Democratic Services

Tewkesbury Borough Council

TO EACH MEMBER OF THE EXECUTIVE COMMITTEE

25 January 2018

Dear Councillor

EXECUTIVE COMMITTEE- WEDNESDAY 31 JANUARY 2018

Further to the Agenda and papers for the above meeting, previously circulated, please find attached the following additional report:

Agenda Item	**Description**
7.	**Budget 2018/19**
	To recommend a budget for 2018/19 to Council for approval.

Should you have any queries regarding the above please contact Democratic Services on Tel: 01684 272021

Yours sincerely

L M O'Brien

Lin O'Brien
Head of Democratic Services

Agenda Item 7

TEWKESBURY BOROUGH COUNCIL

Report to:	Executive Committee
Date of Meeting:	31 January 2018
Subject:	Budget 2018 – 2019
Report of:	Simon Dix, Head of Finance and Asset Management
Corporate Lead:	Rob Weaver, Deputy Chief Executive
Lead Member:	Lead Member for Finance and Asset Management
Number of Appendices:	Five

Executive Summary:

The proposed net budget totals £8.73m and, after deducting Government support and other financing streams, the resultant Council Tax requirement is £3.87m giving a Band D Council Tax figure of £114.36.

Recommendation:

That the following be RECOMMENDED TO COUNCIL:

- **i. a net budget of £8,732,790;**
- **ii. a Band D Council Tax of £114.36, an increase of £5.00 per annum;**
- **iii. the use of New Homes Bonus as proposed in Paragraph 3.5;**
- **iv. the Capital Programme as proposed in Appendix A;**
- **v. the Capital Prudential Indicators as proposed in Appendix B;**
- **vi. the annual Minimum Revenue Provision (MRP) statement, contained in Appendix B;**
- **vii. the 2018-19 Treasury Management Strategy, as proposed in Appendix C;**
- **viii. the 2018-19 Flexible Use of Capital Receipts Strategy, as proposed in Appendix D;**
- **ix. to note the Council's involvement in a 100% Retained Business Rates Pilot in Gloucestershire for 2018-19, as detailed in Appendix E.**

Reasons for Recommendation:

The Council must set a balanced budget and a level of Council Tax necessary to meet its revenue needs, but it must be set at a level affordable to the taxpayer and within the parameters set by the government.

Resource Implications:

Set out in this report.

Legal Implications: Section 32 of the Local Government Finance Act 1992 (as amended) places a duty on the Council, as Billing Authority, to calculate, before 11 March 2018, its budget requirement for 2017/18. Under Section 25 of the Local Government Act 2003, the Section 151 Officer must report on the robustness of the estimates for the purposes of making the appropriate calculations and of the adequacy of the Council's proposed financial reserves.
Risk Management Implications: As set out within in the report.
Performance Management Follow-up: Performance reports are presented to Members on a quarterly basis and include details of the revenue and capital budget performance and updates on the use of reserves.
Environmental Implications: None directly from this report.

1.0 INTRODUCTION/BACKGROUND

1.1 The Council considered its financial position as shown in the Medium Term Financial Strategy (MTFS) at its meeting on 5 December 2017.

1.2 The MTFS outlines the budget pressures facing this Council currently and in future years and depicts the gap between the estimated net budget of the Council and the estimated funding available in order to finance that net expenditure. The deficit over the five years of the MTFS is estimated to be in the order of £3million with a gap suggested in 2018/19 of approximately £1,100,000.

1.3 Since the production of the MTFS, the Chancellor has given his Autumn Budget, the Employers have made a pay offer to the Unions and the details of the provisional Local Government Finance Settlement have been received for 2018/19. In summary, the headlines from these announcements include:

- Confirmation of no new monies to support local government in the current spending review period with the exception of the Rural Services Delivery Grant which is to be boosted by £15m in 2018/19.
- Proposal to move to 75% retained business rates from 2020.
- Confirmation of ten new 100% retained business rates pilots in 2018/19, including Gloucestershire.
- No new changes to the New Homes Bonus scheme.
- Increase of 20% on planning fees from 17 January 2018.
- Increased flexibility in Council Tax setting of an additional 1% resulting in a new referendum threshold for Districts of £5 or 3%, whichever is greater.
- Pay offer of 2% in both 2018 and 2019 with extra weighting for the lowest paid.

1.4 This report now brings together the general information on the financial climate with the detailed figures associated with the 2018/19 budget and the work undertaken by the Transform Working Group and makes a proposal for a balanced budget and resultant Council Tax. The proposal made is in light of an extended budget deficit of £1.6m for 2018/19 as a result of the impact of the previous bullet points and the detailed analysis of income and expenditure budgets for the next financial year.

1.5 Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (nominated Section 151 Officer) to make a statement to the Council on the robustness of the estimates and adequacy of financial reserves. This statement is set out in Section 10 of this report. The Council is under a statutory obligation to have regard to this when making its decision on the proposed budget.

1.6 In setting the budget for 2018/19, the Council has continued to provide the same level of service as in previous years and in many areas, provide an enhanced service. Much of the deficit which has faced the Council for the new financial year has been met through increased income and financing streams and, of course, increased Council Tax. Future budget setting may not find these areas as plentiful and Members and Officers will be faced with tough decisions on the operation of the Council, including reducing or stopping some services, and taking further risk in its commercial activities.

2.0 LOCAL GOVERNMENT FINANCE SETTLEMENT 2018/19

2.1 The Local Government Finance Settlement for 2018/19 is the third under the four year funding deal which effectively guarantees the Council's levels of core funding from central government until 2019/20. The four year deal includes both Revenue Support Grant (RSG) and Rural Services Delivery Grant (RSDG) and projects levels of funding for this Council through to 2019/20, although, as previously noted, RSDG has been increased in the current settlement.

2.2 The provisional Local Government Finance Settlement for 2018/19 was announced on 19 December 2017. The settlement is subject to consultation which will end on 16 January 2018, with a final settlement expected at the end of January. As part of the Settlement announcement, Gloucestershire, including Tewkesbury, was awarded a 100% Business Rates Pilot for 2018/19. As a result of this, the Council will lose both its RSG and RSDG for 2018/19 and this will be replaced with an increased Business Rates baseline figure. These changes for the Pilot are illustrated in Table 1.

2.3 The Council's MTFS was based on the previously supplied indicative figures for the four year deal and so there is no change, apart from the increased RSDG and changes for the Pilot as previously highlighted, between the MTFS and this, the detailed budget report for 2018/19. Table 1 highlights the confirmed level of support for the next two years.

Table 1

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Cash levels				
Revenue Support Grant (RSG)	887	515	0	23
Rural Services Delivery Grant (RSDG)	14	11	0	11
Business Rates baseline funding	1,690	1,723	2,069	1,815
Total	**2,591**	**2,249**	**2,069**	**1,849**
Change in funding (£)				
Revenue Support Grant (RSG)		-372	-515	23
Rural Services Delivery Grant (RSDG)		-3	-11	11
Business Rates baseline funding		33	346	-254
Total		**-342**	**-180**	**-220**
Change in funding (%)				
Revenue Support Grant (RSG)		-41.94%	-100.00%	-
Rural Services Delivery Grant (RSDG)		-21.43%	-100.00%	-
Business Rates baseline funding		1.95%	20.08%	-12.28%
Total		**-13.20%**	**-8.00%**	**-10.63%**

2.4 As can be seen from Table 1, significant reductions to core government support continue over the next two years and are currently estimated to total a reduction of £400,000 from current funding levels. For 2018/19, the reduction is £180,000 or 8%.

