Cabinet		**Item 7(i)**
27 January 2021		

Report of	**Chief Operating Officer**	**Author**	**Paul Cook** ☎ **505861** **Darren Brown** ☎ **282891**
Title	**Budget 2021/22 and Medium-Term Financial Forecast**		
Wards affected	All		

1 Executive Summary

1.1 The report recommends a sustainable 2021/22 budget and Medium Term Financial Forecast 2021/22 to 2024/25.

2 Recommended Decision

2.1 To approve the 2021/22 Revenue Budget and revised Medium Term Financial Forecast as set out Appendix A.

2.2 To note the budget robustness statement and forecast level of balances set out in Appendix B.

2.3 To approve the Treasury Management Strategy 2021/22 to 2024/25 set out in Appendix C

2.4 To recommend to Council the 2021/22 revenue budget requirement of £20.623m as set out in Table E1 in Appendix E.

2.5 To recommend to Council Colchester's element of the Council Tax at £200.52 per Band D property being an increase of £4.95.

2.6 To increase the officer delegation to write off bad debts to £10k as per Section 12 of this report, subject to the approval of 19 January 2021 Governance and Audit Committee.

2.7 To note the proposed government changes to external audit arrangements set out in Section 8.17 to 8.20.

3 Reason for Recommended Decision

3.1 To balance the 2021/22 budget and revise the Medium Term Financial Forecast.

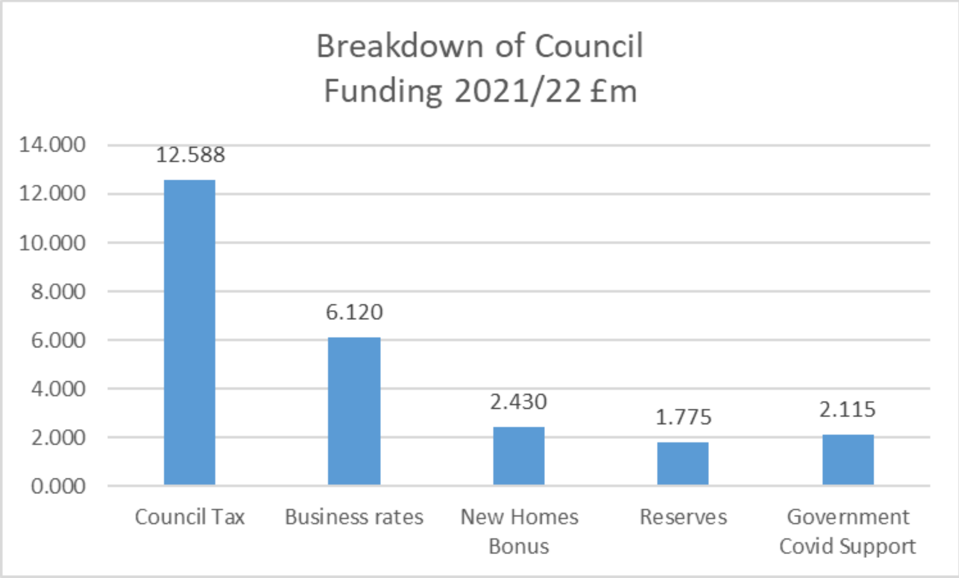
4 Alternative Options

4.1 None.

5 Summary of Council Funding

5.1 The table below describes some of the key budget terms used in the paper and the needs and services to which they relate and the sources of budget funds.

Revenue	These are the running costs and income sources of the Council, including • Salaries of staff • Supplies and services provided to the Council and residents • Fees and charges where payments are required
Capital	Council investment in land and buildings, plant and equipment, whether Council buildings, leisure, sports and other facilities, or in support of services to residents.
Housing Revenue Account or HRA	The costs of maintaining or adding to the Council's circa 5,900 council houses and flats. This account is kept separate from the Revenue and Capital accounts and is self-financing, in that income must meet or exceed spend in any year.
General Fund	Non-HRA services accounted such as waste collection, housing benefit administration, planning, democratic services and sports and leisure for example.
The 21/22 Budget	General Fund Revenue financial plan for next year 2021/22
MTFF	Our financial plan for the next four years on General Fund or Medium Term Financial Forecast
Net Budget requirement	A technical budget setting calculation the Council must make in accordance with complex rules set by the Government. It is essentially running costs less sales fees and charges and grants for individual services.
Net General Fund Services Budget	At some £23m (excluding North Essex Parking Partnership) it reflects the costs of all services and payments passing through the Council, at some £89m less £66m income, as set out in Appendix G.
Government funding	Since 2012 this comes mainly from retained Business Rates. New Homes Bonus is also a significant, if reducing, component. The balance of Council funds comes from Council Tax.
Business rates	We collect about £70m a year of which we expect to retain £6.120m in 2021/22. Business rates are set nationally.
Council tax	We collect about £110m, most of which goes to Essex County Council and expect to retain £12.588m in 2021/22. Our part of the Council Tax may be increased up to a maximum £5 per annum in 2021/22, without a referendum.
Collection Fund	Under government regulations, business rates and council tax are held and accounted for in a separate Collection Fund. This income is then distributed as required, to the government, the county council, and others, including this Council. It is also used to hold and share surpluses or to meet budget deficits, often over several years.

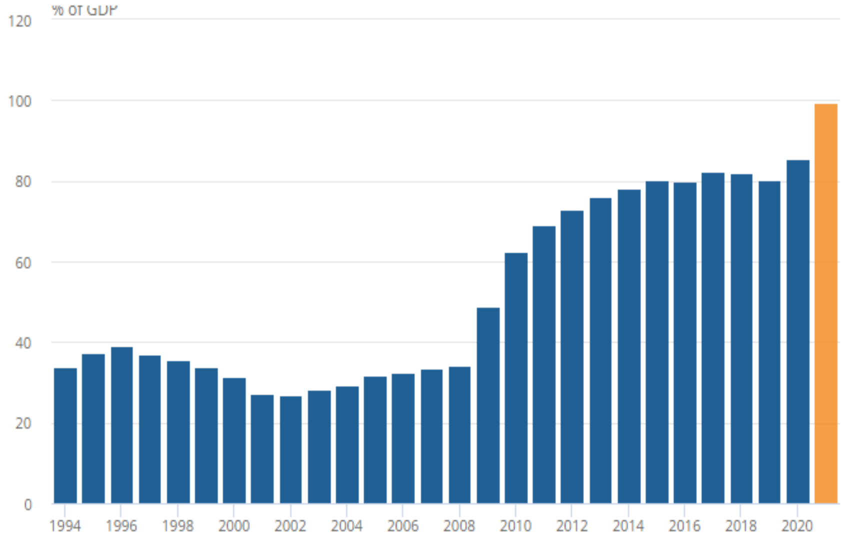
Breakdown of Council Funding	

6 Macro-economic context

6.1 Public debt rose by £301.6 billion in the first eight months of the financial year to reach £2.1 trillion at the end of November 2020. At some 99.5% of gross domestic product (GDP) this was the highest level of government indebtedness since the 1960's and will increase throughout the MTFF period. Public sector borrowing costs are relatively low, but public finances will need to be put on a sustainable basis. To do so it is likely that government funding to Local Authorities will be reduced, as was the case after the financial crisis of 2008 and this could be a significant issue for this Council, in the medium term.

Figure 8: Debt as a ratio of GDP has increased considerably during the COVID-19 pandemic

Public sector net debt excluding public sector banks, UK, March 1994 to the end of November 2020



6.2 The HM Treasury average of independent forecasts for GDP decline in calendar year 2020 is 10.9%. In calendar year 2021 the economy is expected to recover by 5.4%, with a full recovery to pre pandemic levels unlikely before late 2022, at best. Unemployment has already risen sharply to 6% and is expected to rise further to 6.8% in calendar year 2021. The impact on the Council is likely to be reduced Government support in the medium term as the public finances need to be put back in order. A depressed economy will also impact on the Council's income, from less resident and visitor discretionary spend on leisure, to areas such as commercial rents and car parking. Higher unemployment will create an increased demand for Local Council Tax Support.

FORECASTS FOR THE UK ECONOMY

This edition of the comparison contains 18 new forecasts, all of which were received between December 1st and December 11th 2020. The tables below summarise the average and range of independent forecasts for 2020 and 2021 and show the average of this month's new forecasts.

Forecasts for 2020	Independent*				Average of new* forecasts
	Averages		December		
	December	November	Lowest	Highest	
GDP growth (per cent)	-10.9	-10.6	-11.5	-8.9	-11.1
Inflation rate (Q4: per cent)					
- CPI	0.7	0.6	0.3	1.0	0.7
- RPI	1.4	1.2	0.7	1.7	1.4
LFS unemployment rate (Q4: %)	6.0	6.4	4.5	7.5	5.9
Current account (£bn)	-60.8	-61.2	-88.2	-42.1	-58.3
PSNB (2020-21: £bn)	380.9	359.2	332.5	422.7	381.2

Forecasts for 2021	Independent*				Average of new* forecasts
	Averages		December		
	December	November	Lowest	Highest	
GDP growth (per cent)	5.4	5.3	1.3	7.5	5.4
Inflation rate (Q4: per cent)					
- CPI	1.9	1.9	0.8	3.7	2.0
- RPI	2.6	2.6	1.1	4.9	2.7
LFS unemployment rate (Q4: %)	6.8	7.2	5.7	8.1	6.7
Current account (£bn)	-84.0	-77.2	-137.0	-40.0	-77.9
PSNB (2021-22: £bn)	199.7	195.9	138.6	276.0	202.1

7 Outlook for Local Government Funding

7.1 The provisional 2021/22 Local Government Finance Settlement was published on 17 December 2020. The Settlement is in three main parts:

- Support for Covid costs and impacts
- Core funding from government
- Changes to local authority external audit

7.2 Consultation on Covid support and impacts ended on 14 January 2021. Support has covered most costs and lost income in the current financial year 2020/21 and Councils are promised further help in 2021/22. Due to a prudent level of reserves and sound financial management Colchester has been able to cover direct and indirect Covid costs as well as lost income in 2020/21. The Council can do so again in 2021/22.

