 Estimate (£000's)</b>	<b>2020/21 Estimate (£000's)</b>	<b>2021/22 Estimate (£000's)</b>	<b>2022/23 Estimate (£000's)</b>
<b>Net Revenue Stream</b>	13,327	13,050	13,311	13,577	13,849
<b>Financing Costs</b>	(78)	12	140	386	688
<b>Ratio</b>	(0.59%)	0.09%	1.05%	2.85%	4.97%

## Treasury Indicators

### **Limits to Borrowing Activity**

The Local Government Act 2003 requires each local authority to determine and keep under review how much money it can afford to borrow. This is to be determined by the calculation of an affordable borrowing limit which Regulations to the Act specify should be calculated with regard to the CIPFA Prudential Code.

Previously borrowing has not been used to fund the capital programme because the Council has had sufficient reserves and useable capital receipts to finance capital expenditure from these sources.

### ***The Operational Boundary***

This is the limit beyond which external debt is not normally expected to exceed.

<b>Operational boundary</b>	<b>2020/21 Estimate (£000's)</b>	<b>2021/22 Estimate (£000's)</b>	<b>2022/23 Estimate (£000's)</b>	<b>2023/24 Estimate (£000's)</b>
<b>Borrowing</b>	75,000	75,000	75,000	75,000
<b>Other long term liabilities</b>	0	0	0	0

### ***The Authorised Limit for External Borrowing***

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a 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 Council is asked to approve the following authorised limit:

<b>Authorised limit</b>	<b>2020/21 Estimate (£000s)</b>	<b>2021/22 Estimate (£000's)</b>	<b>2022/23 Estimate (£000's)</b>	<b>2023/24 Estimate (£000's)</b>
<b>Debt</b>	85,000	85,000	85,000	85,000
<b>Other Long Term Liabilities</b>	0	0	0	0

### ***Limits on Interest Rate Exposures (fixed and variable interest rates)***

The following limits will apply in relation to the Council's interest rate exposure. They relate to interest on both borrowings and investments. These limits are intended to reduce the risk of the Council suffering unduly from significant adverse fluctuations in interest rates.

**Limit on Fixed Interest Rate Exposures (as a percentage of total borrowings / investments)**

	<b>Borrowing</b>		<b>Investments</b>	
	<b>Upper</b>	<b>Lower</b>	<b>Upper</b>	<b>Lower</b>
<b>2019/20</b>	100%	0%	100%	0%
<b>2020/21</b>	100%	0%	100%	0%
<b>2021/22</b>	100%	0%	100%	0%
<b>2022/23</b>	100%	0%	100%	0%

**Limit on Variable Interest Rate Exposures (as a percentage of total borrowings/ investments)**

	<b>Borrowing</b>		<b>Investments</b>	
	<b>Upper</b>	<b>Lower</b>	<b>Upper</b>	<b>Lower</b>
<b>2019/20</b>	100%	0%	100%	0%
<b>2020/21</b>	100%	0%	100%	0%
<b>2021/22</b>	100%	0%	100%	0%
<b>2022/23</b>	100%	0%	100%	0%

In relation to both borrowing and investing fixed rate investments and loans may be anything between 0% and 100% of the total, with the same proportions being permitted for variable rate loans – in effect there is no limit on each type. This enables maximum flexibility to be afforded to take advantage of prevailing interest trends to obtain the best deal for the Council.

# Treasury Management Strategy 2020/21



## Contents

Introduction	3
Economic Situation	3
Borrowing Strategy	5
Investment Strategy	6
Treasury Management Indicators	10
Related Matters	13
Financial Implications	13
Other Options Considered	14
Annex A – Arlingclose Economic & Interest Rate Forecast	15
Annex B – Existing Investment & Debt Portfolio Position	17
Annex C – Minimum Revenue Provision Policy	18
Annex D – Treasury Management Glossary of Terms	20

## Introduction

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

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

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

## Economic Situation

### Highlights of the report supplied by Arlingclose Ltd.

#### External Context

*Economic background:* The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Council's treasury management strategy for 2020/21.

UK Consumer Price Inflation (CPI) for September registered 1.7% year on year, unchanged from the previous month. Core inflation, which excludes the more volatile components, rose to 1.7% from 1.5% in August. The most recent labour market data for the three months to August 2019 showed the unemployment rate ticked back up to 3.9% while the employment rate was 75.9%, just below recent record-breaking highs. The headline 3-month average annual growth rate for pay was 3.8% in August as wages continue to rise steadily. In real terms, after adjusting for inflation, pay growth increased 1.9%.

GDP growth rose by 0.3% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.0% from 1.2%. Services and construction added positively to growth, by 0.6% and 0.4% respectively, while production was flat and agriculture recorded a fall of 0.2%. Looking ahead, the Bank of England's Monetary Policy Report forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment helping GDP reach 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.

The Bank of England maintained Bank Rate to 0.75% in November following a 7-2 vote by the Monetary Policy Committee. Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal.

Growth in Europe remains soft, driven by a weakening German economy which saw GDP fall -0.1% in Q2 and is expected to slip into a technical recession in Q3. Euro zone inflation was 0.8% year on year in September, well below the European Central Bank's target. In the US, the Federal Reserve began easing monetary policy again in 2019 as a pre-emptive strike against slowing global and US economic growth on the back on of the ongoing trade war with China.

