

<b>Report of</b>	<b>Assistant Director for Corporate and Improvement Services</b>	<b>Author</b>	<b>Paul Cook</b> <b>☎ 505861</b>
<b>Title</b>	<b>2020/21 Revenue Budget, New Strategic Priorities and the Medium-Term Financial Forecast</b>		
<b>Wards affected</b>	All		

## 1 Executive Summary

- 1.1 The Council continues to demonstrate prudence and robust financial management. It is therefore able to invest in New Strategic Priorities and deliver a balanced revenue budget for 2020/21. This will require a modest £4.95 (2.6%) increase in the Colchester Borough Council Tax for 2020/21. Grants to parish councils have been maintained at 2019/20 levels after several years' successive reductions.
- 1.2 The report also covers the Council's future investment in long term assets via its Capital Programme; Capital Strategy and Treasury Management Strategy for 2020/21.
- 1.3 The report also sets out the Medium-Term Financial Forecast to 2023/24.

## 2 Recommended Decision

- 2.1 To approve the 2020/21 Revenue Budget and Medium-Term Financial Forecast as set out in Appendices A, G and H.
- 2.2 To approve the use of General Fund balances and reserves to make a £2.805m one off pension fund deficit payment for 2020/23 as set out in Section 7 of this report.
- 2.3 To make revenue budget provision in 2020/21, 2021/22 and 2022/23 to meet the cost of the pension deficit payment for 2023/24 as set out in Section 7 of this report.
- 2.4 To approve the pension 'pass through' arrangement from April 2019 for Amphora employees as set out in Section 7 of this report and to delegate completion of the final agreement to the Portfolio Holder for Resources in conjunction with the S151 Officer.
- 2.5 To approve the allocation of £500k in the 2020/21 budget for the Local Plan, noting that use will be dependent on the Planning Inspectorate hearing outcomes and the consequent way ahead for garden communities, North Essex Garden Communities Ltd or alternative approaches.

- 2.6 To approve the Capital Strategy and Capital Programme set out in Appendix B.
- 2.7 To note the budget resilience statement set out in Appendix D and the forecast level of reserves and balances set out in Appendix I.
- 2.8 To approve the Treasury Management Strategy Statement and prudential indicators set out in Appendix E.
- 2.9 To recommend to Council the 2020/21 revenue budget requirement of £24,514k.
- 2.10 To recommend to Council Colchester's element of the Council Tax at £195.57 per Band D property being an increase of £4.95 (2.6%).
- 2.11 To approve care leavers treatment as designated persons for council tax purposes removing any council tax liability in accordance with Section 13 of this report.
- 2.12 To note the 2020/21 implementation agreed in 2019 Budget Setting of a 200% council premium for properties empty over five years.

### **3 Reason for Recommended Decisions**

- 3.1 The Council is required to determine its annual budget requirement and set a council tax by 11 March preceding the new financial year.
- 3.2 The Chief Finance Officer must report to the Authority on the robustness of the estimates used to calculate its budget requirement and the adequacy of the proposed reserves.

### **4 Alternative Options**

- 4.1 None

### **5. Background information**

- 5.1 The timetable and approach to the 2020/21 budget strategy was agreed at Cabinet on 10 July 2019. The Budget was further developed in a report to 20 November 2019 Cabinet.

### **6 New Strategic Priorities**

- 6.1 The Council's budget and forward planning is centred around our obligation to provide high quality statutory and other services to the people of Colchester Borough, in accord with the Council's Strategic Plan.
- 6.2 The Council's 2020/21 Budget and Medium-Term Financial Forecast will maintain or improve those essential services, supporting those helping others. The budget will continue to improve the facilities and opportunities available to the people of Colchester and the wider Borough, and our visitors, through capital investment and the New Strategic Priorities agreed by Cabinet in November 2019. Early progress and illustrative highlights are set out below, by theme:

#### **Environment Theme**

### 6.3 Environment and Sustainability

- The Environment and Sustainability Task and Finish Group's work is underway and will inform the Council's response to the Climate Emergency
- A Carbon Trust 'Footprint Report' shows Colchester met its 2020 target one year early and includes proposals for Carbon Neutrality by 2030
- The Climate Emergency Action Plan will present a range of ambitious actions for Full Council to adopt in February, with resources made available to deliver

### 6.4 Colchester Woodland Project

- Thousands of trees have been planted at community events across Colchester and a further 10,000 trees will be donated to the public, parish councils and community groups to plant on their land by the end of March 2020
- Environmental Impact Assessments of larger planting sites will be completed by May 2020 and work is underway towards delivery of 200,000 trees by 2024

### 6.5 Waste and Recycling Service

- A comprehensive review of the service is being carried out aiming to improve collection and recycling performance, service to the customer and employee health and wellbeing

## **Place Theme**

### 6.6 Highways and Cycling

- Work is underway to review options for cycle routes, cycle security, cycle parking and to 'green' the Colchester Orbital
- Workstreams are being developed to encourage sustainable modes of travel improving health, wellbeing, community safety and air quality.
- A new Transport Strategy is being sought with Essex County Council to prioritise plans for cycling and walking, part of a wider partnering approach that will see jointly funded much needed Town Centre high street improvements

### 6.7 Garden Communities and the Local Plan

- Joint work continues with Government, Essex County and other Council partners towards infrastructure supporting future garden communities
- Government commitments have been secured for improvements to the A12 and A133/A120 link road. Further government funding has been provided for garden community development
- Local Plan hearings opened 14 January 2020 with future funding and next steps subject to the Inspector's report.

### 6.8 River Colne Renewal

- Cleanliness and appearance of the River Colne is being reviewed with the Environment Agency
- Ideas gathered by the Policy and Public Initiatives Panel are being reviewed for further consultation and public engagement to consider issues such as access, use and river condition
- A longer-term vision for the River Colne will be developed

## **Commercial Theme**

### 6.9 Rowan House Site

- A Workforce, ICT and accommodation improvement strategy is in development to provide more effective working tools and a modern and effective business environment

- Detailed feasibility work being scoped and costed including 'Amphora 3' development and budget implications

#### 6.9 Northern Gateway

- The Northern Gateway South Masterplan and Heat Network boreholes have been completed
- Sports Park construction is progressing well (opening Summer 2020) providing high quality facilities for residents and visitors, to encourage and enable more sport participation and greater community health and wellbeing.

### **Community Theme**

#### 6.10 Renew Our Community Assets

- Colchester Borough is home to many types of community assets, ranging from established Borough-wide or local neighbourhood community groups to green spaces. Many wards and parishes contain village halls and venues for hire. Neighbourhoods develop their own publications and online resources to share with their neighbours. Volunteers lead and contribute to activities which improve the quality of life of residents.
- This renewal programme is in the scoping phase. It will build on the recent Local Delivery Pilot that is increasing participation in sport and leisure. It will also build on experience from recent S106 funded community projects.
- The project will develop of a new asset-based community development strategy by March 2020

#### 6.11 Cultural Strategy

- Developing a refreshed cultural and arts and heritage vision and strategy with partners with an external consultant to be appointed by April 2020

#### 6.12 Youth Focus

- Conducting an independent study and analysis to consider the benefits and costs of a Youth Zone for Colchester by the end of January 2020
- Broadening the study to consider Youth Provision across the borough and identify any gaps with an interim report due February 2020

#### 6.13 Heritage Live

- Highlighting of Colchester Castle and Balmerne Hill due for completion February 2020 and St Botolph's Priory scheme
- Commencing work on Nero and Gladiators Castle Exhibition to support a 'Roman Invasion'. Exhibition to open in August 2021
- Roman Circus to commence in early 2020
- Commence preparation for Roman Church structural works in April 2020
- Engaging with schools to support visits to museums
- Commemoration of Captain Jones and Lieutenant Pinto with work commencing in March 2020

### **6 Local Plan and North Essex Garden Communities**

- 6.11 Local Plan hearings are taking place in January 2020. At the hearings the Inspector is publicly examining the additional evidence submitted by Braintree, Colchester and Tendring councils in support of their Local Plans. The hearings are in response to questions raised by the Planning Inspector about Garden Communities. Garden Communities are the long-term strategy of the three North Essex councils, in

partnership with Essex County Council, to help meet the future growth of the area in a more strategic and infrastructure supported way, in accord with Government direction and policy

- 6.12 Half of the necessary planning and development funding has been provided by Government, the balance by stage by the Council partners. Release of the latest instalment of £350k for the 2019/20 Colchester contribution to North Essex Garden Communities was postponed, pending the Inspector's decisions. If garden communities are approved full Council will be asked to agree to release this sum, currently held in our reserves.
- 6.13 Colchester Council remains a full partner and shareholder in the current delivery vehicle, North Essex Garden Communities Ltd (NEGC). Continuing support for which has been demonstrated by the Government's announcement on 14 January 2020 of a further £550k grant for the project. Further support from Government is expected as from our Council partners who like Colchester Borough Council will provide or plan for future year Local Plan support, including garden community plans and development.
- 6.14 Colchester Borough Council accordingly sets aside £500k of New Homes Bonus funding in years 2020/21 to 2023/24 to allow for development of the Local Plan. If the Inspector finds in favour of Garden Communities, this could be used to make North Essex Garden Communities contributions. If the Inspector finds against Garden Communities, the New Homes Bonus could be used to take forward an alternative approach to the Local Plan or to otherwise mitigate the impacts of development or to meet the infrastructure needs that would have been met through garden communities.
- 6.15 More details on the financial arrangements for North Essex Garden Communities are set out in Appendix C.

## **7 Pensions**

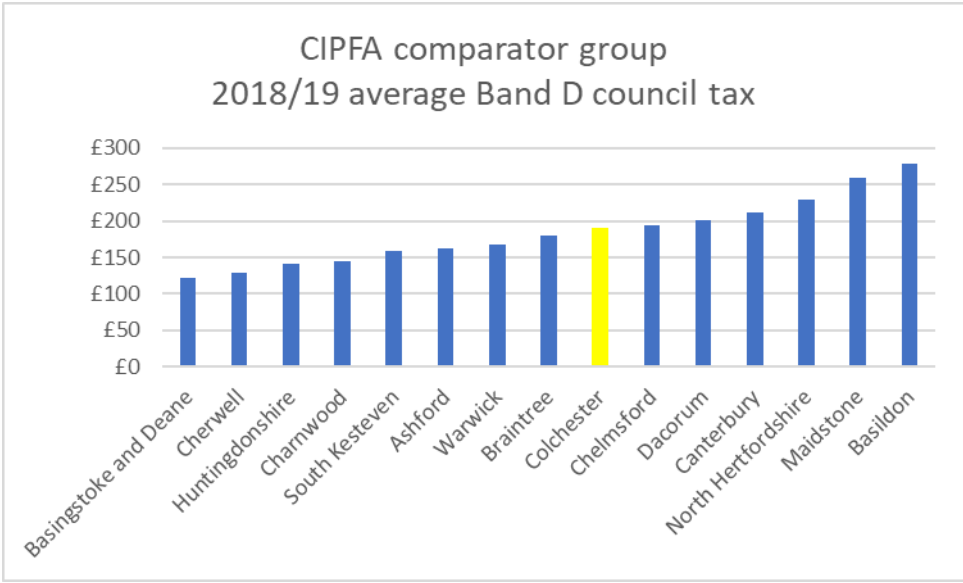
- 7.1 The 2019 Essex County Council Superannuation Fund actuarial valuation has been completed. The Colchester deficit - which was assessed at £31m in the 2016 valuation – has reduced to £17m. This deficit will be repaid over the next 16 years, this being the period recommended by the scheme actuary.
- 7.2 The most financially advantageous option for CBC is to pay 3 years' deficit contributions up front in 2020/21. This is the approach that was successfully followed in 2017/18.
- 7.3 The 2020-23 Medium Term Financial Forecast includes annual contributions to replenish a reserve for future deficit repayments. The deficit will be reassessed by the scheme actuaries in their 2022 valuation. A reserve is planned to be available in April 2023 to pay the expected 2023-26 deficit repayments up front.
- 7.4 At the establishment of Amphora, it became a separate member of the Essex superannuation fund. Amphora membership ensured transferring employees could continue in the pension scheme. The Amphora membership is underwritten by the Council.
- 7.5 Under company accounting requirements changes in fund asset values and pension liabilities must be reflected in profit and loss. This has led to unpredictable variations

in profitability. This is inappropriate as Amphora is in any case fully owned by the Council.

