

ASHFIELD DISTRICT COUNCIL



Council Offices,
Urban Road,
Kirkby in Ashfield
Nottingham
NG17 8DA

Agenda

Extraordinary Council (Tax Setting)

Date: **Thursday, 5th March, 2020**

Time: **7.00 pm**

Venue: **Council Chamber, Council Offices, Urban Road,
Kirkby-in-Ashfield**

For any further information please contact:

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COUNCIL

Membership

Chairman: Councillor Tony Brewer

Vice-Chairman: Councillor Andy Meakin

Councillors:

John Baird
Kier Barsby
Christian Chapman
Melanie Darrington
Andy Gascoyne
Arnie Hankin
David Hennigan
Trevor Locke
Sarah Madigan
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SUMMONS

You are hereby requested to attend a meeting of the Council to be held at the time/place and on the date mentioned above for the purpose of transacting the business set out below.



Carol Cooper-Smith
Chief Executive

AGENDA

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1. To receive apologies for absence, if any.
2. Declarations of Disclosable Pecuniary or Personal Interests and Non Disclosable Pecuniary/Other Interests.
3. Recommendation from Cabinet held on 24 February 2020: Capital Strategy. 5 - 42
4. Recommendation from Cabinet held on 24 February 2020: Treasury Management Strategy. 43 - 82
5. Council Tax 2020/21.
 - a Recommendation from Cabinet held on 24 February 2020: Annual Budget & Council Tax 2020/21 and Medium Term Financial Strategy (MTFS) Update. 83 - 110
 - b Formal Setting of Council Tax 2020/21. 111 - 116

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Agenda Item 3



Report To:	CABINET	Date:	24th FEBRUARY 2020
Heading:	CAPITAL STRATEGY		
Portfolio Holder:	COUNCILLOR RACHEL MADDEN – CABINET MEMBER FOR FINANCE		
Ward/s:	ALL		
Key Decision:	YES		
Subject to Call-In:	YES		

Purpose of Report

The Council's Proposed Capital Strategy has been prepared in accordance with the Chartered Institute Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities. The framework established by the Prudential Code supports local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code in respect to the Capital Strategy are:

1. To ensure that the capital expenditure plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.
2. A requirement to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are made with sufficient regard to the long term financing implications and potential risks to the authority.
3. To ensure that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability.
4. The Capital Strategy should set out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

In accordance with the MHCLG revised Statutory Guidance on Local Government Investments (2018), each financial year, a local authority should prepare an Investment Strategy, which should be approved by full Council. The investment strategy must include non-treasury management investments.

This Commercial Property Investment Strategy, included at Annex 1 to the capital strategy is this Council's non-treasury management investment strategy.

The MHCLG Guidance and CIPFA's Prudential Property Investment guidance requires the Commercial Property Investment Strategy to include quantitative indicators to allow risk exposure

as a result of its non-treasury management investments to be assessed. The indicators are included as Annex 2.

Recommendation(s)

- 1) For Cabinet to review and note the contents of the Capital Strategy (CS) for 2020/21 including the Annexes 1-3;

- 2) For Cabinet to recommend that Council approves:
 - Capital Strategy
 - Commercial Property Investment Strategy;
 - Commercial Property Indicators.

Reasons for Recommendation(s)

It is a requirement of the CIPFA Prudential Code for all Local Authorities to have a Capital Strategy approved by Full Council.

MHCLG Statutory Guidance on Local Government Investments require that the Council has an Investment Strategy that covers non-treasury management investments and includes quantitative indicators approved by Full Council.

Alternative Options Considered

None. It is a requirement of the CIPFA Prudential Code for all Local Authorities to have a Capital Strategy and a requirement of MHCLG Statutory Guidance on Local Government Investments to have an Investment Strategy covering non-treasury management investments.

Detailed Information

The proposed Capital Strategy is contained in Appendix 1. There are three Annexes to Appendix 1 of the report which are:

1. Annex 1 describes the Commercial Property Investment Strategy.
2. Annex 2 Commercial Investment Property indicators which are required by MHCLG guidance and CIPFA .
3. Annex 3 shows the process for acquiring Commercial Investment Properties.

The Commercial Property Investment Strategy details the target minimum net income return, this was previously set at 3.5% this has reduced to 2.5% as a consequence of the increase of 1% in the Public Works Loans Board (PWLB) borrowing rate in October 2019.

Implications

Corporate Plan:

This Capital Strategy will allow delivery of the priorities in the Capital Programme.

Legal:

It is a statutory requirement to produce a Capital Strategy from 2019/20. Relevant statutory powers and requirements are described in the Appendix to this report.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	No Implications
General Fund – Capital Programme	
Housing Revenue Account – Revenue Budget	
Housing Revenue Account – Capital Programme	

Risk:

Risk	Mitigation
The detailed Capital Strategy is not fit for purpose	The Capital Strategy is reviewed and updated annually for changes in direction and changes to guidance and legislation.

Human Resources:

Not Applicable.

Environment / Sustainability:

Not Applicable.

Equalities:

Not applicable.

Other Implications:

Not applicable.

Reason(s) for Urgency

Not applicable.

Reason(s) for Exemption

Not applicable.

Background Papers

- CIPFA Prudential Code 2017 Edition
- CIPFA Treasury Management Code 2017 Edition
- CIPFA Prudent Property Investment

- MHCLG Statutory Guidance on Local Government Investments (3rd Edition) Issued under Section 15(1)(a) of the Local Government Act 2003.

Report Author and Contact Officer

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**ASHFIELD DISTRICT COUNCIL
CAPITAL STRATEGY 2019/20 – 2023/24**

1 Introduction

- 1.1 Ashfield District Council's Corporate Capital Strategy is the policy framework document that sets out the principles to be used to guide the allocation of capital investment across all the Council's services and informs decisions on capital spending priorities contained within the Council's 5 year Capital Programme.
- 1.2 Capital investment is technically described as "Expenditure on the acquisition, creation, or enhancement of 'long term assets'". Capital investment seeks to provide long-term solutions to the Council's priorities and operational requirements. Expenditure for capital purposes therefore gives rise to new assets, increases the value and/or useful life of existing assets or, generates an income stream to the Council via non-treasury investments. Expenditure outside this definition will be, by definition, 'revenue' expenditure.
- 1.3 Most of the Council's long term assets are properties that are used in service delivery. The Council's land, buildings and infrastructure asset base of some 7,600 properties has a current use Balance Sheet value of £317m (2018/19 published accounts).
- 1.4 The Capital Strategy is presented to Council as a Policy Framework document, and links with the Treasury Management Strategy, Medium Term Financial Strategy (MTFS) and the approved Capital Programme. Although this Strategy focuses on the Council's management of its own investment in assets, a wider view of capital investment throughout the area by both the public and private sectors will have a major influence on meeting Council aims and objectives.
- 1.5 The Capital Strategy (and specifically the Commercial Investment Strategy element of the Capital Strategy) are key drivers to secure the future financial sustainability of the Council.
- 1.6 The legal background to Capital Expenditure is contained in the Local Government Act 2003, particularly the following sections:
- S1 – power to borrow
 - S3 – affordable borrowing limit
 - S15 – regard to Guidance issued
- 1.7 Guidance is also issued by Government, the latest guidance issued by the Ministry of Housing Communities and Local Government - MHCLG (formerly the Department of Local Government (DCLG)) being Investment Guidance (2018) and Minimum Revenue Provision (MRP) Guidance (2018).

- 1.8 Council's should also comply with professional codes that are issued, the key ones being:
- CIPFA Prudential Property Investment (November 2018). This is new guidance issued after the previous Capital Strategy had been approved.
 - CIPFA Prudential Code (2017)
 - CIPFA Treasury Management Code of Practice (2017).
- 1.9 The Capital Strategy sets out a number of guiding principles. In considering the principles, the Council needs a balance between guidance and prescription to allow a flexible approach to be taken but reflective of times of uncertainty. This Strategy focuses on the key policies for the allocation of capital resources to schemes in line with Council priorities and statutory responsibilities. The management of the Council's operational Capital Programme which 'sits' under this Capital Strategy is also supported by the Council's approved Financial Regulations.
- 1.10 CIPFA Treasury Management Code 2017 states:
- 'Where a capital strategy is produced by a local authority this may include the setting of detailed treasury management policies, while being clear that overall responsibility remains with full Council.'
 - 'This organisation will ensure that all the organisation's investments are covered in the capital strategy, investment strategy or equivalent, (*that is this strategy for Ashfield District Council and contains both*) and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.'

2 Identifying Need

- 2.1 There are a number of internal and external influences that will affect the Council's Capital Strategy in the short, medium and long term.
- 2.2 External influences will include, but are not limited to potential partners such as central government, priorities of the Local Enterprise Partnership (LEP), County Council and the private sector.
- 2.3 Internal influences will be driven by the Council's Corporate Plan which sets out the Council's vision and priorities for the District and is available on the Council's website <https://www.ashfield.gov.uk/your-council/about-the-council/corporate-plan/>. A new Corporate Plan is developed every four years, the current corporate plan was approved by Council on the 26th September 2019.
- 2.4 The Council's Corporate Plan 2019-2023 sets out the following six priorities;
- Health & Happiness
 - Homes & Housing
 - Economic Growth & Place

- Cleaner & Greener
- Safer & Stronger
- Innovate & Improve

2.5 Aligned to the Corporate Plan are a number of subsidiary and complementary plans and strategies. Examples include;

- Medium Term Financial Strategy
- Treasury Management Strategy
- 30 Year HRA Business Plan
- Housing Strategy
- Digital Transformation Strategy
- Commercial Investment Strategy
- Service Plans

Capital investment will therefore be made in a range of areas to support the Council's core activities and priorities including asset investment to support its existing asset base and service plans, ICT and business improvement investment to support its Transformation programme. Investment in other delivery vehicles such as a Housing Company are being considered to deliver priorities regarding housing units.

3 Capital Scheme Prioritisation

3.1 Due to competing demands for limited resources, the Council prioritises capital investment based on a number of different factors such as:

- Its contribution to corporate priorities
- Whether it facilitates delivery of statutory or non-statutory and essential/non-essential services.
- The ability of the project to leverage additional funding, or secure a future income stream – therefore preference will be given to those projects with:
 - A payback of 10 years or less
 - A positive net present value over the life of the asset based on a discount rate reflecting use of capital resources (Treasury Green book figure 3.5 %)
- The affordability of the revenue implications of the project
- The risk of not undertaking the capital expenditure, eg Health and Safety implications or legislative requirements.

3.2 Non financial indicators can also be used, for example, there are many benefits to including sustainability or environmental criteria in the decision-making process when it comes to allocating capital resources. Outcomes (for example jobs created or safeguarded) and outputs (for example, number of new homes built) should also be considered.

4 Prudential Approach

4.1 The Prudential Code requires Councils to consider six things when it agrees its Capital Programme:

- Service objectives – are spending plans consistent with our aims and plans?
 - Stewardship of assets – is capital investment being made on new assets at the cost of maintaining existing assets?
 - Value for money – do benefits outweigh the cost?
 - Prudence and sustainability – can the Council afford the borrowing now and in the future?
 - Affordability – what are the implications for council tax? (revenue implications)
 - Practicality – can the Council deliver the programme?
- 4.2 Prudence is a difficult concept to define. In deciding whether an investment decision is prudent there should, as a minimum, be an initial consideration of the relationship between:
- the capital cost and
 - the business cost (being the revenue costs associated with the use of the asset).
- 4.3 The authority needs to consider whether this choice represents the best use of resources having looked at all available options. Above all, the authority should be confident that the preferred option is the best value for money, and the quality is sufficient to meet the Council's needs.
- 4.4 Investments in property are seen as medium to long term investments therefore the value for money is assessed on this basis to ensure that over a longer period of time the investment is value for money and provides a return to the Council which, as a minimum exceeds what could be earned through investing in Money Markets.
- 4.5 The question of affordability in relation to capital projects is easier to address as the list of cost components is easier to define. Whilst the list is not exhaustive, it will typically include:
- Capital Costs
 - Feasibility costs
 - Initial build/purchase
 - Disposal/demolitions/decommissioning costs
 - Project management costs - internal and external
 - Fees: Surveyors, Clerk of works
 - Revenue costs
 - Ongoing rental charges
 - Ongoing facilities management charges
 - Utilities costs
 - Maintenance (planned and reactive)
 - Financing costs (where appropriate, Minimum Revenue Provision (MRP) and Interest costs)
 - staffing implications
 - Business Rates

- 4.6 Feasibility costs may be capitalised provided the scheme leads to the eventual construction of an asset, if not, any such costs incurred must be charged to revenue.
- 4.7 In assessing whether an investment is sustainable, the authority should consider:
- how it fits into any future policy or environmental framework
 - the future availability of resources to implement and continue to maintain any capital asset arising
 - the potential for changes in the need for the asset, e.g. demographic developments
 - the potential for changes in the nature of the driver, problem, or policy the capital expenditure is seeking to address.
 - The security on loans made
 - The liquidity of investments
- 4.8 In terms of Practicality, the Council must ensure it has the right skills and resources available at the right time to be able to fully resource and deliver its Capital Programme ambitions. Some of the projects may be specialist in nature and, as such, will require external expertise and support in order to deliver the schemes, including good project management skills.

5 Capital Funding

5.1 Capital Funding Sources:

- 5.1.1 The Council's Capital Programme is currently funded from the following sources;
- Capital Receipts
 - Prudential Borrowing
 - Developers Contributions e.g. s106 receipts
 - Partner contributions
 - Revenue Contributions/Reserves
 - Capital Grants e.g. Disabled Facilities Grant
 - Proportion of Housing Right to Buy receipts
 - Major Repairs Reserve (for Council Housing investments)
- 5.1.2 The Council can recycle capital receipts generated from the disposal of assets back to fund both General Fund and HRA capital projects. The Council also has in place a Flexible Use of Capital Receipts Strategy (Originally approved October 2018) which may be used to support delivery of the Council's Transformation Programme.
- 5.1.3 However with limited property available for sale, capital receipts are gradually being eroded. And with continuing budgetary pressures being placed on the Council's General Fund the ability to use Direct Revenue Financing (use of

reserves) is reducing and consequently the Council may need to either find alternative sources or curtail its ambitions for capital spend in future years.

5.1.4 The Council owns a number of assets including investment properties and through on going monitoring of assets and stock condition information, the continuation of holding such assets is reviewed in the light of suitability and sufficiency and decisions are taken on whether to:

- Hold and continue to maintain and refurbish them, or
- Dispose of and generate a capital receipt for funding the Capital Programme.

5.1.5 The Council has entered into an agreement with the MHCLG in which the authority will recycle within a rolling 3 year period Right to Buy (RTB) receipts arising from retaining “additional” receipts from RTB disposals into new social housing dwellings within the District. The RTB receipts retained, must be applied to fund up to 30% of the capital costs of new build and acquisitions of affordable housing. The Council currently anticipates all receipts will be utilised on eligible schemes as and when they arise.

5.2 Prudential Borrowing

5.2.1 Under the Prudential Framework local authorities are free to make their own judgements as to whether new borrowing is affordable and prudent, subject to a duty to follow agreed professional principles, which are contained within the Prudential Code.

5.2.2 Prudential borrowing to fund capital projects may, depending on the nature of the capital investment, bring with it the need to make a charge to revenue to reflect the cost of borrowing. This includes Minimum Revenue Provision (MRP) and interest. The MRP policy that applies to capital decisions funded by prudential borrowing is set out within the Council’s Treasury Management Strategy.

5.3 S106 Developer Contributions

5.3.1 Developer contributions are sought, as part of the planning application process to mitigate the impact of development and overcome what would otherwise be a potential reason to potentially refuse a planning application. These S106 Developer Contributions are a means of supporting infrastructure costs such as play areas, transport networks, schools, etc.

5.4 Housing Revenue Account

5.4.1 Capital commitments are funded via surpluses from within the Council’s Housing Revenue Account (HRA). The production of a 30 year HRA Business Plan, which is regularly reviewed, enables the funding needs of the Council’s housing stock to be planned for and accommodated.

5.4.2 The HRA originally had a debt cap which was set at £80.081m in 2012. However, the Government recently announced the removal of this cap

allowing Councils to once again borrow against the value of its housing stock for improving the existing stock as well as delivering new stock.

5.4.3 The HRA Capital Programme is to a large extent driven by the amount of surplus generated which in turn is influenced by:

- The amount of income raised from rents which for four years from 1/4/2016 has been limited by Government to a year on year decrease of 1%. Increases of CPI plus 1% will again be permissible from 2020/21.
- The number of Right to Buy sales that take place and impact on the HRA stock and therefore future rent income receivable.

5.4.4 The resulting HRA Capital Programme provides for renovation and improvement of existing housing stock, refurbishment and limited estate regeneration.

6 New Delivery Models

6.1 In response to reducing capital resources the Council has looked to new delivery models to continue its capital investment in the District, which levers in other partners and innovative financing. These include a Housing Company, which the Council may establish to deliver new affordable rented properties in the District.

6.2 In the context of the Capital Strategy, the Council is investing in property to produce an on-going revenue stream to contribute to the funding of the Council's revenue budget to sustain the delivery of key services to the District's residents. This capital expenditure will be funded where available, in the form of capital receipts and/or prudential borrowing.

6.3 At the time of writing the Council currently has a portfolio of 'investment properties' of around £36.243m generating gross investment income of £2.85m per annum. The purchase of the investment properties is funded by prudential borrowing and results in revenue costs of MRP and potentially interest. Prudential borrowing can be internal borrowing, against cash-backed reserves and working capital or external borrowing, loans from a third party. Interest costs are incurred where external borrowing is undertaken. The Council's strategy in respect of 'investment properties' is detailed in the Commercial Investment Strategy (Non- Treasury Management Investment Strategy) included at Annex 1.

6.4 In September 2019 both Kirkby-in-Ashfield and Sutton-in-Ashfield were named in the list of 100 towns invited to develop proposals to receive funding through a Town Deal, with up to £25m available for each town. Sutton has also been included on the list of 100 towns which can apply for funding through the Future High Streets Fund (FHSF) of up to £25m which is a competitive process. Proposals and bids are currently being progressed.

7 The Current Capital Programme 2019/20 – 2023/24

7.1 A copy of the current 5 year Capital Programme can be found on the Council's website and the latest update to the Capital Programme was reported to Cabinet at November 2019. The current programme covers the following key areas and major schemes:

- Area schemes & General Fund Schemes
 - Investment Properties
 - Kirkby Leisure Centre
 - Purchase of Vehicles
- Housing Revenue Schemes
 - Decent Homes schemes
 - New Build and acquisitions of affordable housing
 - Davies Avenue Scheme – affordable housing

7.2 In assessing what schemes are included in the Capital Programme, the Council will ensure all schemes are properly appraised and prioritised through a scoring matrix as agreed by Council. This appraisal process will take account of the key criteria set out in this Strategy.

8 Service Enhancements & Building Asset Maintenance

8.1 The Council has a property land and buildings portfolio utilised for service delivery (eg leisure centres) and for operational delivery (offices and depots). It is important that these are maintained on a regular basis and receive upgrades and replacement if required when resources allow. This programme will be informed by the stock condition surveys alongside any service developments that may be proposed. It may also be required that some surplus assets are either disposed of (including demolition) if no longer fit for purpose or required.

8.2 As part of the agile working initiative opportunities for rationalisation of operational land and buildings may be identified. Equally, the retained operational land and buildings may require enhancement.

8.3 Included in the land and buildings portfolio are a number of Commercial Properties, which are providing an income stream to the Council. They are not deemed to be investments properties as they are held to support the economic development of Ashfield and are not held solely for returns or capital appreciation. The Council's risk exposure to be managed, in relation to these Commercial Properties include loss of income stream due to voids periods and maintenance costs.

9. Grants & Contributions

9.1 The Council will make contributions to 3rd party schemes (including Disabled Facility Grants) as partner funding contributions to schemes not being directly delivered by the Council, to meet statutory grant requirements or to support particular initiatives.

9.2 The Council will also, where appropriate, seek grant funding and contributions to support the delivery of capital schemes.

10 Vehicles and Fleet

10.1 The Council has a significant fleet in order to deliver its operational services. The Council has traditionally purchased outright all of its fleet including refuse collection vehicles, which require a significant up-front investment. Whilst the current capital programme continues with this approach, other funding methods will be evaluated and may also be utilised (e.g. lease, Contract Hire with Maintenance, etc) in order to achieve the most cost effective approach to vehicle provision.

11 Service Transformation & Invest to Save

11.1 The Council still faces significant shortfalls in its revenue budget in the Medium term. Therefore, it will continue to invest in technologies and programmes which deliver ongoing savings to the Council's finances. These schemes will require initial Capital investment but must demonstrate a payback and ongoing savings as part of the evaluation process. A business case will need to be made for all proposals, which must include a financial appraisal.

11.2 These schemes can range from enhancements to buildings to make them more energy efficient, to ICT investment, to service transformation programmes. Where available, capital receipts will be used to fund one-off revenue costs associated with the Transformation Programme, in accordance with the Flexible Use of Capital Receipts Strategy.

12 Capital Project Delivery and Investment Risk Management

12.1 The Council, like all Council's is exposed to a broad range of risks:

- **Financial risks** related to the investment of the Council's assets and cash flow, market volatility, currency etc.
- **Macroeconomic risks** related to the growth or decline of the local economy, interest rates, inflation and to a lesser degree, the wider national and global economy amongst others.
- **Credit and counterparty risks** related to investments, loans to institutions and individuals and counterparties in business transactions.
- **Operational risks** related to operational exposures within its organisation, its counterparties, partners and commercial interests.
- **Strategic risks** related to key initiatives undertaken by the Council such as significant purchases, new ventures, commercial interests and other areas of organisational change deemed necessary to help the Council meet its goals.
- **Reputational risks** related to the Council's dealings and interests, and the impact of adverse outcomes on the Council's reputation and public perception.