*Credit outlook:* Credit conditions for larger UK banks have remained relatively benign over the past year. The UK's departure from the European Union was delayed three times in 2019 and while there remains some concern over a global economic slowdown, this has yet to manifest in any

credit issues for banks. Meanwhile, the post financial crisis banking reform is now largely complete, with the new ringfenced banks embedded in the market.

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

Looking forward, the potential for a “no-deal” Brexit and/or a global recession remain the major risks facing banks and building societies in 2020/21 and a cautious approach to bank deposits remains advisable.

*Interest rate forecast:* The Council’s treasury management adviser Arlingclose is forecasting that Bank Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside, particularly given the upcoming general election, the need for greater clarity on Brexit and the continuing global economic slowdown. The Bank of England, having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Monetary Policy Report and its Bank Rate decision (7-2 vote to hold rates) that the MPC now believe this is less likely even in the event of a deal.

Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected based on Arlingclose’s interest rate projections.

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

## Local Context

On 30<sup>th</sup> November 2019, the Council held no borrowing and £8.0m of treasury investments. This is set out in further detail at Annex B. Forecast changes in these sums are shown in the balance sheet analysis in table below:

Balance Sheet Summary and Forecast	31/03/2019 Actual £m	31/03/2020 Forecast £m	31/03/2021 Forecast £m	31/03/2022 Forecast £m	31/03/2023 Forecast £m
General Fund CFR	4.4	4.4	8.9	10.8	15.9
Less: External borrowing	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
<b>Internal (over) borrowing</b>	<b>4.3</b>	<b>4.3</b>	<b>8.8</b>	<b>10.7</b>	<b>15.8</b>
Less: Usable reserves	(6.4)	(6.4)	(6.4)	(6.4)	(6.4)
Less: Working capital	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
<b>Treasury investments / (New borrowing)</b>	<b>2.6</b>	<b>2.6</b>	<b>(1.9)</b>	<b>(3.8)</b>	<b>(8.9)</b>

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council’s current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. Where borrowing is required this will be in line with Arlingclose’s current advice of doing so from other local authorities on a short term basis. This will be undertaken until it becomes advantageous to switch to long term debt, with the lowest cost option being considered, include such options as municipal bonds

The Council has an increasing CFR due to the capital programme, but minimal investments and may therefore be required to borrow over the forecast period. More details in relation to the Council’s CFR are included within the Capital Strategy.

CIPFA’s Prudential Code for Capital Finance in Local Authorities recommends that the Council’s total debt should be lower than its highest forecast CFR over the next three years. The table above shows that the Council expects to comply with this recommendation during 2019/20.



## Borrowing Strategy

The Council does not currently hold any loans, as per the previous year, as part of its strategy for funding previous years' capital programmes.

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

Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. These short term loans will be via local to local borrowing where possible, until a time where it becomes advantageous to switch to longer term debt, including municipal bonds on either a project by project, or overall global basis.

By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal or short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2020/21 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Although not utilised in recent years, the Council has previously considered the option of long-term borrowing from the Public Works Loans Board (PWLB), but the government increased PWLB rates by 1% in October 2019 making it now a relatively expensive option. The Council will now look to borrow short term from other local authorities in the first instance and will then review any other sources of funding if required.

Alternatively, the Council may arrange forward starting loans during 2020/21, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

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

### Sources of borrowing:

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

- PWLB and any successor body;
- any institution approved for investments (see below);
- any other bank or building society authorised to operate in the UK;
- any other UK public sector body;
- UK public and private sector pension funds;
- capital market bond investors; and
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

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

- leasing;
- hire purchase; and
- sale and leaseback.

*Municipal Bonds Agency:* UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital

markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Council.

*Short-term and variable rate loans:* These loans leave the Council exposed to the risk of short-term interest rate rises.

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

## Investment Strategy

The Council can hold significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between nil and £14 million, and similar levels are expected to be maintained in the forthcoming year.

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

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

Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to diversify into more secure and higher yielding asset classes during 2020/21.

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

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

### Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Registered Providers
UK Govt / LA's (exc. S114)	n/a	n/a	£Unlimited 50 years	n/a
AAA	£7m – 5 years	£7m – 20 years	£10m – 50 years	£10m – 10 years
AA+	£7m – 5 years	£7m – 10 years	£10m – 25 years	£10m – 10 years
AA	£7m – 4 years	£7m – 5 years	£10m – 15 years	£10m – 10 years
AA-	£7m – 3 years	£7m – 4 years	£10m – 10 years	£10m – 10 years
A+	£7m – 2 years	£7m – 3 years	£10m – 5 years	£10m – 10 years
A	£7m – 13 months	£7m – 2 years	£10m – 5 years	£10m – 10 years
A-	£7m – 6 months	£7m – 13 months	£10m – 5 years	£10m – 10 years
None	£0	n/a	£0	£0
<b>Pooled funds and real estate investment trusts</b>			£2m per fund or trust	

The above limits apply to individual counterparties and represent the maximum amount and maximum duration of any investment per counterparty.