3.0 NEW HOMES BONUS

3.1 As part of the 2016/17 Local Government Finance Settlement, the government launched a consultation on the future of the New Homes Bonus (NHB) scheme. The consultation closed on 11 March 2016 but it was not until the announcement of the 2017/18 Settlement that the government responded to the consultation and issued significant changes to the scheme. The changes included the reduction in the number of years for which NHB would be paid, from six to four, and the introduction of a baseline deadweight of 0.4% below which no NHB would be paid. At the time, the government warned that it would keep under review other potential amendments to the scheme.

3.2 A further consultation was undertaken by the government in Autumn 2017, considering extending the deadweight factor and not paying NHB for homes built following appeal. It was widely expected that the deadweight factor would be increased but the Local Government Finance Settlement confirmed that there would be no further alterations to the scheme in 2018/19.

3.3 With no new amendments to the NHB scheme, the Council is able to maintain the cash levels it receives from the scheme as the reductions from scheme amendments are offset by increases in house building and increasing levels of national Council Tax. Table 2 details the projection of NHB over the medium term.

Table 2 – Projection of NHB

	Year 7 2017/18 £'000	Year 8 2018/19 £'000	Year 9 2019/20 £'000	Year 10 2020/21 £'000	Year 11 2021/22 £'000	Year 12 2022/23 £'000
Year 1	0	0	0	0	0	0
Year 2	0	0	0	0	0	0
Year 3	295	0	0	0	0	0
Year 4	638	0	0	0	0	0
Year 5	871	871	0	0	0	0
Year 6	659	659	659	0	0	0
Year 7	750	750	750	750	0	0
Year 8	0	899	899	899	899	0
Year 9	0	0	960	960	960	960
Year 10	0	0	0	1,365	1,365	1,365
Year 11	0	0	0	0	1,449	1,449
Year 12	0	0	0	0	0	1,442
Total NHB	**3,213**	**3,179**	**3,268**	**3,974**	**4,673**	**5,216**
Variance (£)	-188	-34	89	706	699	543
Variance (%)	-5.53%	-1.06%	2.80%	21.60%	17.59%	11.62%

3.4 As can be seen from the table, the Council will receive £3.18m in 2018/19 from the NHB scheme. This is a reduction of only £34,000 on the current levels but a reduction of £933,000 against the original scheme, pre amendments. The table also illustrates how the latter years see an increase in NHB as a result of projected housing numbers and increasing levels of national Council Tax.

3.5 The total allocation of NHB for 2018/19 is £3,179,723 and therefore the proposed use of NHB is as follows:

Base budget support	£2,610,755
Planning appeals	£129,160
Business Transformation fund	£50,000
Asset Management Plan	£75,000
IT Management Plan	£25,000
GDPR system requirements	£40,000
Contribution to Strategic Planner	£21,000
Housing and Homeless support	£58,708
Community Funding Officer	£33,192
Growth Hub Navigator	£31,000
Growth Hub marketing budget	£5,908
MTFS Reserve	£100,000
Total	**£3,179,723**

3.6 The suggested use of NHB includes utilising £2,610,755 to support the base budget. This is an increase of £200,000 over the current utilisation and is in line with the phased increase in support outlined within the MTFS last year. In percentage terms, this increases base budget support to 82% of total NHB and leaves 18% or £568,968 to support the Council's other requirements.

3.7 Given the forecast of the Council's financial position contained within the MTFS, and the need to utilise reserves to provide a balanced budget for 2018/19 and future years, it is suggested that £100,000 is placed into a MTFS reserve to help fund the future year requirements. This would mean that the MTFS reserve would stand at £830,000 to support future year's requirements.

3.8 Given this recommended use, the sum available to support other requirements is limited. The proposal includes the continued funding of a planning appeals reserve and the employment of a barrister to act on behalf of the Council in these appeals. A sum of £50,000 is also included to fund one-off costs of some of our transformational activities and £100,000 is set aside, as in previous years, to maintain the Council's assets, both in terms of building and information technology assets. The continued funding of the Community Funding Officer is also included within the use of NHB.

3.9 New areas of activity, recommended to be funded from NHB on a one-off basis, include meeting the system needs of the General Data Protection Requirements in order to be compliant with the legislation; investment in the day-to-day operation and the marketing of the new Growth Hub; financial support, to be used in conjunction with external funding, to meet the growing demand and requirements for housing and homelessness; and a contribution to meet the employment of a Countywide Strategic Planner over the next three years.

4.0 BUSINESS RATES RETENTION

4.1 Business rates retention in Tewkesbury has historically been an area of substantial loss as successful appeals, most notably by Virgin Media, have led to deficits in the last three years. The performance in the current year however has been positive with retained income of £240,000 being reported at the third quarter point. Whilst successful appeals can have a damaging effect on this position, the underlying growth is expected to continue and the provisions that Tewkesbury has accumulated are substantial. It is against this improved performance that projections for 2018/19 are undertaken.

4.2 In addition to this improved position, the Council has identified a number of renewable energy installations where the business rates receivable are outside of the retention scheme and are retained in full by the authority. This, coupled with the increased business rate multiplier and the change in government tariff, has resulted in a significant improvement in the retained rates projection and a return of a growth target for the next financial year within the base budget. Within the current 50% retention scheme, projections for retained income total £412,214 for 2018/19.

4.3 As detailed earlier within the report, and following agreement of Executive Committee, the Council submitted a bid alongside the other five Gloucestershire District Councils and the County Council to become a 100% Retained Business Rate Pilot for 2018/19. As part of the Secretary of State's oral statement to Parliament on 19 December it was announced that Gloucestershire was one of ten successful bids. This will mean that Tewkesbury will re-enter the Gloucestershire Pool for the next financial year. As the terms of the Pilot include a 'no detriment' clause the Council can be no worse off than under the current scheme and will hopefully benefit from additional business rate retention. Appendix E provides more detail on the arrangements for the Pilot which are based on the current pooling arrangements and the Government's prospectus requirements.

4.4 As the announcement was for a one year pilot only, the financial gain, if realised, will be treated as a one-off windfall. This will mean that monies generated can be used for the Council's benefit in 2019/20. Therefore the base budget has been amended so that it reflects the actual tariffs and baselines relevant to Tewkesbury in 2018/19 but the net effect is in line with the substantive position of the 50% retention scheme.

4.5 The Secretary of State also issued further clarity on the future direction of travel for retained rates as part of the Draft Local Government Settlement. The Government's intention is for all authorities to move to 75% rate retention by 2020. This move will not require primary legislation as full retention would do and so can be introduced relatively easily. The full detail of a 75% scheme is yet to be established and Members will be updated as this progresses.

5.0 COUNCIL TAX

5.1 Given the increasing level of deficit for 2018/19 as described in later sections of this report and the Medium Term Financial forecast of continued deficits, it is once again necessary to recommend an increase in Council Tax in order to balance next year's budget and improve the Council's financial footing as it looks towards future deficit reduction. It is recommended that a £5 per annum increase at Band D level, equivalent to 4.57%, is approved, generating an additional £169,000 of ongoing income to support the Council's core services.

