Public Document Pack

AYLESBURY VALE DISTRICT COUNCIL

Democratic Services

Please ask for:	Craig Saunders; csaunders@aylesburyvaledc.gov.uk;
Switchboard:	01296 585858
Text Relay	Prefix your telephone number with 18001

AYLESBURY VALE DISTRICT COUNCIL

25 January 2018

FINANCE AND SERVICES SCRUTINY COMMITTEE

A meeting of the Finance and Services Scrutiny Committee will be held at **6.30 pm** on **Monday 5 February 2018** in **The Olympic Room, Aylesbury Vale District Council, The Gateway, Gatehouse Road, Aylesbury, HP19 8FF**, when your attendance is requested.

Membership: Councillor M Rand (Chairman); Councillors B Everitt (Vice-Chairman), J Bloom, J Chilver, S Lambert, R Newcombe, E Sims, M Smith, M Stamp, R Stuchbury and M Winn

Contact Officer for meeting arrangements: Craig Saunders; csaunders@aylesburyvaledc.gov.uk;

AGENDA

1. APOLOGIES

2. TEMPORARY CHANGES TO MEMBERSHIP

Any changes will be reported at the meeting.

3. MINUTES (Pages 3 - 14)

To approve as a correct record the Minutes of the meeting held on 8 January, 2018, copy attached as an appendix.

4. DECLARATION OF INTEREST

Members to declare any interests.

5. TREASURY MANAGEMENT STRATEGY 2018-19 (Pages 15 - 38)

To consider the attached report.

Contact Officer: Nuala Donnelly (01296) 585164

6. FINANCIAL REPORTING: PROPOSALS FOR DISCUSSION (Pages 39 - 44)

To discuss and comment upon the attached report.

Contact Officer: Nuala Donnelly (01296) 585164

POSITIVE ABOUT DISABLED PEOPLE

7. WORK PROGRAMME

To consider the future work programme. Meetings are scheduled as follows:-

4 April 2018
1. Quarterly Finance Digest

9 July 2018
1. Leisure Centres Management Contract
2. Quarterly Finance Digest

15 October 2018
No items as yet

FINANCE AND SERVICES SCRUTINY COMMITTEE

8 JANUARY 2018

PRESENT: Councillor M Rand (Chairman); Councillors B Everitt (Vice-Chairman), J Bloom, S Lambert, R Newcombe, M Smith, M Stamp, R Stuchbury and M Winn. Councillors A Macpherson and H Mordue attended also.

APOLOGIES: Councillors J Chilver and E Sims.

1. MINUTES

RESOLVED –

That the minutes of the meeting held on 28 November, 2017, be approved as a correct record.

2. CONNECTED KNOWLEDGE INVESTMENT PROPOSAL

The Committee was informed that Cabinet had received a report in December 2017 (a copy was attached as an appendix to the agenda) in relation to the investment proposal for the delivery of Phase 2 of the Connected Knowledge strategy starting in April 2018.

Cabinet had agreed for £1.53m to be included within the budget proposals for 2018/19, which was the next agenda item. The funding would be made from unallocated New Homes Bonus balances and would enable work to continue on delivering a leading edge, forward thinking platform to facilitate the development of customer first processes, a streamlined internal operation and a framework for increased opportunities for external commercial sales.

The delivery of the "Connected Knowledge" strategy was central to enabling AVDC to continue to make savings in the provision of services, to remain at the vanguard of innovative thinking and to the provision of excellent customer service. It also provided the opportunity to generate income by both supporting general commercial opportunities and providing consultancy services to other councils keen to emulate the approach being taken by AVDC.

As referred to in earlier reports, the strategy would be delivered over a five year period. The first phase of the strategy (approved by Council in February, 2017), was now coming to an end and the report to Cabinet highlighted achievements made so far and the proposed programme for phase 2 covering the period up to the end of the 2018 financial year. The Cabinet report and the investment proposal for phase 2 were available to read on the Council's website.

Phase 2 required investment across three key areas, namely:-

- Innovation – the introduction of innovative new solutions such as voice recognition and artificial intelligence for call handling and decision making.
- Transformational – the roll-out of internal process automation and customer self service.
- Legacy reduction – the removal of legacy technology and the introduction of more flexible systems that would further support integration of data to enable customer needs to be anticipated.

Experience of previous change programmes had indicated that strong governance processes were required both to ensure that the programme delivered on time and to budget, and that any variations to scope (and cost) were closely scrutinised and that benefits realisation was tracked. To this end, the release of funds during the programme (and benefits realisation) would be closely monitored by the governance board to ensure on-going value for money.

The Cabinet report (and accompanying investment proposal document) set out the resource implications and specifically the staff resource requirements which required specific skills sets. The total investment required had been estimated to be £1.53 million and Cabinet had agreed that this should be built into the budget requirements for 2018/19 onwards. This element had now been taken into account in the budget proposals for next year.

Part of the programme of works took into account the new data handling compliance requirements of the European General Data Protection Requirements (GDPR) Directive. The revenue cost of this had been estimated to be £100,000 p.a. and a pressure had been provided for within the draft budget proposals.

Members sought further information and were informed:-

(i) of the work that was also being done on other communication channels and regarding digital exclusion, i.e. to ensure that people without access to the internet or a smartphone were able to access Council services or contact the Council.

(ii) that the delivery of the Connected Knowledge strategy was central to enabling AVDC to continue to make savings and efficiencies in the delivery of services. It was explained that some of the investment for Phase 2 would have paybacks, as detailed in the investment proposal. However, some expenditure also related to the replacement of legacy systems that would need to be replaced in any event, or to undertake trials of new technology.

(iii) that as the Connected Knowledge Strategy covered the period 2017-2022 it was likely in due course that there would be additional investment proposals for funding for future phases. These investment proposals would be brought to Members for approval.

(iv) that the elements of Phase 2 would be delivered in 'bite-sized' chunks. Governance arrangements were in place so that each piece of work would need to be approved by a Governance Board before funding could be drawn down. Equality Impact Assessments would be submitted for the individual projects.

(v) that 'Live Chat' via the Council's website was working and would become more efficient over time.

(vi) that the Officers would ensure that webpages relating to the strategy were kept up-to-date.

Members also commented:-

- that it would be important that the Council's HR policies were updated to take account of evolving issues such as flexible working and other impacts on staff from Connected Working.
- that the Council should consider in the future holding information sessions for residents on issues such as using the Amazon Echo.