- **Environmental and social risks** related to the environmental and social impact of the Council's strategy and interests.
- **Governance risks** related to ensuring that prudence and careful consideration sit at the heart of the Council's decision-making, augmented by quality independent advice and appropriate checks and balances that balance oversight and efficiency.

12.2 The Council must manage and mitigate these risks where possible but there is inherent risk in undertaking major Capital Projects (particularly acquisition of Investment Properties) and this needs to be recognised. Therefore, for each scheme, risk assessments and risk registers need to be prepared and monitored to ensure, as far as possible, risks are managed.

13 Governance & Monitoring

13.1 The Prudential Code sets out a clear governance procedure for the setting and revising of a Capital Strategy and Prudential Indicators i.e. this should be done by the same body that takes the decisions for the local authority's budget – i.e. Full Council.

13.2 The Prudential Code also states that decisions around capital expenditure, investment and borrowing should align with the processes established for the setting and revising of the budget. The Financial Procedure Rules (FPR) set out clear procedures for the approval of capital expenditure, including:

- approval of the capital programme – Full Council (FPRs para B.1)
- additions/changes to the capital programme – Cabinet/Council (FPRs para B.8)

13.3 The Audit Committee has delegated powers responsible for Governance and Treasury Management within the Council. They scrutinise and recommend an annual Treasury Management Strategy (incorporating an Investment Strategy and Borrowing Strategy) to Council for approval as part of the annual approval of budget. They also receive monitoring reports on Treasury activity and a year-end Annual Report.

13.4 The S151 Officer is responsible for ensuring that all matters required to be taken into account are reported to the decision-making body for consideration. They also have to declare that they consider the strategy to be prudent and affordable, are integrated into the Treasury Management Strategy and other Strategic Plans, and that all the revenue implications are included in the MTFS.

14 Knowledge and Skills

14.1 In order to deliver this Capital Strategy it is important that the Council employs and /or has access to competently skilled people in order to manage the delivery of the Capital Programme. The Council's S151 Officer has the overall responsibility for the Capital and Treasury Management activities so

needs to be professionally qualified and undertake ongoing CPD in these areas. This should be underpinned by experienced staff who can support the S151 Officer in meeting these requirements. Additionally, professional advice can be bought in from external providers. The Council currently retains Link Asset Services as its Treasury Management Advisors.

- 14.2 Training should also be provided to those Members and Officers that are involved in the monitoring and delivery of the Capital Strategy and Programme and this should be regularly updated. Appropriate project management training should also be provided to project leads, Officers and Members responsible for each of the Capital schemes.

**ASHFIELD DISTRICT COUNCIL
COMMERCIAL PROPERTY INVESTMENT STRATEGY**

1. Key Principles

- 1.1 The core function of the Council is to deliver statutory and other services to local residents. Reductions in government funding has required local authorities to look at the options for balancing the budget. Investing in property helps the Council to generate an additional on-going revenue income stream that it can then use to reduce its net costs of providing services.
- 1.2 This is achieved by buying property that has a tenant who pays rent to the owner of the property – the landlord. The tenant needs to be of good financial standing and the property and lease must meet certain standards such as being in a commercially popular location and have a number of years left on the lease providing a certain and contractually secure rental income stream into the future.
- 1.3 The Council funds the purchase of the property by prudential borrowing and/or use of Capital Receipts where these are available. The rental income paid by the tenant must exceed the cost of capital (MRP and interest). The annual surplus then supports the Council's budget position, and enables the Council to continue to provide services for local people.
- 1.4 Historically, property has proved to be one of, if not the best, investment in terms of capital growth over the last 50 years. If the Council owns the property for 20 years plus, and the property is managed and maintained appropriately, the Council can expect to see an increase in the value of the property as well as a net annual surplus of revenue.
- 1.5 The increase in value is realised when the property are sold. The sales proceeds from the sale of property result in a capital receipt for the Council. The capital receipt will be used to extinguish the debt outstanding in the Capital Financing Requirement in relation to the property sold, and the remaining capital receipt can be used to fund further capital investments or applied to revenue transformation costs under the Flexible Use of Capital Receipts Policy. In both cases, the additional capital receipt will support the delivery of services for local people.

Purpose

- 2.1 The Commercial Property Investment Strategy:
 - Clarifies the legal powers used to operate the Strategy and ensure continued compliance.
 - Sets out what the Council wants to achieve when acquiring property assets for investment purposes – primarily to provide an income stream with a margin over the cost of capital.

- Identifies criteria for acquiring and owning property assets for investment purposes to ensure risks are minimised.
- Includes an outline of the process involved in acquiring property assets for investment purposes.
- Is part of a wider policy framework supporting what the Council does and why.

2.2 Each acquisition will be evaluated on its merits to consider the relevant purpose(s), legal powers, financial powers and any other implications. The evaluation will address the potential within the market place for future uplift or loss in value of the asset being considered for acquisition, as well as the security of income from the tenant in occupation.

3. Legal Powers

3.1 Local authorities have very wide powers to acquire, sell, appropriate and develop land, such that it is rare to need to use the powers in the Localism Act 2011. Specific property related powers are very wide and include the following:

- Sections 120 to 123 of the Local Government Act 1972
- Section 227, Town and Country Planning Act 1990
- Section 233, Town and Country Planning Act 1990
- Local Authorities (Land) Act 1963 (development)
- Housing Act 1985
- Sections 24-26 Local Government Act 1988

3.2 There are various powers that would usually be sufficient for the Council to undertake any property acquisition, sale or related project in its area where at least part of the motivation is connected with the broad benefit or improvement of its area, as it is in the case of this strategy.

3.3 Section 120 of the Local Government Act 1972 to acquire land (inside or outside of their area) for the purposes of any of their functions, and then this gives us the power to borrow as contained in Section 1 of the Local Government Act 2003 - A local authority is empowered to borrow money for any purpose relevant to its functions under any enactment.

4. Objectives of the investment activity

4.1 Acquisition to generate an income stream is a natural progression from acquisition for regeneration purposes. The two can also be combined – an example of this is if an acquisition is made which offers a secure income stream and the option for future regeneration of a site. Therefore, the reasons for buying and owning property investments are primarily in this order:

1. Financial gain to fund our services to local people
2. Market and economic opportunity – the time is right

3. Economic development and regeneration activity in Ashfield
- 4.2 The UK commercial property investment market is very well established, attracts global investors and is defined as a 'mature asset class'. It has a wide range of new and established investors including institutions, pension funds, specialist property companies, charities, family trusts and individuals.
- 4.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines investment property as "...used solely to earn rentals or for capital appreciation or both...".
- 4.4 Returns from property ownership can be both income driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth). The combination of these is a consideration in assessing the attractiveness of a property for acquisition.
- 4.5 Property prices and returns are a function of the property type, condition, use and location, together with the lease structure and covenant strength of the tenant (in the case of a let property). Lease contracts will reflect all liability and outgoings being the responsibility of the tenant.
- 4.6 What should be sought by the Council are property investments which produce the best returns possible, whilst carrying an acceptable level of risk. The main mitigation measure in managing risk is to target investments which are let to 'blue chip' tenants, on relatively long leases with little or no landlord management involvement – typically the tenant is responsible for all property costs such as repair, maintenance and outgoings. In this way, the Council will be primarily buying a secure income stream and the buildings themselves become almost secondary considerations.
- 4.7 Any property asset coming onto the market could be for a number of reasons. Investors seek to buy and sell in many different circumstances - rebalancing their portfolio, seeking cash to influence balance sheet or share price, requirement for a more "liquid" asset, short-term investment taking advantage of small capital growth, moving into different property classes, etc.

5. **Priorities & Risk in Property Investment**

- 5.1 The Priorities for the Council when acquiring property interests for investment purposes are (in order of importance):
- **Covenant Strength** - in the case of a let property, the quality of the tenant and, more importantly, their ability to pay the rent on time and in full. The Council's primary reason and objective for this strategy is financial gain to sustain delivery of key services to residents. The underlying principles of a Property Investment Strategy imply, assume and default to nothing taking higher priority than financial gain. It is however worth noting that the Council, as a public body, may not wish to invest in properties where the occupiers are generally seen to be undertaking a business which is contrary to its corporate values.
 - **Lease length** - in the case of a let property, the unexpired length of the term of the lease or a tenant's break clause is of key importance in ensuring that the landlord's revenue stream is uninterrupted. The Council will take into

consideration the risks associated with a tenant vacating and the potential to attract good quality replacement tenants at acceptable rental levels. Generally, occupiers are moving away from 25 year leases which were more common back in the late twentieth century with 10 to 15 years now becoming more acceptable unless some form of lease break provisions are included in favour of the tenant.

- **Rate of return** - the rate of return from the property (for example through annual rental incomes) will need to be equivalent or better to the returns that could be earned from alternate investments, such as placing monies on deposit, following adjustment for risks and potential growth. The property will also need to produce an annual return in excess of the cost of capital (Interest and MRP).
- **Risk** – rate of return is one side of the coin; risk is the other. In general, the higher the sought level of return from an investment, the higher level of risk that it carries. For example, if a property is let at an attractive rent which would create a good return, it could still be risky if the tenant does not possess good covenant strength and could default at any time.
- **Lease Terms** – The terms of leases vary and even those held on an “Institutionally acceptable basis” can be very different in nature particularly as such leases have developed over time. The Council is seeking to invest in modern leases with full repairing and insuring obligations on the Tenant and a full Service Charge recovery to include any management fees where applicable. This will ensure a certain income/return to the Council.
- **Growth** - property has the potential for both revenue and capital growth. The Council will take into account that potential when assessing the strength of the investment opportunity. Property values can fall as well as rise and mechanisms to minimise revenue reductions should be identified. Generally, the nature of standard, institutional leases is that rent review clauses are upward only which protects landlords from any downward pressure on rental income giving some security as to the level of income.
- **Location** - should a tenant default or vacate, the location of the property is the key factor in influencing the ability to re-let and find another tenant. Location is also important when considering future redevelopment or regeneration opportunities. Ideally the Council will be able to undertake inspections and to deal with any management issues without the need to employ specialists or agents. When appropriate opportunities surface in Ashfield, they will be evaluated against the same criteria as those opportunities located outside of the District. In this way, this investment activity does not discriminate against location. Any investment decision is subject to the appropriate justification, business case and governance.
- **Sector** - information as to the sector of use of the property (e.g. office, retail, industrial, leisure) will assist in deciding on the risks associated with specific properties and the mix of sectors within the portfolio.
- **Building Age and Specification** - in the case of a let property, whilst the Council, as an investor, may be principally concerned with the characteristics of the tenant and lease, the age and specification of the property will also

affect the ability of the Council to let or sell the property in the future. It must also be taken into consideration in respect of the cost of protecting the investment. An example of this would be the undertaking of repairs and refurbishment if the cost cannot be fully recovered from the tenant.

5.2 In summary, the strategy for acquiring investment property assets is therefore to:

- Seek property let to tenants who are of strong covenant strength and sound financial standing with at least more than five years remaining on an FRI lease.
- Minimise risk.
- Maximise rental income and minimise management costs to ensure the best return is generated.
- Identify opportunities for future growth, redevelopment or regeneration via property in commercially popular or development areas.
- Prioritise the Ashfield area.
- Pursue opportunities to increase returns and improve the investment value of commercial assets

6. Reporting Requirements and Governance

6.1 Commercial Property Investment Strategy

6.1.1 In accordance with the MHCLG revised Statutory Guidance on Local Government Investments (2018), each financial year, a local authority should prepare an Investment Strategy, which should be approved by full Council. The investment strategy must include non-treasury management investments.

6.1.2 This Commercial Property Investment Strategy, which is incorporated into the Capital Strategy is this Council's non-treasury management investment strategy.

6.1.3 The MHCLG revised Statutory Guidance on Local Government Investments (2018) requires the Commercial Property Investment Strategy to include quantitative indicators to allow risk exposure as a result of its non-treasury management investments to be assessed. The indicators are included as Annex 2.

6.2 Acquisition Decision Making and Reporting

6.2.1 The acquisition process has been defined, and implemented to ensure roles and responsibilities are clearly defined, outcomes are understood, and unnecessary risk has been avoided. This process is included in Annex 3 of this Strategy.

6.2.2 Where time constraints allow, which is more often not the case, a collective Cabinet decision will be sought; however a faster, robust decision-making process must be available to ensure Ashfield's competitiveness is maintained.

In most, if not all, circumstances where the Council is negotiating an acquisition by Private Treaty, the Vendor is likely to want to proceed swiftly with the transaction for financial reasons. Furthermore, where the Council may purchase at auction, the contract is signed at the end of the auction; therefore, authorisations/delegations must be in place in advance. As such, the Officers will look to use existing provisions within the Scheme of Delegation and Access to Information Procedure Rules to ensure a decision can be taken expediently. In all cases, a full written report and decision record will be prepared and required notices will be published in accordance with Governance requirements. Specifically:

1. Where timeframes do not allow a collective Cabinet decision, the Leader of the Council will take a delegated Executive Decision.
2. Where a potential purchase is a key decision and/or will contain exempt information but the full 28 days' notice cannot be given due to the urgency of the matter it is anticipated that a General Exception will be applied (Rule 15). This will give five clear days' notice of the decision which is about to be made. The Monitoring Officer will inform the Chairman of the Overview and Scrutiny Committee and publish the required notices.
3. Where there is a greater urgency and 5 clear days' notice cannot be given, the Special Urgency provisions will be used (Rule 16). In this case, the permission of the Chairman of the Overview and Scrutiny Committee (or if they are unable to act, the Chairman of the Council or, in their absence, the Vice Chairman of the Council) will be obtained before making the decision. The Rule 16 notice will be published.
4. In such cases it is expected that the decision will need to be implemented without delay and therefore it is anticipated that the decision will not be subject to call in.
5. The report will explain the reasons in each case as to why a decision is not to be called in.
6. The Leader must report to the next available Council meeting any decisions, which are made pursuant to Rule 16.

6.3 Post Acquisition Monitoring Arrangements

6.3.1 A Commercial Investment Working Group operates within the Council and is attended by:

- Chief Executive/Deputy Chief Executive
- Director of Resources and Business Transformation
- Monitoring Officer/Deputy Monitoring Officer
- Section 151 Officer/Deputy Section 151 Officer
- Commercial Development Service Manager

6.3.2 The Group meets bi-monthly and discusses:

- Progress of commercial investments being pursued
- New opportunities for commercial investments
- Factors impacting or influencing opportunities for commercial investments
- Performance of and factors impacting or influencing existing commercial investments

6.3.3 A quarterly Commercial Property Performance Report is presented to the group which details:

- the rentals payment performance of the Commercial Property Investment tenants;
- financial performance of Commercial Property (as defined in 8.3 of the Capital Strategy) and Commercial Property Investments;
- the state of the market which covers how each sector e.g. industrial, office, retail, leisure is performing;
- Tenant Covenant, which covers default risk (payments not being made), failure risk (business failure) and delinquency risk (payments being late).

6.3.4 A mid-year report and outturn report on Commercial Property Investment Performance detailing the information in 6.3.3 is reported to Audit Committee.

6.3.5 The Commercial Development Service Manager will periodically visit and inspect Commercial Property Investments. A visit to all existing the Commercial Property Investments has been undertaken in January 2020.

7. Risk Management

7.1 Risk Mitigation on acquisition

7.1.1 In order to mitigate the risks of investing in commercial property, the considerations outlined 5.1 are always evaluated and the processes in 6.2. are undertaken. An acquisition process has been defined, and implemented to ensure roles and responsibilities are clearly defined, outcomes are understood, and unnecessary risk has been avoided. This process is included in Annex 3 of this Strategy.

7.1.2 A fair value assessment is conducted on purchase and provides sufficient security for the underlying capital invested.

External Advice

7.1.3 The Council's Commercial Property team has the relevant investment and management knowledge/experience to manage the investment property portfolios. Nevertheless, officers take external advice on a number of occasions such as:

- Appointing a representing agent in line with Contract Procedure Rules to represent and advise Ashfield on potential acquisitions.

- Seeking external legal advice, via the Legal Shared Service, on various matters during conveyancing and indeed, to represent Ashfield directly, in complex transactions or in jurisdictions where English Law does not apply.
- Commissioning external Chartered Surveyors to carry out surveys on properties prior to purchase, with their reports forming a key part of the decision-making process and to carry out valuations of investment properties.

7.2 Risk Mitigation post acquisition

Annual Review of Fair Value

- 7.2.1 An annual review will be undertaken of the Commercial Property Investment portfolio fair value as per the Council's revaluation programme as outlined in the accounting policies and agreed with the external auditors. The fair value will be compared to the debt outstanding and appropriate provision will be made if there is a fall in the value of the assets.

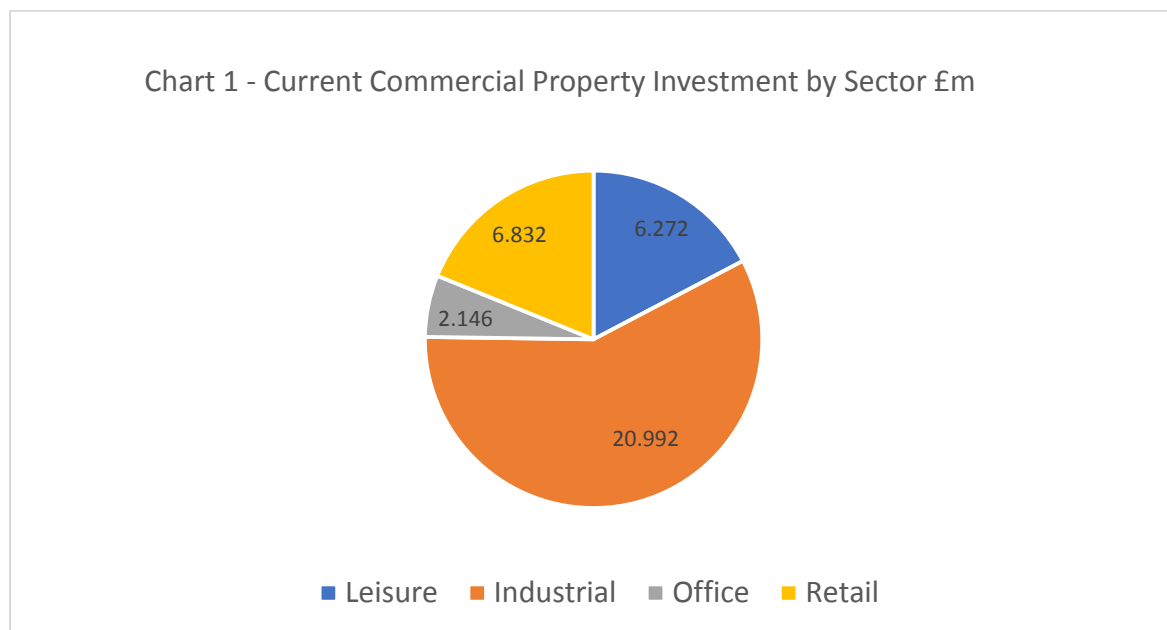
Commercial Property Investment Earmarked Reserve

- 7.2.2 The Council has established a Commercial Property Investment Earmarked Reserve, which is to mitigate against the risk of business failure and lease events.
- 7.2.3 The reserve will be used to cover:
- Loss of investment return
 - Capital financing costs (mrp and interest costs are still incurred, if the income stream is lost)
 - Business Rates (the Council will be liable to pay the Business Rates, if the property is vacant)
 - Capital Expenditure (may be necessary to fund dilapidation works to get the property to a standard to enable relet.
- 7.2.4 It will also be used to fund any debt outstanding following the sale of a Commercial Property Investment where the capital receipt does not extinguish the debt outstanding for the property.
- 7.2.5 An annual review of the Commercial Property Investment Earmarked Reserve will be carried out as part of the Medium Term Financial Strategy to assess whether there are sufficient resources held in the Reserve. Where it is deemed there are insufficient resources, provision will be made to top up the reserve over a period of time as part of the budget setting process (through the Medium Term Financial Strategy).

Commercial Property Investment Portfolio and Indicators

Commercial Property Investments Portfolio

The Council currently hold 11 Commercial Property Investments at a cost of £36.242m. The costs of the existing Commercial Property Investments portfolio is shown by sector in Chart 1.



The current capital programme includes approval for further Commercial Property Investments as detailed in Table 1.

Table 1 – Approved Future Commercial Property Investments

	2019/20 Actual as at 24/01/2020	2019/20 (Forecast)	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
Cumulative spend on Commercial Investment Property	36.242	58.560	85.000	105.000	105.000

The Ministry of Housing, Communities and Local Government (MHCLG) recommend the following indicators for non-treasury investments e.g. Commercial Property Investments.

- a) Debt to Net Service Expenditure

Table 2 shows the gross external debt on Commercial Property Investments at the end of each financial year divided by the Net Service Expenditure for each financial

year. It assumes all future planned Commercial Property Investments are funded from external borrowing and therefore increases the debt in the indicator.

Table 2 demonstrates how many times greater the Commercial Property Investments debt is to the estimated Net Service Expenditure.

Table 2 Debt to Net Service Expenditure

	2019/20 (Actual)	2019/20 (Forecast)	2020/21	2021/22	2022/23
Debt to Net Service Expenditure	2.50	4.05	6.49	7.71	7.03

The Debt to Net Service is increasing as the purchase of investment properties funded by borrowing increases in line with the approved capital programme, There are no investment property purchases planned for 2022/23. The level of debt outstanding reduces as MRP is charged to the General Fund.

b) Commercial Income to Net Service Expenditure

Table 3 shows the expected income from Investment Properties divided by the Net Service Expenditure. The Commercial Income to Net Service Expenditure is increasing as the annual Commercial Income increases as more Investment Properties are purchased.