5.2 The level of increase proposed is in line with the government's set thresholds for determining whether a Council Tax increase is excessive and should be put to a local referendum. The government has allowed more flexibility of the setting of Council Tax for next year by allowing Councils to potentially increase the basic level of tax by 3% rather than the previous year's 2%. For District Councils there is greater freedom for those with a lower than average Council Tax who can continue to increase the tax by £5. Thresholds for other precepting bodies are 3% for basic Council Tax, 3% for Adult Social Care levy for upper tier authorities and £12 on Band D for Police and Crime Commissioners. There are again no thresholds for Town and Parish Councils.

5.3 It is interesting to note that the government has relaxed its view on excessive Council Tax increases. This move could be a reaction to the increasing pressure on all levels of public service, the pay offer for next year or simply linked to the increase in inflation. Government projections for Councils Core Spending Power also include an assumption that all Council's will increase the tax by the maximum available to them.

5.4 The proposed increase will be the third year in succession that the Council will have increased the Council Tax. This follows the period from 2011 to 2016 where Tewkesbury decided to freeze its share of the Council Tax in order to support its taxpayers during tough economic times. The proposed increase would set the Band D Council Tax at £114.36 per annum and most likely keep the Council as the fifth lowest District Tax in England. The proposed tax would also keep the Council in the lowest quartile for Council Tax charges and would be approximately £40 lower than the lower quartile threshold and some £60 short of the average District Council for 2018/19.

5.5 The impact of this proposal on the Borough taxpayers is illustrated in Table 3.

Table 3

Band	No. of properties	Percent of total	Annual Council Tax 17/18	Annual Council Tax 18/19	Annual Increase
A	6,416	15.90%	£72.91	£76.24	£3.33
B	6,470	16.04%	£85.06	£88.95	£3.89
C	11,224	27.82%	£97.21	£101.65	£4.44
D	5,937	14.71%	£109.36	£114.36	£5.00
E	5,043	12.50%	£133.66	£139.77	£6.11
F	3,204	7.94%	£157.96	£165.19	£7.23
G	1,858	4.61%	£182.27	£190.60	£8.33
H	195	0.48%	£218.72	£228.72	£10.00

5.6 The Council's recent record on Council Tax is shown below for information.

Table 4

Year	Council Tax £	Increase Pa £	Increase %
2010/11	99.36	3.78	3.95
2011/12	99.36	0.00	0.00
2012/13	99.36	0.00	0.00
2013/14	99.36	0.00	0.00
2014/15	99.36	0.00	0.00
2015/16	99.36	0.00	0.00
2016/17	104.36	5.00	5.03
2017/18	109.36	5.00	4.79
2018/19	114.36	5.00	4.57

6.0 BUDGET PROPOSALS

6.1 The base estimates for the Council in 2018/19 have been compiled and are detailed in Table 5. The projection within the MTFS highlighted a potential deficit facing the Council of £1.1m for 2018/19 but the draft budget requirements put forward by service areas saw this deficit increase to £1.6m prior to the agreement of savings plans and increased income. Savings plans and increased income, particularly in relation to commercial property investments and treasury activities, has resulted in the net cost of services only increasing by £37,462 (0.43%) for the next financial year.

Table 5

	2017/18 Budget Re-stated	2018/19 Budget	Variance (£)
Chief Executive	£250,187	£256,350	£6,163
Corporate Services	£1,832,730	£1,957,477	£124,747
Democratic Services	£750,929	£741,229	-£9,700
One Legal	£362,170	£374,780	£12,610
Deputy Chief Executive	£113,826	£120,064	£6,238
Development Services	£648,855	£748,711	£99,856
Housing & Environmental Services	£3,557,398	£3,731,408	£174,010
Finance and Assets	£1,179,233	£802,771	-£376,462
TOTAL	**£8,695,328**	**£8,732,790**	**£37,462**

6.2 The estimates for 2018/19 include the following headlines:

- An allowance for the current pay offer made by the employers side of a basic 2% pay award from April 2018 rising to 9.19% for the lowest paid workers. The estimated cost of this award, if accepted by the Unions, is £150,000;
- 2018/19 is the second year of the current pensions fund triennial valuation and will see a stepped increase of £192,000 towards the pension fund deficit;
- An increased cost of £254,000 on the annual Ubico contract partly as a result of the pay offer;
- A reduction in estimated planning income of £200,000 the impact of which has been offset by the national uplift in planning fees from 17 January 2018 of 20%;

- An increase in the cost of disposing of recycled materials collected of £88,000;
- The inclusion of a Data Protection Officer role to meet the needs of the General Data Protection Requirements;
- Increased recycling credit income from the County Council of £89,000;
- The reduced cost of external audit by £10,000 following a tender process;
- An uplift in fees and charges resulting in an additional income of £30,000;
- An increase in the income derived from treasury investments of £190,000.

6.3 In addition, the base estimates include the additional income gained from the commercial property portfolio. The Council has been successful in acquiring £13.6m of additional investments in 2017/18 giving a total portfolio size of just over £31m. This portfolio generates a gross income of £1.92m and contributes a total of £1.149m, net of financing costs, to support the Council's core services in 2018/19.

6.4 The base estimates also include the use of NHB as outlined previously at 3.5.

6.5 The finance available to fund the net budget requirement is as follows:

Table 6

Financing stream	**2017/18 Budget Re-stated**	**2018/19 Budget**	**Variance (£)**
Revenue Support Grant	-£515,253	£0	£515,253
Rural Services Delivery Grant	-£11,056	£0	£11,056
Business Rates Baseline	-£1,724,138	-£2,069,621	-£345,483
Retained Business Rates	£0	-£412,214	-£412,214
New Homes Bonus	-£3,213,838	-£3,179,723	£34,115
Collection Fund surplus	-£67,300	-£102,200	-£34,900
Minimum Revenue Provision	£377,500	£403,103	£25,603
Net Transfer to / (from) reserves	£14,304	£499,935	£485,631
Total	**-£5,139,781**	**-£4,860,720**	**£279,061**
Service Expenditure b/fwd	£8,695,328	£8,732,790	£37,462
Balance to be funded by Tax Payers	**£3,555,547**	**£3,872,070**	**£316,523**

6.6 The financing streams highlighted in Table 6 demonstrate an increase in the collection fund surplus as a result of increasing levels of house building throughout the Borough. The collection fund surplus represents the additional Council Tax collected in the previous year against the original estimates. Given the increase, amendments have been made to the calculation of the tax base to allow for greater estimates of projected housebuilding. This benefits the tax base but will restrict surpluses in future years.

6.7 Also included in financing streams are the cost of the Minimum Revenue Provision (MRP) which is the statutory set aside to repay borrowing and the net contribution to or from reserves. Within this figure are the Council's planned annual set aside for vehicle fleet replacement and a further contribution to the MTFS reserve for future budget management.

6.8 After deducting the highlighted financing streams from the net cost of services, the balance of expenditure to be funded by Council Tax Payers is £3,872,070 for 2018/19. The Council Tax base has increased by 1,346.3 band D equivalents (4.14%) over the previous year to a total of 33,858.6. Dividing the amount to be funded by tax payers by the tax base gives the new Band D Council Tax level for the Borough Council of £114.36.