RESOLVED –

That the Scrutiny Committee was supportive of Cabinet's decision to include £1.53m within the budget proposals for 2018/19 in relation to the investment proposal for the delivery of Phase 2 of the Connected Knowledge strategy, to be funded from the unallocated balance of New Homes Bonus funding.

3. DRAFT BUDGET PROPOSALS FOR 2018/19

Cabinet had considered its initial budget proposals on 20 December 2017. Due to the timing of scrutiny meetings, it had not been possible for these proposals to be reported to this scrutiny meeting. Following the Government's announcements in late December regarding the draft Grant Settlement 2018/19 for Councils and on other significant issues such as the future of New Homes Bonus, Cabinet had further honed its proposals and an updated set of budget proposals would be reported to the Cabinet meeting to be held on 9 January, 2018. That report together with the updated Medium Term Financial Plan was also included as an appendix to the agenda.

The scrutiny committee was requested to indicate any comments that it had on the draft budget proposals for 2018/19, that it wished Cabinet to take into account (at the Cabinet meeting on 9/1/2018) in making final recommendations to full Council on the final budget proposals for 2018/19.

The key budget proposals that Cabinet was being asked to recommend to Council were:-

- to increase Council Tax by £5.00 for a Band D property, equivalent to a 3.48% increase from 1 April 2018. This was the maximum allowable for lower tier councils. The Government had assumed that each council would make maximum allowable increases and had reduced the amount of Grant awarded to Councils by an equivalent amount.

- subject to any amendments Members wished to make, recommend to Council the budget for 2018/19 and the Medium Term Financial Plan as detailed at Appendix A.

- to approve the use of £1.53m of New Homes Bonus to meet the costs of the Connected Knowledge programme in 2018/19.

- to agree the proposed fees and charges as detailed at Appendix E.

- to approve the level of the Band D Special Expenses charge for 2018/19, as detailed at Appendix F. The precept charge of £45 was unchanged from the initial budget proposals.

The budget report also included information on:-

Government Grant Update

The draft Grant settlement for 2018/19 had been announced on 19 December, 2017, in which the Government had largely honoured the commitments within the 4 year settlement and left the pre-announced Grant numbers mostly unchanged. Importantly, the Revenue Support Grant and Baselined Business Rates settlements were virtually the same as those announced for 2018/19 (which was Year 3 of the four year settlement).

However, there had been a 1% increase in the Council Tax referendum thresholds across all Councils.

The Secretary of State for Communities and Local Government had also announced a formal consultation on a review of relative needs and resources which would feed into a new funding system that would be introduced in 2020 to 2021. Alongside the new methodology, a new phase for business rates retention programme would also be introduced. The aim was for local authorities to retain 75% of business rates growth from 2020 to 2021, and was intended to be a lever and incentive for local authorities to grow their local economies.

The mechanism for this would be through incorporating existing grants into business rate retention including the revenue support grant, and the public health grant. Local authorities would be able to keep that same share of growth on their baseline levels from 2020 to 2021, when the system was reset.

In 2016/17, the government had introduced the concept of negative revenue support grant and this remained an issue for some councils. The Secretary of State had announced that he would be relooking at this element during the forthcoming year, but had warned that any solution would need to be found from within the existing local government funding system.

The announcements heralded the most fundamental change to the settlement formula since business rates retention was introduced. However, with no more funding in the system it was likely that the historic downwards trend would continue. As such, the Council's strategy around commercialism and efficiency was considered the right strategy to deal with the financial challenges facing the council. The additional freedom around council tax increases would soften the challenges marginally, although new pressures, such as those associated with inflation, were likely to absorb any respite offered by them.

New Homes Bonus

The Government had announced that there would be no new changes to the way New Homes Bonus operated. The baseline growth would remain fixed at 0.4%, with NHB only paid on growth above this. AVDC would receive £6.3m in 2018/19 which included previous year's delivery. Nationally, NHB payments of £946m would be made in 2018/19.

Actual numbers for future years would still depend upon actual housing growth. However, the decision not to make changes provided sufficient certainty to validate the revenue contribution assumption included within the Medium Term Financial Plan.

The draft budget settlement had also confirmed that local authorities could increase planning fees by 20% where they committed to investing the additional income in planning services.

Business Rates Pooling

The membership of the pool in 2016/17 which was formed around the retention of the Disproportionate Growth Levy had been AVDC, Bucks County Council, Bucks Fire and Rescue, Chiltern District Council and South Bucks District Council. As part of the finance settlement the government has confirmed that this pool would continue into 2018/19, unless any of the pooling members notified that they wished to withdraw within 28 days of the provisional finance settlement being announced.

It had been recommended that AVDC continue with the pooling arrangement in 2018/19, as it was believed there would again be a gain from it. No account had been taken of any anticipated gain in the 2018/19 budget proposals so any gain achieved would be placed in the Business Rates Equalisation Reserve.

Nationally, a number of local authorities were participating in 100% retention pilots in relation to business rates. The government had announced a number of further county pilot areas as part of the finance settlement and had said that it might invite further pilots in 2019/20. The relationship between the 100% retention pilots and the government's intention to deliver a 75% system by 2020 were still unclear.

Fees and Charges

Fees and charges are reviewed as part of the annual budget setting review process. The proposed fees and charges for 2018/19 were detailed at Appendix E.

A significant review was planned during the forthcoming financial year of car parking charges and, in particular, season ticket prices. Any proposed changes to income levels might potentially be implemented in year. This additional income had not been factored into the financial plan.

The fees and charges in relation to Taxi Licensing were subject to the review of the Licensing Committee and were excluded from the proposed list of charges.

Council Tax

The initial budget proposals recommended increasing Council Tax from 1 April 2018 by the assumed maximum expected amount of £5.00 (3.48%) for a Band D property. This was the maximum allowable for lower tier councils and would represent an increase equivalent to 10 pence per week and will increase the Band D Council Tax for Aylesbury Vale District Council to £149.06.. The Government had assumed that each council would make maximum allowable increases and had reduced the amount of Grant awarded to Councils by an equivalent amount.

Increasing Council Tax by this amount would generate £362,400 and help to protect services valued by residents and businesses in the Vale.

In the finance settlement announcement, government had also confirmed they intended to defer the setting of referendum principles for Town and Parish Councils for 3 years.

Impact on the Budget Proposals

The numbers announced in the draft Finance Settlement in December had been as expected and only very marginally different to those assumed in the Cabinet's initial budget proposals.