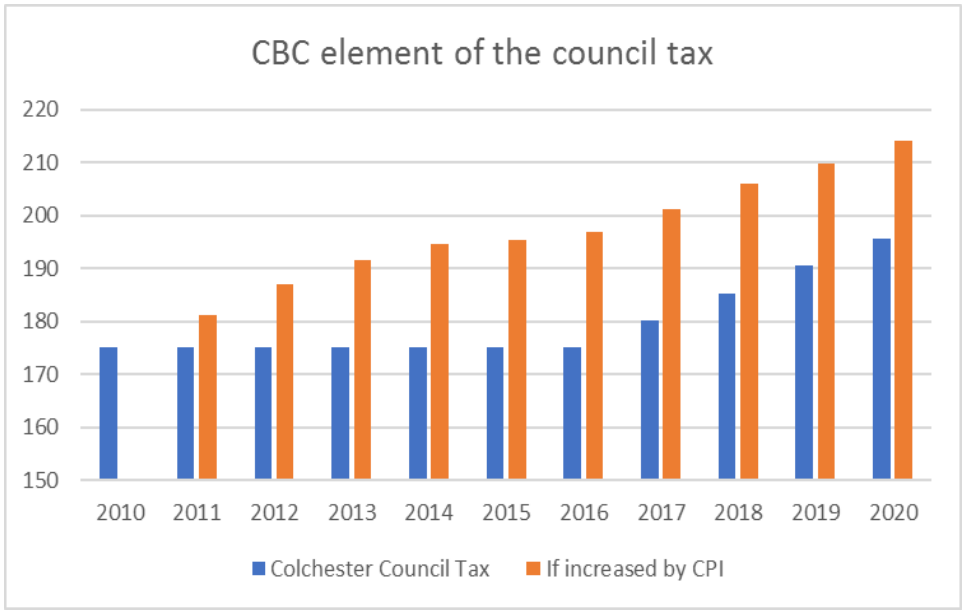
- 7.6 It is therefore proposed to ‘pass through’ the Amphora pension liabilities back to the Council from April 2019, including them in the wider Council pension scheme. This will reflect the practical reality that the Amphora is an alternative vehicle for delivering Council services. The change will avoid misleading volatility in Amphora profitability and enable the variations to be treated through reserves in the Council’s accounts without impacting on the budget requirement.

8 Council Tax

- 8.1 The proposed council tax for Colchester represents good value. The chart shows the council tax in 2019/20 was within the interquartile range for the Council’s comparator group.



- 8.2 The chart demonstrates how Colchester’s council tax increases have lagged behind inflation over the last few years.



9 Prudence

- 9.1 The Section 151 Officer is content with the resilience of the proposed 2020/21 budget and the level of reserves. The Budget Resilience Statement is set out in Appendix D. The forecast level of reserves is set out in Appendix I
- 9.2 It is expected that the Council will spend within budget in 2019/20.
- 9.3 The General Reserve is forecast to be £2.373m at the end of 2020/21 and therefore fulfils the agreed minimum level of 10% of the net budget.

## **10 Consultation**

- 10.1 Scrutiny Panel has examined the 2020/21 Budget and Medium Term Financial Forecast at its July 2019 and November 2019 meetings. This report will be considered by Scrutiny Panel at its 28 January 2020 meeting.
- 10.2 The Leader of the Opposition and the Shadow Portfolio Holder for Resources have been offered the opportunity to meet with officers to assist with consideration of any alternative budget proposals.
- 10.3 A consultation meeting with business ratepayers took place on 15<sup>th</sup> January 2020. The main comments made were that new and start-up businesses could benefit greatly by clearer information on business rates liabilities and discounts from the Council so that this element of their business could be effectively managed.

## **11 Financial implications**

- 11.1 As set out in the report.

## **12 Environmental and Sustainability Implications**

- 12.1 The New Strategic Priorities reflect the Council's declaration of a Climate Emergency and its commitment to becoming carbon neutral by 2030. The environmental and sustainability implications of individual programmes will be thoroughly assessed with reference to the definition of sustainable development set out in the National Planning Policy Framework.

## **13 Equality and Diversity Implications**

- 13.1 Consideration will be given to equality and diversity issues in respect of budget changes proposed as part of the budget process. This will be done in line with agreed policies and procedures including production of Equality Impact Assessments where appropriate.
- 13.2 Care leavers will now be treated as designated persons under the council tax regulations. A care leaver joining an existing household with a single person discount in place will be given sufficient discretionary relief to ensure that the council tax liability does not increase as a result of their presence. It is not expected this will result in a significant cost, and Essex County Council are bearing a relevant share.

13.3 A household where only care leavers are liable to pay council tax will be given sufficient discretionary relief to extinguish the council tax liability completely.

13.4 A care leaver in a property, which would otherwise be exempt from council tax, will be given sufficient discretionary relief to ensure that no council tax continues to be payable.

#### **14 Risk Management Implications**

14.1 As set out in the report

#### **15 Other Standard References**

15.1 There are no direct Publicity, Human Rights, Community Safety or Health and Safety implications as a result of this report.



## **Appendices**






- Appendix A – Revenue Budget 2020/21 and Medium Term Financial Forecast
- Appendix B – Capital Strategy and Capital Programme
- Appendix C – North Essex Garden Communities
- Appendix D – Budget Resilience Statement
- Appendix E – Treasury Management Strategy Statement
- Appendix F – Technical reconciliations of budget requirement
- Appendix G – Summary Budget 2020/21
- Appendix H – 2020/21 General Fund Budgets
- Appendix I – Reserves
- Appendix J – Use of New Homes Bonus

## **Background Papers**

## Appendix A - Revenue Budget 2020/21 and Medium Term Financial Forecast

- 1 The provisional 2020/21 local government finance settlement has now been received. All the Council's government support is in the form of retained business rates or New Homes Bonus. Revenue Support Grant is no longer received. The Council fund its net budget from council tax and by exceeding government business rates assumptions.
- 2 The overall 2020/21 Medium Term Financial Forecast is set out in Table A1 below. This show a balanced position for 2020/21. Row 6 shows the forecast budget surplus or gap from 2021/22 onwards assuming a continuity of current funding levels. Row 8 shows the potential gap after including potential government funding losses assumed in the Medium Term Financial Forecast.
- 3 The funding available allows the Council to offer a wide range of services, examples of which are set out in the chart. Full service budgets are provided in Appendices G and H.

<b>Table A1 – Funding the Medium Term Financial Forecast</b>						
		<b>19/20</b>	<b>20/21</b>	<b>21/22</b>	<b>22/23</b>	<b>23/24</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
1	Base Budget	20,438	19,921	20,351	21,216	21,918
2	Retained business rates	(4,257)	(4,300)	(3,843)	(3,386)	(2,930)
3	Business Rates growth above government plans	(2,163)	(1,444)	(1,929)	(1,929)	(1,929)
4	New Homes Bonus used for base budget	(1,946)	(1,674)	(1,171)	(999)	(603)
5	Council Tax	(12,072)	(12,503)	(12,951)	(13,407)	(13,870)
6	(Surplus)/Gap if government funding maintained	0	0	(43)	494	1,086
7	Potential government funding loss			500	1,000	1,500
8	(Surplus)/Gap after potential loss	0	0	457	1,494	2,586

The Council's direct spending of £84.923m				
Community	Customer	Environment	Policy and Corporate	Back Office
				
£6.437m	£43.836m	£16.127m	£21.287m	£0.991m
Licensing	Elections	Waste	Sport	Democracy
Bereavement	Local Tax	Recycling	ICT	Management
Culture	Benefits	Car Parking	Housing	

## Council Tax

- 4 The number of properties expected to be subject to council tax (council tax base) is shown below. The numbers are standardised to council tax band D. (For example, Band A council tax is 6/9 of Band D, so a Band A property would count as 0.667 Band D equivalents. The figures also allow for Single Person and other discounts.
- 5 The increasing numbers of properties demonstrate the growth of Colchester and its increasing council tax base.

<b>Table A2- Changes in Band D equivalent properties</b>		
	No of properties	Gain from previous year
2020/21	63,933	602
2019/20	63,331	1,371
2018/19	61,960	828
2017/18	61,132	636
2016/17	60,496	949

## Appendix B – Capital Strategy and Capital Programme

1. The Chartered Institute of Public Finance and Accountancy Prudential Code requires local authorities to produce a Capital Strategy. This is in line with the Ministry of Housing, Communities and Local Government's 2018 statutory guidance on local government investments, particularly about non-financial investments.
2. In contrast to revenue expenditure which is spending on the day to day running costs of services such as employee costs and supplies and services, capital investment seeks to provide long-term solutions to Council priorities and operational requirements that yield benefits to the Council generally for a period of more than one year.
3. The five aims of the Capital Strategy are:
  - a. To take a long-term perspective on capital investment and to reflect the Council's wider place-making and growth agenda.
  - b. To ensure investment is prudent, affordable, and sustainable over the long term.
  - c. To set out the arrangements and governance for capital investment decision-making.
  - d. To make the most effective and appropriate use of funds available - including revenue, capital receipts and housing right-to-buy receipts – to deliver the Council's strategic aims.
  - e. To establish a clear methodology to prioritise capital proposals. .
4. The Council has adopted the New Strategic Priorities set out in this Report.
5. Colchester Commercial Holdings Ltd is the holding company for three separate subsidiaries, with related but distinct products, services, markets and opportunities. These companies make a high-quality commercial offer which maintains the strong public sector ethos of its shareholder.
  - a. Colchester Amphora Trading will deliver high quality products and services to public and private sector clients in the Property, Leisure and Health Care industries.
  - b. Colchester Amphora Energy will design and implement low carbon energy systems and provide energy services in Colchester.
  - c. Colchester Amphora Homes will deliver high quality affordable and private sale homes in Colchester and the surrounding area.
6. Colchester Borough Council's Asset Management Strategy will set out the vision for how we manage our assets over the next 5 years

### Principles for Capital Planning

7. The Council operates a clear and transparent approach to the prioritisation of all capital spending. This includes decisions to invest in the Colchester Commercial Holdings group of companies.

<b>Table B1 Investment Principles</b>	
Affordability and financial sustainability, whilst risk aware	The Council will only invest in projects that are affordable and financially sustainable in the long term and where risk is at an appropriate level.
Strategic Plan Spending Priorities	The Council prioritises investment in its Strategic Plan Spending Priorities.
Revolving Investment Fund	The Council operates a Revolving investment Fund to deliver major capital projects.
Investing for growth	The Council will grow Colchester and its economy, whilst delivering whole systems solutions to demographic, social and environmental challenges sustainably across Colchester. This will generate increased business rates income for future retention.
Invest to save and to generate returns	The Council will invest in projects which will <ul style="list-style-type: none"> <li>• reduce service costs</li> <li>• avoid costs (capital or revenue) that would otherwise arise</li> <li>• invest to generate a financial return (invest to invest).</li> </ul>
Colchester Commercial Holdings Ltd	The Council will invest in and lend to Colchester Commercial Holdings Ltd to enable the subsidiary companies to provide services to residents and to the Council. The companies also generate dividend income for the Council.
Investment to improve and maintain Council assets and systems	The Council will improve and maintain the condition of core assets and systems to replace them or extend their life where appropriate. The Council will make provision for lifecycle investment to maintain infrastructure to a standard that effectively supports service delivery.