Table 3 Commercial Income to Net Service Expenditure

	2019/20 (Actual)	2019/20 (Forecast)	2020/21	2021/22	2022/23
Commercial Income to Net Service Expenditure	17.4%	19.2%	39.9%	49.2%	50.4%

This is in line with the corporate strategy, to increase the acquisition of investment properties to deliver an income stream, which will be spent in Ashfield to sustain services for our residents and businesses. This also means the exposure to the risks associated with Commercial Property Investments are increasing. The strategy for risk mitigation is set out in Section 7 of the Commercial Property Investment Strategy.

c) Investment Cover Ratio

Table 4 shows the expected net income from Commercial Property Investments divided by the Interest Expense. The estimates for 2019/20 are substantially higher than future years as MRP is charged on investment properties in the year following purchase, reducing the net income in future years. In 2019/20 the purchase of investment properties is expected to be £45.6m.

The Council uses the Annuity Method to calculate its MRP for Investment Properties. The Annuity Method charges less MRP in the early years following purchase and more MRP in the later years. The total amount of MRP charged over the life of the asset will equal the amount of prudential borrowing. If after 2021/22 no further investment properties are purchased, then the Investment Cover ratio will reduce after 2022/23 as the net income reduces as MRP increases.

This indicator has been calculated on the basis that all the Commercial Property Investments have been funded by external borrowing, and interest is being incurred.

Table 4 Investment Cover Ratio

	2019/20 (Actual)	2019/20 (Forecast)	2020/21	2021/22	2022/23
Investment Cover	2.03	1.93	1.05	0.99	0.94

d) Loan to Value Ratio

Table 5 shows the Capital Financing Requirement (debt to be funded) for the Investment Properties divided by their estimated valuations.

Table 5 Loan to Value Ratio

	2019/20 (Actual)	2019/20 (Forecast)	2020/21	2021/22	2022/23
Loan to Value Ratio	102.05%	103.26%	102.70%	101.98%	100.53%

In the early years, the loan value is expected to exceed the asset value. The main reason for this is due to acquisition costs e.g. stamp duty, agent fees etc. being included in the cost of the Commercial Property Investments that have been funded by borrowing, these costs are not included in the property valuation.

The loan to value is expected to continue to reduce as the capital financing requirement (unfunded debt) reduces as MRP payments are made. The investment properties will be valued regularly. Any increase in Investment Property values will reduce the loan to value ratio and consequently any decrease in value is likely to increase the loan to value ratio.

e) Target Net Income Returns

Table 6 compares the Target Net Income Return with the Actual Net Income Return. The Actual Net Income Return is calculated by dividing the Estimated Investment Property Income less MRP and Interest Costs by the Investment Property Purchases. Similar to c) above the estimated net income return is expected to be greater in 2019/20 as MRP on the investment properties purchased in year is not charged until the following year or when the asset becomes operational.

Similar to see c) above if no further Investment Properties are purchased after 2021/22 then the Net Income Return is expected to reduce after 2022/23 as MRP increases.

Table 6 Target Net Income Returns

	2019/20 (Actual)	2019/20 (Forecast)	2020/21	2021/22	2022/23
Target Net Income Return	2.50%	2.50%	2.50%	2.50%	2.50%
Estimated Net Income Return	4.10%	2.78%	2.53%	2.52%	2.67%

The Target net income return was previously set at 3.5% this has reduced to 2.5% in line with the increase of 1% in the Public Works Loans Board (PWLB) borrowing rate in October 2019.

f) Gross and Net Income

Table 6 compares the estimated gross income with the estimated net income. The net income is the estimated gross income net of interest and MRP charges. As per e) above the net income assumes that interest on external borrowing will be paid.

Table 7 Gross and Net Income

	2019/20 Actual	2019/20 Forecast	2020/21	2021/22	2022/23
	£000s	£000s	£000s	£000s	£000s
Gross Income	£2,506	£2,706	£5,146	£6,546	£7,246
Net Income	£1,484	£1,628	£2,151	£2,646	£2,808

Again, as per c) and d) above if no further Investment Properties are purchased after 2021/22 then the Net Income is expected to reduce after 2022/23 as MRP increases.

Note: In all of the above indicators where net income return are included, the estimate assumes that interest on external borrowing will be incurred. The Council depending on its cash reserve position may choose to use internal borrowing to finance part or all of its investment property purchases. If internal borrowing is used the net income will increase as interest payable costs are saved.

g) Break Clauses or Lease Expiries

All of the investment property leases have either i) a break clause which gives the lessee the option to either continue leasing the property or to end the property lease or ii) an expiry date where the tenant vacates the property unless a new lease contract is signed.

There is a risk for the Council with both break clauses and lease expiries, if the existing tenant choose to leave the property. The risks this exposures the Council to and risk mitigation are, detailed in the Commercial Investment Property Strategy.

Risk mitigation includes spreading the dates when break clauses and lease expiries occur across the Council's Commercial Property Investment portfolio.

Table 8 below shows the years when the Council has a break clause or expiry on its current Commercial Property Investment portfolio.

Table 8 Break Clauses or Expiries

Financial Year	Number of Breaks or Expiries
2019/20	0
2020/21	0
2021/22	1
2022/23	1
2023/24	1
2024/25	2
2025/26	1
2026/27	0
2027/28	0
2028/29	1
2029/30	0
2030/31	0
2031/32	0
2032/33	3
2033/34	0
2034/35	0
2035/36	1

The Commercial Development Service Manager actively manages this position, by negotiating with tenants by re-gearing leases at the appropriate time, which includes changing the options for break clauses and lease expiry.

**Investment Property Acquisition Process
2019-2023**

Process and Responsibilities for Commercial Property Investment

As a process, the investment portfolio will require work from various services within Ashfield District Council due to the complex nature of property selection, evaluation and acquisition. Adhering to this process will minimise risk and ensure adherence to Statute and the Prudential Code.

This document should be read alongside the Investment Property Acquisition process map found at the end of this document.

Stage 1 – Identification Stage

Stage 1 may be repeated several times in identifying suitable properties for purchase. The steps required help to ensure that only suitable properties are brought forward as potential investments. The due diligence undertaken here includes, and is not limited to, the tenant covenant, location, the overall market, assessment of risks and the details within the lease.

Step	Element	Document(s) Involved	Responsibility
1	Opportunity identified - This can be either by way of direct research by ADC employees or by outside approach from agents. Once a property is identified, an initial financial investment model is produced to determine if the minimum income target can be met.	<ul style="list-style-type: none"> Property Brochure 	Service Manager – Commercial Development
2	Min NIY possible? - The initial financial appraisal outlines the yield that would be obtained with the target of achieving at least 2.5% net initial yield (NIY). All evaluation is done on the basis of external borrowing from the PWLB at the rates current on the given day.	<ul style="list-style-type: none"> Financial appraisal 	Service Manager – Commercial Development
3	Collate available documents and send to finance and legal – Title(s) and Lease(s) may not be available in the first instance for every opportunity.	<ul style="list-style-type: none"> Brochure Financial appraisal Dunn and Bradstreet reports Titles and Leases 	Service Manager – Commercial Development
4a	Preliminary Finance due diligence – Finance will examine the appraisal and credit reports to determine if there is any reason not to proceed; these reasons will be documented and circulated.	<ul style="list-style-type: none"> Record of issues (email or otherwise) 	Corporate Finance Manager
4b	Preliminary Legal due diligence – Legal will examine the available documents (and undertake their own research) to determine if there is any reason not to proceed; these reasons will be documented and circulated.	<ul style="list-style-type: none"> Record of issues (email or otherwise) 	Director of Legal and Governance
5	Inspect Property – Officers will undertake a visual inspection of the property and surrounding area. This inspection informs the	N/A	Service Manager –

	creation of the Briefing note and the Evaluation Matrix.		Commercial Development
6	Appraise property against matrix and write briefing note – Taking feedback received from Legal and Finance in conjunction with other sources, the Briefing note and risk assessment are completed and the Evaluation matrix is completed. These documents encapsulate the meaningful aspects of the work thus far and are prepared in order to submit the property for consideration by the Leader / Deputy Leader.	<ul style="list-style-type: none"> • Briefing note • Evaluation Matrix 	Service Manager – Commercial Development
7	Meet with leadership to present and obtain authority to make and offer – a meeting will held to table the property as an option and discuss the findings of work to date. Normal attendees (at a minimum) are The Chief Executive Officer, the Service Manager – Commercial Development, the Corporate Finance Manager, and Director of Legal and Governance. After the meeting, and if agreed, the Leader will formally cascade approval to offer on the property. A maximum offer is approved after discussion; although opening offers are always placed below.	<ul style="list-style-type: none"> • Authority to bid 	Service Manager – Commercial Development
8	Place offer – After receiving approval, offer letters are drafted, approved and submitted to the vendor’s agent. The offer letter contains ADC’s offer and terms , such as: <ul style="list-style-type: none"> • The proposed time for signed Executive Decision Records, surveys, completion • Conditions to be included in the Heads of Terms (HoT), such as receipt of a full legal pack before the process starts. • Exclusivity from agreed HoT. An accepted offer is notified normally by telephone and is followed by receipt of an email with Draft HoT attached.	<ul style="list-style-type: none"> • Offer letter 	Service Manager – Commercial Development

Stage 2- Conveyancing Stage

This stage begins once a bid has been accepted for an investment property. The ongoing due diligence in the first stage would also be brought forward to mitigate risks. Further analysis of the tenant, the building, the lease etc, are evaluated to ensure risk is mitigated.

Step	Action	Document(s) Involved	Responsibility
9	Agree the Heads of Terms – After reviewing the received Draft Heads of Terms and making any required amendments, the revised Heads of Terms are returned to the vendor’s agent. This process will repeat until both parties are satisfied that the Heads of Terms reflect the agreed position, at which point they are formally approved by both sides. These will then be sent to the Service Manager – Commercial Development and the Director of Legal and Governance.		Service Manager – Commercial Development
10	Make contact with Vendor's solicitors; receive and verify Legal pack – Once received by Legal, the appointed solicitor will make contact with the Vendor’s solicitor via email or phone to indicate that they are representing ADC in the transaction. ADC Legal will provide the necessary details for receipt of the legal pack; upon receiving the Legal pack, the ADC’s solicitor will verify its contents and raise any queries with the other side’s solicitor whilst awaiting instructions from the Commercial Property team following a signed Executive Decision Record from the Leader.		Director of Legal and Governance
11a	Instruct surveys (external) – After agreeing Heads of Terms, quotes will be sought for conducting building surveys of the property in question. Generally, the property brochure provided at the beginning of the process is provided to at least three Survey firms, with the deadline by which inspections and reports must be completed and received by ADC (this element of the process has a 10 working day time limit from the date of Agreed Heads of Terms being received). Quotes are generally received within 24 hrs and the quote that represents best value for money (taking price, quality and time into account) is selected.		Service Manager – Commercial Development
11b	Write Urgency Notice/ Report for the Executive Decision Record – An urgency notice is required for these transactions which must be signed by the Chair of the Scrutiny Committee. The Leader, or delegated person, is obligated to contact the Chair to explain the details of the transaction prior to gaining a		Service Manager – Commercial Development

	<p>signature. An urgency notice is required due to the Decision being Key and the constrained timeframe for the process to be completed. The Report for the Executive Decision Record is the briefing note written earlier with the addition of Recommendations, Implications, Reasons for Urgency, and Exemptions, as per the standard ADC report format. Once a draft is produced by the Service Manager, it is circulated to Legal and Finance for review/amends until it is finally complete and approved by all parties.</p> <p>Then the Leader, Chief Exec and the Service Manager will meet to review the report and answer any remaining questions. Once the Leader is satisfied, the EDR is signed by the Leader and forwarded to Democratic Services, along with the report. A copy of both should also be supplied to Legal for the case file.</p>		
12a	<p>Notify other side of the EDR – Once the EDR is signed, an email should be sent to the other side’s solicitor noting that the EDR has been signed, meaning that the purchase is officially approved.</p>		Director of Legal and Governance
12b	<p>Instruct legal – The Estates Manager will complete the official instructions for Legal to undertake the conveyancing process.</p>		Service Manager – Commercial Development
13	<p>Conveyancing process – The conveyancing process is distinctly different for every property purchase, given the unique circumstances that each purchase presents, though each has common activities, i.e. examining titles, searches and queries, contract/Lease examination and amendment, etc.</p>		Director of Legal and Governance
14	<p>Determine level of borrowing and source / Option to tax (if applicable) – Finance will determine the level of borrowing need for the purchase as well as whether this should be internal or external borrowing. Finance work closely with their Treasury Management Advisers. They will seek advice to determine whether it is preferable to externally borrow now and risk the cost of carry i.e. interest payable being greater than the interest payable or whether it is best to borrow internally of temporarily if affordable.</p> <p>If the property is being sold as a Transfer of a Going Concern (TOGC), finance will complete a</p>		Corporate Finance Manager

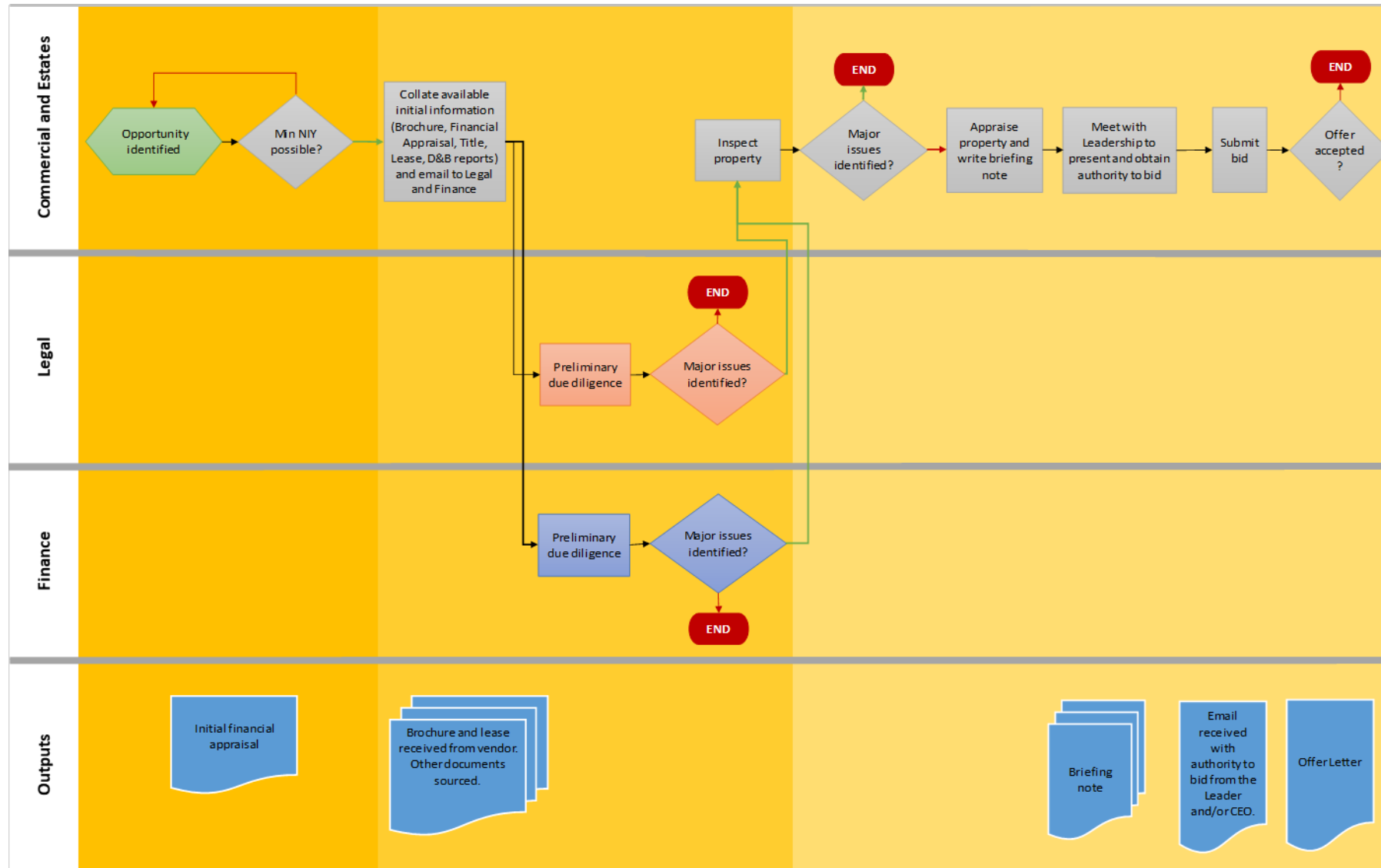
	form to Opt to Tax the property (VAT 1614A). When granted by HMRC, VAT must be paid and passed to HMRC on rents, but VAT will not apply on the purchase of the property. If for whatever reason the purchase does not complete then this can be rescinded by simply informing the HMRC.		
15	Arrange Insurance – Once the Surveys have been returned, the values provided therein by the Surveyor will be passed to Finance to arrange appropriate insurance cover for the property, with the date of commencement to be the completion date.		Corporate Finance Manager
16	Secure funds – Having previously determined the source of funding, Finance will take steps to secure the funds in anticipation of making payment.		Corporate Finance Manager
17	Transfer payment – Once Legal is satisfied that completion can occur, the solicitor will notify Finance that the money can be transferred. Funds will be transferred <u>no later than 1700hrs on the day prior to completion.</u> Failure to meet this deadline risks incurring additional costs in penalties as noted in the sale contract.		Corporate Finance Manager
18	Complete – At the agreed date/time, ADC's solicitor and the Vendor's Solicitor will carry out the completion process.		Director of Legal and Governance

Stage 3- Post-completion Stage

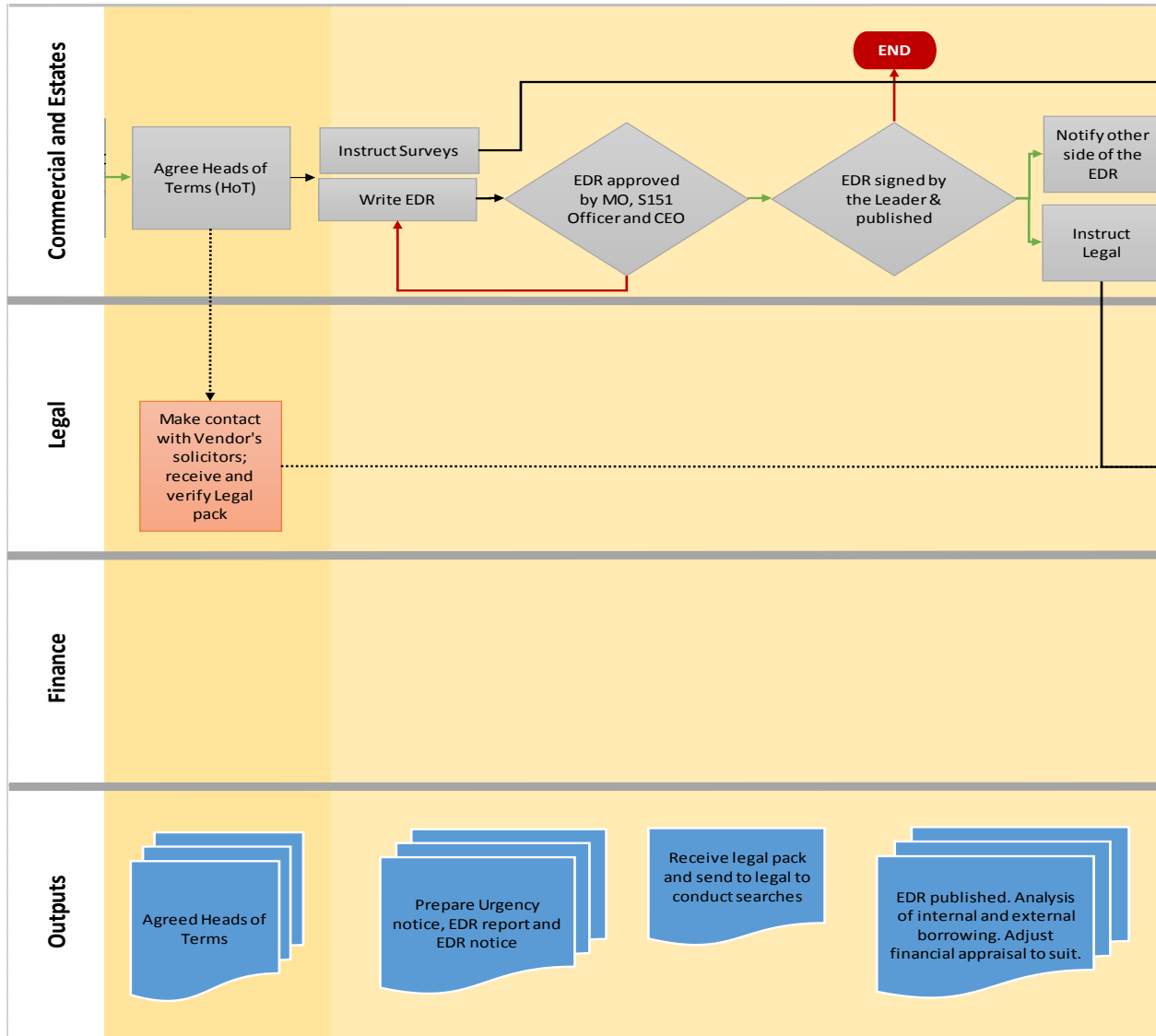
After completion, work remains to complete the entire process before day-to-day management begins.