7.0 RISKS

7.1 The Council's budget is prepared using best estimates for the level and timing of expenditure, budget and efficiency savings and available resources. However, a number of uncertainties exist which could have an impact on the budget of the Council:

- Government Support – The settlement is only provisional and is subject to change. Funding levels beyond 2019/20 are as yet unknown. A prudent view of future years funding has been included in the MTFP.
- New Homes Bonus – The Council now relies heavily on this source of funding. Whilst the Council has absorbed, to a large extent, the changes introduced to the scheme, further changes cannot be ruled out which could have a severe impact on the Council's finances.
- Business Rates – Until such time as the issues with backdated appeals have been resolved, accurately forecasting the level of business rate income in future years is difficult. The government have announced a move towards 75% business rate retention but scheme details are as yet unclear and make future forecasting difficult at this time.
- Interest Rate Forecasts – Rates continue at a historically low level. The current base rate is 0.5%. Our Treasury Advisers indicate that it is unlikely that rates will increase in 2018 and therefore a cautious approach has been adopted within the MTFP for forecasting likely returns and cost of borrowing.
- Welfare Reform – The introduction of Universal Credit began in Tewkesbury Borough in December 2017 with full roll out being completed by February 2018. The full impact of this move on services is not yet known.
- Salary Award – An assumed 2%+ pay award has been included in the estimates as a result of the offer from the employer's side. At the time of preparing the budget, the offer was yet to be accepted by the Union side. Any agreement in excess of this will require further finance to be sourced.

7.2. Given the reduction in NHB available and the future requirements to support the base budget from this pot, it is not possible to allow a contingency sum to meet potential deficits in 2018/19. As always, careful in-year management of the budget will be necessary to ensure the budget outturn is, at worst, cost neutral.

8.0 REVENUE RESERVES

8.1 As at 31 March 2017, the Council had useable earmarked reserves totalling £3.34m. In addition there was an uncommitted General Fund working balance of £450,000.

8.2 The revenue reserves are reviewed and approved annually as part of the closure of accounts. A Financial Outturn report will be taken to Executive Committee in June to approve the reserves of the Council for 2018/19.

9.0 CAPITAL PROGRAMME

9.1 The current capital programme is shown at Appendix A and covers estimates of expenditure in the current year and forward forecasts of the next three years.

9.2 The programme is significant in size and totals £38.62m over the four years. The vast majority of the programme relates to investment in commercial properties with the aim of delivering an income stream to the Council over and above the cost of financing. This strand of the capital programme totals £28.7m and includes the recent purchases in Hertford, Ellesmere Port and Trowbridge. It also includes the third phase of property investment which added a further £12m to the capital programme.

9.3 Other significant expenditure within the programme includes the estimate of finance required for the regeneration of Tewkesbury town centre in line with the currently approved programme and an estimate of finance required to enable the second phase of the refurbishment of the Public Service Centre. Historical levels of expenditure on Disabled Facilities Grants (DFGs) are projected throughout the programme and are financed entirely by government grant.

9.4 The capital programme also includes two transformational projects which would normally be required to be financed from revenue resources. However, the government will allow the flexible use of new capital receipts for transformational projects which will generate ongoing savings, subject to the approval of a strategy before the beginning of the financial year. The strategy is attached at Appendix D to this report. Executive Committee approved a number of land disposals in 2017 and it is the capital receipt from these disposals which are being proposed to fund these projects.

9.5 The size of the capital programme will utilise the majority of the balance of the capital receipts reserve within the next two years, leaving a balance of circa £737,000. If all projects are delivered in line with the programme, the Council's external borrowing requirement will total £48.7m. The costs of securing and repaying this borrowing have been factored into the revenue estimates. Any sale of existing assets in future years could offset the size of the borrowing requirement.

10.0 STATEMENT OF CHIEF FINANCE OFFICER

10.1 Section 25 of the Local Government Act 2003 requires the Chief Financial Officer to make a statement on the robustness of the estimates and adequacy of financial reserves when considering its budget and Council Tax. The Act requires Councillors to have regard to the report in making decisions at the Council's budget and Council Tax setting meeting.

10.2 The basis on which the budget for 2018/19 and the MTFP have been prepared has been set out very clearly in this report and the previous MTFS report. I am satisfied that the budgets for the General Fund and the Capital Programme have been based on sound assumptions.

10.3 The grant settlement for 2018/19 and the previous amendments to the NHB scheme have had a significant impact on the Council's finances and the current economic climate continues to challenge the financial affairs of the Council. However, with the planning that has taken place with the Transform Working Group, the efficiency savings that have been identified and the commercial activity being undertaken, the Council is able to set a balanced budget for 2018/19.

10.4 From 2018/19 onwards, the Council is increasingly dependent on General Fund balances and the full utilisation of New Homes Bonus allocations to support its annual spending plans. Action will need to be taken to ensure that, in future years, the Council's spending plans are reduced to match the resources available.

10.5 The Council has a good record for only including in the budget income estimates that are deliverable. The Council's core expenditure requirements are well understood, budgeted for accordingly and delivered in accordance with the estimates. It is on this basis that I am satisfied the estimates are robust.

10.6 The requirement for financial reserves is acknowledged in statute. Section 32 and 43 of the Local Government Finance Act 1992 requires billing authorities to have regard to the level of reserves needed for meeting future expenditure when calculating the budget requirement.

10.7 The Council's earmarked reserves are reviewed as set out in the report. Clearly there is an opportunity cost to holding reserves and so a regular review is essential to ensure the Council does not hold money in reserves unnecessarily.

10.8 The General Fund balance is adequate to meet any unforeseen requirements.

10.9 Overall, I am satisfied that the projected levels of reserves and balances held by the Council are adequate for the forthcoming year but will continue to review the position as necessary to ensure adequacy of reserves for future years.

11.0 TREASURY STRATEGY 2018/19

11.1 The Department for Communities and Local Government (CLG) issued revised guidance on local authority investments in March 2010 that, along with the CIPFA Treasury Management in the Public Services: Code of Practice 2011 requires the Council to approve an investment strategy before the start of each financial year.

11.2 The Treasury Management Strategy 2018/2019, in Appendix C, sets the framework in which day-to-day and strategic treasury activities are operated. The documents are compiled from the recommendations within the CIPFA guidance and from the Council's Treasury Management advisors with consideration given to the current financial climate and factors affecting market conditions.

11.3 Both the CIPFA Code and the DCLG 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 strategy proposed addresses these requirements as well as the changing legislation with regards to failing banks and proposes a policy of diversification, utilising a number of investment vehicles, in order to protect the Council.

11.4 Given that the Council's approved capital programme relies on prudential borrowing to fund commercial property development, asset refurbishment and town centre regeneration, added importance is given to the sections in the strategy setting out the Council's borrowing strategy and levels of intended borrowing.

11.5 The budget for investment income in 2018/19 is £0.22 million, based on an average investment portfolio of £14.9 million at an interest rate of 1.47%. The budget for debt interest paid in 2018/19 is £0.34 million, based on an average debt portfolio of £25 million at an average interest rate of 1.36%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

12.0 MINIMUM REVENUE PROVISION

12.1 The statement at Appendix B sets out the Council policy on making a Minimum Revenue Provision (MRP) for the 2018/19 financial year in accordance with the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008. The current year was the first year where MRP charges were necessary following the purchase of a commercial property in Tewkesbury funded by prudential borrowing. The MRP charge is likely to increase in future years as further capital investment funded from borrowing is made.