8. The Council owns investment properties in Colchester and the portfolio generates a revenue return. The scale of investment is proportionate, and the risk is at a manageable level. Investment properties are regularly periodically to market level under a rolling programme.
9. When making non-financial investments the Council considers the balance between security, liquidity and yield based on its risk appetite. It also considers the contribution of the non-financial investment to a range of outcomes including growth and income.
10. Colchester has not borrowed for outright investment purposes.
11. The Council's Medium Term Financial Forecast includes dividend income from Colchester Commercial Holdings Limited and investment property income to achieve a balanced budget. These contributions are at a proportionate level.  
Funding Sources for Capital Investment
12. The Council funds its Capital Programme from a range of sources, which are principally;
  - a. Capital receipts
  - b. Grants

- c. Section 106 agreements
- d. Reserves and revenue
- e. Prudential borrowing

13. Housing Revenue Account Capital is entirely funded from the ring fenced Housing Revenue Account. It is a rolling 5-year outlook based on stock condition and planned projects. Key areas of housing investment include planned and cyclical works; mechanical and electrical and heating; accessible homes and repairs. The programme also includes development and special projects. The Housing Revenue Account capital programme is funded from:
- a. Housing Revenue Account Self Financing (The Major Repairs Reserve)
  - b. Capital Receipts (Housing Revenue Account)
  - c. Revenue and Reserves (Housing Revenue Account)
  - d. Prudential Borrowing

### Governance of the Capital Strategy

14. The Capital Programme will be agreed by full Council as part of the annual budget setting process. Variations to the Capital Programme or any in-year additions must be ratified by Budget Group. Any changes found outside Executive Directors remit will be recommended to Cabinet for approval.
15. The Revolving Investment Fund Committee meets regularly to develop and assess investment proposals. It is supported by the Revolving Investment Fund Steering Group.
16. Capital projects are overseen by the Programme Delivery Board, which will escalate issues to the Revolving Investment Fund Committee or Cabinet as appropriate. This is supported by the Business Delivery Group whose function is to identify risks and issues and to review all new and closed projects.
17. Financial monitoring reports on the capital programme are considered quarterly by Cabinet and monthly by the Business Delivery Group and escalated by exception to the Business Delivery Board.
18. Relevant requirements of the Capital Strategy will be incorporated into financial regulations and standing orders.

## **Capital Programme 2020/21 onwards**

1. The Capital Programme builds on the schemes approved in setting the 2019/20 Budget. The proposed programme reflects 'in house' and external grants and awards and remains dependent on confirmation of values and allocation decisions, by Government and or through the Revolving Investment Fund. The indicative projection below includes £10m for the Town Deal Fund, though that fund could be up to £25M. and assumes:
  - Reprofilling the 2019/20 programme as previously reported, including bringing ultra fast broadband to Colchester with government funding
  - The Towns Deal Fund allocation of £10M is illustrative. The Council will seek the maximum £25M that is available from the Ministry of Housing, Communities and Local Government. Government support could be either capital or revenue. It is expected there will be additional investment from partners.
  - Continuing and augmenting the Revolving Investment Fund. Includes superb facilities at the Northern Gateway Sports Park
  - The New Strategic Priorities set out in the main budget report
  - Upgrading CCTV to digital offering a vastly improved service
  - Setting up a Limited Liability Partnership and Charity to lease 100 newly acquired properties from the council. This will have a significant impact on the need for temporary accommodation and is a ground breaking scheme

**Table B2 – Capital Programme**

		2019/20	2020/21	2021/22	2022/23	2023/24
		£'000	£'000	£'000	£'000	£'000
1	General Fund 2019 Programme	58,684	9,994	300		
2	Revised 2019 Programme	46,345	46,749	1,900	420	
	New Schemes in addition to the 2019 Programme					
3	Town Deal Fund			3,300	3,300	3,400
4	New Strategic Priorities		5,000	5,000		
5	Land Acquisition					5,000
6	CCTV		500			
7	100 Homes Project		20,000	0		
<b>8</b>	<b>General Fund 2020 Programme</b>	<b>46,345</b>	<b>72,249</b>	<b>10,200</b>	<b>3,720</b>	<b>8,400</b>
9	Housing Revenue Account 2019 Programme	20,851	35,232	25,516	18,204	17,492
10	Revised 2019 Housing Revenue Account Programme	18,866	3,500			
11	New Schemes		26,663	35,349	30,389	21,316
12	Housing Revenue Account 2020 Programme	<b>18,866</b>	<b>30,163</b>	<b>35,349</b>	<b>30,389</b>	<b>21,316</b>
<b>13</b>	<b>Total 2020 Capital Programme</b>	<b>65,211</b>	<b>102,412</b>	<b>45,549</b>	<b>34,109</b>	<b>29,716</b>



## **Appendix C – North Essex Garden Communities**

- 1 Government, Colchester Borough Council and three other Local Authorities (Essex County Council, Braintree and Tendring District Councils) have agreed to work together to meet housing and infrastructure needs across their respective boundaries. To that end the Local Authorities have created a Council owned Company, North Essex Garden Communities Ltd.
- 2 As Shareholders in North Essex Garden Communities Ltd the Councils are bound together, to work as one and to contribute to the running costs needed for feasibility, planning, communications and other work, including support to the Planning Inspector. Council staff, expertise and capabilities are pooled and supplemented when needed.
- 3 Each Council has a different role, Colchester's includes back office support. Colchester Borough Council as banker thus holds contributions from the partners, including Government. Colchester buys in services when needed and covers or carries forward such costs (including any winding up costs) if and when needed, until partner contributions are received.
- 4 Since 2016/17 each partner has provided their agreed shares, but not always at the same time. In 2019/20 the Colchester Council budget included £350k for North Essex Garden Communities. These funds came from the Council's New Homes Bonus. The contribution was one eighth of the overall Budget needed, taking account of other contributions, costs carried forward from 2018/19 and in year predicted spend.
- 5 Pending a formal decision to release the funds, the £350K Colchester contribution has been held in the Council's reserves, available for any purpose. Other North Essex Garden Communities partners have now released their funding. The Government's contribution is expected in early 2020.
- 6 North Essex Garden Communities costs however continue to be incurred by Colchester in 2019/20, for recovery as contributions become available. £177k was carried forward from the 2018/19 financial year outturn. Similarly, the Council has incurred £180k on behalf of all partners in 2019/20.
- 7 These total carry costs of £357k reflect Colchester Council's banker role.
- 8 On 14 January 2020 a £500k government grant to support the project was announced. This will potentially enable the Colchester Borough Council carrying cost to be recovered from North Essex Garden Communities.
- 9 For Colchester Council investment to date or budgeted for 2020/21 or the MTF is significant, but it is small relative to the multi-billion investments that should follow and the significant advantages that garden communities should provide, from greater social and other infrastructure to more affordable and Council housing, and a better quality of life.
- 10 Such spend for each Council is also excellent value for money. For one eighth of overall spend, Colchester Council secures invaluable feasibility testing, viability and development planning work, and cooperation across North Essex.

- 11 If the Planning Inspector finds in favour of Garden Communities, the Local Authorities will need to continue this feasibility and development work. In the longer term some form of delivery vehicle will be formed, with funding to be found from other partners and or Government.
- 12 In the medium term, as noted in para 9 of Annex D of the 20 November 2019 Budget Report to Cabinet Colchester Council and other partners may have to provide further interim funding.
- 13 In the Colchester Medium Term Financial Forecast this is planned at £500k per year. The precise obligation has yet to be quantified. Government help, in those circumstances, would be sought and expected.
- 14 These funds, for 2020/21 and onwards, will only be released if the Planning Inspector approves Garden Communities and only then after agreement with other partners. This next phase of Garden Communities partnering work would involve taking forward the proposals to the stage where external funding for the long term development of garden communities could be secured.
- 15 Funding for North Essex Garden Communities is currently by contribution, as expected for 2020/21, but it is proposed that as soon as practical, these contributions should take the form of loans from the partner authorities. If this approach is agreed these contributions would potentially be repayable from the long term development and delivery funding to be secured from external funders.

## **Appendix D – Budget Resilience Statement**

- 1 In 2018/19 the Council spent within the approved budget. In 2019/20 the Council is forecast to spend within its approved budget. The Council has a good record of delivering agreed savings. The 2020/21 savings proposals were developed by a comprehensive programme of officer meetings reviewing all service budgets line by line supported by Finance Business Partners.
- 2 The Council has in place reliable revenue and capital monitoring processes enabling it to take corrective action in the event of unexpected budget variations. The Council has good finance and performance monitoring processes – including the Performance Management Board and the Revolving Investment Fund Steering Group - that are being further enhanced during 2019/20 and will apply in 2020/21. These arrangements will ensure that any new expenditure proposals are adequately assessed.
- 3 The Council is not relying on the use of balances to deliver its core services in 2020/21.
- 4 The budget process allows for the review of budget proposals by the Scrutiny Panel and this has applied to the 2020/21 proposals. The Council's use of resources judgment by BDO in the 2018/19 audit was satisfactory, following an assessment of the Council's approach. There is an effective risk management process in place
- 5 The level of Council borrowing and reserves is reasonable in comparison to other authorities in its comparator group as set out in the budget report to November 2019 Cabinet. In particular the minimum level of general reserve is set at 10% of the net revenue budget.
- 6 It appears therefore that the 2020/21 budget and Medium Term Financial Forecast are robust and the reserves and balances adequate as set out in the succeeding tables.
- 7 The Chartered Institute of Public Finance and Accountancy resilience index for 2018/19 shows the Council had a slightly above average external debt figure for its comparator group. However it is in a strong position relative to its comparator group. This reflects the Government self-financing housing revenue account settlement. The majority of this debt (£120m) was determined by government under the self-financing settlement in April 2012. These need to be linked to corporate risk registers.

Results Breakdown

Indicators of Financial Stress

Higher Risk ←

→ Lower Risk

Unallocated Reserves

Earmarked Reserves

Change in Unallocated Reserves

Change in Earmarked Reserves

Change in HRA Reserves

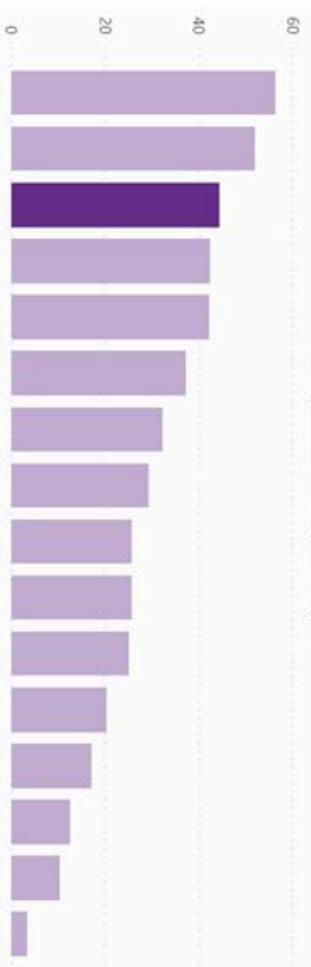


Indicator	Min	Indicator Value	Max
Unallocated Reserves	3.35%	44.32%	56.41%
Earmarked Reserves	8.65%	128.94%	275.03%
Change in Unallocated Reserves	-85.78%	-26.60%	137.29%
Change in Earmarked Reserves	-84.31%	121.24%	121.24%
Change in HRA Reserves	-316.00%	91.12%	354.61%

Individual Analysis

Unallocated Reserves

Comparator Group Analysis



Trend Analysis



## **Appendix E - Treasury Management Strategy Statement**

### **Introduction**

- 1.1 This iteration of the Treasury Management Strategy Statement is provided in the traditional Council format to enable the prudential indicators to be set for 2020/21. A fundamental review of the Strategy will take place during 2020/21 to give greater transparency and better integration with the capital Programme.
- 1.2 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 1.3 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.4 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
- 1.5 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.
- 1.6 The Chartered Institute of Public Finance and Accountancy defines treasury management as the management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
- 1.7 The contribution Treasury Management function makes to the Council is critical, as the effective balance of debt and investment operations ensure the ability to meet spending commitments as they fall due, both for day to day expenditure and more importantly to fund and adjust to complex capital scheme funding.