Stage	Action	Document(s) Involved	Responsibility
19	Post completion		Director of Legal and Governance
20	Authorise Stamp Duty payment to HMRC		Service Manager – Commercial Development
21	Update Budget – The budget will be updated at the next available opportunity to include the expected Rental Income, Minimum Revenue Provision and Interest Payable, if applicable.		Corporate Finance Manager

Investment Property Acquisition Process Map - Stage 1: Identification & Bid

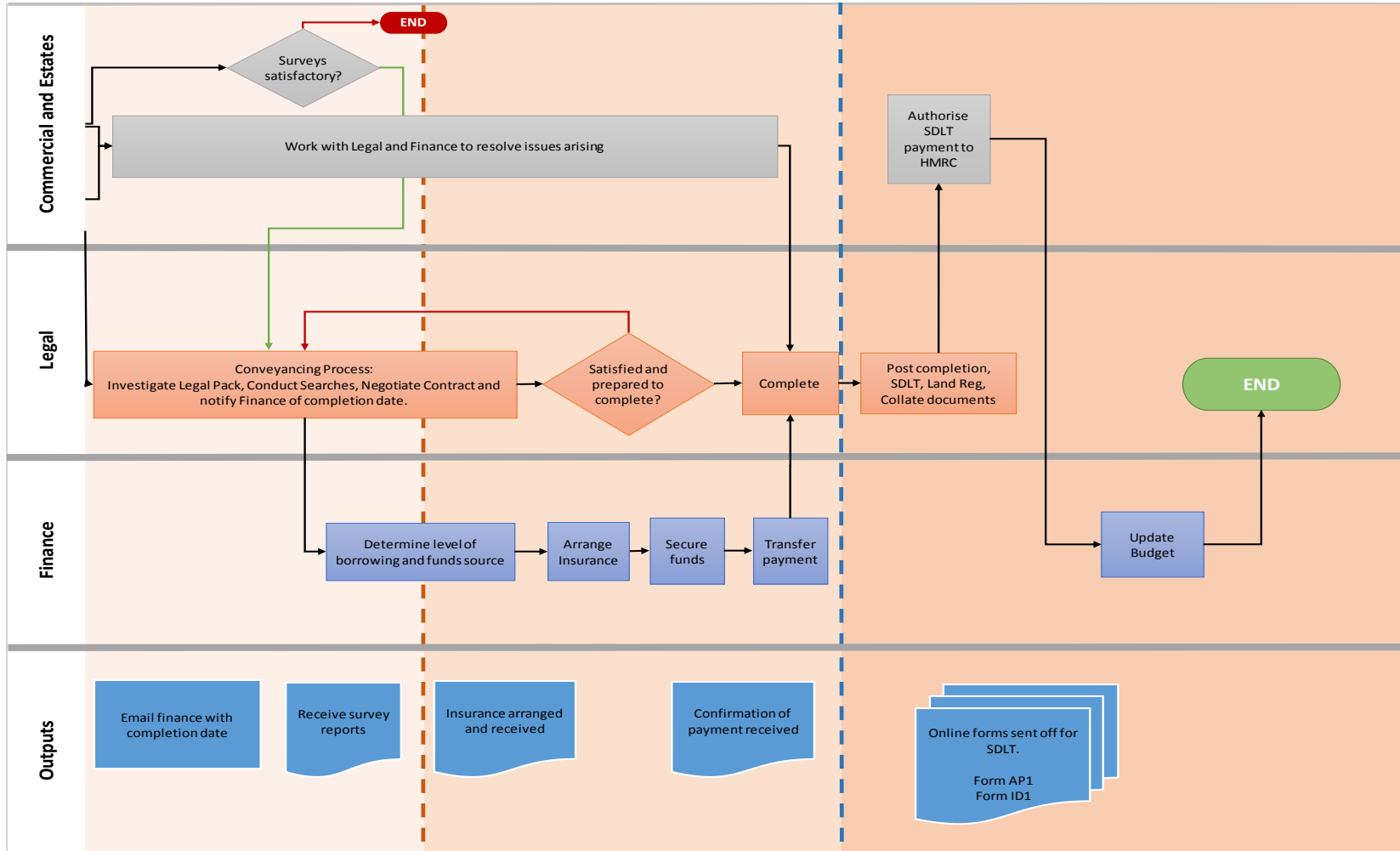


Investment Property Acquisition Process Map - Stage 2: EDR and Instructions (Time Limited – 5 working days)



Investment Property Acquisition Process Map - Stage 3: Due Diligence, Completion and Post-completion (Time limited – 15 working days)

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Agenda Item 4



Report To:	CABINET	Date:	24th FEBRUARY 2020
Heading:	TREASURY MANAGEMENT STRATEGY (TMS)		
Portfolio Holder:	COUNCILLOR RACHEL MADDEN – CABINET MEMBER FOR FINANCE		
Ward/s:	ALL		
Key Decision:	YES		
Subject to Call-In:	YES		

Purpose of Report

This report outlines the Council's Treasury Management Strategy for the financial year 2020/21.

The report includes:

- Treasury Management Policy;
- Treasury Management Strategy Statement (TMSS)
- Borrowing Strategy
- Annual Investment Strategy
- Minimum Revenue Provision Policy;
- Prudential Indicators and Treasury Management Indicators
- Treasury Management Practices: Risk Management.

It has been prepared in accordance with the Treasury Management in the Public Services Code of Practice (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and Ministry for Housing, Communities and Local Government (MHCLG) Local Government Investment Guidance.

Recommendation(s)

- 1) For Cabinet to review and note the contents of the Treasury Management Strategy (TMS) for 2020/21
- 2) For Cabinet to recommend to Council that they approve the Treasury Management Policy Statement incorporating:
 - Treasury Management Strategy Statement (TMSS)
 - Borrowing Strategy
 - Annual Investment Strategy
 - Minimum Revenue Provision (MRP) Policy;
 - Prudential Indicators and Treasury Management Indicators
 - Treasury Management Practices: Risk Management.

Reasons for Recommendation(s)

In accordance with Financial Regulation C.31. The Audit Committee is responsible for providing effective scrutiny of the Treasury Management Strategy and policies.

Alternative Options Considered

None. It is a requirement of the CIPFA Treasury Management Code for all Local Authorities to have a Treasury Management Strategy (TMS) and a requirement of MHCLG Statutory Guidance on Local Government Investments to have an Investment Strategy.

Detailed Information

The TMS contains:

- Treasury Management Strategy Statement (TMSS), which outlines what treasury management is and how it is managed by its borrowing and investment activities
- Annual Borrowing Strategy, which outlines sources of borrowing
- Annual Investment Strategy for Treasury Management investments, which sets the limits for the maximum amounts to be invested and the types of investments the Council may consider.
- MRP Policy which states how the Council will apply MRP charges.
- Annex A of Appendix 1 contains the proposed Prudential Indicators and Treasury Management Indicators for the Authority,
- Annex B shows the borrowing and investment position of the Council as at 30th September 2019 as well as projections for future interest rates
- Annex C shows the Treasury Management Practice (TMP) for risk management of the Authority.

1. Operational Boundary and Authorised Limits

The Authority is looking to increase its borrowing requirement primarily to fund the proposed acquisition of new Investment Properties and the borrowing requirements associated with the new Kirkby Leisure Centre. The additional borrowing is added to the Capital Financing Requirement (CFR). The CFR represents capital expenditure which is still to be financed. The Council should under normal circumstances not borrow any more than its CFR. The Operational Boundary sets a warning level for which total external debt should not exceed.

The proposed Operational Boundary has been set at a level which is slightly above the CFR to allow for working capital requirements. The Authorised Limit is the absolute maximum level for external debt. The proposed Authorised Limit has been set at a level which is greater than the proposed Operational Boundary by a level which matches the financed part of the Capital Programme. The rationale for doing this is to ensure the capital programme can still be financed, should the expected non borrowing funding not be available.

2. Minimum Revenue Provision (MRP) Policy

The Minimum Revenue Provision charge is the means by which capital expenditure which is financed by borrowing or credit arrangements, is paid for by council tax payers. Local Authorities are required each year to set aside some of their revenues as provision for this debt.

The Council is proposing the following minor changes (largely increasing transparency) to its MRP policy:

- Details of the annuity rates to be used in the MRP calculation. This being the average annual PWLB certainty rate when calculating the annuity rate for projects where payments are likely to be phased, and using the PWLB certainty rate applicable on the day where expenditure is incurred in a single transaction e.g. Investment Properties.
- The Council will not charge MRP on Housing Revenue Account borrowing (no change)
- Voluntary Revenue Provision (VRP) may be made at the discretion of the Section 151 Officer. VRP may be reversed in future financial years if required.
- For leases that are included on the balance sheet the MRP charge will be the same as the principal repayment on the lease.

3. Prudential Indicators

Prudential Indicators are designed to show the Council's capital expenditure plans are affordable, prudent and sustainable. They include the estimated effect that future capital expenditure will have on individual council tax payers and on individual rent payers.

The estimate of the ratio of financing costs to net revenue stream for the Housing Revenue Account (HRA) remains relatively static over the three years. (See paragraph a) Annex A). The reason for this is that there is not expected to be any new borrowing costs; the ratios will fall slightly as HRA historic debt costs are expected to remain static in future years and HRA revenues are expected to increase slightly.

The estimate of the ratio of financing costs to net revenue stream for the General Fund is expected to increase significantly as a result of additional borrowing for the proposed acquisition of Investment Properties and for new Kirkby Leisure Centre (but with no net additional cost to the revenue budget).

Estimates of the incremental impact of capital investment decisions on Council Tax Band D equivalents is £59.62 in 2020/21, £39.40 in 2021/22 and £21.92 in 2022/23. This represents the estimated amount of Council Tax within the District's annual Council Tax charge from each Band D equivalent that will be used to fund future capital investment. These levels also reflect the use of borrowing to purchase Investment Properties and the new Kirkby Leisure Centre. There is no incremental impact to Council Dwelling Rent payers as there is no borrowing proposed for the HRA.

4. Treasury Management Practices (TMPs)

The Treasury Management Practices were last revised as part of the TMS for 2019/20. The Council has revised its criteria for specified and unspecified investment for TMP1 Risk Management (See Annex D). TMP1 also now includes the Treasury Management Role of the Section 151 Officer. All other TMPs remain unchanged.

Implications

Corporate Plan:

The Treasury Management Strategy will support delivery of the priorities in the Corporate Plan.

Legal:

It is a requirement of the CIPFA Treasury Management Code for all Local Authorities to have a Treasury Management Strategy. It is a requirement of MHCLG Statutory Guidance on Local Government Investments to have an Investment Strategy.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	<p>The Council will be required to make an MRP provision for leased assets this will replace the existing rental payment so should have no overall General Fund impact.</p> <p>The option to charge voluntary revenue provision may increase the charge in year but the total charged to finance the borrowing over the asset lives remain unchanged.</p> <p>The financial implications of this Strategy are factored into the Medium Term Financial Strategy.</p>
General Fund – Capital Programme	No implications
Housing Revenue Account – Revenue Budget	
Housing Revenue Account – Capital Programme	

Risk:

Risk	Mitigation
The Minimum Revenue Provision (MRP) policy is no longer suitable.	Careful monthly monitoring of Capital Expenditure should ensure an appropriate and prudent MRP provision is made annually. Revisions to the Policy in line with Code of Practice updates.

The Annual Investment Strategy is no longer suitable for the Authority.

Information received from our Treasury Management Advisors should allow the Council to take necessary action to mitigate against any risks.

Human Resources:

Not applicable.

Environment / Sustainability

Not Applicable.

Equalities:

Not applicable.

Other Implications:

Not applicable.

Reason(s) for Urgency

Not applicable.

Reason(s) for Exemption

Not applicable.

Background Papers

- CIPFA Prudential Code 2017 Edition
- CIPFA Treasury Management Code 2017 Edition
- Statutory Guidance on Local Government Investments (3rd Edition) Issued under Section 15(1)(a) of the Local Government Act 2003.

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Appendix 1

Ashfield District Council

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2020/21

1 INTRODUCTION

1.1 Background

- 1.1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 1.1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasions, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.1.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
- 1.1.4 CIPFA defines treasury management as:

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

1.2 External Context

- 1.2.1 The information relating to the overall global position of the UK financial markets is provided by the Council's Treasury Management Advisers, Link Asset Services. They continue to update the Council with information including on-going market activity surrounding inflation, interest rates and the banking sector.
- 1.2.2 Brexit uncertainty continues to have an impact on the UK economy. A general election took place on the 12th December 2019 and the current expectation is that the UK will leave the EU on the 31st January 2020.
- 1.2.3 Consumer Price Inflation has been hovering around the Bank of England's target of 2% during 2019, but fell to 1.7% in August and September. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the Monetary Policy Committee (MPC) of the Bank of England at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.
- 1.2.4 The Bank Rate has remained unchanged since 2nd August 2018 at 0.75%. If there was a no deal Brexit, there will be a significant level of disruption to the economy and

growth could weaken even further than currently: the MPC would then be likely to cut Bank Rate in order to support growth. The MPC has relatively little room to make a big impact and it would probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction.

- 1.2.5 Historically, the cheapest method of long-term borrowing has been from the Public Works Loans Board (PWLB). All PWLB interest rates were increased by 1% on 9th October 2019, meaning other sources of borrowing may be cheaper. The Council will consider other sources of borrowing. However, it is likely that the administration arrangements needed for alternative sources of long-term borrowing result in the PWLB remaining the preferred source. For short term and medium term loans, borrowing from other local authorities will be considered if the interest rates are lower than those offered by the PWLB.

1.3 Key Principles

- 1.3.1 The Council will follow three key principles with regards to its treasury activity:

Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.

They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

1.4 Reporting requirements

- 1.4.1 The Cabinet are required to receive and approve, as a minimum, three main treasury management reports each year, which incorporate a variety of policies, estimates and actuals. Council are required to approve the Treasury Management Strategy including the Annual Investment Strategy.

- 1.4.2 **Treasury Management Strategy including Annual Investment Strategy, prudential and treasury indicators (this report)** - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

- 1.4.3 **A mid-year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision. This report is presented to the Audit Committee.
- 1.4.4 **An annual treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the annual estimates within the strategy.
- 1.5 **Scrutiny**
The above reports are required to be adequately scrutinised before being recommended to the Council or/and Cabinet. This role is undertaken by the Audit Committee.

Table 1 below shows the reporting timetable for Treasury Management reports

Table 1 – Reporting timetable

Report to Council and Cabinet	Frequency
Treasury Management Strategy / Annual Investment Strategy and MRP Policy	Annually before the start of the year (1st April)
Reports to Cabinet	Frequency
Mid-Year Treasury Management Report	Annually mid year (November/December)
Treasury Outturn Report	Annually after the year end and by the 30 September
Reports to Audit Committee	Frequency
Receives each of the above reports in advance of Council/Cabinet (where applicable) and makes recommendations as appropriate	In advance of year/mid-year/after year end and by 30 September

- 1.6 **Capital Strategy**
- 1.6.1 In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. The revised Prudential Code requires all local authorities to produce a Capital Strategy report, which is intended to provide the following: -
- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
 - an overview of how the associated risk is managed; and
 - the implications for future financial sustainability
- 1.6.2 The aim of this report is to ensure that all elected Members of the Council fully understand the overall strategy, governance procedures and risk appetite entailed in this Strategy.
- 1.6.3 The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.
- 1.6.4 The Capital Strategy is required to be approved by Council before the start of the new financial year in accordance with the Prudential Code 2017. The capital strategy

will be received by Audit Committee in advance of Council for scrutiny and recommendations.

1.7 Non-Treasury Management Investments

1.8.1 The MHCLG issued revised Statutory Guidance on Local Government Investments (2018). The statutory guidance extended the definition of investment and states that the:

“The definition of an **investment** covers all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations.

The Guidance requires that for each financial year, a local authority should prepare an Investment Strategy, which should be approved by full Council.

1.7.1 This Council will ensure that all the organisations non-treasury management investments are included in a non-treasury management investment strategy, which will be incorporated into the Capital Strategy. This will set out, where relevant, the organisations risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

1.7.2 The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investment in subsidiaries, and investment property portfolios.

1.7.3 The Council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisations risk exposure.

1.8 Treasury Management Strategy

1.8.1 The Treasury Management Strategy covers two main areas:

Capital issues

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

Treasury management issues

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

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

1.9 **Cash and Cash Flow Management**

1.9.1 It is important that the Council maintains regular cash flow projections to ensure that the Council has enough cash to meet its liabilities in a timely manner, minimises borrowing costs and, where practical to do so, invest surplus cash balances.

1.10 **Money Laundering**

1.10.1 Money Laundering has the objective of concealing the origin of money generated through criminal activity. Legislation has given a higher profile to the need to report suspicions of money laundering. The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering. In summary, these are:

- Concealing, disguising, converting transferring or removing criminal property.
- Being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention, use or control of criminal property.
- Acquiring, using or possessing criminal property.

1.10.2 These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money laundering activity in the UK risks a criminal conviction.

1.10.3 The Terrorism Act 2000 made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism.

1.10.4 The Money Laundering Regulations 2007, whilst not legally obliged to apply by public sector bodies, responsible public bodies should employ policies and procedures which reflect the essence of the UK's anti-terrorism and anti-money laundering regimes.

1.11 **Training**

1.11.1 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

1.11.2 Those charged with governance have a personal responsibility to ensure they have the appropriate skills and training for their role.

1.11.3 A training session delivered by Link Asset Services, the Council's treasury management advisors was held for the Audit Committee and extended to all members on the 16 December 2019. The training needs of Members and treasury management officers will be reviewed in year.

1.12 **Treasury management consultants**

1.12.1 The Council currently uses Link Asset Services, Treasury solutions as its external treasury management advisors.

- 1.12.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.
- 1.12.3 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.
- 1.12.4 The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments require specialist advisers, and the Council has a Commercial Manager to undertake this activity seeking external advice as appropriate.

2 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS

- 2.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.
- 2.2 The Council will ensure that all of its capital and investment plans and borrowing are prudent and sustainable. In doing so it will take into account its arrangements for the repayment of debt (including through MRP) and consideration of risk and the impact, and potential impact, on the authority's overall fiscal sustainability. While indicators for sustainability are required to be set over a minimum 3 year rolling period, indicators should be set in line with a capital strategy and asset management plan that is sustainable over the longer term. There should also be separate indicators for the Housing revenue Account (HRA).
- 2.3 **Capital expenditure**
Table 2 below summarises the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The Capital Programme for 2019/20 to 2022/23 has been agreed by Cabinet and final approval being sought by Council in March 2020. Members will be asked to approve the capital expenditure forecasts at least annually.

Table 2 - Capital Expenditure

Capital expenditure £m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
General Fund	1.943	9.004	7.285	2.153	3.289
HRA	5.932	9.232	14.142	11.685	10.338
Commercial activities/ non-financial investments	8.767	45.585	20.000	20.000	0.000
Total	16.642	63.821	41.427	33.838	13.627

Table 3 below summarises how the capital expenditure plans will be financed by capital or revenue resources. Any shortfall of resources results in a borrowing need.

Table 3 - Financing of the Capital Expenditure

Financing of capital expenditure £m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital receipts	1.349	1.299	1.180	1.180	1.180
Capital grants	1.797	3.167	1.706	0.818	0.794
Capital reserves	3.767	7.933	12.962	10.505	9.158
Direct Revenue Financing	0.870	0.233	0.000	0.000	0.000
Borrowing Requirement	8.859	51.189	25.579	21.335	2.495

Table 4 identifies the capital expenditure and borrowing requirement within table 3, which specifically relates to the planned level of investment in Commercial Investment Property.

It shows the forecast Commercial Investment Property borrowing requirement as a percentage of the overall borrowing requirement and the financing costs associated with the borrowing requirement for Commercial Investment Property.

Table 4 Commercial Investment Property

Commercial activities / non-financial	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital Expenditure	8.767	45.585	20.000	20.000	0.000
Borrowing Requirement	8.767	45.585	20.000	20.000	0.000
Percentage of total net financing need %	99.0%	89.1%	78.2%	93.7%	0.0%
Cumulative Financing costs	0.017	0.505	2.172	3.215	3.917

2.4 The Council's borrowing need (the Capital Financing Requirement)

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 the historic unfunded capital expenditure). It is essentially a measure of the Council's indebtedness and therefore its underlying borrowing need. Any capital expenditure above, which is financed by borrowing 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 indebtedness in line with each assets life, and so charges the economic consumption of capital assets to revenue as they are used. The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI or lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has no PFI schemes or other long-term liabilities.

2.5 IFRS 16 Lease accounting becomes effective on 1st April 2020. This accounting standard requires that both finance leases and operating leases are included on the Balance Sheet. Previously the requirement was only for finance leases to be shown on the Balance Sheet. This in effect means that any existing operating leases and any new leases the Council enters into will need to be treated as capital expenditure and increase the CFR. The Council is currently assessing the impact of the introduction of this new standard, although it is not expected to be material. The capital prudential indicators will be revised once the effect of the standard is known.

2.6 Core funds and expected investment balances

As outlined above the underlying borrowing 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 actual borrowing and investments below their underlying levels, sometimes known as internal borrowing.

- 2.7 Table 5 below outlines the Balance Sheet Summary and Forecast excluding the Planned Commercial Investment Property. It shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (CFR), highlighting the Council's level of under/over borrowing. It also includes a forecast for the year-end balances for usable reserves and working capital (the resources available to internally borrow against), and shows the forecast level of investment or new external debt.