7.3 Government consultation on core funding ended on 16 January 2021. The Local Government Association response highlighted that more than 85% of the core funding increase next year is dependent on councils increasing council tax by up to 5%. These figures include the 3% social care precept which does not benefit Colchester Borough Council finances.

7.4 Whilst there is continuing government support for most Covid costs and impacts, changes to core funding are much more concerning. In the longer term the local government finance settlement is likely to be constrained by the long-term pressures on public finances from the massive direct and indirect costs associated with the pandemic. Colchester budgets could be significantly affected from the 2022/23 financial year.

- The latest Spending Review was for one-year only, for budget year 2021/22 and a Comprehensive Spending Review is overdue. A new Spending Review should provide greater medium-term certainty but may also see adjustments to Departmental Expenditure Limits (DEL) which favour departments other than the Ministry for Housing, Communities and Local Government (MHCLG).
- Long awaited proposals to introduce 100% business rates retention by local authorities. The detail of the proposals has yet to be published.
- The long delayed Fair Funding Review may redistribute government support to Local Authorities and impact significantly on this Council's spending power.
- Changes to New Homes Bonus have been made that reduce future year income. Further changes may be made under a planned review of the scheme. This could disadvantage the Council given the levels of housing growth in the Borough over the last decade and the new homes bonus this provided.

7.5 The changes set out above could present a significant risk to our finances and accordingly our service provision, as reflected in the Strategic Risk Register. Any extended disruption caused by the Covid pandemic may however delay or impact the Government's ability to develop and introduce such measures and to provide the stability needed for the Medium-Term Financial Forecast (MTFF). This will be kept under constant review.

7.6 The Covid pandemic, its economic aftermath and accelerated societal trends will create downward pressure on shopping and visiting. These changes will be compounded by increased reliance on online access to services. This could have a significant impact on the Council's leisure and car park income.

7.7 Business rates and Council Tax payments recovery are likely to prove increasingly challenging, as businesses struggle, injured by repeated lockdowns and facing difficult trading and economic conditions.

8 Overview of Government Funding for Covid-19 and the Provisional 2020 Local Government Finance Settlement

Covid Funding

8.1 Substantial Government financial support has been received during 2020/21 with unringfenced grants of £2.914m and Income Loss Support Grant currently forecast at £3.928m

8.2 The 2020 Spending Review announced £1.550bn new Covid funding in 2021/22 for local government. The Colchester allocation of £993k for 2021/22 was announced by MHCLG on 17 December 2020 in the provisional Local Government Finance Settlement. This is welcome additional support for the Council.

8.3 The Spending Review also announced £670m support for increased Local Council Tax Support (LCTS) costs. The allocation in the provisional Local Government Finance

Settlement is £1.7m for the Colchester billing area, covering the impact on all recipients of Council Tax. The allocation for Colchester is £0.2m. The current Medium Term Financial Forecast assumption is a 12.5% increase in demand for this help with Council Tax bills, assuming the current normal eligibility criteria. The additional funding will help meet this cost.

8.4 The Spending Review extended sales fees and charges income loss grant to Q1 of 2021/22. This was confirmed in the provisional Local Government Finance Settlement. This is a forecast £500k gain for the Council and has been built into the Medium-Term Financial Forecast. The grant will continue to be calculated on 2020-21 income budgets. The extension of the grant is welcomed by the Council.

8.5 Under the Spending Review the government announced it will provide Income Loss grant towards **irrecoverable** 2020/21 council tax and business rates losses. This was confirmed in the provisional Local Government Finance Settlement. This additional support is welcomed by the Council. The council tax collection rate assumption has been increased in the Medium-Term Financial Forecast to 97.5% (from 95%). This means a £1m forecast loss to bear in 2021/22, of which Colchester must bear 25%. This is provided for in the Medium-Term Financial Forecast.

Core Funding

8.6 There is no change in the Settlement to the council tax referendum principles for 2021/22. For district councils the limit remains £5 or 2% whichever is the higher. However, a £5 council tax increase is already assumed by Government in calculating and proposing to maintain Colchester's 2021/22 core spending power at the same level as 2020/21. Not to make a £5 council tax increase would lead to a loss of £498k spending power in 2021/22. The Council would have expected more flexibility on referendum limits in 2021/22 and that a 2% council tax increase would not automatically be assumed in assessing Spending Power.

8.7 Immediate 2021/22 changes and a proposed fundamental review of New Homes Bonus is likely to have a very significant impact on Colchester's funding. Colchester is a rapidly growing borough and is particularly badly affected.

8.8 The provisional Local Government Finance Settlement finalised 2021/22 entitlements. The New Homes Bonus earned by Colchester for 2021/22 is £2.430m, some £1.772m in legacy payments and £0.708m for 2021/22.

8.9 There are no legacy payments for the bonus already earned in 2020/21 (year 10 of the scheme). This is a direct loss of £1.286m in 2021/22 and a loss over the Medium-Term Financial Forecast period of £3.858m compared to the previous arrangements.

8.10 Similarly, there are no legacy payments for the bonus earned for 2021/22 (year 11 of the scheme). This is a direct loss of £0.708m in 2022/23 and a loss over the Medium-Term Financial Forecast period of £2.124m compared to the previous arrangements.

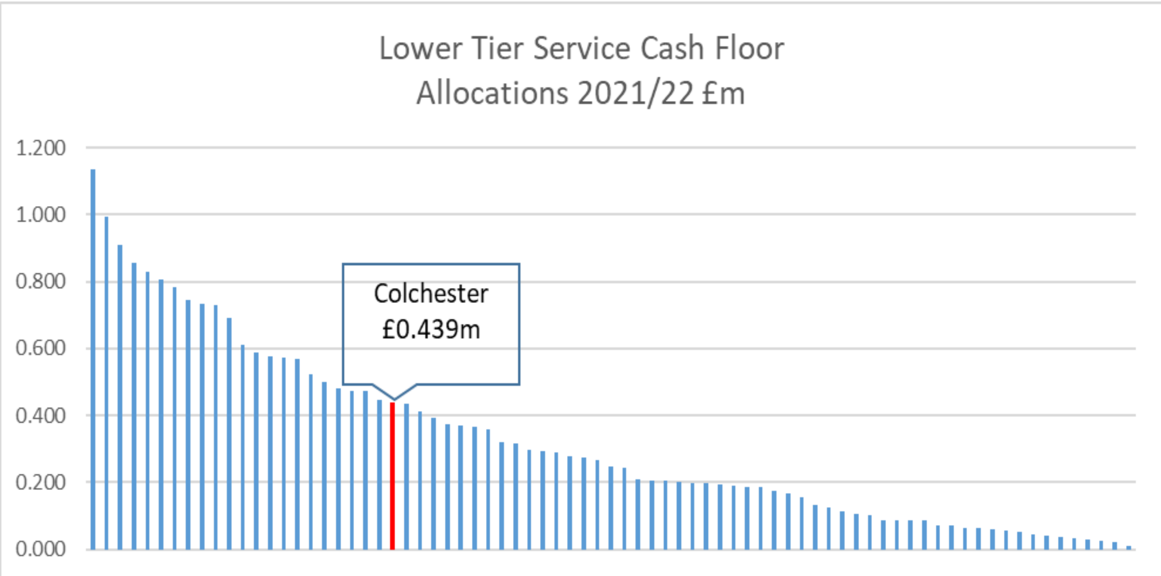
8.11 New Homes Bonus forecasts for later years of the Medium-Term Financial Forecast have therefore been reduced to £800k (excluding the affordable housing element) and no further legacy payments are assumed. The planned use of New Homes Bonus is set out in the Appendix I.

8.12 The Local Government Finance Settlement introduced a new Lower Tier Services Grant in 2021/22. The grant is in two parts – service and cash floor.

8.13 The service component of the grant is directed to all 364 councils providing lower tier services. This is the responsibility for services such as homelessness, planning, recycling and refuse collection and leisure services. The bulk of funding is paid to unitary authorities, metropolitan districts and London Boroughs. This element of the grant is based on 2013/14 spending data.

8.14 The cash floor component is intended to protect 77 of the lower tier authorities, so they do not have reduced core spending power in 2021/22 compared to 2020/21. Colchester falls into this category.

8.15 The Colchester Lower Tier Services Grant allocation for 2021/22 is £0.623m. This comprises £184k for services and £439k for the cash funding floor. Colchester's cash floor allocation is the 22nd highest of all authorities demonstrating the impact of the settlement on this authority. The Lower Tier Services Grant will only partially compensate for the loss of New Homes Bonus referred to above. There appears to be no commitment the new grant will be paid after 2021/22. So whilst Colchester will be initially protected from some funding losses the medium term position is less clear.



8.16 The net impact of the settlement on the Council is that additional costs and income losses in 2020/21 have been largely covered with £1.000m unplanned use of reserves being required. In 2021/22 the extent of government support for Covid costs and income losses has yet to be finalised. Current expectations are that the Council will need to use £2.400m of reserves in addition to its previously planned usage. The Council is also needing to make £2.528m of savings in 2021/22. There are a number of major changes to Government funding in the medium term and these will need to be watched carefully. In particular the loss of New Homes Bonus is a concern.