- 1.8 Treasury management arrangements have a direct impact on the Council's revenue budget and Medium Term Financial Strategy as a result of the interest costs of borrowing and income due in relation to investments. Cash balances result from reserves and spending or income cashflows from revenue and capital planning; therefore the Treasury Management Strategy is an integral part of setting the Council's budget.
- 1.9 The primary reporting changes include the introduction of a capital strategy to provide focus on long term capital investment plans, the requirement for transparent reporting around Non Treasury management investments (loans to third parties, investment properties purchase, etc.) and commercial activity under the Localism Act 2011 and additional S151 duties with regards assurance.

### **Reporting requirements**

- 1.10 The Council is currently required to produce three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are all required to be scrutinised and reviewed. This role is undertaken by the Council's Scrutiny Panel and Governance and Audit Committee.
- 1.11 The year's Strategy is recommended to Full Council following consideration by the Cabinet and consideration by the Scrutiny Panel. It covers:
- Capital (including prudential indicators);
  - Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time);
  - Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
  - an investment strategy (the parameters on how investments are to be managed).
- 1.12 Mid-Year Treasury Management Report updates on the capital position, amending prudential indicators as necessary, and whether any policies require revision.
- 1.13 Annual Treasury Report after the financial year end reports actual prudential and treasury indicators and treasury operations compared to the strategy.

### **Training**

- 1.14 The Chartered Institute of Public Finance and Accountancy Code requires the responsible officer to ensure that Members with responsibility for treasury management or scrutiny receive adequate training in treasury management. Further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

## Treasury Management Strategy for 2020/21

- 1.15 The Treasury Management Strategy for 2020/21 covers capital and treasury management.

<b>Table E1 – Content of Treasury Management Strategy</b>	
Capital	capital expenditure plans and the associated prudential indicators
	minimum revenue provision policy
Treasury management	current treasury position
	treasury indicators which limit the treasury risk and activities of the Council
	prospects for interest rates
	borrowing strategy
	policy on borrowing in advance of need
	debt rescheduling
	investment strategy
	creditworthiness policy
	policy on use of external service providers

- 1.16 These elements cover the requirements of the Local Government Act 2003, the Chartered Institute of Public Finance and Accountancy Prudential Code, Ministry of Housing Communities and Local Government Minimum Revenue Provision Guidance, the Chartered Institute of Public Finance and Accountancy Treasury Management Code and Ministry of Housing Communities and Local Government Investment Guidance.

### Treasury Management Advisors

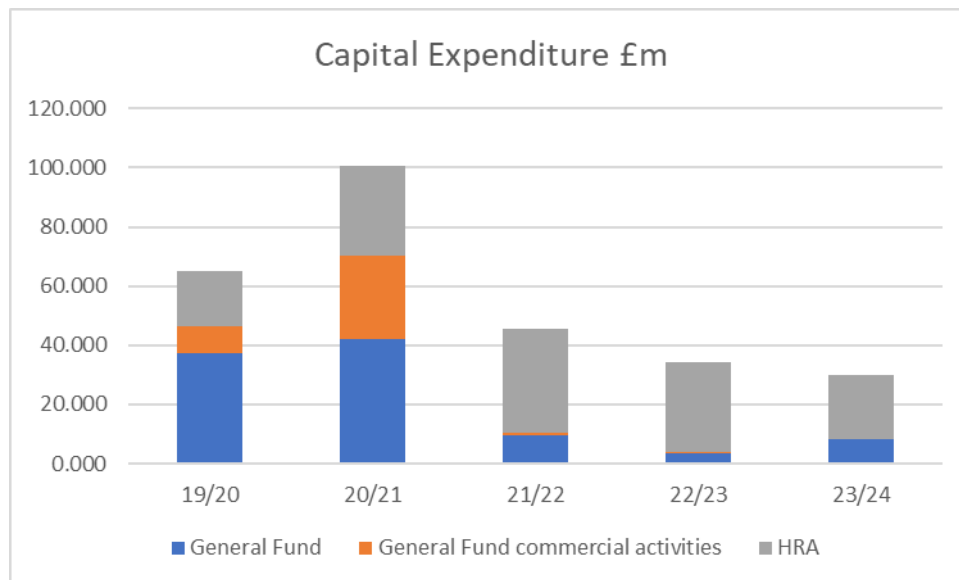
- 1.17 The Council currently uses Link Asset Services as its external treasury management advisors.
- 1.18 Responsibility for treasury management decisions remains with the Council and undue reliance is not placed upon external advisers. Decisions use available information including external advice.

## 2 The Capital Prudential Indicators 2019/20 – 2023/24

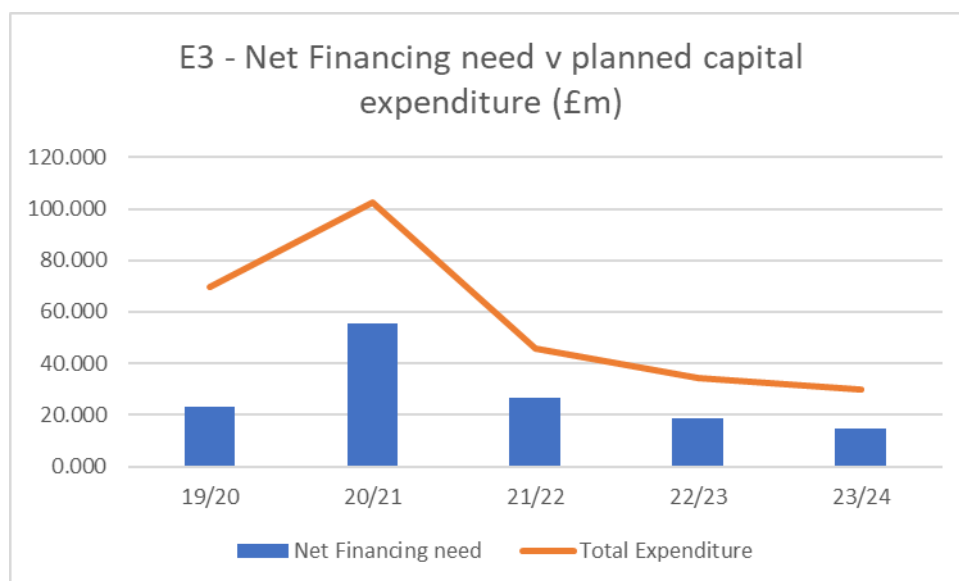
- 2.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the capital prudential indicators.

### Capital expenditure

- 2.2 This prudential Indicator is a summary of the Council's capital expenditure plans set out in Appendix B of this budget report.



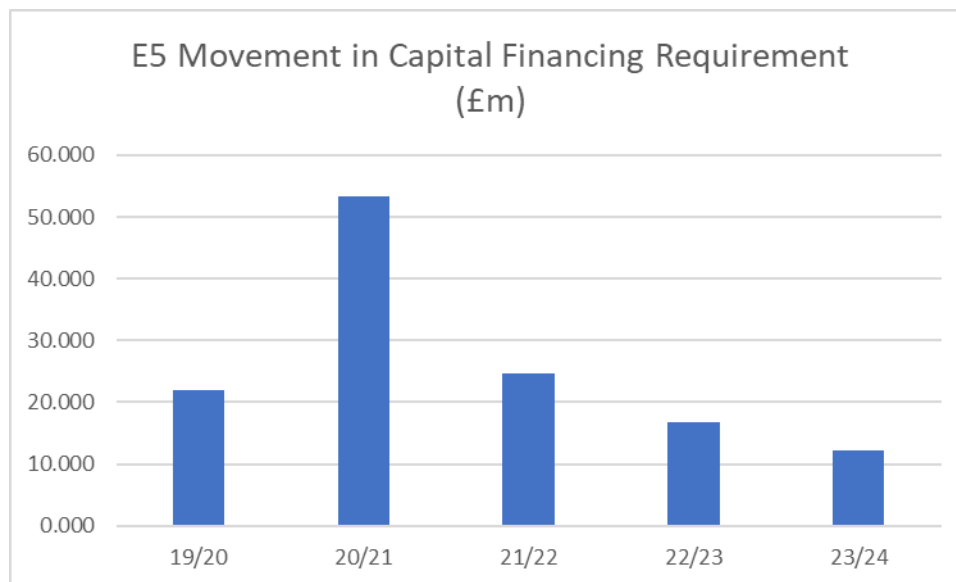
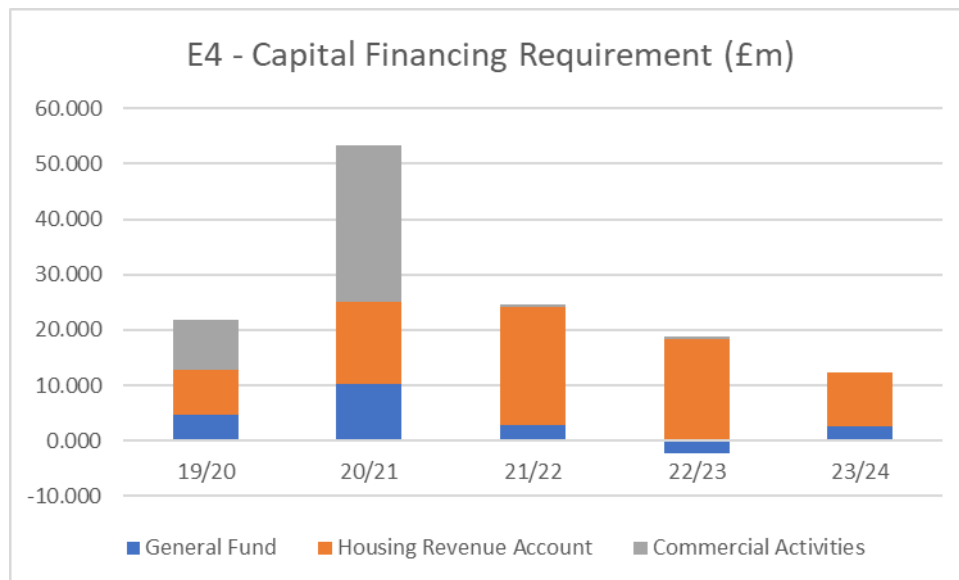
- 2.3 Chart E3 summarises how the capital programme will be financed by capital and revenue resources. The balance of financing will be provided by borrowing. The proportion of borrowing is well below the planned capital programme reflecting the significant use of other financing such as capital receipts and grants.