Consequently, the Revenue Support Grant for 2018/19 had provisionally been set at £3,826,500 for 2018/19 which was £12,700 less than was previously assumed. The MTFP had been amended to reflect this by adjusting the proposed contribution to balances in 2018/19.

Reserves and Balances

Members were informed that earmarked reserves represented the prudent saving of sums against the recognition of future financial events which, if not prepared for, would be difficult to deal with at the point they occur. In short, earmarked reserves were an essential part of sound financial planning. The reserves were held for legitimate reasons and the balances were reasonable given a fair assessment of the budgetary pressures that they are held against.

It is expected that the total balance held in reserves would dip significantly over the next 2 years as the pressures against which they are held materialised and the infrastructure schemes, for which the New Homes Bonus was held, were delivered.

The Council also held general working balances as insurance against unexpected financial events. This includes failure to generate expected income as well as financial claims against the Council. The current minimum assessed level of balances was £2.0 million which had been arrived at based upon a risk and probability assessment of potential budgetary factors during 2018/19.

Medium Term Financial Plan (2018/19 and After)

The report to Cabinet in November 2017 set out the rationale for the core assumptions used in the Medium Term Financial Plan. Whilst some of the uncertainty surrounding the Government Settlement and the future of News Homes Bonus had now diminished following the publication of the draft Settlement in December, there were still multiple uncertainties and risk factors which needed to be managed beyond 2020.

The single biggest issue that was likely to remain was the ongoing and severe impact of the reductions in Government Grant and how public sector austerity continued to impact upon local government, as a whole, and the demands of the communities it serves and the services it provided.

The reality of continued public sector austerity through this Parliamentary term had been confirmed within the 4 Year Funding Settlement. Further, the Chancellor had announced within his Autumn Statement that he expected the austerity agenda to continue into the next Parliamentary term, thereby potentially spanning another 6 years.

Special Expenses

The Cabinet report included a recommendation that the Special Expenses budget for Aylesbury Town remain frozen at its current level for 2018/19.

The draft budget and proposals under development were attached as appendices to the 9 January Cabinet report as follows:-

- Appendix A1 – MTFP – 2018/19 to 2022/23 – Final Proposals.
- Appendix A2 – Summary of Changes.
- Appendix B – Budget Proposals 2017/18 to 2022/23 (General Fund Revenue Balances).
- Appendix C – Budget Savings identified in 2018/19 budget planning.
- Appendix D – Budget Pressures identified in 2018/19 budget planning.
- Appendix E – Fees and Charges (Amendments) schedule.
- Appendix F – Aylesbury Special Expenses – Summary Budget 2018/19.

Members referred to the Cabinet reports, updated information and appendices whilst considering this matter. They requested further information and were informed:-

(i) Appendix B – it was clarified that the Council had received £2,000 from HS2 in 2017/18. It was likely that mitigation and other work that AVDC had to do in relation to HS2 would be funded on a cost neutral basis. It had been proposed that the £50,000 allocated to Vale Commerce would be used to explore new commercial opportunities more widely.

(ii) Appendix C (Budget Savings) and Appendix D (Budget Pressures) – an explanation was provided on some of the budget savings and pressures. Members were informed that many of these related to 2017/18 and was reporting on savings/pressures that had already been realised or dealt with.

(iii) MTFP 2022/23 – that work had not yet been done to identify savings for the 2022/23 financial year, which explained the £1.006m in unidentified savings. By contrast, savings had been identified in the MTFP that would allow balances budgets to be delivered for the next 4 years.

(iv) MTFP (Appendix A1) – it was acknowledged that the MTFP assumed an annual 1% growth in the Council Tax base and that future increases could be greater due to Aylesbury Vale being a growth area.

(v) Aylesbury Vale Broadband – that monies received from the sale of AVB would be used to repay the loan.

(vi) Aylesbury Vale Estates – that AVDC had received a dividend of £200,000 last year. AVE was planning to make a dividend payment of £300,000 for 2018/19, although the budget proposals were more cautious and had assume no increase.

(vii) that the impact of Brexit and the retention of business rates from 2020 on the Council's future budgets were difficult to quantify.

Members also commented:-

- Page 49 (Appendix C – Budget Savings) and Page 50 (Appendix D – Budget Pressures) – it was requested that future reporting on budget savings and pressures include some more explanatory information on the proposals to assist with Members' understanding of the issues.
- Page 49 – Waste Services (UPM Contract – Recycling Credits) – that it might be helpful for the Environment and Living Scrutiny Committee to look at how recycling costs could be mitigated beyond the current contract.
- Page 59 – Cornwall Meadow – Cabinet were asked to check whether there should be an additional line item to pick up that the car parking charge for up to 3 hours at Cornwall Meadow was 50 pence?

The Committee also had a lengthy discussion on the Aylesbury Town Special Expenses. The Chairman informed Members that he would be attending tomorrow evening's Cabinet meeting and he would be happy, on behalf of the Committee, to report the Committee's deliberations and to urge Cabinet to look at starting a serious ongoing dialogue with Aylesbury Town Council relating to devolving these assets/services.

RESOLVED –

(1) That the scrutiny committee was supportive of Cabinet's budget proposals for 2018/19 together with the Medium Term Financial Plan, as detailed in the reports to Cabinet on 9 January 2018.

(2) That Cabinet be asked to take into account scrutiny's comments in finalising the budget proposals for 2018/19 to be submitted to full Council.

4. CAPITAL PROGRAMME REVIEW

The Council maintained an integrated strategic Capital Programme divided into three elements:-

- Major projects - These being the largest and highest profile.
- Housing Schemes - These being the housing enabling and housing grant based schemes.
- Other Projects - These being all other schemes included within the Capital Programme.

The Programme was reviewed annually with the current programme being last approved and adopted at Council in February 2017.

Cabinet had considered a report on 20 December 2017 on the capital programme for the current year, as well as for the updated programme for 2018/19 onwards. The report provided an updated position with respect to forecast receipts and the position with regards to current and future major investment projects. It also incorporated changes made since February 2017 and reflected these in the overall resources projections.

Cabinet had approved the updated Capital Programme for the purposes of scrutiny. Any feedback from scrutiny would be considered by Cabinet on 9 January 2018 in making final recommendations to full Council.