Changes to local authority external audit

8.17 Following delivery problems and delays with 2018/19 and 2019/20 audit delivery an independent review commissioned by the Government has been carried out by Sir Tony Redmond.

8.18 The Government intends to set 30 September as the publication date for 2020/21 and 2021/22 accounts. Audit firms will be required to improve their skills and training.

8.19 Audit fees are likely to increase, but some additional funding will be provided to authorities to meet the cost. External auditors will report annually to the full Council. The complex form of accounts will be reviewed, including a standardised statement of service information and costs.

8.20 Colchester has been able in recent financial years to produce its accounts for audit to meet a 31 July publication timetable. It is disappointing that a later publication date is now envisaged by government with increased audit costs.

9 Budget Pressures, Response and Remedies for the Council

9.1 We have an exceptionally challenging health and economic situation nationally and locally, damaging all forms of income to the Council and increasing our costs. The Council has responded robustly, to reduce the impacts whilst retaining a prudently progressive approach to the 2021/22 budget, that supports investment in the local economy, local businesses and those they employ, and recovery.

9.2 The rate of recovery will be dictated by Government policy on lockdown. Income budgets in 2021/22 assume a reduced level compared to 2020/21 original budgets and a gradual recovery. Any losses compared to 2020/21 original budget are likely to be protected by Government income loss grant. However, the position needs to be kept carefully under review through the normal monitoring processes. The financial position will be updated early in the new financial year and fully updated for Quarter 1. This will include regular reports to the Cabinet and Scrutiny Panel.

9.3 Despite the highly challenging context, the Council's Budget will allow it to maintain essential as well as highly regarded discretionary services to residents and to meet the environmental, health, housing and other needs of the Borough, as set out within the Council's Strategic Plan.

9.4 Working in partnership with the Business Improvement District (BID) and other groups the Council will also continue to ensure everything possible is done to promote economic and town centre recovery. It will continue to invest in the future of Colchester as a place in which to live, work, visit and invest, with projects such as the Northern Gateway. A vigorous programme of housing investment will continue. Capital investment will deliver improved services and retain or increase employment. The programme invests in local community facilities including £1.500m for St Marks Community Centre. This will be partly funded from S106 resources.

9.5 Council efficiencies, and service delivery improvements will deliver a wide range of saving, some £2.528m in 2021/22. These were reported to October 2020 Cabinet and there are no significant changes since.

9.6 The Council's expenditure assumptions allow for usual pressures and cost growth, such as inflation and interest charges, and the wholly exceptional income loss and other pressures created by the pandemic and related economic crisis. Together these total £7.376m in 2021/22. The key items:

- Covid income losses - £4.129m
- Waste and recycling - £1.044m due to the low market prices for materials combined with increased service volumes
- Interest payable to finance 2021/22 capital programme - £0.644m

- Transformation and Recovery - £0.500m
- Inflation allowance - £0.440m
- Council tax sharing agreement - £0.150m lost income

9.7 The Capital Programme is reported separately on this agenda.

9.8 The 2021/22 budget assumes a £4.95 Colchester council tax increase that will raise some £0.5m annually, and the Medium-Term Financial Forecast assumes the same increase is made in future financial years.

9.9 A 97.5% council tax collection rate is assumed but Local Council Tax Support take-up from 2021/22 is assumed to be 12.5% higher than originally budgeted for 2020/21. Growth in property numbers is assumed to be 1% per annum.

9.10 The Medium-Term Financial Forecast also assumes a £200k gain from the Council's membership of the Essex Business Rates Pool.

9.11 Minor increases to Council tax and sales, fees and charges have been made, as agreed by Cabinet in November 2020. Some are below inflation, others broadly in line with inflation but together they help maintain Council income.

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9.12 Despite significant savings and efficiencies, it will be necessary to use £2.400m of Council reserves in 2021/22 to meet Covid related lost income and other pressures. This is in addition to the reserves already used in 2020/21. A full statement on reserves is provided in Appendix H.

9.13 The Medium-Term Financial Forecast and the assumptions used are set out in Appendix A to this report.

10 MTFF Consultation

10.1 A public consultation has been undertaken on the 2021/22 budget and the results are set out in Appendix D.

10.2 The budget strategy and timetable have ensured that information is available for Scrutiny Panel and input from all Members.

10.3 A cross-party Task and Finish Group considered the introduction of green waste collection charges to help reduce the budget gap. The Group did not support charges. Their recommendations were accepted by the Cabinet in August 2020.

10.4 Budget workshops were held on 4 August 2020; 26 August 2020; 5 October 2020 and 7 December 2020. This allowed all members to understand and share in the task of meeting the budget challenge, to be achieved by cost reduction, service transformation and efficiencies that included staff reductions, and the use of reserves.

10.5 The Leader of the Opposition and the Shadow Portfolio Holder for Business and Resources attended Budget Workshops and are also able at any stage of the budget process to meet with officers to assist with consideration of any alternative budget proposals.

10.6 The statutory consultation with business ratepayers will take place on 9 February 2021.

11 Risk Management Implications

11.1 Extensive modelling work has been undertaken with service managers to assess the potential range of impacts on spend and income of the crisis before adopting the assumptions described within the report.

11.2 Staff and support costs reflect current assumptions and progress made in this financial year but will be subject to the progress of our service transformation and efficiency work.

11.3 The pandemic and related economic crisis will however mean very significant uncertainties will need to be managed in year. If necessary, by seeking further government support or by drawing yet further on reserves to ensure, as is mandated, that the budget is balanced

12 Financial implications

12.1 As set out in the main body of this report.

12.2 Under Financial Regulations, any debt write-off in excess of £5k must be referred to the Portfolio Holder. It is recommended this limit is increased to £10k from April 2021 and then by inflation subject to minimum steps of £1k, consistent with wider good practice.

12.3 The change will not have a direct financial impact but will ease administration. This change is subject to approval at the 19 January 2021 Governance and Audit Committee.

13 Environmental and Climate Change Implications

13.1 All budget measures are assessed for their likely environmental impact, reflecting the Council's commitment to be 'carbon neutral' by 2030. Environment and Climate Change is an essential cross-cutting theme in the Council's recovery planning and a core theme of the new Strategic Plan.

13.2 In addition to specific programmes, the Medium-Term Financial Forecast allows £100k from 2021/22 for Climate Change initiatives.

14 Equality and Diversity Implications

14.1 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.

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

A	**2021-25 Medium Term Financial Forecast and Assumptions**
B	**Budget Robustness Statement**
C	**Treasury Management Strategy Statement**
D	**Budget Consultation**

E	**Technical reconciliations of budget requirement 2021/22**
F	**Summary Budget 2021/22**
G	**2021/22 General Fund Budgets**
H	**Reserves, Provisions and Balances**
I	**Allocation of New Homes Bonus**

Appendix A – 2021-25 Medium Term Financial Forecast and Assumptions

2021/22 Budget and MTFF	21/22	22/23	23/24	24/25
	£'000	£'000	£'000	£'000
Previous year's budget	**21,599**	**25,028**	**22,583**	**23,123**
Cost pressures & Growth items	2,103	279	1,821	940
Capital financing	644	(50)	200	200
Income losses	4,129	(2,000)	(350)	(200)
Transformation and recovery	500	(500)	0	0
Savings	(2,528)	(315)	(290)	(50)
Change in forecast use of new homes bonus	(1,419)	141	(841)	300
Current year's budget	**25,028**	**22,583**	**23,123**	**24,313**
Business rates	(6,120)	(5,580)	(5,123)	(4,667)
Govt - Covid Funding	(1,493)	0	0	0
Govt Grant	(622)	0	0	0
New Homes Bonus	(2,430)	(2,091)	(950)	(950)
Council Tax	(12,588)	(13,027)	(13,475)	(13,931)
Previously planned use of reserves	625	625	750	750
Covid use of reserves	(2,400)	(900)	(400)	(200)
Budget Gap Cumulative	**0**	**1,610**	**3,925**	**5,315**

MTFF Assumptions	21/22	22/23	23/24	24/25
Council Tax collection	97.5%	97.5%	97.5%	97.5%
Growth in council tax base	1.0%	1.0%	1.0%	1.0%
District council tax increase	£4.95p	£4.95p	£4.95p	£4.95p
LCTS increased take-up	12.5%	12.5%	12.5%	12.5%
Rate of increase in charges	3.0%	3.0%	3.0%	3.0%
Business rates Covid impact	250k	333k	333k	333k

Appendix B – Budget Robustness Statement

1 In 2019/20 the Council contained spend within the approved budget. In 2020/21 the Council's financial position has been substantially affected by the Coronavirus pandemic. However, most income losses and additional costs have been met by Government grants and expenditure controls. The unplanned use of reserves in 2020/21 is therefore expected to be limited to around £1m.

2 Government has already committed to provide additional support for Covid costs in the early part of 2021/22. The income loss grant is extended into 2021/22 and will now cover irrecoverable council tax and business rates losses in 2020/21.

3 The Council has a good record of delivering agreed savings. The 2021/22 savings proposals were developed by a comprehensive programme of officer meetings reviewing all service budgets line by line supported by Finance Business Partners.

4 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, the Revolving Investment Fund Steering Group and a Cabinet chaired Budget Group. These arrangements will ensure that any new expenditure proposals are adequately assessed and that overall spend is managed effectively, in line with overall budgets.

5 The Council is relying on an additional £2.400m use of balances to deliver its core services in 2021/22. Given the exceptional situation this is appropriate.