Table 5 - Balance Sheet Summary and Forecast (Excluding Planned Commercial Investment Property)

31st March:	2019	2020	2021	2022	2023
Capital Financing Requirement	124.7	136.9	138.6	146.8	147.7
Less: External Borrowing	-81.7	-80.7	-80.7	-80.7	-74.2
Under(Over) Borrowing	43.0	56.1	57.9	66.1	73.5
Less: Usable Reserves	-51.7	-56.1	-53.7	-48.0	-46.8
Plus: Working Capital Required	0.6	-1.8	-1.8	-1.8	-1.8
Investments / (New Borrowing)	8.1	-1.8	-2.4	-16.3	-24.9

- 2.8 The Council has an increasing CFR due to the future planned unfunded capital expenditure. The above position for 2019/20 assumes a loan due to mature in February 2020, will be re-financed. It is forecast by the end 2020/21 there will be a need to borrow, however this is likely to be a short term borrowing need as the level of cash falls each year-end, due to the profile of Council Tax income, after which cash levels increase. From 2021/22 there is a forecast long term borrowing need. This position is continually reviewed due to the level of reserves and working capital having many variables and due to slippage in delivery of the capital programme making forecasting with certainty difficult. The associated costs for this level of borrowing have been provided for in the Medium Term Financial Strategy.

Table 6 below outlines the Balance Sheet Summary and Forecast including the Planned Commercial Investment Property programme. Therefore showing a higher CFR reflecting the net of the increase in unfunded capital expenditure less the increase in MRP associated with the Planned Commercial Investment Property programme.

Table 6 - Balance Sheet Summary and Forecast (Including Planned Commercial Investment Property)

31st March:	2019	2020	2021	2022	2023
Capital Financing Requirement	124.7	165.6	186.9	214.5	214.4
Less: External Borrowing	-81.7	-80.7	-80.7	-80.7	-74.2
Under(Over) Borrowing	43.0	84.9	106.2	133.8	140.2
Less: Usable Reserves	-51.7	-56.1	-53.7	-48.0	-46.8
Plus: Working Capital Required	0.6	-1.8	-1.8	-1.8	-1.8
Investments / (New Borrowing)	8.1	-27.0	-50.7	-84.0	-91.6

- 2.9 This shows that if the Planned Commercial Investment Property capital expenditure is incurred there will be additional new borrowing required. The interest costs on the new borrowing and the MRP charge associated with the Planned Commercial Investment Property are included in the appraisal of individual Commercial Investment Property decisions and the purchases are only completed, if the interest and MRP costs are recovered from the associated income stream, and a minimum target return is achieved.
- 2.10 **Affordability prudential indicators**
The strategy details the overall capital and control of borrowing prudential indicators, but within this framework, prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.
- 2.11 **Ratio of financing costs to net revenue stream (See Appendix A Table 1)**
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. The estimates of financing costs include current commitments and the proposals in the budget report.
- 2.12 **Treasury indicators for debt (See Appendix A Table 8 and 9)**
There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:
- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
 - Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
 - Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.
- 2.13 **Treasury Indicators: limits to borrowing activity**
- 2.13.1 **The operational boundary (See Appendix A Table 6).** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.
- 2.13.2 **The authorised limit for external debt (See Appendix A Table 5).** 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 Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

The latest Affordability Prudential Indicators and Treasury Indicators are attached at Appendix 'A'.

TREASURY MANAGEMENT STRATEGY STATEMENT

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

2.15 This Council defines its treasury management activities as:

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

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

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

2.16 The investment policy objective of this Council is the prudent investment of its treasury balances. The Council's investment priorities are the security of capital and liquidity of its investments so that funds are available for expenditure when needed. Both the CIPFA code and MHCLG guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return or yield. The generation of investment income to support the provision of local authority services is important, but secondary, objective.

2.17 The Council's borrowing objectives are to minimise the revenue costs of debt whilst maintaining a balanced loan portfolio. The Council will set an affordable borrowing limit each year in compliance with the Local Government Act 2003 and will have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities when setting that limit.

2.18 **Current portfolio position**

The Council's current treasury portfolio position is set out in **Appendix 'B'**.

2.19 **Prospects for interest rates**

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The details of their latest view is shown in **Appendix 'C'** to this report.

2.20 **Borrowing strategy**

2.20.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

2.20.2 Against this background and the risks within the economic forecast, caution will be adopted within the treasury operations. The S151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. Any decisions will be reported to the appropriate decision making body at the next available opportunity.

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

- 2.20.3.1 Public Works Loans Board (PWLB) and any successor body.
- 2.20.3.2 Any institution approved for investments (see Annual Investment Strategy below)
- 2.20.3.3 Any bank or building society authorised to operate in the UK.
- 2.20.3.4 UK public bodies including pension funds (excluding Nottinghamshire County Council Pension Fund)
- 2.20.3.5 Capital Market bond investors.

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

- 2.20.4.1 Operating and Finance leases
- 2.20.4.2 Hire Purchase
- 2.20.4.3 Sale and leaseback

2.20.5 **LOBOs:** The Council holds £25.5m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option either to accept the new rate or to repay the loan at no additional cost. No LOBOs have options during 2020/21. The next option will be in 2023/24. The Council understands that lenders are unlikely to exercise their options in the current low interest rate environment; there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so. It is unlikely that the Council will take out any new LOBO loans in the future.

2.21 **Policy on borrowing in advance of need**

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

2.21.1 Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any

additional CFR for 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

2.21.2 The Director of Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the 2020/21 annual budget report.

2.22 Debt rescheduling

2.22.1 As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

2.22.2 The reasons for any debt rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

2.22.3 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

2.23 Apportioning interest to the Housing Revenue Account

2.23.1 The Council currently operates a one pool approach. The interest charges are initially charged to the General Fund and recharged to the Housing Revenue Account (HRA) through the Item 8 (item 8 of Part I and item 8 of Part II of Schedule 4 to, the Local Government and Housing Act 1989) adjustment. The Council has fixed an interest rate of 4.43% by which it will charge the Capital Financing Requirement (CFR) of the HRA. The HRA CFR currently is £80.081m. If this does not change the annual interest amount charged to the HRA will be £3.548m.

2.23.2 The Council will credit the HRA each year with its share of interest receivable. This will be calculated by multiplying the average HRA reserve balance by the average interest receivable percentage.

3 ANNUAL INVESTMENT STRATEGY

3.9 Investment policy

- 3.9.1 The Council's investment policy has regard to the MHCLG's Guidance on Local Government Investments ("the Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the CIPFA TM Code"). The Council's investment priorities will be security first, portfolio liquidity second, and then return.
- 3.9.2 In accordance with the above guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.
- 3.9.3 Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration, the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.
- 3.9.4 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

3.10 Creditworthiness policy

- 3.10.1 The primary principle governing the Council's investment criteria is the security of its investments, followed by liquidity, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:
- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
 - It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.
- 3.10.2 The S151 Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.
- 3.10.3 Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list.

- 3.10.4 The intention of the strategy is to provide security of investment and the minimisation of risk. The aim is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

The Council's general policy objective is to invest its surplus funds prudently. The Council's investment priorities are:

highest priority - security of the invested capital;
followed by - liquidity of the invested capital (this enables the Council to react to changing circumstances);
finally - an optimum yield which is proportionate with security and liquidity.

Investments made by the Council's Officers are restricted to the following organisations:-

- (a) Banks or Building Societies who currently meet the Link Asset Services suggested investment duration
- (b) Nationalised Industries and Statutory Corporations
- (c) Other Government Institutions
- (d) Other Local Authorities
- (e) Money Market Funds
- (f) Bills of Exchange which have been accepted by authorised institutions
- (g) United Kingdom Gilt-edged Securities
- (h) Negotiable instruments such as Certificates of Deposit, Treasury Bills and Corporate Bonds
- (i) Approved counterparties from countries with a minimum sovereign credit rating of AAA with reference to the lowest rating from Fitch, Moody's or Standard & Poor's, with the exception of UK.

Total investments with any one institution shall not exceed £5m.

Total investments of over 365 days shall not exceed £5m in total.

The Council's operational bank account is currently provided by Barclays Bank and a new contract has been entered into to be effective from April 2020 (5+1+1 years).

3.10.5 **Use of additional information other than credit ratings.**

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

3.11 **Specified investments/unspecified investments**

3.11.1 Investments are categorised as specified and non-specified investments.

Specified investments defined by MHCLG guidance as those:

- Denominated in pound sterling,
- Due to be repaid within 12 months of arrangements,
- Not defined as capital expenditure by legislation,
- Invested with one of:
 - The UK Government
 - A UK local authority, parish council, or community council, or

- A body or investment scheme of “high credit quality”

The Council now defines “high credit quality” organisations as those having a minimum sovereign credit rating of AAA.

Non-specified investments - those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity.

3.11.2 The Council does not currently hold any non-specified investments. The Council is setting a limit of £5m for non-specified investments to allow for use of non-specified investments, should it be considered appropriate to use these in the future and so the Council it is not restricted by the strategy. Non-specified investments will be limited to long-term investments, i.e. those that are due to mature 365 days or longer from the date of arrangements, and instruments that are more complex such as diversified or property funds.

3.12 Country and sector limits

Due care will be taken to consider the country, group, and sector exposure of the Council’s investments. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA from rating agencies.

Total investments with any one group shall not exceed £5m.

Sector limits will be monitored regularly for appropriateness.

3.13 Investment strategy

3.13.1 **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations. Bank Rate is forecast to increase steadily but slowly over the next few years to reach 1.25% by quarter 1 2022/23. Table 7 below shows the forecast Bank Rates for financial year ends (31 March):

Table 7 - Forecast Bank Rates for financial year ends (31 March):

Year	Base Rate
2019/20	0.75%
2020/21	1.00%
2021/22	1.00%
2022/23	1.25%

- 3.13.2 Table 8 below shows the forecast investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Table 8 – Forecast Investment Rates

Year	Average Return
2019/20	0.75%
2020/21	0.75%
2021/22	1.00%
2022/23	1.25%
2023/24	1.50%
2024/25	1.75%
Later Years	2.25%

- 3.13.3 The overall balance of risks to these forecasts is currently towards the downside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

- 3.13.4 **Investment treasury indicator and limit - Total principal funds invested for greater than 365 days.** This limit is set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment. It is based on the availability of funds beyond each year-end. The Council's investment treasury indicator and limit for 2020/21 is to be £5m.

3.14 Investment Liquidity

In consultation with the external treasury advisors, the Council will review its balance sheet position, level of reserves and cash requirements in order to determine the length of time for which investments can be prudently committed. Investments will be placed at a range of maturities, including having money on-call in order to maintain adequate liquidity.

3.15 External Fund Manager

External fund managers can be appointed to manage a portfolio of investments. The Council currently has no funds externally managed and is unlikely to do so in the short to medium term.

3.16 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4 MINIMUM REVENUE PROVISION (MRP) STATEMENT

- 4.1 An underpinning principle of the local authority financial system is that all capital expenditure has to be financed either from capital receipts, capital grants (or other

contributions) or eventually from revenue. The amount charged to the revenue budget for the capital expenditure is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008.

- 4.2 The Local Government Act 2003 requires the Council to have regard to the Ministry of Housing Communities and Local Government (MHCLG) 'Guidance on Minimum Revenue Provision'. The latest guidance was issued in February 2018.
- 4.3 The broad aim of the MHCLG Guidance is to ensure a prudent provision is made from revenue over time to cover the total amount of capital expenditure needed to be met from revenue. A prudent provision is considered to be, where the period over which MRP is charged is aligned to the period over which the capital expenditure provides benefits (asset life). MRP cannot be negative, and can only be zero if the CFR is nil or negative, or if the charge is fully reduced by reversing previous overpayments. A maximum asset life of 50 years can be used, unless in the opinion of an appropriately qualified professional advisor the life of the asset is expected to exceed 50 year.
- 4.4 The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. However, the guidance gives flexibility in how MRP is calculated, providing the calculation is 'prudent'. The following policy included in the statement incorporates options recommended in the Guidance as well as locally determined prudent methods.
- 4.5 In accordance with the latest MHCLG Guidance, for capital expenditure financed by borrowing, the Council has four broad options:
- The 4% reducing balance method.
 - The straight line asset life method
 - The annuity asset life method
 - The Depreciation method.
- 4.6 Minimum Revenue Provision Policy**
- 4.7 Regulation 28 of the 2003 Regulations requires the Council to calculate in each financial year a prudent provision to ensure that debt is repaid over a period that is reasonably commensurate with that over the capital expenditure provides benefits (asset life).
- 4.8 For pre 2008 supported borrowing, the Council will move to a 50 year Annuity method, charging MRP based on a corresponding 50 year PWLB borrowing rate. This is more prudent than the current 4% reducing balance as this calculation extends to over 300 years.
- 4.9 For post 2008 it is proposed that unsupported borrowing, and any new borrowing, MRP will be calculated as follows:
- For assets with a life of 10 years or less, the straight line asset life method (as is currently the case).
 - For assets with a life in excess of 10 years, the annuity asset life method will be used.
- 4.10 The asset life method calculation requires estimated useful lives of assets to be input in to the calculations. These life periods will be determined by the Chief Financial Officer (S151), with regard to the statutory guidance and advice from professional valuers if required.

- 4.11 The annuity rate used for the MRP charge will be the Public Works Loans Board (PWLB) certainty rate on the date the capital expenditure is incurred, where a one-off capital payments is made i.e. for investment properties. For all other capital expenditure funded from borrowing, where the expenditure is incurred over a period of time, the average annual PWLB certainty rate for the financial year will be used.
- 4.12 The Chief Financial Officer (S151) may also determine that if, in their opinion, the straight line method is more prudent for an asset with a life in excess of 10 years then this option may be used.
 - 4.12.1 MRP will be not be charged until the later of: the year after capital expenditure is incurred or the year after the asset becomes operational.
- 4.13 Capital Receipts from the sale of investment properties funded as prudential borrowing will be used to reduce the Capital Financing Requirement by the outstanding prudential borrowing for the asset sold.
- 4.14 No MRP will be charged for assets in the Housing Revenue Account.
- 4.15 Voluntary Revenue Provision (VRP) may be made at the discretion of the S151 Officer.
- 4.16 For leases that are included on the balance sheet the MRP charge will be the same as the principal repayment on the lease.

Annex A Prudential Indicators

Prudential Indicators of Affordability

The Council is required to consider all of its available resources in the medium term (usually defined as three years) together with total plans for expenditure. Any known significant variations beyond this timeframe also need to be taken into account.

The Prudential indicators for affordability are as follows:

- a) Estimate of the ratio of financing costs to the net revenue stream for the next three years split between the Housing Revenue Account and the General Fund

For the next three years the Council is required to calculate an estimated ratio of its financing costs to net revenue stream for both the General Fund and the Housing Revenue Account (HRA). For the HRA this is calculated by dividing the HRA capital financing costs by the total estimated Council Dwelling Income. For the General Fund this is calculated by dividing the General Fund capital financing costs by the estimated Council Tax Receipt plus Central Government Grants. The General Fund indicator is shown both including and excluding the capital financing costs for the Investment Properties still to be acquired.

The suggested indicators for the next three years are displayed in Table 1 below.

Table 1 – Ratio of financing costs to net revenue stream for the Housing Revenue Account and General Fund.

	2020/2021 %	2021/2022 %	2022/2023 %
Housing Revenue Account	13.79	13.12	12.42
General Fund	26.60	43.90	58.01
General Fund – Excluding Investment Properties still to be purchased	14.59	20.63	27.48

- b) Estimate of the incremental impact of capital investment decisions on the Council Tax and Rent Levels

Authorities are required to estimate for the next three years the impact on the Council Tax (General Fund) and Rent levels (HRA) of the capital programme including running costs and financing costs. These indicators have been prepared using the revised Capital Programme, approved by Cabinet on the 25th November 2019. The capital financing costs for the Investment Properties have been included in the indicators in table 2 below. It is expected that the rental income for the Investment Properties will exceed their capital financing costs.

The suggested indicators for the incremental impact for the next three years are shown in Table 2 below.

Table 2 - Incremental Impact of capital investment decisions on Council Tax and Rent Levels

	2020/2021	2021/2022	2022/2023
	£	£	£
General Fund (Band D)	59.62	39.40	21.92
General Fund (Band D) – Excluding Investment Properties still to be purchased	36.31	7.72	13.95
HRA (52 weeks)	0	0	0

Table 2 includes Minimum Revenue Provision (MRP) and interest payable as the incremental charges for capital investment funded by borrowing. MRP is not charged until the later of i) the year following purchase or ii) the year the asset becomes operational. Therefore, the MRP charges are included in the calculations in the year it is estimated the MRP charges will be made. The ratio for the General Fund is calculated by estimating the interest payable on the average capital borrowing requirement plus the MRP charges and dividing this by the estimated number of band D equivalents.

There is not anticipated to be any new borrowing for the HRA between 2020/21 – 2022/23.

c) Net borrowing and the Capital Financing Requirement split between the General Fund and the Housing Revenue Account

In order to ensure that in the medium term borrowing is only undertaken for capital purposes, local authorities are required to ensure that external borrowing does not exceed, except in the short term, the total of their capital financing requirement over the planning period. In broad terms the capital financing requirement reflects an authority's need to borrow for capital purposes and is a measure of the assets contained on the balance sheet which have as yet not been fully financed, i.e. there is still some indebtedness outstanding.

It is necessary to estimate the capital financing requirement at the end of the forthcoming year and the subsequent two years for both the Housing Revenue Account and General Fund activities these are presented in Table 3 below.

Table 3 – Estimates of Capital Financing Requirement.

	31st March 2021	31st March 2022	31st March 2023
	£m	£m	£m
Housing Revenue Account	80.081	80.081	80.081
General Fund	107.724	136.360	136.259
Total	187.805	216.441	216.340

d) Capital Expenditure

Estimates of capital expenditure for the next three years split between the General Fund and the Housing Revenue Account

The estimated total capital expenditure per year for 2020/21 to 2022/23, as detailed in the Capital Programme Report approved by Cabinet on the 25th November 2019, is shown below in Table 4:

Table 4 – Housing Revenue Account and General Fund Capital Expenditure estimates.

	2020/2021	2021/2022	2022/2023
	£m	£m	£m
Housing Revenue Account	14.142	11.685	10.338
General Fund	27.285	22.153	3.289
Total	41.427	33.838	13.627

External Debt

e) Authorised Limit

For the next three years the authority is required to set an authorised limit for its total external debt, gross of investments. This is calculated by taking into account current external debt, new borrowing for loans which mature or for capital purposes and the need to borrow on a short term basis to cover for temporary shortfalls in revenue income and expenditure.

The future authorised limits for the next three years are contained in Table 5 below.

Table 5 – Authorised Limits for External Debt

	2020/2021	2021/2022	2022/2023
	£m	£m	£m
Borrowing	206	232	231
Other Financial Instruments	0	0	0

f) Operational Boundary

As well as an authorised limit the local authority must also set an operational boundary for its external debt for the next three years. The operational boundary is based on the most likely or prudent but not worst case scenario in relation to cash flow.

The future Operational Boundary for the next three years are shown in Table 6.

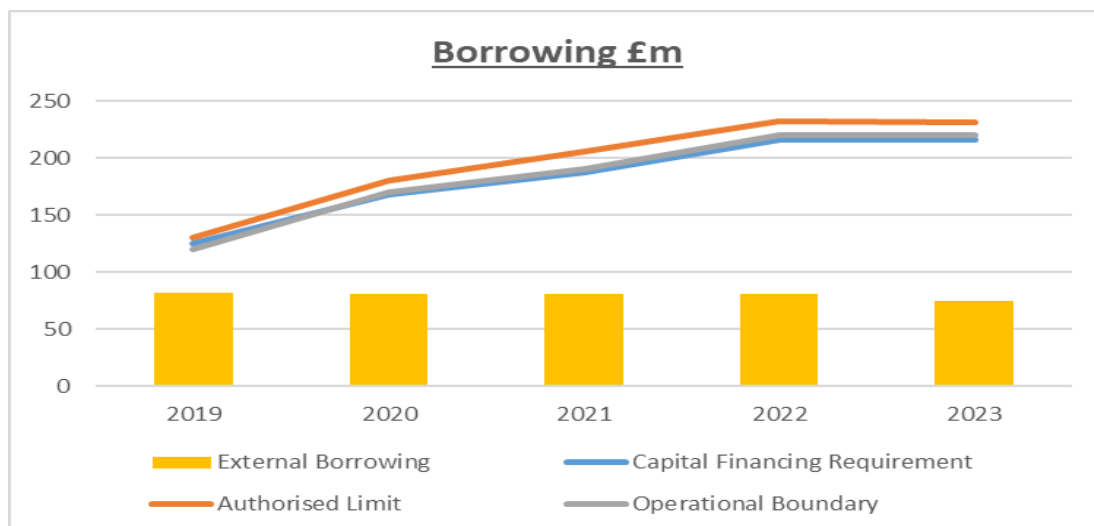
Table 6 – Operational Boundary for External Debt

	2020/2021	2021/2022	2022/2023
	£m	£m	£m
Borrowing	191	220	220
Other Financial Instruments	0	0	0

g) Comparison of External Debt to Capital Financing Requirement, Operational Boundary and Authorised Limit

Table 7 below shows the gap between the existing external debt to the Capital Financing Requirement, Operational Boundary and Authorised Limit

Table 7 – Borrowing



Prudential Indicators for Treasury Management

The prudential indicators for prudence have to be set taking into account those relating to affordability as outlined above and are as follows:

Treasury Management

a) Interest rate exposure

Local authorities are required to set limits for the next three years for the upper limits on exposure to the effects of changes in interest rates. The indicators relate to both fixed and variable rate interest, and are net of any investments.