The following table set out the available resources as at the beginning of 2017/18 and the projected resources during 2017/18 and 2018/19 before any expenditure had been taken into account:-

	Current Resources April 2017 £'000s	**Resources Projection March 2018 £'000s**
Balance of Capital Resources	**9,752**	**9,374**
Share of Right to Buy Receipts	2,500	2,500
Asset Sales	910	410
Lottery, Grants and Section 106	0	3,300
Revenue Contributions (NHB)	5,466	327
Total End of Year	**18,628**	**15,911**

The Council had for some time been in a position where the generation of significant capital receipts were no longer likely as the asset base now comprised largely of small land holdings and operational property. Large capital resources were now dependant upon external funding sources and in particular, borrowing. The Capital resource position was the subject of an on-going review within the context of future demands and needs. A copy of the Capital Programme had been appended to the Committee report.

Particular reference was made to the housing enabling element of the Programme. The Council had been successful in its delivery of affordable housing, the capital commitment to which was tied to the VAHT housing stock transfer. With the ending of the VAT shelter, beyond residual right to buy capital receipts and nominal sums from New Homes Bonus, the Council had no means to fund new schemes other than by way of borrowing. However, as borrowing for this purpose provided no return by which to recover the borrowing costs, funding an affordable housing programme though this means was not sustainable.

Housing Associations had been obliged to review their business plans in the light of a change in the level of rents they could charge and so demand for potential new schemes had been delayed. The Government had made it clear that housing provision was a priority and the recent Budget had included a number of commitments to provide funding. However, the details had not yet been made available. The Council would continue to work with Housing Associations to deliver as many affordable homes as possible, but it had become clear that there was a need for a fundamental review of this funding element. Whilst this review was being undertaken, the Capital Programme made provision for all receipts from right to buy and the affordable housing element of New Homes Bonus to be ring fenced for affordable housing investment.

In relation to other projects, the most notable items were provision for the transfer of money to Coldharbour Parish Council for maintenance of the Riverine Corridor, and for the purchase of the new refuse fleet.

During discussions Members commented that they were supportive of the use of residual Right to Buy capital receipts and nominal sums from New Homes Bonus for affordable housing, to fund new affordable housing schemes.

RESOLVED –

That the updated capital programme for the period 2018/19 to 2021/22, as set out in Appendix A of the Committee report, be endorsed.

5. PUBLIC SECTOR EQUALITY DUTY

Section 149 of the Equality Act 2010, the Public Sector Equality Duty (PSED), came into force on 5 April 2011. The objective behind the duty was to ensure that consideration of equality issues formed part of the routine, day-to-day decision making and operational delivery of public authorities. In summary, it required that the District Council, in the exercise of its functions, had due regard to the need to:

- eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Equality Act.
- advance equality of opportunity between people who share a relevant protected characteristic and those who do not by:
    - Removing or minimising disadvantage that people in the protected groups suffer because its connected to that protected characteristic
    - Take steps to meet the needs of people from the protected groups where these differ to those of other people
    - Encourage participation from protected groups in public life or other activity where their participation was disproportionately low
- foster good relations between persons who share a relevant protected characteristic and those who do not by:
    - Tackling prejudice.
    - Promoting understanding.

The protected characteristics were age, disability, gender reassignment, marriage or civil partnership, pregnancy and maternity status, race, religion or belief, sex, sexual orientation.

Following the introduction of the Equalities Act 2010 (Specific Duties) Regulations 2011, the Council had published a statement in 2012 on how the Council was meeting the Public Sector Equality Duty. The regulations were designed to ensure that public bodies were transparent about their compliance with the Equality Duty. And, by publishing information about their equality performance and objectives, public bodies would be accountable to the people and communities they served.

The Committee received a report which provided an assessment (Appendix 1) of the Council's performance against the Public Sector Equality Duty and which had been updated in light of the Council's performance assessment for 2017, and also demonstrated that AVDC was complying with the general Equality Duty. This included information about the population of the District, information about Council staff and what AVDC was doing to meet the equality duty. The information would be considered by Cabinet on 9 January 2018, with a view to publishing an updated Public Sector Equality Duty statement on how AVDC was continuing to meet its statutory duty.

While the Scrutiny Committee was satisfied with the assessment given of the Council's performance against the Public Sector Equality Duty for 2017, Members suggested that future reporting should:-

- look to include measurable objectives/baselines and report on performance against them.
- include more information on health and disability and how the Council was meeting it's legal obligations.
- include more explanatory information generally throughout the report, for example:
    - on why the percentage of employees who had self-declared disability had fallen over the last 10 years.
    - on why there were generally more females in the grades (SG2-SG5).
    - on flexible working (e.g. female/male breakdown, grades of people that were working flexibly.)
    - highlighting, by way of examples, some of the positive work that had been done by AVDC to meet the equality duty.
    - how many staff had completed the Hate Crime eLearning module.
    - on the rationale for organising ladies only swimming and fitness sessions.
    - if possible, comparing AVDC's performance to like Local Authorities.

The Cabinet Member for Communities thanked Members for their feedback, and gave an undertaking to take it into account in developing measurable equality objectives / baselines, and for future reporting.

RESOLVED –

That AVDC's Equality Report and performance for 2017 be noted.

NOTE: Councillor Lambert declared a personal interest as a spokesperson on equalities at Buckinghamshire County Council and at the Bucks Fire and Rescue Service.

6. WORK PROGRAMME

The Committee considered the work programme for the period up until July 2018.

The list of updated agenda items for future meetings would be:

(i) 5 February 2018 – Treasury Management Strategy, Options for Future Finance Reporting.

(ii) 4 April 2018 – Quarterly Finance Digest.

(iii) 9 July 2018 – Leisure Centres Management Contract, Quarterly Finance Digest.

RESOLVED –

That the future work programme be agreed, as discussed at the meeting.

This page is intentionally left blank

Finance Services Scrutiny Committee
5 February 2018

TREASURY MANAGEMENT STRATEGY 2018-19

Councillor Mordue
Cabinet Member for Resources, Governance and Compliance

1 Purpose

1.1 This report is being presented as the Council is required to approve the Treasury Management Policy Statement, Treasury Management Strategy Statement and the Annual Investment Strategy. These Statements and Strategy are attached in appendix A.

2 Recommendations/for decision

2.1 To approve the Treasury Management strategy for 2017/18 as detailed in Appendix A2-4.

2.2 To approve the Prudential Indicators as detailed in Appendix A2.

2.3 To approve the Minimum Revenue Provision policy statement as detailed in Appendix A5.

3 2018/19 Treasury Management Strategy

3.1 The annual Treasury Management Strategy is attached as Appendix A and includes the Prudential Indicators that are used as part of the self governance framework.