6 The budget process allows for the review of budget proposals by the Scrutiny Panel and this has applied to the 2021/22 proposals.

7 The use of resources judgment by BDO (the external auditors) in the 2019/20 audit was satisfactory, following an assessment of the Council's approach.

8 There is an effective risk management process in place in the Council.

9 The 2021/22 Provisional Local Government Finance Settlement suggests significant reductions in the Council's New Homes Bonus allocation from 2021/22 onwards. This has been recognised in the MTFF and only a small and decreasing value of New Homes Bonus is used in later years to support the base budget.

10 The MTFF nonetheless shows significant gaps in 2022/23 and onwards. Work will therefore begin earlier than usual to address the gaps. By organisational transformation work and the identification of further savings.

11 The Chartered Institute of Public Finance and Accountancy resilience index has yet to be updated, but Colchester would expect, on current criteria and past performance to score well, given robust controls, high rates of collection and effective prudent stewardship including reserves.

12 It appears therefore that the 2021/22 budget and Medium Term Financial Forecast are robust and the reserves and balances adequate as set out in the succeeding tables.

Appendix C
Treasury Management Strategy Statement
Minimum Revenue Provision Policy Statement and
Annual Investment Strategy
2021/22

1 Introduction

1.1 The Statement includes the Minimum Revenue Provision Policy Statement and Annual Investment Strategy.

1.2 Cash flows, in and out of the Council's accounts must be effectively managed. 'Treasury management' is the term used to capture this money movement and management. The Council must ensure money is available when needed to meet bills due, to pay salaries or to invest safely, to secure a good rate of return.

1.3 The second main function of treasury management is to fund the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council. This longer-term cash flow planning may involve long or short-term loans and or the use of longer-term cash flow surpluses. If borrowing costs or circumstances change, debts may be restructured, paid off or borrowing periods changed.

1.4 The contribution treasury management makes to the authority is critical, as it ensures the Council can meet spending commitments as they fall due, either for day-to-day requirements or larger capital projects.

1.5 Treasury management balances the interest costs of debt and the investment income arising from cash deposits and invests safely to minimise the risk of any losses.

1.6 The Council may provide funding to commercial initiatives or loans to third parties. These must also be managed effectively and reported openly, in accordance with the Localism Act 2011. They are classed as non-treasury activities, usually arising from capital expenditure, separate from day-to-day treasury management activities.

1.7 The Chartered Institute of Public Finance and Accountancy Code 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'.

1.8 Treasury management arrangements affect the Council's revenue budget and Medium Term Financial Forecast. Interest paid as a result of borrowing must be met in year, and income due from investments must be recognised. The Treasury Management Strategy is an integral part of setting the Council's budget, as is the Capital Strategy provided elsewhere on the Cabinet agenda to provide transparency as to the Council's long term investment plans.

Reporting requirements

1.9 The Council is currently required to receive three main reports each year, which incorporate a variety of polices, 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.

1.10 The Treasury Management Strategy is set ahead of the financial year. A Mid-Year Treasury Management Report updates on the capital position, amending prudential indicators as necessary, and any policies require revision. The Annual Treasury Report, after the financial year end, reports on actual spend, borrowing and performance compared to estimates and intent.

Prudential and Treasury Indicators and Treasury Strategy

1.11 The year's Treasury Strategy is recommended to Full Council following consideration by the Scrutiny Panel. It covers:

- Capital plans and related borrowing
- Minimum Revenue Provision policy (MRP) - how and when capital expenditure is charged to the revenue budget over time
- Treasury Management Strategy - how the investments and borrowings are to be organised and repaid
- Investment Strategy - how investments are to be managed.

Training

1.12 The Chartered Institute of Public Finance and Accountancy Code requires the S151 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 2021/22

1.13 The Treasury Management Strategy for 2021/22 covers two main areas:

Table 1 – Content of Treasury Management Strategy	
Capital	capital expenditure plans and the associated prudential indicators
	minimum revenue provision (MRP) 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

1.14 The above meets the requirements of:

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

Treasury management consultants

1.15 The Council uses Link Asset Services as its external treasury management advisors but responsibility for treasury management decisions remains with the Council.

International Financial Reporting Standard 16 Leases

1.16 This standard replaces the current guidance on leases in International Accounting Standard 17. The new Standard provides a single lessee accounting model. This requires 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. International Financial Reporting Standard 16 approach to lessor accounting remaining substantially unchanged from Internationl Accounting Standard 17.

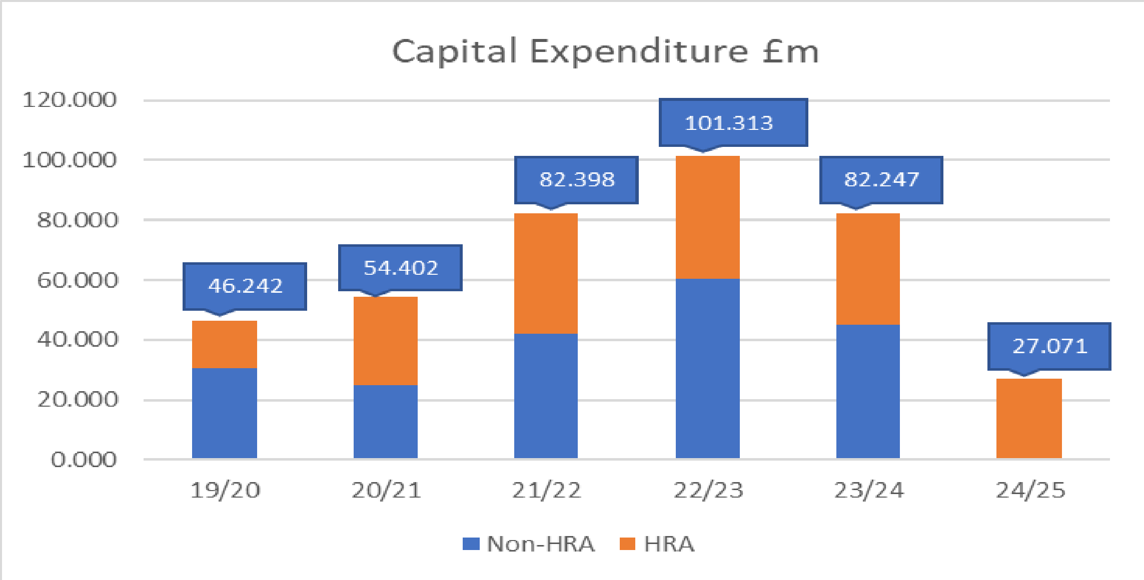
1.17 The Chartered Institute of Public Finance and Accountancy has now delayed implementation of International Financial Reporting Standard 16 in the Accounts Code until 1 April 2022. The impact of adopting International Financial Reporting Standard 16 will be disclosed in the financial statements for the year ending 31 March 2023.

2 The Capital Prudential Indicators 2019/20 – 2024/25

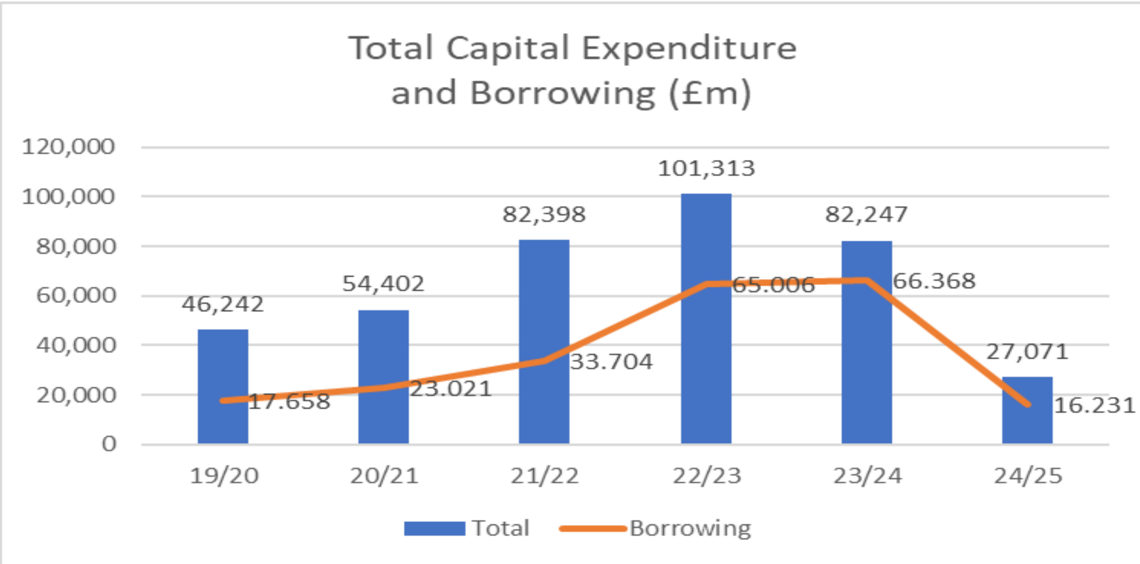
2.1 The Council's capital expenditure plans are the key driver of treasury management and the prudential Indicators are the measures against which performance can be assessed.

Capital expenditure

2.2 This prudential Indicator is a summary of the Council's capital expenditure plans as set out in a separate report on this agenda.