12.2 The Council will look to utilise capital and revenue balances where possible in order to reduce the revenue impact of investment plans. However, where either internal or external borrowing is required a MRP will be required to be made. Again to minimise the impact on the revenue account, the financially most advantageous MRP option will be chosen.

13.0 CONSULTATION

13.1 Consultation on the budget has taken place with the Transform Working Group. There has also been direct consultation with our Citizens' Panel. In addition, a public and business consultation has taken place on general budgetary principles. The Council is also consulting with business rate payers on the specific proposals for 2018/19 as it is statutorily required to do.

13.2 With regard to the public and Citizens' Panel consultation, only 42 responses were received. Over 78% of respondents were satisfied that the current Council Tax Band D Rate represented value for money. The consultation responses where mostly positive about the services provided with the most popular service being Waste Collection and Recycling. Six comments were made regarding whether the Council was ensuring that costs, particularly senior salaries and Councillor pay was reasonable and providing value for money. As in previous years the majority of respondents were satisfied that the fees charged were reasonable.

13.3 When asked about employment and business opportunities in the borough there were a lot of comments. Responses seem to pick up that Tewkesbury Borough's location on the M5 was a positive, but need to also ensure that access through road networks, internet and WIFI are being exploited to bring business to the area. Many respondents commented about high rents/business rates for small business in Tewkesbury.

13.4 There were no key themes from the consultation that has changed the budget proposals.

14.0 OTHER OPTIONS CONSIDERED

14.1 The proposal within this report is for the Council to increase Council Tax by £5 or 4.57%. In producing a balanced budget proposal, officers have considered a number of options for Council Tax. A summary of different levels of Council Tax is shown in the table below alongside the impact on the Council's on-going deficit.

Table 7 – Council Tax increase options

Council Tax 17/18	Council Tax 18/19	Increase	Increase	Ongoing income produced	Ongoing savings required
£109.36	£114.36	£5.00	4.57%	£169,295	£0
£109.36	£109.36	£0.00	0.00%	£0	£169,295
£109.36	£110.36	£1.00	0.91%	£33,859	£135,436
£109.36	£111.36	£2.00	1.83%	£67,718	£101,577
£109.36	£111.55	£2.19	2.00%	£74,151	£95,144
£109.36	£112.36	£3.00	2.74%	£101,577	£67,718
£109.36	£112.64	£3.28	3.00%	£111,058	£58,237
£109.36	£113.36	£4.00	3.66%	£135,436	£33,859

14.2 A range of options are available within the set thresholds. A decrease on the Council Tax has been ruled out given the financial outlook for the Council, as has an excessive Council Tax increase as it is not believed that the public would vote in favour of an increase in excess of £5 in a local referendum.

14.3 It has been necessary to increase Council Tax by £5 in order to meet the deficit of £1.6m for 2018/19. Whilst lower Council Tax increases were considered, these added additional cost to the deficit and would need to be met by either ongoing savings or ongoing income. The use of one-off sums to replace an ongoing income stream is not considered prudent and only results in the need for ongoing savings to be postponed. The use of one-offs to support a budget should only be considered as a last resort.

14.4 Given the Council's current low spend on services, driving further savings from these services in the form of staff reductions and / or service reductions could have a damaging impact on Council's activities particularly when considered alongside the reductions made through the austerity period of the last seven years. The Council continues to drive income, and new income, streams where it can and the estimates included within the overall budget are realistic based on the Council's current activities. Significant additional income budgets are already included in the base budget.

15.0 RELEVANT COUNCIL POLICIES/STRATEGIES

15.1 In line with Medium Term Financial Strategy approved by Council on 5 December 2017.

16.0 RELEVANT GOVERNMENT POLICIES

16.1 The Government has set down excessive Council Tax increase rules. Any increase in Band D Council Tax over a set limit will trigger a local referendum. The proposal for an increased Council Tax of £5 at Band D will mean that no referendum is required for Tewkesbury.

17.0 RESOURCE IMPLICATIONS (Human/Property)

17.1 Significant savings have been necessary to provide a balanced budget. Some of these have staffing implications although compulsory redundancy will be avoided wherever possible, but this cannot be ruled out.

18.0 SUSTAINABILITY IMPLICATIONS (Social/Community Safety/Cultural/ Economic/ Environment)

18.1 None directly

19.0 IMPACT UPON (Value For Money/Equalities/E-Government/Human Rights/Health And Safety)

19.1 Changes may be required to the way services are provided in order to reduce costs. Service Managers are responsible for undertaking Equalities Impact Assessments for any changes they make to any services they provide and where appropriate, EIAs will have been undertaken.

20.0 RELATED DECISIONS AND ANY OTHER RELEVANT FACTS

20.1 Approval of Medium Term Financial Strategy – Council 5 December 2017.

Background Papers: Medium Term Financial Strategy.

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Appendices:

A - 2017-21 Capital Programme.
B - Minimum Revenue Provision & Capital Prudential Indicators.
C - 2018-19 Treasury Strategy.
D - 2018-19 Flexible Use of Capital Receipts Strategy.
E - 100% Business Rates Retention Scheme.

Forecast Capital Programme 2017 - 2021

Scheme	2017/18	2018/19	2019/20	2020/21	Total
	£	£	£	£	£
Council Projects					
Land & Property					
Tewkesbury Regeneration project	0	0	1,000,000	4,000,000	**5,000,000**
Public Services Centre refurbishment	845,404	954,596	0	0	**1,800,000**
The Grange watercourse, Bishops Cleeve	9,113	168,312	0	0	**177,425**
Asset Management Plan	0	75,000	75,000	75,000	**225,000**
	854,517	**1,197,908**	**1,075,000**	**4,075,000**	**7,202,425**
Vehicles					
Grounds Maintenance equipment	0	0	0	0	**0**
Vehicle replacement programme	456,845	0	0	0	**456,845**
	456,845	**0**	**0**	**0**	**456,845**
Equipment					
Asset Capitalisation	100,000	100,000	100,000	0	**300,000**
One Legal case management system	0	120,000	0	0	**120,000**
ICT Strategy	15,000	25,000	25,000	25,000	**90,000**
	115,000	**245,000**	**125,000**	**25,000**	**510,000**
Capital Investment Fund					
Commercial property investment - round 2	13,600,000	3,100,000	0	0	**16,700,000**
Commercial property investment - round 3	0	12,000,000	0	0	**12,000,000**
	13,600,000	**15,100,000**	**0**	**0**	**28,700,000**
Capital Grants					
Old scheme capital grants	2,549	25,054	0	0	**27,603**
Community Grants Working Group	8,872	188,737	0	0	**197,609**
	11,421	**213,791**	**0**	**0**	**225,212**
Housing and Business Grants					
Disabled Facilities Grants	300,000	300,000	300,000	300,000	**1,200,000**
	300,000	**300,000**	**300,000**	**300,000**	**1,200,000**
Transformational projects requiring Capital Direction					
Digitisation strategy	0	172,000	32,000	0	**204,000**
Service Reconfiguration	0	120,000	0	0	**120,000**
	0	**292,000**	**32,000**	**0**	**324,000**
Capital Expenditure	**15,337,783**	**17,348,699**	**1,532,000**	**4,400,000**	**38,618,482**
Anticipated Capital Receipts					
Garage site sales	0	244,500	0	0	**244,500**
Right-to-buy receipts	70,239	30,000	30,000	30,000	**160,239**
Other land and property	0	85,000	0	0	**85,000**
Capital Receipts	**70,239**	**359,500**	**30,000**	**30,000**	**489,739**
Capital Resources required					
Capital Receipts	1,422,783	1,303,699	132,000	0	**2,858,482**
Capital Grants	300,000	845,000	300,000	300,000	**1,745,000**
Direct revenue financing	15,000	100,000	100,000	100,000	**315,000**
Borrowing - external	13,600,000	15,100,000	1,000,000	4,000,000	**33,700,000**
Capital resources consumed	**15,337,783**	**17,348,699**	**1,532,000**	**4,400,000**	**38,618,482**

MRP Statement & Capital Prudential Indicators

Minimum Revenue Provision Statement 2018/19

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the CLG Guidance) most recently issued in 2012.