### The Council's borrowing need

- 2.4 The second prudential indicator is the Council's Capital Financing Requirement. This is outstanding capital expenditure which has not yet been funded from either revenue or capital resources. It is a measure of the Council's underlying borrowing need. The requirement does not increase indefinitely, as the Minimum Revenue Provision is a statutory annual revenue charge which reduces the borrowing need in line with each asset's life, and so charges the economic consumption of capital assets as they are used.
- 2.5 Capital Financing Requirement projections are set out in Chart E4 and a breakdown of the annual movement in Chart E5





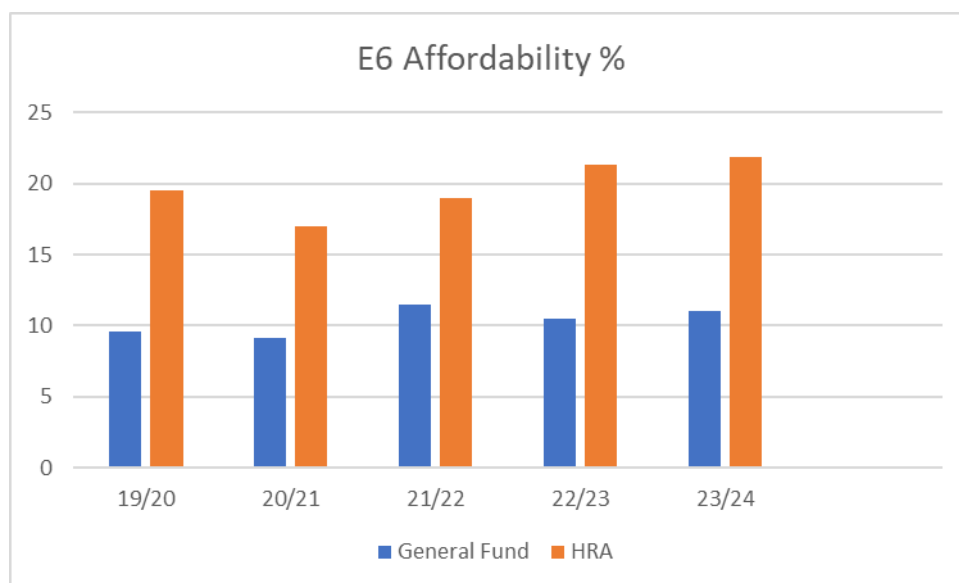
## Minimum Revenue Provision Policy Statement

- 2.6 The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision), although it is also allowed to undertake additional voluntary payments if required.
- 2.7 Government regulations require the full Council to approve a Minimum Revenue Provision Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following Minimum Revenue Provision Statement:
- 2.8 For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the policy will allow for the borrowing need to be repaid on an equal instalment basis over a period of 50 years. This has the benefits of reducing the amount payable for the first 17 years, introducing a consistent level of charge, and ensuring that this element of Minimum Revenue Provision is eventually completely repaid.

- 2.9 For all unsupported borrowing (including finance leases) the Minimum Revenue Provision policy will be the Asset Life Method. Minimum Revenue Provision will be based on the estimated life of the assets, in accordance with the regulations. This provides for a reduction in the borrowing need over approximately the asset's life. Repayments included in finance leases are applied as Minimum Revenue Provision.
- 2.10 There is no requirement on the Housing revenue Account to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.
- 2.11 The S151 Officer will keep the Council's Minimum Revenue Provision Policy under review to ensure that it remains fit for purpose in relation to its borrowing requirements.

### **Affordability Prudential Indicators**

- 2.12 The previous paragraphs cover the overall capital, and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.
- 2.13 Ratio of financing costs to net revenue stream. This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.



- 2.14 The estimates of financing costs include the commitments set out in the budget report.

### **3 Economic Outlook provided by Link Asset Services**

- 3.1 The Council has appointed Link Asset Services as its treasury advisor and part of our service is to assist the Council to formulate a view on interest rates. Section 3 of the strategy is provided by Link.

Link Asset Services Interest Rate View														
	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

- 3.2 The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged.
- 3.3 It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit and the outcome of the general election. In its meeting on 7 November, the MPC became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then the MPC were likely to cut Bank Rate. However, if they were both to dissipate, then rates would need to rise at a “gradual pace and to a limited extent”. Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. There is still some residual risk that the MPC could cut Bank Rate as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC would raise Bank Rate.
- 3.4 Bond yields / Public Works Loan Board rates. There has been much speculation during 2019 that the bond market has gone into a bubble, as evidenced by high bond prices and remarkably low yields. However, given the context that there have been heightened expectations that the US was heading for a recession in 2020, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last

year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated, as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

- 3.5 During the first half of 2019-20 to 30 September, gilt yields plunged and caused a near halving of longer term Public Works Loan Board rates to completely unprecedented historic low levels. (See paragraph 3.7 for comments on the increase in the Public Works Loan Board rates margin over gilt yields of 100bps introduced on 9.10.19.) There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but also in the UK due to a correlation between US treasuries and UK gilts; at various times this correlation has been strong but at other times weak. However, forecasting the timing of this, and how strong the correlation is likely to be, is very difficult to forecast with any degree of confidence. Changes in UK Bank Rate will also impact on gilt yields.
- 3.6 One potential danger that may be lurking in investor minds is that Japan has become mired in a twenty-year bog of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be fretting that this condition might become contagious to other western economies.
- 3.7 Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt-fuelled boom that now makes it harder for central banks to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop. (A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.
- 3.8 The overall longer run future trend is for gilt yields, and consequently Public Works Loan Board rates, to rise, albeit gently. From time to time, gilt yields, and therefore Public Works Loan Board rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.
- 3.9 In addition, Public Works Loan Board rates are subject to ad hoc decisions by H.M. Treasury to change the margin over gilt yields charged in Public Works Loan Board

rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented on 9.10.19.

- 3.10 Economic and interest rate forecasting remains difficult with so many influences weighing on UK gilt yields and Public Works Loan Board rates. The above forecasts, (and Monetary Policy Committee decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

### **Investment and borrowing rates**

- 3.11 Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings
- 3.12 Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 basis points on 9 October 2019. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, the unexpected increase of 100 basis points in Public Works Loan Board rates requires a major rethink of local authority treasury management strategy and risk management.
- 3.13 The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when the Council may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.
- 3.14 There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost - the difference between borrowing costs and investment returns.

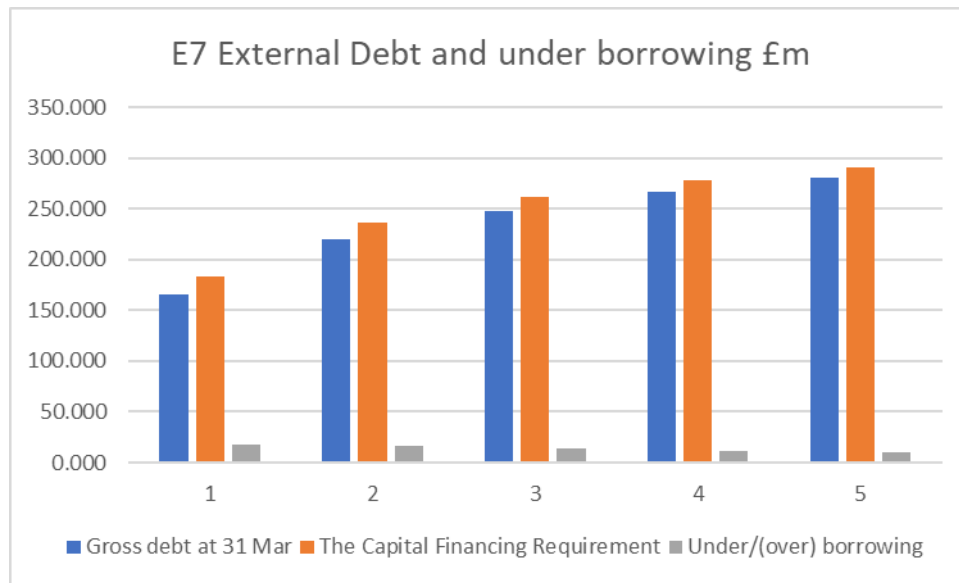
## **4 Borrowing**

- 4.1 The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

### **Current portfolio position**

- 4.2 The Council's treasury portfolio position at 31 March 2019, with forward projections are summarised below. The table shows the actual external debt against the underlying capital borrowing need (the Capital Financing Requirement), highlighting any over or under borrowing.

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement), highlighting any over or under borrowing.

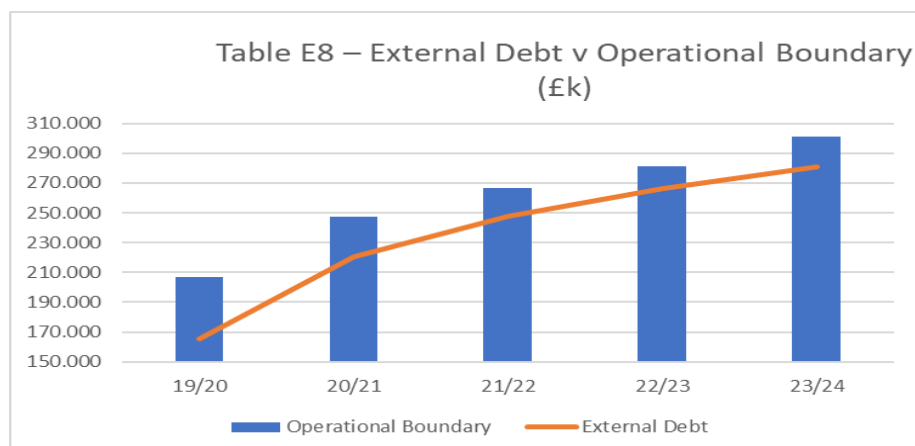


4.3 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short-term, exceed the total of the Capital Financing Requirement in the preceding year plus the estimates of any additional Capital Financing Requirement for 2018/19 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

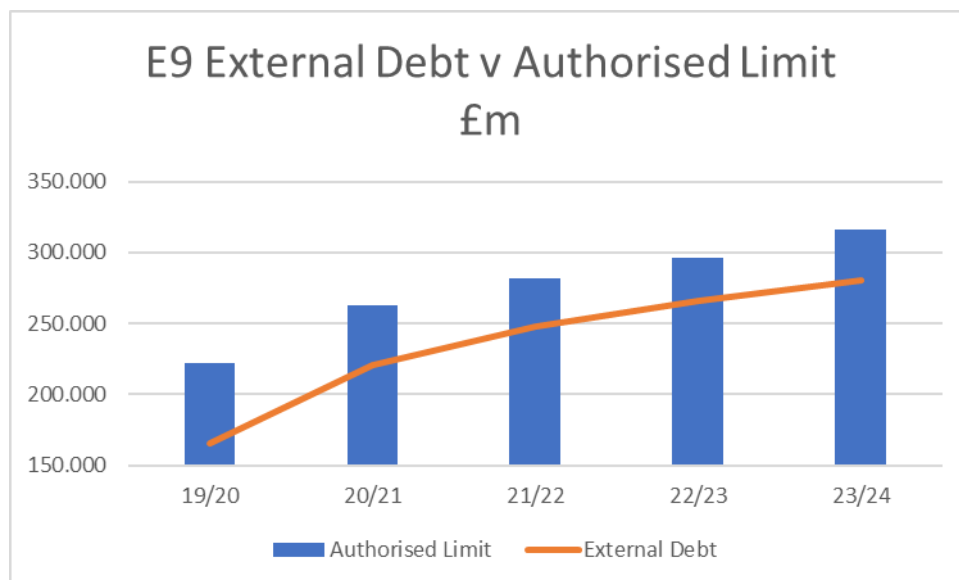
4.4 The S151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this report.

### **Treasury Indicators: Limits to Borrowing Activity**

4.5 The Operational Boundary is the limit beyond which external debt is not normally expected to exceed. Planned external debt is well within the operational boundary limit.



- 4.6 The Authorised Limit for external debt represents a control on the maximum level of borrowing. This is a statutory limit determined under section 3 (1) of the Local Government Act 2003 beyond which external debt is prohibited. This limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short-term, but is not sustainable in the longer term. The chart shows that planned external debt is well within the authorised limit sought.