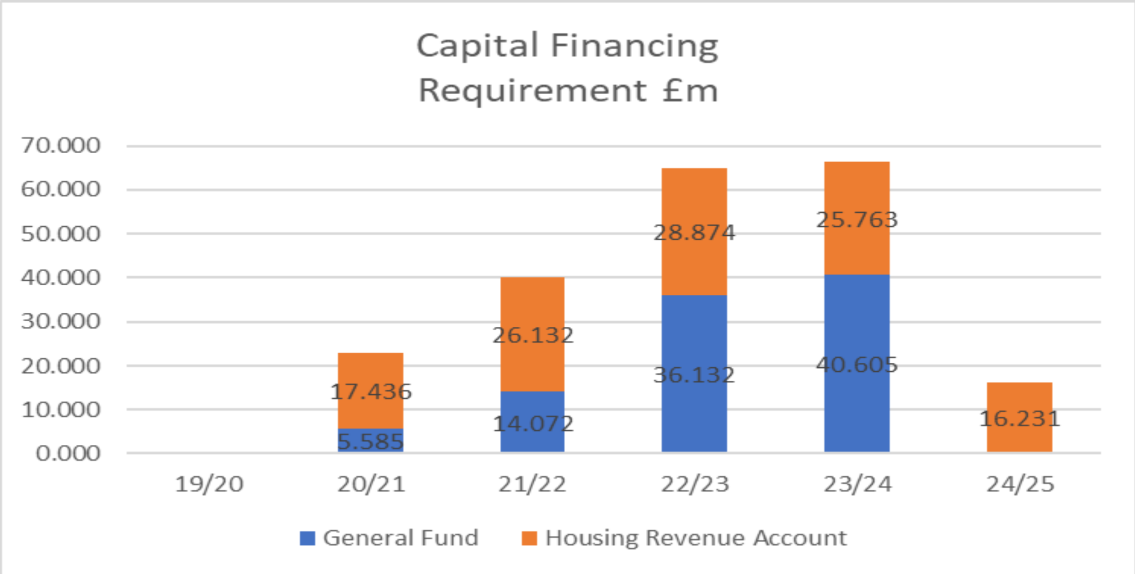


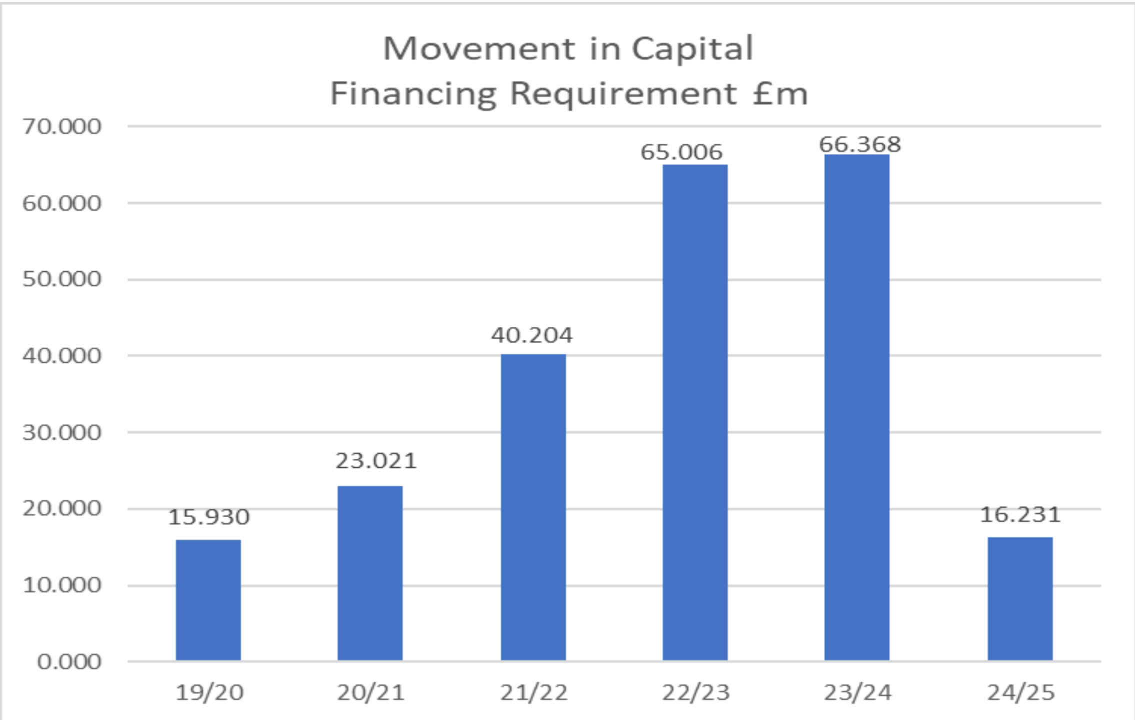
2.3 The table below summarises plans for financing **capital expenditure** from capital or revenue resources.



The Council's borrowing need

2.4 The second prudential indicator is the Council's **Capital Financing Requirement**. This is the outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Council's underlying borrowing need. The Minimum Revenue Provision (MRP) is a statutory annual revenue charge which that reflects the loss in value of capital assets as they are used. MRP is not required in the Housing Revenue Account. These Capital Financing Requirement projections are set out below





Minimum Revenue Provision Policy Statement

2.5 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.

2.6 Government regulations require the full Council to approve a Minimum Revenue Provision Statement in advance of each year. A variety of options can be provided to councils, so long as prudent. This Council is recommended to approve the Minimum Revenue Provision Statement set out in sections 2.7 to 2.09 below.

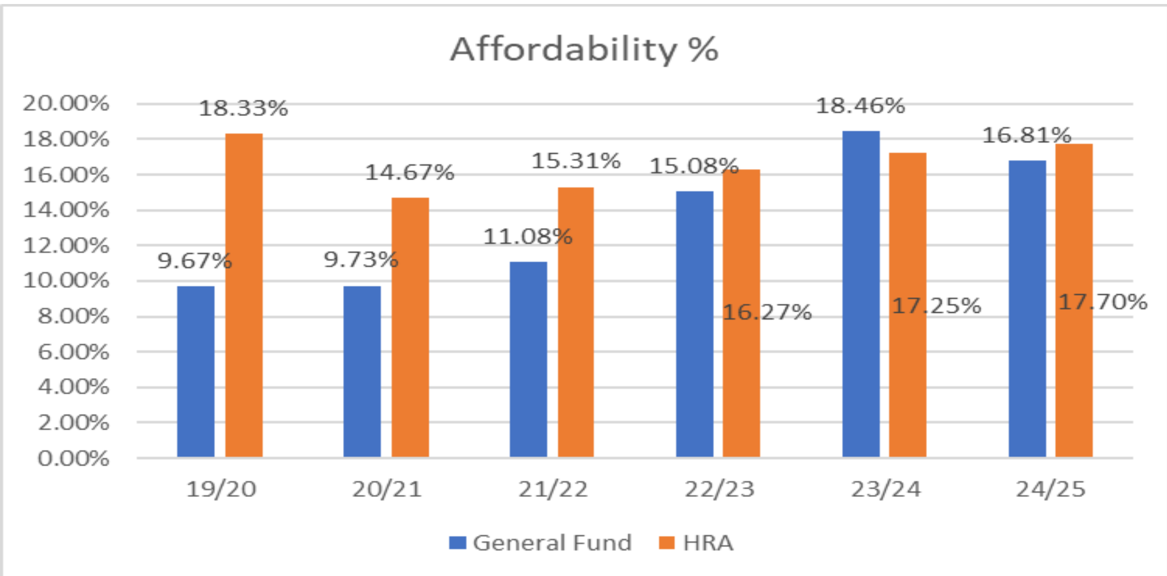
2.7 For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, borrowing need is repaid on an equal instalment basis over a period of 50 years. This has the benefits of reducing the amount payable for the first 17 years, introducing a consistent level of charge, and ensuring that this element of Minimum Revenue Provision is eventually completely repaid.

2.8 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 the asset's life. Repayments included in finance leases are applied as Minimum Revenue Provision.

2.9 There is no requirement in the Housing Revenue Account to make a minimum revenue provision but there is a requirement for depreciation to be made. The S151 Officer will keep the Council's MRP policy under review to ensure that it remains fit for purpose in relation to its borrowing requirements.

Affordability Prudential Indicators

2.10 The previous paragraphs cover the overall capital, and control of borrowing prudential indicators, but a prudential indicator is also required to assess the affordability of the capital investment plans. Affordability is defined as the ratio of financing costs to net revenue stream. This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.



The estimates of financing costs include current commitments and capital programme proposals on this agenda.

3 Economic Outlook provided by Link Asset Services

3.1 The Council has appointed Link Asset Services as its treasury advisor and part of the service is to assist the Council to formulate a view on interest rates. This section of the Strategy is provided by Link.

Link Group Interest Rate View 9.11.20														
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20														
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

3.2 The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 5th November, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the forecast table above as economic recovery is expected to be only gradual and, therefore, prolonged.

Bond yields / Public Works Loan Board rates

3.3 There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was a heightened expectation that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very 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. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 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.

3.4 Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up during the financial crisis in March, we have seen these yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks took rapid action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.

3.5 As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

Investment and borrowing rates

3.6 Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years.

3.7 Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 20/21.

3.8 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.