The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits.

The CLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance.

> For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate of the Public Works Loan Board (PWLB) annuity rate (less the 0.2% for certainty rate) for 20 years on the day or purchase, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

Capital expenditure incurred during 2018/19 will not be subject to a MRP charge until 2019/20.

Based on the Authority's latest estimate of its Capital Financing Requirement on 31st March 2017, the budget for MRP has been set as follows:

	31.03.2018 Estimated CFR £m	**2018/19 Estimated MRP £'000**
Capital expenditure before 01.04.2008	**0**	0
Supported capital expenditure after 31.03.2008	**0**	0
Unsupported capital expenditure after 31.03.2008	**29**	403
Finance leases and Private Finance Initiative	**0**	0
Transferred debt	**0**	0
Loans to other bodies repaid in instalments	**0**	0
Total General Fund	**29**	**403**

Minimum Revenue Provision Statement 2018/19

Prudential Indicators 2018/19

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure: The Authority's planned capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	**2017/18 Revised £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**
General Fund	15.437	17.131	1.500	4.400
Total Expenditure	**15.437**	**17.131**	**1.500**	**4.400**
Capital Receipts	1.456	1.161	0.100	0.00
Government Grants	0.366	0.770	0.300	0.300
Reserves	0.0	0.0	0.0	0.0
Revenue	0.015	0.10	0.100	0.100
External Borrowing	13.60	15.1	1.000	4.00
Internal Borrowing	0.00	0.00	0.0	0.0
Total Financing	**15.437**	**17.131**	**1.500**	**4.400**

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.18 Revised £m	31.03.19 Estimate £m	31.03.20 Estimate £m	31.03.21 Estimate £m
General Fund	27.685	44.047	44.727	45.307
Minimum Revenue Provision	-0.205	-0.403	-0.458	-0.471
Total CFR	**27.481**	**43.644**	**44.269**	**44.836**

The CFR is forecast to rise by £17.355m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

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

Debt	31.03.18 Revised £m	31.03.19 Estimate £m	31.03.20 Estimate £m	31.03.21 Estimate £m
Borrowing	21.0	36.0	36.0	36.0
Total Debt	**21.0**	**36.0**	**36.0**	**36.0**

Total debt is expected to remain below the CFR during the forecast period.

Operational Boundary for External Debt: The operational boundary is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

Operational Boundary	2017/18 Revised £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Borrowing	29.0	40.0	40.0	40.0
Other long-term liabilities	0.0	0.0	0.0	0.0
Total Debt	**29.0**	**40.0**	**40.0**	**40.0**

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2017/18 Limit £m	2018/19 Limit £m	2019/20 Limit £m	2020/21 Limit £m
Borrowing	35.0	45.0	45.0	45.0
Other long-term liabilities	0.0	0.0	0.0	0.0
Total Debt	**35.0**	**45.0**	**45.0**	**45.0**

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2017/18 Revised %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %
General Fund	1.31	6.44	10.88	10.92

Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed earlier in this report.

Incremental Impact of Capital Investment Decisions	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £
General Fund - increase in annual band D Council Tax	-7.77	0.73	2.85

Adoption of the CIPFA Treasury Management Code: The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in February 2012. It fully complies with the Codes recommendations.

Treasury Management Strategy Statement 2018/19

Introduction

In February 2012 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. CIPFA consulted on changes to the Code in 2017, but has yet to publish a revised Code.

In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

Revised strategy: In accordance with the CLG Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, in the Authority's capital programme or in the level of its investment balance.

External Context

Economic background: The major external influence on the Authority's treasury management strategy for 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. Unemployment continued to fall and the Bank of England's Monetary Policy Committee judged that the extent of spare capacity in the economy seemed limited and the pace at which the economy can grow without generating inflationary pressure had fallen over recent years. With its inflation-control mandate in mind, the Bank of England's Monetary Policy Committee raised official interest rates to 0.5% in November 2017.

In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.

Credit outlook: High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic slowdown will exacerbate concerns in this regard.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. In addition, the largest UK banks will ringfence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.

The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain very low.

Interest rate forecast: The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.50% during 2018/19, following the rise from the historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions. The risks to Arlingclose's forecast are broadly balanced on both sides. The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

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

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 1.47%, and that new long-term loans will be borrowed at an average rate of 1.82%.

<u>Local Context</u>

On 31st December 2017, the Authority held £21.0m of borrowing and £17.14m of investments. This is set out in further detail at ***Appendix B***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

<u>Table 1: Balance sheet summary and forecast</u>

	31.3.17 Actual £m	**31.3.18 Estimate £m**	**31.3.19 Forecast £m**	**31.3.20 Forecast £m**	**31.3.21 Forecast £m**
General Fund CFR	15.34	27.685	44.047	44.727	45.307
Less: Other Debt Liabilities	0.0	0.0	0.0	0.0	0.0
Borrowing CFR	**15.34**	**27.685**	**44.047**	**44.727**	**45.307**
Less: External borrowing *	15.0	21.0	36.0	36.0	36.0
Less: Internal Borrowing	0.34	6.685	8.047	8.727	9.307
Less: Usable reserves	-11.323	-7.316	-6.316	-5.316	-4.316
Less: Working capital	-5.715	-7.602	-7.602	-7.602	-7.602
Investments	**17.038**	**14.918**	**13.918**	**12.918**	**11.918**

* shows only loans to which the Authority is committed and excludes optional refinancing

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Authority has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to £36.0m over the forecast period.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2018/19.

Borrowing Strategy

The Authority currently holds £21.0 million of loans, an increase of £6.0 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority expects to borrow up to £36.0m in 2018/19. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £45.0 million.

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

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2018/19 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Authority may arrange forward starting loans during 2018/19, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

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

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

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Gloucestershire County Council Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

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

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Authority has previously raised all of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

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

Investment Strategy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £11.985 and £21.918 million, and similar levels are expected to be maintained in the forthcoming year.