3.2 This report provides supplementary background to the Strategy and summarises a number of issues of note to Members.

3.3 The Key messages are:

- Investments – the primary governing principle will remain security over return and the criteria for selecting counterparties reflect this.
- Borrowing – overall, this will remain fairly constant over the period covered by this report and the Council will remain under-borrowed against its borrowing requirement due to the higher cost of carrying debt.
- Governance – strategies are reviewed by the Audit Committee with continuous monitoring which includes Mid-Year and Year End reporting.

3.4 The Prudential Code for Capital Finance in Local Authorities (the Code) is a professional Code that sets out a framework for self-regulation of capital spending; in effect allowing councils to invest in capital projects which best meet their service delivery objectives as long as they are affordable, prudent and sustainable, subject to Government reserve powers to restrict borrowing for national economic reasons.

3.5 The key objectives of the Prudential Code developed by CIPFA are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable. The Code requires the Council to agree and monitor a number of prudential indicators. The indicators cover affordability, prudence, capital expenditure, debt levels and treasury management. These indicators will also form the basis of in-year monitoring and reporting.

3.6 The limits and indicators that the Authority is required to determine by the code are:

Capital and Debt Indicators

Capital Expenditure - Represents the agreed Capital Programme and sets out the planned capital expenditure over the next three years.

Capital Financing Requirement – The amount the Authority needs to borrow in order to deliver its Capital Expenditure plans.

Affordability Index - This is the proportion of the Authority's income which is taken up by loan repayments and interest. The more the Authority borrows the less is available for delivering services.

Treasury Management Indicators

Exposure to Interest Rate Risk - The maximum proportion or borrowing which can be on either fixed or variable interest rates. By setting a maximum proportion a limit is placed on the amount by which the Authority's finances will be affected by movements in base rates.

Maturity Profile - The maximum length of time over which borrowing can be taken. Authorities can borrow for any length providing that they can afford to do so.

Authorised Limit - The combined maximum amount the Authority can take in borrowing to finance its capital expenditure plans and its day to day cash flow purposes

Operational Limit - The amount the Authority realistically expects to borrow and represents the figure that the Authority would not expect to exceed on a day to day basis

4 Background

4.1 The Appendix sets the Treasury Management Strategy and outlines the background to the prudential indicators relating to the Council's capital expenditure plans, the capital financing requirement and affordability generally.

4.2 The proposed MRP Statement is also included in the Appendix A6.

4.3 The Strategy has been drawn up in association with the Council's treasury management advisors, Link Asset Services. The Strategy reflects up to date information and advice.

4.4 There are no significant changes to the 2018/19 strategy

4.5 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

4.6 The final Capital Programme will be presented to Council on 31st January 2018. The report provides Council with forecast of forecast receipts and the position with regards to current and future major investment projects.

4.7 A total capital spend of £10.850m is proposed for 2018/19.

4.8 A number of changes in respect of anticipated resources have been factored into the programme and include a) share of house sale receipts from Vale of Aylesbury Housing Trust, b) Asset Sales from disposal of Council-owned assets mainly land or property c) Lottery, Grants & Section 106 which relates to external resources not related to asset sales and d) planned contributions from the New Homes Bonus reserve.

4.9 There is no explicit requirement for further loans or borrowings. Decisions to borrow against agreed business cases are made on a case by case risk assessed basis and may vary from original financing plans. All decisions to borrow are made against a background of existing resource availability and minimising costs and maximising returns. Where possible decisions to borrow are avoided with the use of the Council's capital receipts being a preferred methodology to fund capital development. The reduced borrowing costs for 2018/19 are a direct result of decisions to borrow less against agreed plans.

4.10 The strategy was updated in 2017/18 to allow the Council to lend to parish councils. The strategy has set a £500,000 and six month limit, if the opportunity arose.

4.11 The Council has a Commercial Property Strategy which includes a capital fund of £100m to be met from borrowing from the Public Works Loans Board, and a revenue budget of £100k from the New Homes Bonus (NHB) Fund. As yet no draw down has taken place, and is unlikely until 2018/19. The objective of the scheme is to generate new streams of income to help offset the significant cuts in Government funding and to ensure sufficient finance is available to support the continued delivery of and investment in services to the local community.

4.12 As reported later in this report, the Government is currently consulting on changes to council borrowing powers which may restrict the ability to deliver acquisitions against this scheme. The development of these Government proposals are being watched closely and an update will be provided when clarity exists.

4.13 At the time of writing this report, the Council are also reviewing the impact of the Revised CIPFA Treasury Management and Prudential Codes 2017 and also outstanding consultation exercises.

4.14 In December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code. These revisions have particularly focused on non-treasury investments and especially on the purchase of property with a view to generating income. The interpretation and the application of the codes are still under review, both at a local and national level.

4.15 CIPFA has issued a statement that accepts that the issue of revised codes at this late stage in the current 2018-19 budget cycle will make it very difficult for most authorities to fully implement both codes. Accordingly, full implementation is not expected until 2019-20 across all authorities. For the Council, a strategy for implementation will be considered during the financial year 2018-19.

4.16 The codes require all local authorities to produce detailed Capital Strategies, though CIPFA accepts that authorities may not be able to implement this in the 2018-19 budget cycle. The Capital Strategy is intended to give a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability. The development of a Capital Strategy allows flexibility to engage with full council to ensure that the overall strategy, governance procedures and risk appetite are fully understood by all elected members.

4.17 The DCLG consultation on investment guidance closed on 22 December 2017 and the outcome of this consultation is still awaited. This will focus particularly on non-financial asset investments.

4.18 The Government believes that local authorities need to demonstrate more transparency and openness in relation to investment activities. The DCLG are looking to extend the principle of Security, Liquidity and yield to non-financial investments.

4.19 The DCLG consultation on MRP guidance closed on 22 December 2017 and so we are currently waiting for the revised guidance to be issued. This will focus particularly on expenditure on purchasing non-financial asset investments.

4.20 The Minimum Revenue provision (MRP) charge is the means by which capital expenditure which is financed by borrowing or credit arrangements is paid for by council tax payers. Local Authorities are required each year to set aside some of their revenues as provision for this debt. Over the past years the regulatory and economic environment has changed significantly and led the sector to consider more innovative types of investment activity. The government has also monitored changes in the practices used for calculating Minimum Revenue Provision.

4.21 The Government has launched Consultation on current Minimum Revenue Guidance (MRP), suggesting four key changes to the current MRP Guidance. These are definition of Prudent Provision, Meaning of a charge to the revenue account, the impact of changing methods of calculation MRP and introduction of a maximum economic life of assets. As a result the government proposes to update the guidance as part of the more general update of the statutory codes comprising the prudential framework.