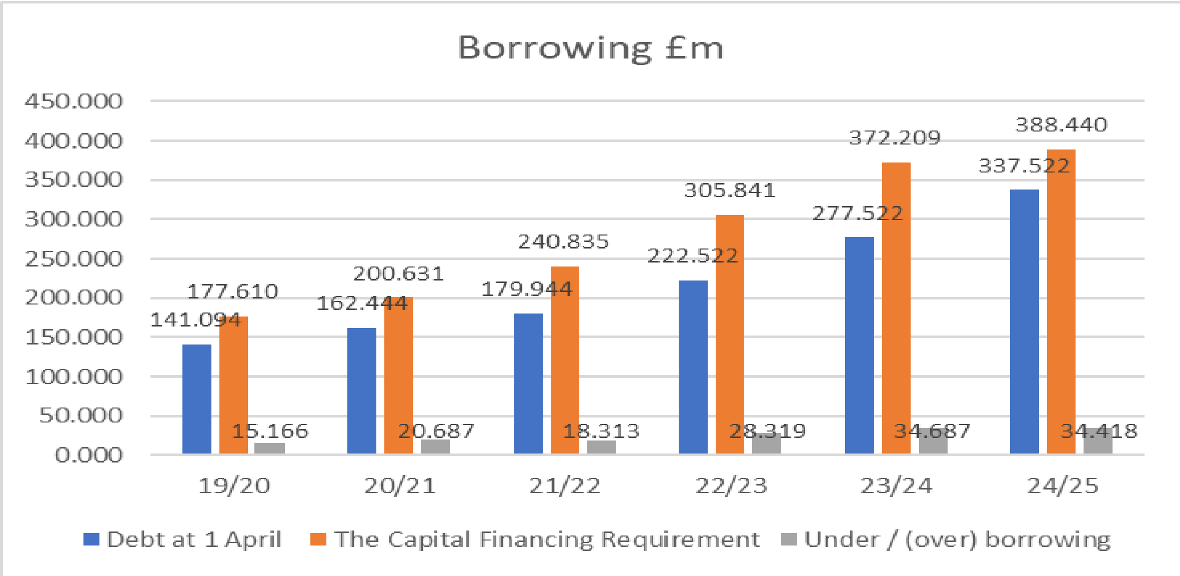
3.9 If long term borrowing causes a temporary increase in cash balances this will incur a revenue cost. The difference between borrowing costs and investment returns is the cost of carry.

Borrowing

3.10 Treasury management ensures that the Council’s cash is organised in accordance with the relevant professional codes, including the organisation of cash flow and, where capital plans require, 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

3.11 The Council's treasury portfolio position at 31 March 2020, 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.

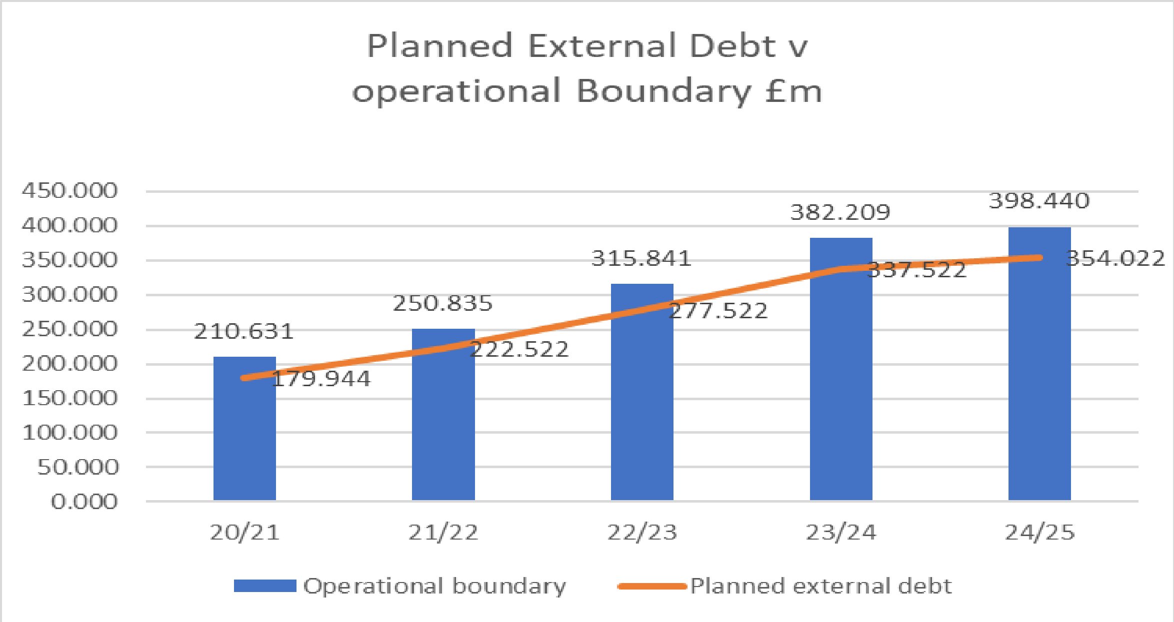


3.12 Prudential indicators ensure that the Council operates within well-defined limits. One of these is that the Council must ensure that its gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current year 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.

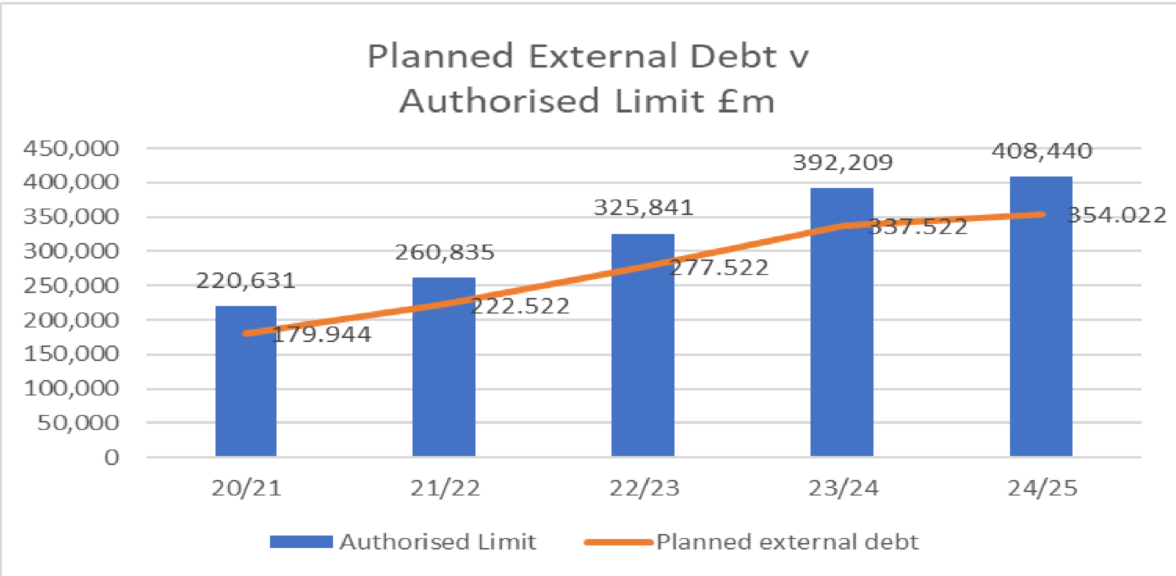
3.13 The S151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties in later years. This reflects current commitments, existing plans, and the proposals on this agenda.

Treasury Indicators: The ‘Operational Boundary’ Limits to Borrowing Activity

3.14 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.



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. 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. The Government retains an option to control either the total of all councils’ plans, or those of a specific council, although this power has not yet been exercised.



Borrowing Strategy

3.15 The Council is currently maintaining an ‘under-borrowed’ position. This means that the capital borrowing need (the Capital Financing Requirement), has not had to be met by loans alone, but by from reserves, balances and cash flow. This strategy is prudent as investment returns are low and counterparty risk needs to be considered.

3.16 Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The S151 Officer will monitor interest rates in financial markets and respond 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.

3.17 Any decisions will be reported to the Scrutiny Panel or Governance and Audit Committee at the next available opportunity.

Treasury Management Limits on Activity

3.18 There are three debt related treasury activity limits. The purpose of these is to minimise risk and reduce the impact of any adverse movement in interest rates, whilst leaving sufficient flexibility to take opportunities to reduce costs and or to improve performance. The indicators are:

- **Upper limit on variable interest rate exposure**. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;

- **Upper limit on fixed interest rate exposure**. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

- **The maturity structure of borrowing**

Maturity structure of borrowing.

3.19 These gross limits reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits, as below

Maturity structure of fixed interest rate borrowing 2021/22		
	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%

Policy on Borrowing in Advance of Need

3.20 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

3.21 Where short-term borrowing rates become considerably cheaper than longer term fixed interest rates, there may be opportunities to generate savings by switching from long-term debt to short-term debt. 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 or discounted cash flow savings;
- helping to fulfil the Council's Treasury Management Strategy;
- enhance the balance of the portfolio (by amending the maturity profile or the balance of volatility).

3.22 Consideration will also be given to making savings by running down investment balances and repaying debt prematurely, as short-term rates on investments are likely to be lower than rates paid on current debt.

3.23 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

3.24 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.

Housing Revenue Account borrowing

3.25 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 HRA purposes. 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.

3.26 As the Council is maintaining an under-borrowed position, the HRA will be charged 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.

4 Annual Investment Strategy

Investment Policy

4.1 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, such as the purchase of income yielding assets, are covered in the Capital Strategy elsewhere on this agenda.

4.2 In accordance with the above guidance, and in order to minimise the risk to investments, the Council deals only with highly creditworthy counterparties, using Short-term and Long-term credit ratings.

4.3 Ratings will not be the sole determinant of the quality of an institution, and the Council will also continually assess and monitor the financial sector taking account of 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.

4.4 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.

4.5 Investment instruments identified for use in the financial year are listed in Appendix B to this Strategy, which includes Counterparty, time and monetary limits. These will cover both 'Specified' and 'Non-Specified' Investments.

4.6 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.