Depending on the level of interest rates and their expected movement in the year, the Council may take up all of its new borrowings in the form of either fixed or variable rate debt. The figures Table 8 give the following maximum levels, when compared to the operational boundary, of exposure to fixed and variable interest rates, which are prudent limits for the forthcoming years:

Table 8 - Interest Rate Exposure

Principal Outstanding	2020/2021	2021/2022	2022/2023
	£m	£m	£m
Fixed Rates	206.0	232.0	231.0
Variable Rates (No more than 40% of the operational boundary).	82.4	92.8	92.4

b) Maturity Structure of borrowing

For the next three years' the authority is required to set both lower and upper limits for the maturity structure of its borrowing. This indicator relates only to fixed rate debt and is therefore a measure of the longer-term exposure to interest rate risk.

Table 9 shows the proposed lower and upper limits for all three years, given the current structure of the Council's debt portfolio:

Table 9 - Maturity Structure of Debt

Maturity Structure of Fixed Rate Borrowing	Forecast Position for 31/03/2020	Lower Limit (%)	Upper Limit (%)
Under 12 months	0.00%	0%	5%
Under 24 months	0.00%	0%	10%
Under 5 years	16.00%	0%	20%
Under 10 years	22.38%	0%	25%
Under 20 years	38.45%	0%	40%
Under 30 years	38.45%	0%	50%
Under 40 years	74.58%	0%	80%
Under 50 years	100.00%	0%	100%
50 years and above	0.00%	0%	0%

c) Principal sums invested for more than 364 days

Where a local authority invests, or plans to invest for periods of more than 364 days it must set an upper limit for each year for the maturity of such investments. The purpose of setting this limit is to contain any exposure to losses, which might arise in the event of having to seek early repayment of the investment and / or adverse movements in shorter-term interest rates.

It is suggested, that the use of longer-term investments be limited to a maximum of £5m in each of the next three years to tie in with the Council's already approved policy of not investing more than £5m with any one bank or building society at the same time.

Annex B Council's current treasury portfolio position

Table 1 - Current Debt and Investment Portfolio Position 30th September 2019

External Borrowing:	£m
Fixed Rate PWLB	40.236
Fixed Rate Other Loans (Banks)	15.000
LOBO Loans	25.500
Total Gross External Debt	80.736
Treasury Investments:	
Money Market Funds	(6.450)
Call Accounts	(3.719)
Fixed Term Deposits	(4.000)
Total Treasury Investments	(14.169)
Total Net External Debt	66.567

Table 2 – Council Loans at the 30th September 2019

Market Loans	£m
Fixed Rate Loans (Banks)	
Barclays Bank	5.000
Barclays Bank	5.000
Hampshire County Council	5.000
Sub Total	15.000
Lender Option Borrower Option (LOBO)	
Commerzbank AG Frankfurt am Main	1.000
FMS Wertmanagement AöR	1.500
Dexia Credit Local	5.000
Lancashire County Council	2.000
Danske Bank	5.000
Dexia Municipal Agency	5.000
Commerzbank AG Frankfurt am Main	6.000
Sub Total	25.500
Public Works Loans Board (PWLB)	40.236
Grand Total	80.736

Table 3 – Council Money Market Fund investments as at the 30th September 2019

Money Market Fund	£m
Aberdeen GBP Liquidity Fund	5.000
Insight Sterling Liquidity Fund	1.450
Total	6.450

N.B. for both of these investment the Authority is classed as professional investor under MIFID II regulation.

Table 4 – Council Call Account Investments as at 30th September 2019

Call Accounts	£m
Barclays Bank	£0.169
Handelsbanken	£3.550
Total	£3.719

Table 5 - Fixed Term Deposits as at 30th September 2019

Fixed Term Deposits	£m
Suffolk County Council	2.000
Thurrock Council	2.000
Total	4.000

Annex C - Prospects for interest rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives our central view.

Link Asset Services Interest Rate View														
	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	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

The above forecasts have been based on an assumption that there is some sort of muddle through to an agreed deal on Brexit at some point in time. Given the current level of uncertainties, this is a major assumption and so forecasts may need to be materially reassessed in the light of events over the coming weeks or months.

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its meeting on 1 August, the MPC became more dovish as it was more concerned about the outlook for both the global and domestic economies. That's shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a "gradual pace and to a limited extent" is now also conditional on "some recovery in global growth". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth. The September MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth.

Investment and borrowing rates

- Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.
- Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9.10.19. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, the unexpected increase of 100 bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management.
- There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

Annex D Treasury Management Practices

TMP1 RISK MANAGEMENT

a) GENERAL STATEMENT

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Council's policy below.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 04/03/2019 and will apply its principles to all investment activity. In accordance with the Code, the Corporate Finance Manager has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

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

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

The investment policy proposed for the Council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

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

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, housing association, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by at least two of the three main rating agencies i.e. Standard and Poor's, Moody's and / or Fitch rating agencies.
5. A body that is considered of a high credit quality (such as a bank or building society For category 5 this covers bodies with a minimum Short Term rating of Standard and Poor's P-2 or the Moody's and Fitch equivalent).

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are a maximum investment of £5m in any one institution and a maximum duration of up to 1 year or duration as advised by our treasury management advisers.

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

	Non Specified Investment Category	Limit (£)
a.	<p>Supranational bonds greater than 1 year to maturity</p> <p>(a) Multilateral development bank bonds - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Reconstruction and Development Bank etc.).</p> <p>(b) A financial institution that is guaranteed by the United Kingdom Government (e.g. National Rail)</p> <p>The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>	<p>AAA long term ratings</p> <p>£5m</p> <p>£5m</p>
b.	<p>Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>	£5m
c.	<p>The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.</p>	£250k

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

Within category c, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in this body. The intention will be to keep overnight balances to a minimum. Any balance on this account will be when the Authority has not had the opportunity to transfer balances to an approved counterparty.

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

b) APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AAA. The Authority will continue to invest with counterparties in the UK despite the UK only currently having an AA rating.

Based on lowest available rating

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA

- U.K.

THIS LIST IS AS AT 16.12.19

c) TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Cabinet

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

d) THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer *(see TM Code page 38 (iv))*

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

The above list of specific responsibilities of the S151 officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management). Further responsibilities also include:

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following *(TM Code p54):* -
 - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
 - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*

- *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*

- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*

- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

Report To:	CABINET	Date:	24 FEBRUARY 2020
Heading:	ANNUAL BUDGET & COUNCIL TAX 2020/21 AND MEDIUM TERM FINANCIAL STRATEGY (MTFS) UPDATE		
Portfolio Holder:	CABINET MEMBER FOR FINANCE & RESOURCES - COUNCILLOR RACHEL MADDEN		
Ward/s:	ALL		
Key Decision:	Yes		
Subject to Call-In:	Yes		

Purpose of Report

This report sets out the proposed:

- 2020/21 Annual Revenue (General Fund) and HRA Budgets and the Capital Programme for 2019/20 to 2023/24;
- 2019/20 In-Year Revised Budgets (HRA and Capital); and
- 2020/21 District Council Tax

The report also sets out the estimated financial challenge in the Medium Term Financial Strategy (MTFS) for 2021/22 to 2024/25 and the Chief Finance Officer's advice regarding the robustness of the estimates included in the proposed 2020/21 Budget, and the adequacy of reserves for which the proposed budget provides.

Recommendation(s)

That Cabinet recommends to Council:

1. Approval of a £5 (2.7%) increase in the level of the District's own Council Tax for 2020/21, setting the Band D equivalent at £190.46;
2. Approval of the proposed 2020/21 Revenue (General Fund) and HRA Budgets as set out in this report. (Sections 3 and 4).
3. Approval of the proposed Capital Programme and associated borrowing 2019/20 to 2023/24 as set out in this report. (Section 5).
4. Approval of the 2019/20 Revised HRA and Capital Budgets as set out in this report. (Sections 4 and 5).
5. Approval that the precept figures from Nottinghamshire County Council, Nottinghamshire Fire and Rescue Authority, Police and Crime Commissioner and the two Parish Council's within the District be incorporated, when known, into the Council Tax recommendation to Council on 5th March 2020.
6. That it notes the estimated financial challenge in the Medium Term Financial Strategy (MTFS) for 2021/2022 to 2024/25 and the planned approach to address the challenge. (Section 6).
7. That an updated MTFS will be brought back to Cabinet after the 2019/20 Accounts have been closed and audited.
8. Approval of the proposed use of reserves as set out in this report. (Table 5 (General Fund) and Table 9 (HRA)), the creation of 5 new reserves and the amalgamation of 2 existing reserves (As set out in Section 3.6).
9. That it notes and accepts the comments and advice of the Corporate Finance Manager (Section 151 Officer), provided in compliance with Section 25 of the Local Government Act 2003, as to the robustness of the estimates included in the 2020/21 Budget and the adequacy of the reserves for which this budget provides. (Section 7).
10. Notes that the proposed 2020/21 budgets reflect the agreed changes to Fees and Charges approved by Cabinet on 27th January 2020.
11. Approval of the use of in-year Capital Receipts up to 2020/21 to maximise capitalisation opportunities arising from service transformation to deliver efficiencies and improved services to residents and clients, and thereby minimise the impact of costs on the revenue budget as included in the Flexible Use of Capital Receipts Strategy 2018/19 approved by Council on 11th October 2018.
12. Notes that additional recurrent and non-recurrent costs of progressing the Digital Service Transformation (DST) programme at a quicker pace than had previously been planned are not included within the proposed 2020/21 budget and that a separate report detailing the programme, costs and payback periods, and how the programme will be funded will be brought for consideration through the appropriate channels in accordance with the Council's Financial Regulations.

Reasons for Recommendation(s)

To recommend to Council approval of a £5 (2.7%) increase in the District Council's Council Tax for a Band D equivalent property, approval of the HRA and Capital Budget Revisions for 2019/20 and approval of the proposed 2020/21 Revenue and HRA Budgets and the Capital Programme 2019/20 to 2023/24. In accordance with the Local Government Finance Act 1992 the Council must set its annual budget by 10th March in the preceding financial year.

Alternative Options Considered

The District Council is able to set a Council Tax increase of up to the greater of 2.00% or £5 per annum without triggering a referendum. The proposal is to increase the level of District Council Tax for 2020/21 by £5 which equates to a 2.7% increase for a Band D equivalent property to assist the Council to set a balanced budget for 2020/21 and to recognise the cumulative impact of this increase in helping to address the estimated funding gap in the Medium Term Financial Strategy for the years 2021/22 to 2024/25.

The District Council was able to freeze its own Council Tax for 2019/20 however, recognising the financial challenge faced beyond 2020/21 the proposed increase for 2020/21 is considered appropriate in order to continue to provide the key services on which our residents rely. Most properties in Ashfield (81.6%) are in Bands A, B and C: (39.2% Band A, 22.0% Band B and 20.4% Band C) and for these properties the proposed increase amounts to £0.06p, £0.07p and £0.09p per week respectively, or an average increase of 1 pence per day.

Careful consideration has been given to each of the proposed investments and savings included in this report. The investments proposed will support the Council in delivering its Corporate Plan priorities. The proposed savings will increase the efficiency of the Council with minimal adverse impact on residents and customers.

Detailed Information

1. Background

- 1.1 Since 2010 Local Government has seen an unprecedented reduction in the level of funding from Central Government.
- 1.2 Despite this significant reduction in funding this Council has a proven track record of setting its annual budget and delivering an Outturn within the budget set. However, despite this good financial performance the Council does face further financial challenges which it will need to address into the medium and longer term.
- 1.3 Although this report contains proposals to balance the 2020/21 revenue budget it is essential that the Council's management continue to work with Cabinet to identify and agree options to address the estimated financial challenge in the Medium Term Financial Strategy for 2021/22 to 2024/25 and beyond; ensuring the Council has a sustainable future.

- 1.4 The proposed 2020/21 Budget reflects the impact of both the Provisional and Final Local Government Settlements, including the Government's decision to extend payment of Revenue Support Grant (RSG) funding by one further year for 2020/21 due to delays in implementing the Fair Funding Review, the Business Rates reset and changes to the level of Business Rates retention.
- 1.5 The proposed revenue and capital budgets included in this report will facilitate the delivery of the Council's Priorities set out in the Corporate Plan 2019-2023.

2. District Council Tax 2020/21

- 2.1 **Ashfield District Council is proposing a £5 (2.7%) increase to its own Council Tax.** This would set the District's Council Tax level (Band D equivalent property) at £190.46 for 2020/21.
- 2.2 This proposed District Council Tax increase is reflected in the proposed Annual Revenue Budget for 2020/21 shown in Section 3, Tables 3 and 4.
- 2.3 Based on the number of Band D equivalent properties in the 2020/21 Council Tax Base (33,695.3) and a District Council Tax of £190.46, this will generate Council Tax income of £6.418m for 2020/21.

3. Annual Revenue Budget 2020/21

- 3.1 The proposed 2020/21 Annual Revenue Budget includes a number of Investments and Savings/Efficiencies. These are set out in tables 1 and 2 below.
- 3.2 The proposed Revenue Budget includes provision for pay award (2%), provision for the expected costs arising from changes to the national pay spines from April 2020 and contractual inflation. The proposed 2020/21 Budget also includes any revenue implications from the proposed Capital Programme yet to be approved by Council on 5th March 2020.

Table 1 – Proposed Investments 2020/21

Investment	Detail	£'000
Office 365 Licences	To ensure the Council has appropriate software licences in place for staff, utilising systems relevant to undertake their roles.	71
Corporate Communications	Additional funding to enhance the provision of timely information to residents and businesses across the District.	20
Lone Worker Devices	MyGuard (SOS devices) to provide potentially vulnerable front line staff with a recognised safety device.	7
TOTAL		98

Table 2 – Proposed Savings/Efficiencies 2020/21 and 2021/22

Saving / Efficiency	Detail	2020/21	2021/22
		£'000	£'000
Base Budget Review	Savings identified through a line by line review of all General Fund budgets	302	
HRA – reviewed contribution	Increased HRA contribution towards the its fair share of General Fund services costs	100	
Increase Vacancy factor by 0.5% to 3.5%	Following a review of average times taken to recruit to vacant posts it is considered to increase the vacancy factor by 0.5% and potentially increase it by a further 0.5% for 2021/22(subject to in year review)	72	72
Stationery budget reduction of 20% (Including Paper)	Monthly printing limits have been assigned to Officers and this combined with greater agile working has seen significant reductions in printing	10	
Ashfield Business Centre	The lease for this building expired on 24 th December 2019 and a decision was taken to not renew.	33	
Reduce ICT Budgets (Capitalisation)	Historically the Council has purchased hardware from revenue budgets in the year required. It is proposed to capitalise this spend where appropriate and this will deliver recurrent revenue budget savings.	40	
Cease Trade Waste arrangement with Mansfield District Council	Process trade waste direct rather than via Mansfield DC as an intermediary.	35	
Outsource Building Control	Transfer of this service, including the two staff to Erewash Borough Council due to experiencing significant recruitment issues.	75	25
Regeneration Service	Through mutual agreement, dissolution of the shared Regeneration Service with Mansfield District Council and reconfiguration of the service to progress delivery of our new Corporate Plan priorities.		
Transport Review	Review led to an increase of 3 staff (including 2 apprenticeships) with the increased capacity reducing the requirement to externalise work at a greater cost.	49	4
Lifeline Service	Transfer of this service to Notts. City Homes due to significant recruitment issues.	58	7

HR/Payroll Structure review	Service review of the shared service with Mansfield District Council resulting in headcount reduction	35	
Pest Control – additional income	Stretch target for the service to continue to build on its success in 2019/20 and achieve a break-even trading position.	13	
Depot Canteen	Increased income target	5	
Democratic Services restructure	Service restructure resulting in deletion of a vacant post and a trial reduction in staff hours	14	-7
Environmental Health restructure	Deletion of a vacant post	37	
Finance review	Deletion of a fixed term contract post in October 2020.	9	14
Community Foundation – Grant reduction	Reduce the level of grant funding allocated via the Community Foundation to £10k per annum	5	
Kings Mill Reservoir Car Parking income	Capital investment in the car park will provide the capacity to generate additional parking income (£7k per annum full year effect)	3	4
Urban Road – Police Rental Income	Increased office space occupied by the Police will generate additional rent income	2	
TOTAL		987	19

3.3 Factoring in the above proposed Investments and Savings/Efficiencies, the proposed Annual Revenue Budget for 2020/21 is shown in Table 3 below:

Table 3 – Annual Revenue Budget by Directorate 2020/21

Directorate	£'000
Place & Communities	9,326
Resources & Business Transformation	-1,479
Legal & Governance	1,783
Housing & Assets	2,137
Chief Executive	540
Sub Total - Directorates	12,287
Net Recharges In/Out	-2,781
Borrowing & Capital Financing Costs	2,454
Net Interest Payable	216
Transfers to Earmarked Reserves	959
TOTAL	13,155

3.4 Table 4 below shows how the proposed 2020/21 Annual Revenue Budget is funded:

Table 4 – Funding the 2020/21 Annual Revenue Budget

Funding Source	£'000
New Homes Bonus	-1,155
Revenue Support Grant	-197
Net Business Rates / Section 31b Grants	-5,590
Council Tax Collection Fund Deficit	+42
Business Rates Collection Fund Deficit	+432
District Council Tax (Frozen)	-6,418
Use of Earmarked Reserves	-270
General Fund Reserve contribution	0
TOTAL	-13,155

3.5 General Fund Earmarked Reserves

Table 5 below shows the planned movement in General Fund Earmarked Reserves:

Table 5 – Known and Planned Movement in General Fund Earmarked Reserves

Movement on Earmarked Reserves	Balance as at 1st April 2019	Transfer to Reserve 2019/20	Transfer from reserve 2019/20	Expected Balance as at 31st March 2020	Transfer to Reserve 2020/21	Transfer from Reserve 2020/21	Expected Balance as at 31st March 2021
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
District Planning Inquiry / Local Plan	406	250	335	321	0	250	71
Elections	87	64	144	7	54	0	61
Harold Farr Bequest	5	0	5	0	0	0	0
Joint Use Maintenance Fund	201	0	0	201	0	0	201
Asset Repair & Renewal Reserve	812	0	40	772	0	0	772
LAMS Reserve	76	0	0	76	0	0	76
Joint Crematorium Reserve	492	0	0	492	0	0	492
Insurance Related Funds	334	0	0	334	75	0	409
Revenue Grant Reserve	957	0	17	940	0	0	940
NNDR Equalisation Reserve	1,804	0	0	1,804	0	0	1,804

Supported Housing Reserve	11	0	0	11	0	0	11
Corporate Change Reserve	1,257	0	360	897	200	0	1,097
Commercial Property Investment Reserve	800	900	0	1,700	600	0	2,300
Economic Development & Place Reserve	241	0	116	125	0	0	125
Technology Investment Reserve	402	0	0	402	0	0	402
Legal (ADC) Reserve (NEW)	0	20	0	20	5	20	5
Winter Maintenance (NEW)	0	0	0	0	5	0	5
Commercial Property Delapidations Reserve (NEW)	0	0	0	0	10	0	10
Investment Property (Aborted Enquiries) Reserve (NEW)	0	0	0	0	10	0	10
Brexit Reserve (NEW)	0	52	1	51	0	0	51
Total	7,885	1,286	1,018	8,153	959	270	8,842

3.6 Proposed New and Combined Reserves

As indicated in Table 5 above it is proposed that five new reserves are created as follows:

- Legal (ADC) Reserve – to meet costs of external legal advice which is either specialist in nature or in exceptional circumstances because capacity and time constraints dictate that the work cannot be undertaken in-house.
- Winter Maintenance Reserve – to meet the costs of winter gritting. As part of the Base Budget Review these budgets were removed from individual services as it is more appropriate for these costs to be met via a reserve as and when adverse weather requires access for this funding.
- Commercial Property Delapidations Reserve – to meet the costs incurred by the Council where it exits a lease and is required to make good delapidations.
- Investment Property (Aborted Enquiries) Reserve – to meet the costs incurred in pursuing potential Investment Property acquisitions but through due diligence the acquisition decision is aborted.

- Brexit Reserve – creation of a separate reserve for Brexit funding transferring out £17k (2018/19 funding) from the Revenue Grants reserve and also allocating into the reserve the funding received during 2019/20 (£35k).
- It is also proposed that the Corporate Change Reserve and the Investment Technology Reserve be combined and renamed the Corporate Transformation Reserve. This reserve will meet costs associated with service transformation (ICT, severance, etc).

3.7 Proposed transfers to Reserves

The proposed transfers to Earmarked Reserves for 2020/21 are:

- £54k to Elections reserve which includes £44k annual contribution and £10k towards costs of potential future By-elections.
- £75k annual contribution to the General Fund Insurance Reserve to meet costs of self-insurance.
- £200k to help meet the costs arising from the Digital and Service Transformation Strategy.
- £600k to the Commercial Property Investment Reserve to help mitigate potential future risks in respect of business failure resulting in void occupancy periods. Following review of the properties in the portfolio and the timing of break clauses, it is considered appropriate in the short term to build this reserve up to £3m. It is anticipated that through planned transfers of unbudgeted income in year (2019/20) this reserve will contain circa £1.7m by the end of 2019/20 and £2.3m by the end of 2020/21. Any additional unbudgeted income generated through new Investment Property acquisitions during 2020/21 will also be transferred to this reserve until it achieves the planned level of £3m.
- £30k transfer to the four new reserves; Legal (£5k), Winter Maintenance (£5k), Commercial Property Delapidations (£10k) and Investment Property Aborted Enquiries (£10k).