4.22 The outcome of the Consultation will need to be modelled once known and the impact on the Council budget assessed for 2018-19 and future years. It is anticipated that the revised guidance will come into force on or after 1 April 2018.

4.23 There are also proposals in relation to IFRS arising from the 2018/19 Accounting Code of Practice proposals for financial assets. Whilst for many this may not be a significant issue, key considerations will need to be considered. These are technical changes in relation to Expected Credit Loss Model and also equity related to the "commercialism" agenda, property funds, equity.

5 Economic Background

5.1 We remain in a very difficult investment environment. Whilst counterparty risk appears to have eased, market sentiment has still been subject to bouts of, sometimes, extreme volatility and economic forecasts abound with uncertainty. However, we also have a very accommodating monetary policy - reflected in a 0.5% Bank Rate. As a consequence, authorities are not getting a material return from deposits. It is against this backdrop that the Council operate.

5.2 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.

5.3 The UK economy is also still reacting after the decision to leave the European Union and will continue to do so. Whilst, the pound fell during the summer period, it has started to slowly rise towards the end of the year (albeit from a low level). Exports have continued to rise, but as yet it is not clear the effect that the recent rise of 0.25% on interest rates will have on the economy generally.

5.4 The Council's treasury advisor, Link Asset Services, as part of their service provide a view on the future forecast rates for Base Rate and PWLB:

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

5.5 As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

5.6 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK.

6 MiFID 2

6.1 The EU introduced the legislation to regulate firms who provide services to clients linked to financial instruments and the way they are traded. The "Markets in Financial Instruments Directive" (MIFID 2) is set to commence on the 3 January 2018.

6.2 Under MIFID II, all local authorities are now classified as retail counterparties and have to consider whether to opt up to professional status and for which types of investments.

6.3 With investments exceeding £10m in total investments, AVDC will be opting up to professional status. Remaining as "retail" would reduce the ability to invest funds in certain products and so could reduce, further, interest achieved through investments.

6.4 To "opt up", the Council need to meet a number of number of qualitative and quantitative test criteria to satisfy. The opt- up process is not a one off exercise. It will need to be undertaken with every counter party / fund manager that the council deals with. One of the tests is that councils will need to have £15m or more in their investment portfolio, which currently Aylesbury Vale would meet.

6.5 Many of the current investments are through bank and building society deposits and so fall outside the scope of the directive.

7 Property Funds

7.1 Last year the use of Property Funds was included within the strategy as an alternative long term deposit to the use of Fund Managers.

8 Investments and Loan as at 31st December 2017

8.1 As at 31st December 2017, the Council had following portfolio of investment and loans.

Borrowing

Fixed Rate Funding: £22.886m. Average Rate: 3.545%.

Investments

Fixed Rate and Notice Account Investments:£56129.m.Average Rate: 0.518%.

9 Scrutiny

Finance and Services Scrutiny Committee now receive the Treasury Management Strategy prior to Council.

10 Reasons for Recommendation

Under the terms of the Statutory Code of Practice for Treasury Management, the Council is required to receive an annual strategy statement prior to the 1st April on its Treasury Management function. This report represents the fulfilment of that requirement.

11 Resource implications

11.1 The authority operates an Interest Equalisation Reserve to smooth out fluctuations in interest rates.

11.2 As a result of the level of sums managed by the Council during 2017/18 and the continuing low interest rate, the interest generated, although low, was marginally higher than budget.

11.3 This means that at the end of 2017/18, the interest equalisation reserve is estimated to be £2.817 million.

11.4 The phased use of the balance on the Interest Equalisation Reserve forms part of the annual budget setting exercise. Following the last budget setting exercise, it was agreed that the current balance on the reserve was a prudent amount to hold in light of there being no expected change in interest rates in the short term.

11.5 The Medium Term Financial Plan also recognises the Council's use of capital and other balances in delivering its plans and the impact that this will have on interest earnings. The plan is, therefore, gradually reducing the Council's reliance on interest earnings over time, so as to manage the remaining balance on the interest equalisation reserve.

Contact Officer	Nuala Donnelly 01296 585164
Background Documents	Capita Services Treasury Management Update CIPFA Prudential Code Statutory Code of Practice for Treasury Management

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

Aylesbury Vale District Council
2018/19

1 INTRODUCTION

1.1 Background

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.

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.

CIPFA 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."*

1.2 Reporting requirements

The Council is currently required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report covers:

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

A mid-year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition to this report, borrowing and deposit positions are reported in the Quarterly Financial Digest.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Finance and Services Scrutiny Committee.

Report to	Frequency
Council	
Treasury Management Strategy / Annual Investment Strategy and MRP Policy	Annually before the start of the year (1st April)
Treasury Management Strategy / Annual Investment Strategy and MRP Policy	Annually mid year (September/October)
Treasury Outturn Report	Annually after the year end and by the 30 September
Finance and Services Scrutiny	
Receives each of the above reports in advance of Council (where applicable) and makes recommendations as appropriate	In advance of year/mid-year/after year end and by 30 September
Receives confirmation of Treasury transactions have complied with the Strategy	Quarterly by way of the Financail Digest.

Capital Strategy
In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019-20, all local authorities will be required to prepare an additional report, a Capital Strategy report, which is intended to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this report is to ensure that all elected members on the full council fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy.

The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

1.3 Treasury Management Strategy for 2018/19

The strategy for 2018/19 covers two main areas:

Capital issues

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

Treasury management issues

- the current treasury position;

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

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

1.4 Training

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

The training needs of Members and treasury management officers will be reviewed in - year.

1.5 Treasury management consultants

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

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2018/19 – 2021/22

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The Capital programme has been agreed by Cabinet and final approval being sought by Council in February 2018. Members will be asked to approve the capital expenditure forecasts as detailed below.

Capital expenditure £000s	2017/18 Forecast	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Total	**20,139**	**10,850**	**2,940**	**2,740**	**2,585**

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of Capital Expenditure £000s	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Capital Receipts	3,410	6,210	2,910	2,740	2,585
Capital Grants		3,300			
Capital Reserves	9,752		0		
Borrowing	1,278	1,013	30		
Revenue	5,699	327			
Net financing need for year	**20,139**	**10,850**	**2,940**	**2,740**	**2,585**

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

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes.