4.7 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

4.8 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;

- Credit Default Swap spreads that may give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

4.9 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
- No colour not to be used

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

4.10 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.

4.11 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.

4.12 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.

4.13 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

4.14 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 the Appendix C to this Treasury Management Strategy. This list will be amended by officers should ratings change in accordance with this policy.

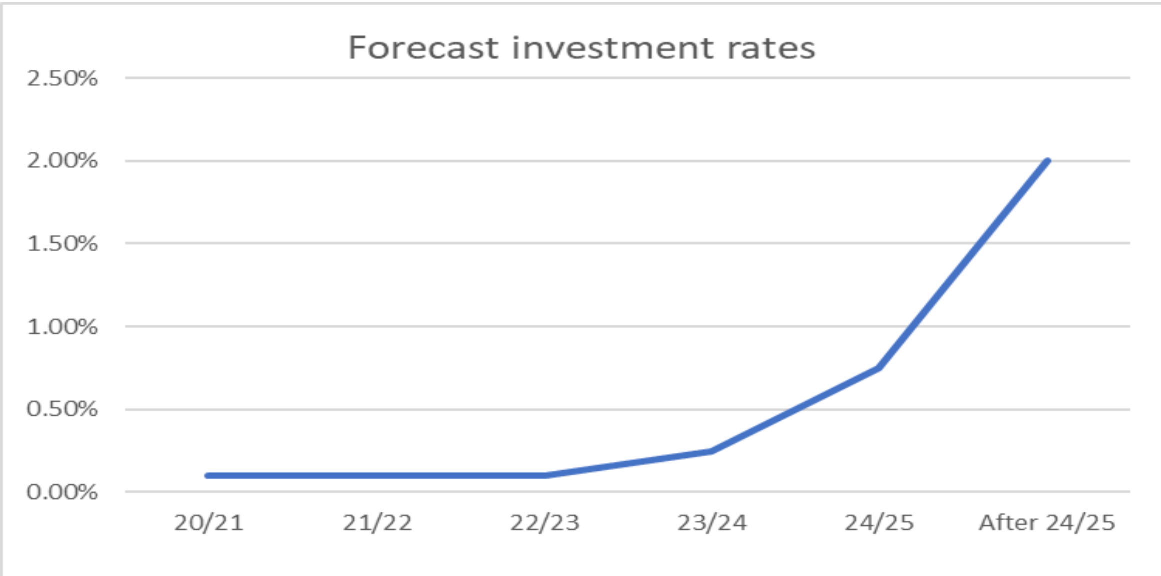
4.15 In addition:

- 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

4.16 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.

4.17 Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it is likely that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future.



4.18 The overall balance of risks to economic growth in the UK is uneven with the rate of recovery from the current deep pandemic-induced recession dependent on restrictions being lifted and with continued uncertainty as to the practical issues and economic impacts of the UK leaving the EU.

4.19 There is relatively little UK domestic risk of increases or decreases in Bank Rate and shorter-term Public Works Loan Board rates until 2023/24 at the earliest.

Negative investment rates

4.20 While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

Investment treasury indicator and limit

4.21 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. The Council is asked to approve a limit of £10m for 2021/22 and subsequent years.

£000	2020/21	2021/22	2022/23
Max. principal sums invested> 365 days	£10,000	10,000	10,000

End of year investment report

4.22 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.

The PWLB rates below are based on the new margins over gilts announced on 26th November 2020. PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Link Group Interest Rate View 9.11.20										(The Capital Economics forecasts were done 11.11.20)				
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20														
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60
Bank Rate														
Link	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Capital Economics	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
5yr PWLB Rate														
Link	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
Capital Economics	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	-	-	-	-	-
10yr PWLB Rate														
Link	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
Capital Economics	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	-	-	-	-	-
25yr PWLB Rate														
Link	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
Capital Economics	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	-	-	-	-	-
50yr PWLB Rate														
Link	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60
Capital Economics	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	-	-	-	-	-

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.

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

Appendix D – Budget Consultation

1 Residents were invited to participate in a consultation to help Colchester Borough Council understand what matters most to the public and to gauge their support for the Council's approach to the financial challenge and budget gap. An online survey was launched on Monday 9 November 2020 and was advertised via the council's website and through local media. The survey ran for a period of four weeks closing on Friday 4 December. A total of 184 responses were received.

2 Key Findings

2.1 Residents were asked how well informed they felt about the financial challenges facing Colchester Borough Council?

- 68.5% (126 people) stated that they feel either 'slightly' or 'well' informed.
- 27.2% (50 people) stated that they 'do not feel' informed.
- 4.3% (8 people) said that they 'do not know'.

2.2 Residents were then asked which services interested them most in the budget. The responses were:

- Planning & Building Control
- Housing
- Recycling & Rubbish Collections
- Housing Benefit and Council Tax
- Environmental & Animal Services

2.3 Residents were then asked if they Agreed or Disagreed with the approach set out within the Budget Strategy?

- Priorities:
  88.4% either 'Agree' or 'Strongly Agree'
  8.8% Neither 'Agree' or 'Disagree'
  2.8% either 'Disagree' nor 'Strongly Disagree'
- Efficiency:
  91.1% either 'Agree' or 'Strongly Agree'
  7.2% neither 'Agree' nor 'Disagree'
  1.7% either 'Disagree' or 'Strongly Disagree'
- Service Provision:
  89.5% either 'Agree' or 'Strongly Agree'
  6.0% neither 'Agree' nor 'Disagree'
  4.5% either 'Disagree' or 'Strongly Disagree'
- Commercial:
  68.1% either 'Agree' or 'Strongly Agree'
  15.1% neither 'Agree' nor 'Disagree'
  16.8% either 'Disagree' or 'Strongly Disagree'
- Communities:
  80% either 'Agree' or 'Strongly Agree'
  13.3% neither 'Agree' nor 'Disagree'
  6.7% either 'Disagree' or 'Strongly Disagree'

Comments on the consultation responses: The Survey showed a good level of support and understanding of the Council's budget strategy, albeit on a limited number of responses.

Appendix E – Technical reconciliations of budget requirement 2021/22

Table E1 – Technical reconciliation of budget requirement		
	Element	£'000
1	Revenue expenditure requirement for 2021/22	25,028
2	Collection fund deficit (business rates and Council Tax)	3,813
3	New Homes Bonus	(2,430)
4	Use of balances / reserves for pensions payment	935
5	Use of Business Rates Reserve	(3,813)
6	Use of Business Rates Pooling gain	(200)
7	Use of balances	(2,710)
8	**Budget Requirement**	**20,623**
9	Funded by:	
10	Government Grant (Covid19 support and Lower-Tier services)	(2,115)
11	Business Rates Baseline Funding	(4,300)
12	Business Rates Improvement	(1,620)
13	Council Taxpayers requirement (before Parish element) see below*	(12,588)
14	**Total Funding**	**(20,623)**

Table E2 – Technical reconciliation of Band D Council Tax		
1	Council Taxpayers requirement (before Parish element)	12,588
2	Council Tax Base – Band D Properties	62,776
3	**Council Tax at Band D**	**200.52**

Table E3 – Technical reconciliation of 2021/22 Base Budget		
1	Base Budget	24,514
2	One-off items	(2,915)
3	Cost Pressures	7,001
4	Growth Items	375
5	Savings	(2,528)
6	Change in use of New Homes Bonus for one off investment	(1,419)
7	**Forecast Base Budget**	**25,028**

Table E4 – Technical reconciliation of 2021/22 savings		
1	Commercialisation	(820)
2	Efficiency	(550)
3	Service Provision	(1,074)
4	Community	(84)
5	**Total Savings**	**(2,528)**

Table E5 – Technical reconciliation of 2021/22 pressures		
1	Sport & Leisure net income loss (Covid 19)	1,966
2	Parking Income loss (Covid 19)	1,005
3	Amphora Trading Dividend (Covid 19)	658
4	Interest Payable / MRP – 21/22 capital programme financing	644
5	Commercial & Investment Properties income loss (Covid 19)	500
6	Contractor Payments (net of credit claim income)	457
7	General Inflation	440
8	Transformation costs	250
9	Recovery costs	250
10	Waste overtime and staffing changes	170
11	Council Tax Sharing Agreement	150
12	New Strategic Priorities funding	132
13	Refuse Vehicle and Crew	125
14	Rowan House	120
15	Recycling Materials	110
16	Environment staffing structure review	105
17	Climate Change	100
18	GF / HRA contingency	51
19	Social Lottery	50
20	ECC Trade Tipping costs	27
21	Public Conveniences Business Rates	20
22	Residual land at Mill Road - Grounds Maintenance costs	16
23	Clinical Waste	15
24	Paper Income	15
25	**Total cost pressures and growth items**	**7,376**

Appendix F - Summary Budget 2021/22

	Adjusted Base Budget	One-Off Items	Cost Pressures	Growth Items	Technical Items	Total Savings	Detailed 21/22 Budgets
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Corporate & Democratic Core	(262)	0	156	0		0	(106)
Executive Management Team	705	0	7	0		(25)	687
Corporate and Improvement	6,681	0	127	0		(464)	6,344
Community	1,874	(30)	28	0		(267)	1,605
Customer	3,096	0	43	0		(466)	2,673
Environmental (excluding North Essex Parking Partnership)	5,057	0	1,693	105		(391)	6,464
Place and Client	2,247	(80)	3,200	0		(422)	4,945
Total General Fund Services	**19,398**	**(110)**	**5,254**	**105**	**0**	**(2,035)**	**22,612**
Technical Items							
Corporate Items / sums to be allocated to services							
Procurement Savings	0		0			(113)	(113)
Social Lottery	0		0	50			50
Investment Allowance funded by New Homes Bonus	2,618	0	0		(1,419)	0	1,199
New Strategic Priorities	(126)		132			(100)	(94)
LCTS Care Leavers Scheme	15		0				15
Inflation (Pay)	200		70			(270)	0
Transformation and Recovery	0		500				500
Climate Change	0		0	100			100
Improved Establishment Control	0		0			(10)	(10)
Rowan House	0		0	120			120