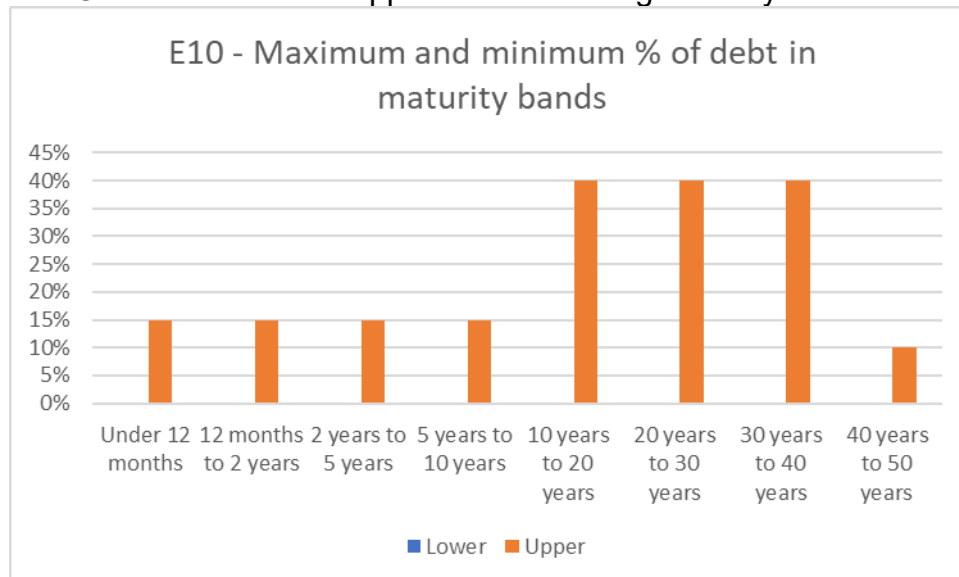


### **Borrowing Strategy**

- 4.7 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.
- 4.8 Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The S151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:
- if it was felt that there was a significant risk of a sharp FALL in long and short-term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long-term borrowing will be postponed, and potential rescheduling from fixed rate funding into short-term borrowing will be considered.
  - if it was felt that there was a significant risk of a much sharper RISE in long and short-term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.
- 4.9 Any decisions will be reported to the Scrutiny Panel or Governance and Audit Committee at the next available opportunity.

## Treasury Management Limits on Activity

- 4.10 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:
- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
  - Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
  - Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.
- 4.11 The Council is asked to approve the following treasury indicators and limits:



## Policy on Borrowing in Advance of Need

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

## Debt Rescheduling

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



debt repayment (premiums incurred). The reasons for any rescheduling to take place will include:

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

- 4.14 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short-term rates on investments are likely to be lower than rates paid on current debt.
- 4.15 Any rescheduling will be reported to the Scrutiny Panel or the Governance and Audit Committee at the earliest meeting following its action.

### **Municipal Bond Agency**

- 4.16 It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board. The Council will consider making use of this new source of borrowing as and when appropriate.

### **Leases International Financial Reporting Standard 16**

- 4.17 This standard replaces the current guidance in International Accounting Standard 17 on leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with International Financial Reporting Standard 16's approach to lessor accounting remaining substantially unchanged from the International Financial Reporting Standard 17 approach. The implementation of this new requirement will increase the Council's liability and impact the Council's borrowing limits
- 4.18 In December 2018, the Chartered Institute of Public Finance and Accountancy /Local Authority Scotland Accounts Advisory Committee announced its plans to delay implementation of International Financial Reporting Standard 16 in the Code until 1 April 2020. The Council will therefore need to adopt International Financial Reporting Standard 16 from 1 April 2020. The impact of adopting International Financial Reporting Standard 16 will be disclosed in the financial statements for the year ending 31 March 2021.

### **Housing Revenue Account borrowing**

- 4.19 As part of the Housing Revenue Account reform arrangements in April 2012, the Council decided to follow the 'two pool' approach to allocating existing debt, taking into account those loans that were originally raised for a specific purpose. This assumed that the Housing Revenue Account would be 'fully borrowed', however the Housing Revenue Account is now in a position where it may need to borrow to fund the Housing Investment Programme.

- 4.20 As the Council is maintaining an under-borrowed position, the Housing Revenue Account will be recharged for the cost of any new borrowing requirement based on the average balance of unfinanced Housing Revenue Account borrowing during the year, using the Public Works Loan Board variable rate as at 31 March of the previous year. In an environment of low investment returns and relatively stable borrowing rates, this provides a recharge that is beneficial to both the Housing Revenue Account and General Fund and can be reasonably forecast from early on in the financial year. This approach will be reviewed annually in conjunction with the Treasury Management Strategy Statement and projected investment returns.

## **5 Annual Investment Strategy**

### **Investment Policy**

- 5.1 The Ministry of Housing Communities and Local Government and the Chartered Institute of Public Finance and Accountancy have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy.
- 5.2 In accordance with the above guidance, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short-term and Long-term ratings.
- 5.3 Ratings will not be the sole determinant of the quality of an institution, and it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this the Council will engage with its advisors to maintain a monitor on market pricing such as Credit Default Swaps and overlay that information on top of the credit ratings.
- 5.4 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- 5.5 Investment instruments identified for use in the financial year are listed in the Appendix, which includes Counterparty, time and monetary limits. These will cover both 'Specified' and 'Non-Specified' Investments.
- 5.6 Such investments are treated as expenditure for treasury management and prudential borrowing purposes even though they do not create physical assets in the Council's accounts. Appropriate budgets in respect of these activities are agreed as part of the Council's budget setting and ongoing monitoring processes and considered as part of the Investment Strategy.
- 5.7 Specified Investments are sterling denominated investments of not more than one-year maturity, meeting the minimum 'high' criteria where applicable. These are considered low risk assets where the possibility of loss of principal or investment

income is small. Non-Specified Investments are those that do not meet the specified investment criteria. A limit of £20m will be applied to the use of Non-Specified Investments (this will partially be driven by the long-term investment limits).

### Creditworthiness policy

5.8 This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- "watches" and "outlooks" from credit rating agencies;
- CDS spreads that may give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

5.9 This modelling approach combines credit ratings, and any assigned Watches and Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will, therefore, use counterparties within the following durational bands

- Yellow 5 years \*
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

- No colour not to be used

5.10 The creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

5.11 Typically the minimum credit ratings criteria the Council uses will be a Short-term rating (Fitch or equivalents) of F1, and a Long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

5.12 All credit ratings will be monitored on a monthly basis. The Council is alerted to changes to ratings of all three agencies through its use of the creditworthiness service. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers

almost immediately after they occur and this information is considered before dealing.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

5.13 Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, and information on any external support for banks to help support its decision making process.

#### Country limits

5.14 The Council will only use approved counterparties from countries with a minimum sovereign credit rating of AA-, based on the lowest available rating. However this policy excludes UK counterparties. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix C. This list will be amended by officers should ratings change in accordance with this policy.

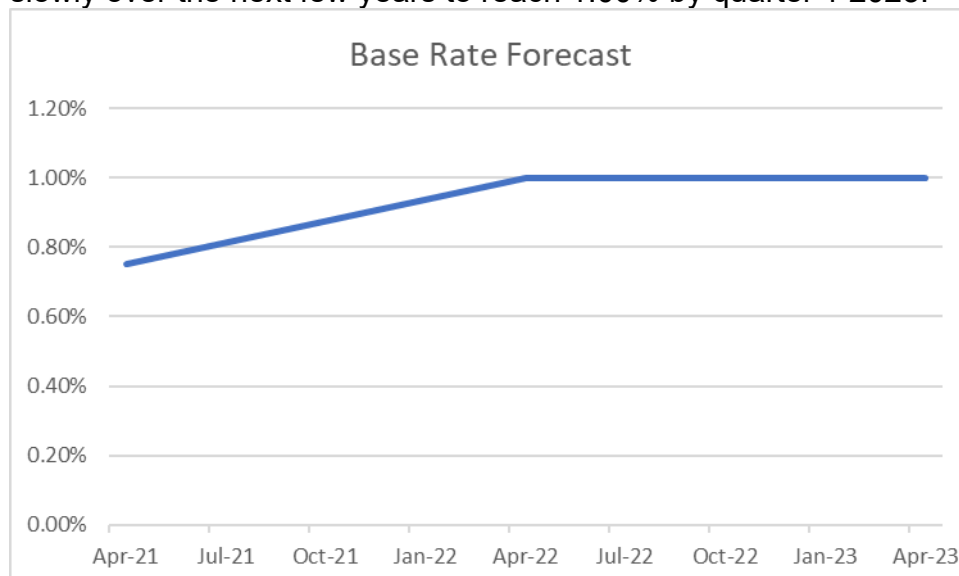
5.15 In addition:

- no more than £15m will be placed with any non-UK country at any time;
- the limits will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

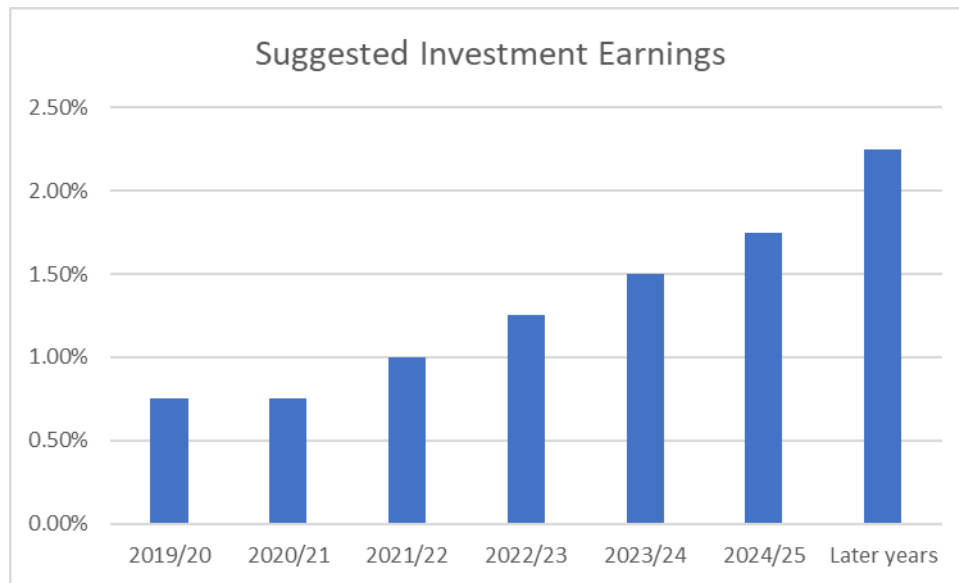
#### Investment strategy

5.16 The Council will manage all of its investments in-house. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short to medium term interest rates.

5.17 On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.00% by quarter 1 2023.



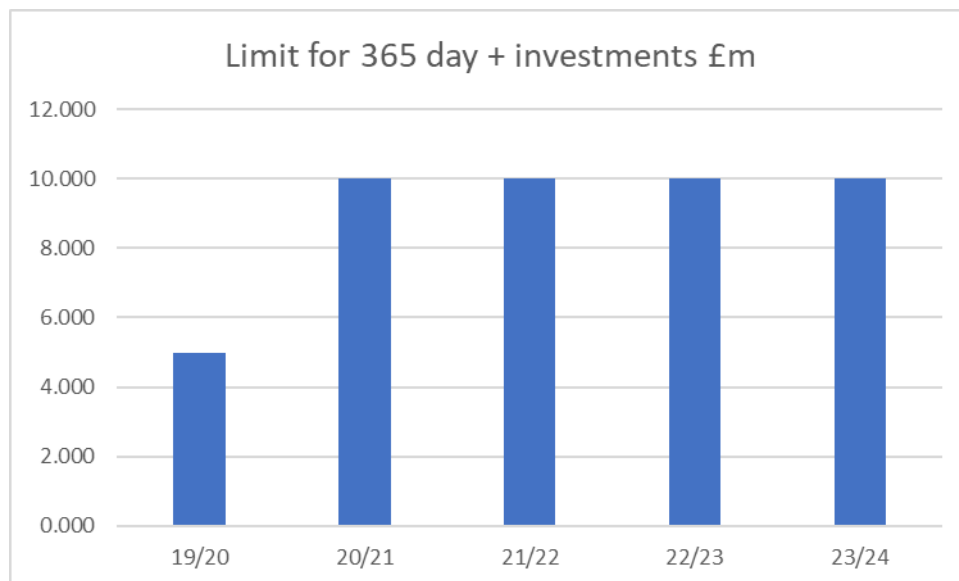
- 5.18 The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:



- 5.19 For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

#### **Investment treasury indicator and limit**

- 5.20 The limit for the total principal funds invested for greater than 365 days is set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.