The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£000s	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
External Debt					
Debt at 1 April	23,080	24,183	25,016	24,831	24,646
Expected change in Debt	1,103	833	-185	-185	-185
Actual Gross debt at 31 March	**24,183**	**25,016**	**24,831**	**24,646**	**24,461**
The Capital Financing Requirement	**44,047**	**46,658**	**44,986**	**44,816**	**44,491**
Under / (over) borrowing	19,864	21,642	20,155	20,170	20,030

2.3 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources (£000s)	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Fund balances and reserves	34,546	34,736	35,597	35,597	35,597
Capital receipts	6,809	6,809	6,809	6,809	6,809
Provisions	1,931	1,931	1,931	1,931	1,931
Other	2,943	2,943	2,943	2,943	2,943
Total Core Funds	**46,229**	**46,419**	**47,280**	**47,280**	**47,280**

2.4 Affordability prudential indicators

The strategy details the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

a. 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.

	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
General Fund	**-10.55%**	**-6.60%**	**-6.52%**	**-6.39%**	**-6.24%**

The estimates of financing costs include current commitments and the proposals in this budget report.

2.5 Treasury indicators for debt

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.

The Council is asked to approve the following treasury indicators and limits:

Upper Limit on Fixed Interest Rate Exposure

Indicator	**2017/18 Forecast**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**
Upper limit on fixed interest rate exposure	100%	100%	100%	100%	100%

Upper Limit on Variable Interest Rate Exposure

Indicator	**2017/18 Forecast**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**
Upper limit on variable interest rate exposure	20%	20%	20%	20%	20%

Maturity Structure of Fixed Rate Borrowing

Indicator	2017/18 Forecast	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Under 12 months	21%	21%			
12 months & within 24 months					
24 months & within 5 years					
5 years & within 10 years		21%	27%	27%	27%
10 years & within 20 years	21%				
20 years & within 30 years				73%	73%
30 years & within 40 years	58%	58%	73%		

2.6 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary £'000s	2017/18 Forecast	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
External Debt	35,000	50,000	50,000	50,000

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

Authorised limit £'000s	2017/18 Forecast	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Debt	50,000	70,000	70,000	70,000

3 TREASURY MANAGEMENT STRATEGY STATEMENT

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.

This Council defines its treasury management activities as:

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

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

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

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

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

3.1 Current portfolio position

The Council's treasury portfolio position as at 31 December 2017 comprise:

Borrowing

Fixed Rate Funding: £22.886m. Average Rate: 3.545%.

Investments

Fixed Rate and Notice Account Investments:£56129.m.Average Rate: 0.518%.

3.2 Prospects for interest rates

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

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC 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.

The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

Investment and borrowing rates

- Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.

- Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Since then, borrowing rates have eased back again somewhat. Apart from that, there has been little general trend in rates during the current financial year. 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 authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

- 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.

3.3 Borrowing strategy

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.

Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.4 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.5 Debt rescheduling

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).

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.

All rescheduling will be reported to the Cabinet Committee, at the earliest meeting following its action.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the CIPFA TM Code"). The Council's investment priorities will be security first, portfolio liquidity second, and then return.

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

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.

4.2 Creditworthiness policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Director of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

	Good Credit Quality with a minimum agency credit rating (where rated).	Minimum Ratings
BANKS		
1.1	Are UK banks	A
1.2	Are non-UK and domiciled on a country which has a minimum sovereign long term rating of	AAA
1.3	Short Term	F1+
1.4	Long Term	AA
2.1	Part nationalized UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalized or they meeting the ratings in Banks 1 above.	n/a
3.1	The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimized (wherever possible) in both monetary size and time.	
BUILDING SOCITIES	The Council will use all societies within the top 20 that have assets over £½ billion. See time and amount restrictions below.	n/a
MMF	The Council will use Money Market Funds.	AAA
GOV'T		
1.1	The Council will use the UK Government (including gilts and the Debt Management Agency).	AAA
1.2	Local Authorities and Parish Councils	n/a
FOREIGN		
1.1	Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part, the country selection will be chosen by the credit rating of the sovereign state in Banks 1 above. In addition:	AA
1.2	no more than 25% will be placed with any non-UK country at any time	
1.3	limits in place above will apply to a group of companies	
1.4	sector limits will be monitored regularly for appropriateness	

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

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

	Fitch Long term Rating (or equivalent)	Money and / or % Limit	Time Limit
Banks 1 higher quality	**AAA**	**£7.5m**	**1 year**
Banks 1 medium quality	**AA**	**£5m**	**1 year**
Banks 1 lower quality	**A**	**£3m**	**6 months**
Banks 2 – part nationalised	**N/A**	**£7.5m**	**1 year**
Banks 3 – Council's Banker (not meeting Banks 1)	**XXX**	**£2.5m**	**1 month**
Building Societies < £1 billion	**N/A**	**£1m**	**6 months**
Building Societies > £1 billion	**N/A**	**£3m**	**1 year**
Money Market Funds	**AAA**	**£7.5m**	**liquid**
Debt Management Agency	**AAA**	**unlimited**	**6 months**
Local Authorities	**N/A**	**£5m**	**1 year**
Local Authorities Parishes	**N/A**	**£500,000**	**6 months**
Foreign	**AA**	**£5m**	**1 year**
Other institutions Limit	**-**	**£2.5m**	**6 months**

4.3 Country and sector limits

Due care will be taken to consider the country, group and sector exposure of the Council's investments.

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA from Fitch.

4.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations.
Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

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:

	Now
2017/18	0.40%
2018/19	0.60%
2019/20	0.90%
2020/21	1.25%
2021/22	1.50%
2022/23	1.75%
2023/24	2.00%
Later years	2.75%

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

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are 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 the treasury indicator and limit:

Indicator	**2015/16 Actual**	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**
Total principal sums invested for periods longer than 364 days (£'000)	0	0	5,000	5,000	5,000

This takes account of the proposed change in the CIPFA Treasury Code from a 364 day limit to 365 days.

4.5 Investment Liquidity

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

4.6 Property Funds

The use of Property Funds is included within the strategy as an alternative long term deposit to the use of Fund Managers.

4.7 End of year investment report

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

4.8 External fund managers

The Council now has no funds externally managed.

5 MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

CLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year.

The broad aim of a prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over the capital expenditure provides benefits (asset life).

Asset Life Method
Since 1 April 2014, where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the life of the asset, based on an equal instalment method. This amount is expected to be £1.702m for 2018/19.

Where assets have been purchased utilising capital grants or revenue contributions no MRP calculation is required. Only assets purchased utilising borrowing require an MRP charge.