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

**Banks unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

**Banks secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

**Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

**Registered providers:** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

*Pooled funds:* Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

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

*Operational bank accounts:* The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £7,000,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

*Risk assessment and credit ratings:* Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

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

The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of

high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

*Investment limits:* In order that the Council will not be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government and Registered Providers) will be £7 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

*Investment limits*

	<b>Cash limit</b>
Any single organisation, except the UK Central Government / Registered Providers	£7m each
UK Central Government	unlimited
UK Local Authorities	unlimited
Any group of organisations under the same ownership	£7m per group
Any group of pooled funds under the same management	£7m per manager
Negotiable instruments held in a broker's nominee account	£7m per broker
Foreign countries	£7m per country
Registered providers and registered social landlords	£10m in total
Unsecured investments with building societies	£7m in total
Money market funds	unlimited
Real estate investment trusts	£2m in total

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

Non-treasury investments are covered by the Council's Investment Strategy.

## Treasury Management Indicators

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

### Security

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

Credit risk indicator	Target
Portfolio average credit rating	A

### Maturity structure of borrowing

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

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%

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

### Limits to Borrowing Activity

The Local Government Act 2003 requires each local authority to determine and keep under review how much money it can afford to borrow. This is to be determined by the calculation of an affordable borrowing limit which Regulations to the Act specify should be calculated with regard to the CIPFA Prudential Code.

Borrowing limits are set in order to enable the completion of the Council's Commercial Strategy, and will be funded via local to local borrowing until such time as it is advantageous to switch to long term debt. Advice on this will be sought from the Council's treasury management advisors.

## The Operational Boundary

This is the limit beyond which external debt is not normally expected to exceed.

<b>Operational boundary</b>	<b>2020/21 Estimate (£000's)</b>	<b>2021/22 Estimate (£000's)</b>	<b>2022/23 Estimate (£000's)</b>	<b>2023/24 Estimate (£000's)</b>
<b>Borrowing</b>	75,000	75,000	75,000	75,000
<b>Other long term liabilities</b>	0	0	0	0

## The Authorised Limit for External Borrowing

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a 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 Council is asked to approve the following authorised limit:

<b>Authorised limit</b>	<b>2020/21 Estimate (£000's)</b>	<b>2021/22 Estimate (£000's)</b>	<b>2022/23 Estimate (£000's)</b>	<b>2023/24 Estimate (£000's)</b>
<b>Debt</b>	85,000	85,000	85,000	85,000
<b>Other Long Term Liabilities</b>	0	0	0	0

## Limits on Interest Rate Exposures (fixed and variable interest rates)

The following limits will apply in relation to the Council's interest rate exposure. They relate to interest on both borrowings and investments. These limits are intended to reduce the risk of the Council suffering unduly from significant adverse fluctuations in interest rates.

### Limit on Fixed Interest Rate Exposures (as a percentage of total borrowings / investments)

	Borrowing		Investments	
	Upper	Lower	Upper	Lower
2020/21	100%	0%	100%	0%
2021/22	100%	0%	100%	0%
2022/23	100%	0%	100%	0%
2023/24	100%	0%	100%	0%

### Limit on Variable Interest Rate Exposures (as a percentage of total borrowings/ investments)

	Borrowing		Investments	
	Upper	Lower	Upper	Lower
2020/21	100%	0%	100%	0%
2021/22	100%	0%	100%	0%
2022/23	100%	0%	100%	0%
2023/24	100%	0%	100%	0%

In relation to both borrowing and investing fixed rate investments and loans may be anything between 0% and 100% of the total, with the same proportions being permitted for variable rate loans – in effect there is no limit on each type. This enables maximum flexibility to be afforded to take advantage of prevailing interest trends to obtain the best deal for the Council.

### Principal sums invested for periods longer than a year

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2020/21	2021/22	2022/23
Limit on principal invested beyond year end	£25m	£25m	£25m



## Related Matters

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

**Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk. The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

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

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

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

**Markets in Financial Instruments Directive (MiFID II):** The Council has retained retail client status with its providers of financial services, including advisers and banks, allowing it access to a smaller range of services but with the greater regulatory protections afforded to individuals and small companies. This is believed to be the most appropriate status given the size and range of the Council's treasury management activities. The Council may upgrade their client status to professional if the requirements to do so are met during the year. This will allow a greater range of services but without the same level of regulatory protections provided by retail client status.

## Financial Implications

The budget for investment income in 2020/21 is £49k. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

## Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. It is believed that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

## Annex A – Arlingclose Economic & Interest Rate Forecast November 2019

### *Underlying assumptions:*

- The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased.
- Some positivity on the trade negotiations between China and the US has prompted worst case economic scenarios to be pared back. However, information is limited, and upbeat expectations have been wrong before.
- Brexit has been delayed until 31 January 2020. While the General Election has maintained economic and political uncertainty, the opinion polls suggest the Conservative position in parliament may be strengthened, which reduces the chance of Brexit being further frustrated. A key concern is the limited transitional period following a January 2020 exit date, which will maintain and create additional uncertainty over the next few years.
- UK economic growth has stalled despite Q3 2019 GDP of 0.3%. Monthly figures indicate growth waned as the quarter progressed and survey data suggest falling household and business confidence. Both main political parties have promised substantial fiscal easing, which should help support growth.
- While the potential for divergent paths for UK monetary policy remain in the event of the General Election result, the weaker external environment severely limits potential upside movement in Bank Rate, while the slowing UK economy will place pressure on the MPC to loosen monetary policy. Indeed, two MPC members voted for an immediate cut in November 2019.
- Inflation is running below target at 1.7%. While the tight labour market risks medium-term domestically-driven inflationary pressure, slower global growth should reduce the prospect of externally driven pressure, although political turmoil could push up oil prices.
- Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