#### **End of year investment report**

- 5.21 At the end of the financial year, the Council will report on its investment activity to the Governance & Audit Committee as part of its Annual Treasury Report.



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

Organisation	Min. Credit Criteria	Money Limit	Maturity Limit
Banks and Building Societies (including term deposits, CDs or corporate bonds)	Yellow	£10m	1 years
	Purple	£10m	1 years
	Orange	£10m	1 year
	Blue	£10m	1 year
	Red	£7.5m	6 months
	Green	£5m	100 days
	No colour	Not to be used	
UK Government Gilts	UK sovereign rating	£10m	1 year
UK Government Treasury Bills	UK sovereign rating	£10m	1 year
UK Local & Police Authorities	N/A	Unlimited	1 years
Debt Management Agency Deposit Facility	AAA	Unlimited	6 months
Money Market Funds	AAA	£10m	Liquid
Enhanced Money Market Funds	Dark Pink / Light Pink / AAA	£10m	Liquid
Bonds issued by Multilateral Development Banks	AAA	£3m	6 months

**Non-Specified Investments** – These are investments that do not meet the specified investment criteria. A limit of the lesser of £20m or 50% of the portfolio will be held in aggregate in non-specified investments.

Organisation	Min. Credit Criteria	Money Limit	Maturity Limit
UK Local & Police Authorities	N/A	£10m	5 years
Banks and Building Societies (including term deposits, CDs or corporate bonds)	Yellow / Purple	£10m	5 years
UK Government Gilts	UK sovereign rating	£10m	5 years
UK Government Treasury Bills	UK sovereign rating	£10m	5 years
Property fund	AAA	£5m	5 years

**Notes:**

- Non U.K. country limit of £15m

- Limit in all Building Societies of £10m

The use of property funds can be deemed capital expenditure, and as such will be an application of capital resources. The Council will seek guidance on the status of any fund it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken.

The criteria in this appendix are intended to be the operational criteria in normal times. At times of heightened volatility, risk and concern in financial markets, this strategy may be amended by temporary operational criteria further limiting investments to counterparties of a higher creditworthiness and / or restricted time limits. This list is based on those countries that have sovereign ratings of AA- or higher and also have banks operating in sterling markets, which have credit ratings of green or above in the Link Asset Services credit worthiness service.

<b>AAA</b>	Australia
	Canada
	Denmark
	Germany
	Luxembourg
	Netherlands
	Norway
	Singapore
	Sweden
	Switzerland
<b>AA+</b>	Finland
	U.S.A.
<b>AA</b>	Abu Dhabi (UAE)
	France
	U.K.
	Hong Kong
<b>AA-</b>	Belgium
	Qatar



## Treasury Management Strategy Statement Supporting Tables

<b>Table E2 – Capital Expenditure (£k)</b>						
		<b>19/20</b>	<b>20/21</b>	<b>21/22</b>	<b>22/23</b>	<b>23/24</b>
1	General Fund	37,159	41,949	9,700	3,300	8,400
2	General Fund commercial activities	9,180	28,300	500	420	0
3	Total General Fund	46,339	72,249	10,200	3,720	8,400
4	Housing Revenue Account	18,868	30,163	35,349	30,389	21,316
5	<b>Total</b>	<b>65,211</b>	<b>102,412</b>	<b>45,549</b>	<b>34,109</b>	<b>29,716</b>

<b>Table E3 – Net Financing Need (£k)</b>						
		<b>19/20</b>	<b>20/21</b>	<b>21/22</b>	<b>22/23</b>	<b>23/24</b>
1	Capital receipts	17,825	23,625	73	0	0
2	Capital grants	16,055	11,578	4,580	3,300	3,400
3	Capital reserves	2,119	3,176	4,583	2,297	1,927
4	Revenue	10,486	8,716	9,554	9,627	9,865
5	<b>Net Financing need</b>	<b>23,302</b>	<b>55,317</b>	<b>26,759</b>	<b>18,885</b>	<b>14,524</b>
6	Total Expenditure	69,787	102,412	45,549	34,109	29,716

<b>Table E4 – Capital Financing Requirement (£k)</b>						
		<b>19/20</b>	<b>20/21</b>	<b>21/22</b>	<b>22/23</b>	<b>23/24</b>
1	General Fund	4,654	10,144	2,904	-2,196	2,704
2	Housing Revenue Account	8,052	14,877	21,259	18,465	9,524
3	Commercial Activities	9,180	28,300	500	420	0
4	<b>Total</b>	<b>183,566</b>	<b>236,887</b>	<b>261,550</b>	<b>278,239</b>	<b>290,467</b>
5	<b>Increase on previous year</b>	<b>21,886</b>	<b>53,321</b>	<b>24,663</b>	<b>16,689</b>	<b>12,228</b>

<b>Table E5 – Components of annual movement (£k)</b>						
		<b>19/20</b>	<b>20/21</b>	<b>21/22</b>	<b>22/23</b>	<b>23/24</b>
1	Net financing need from Table E5, Row 5	23,302	55,317	26,759	18,885	14,524
2	Less Minimum Revenue Provision and other financing movements	-1,416	-1,996	-2,096	-2,196	-2,296
3	<b>Movement in Capital Financing Requirement</b>	<b>21,886</b>	<b>53,321</b>	<b>24,663</b>	<b>16,689</b>	<b>12,228</b>

<b>Table E6 – Affordability (%)</b>						
		<b>19/20</b>	<b>20/21</b>	<b>21/22</b>	<b>22/23</b>	<b>23/24</b>
	General Fund	9.6	9.1	11.5	10.5	11.0
	Housing Revenue Account	19.5	17.0	19.0	21.3	21.9

<b>Table E7 – External Debt (£k)</b>						
		<b>19/20</b>	<b>20/21</b>	<b>21/22</b>	<b>22/23</b>	<b>23/24</b>
1	Debt at 1 April	141,805	165,324	220,641	247,400	266,285
2	New Borrowing	23,302	55,317	26,759	18,885	14,524
3	Other long-term liabilities (OLTL)	217	0	0	0	0
4	Gross debt at 31 Mar	165,324	220,641	247,400	266,285	280,809
5	The Capital Financing Requirement	183,566	236,887	261,550	278,239	290,467
6	Under/(over) borrowing	<b>18,242</b>	<b>16,246</b>	<b>14,150</b>	<b>11,954</b>	<b>9,658</b>

<b>Table E8 – Operational Boundary (£k)</b>						
		<b>19/20</b>	<b>20/21</b>	<b>21/22</b>	<b>22/23</b>	<b>23/24</b>
1	Debt	206,632	247,400	266,285	280,809	300,809
2	Other long-term liabilities	217	217	217	217	217
3	Total	<b>206,849</b>	<b>247,617</b>	<b>266,502</b>	<b>281,026</b>	<b>301,026</b>

<b>Table E9 – Authorised Limit (£k)</b>						
		<b>19/20</b>	<b>20/21</b>	<b>21/22</b>	<b>22/23</b>	<b>23/24</b>
1	Debt	221,632	262,400	281,285	295,809	315,809
2	Other long-term liabilities	217	217	217	217	217
3	Total	<b>221,849</b>	<b>262,617</b>	<b>281,502</b>	<b>296,026</b>	<b>316,026</b>

<b>Table E10 - Maturity structure of fixed interest rate borrowing 2020/21</b>		
	Lower	Upper
Under 12 months	0%	15%
12 months to 2 years	0%	15%
2 years to 5 years	0%	15%
5 years to 10 years	0%	15%
10 years to 20 years	0%	40%
20 years to 30 years	0%	40%
30 years to 40 years	0%	40%
40 years to 50 years	0%	10%

<b>Table E11 – Maximum sum invested over 365 days (£k)</b>						
		<b>19/20</b>	<b>20/21</b>	<b>21/22</b>	<b>22/23</b>	<b>23/24</b>
	365+ investments	5,000	10,000	10,000	10,000	10,000

## Appendix F – Technical reconciliations of budget requirement

<b>Table F1 – Technical reconciliation of budget requirement</b>		
	Element	£'000
1	Revenue expenditure requirement for 2020/21	24,514
2	Collection fund deficit (business rates and Council Tax)	540
3	New Homes Bonus	(3,602)
5	Use of balances / reserves for pensions payment	(1,870)
6	Use of Business Rates Reserve	(540)
7	Use of Business Rates Pooling gain	(200)
8	Use of balances	(310)
<b>9</b>	<b>Budget Requirement</b>	<b>18,532</b>
10	Funded by:	
11	Business Rates Baseline Funding	(4,300)
12	Business Rates Improvement	(1,729)
13	Council Tax Payers requirement (before Parish element) see below*	(12,503)
<b>14</b>	<b>Total Funding</b>	<b>(18,532)</b>

<b>Table F2 – Technical reconciliation of Band D Council Tax</b>		
1	Council Tax Payers requirement (before Parish element)	12,503
2	Council Tax Base – Band D Properties	63,933
<b>3</b>	<b>Council Tax at Band D</b>	<b>195.56</b>

<b>Table F3 – Technical reconciliation of 2020/21 Base Budget</b>		
1	Base Budget	20,206
2	One-off items	(270)
3	Cost Pressures	5,768
4	New Strategic Priorities excluding New Homes Bonus - revenue	71
5	New Strategic Priorities excluding New Homes Bonus - capital financing	145
6	Growth Items	55
7	Savings	(1,848)
8	Change in use of New Homes Bonus for one off investment	387
<b>9</b>	<b>Forecast Base Budget</b>	<b>24,514</b>

<b>Table F4 – Technical reconciliation of 2020/21 savings</b>		
1	Commercial approach	753
2	Digitalisation	50
3	External Funding	192
4	Fees and Charges	301
5	Invest to Save	350
6	Procurement	150
7	Supplies & Services	52
<b>8</b>	<b>Total Savings</b>	<b>1,848</b>

<b>Table F5 – Technical reconciliation of 2020/21 pressures</b>		
1	General Inflation	817
2	IT costs	77
3	Council Tax Sharing Agreement	0
4	Refuse vehicles and crew	62
5	Staffing Changes	133
6	Commercial Income	126
7	Net impact of Minimum Revenue Provision and Interest	418
8	IT costs	225
9	Finance System Upgrade	24
10	Procurement TUPE	24
11	Review of budget targets	11
12	S&L - pensions and income	127
13	Northern Gateway Sports	72
14	Colchester & Ipswich Museums Service	40
15	Fuel	60
16	Use of Glyphosate Herbicides	21
17	Rowan House Lease	125
18	2019 Actuarial Review Impact	586
19	LCTS - Care Leavers	15
20	Pensions (3 year up-front deficit payment)	2,805
<b>21</b>	<b>Cost pressures excluding New Strategic priorities</b>	<b>5,768</b>
22	New Strategic Priorities excluding New Homes Bonus - Revenue/Capital Financing	216
<b>23</b>	<b>Total cost pressures</b>	<b>5,984</b>