	Adjusted Base Budget	One-Off Items	Cost Pressures	Growth Items	Technical Items	Total Savings	Detailed 21/22 Budgets
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Non-Service Budgets							
CLIA (net interest)	801		386			0	1,187
Repairs & Renewals reserve contribution	300		0				300
Min Revenue Provision	1,533		591			0	2,124
Pensions	3,171	(2,805)	0				366
Contribution to Bad Debts Provision	20		0				20
General Fund/ Housing Revenue Account /North Essex Parking Partnership Adjustment	(3,416)		68		0		(3,348)
Total Below the Line	5,116	(2,805)	1,747	270	(1,419)	(493)	2,416
Total including Below the Line	**24,514**	**(2,915)**	**7,001**	**375**	**(1,419)**	**(2,528)**	**25,028**
Funded by:-							
Use of balances	(125)	125	0		(125)		(125)
Contribution to balances	935	(935)	0		935		935
Contribution to Business Rates Reserve	141	(141)	0		0		0
Use of other Earmarked Reserves	(2,990)	2,990	0		(185)		(185)
Use of Reserves – Covid 19	0	0	0		(2,400)		(2,400)
Use of Business Rates reserve	(540)	540	0		(3,813)		(3,813)
Govt Grant – Covid 19 Support Grant	0		0		(622)		(622)
Govt Grant – Lower Tier Services Grant	0		0		(1,493)		(1,493)
Business Rates Baseline	(4,300)		0				(4,300)
Business Rates Growth above Baseline	(1,870)		0		250		(1,620)
Business Rates Pooling	(200)		0		0		(200)
Council Tax	(12,503)		0		(85)		(12,588)

	Adjusted Base Budget	One-Off Items	Cost Pressures	Growth Items	Technical Items	Total Savings	Detailed 21/22 Budgets
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Collection fund Transfer	540	(540)	0		3,813		3,813
New Homes Bonus	(3,602)		0		1,172		(2,430)
Total	**(24,514)**	**2,039**	**0**	**0**	**(2,553)**	**0**	**(25,028)**

Appendix G - 2021/22 General Fund Budgets

	Direct Budgets				*Non-Direct Budgets*	
Area	**Spend**	**Income**	**Net**		***Net***	**Total**
	£'000	**£'000**	**£'000**		***£'000***	**£'000**
Corporate & Democratic Core	294	(400)	(106)		*2,413*	2,307
Total	**294**	**(400)**	**(106)**		***2,413***	**2,307**
Executive Management Team						
EMT	687	-	687		*(687)*	-
Total	**687**	**-**	**687**		***(687)***	**-**
Community						
Assistant Director	159	-	159		*(159)*	-
Licencing, Food & Safety	516	(562)	(46)		*547*	501
Community Safety	94	-	94		*5*	99
Environmental Health Services	479	(67)	412		*151*	563
Building Control	408	(455)	(47)		*268*	221
Community Initiatives	329	-	329		*181*	510
Private Sector Housing	496	(183)	313		*138*	451
Bereavement Services	908	(1,624)	(716)		*314*	(402)
Cultural Services	628	(107)	521		*979*	1,500
Colchester Museums	55	(531)	(476)		*23*	(453)
Subtotal	**4,072**	**(3,529)**	**543**		***2,447***	**2,990**
Colchester & Ipswich Museums	2,201	(1,139)	1,062		*774*	1,836
Total	**6,273**	**(4,668)**	**1,605**		***3,221***	**4,826**
Customer						
Assistant Director	159	-	159		*(159)*	-
Accounts & Debt	569	(138)	431		*(432)*	(1)
Local Taxation & NNDR	541	(713)	(172)		*572*	400
Benefits & Hub	1,026	(135)	891		*(891)*	-
Contact & Support Centre	988	(18)	970		*(970)*	-
Electoral Services	411	(3)	408		*80*	488
Customer Digital & Systems	914	(45)	869		*(869)*	-
Land Charges	126	(249)	(123)		*123*	-
Subtotal	**4,734**	**(1,301)**	**3,433**		***(2,546)***	**887**
Benefits - Payments & Subsidy	41,975	(42,735)	(760)		*751*	(9)
Total	**46,709**	**(44,036)**	**2,673**		***(1,795)***	**878**
Environment						
Assistant Director	153	-	153		*(153)*	-
Neighbourhood Services	12,101	(3,897)	8,204		*2,801*	11,005
Car Parking	971	(3,049)	(2,078)		*1,006*	(1,072)

		Direct Budgets				***Non-Direct Budgets***	
	Subtotal	**13,225**	**(6,946)**	**6,279**		***3,654***	**9,933**
	North Essex Parking Partnership	4,164	(4,049)	115		*117*	232
	Total	**17,389**	**(10,995)**	**6,394**		***3,771***	**10,165**
	Place and Client						
	Assistant Director	130	-	130		*(131)*	(1)
	Place Strategy	658	-	658		*37*	695
	Housing	2,872	(1,288)	1,584		*(322)*	1,262
	Planning	1,132	(1,227)	(95)		*538*	443
	Sustainability & Climate Change	100	(15)	85		*38*	123
	Subtotal	**4,892**	**(2,530)**	**2,362**		***160***	**2,522**
	Company Related:-						
	Client - Commercial Company	1,968	-	1,968		*(1,968)*	-
	Corporate Asset Management	1,726	(265)	1,461		*(1,391)*	70
	Commercial & Investment	282	(2,773)	(2,491)		*2,556*	65
	Sport & Leisure	5,280	(3,635)	1,645		*1,938*	3,583
	Total	**14,148**	**(9,203)**	**4,945**		***1,295***	**6,240**
	Corporate and Improvement						
	Assistant Director	130	(20)	110		*(142)*	(32)
	Finance	1,033	(196)	837		*(837)*	-
	ICT	2,042	(372)	1,670		*(1,670)*	-
	People and Performance	805	(184)	621		*(687)*	(66)
	Governance	2,970	(294)	2,676		*(2,611)*	65
	Communications	599	(169)	430		*(430)*	-
	Total	**7,579**	**(1,235)**	**6,344**		***(6,377)***	**(33)**
	Adjustment for NEPP use of balances	-	**185**	185		-	185
	Total (excl. NEPP)	**88,915**	**(66,303)**	**22,612**		***1,724***	**24,336**

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

Appendix H - Reserves, Provisions and Balances

	2019/20	2020/21	2021/22
	Actual	Forecast	Forecast
	£'000	£'000	£'000
General Fund Balance	1,900	1,900	1,900
Future Years Budget Support Reserve - Carry-forwards etc	4,115	1,578	953
Future Years Budget Support Reserve - Risk Allocation	515	515	515
Redundancy, North Essex Parking Partnership, Colchester & Ipswich Museum Service etc	1,073	1,073	1,073
Pension Reserve	3,214	1,344	2,279
Renewals and Repairs Reserve	2,455	3,048	2,744
Insurance Reserve	566	566	566
Capital Expenditure Reserve	720	647	647
Gosbecks Reserve	152	152	152
Revenue Grants unapplied	2,911	1,797	847
Decriminalisation Parking Reserve	1,512	1,327	1,142
Business Rates Reserve	1,695	1,296	1,096
Revolving Investment Fund Reserve	1,436	1,646	1,646
Other reserves	176	176	176
TOTAL General Fund	**22,440**	**17,065**	**15,736**
Housing Revenue Account Balance	4,306	3,444	3,444
Housing Revenue Account Retained Right To Buy Receipts – Replacement	5,528	2,848	248
Housing Revenue Account Retained Right To Buy Receipts – Debt	6,407	667	1,337
TOTAL Housing Revenue Account	**16,241**	**6,959**	**5,029**
Total	**38,681**	**24,024**	**20,765**

Appendix I – Allocation of New Homes Bonus

	Allocation of New Homes Bonus	2020/21	2021/22	2022/23	2023/24	2024/25
		£'000	£'000	£'000	£'000	£'000
1	New Homes Bonus	3,602	2,430	2,091	950	950
2	Allocated to:-					
3	Contribution to RIF	250	500	250	250	250
4	Affordable housing allocation	150	150	150	150	150
5	To support the Council's Revenue Budget	833	1,080	600	300	0
6	Savings Implementation Costs	441	200	200		
7	Support to Tendring Colchester Borders & Local Plan	500	500	250	250	250
8	Transfer to Reserves			641		300
9	Support for one-off schemes (see below)	1,428	0	0	0	0
10	**Total allocation**	**3,602**	**2,430**	**2,091**	**950**	**950**
	Use of NHB allocation for one-off schemes					
11	Support for one-off schemes	1,428	0	0	0	0
12	Allocated to:					
13	Cultural Events Fund 2020-21	20				
14	High-Street Grouting (net additional contribution to ECC works)	40				
15	Environmental & Sustainability Task & 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	122				
20	Arts & Heritage post	28				
21	Local Highways Panel	100				
22	St Marks Community Centre	150				
23	Memoirs Refurbishment costs	48				
24	Assumed use for Lion Walk Activity Centre Toilets	150				
25	Assumed use for Covid 19 support	500				
26	**Balance for future allocation**	0	0	0	0	0