### *Forecast:*

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

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Average
<b>Official Bank Rate</b>														
<i>Upside risk</i>	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.21
Arlingclose Central Case	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
<i>Downside risk</i>	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.73
<b>3-mth money market rate</b>														
<i>Upside risk</i>	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.25
Arlingclose Central Case	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
<i>Downside risk</i>	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.73
<b>1-yr money market rate</b>														
<i>Upside risk</i>	0.10	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.30	0.30	0.30	0.30	0.33
Arlingclose Central Case	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85
<i>Downside risk</i>	-0.30	-0.50	-0.55	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.60
<b>5-yr gilt yield</b>														
<i>Upside risk</i>	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	0.37
Arlingclose Central Case	0.50	0.50	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.57
<i>Downside risk</i>	-0.35	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.56
<b>10-yr gilt yield</b>														
<i>Upside risk</i>	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	0.37
Arlingclose Central Case	0.75	0.75	0.80	0.80	0.85	0.85	0.90	0.90	0.95	0.95	1.00	1.00	1.00	0.88
<i>Downside risk</i>	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.45
<b>20-yr gilt yield</b>														
<i>Upside risk</i>	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	0.37
Arlingclose Central Case	1.20	1.20	1.25	1.25	1.25	1.30	1.30	1.30	1.35	1.35	1.35	1.40	1.40	1.30
<i>Downside risk</i>	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.45
<b>50-yr gilt yield</b>														
<i>Upside risk</i>	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	0.37
Arlingclose Central Case	1.20	1.20	1.25	1.25	1.25	1.30	1.30	1.30	1.35	1.35	1.35	1.40	1.40	1.30
<i>Downside risk</i>	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.45

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

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

## Annex B – Existing Investment & Debt Portfolio Position

	30/11/2019 Actual Portfolio £m	30/11/2019 Average Rate %
<i>Treasury investments:</i>		
Banks & building societies (unsecured)	4.2	0.40
Government (incl. local authorities)	3.0	0.73
Money Market Funds	1.0	0.72
<b>Total treasury investments</b>	<b>8.2</b>	
<b>Total external borrowing</b>	<b>0.0</b>	
<b>Net investments</b>	<b>8.2</b>	

# Annex C – Minimum Revenue Provision Policy

## Background

In instances whereby Local Authorities have a positive Capital Financing Requirement (CFR), Ministry of Housing, Communities and Local Government (MHCLG) Guidance requires them to adopt a prudent approach in order to fund the repayment of debt. This may be achieved by setting aside a minimum amount from revenue, known as the Minimum Revenue Provision (MRP). This means that the Council would be required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the MRP).

MHCLG Regulations and Guidance have been issued which require the Full Council to approve **an MRP Statement** in advance of each year. Four options for prudent provision of the MRP are provided to councils, these being:

### Option 1 – Regulatory Method

For debt which is supported by the Government through the Revenue Support Grant system, authorities may continue to use the formulae in the current regulations, since the Revenue Support Grant is calculated on that basis. Although the existing regulation 28 is revoked by regulation 4(1) of the 2008 Regulations, authorities will be able to calculate MRP as if it were still in force. Solely as a transitional measure, this option will also be available for all capital expenditure incurred prior to 1 April 2008.

### Option 2 – Capital Financing Requirement Method

This is a technically much simpler alternative to Option 1 which may be used in relation to supported debt. While still based on the concept of the CFR, which is easily derived from the balance sheet, it avoids the complexities of the formulae in the old regulation 28 (though for most authorities it will probably result in a higher level of provision than Option 1).

### Option 3 – Asset Life Method

For new borrowing under the Prudential system for which no Government support is being given and is therefore self-financed, there are two options included in the guidance.

Option 3 is to make provision over the estimated life of the asset for which the borrowing is undertaken. This is a possibly simpler alternative to the use of depreciation accounting (Option 4), though it has some similarities to that approach.

Within option 3, two methods are identified. The first of these, the equal instalment method, will normally generate a series of equal annual amounts over the estimated life of the asset. The original amount of expenditure (“A” in the formula) remains constant.

The cumulative total of the MRP made to date (“B” in the formula) will increase each year. The outstanding period of the estimated life of the asset (“C” in the formula) reduces by 1 each year.

For example, if the life of the asset is originally estimated at 25 years, then in the initial year when MRP is made, C will be equal to 25. In the second year, C will be equal to 24, and so on. The original estimate of the life is determined at the outset and should not be varied thereafter, even if in reality the condition of the asset has changed significantly

The formula allows an authority to make voluntary extra provision in any year. This will be reflected by an increase in amount B and will automatically ensure that in future years the amount of provision determined by the formula is reduced.

The alternative is the annuity method, which has the advantage of linking MRP to the flow of benefits from an asset where the benefits are expected to increase in later years. It may be particularly attractive in connection with projects promoting regeneration or administrative efficiencies or schemes where revenues will increase over time.