3.8 Proposed transfers from Reserves

The proposed transfers from Earmarked Reserves for 2020/21 are:

- £250k from the District Planning Inquiry / Local Plan Reserve to fund the evidence base required for the development of the Local Plan.
- £20k from the new Legal Reserve to meet costs which relate to the provision of specialist external legal advice.
- There will be a requirement to utilise the Corporate Transformation Reserve during 2020/21 to progress the pace of delivering our Digital Service Transformation programme. Once confirmed, the costs associated with this and the earlier payback of financial and non-financial benefits are currently being determined and approval for this spend will be brought for consideration through the appropriate channels in accordance with the Council's Financial Regulations.

3.9 General Reserve

As at 31st March 2019 the balance on the General Reserve was £6.116m. The Outturn Report (to Cabinet on 24th June and Council on 25th July) agreed utilisation of £55k, leaving a balance of £6.061m. **In setting the proposed budget for 2020/21 there is no proposed withdrawal of funding from the balance of this Reserve.**

4. Housing Revenue Account (HRA)

- 4.1 Local housing authorities are required by Section 74 of the Local Government and Housing Act 1989 (the 1989 Act) to keep a Housing Revenue Account (HRA). The HRA reflects a statutory obligation to account separately for local authority housing provision. It identifies the major elements of housing revenue expenditure such as maintenance, administration, and contributions to capital costs and how these are funded, mainly being from housing rent.
- 4.2 The proposed 2020/21 Annual HRA Budget includes a number of Investments and Savings/Efficiencies. These are set out in tables 6 and 7 below.
- 4.3 The proposed budget includes provision for pay award (2%), funding for increments and contractual inflation. The 2020/21 Budget also includes any revenue implications from the proposed Capital Programme yet to be approved by Council.

Table 6 – Proposed HRA Investments 2020/2021

Investment	Detail	£'000
Housing Management Advisors	Fixed Term contracts to assist with the full rollout of Universal Credit funded from reserves set aside for this purpose.	108
TOTAL		108

Table 7 – Proposed HRA Savings/Efficiencies 2020/21

<u>Saving/Efficiency</u>	<u>Detail</u>	<u>£'000</u>
Service Review of Housing Repairs	Annual employee savings from the Housing Repairs Review. (Part year)	13
Vacancy Factor increase (Increase in vacancy factor from 3% to 3.5%	25
Implementation of the Dynamic Resource Scheduler	Efficiency gained from productivity of repair operatives reducing subcontractor requirement. (Part year)	60
TOTAL		98

- 4.4 **Table 8 below shows the proposed Revised HRA budget for 2019/20 and the proposed HRA Budget for 2020/21:**

	2019/20 Revised Budget £	2020/21 Original Budget £
--	---	--

Summary Budget for Housing Revenue Account

Service

Housing Revenue Account	(12,309,480)	(7,712,610)
Housing Courts Schemes	1,041,850	986,380
Tenancy Services and Housing Management	1,323,790	1,435,220
Lettings	690,190	789,290
Technical Services Management	(468,220)	(657,680)
Technical Services Responsive and Void Management	4,011,290	4,115,510
Technical Services Support Services	996,050	974,730
Technical Services Planned and Cyclical	2,999,280	2,890,670
Procurement	68,140	71,750
DLO	152,770	116,840
TOTAL	(1,494,340)	3,010,100

Subjective Analysis

Employee Expenses	5,510,540	5,697,270
Premises Expenses	7,326,750	6,969,920
Transport Related Expenses	385,810	257,480
Supplies & Services	4,638,210	4,318,240
Transfer Payments	19,800	0
Income	(24,470,060)	(24,681,150)
DLO Recharges	(6,397,140)	(6,582,650)
Sub Total Excluding Capital Financing Costs & Central Recharges	(12,986,090)	(14,020,890)
Capital Financing Costs	10,012,170	15,026,420
Central & Dept Recharges In	4,101,930	4,053,190
Central & Dept Recharges Out	(2,622,350)	(2,048,620)
TOTAL	(1,494,340)	3,010,100

Net Operating Expenditure	(1,494,340)	3,010,100
Less Adjusting Capital Entries	10,012,170	15,026,420
Total Net Operating Expenditure after Adjusting Capital Entries	(11,506,510)	(12,016,320)

Borrowing and Capital Financing Costs

Interest Payable and Other Charges	3,547,590	3,547,590
Depreciation	3,560,300	3,792,720
Direct Revenue Financing of Capital	2,904,280	7,686,110
Total Borrowing and Capital Financing Costs	10,012,170	15,026,420

Net Expenditure to be Financed from Housing Revenue Account

Net Expenditure to be Financed from Housing Revenue Account	(1,494,340)	3,010,100
Net Deficit/ (Surplus) before movement from/(to) Reserves	(1,494,340)	3,010,100

Housing Revenue Account

Balance Brought Forward	(32,597,239)	(34,294,054)
In year (Surplus)/Deficit	(1,494,340)	3,010,100
Transfer to/(from) Earmarked Reserves	(202,475)	(58,000)
Balance Carried Forward	(34,294,054)	(31,341,954)

The 2019/20 Revised Budget above includes the proposed HRA Capital Scheme budget changes for 2019/20 proposed in Section 5 of this report.

- 4.5 The HRA uses a sophisticated 30 year business planning model. This enables the impact of various changes in income and expenditure to be monitored across a 30 year timespan.

Whilst there is not an immediate risk to the HRA within the short term the Council must be mindful that savings are required within the service itself and from those services and funds that receive contributions from the HRA as well as a potential need to scale back capital investment within existing properties. Housing services have continued to make year on year savings within its operating and capital budgets. From a redesign and IT investment of the Housing Repairs service to improve customer service, this will lead to further savings and efficiencies of £0.5m within 3 years.

Even though the HRA borrowing cap ended in October 2018. The current financial position of the HRA cannot sustain further additional debt repayments

- 4.6 Possible Future impacts on the HRA

Social Housing Green Paper – A New Deal for Social Housing

Improving People's Homes and Reducing Bills. The Government will look at a long-term trajectory for energy performance standards across the social housing sector, with the aim of as many social rented homes as possible being upgraded to (Energy Performance Certificates (EPC) Band C by 2030, where practical, cost-effective and affordable.

If all Council stock were required to achieve a Band C energy rating this would cost circa ADC £9.7m based on around 1764 units currently showing as lower than EPC Band C. The figure may vary as property elements are updated or removed, however a broad estimate of £5.5k per property upgrade amounts to some £9.7m spend to achieve the C Band target. This is currently not built into the 30 year business plan as this has not gone through any legislation.

- 4.7 New measures to improve building safety standards – Ministry of Housing, Communities & Local Government (MHCLG)

The Government is shortly commissioning a new Building Safety Regulator in direct response to the Grenfell tragedy. There is debate as to whether this will cover buildings over 11m high which could potentially bring under regulation for the first time many of the Council's 3 storey accommodation blocks. Whilst Ashfield's housing stock currently complies with all the relevant standards there may be some unquantified additional cost of compliance to any standard created by the new Regulator.

- 4.8 HRA Earmarked Reserves

Table 9 below shows the already approved movements in the HRA earmarked reserves in 2019/20 and 2020/21:

Table 9 – HRA Earmarked Reserves

Movement on Earmarked Reserves	Balance as at 1st April 2019/20	Transfer to Reserve 2019/20	Transfer from reserve 2019/20	Forecast Balance as at 31st March 2020	Transfer to Reserve 2020/21	Transfer from Reserve 2020/21	Forecast Balance as at 31st March 2021
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revenue Grants Reserve	25	0	0	25	0	0	25
Eco Funding Reserve	263	0		263	0	0	263
Insurance Reserve	129	50	0	179	50	0	229
Corporate Change Reserve	192	0	0	192	0	0	192
Technology Investment	252	0	252	0	0	0	0
Welfare Reform Reserve	200	0	0	200	0	108	92
Total	1,061	50	252	859	50	108	801

4.9 Planned Movement in HRA Earmarked Reserves 2020/21

The HRA insurance reserve was established in 2016/17 to fund any damage to the Council's housing stock. All housing stock damage claims will go against the HRA insurance reserve, which was agreed to have a contribution of £50k per annum for the financial years 2016/17 through to 2020/21.

The Technology Investment reserve was set up to support the upgrading of out of date technology, to support the introduction of new technology, to support the move to digital delivery of services and improve customer experience and to support the move to more agile working. The reserve of £252k was utilised for a Dynamic Resource Scheduler, Repairs Module and Mobile licencing in housing repairs approved at Cabinet dated 21/01/2019. This investment should produce efficiency savings from 2020 onwards that will return the initial investment over three years.

The Welfare Reform Reserve was created to support and react to the high volume of issues raised with the roll out of Full Service Universal Credit that commenced in November 2018. This is resulting in a significant increase in customer contact, as the vast majority of tenants now have to liaise with us directly to make their rent payments. To help mitigate the adverse impact of the changes on the Council, five fixed term housing positions will be in place during the financial year 2020/21 using funding from this reserve.

5. Capital Programme 2019/20 to 2022/23

5.1 The proposed Capital Programme and funding is summarised in Table 10 below. Appendix 1 shows a detailed breakdown of all the schemes below.

The three areas of the Capital Programme (Area Schemes, General Fund and HRA) are discussed in more detail below.

Table 10 – Capital Programme (2019/20 to 2023/24)

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000
Capital Expenditure						
Area Schemes	1,038	885	0	0	0	1,923
General Fund	51,819	28,135	22,153	3,289	20	105,416
Housing Revenue Account	7,947	12,615	14,495	10,338	9,897	55,292
Grand Total	60,804	41,635	36,648	13,627	9,917	162,631
Capital Financing						
Developers Contributions - Area Schemes	332	567	0	0	0	899
Borrowing	185	305	0	0	0	490
Direct Revenue Financing	41	1	0	0	0	42
Other Capital Grants and Contributions - Area Schemes	480	12	0	0	0	492
Sub Total - Area Schemes	1,038	885	0	0	0	1,923
Prudential Borrowing - General Fund	49,364	26,914	21,335	2,495	20	100,128
Direct Revenue Financing - General Fund	191	0	0	0	0	191
Developers Contributions - General Fund	211	187	0	0	0	398
Capital Receipts	0	0	0	0	0	0
Other Capital Grants and Contributions - General Fund	2,053	1,034	818	794	0	4,699
Sub Total - General Fund	51,819	28,135	22,153	3,289	20	105,416
Funded from HRA Reserves	6,461	11,422	12,472	9,158	8,717	48,230
Future 1-4-1 Capital Receipts						
Funding Recently Built and New Schemes	406	313	1,143	300	300	2,462
Non 1-4-1 Capital Receipts	1,080	880	880	880	880	4,600
Sub Total - HRA	7,947	12,615	14,495	10,338	9,897	55,292
Grand Total	60,804	41,635	36,648	13,627	9,917	162,631

Area Capital Programme

5.2 These consist of mainly self-financed schemes that enhance the local environment. Developers' contributions (known as Section 106 funding) make up the largest funding source. Additional grant funding is sought wherever possible to maximise the benefit to local communities. Area schemes are included in Table 11.

Table 11 – Area Schemes (2019/20 to 2023/24)

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000
Area						
Hucknall Area	475	80	0	0	0	555
Kirkby Area	221	598	0	0	0	819
Sutton Area	185	205	0	0	0	390
Rural Area	157	2	0	0	0	159
Total	1,038	885	0	0	0	1,923
Funded by						
Borrowing	185	305	0	0	0	490
Donation	2	0	0	0	0	2
Friends of Cromford Canal	2	0	0	0	0	2
Hucknall and Linby Committee	10	0	0	0	0	10
Nottinghamshire County Council (NCC)	440	0	0	0	0	440
Reserves	41	1	0	0	0	42
Rural Payments Agency	0	4	0	0	0	4
Section 106	197	566	0	0	0	763
Selston Parish Council	21	0	0	0	0	21
Skanska	5	8	0	0	0	13
Sustainable Transport S106	135	1	0	0	0	136
Total	1,038	885	0	0	0	1,923

Table 12 below shows where changes to capital schemes by Area are proposed due to project delays (slippage) or additional project spend.

Table 12 – Area Schemes (changes in proposed expenditure)

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000
Approved Area Scheme	1,116	804	0	0	0	1,920
Changes to Hucknall Schemes	-66	65	0	0	0	-1
Changes to Sutton Area Schemes	-13	13	0	0	0	0
Changes to Kirkby Area Schemes	-1	3	0	0	0	2
Changes to Rural Area Schemes	2	0	0	0	0	2
Proposed Area Schemes to be Approved	1,038	885	0	0	0	1,923

Table 13 – Area Schemes (changes to budget – by scheme)

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000
Hucknall Area						
Papplewick Green Public Art Work	-1	0	0	0	0	-1
Play Areas	-65	65	0	0	0	0
Sub Total	-66	65	0	0	0	-1
Sutton Area						
Ashfield Estate Footpaths	-2	2	0	0	0	0
Brand Lane / Wharf Road Open Space Improvements	-1	1	0	0	0	0
Kingsmill Reservoir footpath links	-1	1	0	0	0	0
Kingsmill Reservoir management plan: Implementation Works	-8	8	0	0	0	0
Sutton Lawn Play Area	-1	1	0	0	0	0
Sub Total	-13	13	0	0	0	0
Kirkby Area						
Annesley Art Project	-2	2	0	0	0	0
Kirkby footpaths/cycle ways	2	0	0	0	0	2
Morven Park / West Park Play Area	-1	1	0	0	0	0
Sub Total	-1	3	0	0	0	2
Rural Area						
Jacksdale Car Park Extension	2	0	0	0	0	2
Sub Total	2	0	0	0	0	2
Grand Total	-78	81	0	0	0	3

5.3 Changes to Existing Area Projects

Table 13 above shows the proposed changes to budget on a scheme by scheme basis. Many of the schemes planned for 2019/20 are not now expected to be completed until 2020/21. The Papplewick Green Public Art Work is now completed and no further works are required. The actual funding allocation to each project is shown at Appendix 1. Two schemes have increased value:

- **Kirkby footpaths/cycleways** – A grant of £2k has been made available from Nottinghamshire County Council.
- **Jacksdale Car Park Extension** – The Council has received additional funding of £2k from Friends of Cromford Canal.

5.4 General Fund Capital Programme

Changes to the General Fund Capital Programme are explained below and summarised in the Table 14 and 15 below. Details of the full General Fund Capital Programme are shown in Appendix 1.

Table 14 - General Fund Schemes Summary Reconciliation of Current Capital Programme to Proposed February 2020 Capital Programme

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000
Current Capital Programme	53,473	26,481	22,153	3,289	20	105,416
Changes to Current Projects	-1,654	1,654	0	0	0	0
Proposed February 2020	51,819	28,135	22,153	3,289	20	105,416

Table 15 – General Fund Projects (changes in budget – by scheme)

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000
Changes to Current Projects						
Hucknall Leisure Centre	-121	121	0	0	0	0
Kirkby Leisure Centre	-1,354	1,354	0	0	0	0
Leisure Transformation Programme	-74	74	0	0	0	0
Office Accommodation Works to Accommodate DWP at Central Offices	-2	2	0	0	0	0
Office Accommodation Works to Accommodate Police at Central Offices	-5	5	0	0	0	0
Kings Mill Reservoir Car Park Expansion	-98	98	0	0	0	0
Grand Total	-1,654	1,654	0	0	0	0

5.5 Key changes to Existing General Fund Projects.

It is not expected that there will be any change in total costs for the General Fund Capital Programme. However, several of the 2019/20 schemes will be delayed until the 2020/21 financial year. The actual allocation to each project is shown at Appendix 1.

Table 16 – General Fund – Financing of the Capital Programme

The tables below show the changes in financing required to move from the existing Capital Programme to the proposed 2019/20 – 2023/24 Capital Programme.

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000
Current Capital Programme	53,473	26,481	22,153	3,289	20	105,416
Capital Grants	-5	5	0	0	0	0
Capital Receipts - General Fund	0	0	0	0	0	0
Prudential Borrowing	-1,575	1,575	0	0	0	0
Developers Contributions - General Fund	-74	74	0	0	0	0
Direct Revenue Financing	0	0	0	0	0	0
Proposed November 2019 Capital Programme	51,819	28,135	22,153	3,289	20	105,416

5.6 Housing Revenue Account (HRA) Capital Programme

There have been changes to the profiling of HRA capital schemes. However, with the exception of a £2k saving for the Darlison Court scheme, which is now complete, the total HRA capital expenditure remains unchanged. These are shown in Table 17 below.

The HRA Vehicle purchases are proposed to increase overall by £409k due to the addition of the next year into the programme for 2023/24. The capital programme has been increased by £1m per year for years 2019/20 – 2023/24 to fund additional investment via the acquisition of dwellings to supplement the current Housing stock. There has been a small increase of £8k in the cost of the new Persimmon Homes in Hucknall.

The 2019/20 non 1-4-1 housing capital receipts to date have been higher than originally anticipated. This has resulted in an extra £200k being available to fund decent home schemes.

Full details of the HRA Capital Programme are shown in Appendix 1.

Table 17 – Housing Revenue Account (changes to budget)

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000
Expenditure Approved	9,232	14,142	11,685	10,338	9,897	55,294
Changes to Current Projects						
Catch up and Major Repairs	-1,056	1,056	0	0	0	0
Service Improvements	15	-15	0	0	0	0
Contingent Major Repairs	-30	30	0	0	0	0
Exceptional Extensive Works	4	-4	0	0	0	0
Disabled Adaptations	-82	82	0	0	0	0
Electronic Document and Records (EDRM) System	-12	12	0	0	0	0
Darlison Court (New Builds)	-2	0	0	0	0	-2
Investment in New or Existing Dwellings	-44	44	0	0	0	0
Major Repairs Temporary Accommodation	-18	18	0	0	0	0
Davies Avenue Housing Project	-60	-2,750	2,810	0	0	0
Firewalls	0	0	0	0	0	0
SAN Hardware	0	0	0	0	0	0
Switch Network Hardware	0	0	0	0	0	0
Grand Total	7,947	12,615	14,495	10,338	9,897	55,292
Capital Funding						
Funded from HRA Reserves	6,461	11,422	12,472	9,158	8,717	48,230
Future 1-4-1 Capital Receipts						
Funding Recently Built and New Schemes	406	313	1,143	300	300	2,462
Non 1-4-1 Capital Receipts	1,080	880	880	880	880	4,600
Total Capital Funding	7,947	12,615	14,495	10,338	9,897	55,292

6. MTFS Update

6.1 There remains significant uncertainty around the level of resources which will be available to the Council beyond 2020/21. This uncertainty is in relation to the outcome of the Fair Funding Review and the impact it will have on 'assessed need' and subsequent resource allocation levels through a Business Rates re-set and the proposal to change levels of business rates retention from 2021/22, and potential changes to the distribution methodology for New Homes Bonus.

6.2 Because of the above significant uncertainty indications of the future financial challenge for the Council (like all other Councils) will potentially be subject to considerable variation. However, based on use of the LG Futures financial model and our current estimate of expenditure required for the next five years the current estimated funding gaps are shown in Table 18 below:

Table 18 – MTFS Estimated Funding Gap 2020/21 to 2024/25

	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Estimated Expenditure	13,135	12,220	13,020	13,815	14,245
Estimated Income	(13,135)	(11,137)	(10,739)	(10,632)	(10,716)
Estimated Cumulative Funding Gap	0	1,083	2,281	3,183	3,529
Estimated Annual Funding Gap	0	1,083	1,198	902	346

6.3 The above estimated funding gaps currently include the following assumptions (which may change on further review):

- Pay inflation (2%)
- Contract Inflation (2.4%)
- Utilities Inflation (5%)
- No allowance for any inflationary increase in District Council Tax increase from 2020/21
- No allowance for any growth in the Council Tax Base (Number of properties)

The above assumptions will all be revisited over the Summer as part of the MTFS review (See 6.8 below).

6.4 The Corporate Leadership Team (CLT) and Cabinet continue to meet regularly to identify and agree options to address this estimated financial challenge in the Medium Term Financial Strategy for 2021/22 to 2024/25 and beyond; ensuring the Council has a sustainable future.

6.5 Consideration will be given to options for additional income generation, including the potential acquisition of further Investment properties, the identification of efficiencies (service reviews, procurement savings, asset rationalisation, alternate service delivery models, etc.) and potential savings through Invest to Save – in particular via the Council's Digital Transformation Programme.

6.6 An updated MTFS will be brought back to Cabinet after the 2019/20 accounts have been closed and audited and further updates will be provided as greater certainty around future funding becomes available.

7. Section 151 Officer Comments

7.1 Section 25 of The Local Government Act 2003 requires that the 'Chief Financial Officer' (The Corporate Finance Manager at Ashfield District Council) reports to Council on the following matters in making decisions on the budget and financial strategy:

The robustness of the estimates made for the purposes of the calculations; and
The adequacy of the proposed financial reserves.

It is also recognised good financial management for the Council to identify target levels for reserves and balances that are based on a thorough understanding of its risks and needs.

7.2 The content of this report is the mechanism by which positive assurances are made by the Corporate Finance Manager about the adequacy of the proposed financial reserves.

- 7.3 The Corporate Finance Manager gives his assurance that the budget estimates for 2020/21 are robust. There is a forecast deficit in future years as public sector funding gets tighter and there is recognition that this will have to be addressed for the Council to remain sustainable in the longer term but that there are options available for development, consideration and subsequent implementation to do this. Early progress of any of the supported options during 2020/21 may also deliver in year savings.
- 7.4 The key fundamental principles which underpin the Corporate Finance Managers' assurances are:
- Directorates manage their finances within the clearly defined cash limited budgets within this report
 - The Council recognises the need to explore income and savings options to ensure the future financial sustainability of the organisation
 - The General Reserves (General Fund) Minimum Balance is maintained at its current level and is not called upon for other purposes save in exceptional circumstances with the agreement of the Leader of the Council, Chief Executive and the Corporate Finance Manager and approved by the appropriate body of the Council in accordance with the Constitution.
 - In considering the robustness of the Budget for 2020/21 account has been taken of the need to call on funding from the Corporate Transformation Earmarked Reserve.