<b>Table F6 – Reconciliation of Medium Term Financial Forecast</b>						
		<b>19/20</b>	<b>20/21</b>	<b>21/22</b>	<b>22/23</b>	<b>23/24</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
1	Base Budget	20,438	19,921	20,351	21,216	21,918
2	New Homes Bonus for Strategic Priorities	1,469	1,928	2,091	2,258	2,658
3	Use of reserves	(1,701)	2,665	(625)	(625)	(750)
4	Budget Requirement	20,206	24,514	21,817	22,849	23,826

## Appendix G - Summary Budget 2020/21

	Adjusted Base Budget	One-Off Items	Cost Pressures	Growth Items	Technical Items	Total Savings	Detailed 20/21 Budgets
		£'000	£'000	£'000	£'000	£'000	£'000
Corporate & Democratic Core	(264)	0	0	0		0	(264)
Executive Management Team	657	0	48	0		0	705
Community	2,147	(90)	204	20		(422)	1,859
Customer	3,205	0	223	35		(218)	3,245
Environmental (excluding North Essex Parking Partnership)	5,374	0	511	0		(770)	5,115
Policy & Corporate	7,774	(25)	1,209	(13)	(0)	(292)	8,653
Total General Fund Services	18,893	(115)	2,195	42	(0)	(1,702)	19,313
<b>Technical Items</b>							
<i>Corporate Items / sums to be allocated to services</i>							
Investment Allowance funded by New Homes Bonus	2,283	(65)	0	400	0	0	2,618
Futures Reviews Funding	(11)	0	11				0
New Strategic Priorities	0		71			(197)	(126)
Staffing Changes	0		110				110
Services Contribution to IT Equipment	0		0			(58)	(58)
LCTS Care Leavers Scheme	0		15			0	15
Inflation (Pay)	0		223			(23)	200
IT Server costs	75	(75)	0			0	0
Leasing Changes Advice	15	(15)	0			0	0
<i>Non-Service Budgets</i>							
CLIA (net interest)	530		403			(100)	833

	Adjusted Base Budget	One-Off Items	Cost Pressures	Growth Items	Technical Items	Total Savings	Detailed 20/21 Budgets
		£'000	£'000	£'000	£'000	£'000	£'000
R&R Contribution	300		0				300
Min Revenue Provision	1,141		159			232	1,532
Pensions	366		2,805				3,171
Contribution to Bad Debts Provision	20		0				20
General Fund/ Housing Revenue Account /North Essex Parking Partnership Adjustment	(3,406)		(8)				(3,414)
Total Below the Line	1,313	(155)	3,789	400	0	(146)	5,201
<b>Total incl Below the line</b>	<b>20,206</b>	<b>(270)</b>	<b>5,984</b>	<b>442</b>	<b>(0)</b>	<b>(1,848)</b>	<b>24,514</b>
<b>Funded by:-</b>							
Use of balances	0	0	0		(125)		(125)
Contribution to balances	1,786	(1,786)	0		935		935
Contribution to Business Rates Reserve	406	(406)	0		0		0
Use of other Earmarked Reserves	(185)	185	0		(2,990)		(2,990)
Use of NNDR reserve	0	0	0		(540)		(540)
Business Rates Baseline	(4,257)		(43)				(4,300)
NNDR Levy Surplus	(65)	65	0				0
NNDR Growth above Baseline	(1,600)		0		(125)		(1,725)
Business Rates Pooling	(200)		0		0		(200)
Council Tax	(12,072)		0		(435)		(12,507)
Collection fund Transfer	(604)	604	0		540		540
New Homes Bonus	(3,415)		0		(187)		(3,602)
<b>Total</b>	<b>(20,206)</b>	<b>(1,338)</b>	<b>(43)</b>	<b>0</b>	<b>(2,927)</b>	<b>0</b>	<b>(24,514)</b>

## Appendix H - 2020/21 General Fund Budgets

	Direct Budgets			Non-Direct Budgets	
Area	Spend	Income	Net	Net	Total
	£'000	£'000	£'000	£'000	£'000
<b>Corporate &amp; Democratic Core</b>	286	(550)	(264)	2,597	2,333
<b>Total</b>	<b>286</b>	<b>(550)</b>	<b>(264)</b>	<b>2,597</b>	<b>2,333</b>
<b>Executive Management Team</b>					
EMT	705	-	705	(705)	-
<b>Total</b>	<b>705</b>	<b>-</b>	<b>705</b>	<b>(705)</b>	<b>-</b>
<b>Community</b>					
Assistant Director	157	-	157	(157)	-
Licencing, Food & Safety	526	(537)	(11)	432	421
Community Safety	93	-	93	22	115
Environmental Health Services	519	(67)	452	183	635
Building Control	444	(455)	(11)	268	257
Community Initiatives	403	-	403	184	587
Private Sector Housing	508	(172)	336	140	476
Bereavement Services	923	(1,585)	(662)	289	(373)
Cultural Services	599	(107)	492	946	1,438
Colchester Museums	70	(532)	(462)	34	(428)
<b>Subtotal</b>	<b>4,242</b>	<b>(3,455)</b>	<b>787</b>	<b>2,341</b>	<b>3,128</b>
Colchester & Ipswich Museums	2,195	(1,123)	1,072	846	1,918
<b>Total</b>	<b>6,437</b>	<b>(4,578)</b>	<b>1,859</b>	<b>3,187</b>	<b>5,046</b>
<b>Customer</b>					
Assistant Director	153	-	153	(153)	-
Customer Business	672	(149)	523	(523)	-
Local Taxation & NNDR	486	(713)	(227)	661	434
Customer Solutions	1,122	(100)	1,022	(1,022)	-
Customer Experience	2,406	(312)	2,094	(2,094)	-
Electoral Services	420	(3)	417	109	526
<b>Subtotal</b>	<b>5,259</b>	<b>(1,277)</b>	<b>3,982</b>	<b>(3,022)</b>	<b>960</b>
Benefits - Payments & Subsidy	38,577	(39,314)	(737)	883	146
<b>Total</b>	<b>43,836</b>	<b>(40,591)</b>	<b>3,245</b>	<b>(2,139)</b>	<b>1,106</b>
<b>Environment</b>					
Assistant Director	146	-	146	(146)	-
Neighbourhood Services	11,145	(3,475)	7,670	2,766	10,436
Car Parking	1,084	(3,970)	(2,886)	1,038	(1,848)
<b>Subtotal</b>	<b>12,375</b>	<b>(7,445)</b>	<b>4,930</b>	<b>3,658</b>	<b>8,588</b>

		Direct Budgets				Non-Direct Budgets	
	North Essex Parking Partnership	3,752	(3,637)	115		120	235
	<b>Total</b>	<b>16,127</b>	<b>(11,082)</b>	<b>5,045</b>		<b>3,778</b>	<b>8,823</b>
	<b>Policy &amp; Corporate</b>						
	Assistant Director	167	-	167		(167)	-
	Finance	966	(146)	820		(821)	(1)
	ICT	2,077	(245)	1,832		(1,832)	-
	People and Performance	756	(189)	567		(633)	(66)
	Governance	3,024	(304)	2,720		(2,666)	54
	Place Strategy	1,251	(25)	1,226		(79)	1,147
	Planning	1,164	(1,227)	(63)		759	696
	Housing	2,060	(818)	1,242		(134)	1,108
	Communications	638	(189)	449		(449)	-
	<b>Subtotal</b>	<b>12,103</b>	<b>(3,143)</b>	<b>8,960</b>		<b>(6,022)</b>	<b>2,938</b>
	<i>Company Related:-</i>						
	Client - Commercial Company	1,837	(528)	1,309		(1,837)	(528)
	Corporate Asset Management	1,749	(270)	1,479		(1,404)	75
	Commercial & Investment Props	260	(3,119)	(2,859)		2,428	(431)
	Sport & Leisure	5,335	(5,571)	(236)		2,070	1,834
	<b>Total</b>	<b>21,284</b>	<b>(12,631)</b>	<b>8,653</b>		<b>(4,765)</b>	<b>3,888</b>
	Adjustment for NEPP use of balances	-	185	185		-	185
	<b>Total (excl. NEPP)</b>	<b>84,923</b>	<b>(65,610)</b>	<b>19,313</b>		<b>1,833</b>	<b>21,146</b>

\* Non-direct budgets reflect recharges between service areas and technical accounting charges. These are shown to present the full cost of services.



## Appendix I – Reserves, Provisions and Balances

	2018/19	2019/20		2020/21
	Actual	Actual	Forecast	Forecast
General Reserve -	2,630	2,586	2,498	2,373
General Reserve - Risk Allocation	1,161	1,161	661	661
General Reserve - Carry-forwards	2,272	522	522	522
Pension Reserve	1,289	3,214	3,214	900
Redundancy, North Essex Parking Partnership, Colchester & Ipswich Museum Service	582	263	463	463
Renewals and Repairs	2,105	2,403	1,903	1,903
Insurance	471	471	471	471
Capital Expenditure Reserve	1,448	1,593	600	600
Capital Receipts Reserve	391	5,011	1,000	1,000
Gosbecks Reserve	171	171	171	171
Heritage Reserve	117	100	100	100
Revenue Grants unapplied	2,944	3,651	2,916	2,916
Parking Reserve	1,458	1,274	1,089	904
Heritage Mersea Mount	11	11	11	0
Business Rates Reserve	1,443	1,510	1,510	770
Mercury Theatre Reserve	110	110	110	0
Revolving Investment Fund Reserve	1,292	1,898	1,000	250
S106 / Asset replacement	45	48	0	0
<b>TOTAL General Fund</b>	<b>19,940</b>	<b>25,997</b>	<b>18,239</b>	<b>14,004</b>
Housing Revenue Account Reserve	4,564	4,564	4,373	3,873
Major Repairs Reserve	3,653	3,653	0	0
Housing Revenue Account Retained Right To Buy Receipts – Debt	5,597	5,597	6,427	1,313
Housing Revenue Account Retained Right To Buy Receipts – Replacement	5,870	5,870	5,549	4,281
<b>TOTAL Housing Revenue Account</b>	<b>19,684</b>	<b>19,684</b>	<b>16,349</b>	<b>9,467</b>
<b>Total</b>	<b>39,624</b>	<b>45,681</b>	<b>34,588</b>	<b>23,471</b>

## Appendix J – Allocation of New Homes Bonus

	Allocation of New Homes Bonus	2019/20	2020/21	2021/22	2022/23	2023/24
		£'000	£'000	£'000	£'000	£'000
1	New Homes Bonus	3,415	3,602	3,262	3,257	3,261
2	Allocated to:-					
3	Contribution to RIF	250	250	250	250	250
4	Affordable housing allocation	163	150	88	116	120
5	Base Budget	1,033	833	633	433	233
6	Allocation to CNG Sports Project	500				
7	Savings Implementation Costs	0	441	200	200	0
8	Local Plan allocation reserved for NEGC contributions or alternative local plan options dependent on decisions of the Planning Inspector	0	500	500	500	500
9	Support for one-off schemes (see below)	1,469	1,428	1,591	1,758	2,158
10	Total allocation	3,415	3,602	3,262	3,257	3,261
	<b>Use of NHB allocation for one-off schemes</b>					
11	Support for one-off schemes	1,469	1,428	1,591	1,758	2,158
12	Allocated to:					
13	Cultural Events Fund 2020-21		20			
14	High Street (net additional contribution to ECC works)		40			
15	Environment & Sustainability Task and Finish Group resource		50			
16	West Mersea Town Council Toilets		30			
17	Town Hall office reconfiguration		40			
18	Better Colchester Communications		150			
19	Strategic Priorities Programme Delivery		150			
20	<b>Balance for future allocation and New Strategic Priorities</b>		948	1,591	1,758	2,158