## **Option 4 – Depreciation Method**

Alternatively, for new borrowing under the Prudential system for which no Government support is being given, Option 4 may be used.

This means making the MRP in accordance with the standard rules for depreciation accounting. A step in this direction was made in the last set of amendments to the MRP rules [SI 2007/573]. However, the move to reliance on guidance rather than regulations will make this approach more viable in future.

Authorities will normally need to follow the standard procedures for calculating depreciation provision. But the guidance identifies some necessary exceptions:

The MRP continues until the total provision made is equal to the original amount of the debt and may then cease.

If only part of the expenditure on the asset was financed by debt, the depreciation provision is proportionately reduced.

## **MRP Policy in respect of Finance Leases**

The introduction of International Financial Reporting Standards in 2011/12 resulted in some leases being reclassified as finance leases instead of operating leases. This resulted in a positive CFR and as such the need to set aside a MRP.

In accordance with the revised MHCLG Guidance this Council will set aside an annual MRP equal to the amount of the lease that has been taken to the Balance Sheet to reduce the finance lease liability i.e. the principal amount of the finance lease. This approach will produce an MRP charge which is the same as Option 3 in the guidance (Asset Life Method – annuity method). The revised guidance aims to ensure that authorities are in the same position as if the change in accounting standards had not occurred.

## **MRP Policy – Other Capital Expenditure**

### **Capital Financing Requirement (CFR)**

The Council's CFR is currently positive. This means that there is a requirement to set aside a MRP for the redemption of debt. The Prudential Indicator for the CFR, shown at Table 1 in the Treasury Management Strategy, indicates that the CFR will become positive within the period covered by the Strategy. This is based on the assumption that there will be a general overall increase in expected capital expenditure, which cannot be funded from revenue or capital resources. Accordingly, the Council needs to determine the option it will employ to make the necessary MRP in respect of the amount borrowed, when this occurs.

### **Option for making MRP**

The most appropriate of the four options permitted by the Regulations is Option 3, the Asset Life Method, within which there are two further options, an equal instalment method and an annuity method (as detailed in 1.1 – option 3). The Council is permitted to apply either of these two further options to projects on a scheme by scheme basis. However preference will be the annuity method.

It should be noted that MRP does not commence until the year following that in which the asset concerned became operational; however, voluntary MRP can be made at any given time if considered prudent.

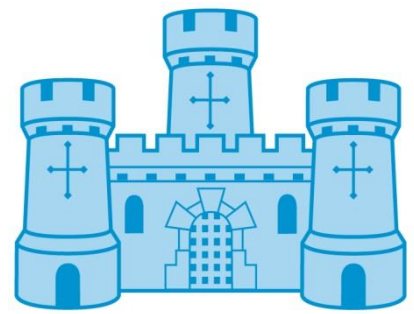
## Annex D – Treasury Management Glossary of Terms

- *Basis Points* – there are 100 basis points to 1%.
- *Credit Default Swap* – an additional assessment of credit worthiness by providing a risk analysis of changes in credit quality as perceived by the market.
- *CFR* – the Capital Financing Requirement is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources.
- *CIPFA* – the Chartered Institute of Public Finance and Accountancy, is the professional body for accountants working in Local Government and other public sector organisations.
- *Counterparty* – an institution with whom a borrowing or investment transaction is made.
- *CPI* – a measure that examines the weighted average of prices of a basket of consumer goods and services. The Consumer Price Index is calculated by taking price changes for each item in the predetermined basket of goods/services and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.
- *Credit Rating* – is an opinion on the credit-worthiness of an institution, based on judgements about the future status of that institution. The main rating agencies are Fitch, Standard and Poor's and Moody's.
- *Depreciation* – the measure of the cost or revalued amount of the benefits of the fixed asset that have been consumed during the period. Consumption includes wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.
- *DMADF and DMO* – the DMADF is the 'Debt Management Account Deposit Facility' which is a highly secure fixed term deposit account with the Debt Management Office, part of Her Majesty's Treasury.
- *Forward Commitments* - agreeing in advance to place an investment with a borrower at a future specified date at an agreed interest rate.
- *GDP* – Gross Domestic Product is the market value of all officially recognised final goods and services produced within a country in a given period of time.
- *GILTS* – the name given to bonds issued by the UK Government. Gilts are issued bearing interest at a specified rate, however, they are traded on the markets like shares and their value rises or falls accordingly. The 'yield' on a gilt is the interest paid divided by the market value of that gilt.
- *IFRS (International Financial Reporting Standards)* – International accounting standards that govern the treatment and reporting of income and expenditure in an organisation's accounts, which came fully into effect from 1 April 2010.
- *Leasing* - a lease is a contractual arrangement calling for the lessee (user) to pay the lessor (owner) for use of an asset.
- *Liquidity* – relates to the amount of readily available or short term investment money which can be used for either day to day or unforeseen expenses. For example Call Accounts allow instant daily access to invested funds.
- *MHCLG* – Ministry of Housing, Communities, and Local Government (formerly the Department for Communities and Local Government).