Objectives: Both the CIPFA Code and the CLG 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 Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates: If the UK enters into a recession in 2018/19, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: Given the increasing risk and low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2018/19. The majority of the Authority's surplus cash is currently invested in short-term unsecured bank deposits, and money market funds. This diversification will represent a continuation of the current strategy.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Approved investment counterparties and limits

Credit rating	**Banks unsecured**	**Banks secured**	**Government**	**Corporates**	**Registered Providers**
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£2m 5 years	£2m 20 years	£2m 50 years	£1m 20 years	£2m 20 years
AA+	£2m 5 years	£2m 10 years	£2m 25 years	£1m 10 years	£2m 10 years
AA	£2m 4 years	£2m 5 years	£2m 15 years	£1m 5 years	£2m 10 years
AA-	£2m 3 years	£2m 4 years	£2m 10 years	£1m 4 years	£2m 10 years
A+	£2m 2 years	£2m 3 years	£2m 5 years	£1m 3 years	£2m 5 years
A	£2m 13 months	£2m 2 years	£2m 5 years	£1m 2 years	£2m 5 years
A-	£2m 6 months	£2m 13 months	£2m 5 years	£1m 13 months	£2m 5 years
None	£1m 6 months	n/a	£2m 25 years	£50,000 5 years	£2m 5 years
Pooled funds	£4m per fund				

This table must be read in conjunction with the notes below

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

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

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

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

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment or to a maximum of £50,000 per company as part of a diversified pool in order to spread the risk widely.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing, formerly known as housing associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

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

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

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

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

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

Other information on the security of investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified investments: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- 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 Authority defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Non-specified investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-specified investment limits

	Cash limit
Total long-term investments (except pooled funds)	£2m
Total long-term pooled fund investments	£6m
Total investments without credit ratings or rated below A- (except UK Government and local authorities)	£2m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£2m
Total non-specified investments	£12m

Investment limits: The Authority's revenue reserves available to cover investment losses are forecast to be £4million on 31st March 2018.

Table 4: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£4m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£2m per group
Any group of pooled funds under the same management	£4m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker
Foreign countries	£2m per country
Registered providers	£4m in total
Unsecured investments with building societies	£2m in total
Money Market Funds	£10m in total, or 50% of current portfolio balance

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

Non-Treasury Investments

Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the CLG Guidance, the Authority may also purchase property for investment purposes and may also make loans and investments for service purposes, for example in shared ownership housing, as loans to local businesses and landlords, or as equity investments and loans to the Authority's subsidiaries.

Such loans and investments will be subject to the Authority's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy.

The Authority's existing non-treasury investments are listed in Appendix B.

Treasury Management Indicators

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

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

	Target
Portfolio average credit rating	A

Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed will be:

	2018/19	2019/20	2020/21
Upper limit on fixed interest rate exposure	£20m	£20m	£20m
Upper limit on variable interest rate exposure	£40m	£40m	£40m

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

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

	Upper	Lower
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. *Note: treat LOBO option dates as potential repayment dates, but exclude variable rate borrowing.*

Principal sums invested for periods longer than 364 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2018/19	2019/20	2020/21
Limit on principal invested beyond year end	£8m	£6m	£4m

Other Items

There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

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

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

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

Policy on the use of financial derivatives: In the absence of any explicit legal power to do so, the Authority will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

Investment training: The needs of the Authority's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staffs regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA.

Investment advisers: The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. Periodic review by senior officers controls the quality of this service.

Investment of money borrowed in advance of need: The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £45 million. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

Financial Implications

The budget for investment income in 2018/19 is £0.22 million, based on an average investment portfolio of £14.9 million at an interest rate of 1.47%. The budget for debt interest paid in 2018/19 is £0.34 million, based on an average debt portfolio of £25 million at an average interest rate of 1.36%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

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

Appendix A - Arlingclose Economic & Interest Rate Forecast November 2017

Underlying assumptions:

- In a 7-2 vote, the MPC increased Bank Rate in line with market expectations to 0.5%. Dovish accompanying rhetoric prompted investors to lower the expected future path for interest rates. The minutes re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

- Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have downwardly assessed the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.

- The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Q3 2017 GDP growth was 0.4%, after a 0.3% expansion in Q2.

- Household consumption growth, the driver of recent UK GDP growth, has softened following a contraction in real wages, despite both saving rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth. Policymakers have expressed concern about the continued expansion of consumer credit; any action taken will further dampen household spending.

- Some data has held up better than expected, with unemployment continuing to decline and house prices remaining relatively resilient. However, both of these factors can also be seen in a negative light, displaying the structural lack of investment in the UK economy post financial crisis. Weaker long term growth may prompt deterioration in the UK's fiscal position.

- The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger Eurozone economic expansion.

- Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.

- Geo-political risks remains elevated and helps to anchor safe-haven flows into the UK government bond (gilt) market.

Forecast:

- The MPC has increased Bank Rate, largely to meet expectations they themselves created. Future expectations for higher short term interest rates are subdued. On-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions.

- Our central case for Bank Rate is 0.5% over the medium term. The risks to the forecast are broadly balanced on both sides.

- The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.19**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk	0.00	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	**-0.15**
3-month LIBID rate														
Upside risk	0.10	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.22**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk	-0.10	-0.10	-0.15	-0.15	-0.15	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	**-0.20**
1-yr LIBID rate														
Upside risk	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.27**
Arlingclose Central Case	**0.70**	**0.70**	**0.70**	**0.70**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.77**
Downside risk	-0.15	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.15	-0.15	**-0.26**
5-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**0.75**	**0.75**	**0.80**	**0.80**	**0.80**	**0.85**	**0.90**	**0.90**	**0.95**	**0.95**	**1.00**	**1.05**	**1.10**	**0.89**
Downside risk	-0.20	-0.20	-0.25	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	**-0.33**
10-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.35**	**1.40**	**1.45**	**1.50**	**1.55**	**1.55**	**1.36**
Downside risk	-0.20	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	**-0.33**
20-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.85**	**1.85**	**1.85**	**1.85**	**1.85**	**1.90**	**1.90**	**1.95**	**1.95**	**2.00**	**2.05**	**2.05**	**2.05**	**1.93**
Downside risk	-0.20	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.38**
50-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.75**	**1.80**	**1.85**	**1.90**	**1.95**	**1.95**	**1.95**	**1.95**	**1.82**
Downside risk	-0.30	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.39**

Appendix B - Existing Investment & Debt Portfolio Position

	31/12/2017 **Actual Portfolio** **£m**	31/12/2017 **Average Rate** **%**
External borrowing:		
Public Works Loan Board	0.0	n/a
Local authorities	21.0	0.335
Total external borrowing	21.0	0.335
Total other long-term liabilities	**0.0**	**n/a**
Total gross external debt	**21.0**	**0.335**
Treasury investments:		
Banks & building societies (unsecured)	7.7	0.72
Government (incl. local authorities)	2.0	0.3
Money Market Funds	1.0	0.44
Registered Providers	1.0	1.2
Other pooled funds	5.4	2.22
Total treasury investments	**17.1**	**1.02**
Net debt	**3.9**	**n/a**

Non-treasury investments:		
Investment property	31.089	6.17
Shares in subsidiaries	0.0	n/a
Loans to subsidiaries	0.0	0.0
Loans to local companies	0.0	0.0
Total non-treasury investments	0.0	0.0
	31.089	6.17
Total investments	**48.189**	**4.30**

Flexible use of Capital Receipts Strategy

Introduction

As part of the November 2015 Spending Review, the Government announced that it would introduce flexibility for the period of the Spending Review for local authorities to use capital receipts from the sale of non-housing assets to fund the revenue costs of service reform and transformation. Guidance on the use of this flexibility was issued in March 2016 which applies to the financial years 2016/17 through to 2019/20. The Secretary of State has recently announced that this flexibility would be extended in to future years.