Implications

Corporate Plan:

The proposed 2020/21 General Fund budget, HRA Budget and the 2019/20 to 2023/24 Capital Programme reflects the priorities in the Corporate Plan.

The financial position of the HRA has a direct impact on the Corporate Plan. Sustainability of the HRA will assist in maintaining existing homes and increase the supply of affordable homes in the district in the future.

Legal:

When setting the Revenue Budget and Council Tax the Council has various legal and fiduciary duties. The Council is required by the Local Government Act 1992 to make specific estimates of gross revenue expenditure and anticipated income leading to the calculation of the Council Tax Requirement and the setting of the overall Budget and Council Tax for the year. The amount of the council tax requirement must be sufficient to meet the Council's legal and financial commitments, ensure proper discharge of its statutory duties and lead to a balanced budget.

In exercising its fiduciary duty the Council should be satisfied that the proposals put forward are a prudent use of the Authority's resources in both the short and long term; that the proposals strike the right balance between the interests of Council Tax payers and ratepayers on the one hand and the community's interests in adequate and efficient resources on the other; and that they are acting in good faith for the benefit of the community whilst complying with all statutory duties. It is believed that the proposals in this Budget Report do strike that right balance.

All capital projects require input from Legal Services in relation to contracts. The Council must ensure that robust contractual arrangements are in place, specifications are clearly defined, and it is clear which project risks are the responsibility of the Contractor and which remain with the Council. This is to avoid potential contractual disputes and to limit the potential financial impact on the Council should they arise.

The Council is required by the LGHA 1989 to have a separate Housing Revenue Account.

If supported by Cabinet, this report will require approval by Council as this forms part of the Council's Budgetary Framework (Financial Regulation B.1 and Article 4 of the Constitution).

Finance:

Budget Area	Implication
General Fund – Revenue Budget	The financial implications are set out in the body and appendices of this report.
General Fund – Capital Programme	
Housing Revenue Account – Revenue Budget	
Housing Revenue Account – Capital Programme	

Risk:

Risk	Mitigation
That the budget set may be insufficient to provide the required services and subsequently services overspend.	Monthly budget monitoring arrangements are in place with reports produced monthly from June onwards for CLT and periodically for Cabinet. Any pressures and potential mitigation of pressures is included in these reports.

Human Resources:

There are no direct HR implications contained in this report.

Equalities:

Projects within the Capital Programme will ensure that as far as possible Council buildings are accessible, to enable all users to access Council services. In addition, the various projects within the Council's Digital Transformation Strategy will ensure that individual customer needs are optimised.

Environment/Sustainability:

There are no environment/sustainability implications resulting from the recommendations detailed in this report.

Other Implications:

None

Reason(s) for Urgency

Not Applicable

Reason(s) for Exemption

Not Applicable

Background Papers

2020/21 Council Tax Base report
Housing Rents report 2020/21 – Cabinet 27 January 2020
Final Local Government Settlement – 6th February 2020
Budget and Council Tax 2019/20 Report – Council 4th March 2019
CIPFA – The Prudential Code for Capital Finance in Local Authorities 2011 (as amended 2012)
and related Guidance Notes 2013.

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	Lead Officer	2019/20	2020/21	2021/22	2022/23	2023/24	Total	Funding						
								Loan	Section 106	Grant	Grant Funder	Capital Receipts	Reserves	Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	e.g. Lottery	£'000	£'000	£'000
General Fund														
Cemeteries	Theresa Hodgkinson	42	0	0	0	0	42	42	0	0		0	0	42
Demolition of Hucknall Toilets	Paul Parkinson	1	0	0	0	0	1	1	0	0		0	0	1
Firewalls	Craig Bonar	0	11	0	0	0	11	11	0	0		0	0	11
Flood Support Schemes	Craig Bonar	49	0	0	0	0	49	0	0	49	CLG	0	0	49
Hucknall Car Park - Titchfield Street	Theresa Hodgkinson	0	115	0	0	0	115	22	93	0		0	0	115
Hucknall Leisure Centre	Theresa Hodgkinson	60	121	0	0	0	181	140	0	41	Insurance	0	0	181
Idlewells Market Hall	Theresa Hodgkinson	16	0	0	0	0	16	16	0	0		0	0	16
Improvement Grants 1996 Act Disabled Facility Grant	Paul Parkinson	900	1,004	794	794	0	3,492	0	0	3,492	BCF £3,420k & RHB £72k	0	0	3,492
Investment Properties	Craig Bonar	45,585	20,000	20,000	0	0	85,585	85,585	0	0		0	0	85,585
Kings Mill Reservoir Car Park Expansion	Theresa Hodgkinson	0	196	0	0	0	196	176	0	20	NCC	0	0	196
											HLF £871k, Network Rail £15k			
Kings Mill Reservoir (The King and Miller to Kingfisher)	Theresa Hodgkinson	1,403	25	24	0	0	1,452	209	31	1,091	NCC £136k, MDC £48k & Development (HLF) £21k		121	1,452
Kirkby Leisure Centre	Theresa Hodgkinson	646	5,354	0	0	0	6,000	6,000	0	0		0	0	6,000
Leisure Transformation Programme	Theresa Hodgkinson	200	74	0	0	0	274	0	274	0		0	0	274
Market Stalls	Theresa Hodgkinson	1	0	0	0	0	1	1	0	0		0	0	1
Members' IT	Craig Bonar	35	0	0	35	0	70	70	0	0		0	0	70
New Cross Support Scheme	Theresa Hodgkinson	1	0	0	0	0	1	0	0	1	RHB	0	0	1
New Servers	Craig Bonar	0	30	20	20	20	90	90	0	0		0	0	90
Northern Depot Office Rationalisation and Wireless CCTV Infrastructure	Theresa Hodgkinson	11	0	0	0	0	11	11	0	0		0	0	11
Office Accommodation Works to Accommodate DWP at Central Offices	Paul Parkinson	0	2	0	0	0	2	2	0	0		0	0	2
Office Accommodation Works to Accommodate Police at Central Offices	Paul Parkinson	0	5	0	0	0	5	0	0	5	Police	0	0	5
Officers' IT for Agile Working (General Fund)	Craig Bonar	77	40	40	40	0	197	197	0	0		0	0	197
Piggins Croft Car Park	Paul Parkinson	154	0	0	0	0	154	154	0	0		0	0	154
Purchase of Vehicles	Theresa Hodgkinson	2,529	1,075	922	2,400	0	6,926	6,926	0	0		0	0	6,926
Retail Improvement Scheme	Theresa Hodgkinson	70	0	0	0	0	70	0	0	0	S106 Revenue	0	70	70
SAN Hardware	Craig Bonar	36	0	0	0	0	36	36	0	0		0	0	36
Solar Panels - Northern Depot	Paul Parkinson	3	0	0	0	0	3	3	0	0		0	0	3
Switch Network Hardware	Craig Bonar	0	83	0	0	0	83	83	0	0		0	0	83
Vehicle Tracking Scheme	Theresa Hodgkinson	0	0	353	0	0	353	353	0	0		0	0	353
Total General Fund		51,819	28,135	22,153	3,289	20	105,416	100,128	398	4,699		0	191	105,416
Housing Revenue Account														
	Lead Officer	2019/20	2020/21	2021/22	2022/23	2023/24	Total							
		£'000	£'000	£'000	£'000	£'000	£'000							
HOUSING REVENUE ACCOUNT														
Decent Homes Schemes														
Management Fee	Paul Parkinson	557	568	579	591	591	2,886							
Catch up and Major Repairs	Paul Parkinson	4,506	8,241	6,885	7,011	7,011	33,654							
Service Improvements	Paul Parkinson	65	1,172	1,192	610	610	3,649							
Contingent Major Repairs	Paul Parkinson	20	264	239	145	145	813							
Exceptional Extensive Works	Paul Parkinson	469	568	881	10	10	1,938							
Disabled Adaptations	Paul Parkinson	441	537	455	500	500	2,433							
Grand Total		6,058	11,350	10,231	8,867	8,867	45,373							
Other Housing Revenue Account Schemes														
Electronic Document and Records (EDRM) System	Paul Parkinson	12	12	0	0	0	24							
Investment in Additional Council Dwellings in Hucknall	Paul Parkinson	4	0	0	0	0	4							
Investment in New or Existing Dwellings	Paul Parkinson	1,350	1,044	1,000	1,000	1,000	5,394							
Davies Avenue Housing Project	Paul Parkinson	0	60	2,810	0	0	2,870							
Major Repairs Temporary Accommodation	Paul Parkinson	12	48	30	30	30	150							
Firewalls	Paul Parkinson	0	4	0	0	0	4							
SAN Hardware	Paul Parkinson	14	0	0	0	0	14							
Switch Network Hardware	Paul Parkinson	0	27	0	0	0	27							
Officers' IT for Agile Working (HRA)	Paul Parkinson	80	40	40	40	0	200							
Housing Vehicles	Theresa Hodgkinson	417	30	384	401	0	1,232							
Grand Total		1,889	1,265	4,264	1,471	1,030	9,919							
Total Housing Revenue Account		7,947	12,615	14,495	10,338	9,897	55,292							

Funding													
	Lead Officer	2019/20	2020/21	2021/22	2022/23	2023/24	Total	Loan	Section 106	Grant	Grant Funder	Reserves	Total Funding
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	e.g. Lottery	£'000	£'000
Hucknall Area													
Butlers Hill Allotment Access	Theresa Hodgkinson	0	0	0	0	0	0	0	0	0		0	0
Common Farm	Theresa Hodgkinson	0	0	0	0	0	0	0	0	0	POS S106	0	0
Hucknall Mining Memorial	Theresa Hodgkinson	0	0	0	0	0	0	0	0	0		0	0
Lime Tree Recreation Ground	Theresa Hodgkinson	13	0	0	0	0	13	0	13	0		0	13
Nabbs Lane	Theresa Hodgkinson	68	0	0	0	0	68	40	16	10	MHCLG	2	68
Papplewick Green Public Art Work	Theresa Hodgkinson	0	0	0	0	0	0	0	0	0		0	0
Play Areas	Theresa Hodgkinson	3	77	0	0	0	80	80	0	0		0	80
Titchfield Park Brook	Theresa Hodgkinson	385	0	0	0	0	385	0	0	385	NCC	0	385
Titchfield Park and Hucknall Cemetery: implementation of park masterplan	Theresa Hodgkinson	6	3	0	0	0	9	0	9	0		0	9
Total Hucknall Area		475	80	0	0	0	555	120	38	395		2	555
Sutton Area													
Ashfield Estate Play Area	Theresa Hodgkinson	3	0	0	0	0	3	0	0	3	NCC SLC	0	3
Ashfield Estate Footpaths	Theresa Hodgkinson	4	2	0	0	0	6	0	6	0		0	6
Brand Lane / Wharf Road Open Space Improvements	Theresa Hodgkinson	39	1	0	0	0	40	0	0	0		40	40
Brierley Forest Park Management Plan	Theresa Hodgkinson	7	4	0	0	0	11	0	5	6	Donations £2k & RPA £4k	0	11
Brierley Forest Park Car Park Extension	Theresa Hodgkinson	0	55	0	0	0	55	0	55	0		0	55
Football Changing Rooms	Theresa Hodgkinson	0	15	0	0	0	15	0	15	0		0	15
Kingsmill Reservoir footpath links	Theresa Hodgkinson	0	1	0	0	0	1	0	1	0		0	1
Kingsmill Reservoir management plan: Implementation Works	Theresa Hodgkinson	5	8	0	0	0	13	0	0	13	Skanska	0	13
Play Areas	Theresa Hodgkinson	0	108	0	0	0	108	108	0	0		0	108
Roundhill Recreation Ground	Theresa Hodgkinson	94	0	0	0	0	94	24	40	30	LIS	0	94
Sutton Lawn management Plan	Theresa Hodgkinson	14	0	0	0	0	14	0	6	8	NCC SLC	0	14
Sutton Lawn Play Area	Theresa Hodgkinson	19	1	0	0	0	20	0	13	7	LIS	0	20
Taylor Crescent Recreation Ground	Theresa Hodgkinson	0	10	0	0	0	10	0	10	0		0	10
Total Sutton Area		185	205	0	0	0	390	132	151	67		40	390

	Lead Officer	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000	Loan £'000	Section 106 £'000	Grant £'000	Grant Funder e.g. Lottery	Reserves £'000	Total Funding £'000
Kirkby Area													
Acacia Avenue Rec - General Improvements	Theresa Hodgkinson	12	0	0	0	0	12	0	12	0		0	12
Annesley Art Project	Theresa Hodgkinson	24	28	0	0	0	52	0	52	0		0	52
Forest Road Nature Area	Theresa Hodgkinson	0	30	0	0	0	30	0	30	0		0	30
Kingsway Park: implementation of management plan	Theresa Hodgkinson	10	32	0	0	0	42	0	42	0		0	42
Kirkby footpaths/cycle ways	Theresa Hodgkinson	131	0	0	0	0	131	0	129	2		0	131
Lindleys Lane Play/Youth Area	Theresa Hodgkinson	0	103	0	0	0	103	0	103	0		0	103
Morven Park / West Park Play Area	Theresa Hodgkinson	35	1	0	0	0	36	0	36	0		0	36
Kirkby Park and Play Areas	Theresa Hodgkinson	0	365	0	0	0	365	120	245	0		0	365
Portland Park Management Plan: General Improvements	Theresa Hodgkinson	5	0	0	0	0	5	0	2	3	NCC £3k	0	5
Sports pavilion, Titchfield Park	Theresa Hodgkinson	0	39	0	0	0	39	0	39	0		0	39
Warwick Close	Theresa Hodgkinson	4	0	0	0	0	4	0	4	0		0	4
Total Kirkby Area		221	598	0	0	0	819	120	694	5		0	819
Rural Area													
Friezeland Recreation Ground - Scooter Park	Theresa Hodgkinson	118	2	0	0	0	120	92	7	21	Selston Parish Council	0	120
Jacksdale Bridge Links	Theresa Hodgkinson	9	0	0	0	0	9	0	9	0		0	9
Jacksdale Car Park Extension	Theresa Hodgkinson	30	0	0	0	0	30	26	0	4	NCC LIS Friends of Cromford Canal	0	30
Total Rural Area		157	2	0	0	0	159	118	16	25		0	159
Total Area		1,038	885	0	0	0	1,923	490	899	492		42	1,923

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ASHFIELD DISTRICT COUNCIL – Council Meeting held on 5th March 2020

COUNCIL TAX RESOLUTION 2020/21

The Council is recommended to resolve as follows:

- 1 That it be noted that on 16th December 2019 the Council calculated the Council Tax Base for 2020/21:
 - (a) for the whole Council area: **33,695.3**
 - (b) for dwellings in those parts of its area to which a Parish precept relates –

The Parish of Annesley and Felley: **545.1**
The Parish of Selston: **3,725.9**

- 2 That the calculation of the Council Tax requirement for the Council's own purposes for 2018/19 (excluding Parish precepts) is **£6,417,607**.

- 3 That the following amounts be calculated for the year 2020/21 in accordance with Sections 31 to 36 of the Act:
 - (a) **£58,025,736** 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.
 - (b) **£51,318,126** being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act.
 - (c) **£6,707,610** being the amount by which the aggregate at 3(a) above exceeds the aggregate at 3(b) above, calculated by the Council in accordance with Section 31A(4) of the Act as its Council Tax requirement for the year.
 - (d) **£199.07** being the amount at 3(c) above, divided by 1(a) above, calculated by the Council, in accordance with Section 31B of the Act, as the basic amount of its Council Tax for the year (including Parish precepts).
 - (e) **£290,003** being the aggregate amount of all special items (Parish precepts) referred to in Section 34(1) of the Act (as per the tables below).
 - (f) **£190.46** being the amount at 3(d) above less the result given by dividing the amount at 3(e) above 1(a) above), calculated by the Council, in accordance with Section 34(2) of the Act, as the basic amount of its Council Tax for the year for dwellings in those parts of its area to which no Parish precept relates.

- 4 To note that Nottinghamshire County Council, the Nottinghamshire Police and Crime Commissioner and the Nottinghamshire Fire and Rescue Authority have issued precepts to the Council in accordance with Section 40 of the Local Government Finance Act 1992 for each category of dwellings in the Council's area as indicated in the table below.
- 5 That the Council, in accordance with Sections 30 and 36 of the Local Government Finance Act 1992, hereby sets the aggregate amounts shown in the tables below as the amounts of Council Tax for 2020/21 for each part of its area and for each of the categories of dwellings.

DETAILS OF INDIVIDUAL COUNCIL TAX AMOUNTS BY PRECEPTOR AND VALUATION BAND

Ashfield District Council

Council Tax Base	33,695.3	2019/20 Band D Council Tax	£185.46
Council Tax Amount	£6,417,607	Percentage Increase	2.70%

2020/21 Council Tax amounts by band:

A	B	C	D	E	F	G	H
£126.97	£148.14	£169.30	£190.46	£232.78	£275.11	£317.43	£380.92

Nottinghamshire County Council

Council Tax Base	33,695.3	2019/20 Band D Council Tax	£1,476.06
Council Tax Amount	£51,720,601	Percentage increase	3.99%

2020/21 Council Tax amounts by band:

A	B	C	D	E	F	G	H
£1,023.30	£1,193.85	£1,364.40	£1,534.95	£1,876.05	£2,217.15	£2,558.25	£3,069.90

Nottinghamshire Police and Crime Commissioner

Council Tax Base	33,695.3	2019/20 Band D Council Tax	£219.33
Council Tax Amount	£7,727,006	Percentage increase	4.55%

2020/21 Council Tax amounts by band:

A	B	C	D	E	F	G	H
£152.88	£178.36	£203.84	£229.32	£280.28	£331.24	£382.20	£458.64

Nottinghamshire Fire and Rescue Authority

Council Tax Base	33,695.3	2019/20 Band D Council Tax	£79.80
Council Tax Amount	£2,741,450	Percentage increase	1.95%

2020/21 Council Tax amounts by band:

A	B	C	D	E	F	G	H
£54.24	£63.28	£72.32	£81.36	£99.44	£117.52	£135.60	£162.72

Annesley and Felley Parish Council

Council Tax Base	545.1	2019/20 Band D Council Tax	£101.26
Council Tax Amount	£55,197	Percentage increase	0.00%

2020/21 Council Tax amounts by band:

A	B	C	D	E	F	G	H
£67.51	£78.76	£90.01	£101.26	£123.76	£146.26	£168.77	£202.52

Selston Parish Council

Council Tax Base	3,725.9	2019/20 Band D Council Tax	£63.02
Council Tax Amount	£234,806	Percentage increase	0.00%

2020/21 Council Tax amounts by band:

A	B	C	D	E	F	G	H
£42.01	£49.02	£56.02	£63.02	£77.02	£91.03	£105.03	£126.04

Aggregate of Council Tax Requirements for residents of Annesley and Felley

Equivalent Council Tax in 2019/20	£2,061.91
Percentage increase	3.66%

2020/21 Council Tax amounts by band:

A	B	C	D	E	F	G	H
£1,424.90	£1,662.39	£1,899.87	£2,137.35	£2,612.31	£3,087.28	£3,562.25	£4,274.70

Aggregate of Council Tax Requirements for residents of Selston

Equivalent Council Tax in 2019/20	£2,023.67
Percentage increase	3.73%

2020/21 Council Tax amounts by band:

A	B	C	D	E	F	G	H
£1,399.40	£1,632.65	£1,865.88	£2,099.11	£2,565.57	£3,032.05	£3,498.51	£4,198.22

Aggregate of Council Tax Requirements for residents of all other parts of the Council's area

Equivalent Council Tax in 2019/20	£1,960.65
Percentage increase	3.85%

2020/21 Council Tax amounts by band:

A	B	C	D	E	F	G	H
£1,357.39	£1,583.63	£1,809.86	£2,036.09	£2,488.55	£2,941.02	£3,393.48	£4,072.18

- 6 That the Council determine whether the Council's basic amount of Council Tax for 2020/21 is excessive in accordance with principles approved under Section 52ZB Local Government Finance Act 1992.

In the Ministry for Housing, Communities and Local Government's report "The Referendums Relating To Council Tax Increases (Principles) (England) Report 2019/20" (published on 29 January 2019), it sets out the circumstances under which a council's Council Tax increase might be regarded as excessive, which would trigger a referendum. These principles have been approved under section 52ZB of the amended Local Government Finance Act 1992.

The principles relating to 2020/21 (Annexe A, Paragraph 5) state that:

Principles for 2020-21 for authorities belonging to the category mentioned in paragraph 2(c) [Shire district councils]

5. For 2020-21, the relevant basic amount of council tax of an authority which belongs to the category mentioned in paragraph 2(c) is excessive if the authority's relevant basic amount of council tax for 2020-21 is

(a) 2%, or more than 2%, greater than its relevant basic amount of council tax for 2019 -20; and

(b) more than £5 greater than its relevant basic amount of council tax for 2019-20.

This means the authority would need to exceed **both** referendum principles in order to be subject to a referendum; exceeding one principle but not the other would not require a referendum.

Ashfield District Council's basic (Band D) level of Council Tax was £185.46 in 2019/20, and is proposed to be £190.46 in 2020/21, a 2.70% increase at Band D. Therefore it can be determined that the Council would **not** be increasing the Council Tax by an excessive amount.

REPORT AUTHOR AND CONTACT OFFICER

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