- *Money Market Funds (MMF)* – Money Market Funds are investment funds that are invested by a Fund Manager in a wide range of money market instruments. MMF's are monitored by the official ratings agencies and due to many requirements that need to be fulfilled; the funds usually receive the highest quality rating (AAA) so provide minimal risk. They are very flexible and can be withdrawn in the same way as any other call deposit.
- *MPC* – interest rates are set by the Bank of England's Monetary Policy Committee. The MPC sets an interest rate it judges will enable the inflation target to be met
- *MRP* – the Minimum Revenue Provision represents the revenue charge for the repayment of debt.
- *PWLB* – the Public Works Loan Board is a statutory board that is run within the UK Debt Management Office (DMO), its function is to lend money to Local Authorities and other prescribed bodies.

This page is intentionally left blank



**NEWCASTLE  
UNDER LYME**  
BOROUGH COUNCIL

# Investment Strategy 2020/21



## Contents

Introduction	3
Treasury Management Investments	3
Service Investments: Loans	4
Service Investments: Shares	5
Commercial Investments: Property	6
Loan Commitments and Financial Guarantees	7
Proportionality	7
Borrowing in Advance of Need	8
Capacity, Skills and Culture	8
Investment Indicators	9

## Introduction

This strategy is compiled according to the Ministry of Housing, Communities and Local Government's Guidance on Local Government Investments ("the Guidance") and the 2017 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code") It sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The Guidance distinguishes between Treasury Management Investments and Other Investments. Treasury Management Investments are those which arise from the Council's cash flows and debt management activity and ultimately represent balances which need to be invested until the cash is required for use in the course of business. Other Investments are all those falling outside of normal treasury management activity, as defined above. They may be made with the express purpose of making a financial surplus for the Council, usually as a means towards balancing the revenue budget. They may be funded from borrowing where appropriate. The prime example referred to in the Guidance is direct investment in property assets. Loans, for example to voluntary organisations, local enterprises or joint ventures are also classified as Other Investments.

The Council invests its money for three broad purposes:

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

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

## Possible Revisions to the Strategy

The initial strategy may be replaced with a revised strategy at any time during the year in cases where any treasury management issues (including investment issues) need to be brought to the attention of Full Council.

## Treasury Management Investments

The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £0m and £14m during the 2020/21 financial year.

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

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

## Service Investments: Loans

*Contribution:* During 2019/20 the Council has not lent money to local charities, housing associations or any other bodies. However the Council would consider applications from such bodies individually, in order to support local public services and stimulate local economic growth.

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

*Loans for service purposes in £ thousands*

Category of borrower	31/03/2019 Actual			2020/21
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Local charities	0	0	0	500
Housing associations	0	0	0	10,000
Other bodies	0	0	0	500
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>11,000</b>

Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

*Risk assessment:* The Council assesses the risk of loss before entering into and whilst holding service loans on an individual basis for each proposal. The risks inherent in the proposal will be reported to members when it is placed before them for consideration together with an assessment of the likelihood of any of them materialising, their impact on the revenue budget and the mitigating controls that will be put in place. Risk factors to be assessed include:

- barriers to entry into and exit out of the market concerned;
- the nature and level of competition;
- how the market and customer needs will evolve over time;
- ongoing need for further investment to be made; and
- whether there is sufficient internal capacity to assess the business case and risks relating to the proposal.

An initial review of each proposal will be carried out by Council officers, intended to determine whether there are any risks apparent at that stage which indicate that the proposal should not be proceeded with. Provided this is not the case and it has also been determined that there is a worthwhile business case for further consideration, a more detailed risk assessment will be carried out. Where necessary, owing to lack of internal expertise, external advisors may be used to assist with the assessment of appropriate risks. Any other appropriate sources of information may be used to assess and monitor risk,

including credit ratings, if these are relevant. Data used to monitor ongoing risk will be reviewed regularly and appropriate action will be taken if there are any indications of increasing risk or risks materialising.

The Council will consider the following points:

- the degree to which the loan complies with corporate policies and furthers corporate objectives;
- the overall desirability of the activity which the loan is intended to fund;
- affordability in terms of the use of capital or other resources and impact on the revenue budget;
- the likelihood that the loan will be repaid in accordance with agreed terms; and
- the total amount of loans already made to ensure that as a whole the Council is not over-exposed to the risk of default.

All proposed loans will be subject to approval by members, normally via Full Council, following consideration of a report setting out all relevant matters, including compliance with the above criteria.

All loans will be subject to credit control arrangements to recover overdue repayments. Credit risk will be determined by reference to the “expected credit loss” model for loans and receivables as set out in International Reporting Standard (IFRS) 9 Financial Instruments.

## Service Investments: Shares

*Contribution:* The Council currently does not invest in the shares of suppliers and local businesses in order to support local public services and stimulate local economic growth. This is due to the nature of the risks associated with investing in shares i.e. they are volatile and may fall in value meaning that the initial outlay may not be recovered. If the Council was to consider investing in shares, then in order to limit the risk, upper limits on the sum invested in each category of shares would need to be set.

*Shares held for service purposes in £ thousands*

Category of company	31/03/2019 actual			2020/21
	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Suppliers	0	0	0	250
Local businesses	0	0	0	250
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>500</b>

*Non-specified Investments:* Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Council’s upper limits on non-specified investments. The Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

If the Council were to consider placing funds in any other type of investment which would be categorised as Non-Specified, the security of the capital sum would be the paramount concern. The same requirements as to credit ratings relating to Specified Investments will

apply, and in appropriate cases the advice of the Council's treasury management advisors will be sought.