The Guidance

The guidance issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003 specified that;

- Local authorities will only be able to use capital receipts from the sale of property, plant and equipment received in the years in which this flexibility is offered. They may not use their existing stock of capital receipts to finance the revenue costs of reform.

- Local authorities cannot borrow to finance the revenue costs of the service reforms.

- The expenditure for which the flexibility can be applied should be the up-front (set up or implementation) costs that will generate future ongoing savings and/or transform service delivery to reduce costs or to improve the quality of service delivery in future years. The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure.

- The key determining criteria to use when deciding whether expenditure can be funded by the new capital receipts flexibility is that it is forecast to generate ongoing savings to an authority’s net service expenditure.

- In using the flexibility, the Council will have due regard to the requirements of the Prudential Code, the CIPFA Local Authority Accounting Code of Practice and the current edition of the Treasury Management in Public Services Code of Practice.

The Council is also required to prepare a “Flexible use of capital receipts strategy” before the start of the year to be approved by Council which can be part of budget report to Council. This is that Strategy.

The guidance sets out examples of qualifying expenditure which includes;

- *Sharing back-office and administrative services with one or more other council or public sector bodies;*
- *Investment in service reform feasibility work, e.g. setting up pilot schemes;*
- *Collaboration between local authorities and central government departments to free up land for economic use;*
- *Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation;*
- *Sharing Chief-Executives, management teams or staffing structures;*
- *Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;*
- *Aggregating procurement on common goods and services where possible, either as part of local arrangements or using Crown Commercial Services or regional procurement hubs or Professional Buying Organisations;*
- *Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy – this could include an element of staff training;*
- *Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, through selling services to others);*
- *Integrating public facing services across two or more public sector bodies (for example children's social care, trading standards) to generate savings or to transform service delivery.*

The Council's Proposals

The Council intends to use flexibility over capital receipts to support the following transformational projects:

1. Enabling the implementation of the Council's Digital Strategy through the employment of dedicated resources to deliver targeted projects and direct support for the delivery of identified actions and projects
2. Service reconfiguration within One Legal

Impact on Prudential Indicators
The Council will have due regard to the requirements of the Prudential Code and the impact on its prudential indicators from implementing the proposed schemes.

As transformation proposals develop, the expenditure to be incurred will be included in the capital programme to be funded by capital receipts generated in the financial year. The capital expenditure prudential indicators will be amended and approved as appropriate. These receipts have not been earmarked as funding for any other proposed capital expenditure and therefore there is no anticipated additional impact on the Council's prudential indicators as set out in the Council's Treasury Management Strategy.
The Council will also have due regard to the Local Authority Accounting Code of Practice when determining and including the entries required from undertaking and funding this scheme within the Council's Statement of Accounts

Monitoring this Strategy
This strategy will be monitored throughout the financial year and may be updated and replaced as proposals are developed and expenditure is incurred.

100% Retained Business Rate Pilot 2018-2019

Background

Full retention of business rates has been a Government target for a number of years with reviews taking place and pilots agreed for the current year. However, the failure to include a Local Government Finance Bill within the Queen's Speech in 2017 led to speculation about the future of 100% rates retention. It was therefore somewhat of a surprise when in September 2017, the government published a 100% business rates retention pilot prospectus for 2018/19; *"Invitation to Local Authorities in England to pilot 100% Business Rates Retention in 2018/19 and to pioneer new pooling and tier-split models."*

In October 2017, having considered the detail of the scheme and the financial modelling that had been undertaken by the Gloucestershire authorities, Executive Committee approved Tewkesbury Borough Council's involvement in the submission of a bid to the Department of Communities and Local Government (DCLG) to be part of a Gloucestershire wide bid to become one of the selected pilot areas for 2018-19.

One the 19th December 2017, the Secretary of State made an oral statement to Parliament with regards to the draft Local Government Finance Settlement for 2018/19. Within the statement was an announcement of the areas selected to be business rate pilots in 2018/19. Gloucestershire was one of ten areas to be awarded such status and will therefore enjoy full retention for the next financial year.

Scheme Detail

The prospectus issued indicated that 2018/19 pilots would last for one year only but there is a possibility that this could be extended for a further year as the current year pilots have been. This would then lead into the national 75% retention scheme that is being proposed for 2020/21.

The prospectus also stated that all local authorities within the natural geographical / economical area would need to be part of a bid submission. Therefore the Pilot area will incorporate all six Gloucestershire Districts plus the County Council.

Under full retention, all authorities will forego the equivalent of their Revenue Support Grant (RSG) and Rural Services Delivery Grant (RSDG). For Tewkesbury, this amounts to £294,000 in 2018/19. The same sum is added back to the Business Rates Baseline Funding Level meaning Tewkesbury's BFL will increase on a one-off basis to £2.07m. If the Pilot ceases after one year, both RSG and RSDG will be reinstated and the BFL will fall back to a normal level.

Under 100% retention, any business rates income generated over the Baseline Funding Level of the Pilot, having taken into account tariffs paid to central government, is retained within the pilot area. There is no levy as there is with the current 50% scheme. The financial modelling undertaken has suggested a level of business rate retention of circa £10.5m in excess of current retention for the Pilot as whole. This figure has been calculated based on a prudent assumption of likely levels of business rates in the financial year. Further growth in the business base could increase this level of retention.

The Government prospectus indicated that the funds generated should be used to support financial stability and sustainability. It was also felt that any bid to Government should reflect the Government's aim of supporting both adult and children's social care. Therefore the bid that was made built upon the distribution principles of the existing Gloucestershire Pool and suggested a distribution of:

- 20% towards the Strategic Economic Development Fund
- 30% towards the six Districts
- 50% towards the County Council

Under this distribution method, Tewkesbury would see an additional retention of nearly £400,000 to be invested in the financial sustainability of the authority. The monies would be available for use in the following financial year. In addition, £2.1m would be available to support Economic Development throughout Gloucestershire and £5 ¼ m made available to support County Council services.

The issue of the size of losses that a Pilot would be subject to fluctuated over the period of consultation, with DCLG finally clarifying that a no detriment clause would be applicable to this round of pilots as it is with the current year pilots. Under this clause, authorities can be no worse off than they would be if they remained in the 50% retention scheme. The original proposal to remove this clause had caused some concern amongst finance officers particularly with business rate relief for NHS Trusts being requested and other outstanding appeals such as Virgin Media. The re-inclusion of this clause removed the possibility of substantial losses within the Pilot and gave officers confidence that even in the worst case scenario, where all of the biggest appeals were successful all in the one year, individual authorities would not be any worse off than under the current arrangements. For Tewkesbury, substantial provisions are now included within its accounts against reduced business rate assessments and a reserve has been established to cover an element of lost growth as well as losses down to the safety net threshold.

Governance arrangements

The governance of the pilot will be broadly similar to the arrangements for the existing Gloucestershire Pool. Stroud District Council will act as lead authority for the Pilot and performance will be subject to regular review by s151 Officers. There will also be support provided by a technical group made up of finance and revenues officers. Pilot performance will be reported to the Gloucestershire Economic Growth Joint Committee who will also oversee the use of the Strategic Economic Development Fund. For Tewkesbury members, performance will be reported within the quarterly financial updates.