## Commercial Investments: Property

**Contribution:** The Council invests in local commercial property with the intention of making a profit that will be spent on local public services. These are held primarily to earn income to be used to support the revenue budget although in some cases there may also be a contribution towards the economic wellbeing of the Borough.

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

A fair value assessment of the Council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment.

The majority of the investment property portfolio was acquired some time ago and there is no debt associated with any of the properties and the initial investment costs have been recouped many years ago. Investment properties are valued at fair value. The values of the properties will fluctuate according to market conditions prevailing from time to time, however these fluctuations do not constitute losses of capital invested. The value of investment properties included in the Council's balance sheet as at 31 March 2019 is £16,415m.

If there are any new commercial investments funded from borrowing, their value will be monitored to determine whether it is sufficient to act as security for the capital invested and outstanding borrowing. If there is a significant fall in value then this will be reported to members.

**Risk assessment:** There are risks associated with making and holding commercial investments which require assessment and management.

With regard to the Council's current portfolio of commercial investments, comprising investment properties, the main risk is of not achieving the budgeted amount of income or of expenditure exceeding budgeted amounts. These risks are assessed and provided for via the assessment of the appropriate amount to hold in reserve in General Fund Balances. If the result of the assessment shows that current levels are inadequate, the necessary additional contribution will be made via inclusion in the Medium Term Financial Strategy.

With regard to consideration of proposed new commercial investment there will be additional risks to be assessed and taken account of. The degree of control which the Council has over the materialisation of these risks and its ability to mitigate them should they arise will be important considerations. In most, if not all, cases the Council will be operating in a competitive environment and possibly one which it is not experienced in operating within, all of which increases the level of risk.

A comprehensive risk assessment, taking account of all appropriate factors, will be carried out on an individual basis for each investment proposal. The risks inherent in the proposal will be reported to members when it is placed before them for consideration together with an assessment of the likelihood of any of them materialising, their impact on the revenue budget and otherwise and available mitigation measures. Risk factors to be assessed include:

- barriers to entry into and exit out of the market concerned;
- the nature and level of competition;
- how the market and customer needs will evolve over time;
- ongoing need for further investment to be made, for example to adapt investment property or repair defects or carry out cyclical maintenance; and



- whether there is sufficient internal capacity to assess the business case and risks relating to the proposal.

An initial review of each proposed investment will be carried out by Council officers, intended to determine whether there are any risks apparent at that stage which indicate that the proposal should not be proceeded with. Provided this is not the case and it has also been determined that there is a worthwhile business case for further consideration of the investment, a more detailed risk assessment will be carried out. Where necessary, owing to lack of internal expertise, external advisors may be used to assist with the assessment of appropriate risks. Any other appropriate sources of information may be used to assess and monitor risk, including credit ratings, if these are relevant. Data used to monitor ongoing risk will be reviewed regularly and appropriate action will be taken if there are any indications of increasing risk or risks materialising.

An independent review shall be undertaken by external investment property advisors on the Council's existing commercial property portfolio. The recommendations from this review will be actioned where necessary.

*Liquidity:* Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. There is no outstanding borrowing in relation to the current portfolio so any sales proceeds would be available in full to support capital investment.

In the case of any future commercial property investments, the likely degree of liquidity will be a consideration in deciding whether to make the investment.

## Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness. To date, the Council is not contractually committed to make any loans.

## Proportionality

The Council is dependent on profit generating investment activity to achieve a balanced revenue budget.

Net investment property income is subject to fluctuation according to market conditions and other factors such as bad debts and unforeseen expenditure. Accordingly the possibility of shortfalls in contribution towards the revenue budget from this source is one of the factors specifically taken into consideration in calculating the level of General Fund balance to be held as a contingency against adverse budget variances. Currently a total of £1,448m is held in balances to cover this and other risks and can be drawn upon in the event of risks materialising.

It is not planned to vary the amount of investment property held in the short term. However, in accordance with the Asset Management Strategy, all such property will be kept under review to determine whether the return obtained justifies retention and there may be instances where it is decided to dispose of property to obtain a capital receipt. The net contribution made towards balancing the revenue budget and the options for replacing any significant loss of income will be one of the factors taken into account when determining whether or not to dispose of a property.

## **Borrowing in Advance of Need**

The Prudential Code for Capital Finance in Local Authorities (2017) issued by CIPFA states that local authorities should not borrow more than or in advance of their needs purely to profit from the investment of the extra sums borrowed. This is repeated in the Statutory Investment Guidance issued by the Ministry of Housing, Communities and Local Government.

The reasons for making an investment are unlikely to be purely in order to make a profit since investments may also be made with the intention of furthering corporate aims or service objectives, such as economic regeneration.

Accordingly, borrowing will be permitted in respect of Other Investments. The Council will consider each proposal to borrow on its merits. As well as the corporate or service benefits due regard will be given to the financial impact upon the revenue budget in terms of capital financing costs.

All borrowing will be subject to approval by members, normally via Full Council, following consideration of a report setting out all relevant matters, including those referred to above.

## **Capacity, Skills and Culture**

Council members and staff involved in dealing with Other Investments will have regard to the provisions of the CIPFA Prudential Code and the regulatory regime within which local authorities operate when carrying out these functions.

Investment in commercial property is a specialist area and the Council will therefore commission external advice in order to effectively appraise investment proposals, negotiate with third parties or manage certain types of investment on an ongoing basis. The external advice will be commissioned on a case by case basis and where asset management is required external managers may need to be employed, particularly if investment is made in residential property.

Decisions to make Other Investments and the means of financing them will be subject to member approval. This will normally be by Full Council (but may be by Cabinet where permitted by the Council's Constitution). Members will consider a report setting out all matters relevant to the making of an investment before making a decision. The normal scrutiny and call-in arrangements will apply.

## Investment Indicators

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

### Gross and Net Income - Historic and Current Year

	2016/17 Actual	2017/18 Actual	2018/19 Actual	2019/20 Estimate
	£'000	£'000	£'000	£'000
<b>Commercial Properties</b>				
Gross Income	1,294	1,327	1,193	1,066
Gross Expenditure (exc. Recharges)	(749)	(871)	(934)	(920)
<b>Net Income</b>	<b>545</b>	<b>456</b>	<b>259</b>	<b>146</b>
Net Service Expenditure (Whole Council)	(6,510)	(6,776)	(7,011)	(7,280)
<b>Ratio of Net Income to Net Service Expenditure</b>	<b>8.37%</b>	<b>6.73%</b>	<b>3.69%</b>	<b>2.01%</b>

### Gross and Net Income - Over Period of Approved Medium Term Financial Strategy 2020/21 to 2024/25 – Based on 2% increase on 2019/20

	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
	£'000	£'000	£'000	£'000	£'000
Gross Income	1,024	1,045	1,066	1,087	1,109
Gross Expenditure	(524)	(535)	(545)	(556)	(567)
<b>Net Income</b>	<b>500</b>	<b>510</b>	<b>521</b>	<b>531</b>	<b>542</b>

### Vacancy Levels

2016/17 Actual	2017/18 Actual	2018/19 Actual	2019/20 Actual at Q2	2019/20 Target
%	%	%	%	%
8.3	7.7	10.1	8.3	12.0

This page is intentionally left blank

Amendment - Budget

Community Wealth (Budget)

Proposed by Councillor Stubbs, seconded by Councillor Jones

Council notes:

- (i) That the Community Wealth Building (CWB) model has had success in Preston amongst other areas in uniting the City's key employers and procurers (known as 'anchor institutions') to reorganise their supply chains and identify where they could buy goods and services locally, showing what can be achieved by effective local leadership.
- (ii) Whilst Newcastle-under-Lyme's economy is relatively stable, high levels of inequality and concentrations of poverty make a focus on adding social value crucial for our Towns and Villages.

Council believes:

- (i) That there is potential for our Borough Council to work alongside other 'anchor institutions' in Newcastle-under-Lyme and the wider North Staffordshire Conurbation in using our spending powers to forge a local economy that shares wealth and power more equally and puts environmental sustainability at its heart.
- (ii) There are clear benefits to co-operation and substantial growth in the sector provides a true alternative to business as usual.

Council resolves to:

- (i) Explore with leading Newcastle-under-Lyme's employers how they can together target our significant procurement spend to achieve social and environmental goals and monitor its impact.
- (ii) Work to ensure that public spend in Newcastle-under-Lyme maximises the achievement of social value.
- (iii) Request an update report from the relevant officer to Cabinet and Council within six months of this meeting.
- (iv) That any and all the proposed spend within the Commercial Strategy, (a figure that could reach £50M), contained within the 2020/21 Budget should be ring-fenced to be spent on projects in Staffordshire alone.
- (v) Council further resolves that a Cabinet Panel be formed to monitor the Commercial Strategy as part of a wider examination of the benefits of a people centred approach to Finances within the Council.
- (vi) That the Leader of the Council writes to the Minister for Housing, Communities and Local Government to seek clarification as follows;
  - (a) What date the Minister plans to release his plans for the next fair funding review (implementation scheduled for April 2021),
  - (b) Will the 'new' fair funding review include 'poverty indicators' as requested by bodies such as the Local Government Association,
  - (c) What are the Minister's intentions with regard to business rates retention,
  - (d) Stress the need for the details above as vital to Local Authority financial planning.

- (vii) Pause the introduction of the new “Waste Recycling Fleet – New Service” until Council is able to analyse detailed costings behind the proposed expenditure of £4.7M in 2020/21 and 2026/27.

QUESTIONS TO THE MAYOR, CABINET MEMBERS AND COMMITTEE CHAIRS

To the Portfolio Holder for Community Safety and Wellbeing:

- 1. Can the Portfolio Holder tell me the measures the Council is taking in order to deal with the threat that the Corona Virus may pose within the Borough?

Cllr Andrew Parker

.....

To the Portfolio Holder for Planning and Growth:

- 2. If a property is built without planning permission and other properties in a similar location have been refused planning permission citing the Neighbourhood Development Plan for the area will the Council pursue the developer/builder to the point of taking legal action to have the building removed?

Cllr Graham Hutton

.....

To the Leader of the Council:

- 3. Can the leader of the Council update Members on what investigations have been undertaken relating to recent complaints of staff ill health, to rule out potential links with mould spores inside of Castle House or poor air quality inside or outside of Castle House.

Cllr Andrew Fox-Hewitt

.....

This page is intentionally left blank