The asset life method calculation requires estimated useful lives of assets to be input in to the calculations. These life periods will be determined by the Director of Finance, with regard to the statutory guidance and advice from professional valuers.

This page is intentionally left blank

Finance and Services Scrutiny Committee
5 February 2018

FINANCIAL REPORTING: PROPOSALS FOR DISCUSSION

1 Purpose

1.1 To discuss and invite comment from Members on future financial reporting and format of financial reports.

1.2 At its meeting in November 2017, the Finance and Services Scrutiny Committee invited proposals on a "refresh" on the information being presented in relation to finance and the Quarterly Digest. The objective of the review is to ensure that Members get sufficient information to understand the financial position of the Council and any inherent and emerging risks.

2 Recommendations/for decision

2.1 To review and discuss options for future reporting of financial information and the format of financial reports.

2.2 To agree Option1 as an interim amendment to the existing reporting structure to meet Members immediate needs for information whilst additional information needs are determined

2.3 To agree Option 2, which involves a longer-term review of reporting requirements ensuring that Member requests for information can be determined and embedded in future reports.

3 Supporting information

3.1 The Organisation has faced significant changes in the last 2 years with major organisational restructuring and changes. There is an opportunity now to review the reporting of financial information across the Council to ensure it is fit for purpose and meets the requirements of its multiple users.

3.2 Although the information being communicated on financial matters will need to be common across all stakeholders, the emphasis and detail will vary with report type and with the audience.

3.3 This report focuses on information requirements for Members.

4 Financial Reporting Requirements

4.1 The Council needs to demonstrate how well money is being spent and then report it appropriately.

4.2 In reporting financial information, there are a number of good principles that need to be give consideration.

- Members should receive regular and accurate accruals based financial information including the risks to the financial position and how they are being managed.
- Information at Committee level should be summarised appropriately, and information should be directive with e.g. "at a glance" detail to inform next steps/ required actions
- Ensure level of information is commensurate with decision making required
- Committee Members should receive regular and accurate information on the balance sheet
- There should be a link to operational performance and financial reporting.

- Reporting needs should be informed by users
- Reposts should be user friendly and understandable, and financial terminology explained
- Reports should be indicative that financial performance is aligned to operational performance.
- Allow for exception reporting/ RAG rated, with appropriate risks highlighted

4.3 Financial information will be required for many audiences and information provide will vary in content, regularity of reporting, depth of information provided and emphasis of "messaging".

4.4 The key objectives to ensuring the "right message, at the right time" for each of the groups is to understand the information requirements for each group. It is hoped that the discussion arising from this report will inform future reporting requirements

4.5 This report focuses on financial management information being presented to the Members. The Organisation will also receive annual financial information as part of the Annual report.

5 Options considered

5.1 A number of options, for discussion and review, on how to address reporting needs in the future is outlined below.

5.2 Currently, the production of the "Finance Quarterly Digest" is the main vehicle for the communication of the Organisations financial performance. It has been in place for several years. Recent feedback from Internal Audit (Internal Audit Report 2016/17– Budget management) and feedback from the Finance and Services Scrutiny Committee suggests that whilst it provides a good financial overview of the Council, some additional information is required.

5.3 Option 1 explores interim changes to the current reporting format. This option allows for immediate progression on changes to reporting of information.

5.4 Work is already progressing to review the content of the Qtr3 digest for 2017/18 and the following is being suggested:

- a move to a more narrative report - taking the variance analysis from the tables to a narrative report.
- The narrative report will give an overview of the financial position and provide additional narrative on exceptional areas only by portfolio
- An organisation overview will be produced with a report on costs and income, and the net position. The spend will also be split between pay and non-pay costs to give further granularity of detail. This can be at portfolio level.
- subjective level analysis will be available … e.g. spend on areas of interest e.g. agency spend /forecast by Portfolio.
- The report will identify variance to plan and outline actions plan/corrective actions being taken to address emerging issues.
- Additional narrative on cash and treasury
- Performance against capital budgets

- There were some comments raised by members re: budget profiling. We will aim to review this when reporting and comment as appropriate.
- Aim to produce within 6 weeks of end of period

5.5 Option 2 would involve a longer -term project to develop reporting requirements for the organisation and Members.

5.6 In preparing this report to the Finance and Services Scrutiny Committee, it should be recognised that any changes to the reporting agenda will need to be iterative and development of reporting processes will need to be discussed with key stakeholders and will also be dependent on system reporting capability.

5.7 The timing and regularity of reporting will also be considered. As a general guide, monthly reporting is good practice. The Quarterly Digest is currently produced quarterly.

5.8 Finance and Services Scrutiny Committee meeting should be getting the big picture. The challenge will be to present the detail in a comprehensive manner, without excessive in-depth detail by portfolio.

5.9 The reporting systems will also need to be reactive and report on emerging issues.

5.10 Finance Services and Scrutiny Committee meeting should consider issues by Exception.

5.11 Information will need to be highlighted in a way which helps councillors understand the impact of the variances on the budget and what remedial action can be taken.

5.12 There is no one model of a financial management system that suits all organisations.

5.13 The key measures for financial management should be cash resources, operating results, balance sheets and financial Key Performance Indicators (KPIs).

5.14 The list below indicates some reports that would useful indicators of financial performance. Reports can be developed and shaped to suit needs.

Income and Expenditure (I&E)

- Organisational I&E – Year to date Plan / Actuals/ Variances to plan
- Organisational I&E - In month performance (plan/actual/variances)
- Organisational Income and Expenditure – Annual budgets/ Forecast outturn/ variances
- Organisational Month by month expenditure levels (to assess trends)
- Organisational Month by month income levels (to assess trends)
- Information on Budget profiling and impact of budget profiling
- What are we spending our money on?
    - Subjective level reporting – staff and non-pay
    - Income by type
- Performance against Procurement savings
- Trend information: Last years outturn as indicator
- Overview of Risk analysis: Key risks and actions being taken to address
- Overview of Financial Opportunities:Regular review financial opportunities

Balance sheet reporting/ Financial reporting to include:

- Treasury Management information: levels of cash / rolling cash flow
- Treasury Management: Detail of Investment balances
- Treasury Management: Detail of borrowings
- Use of balances – risk and opportunities
- Balances on Reserves … and likely commitments/ cash outflow over time
- Debt: Aged profiled of debt, monthly changes in bad debt provision

Key Financial Performance Indicators

- Payment information: performance against payment terms
- Key KPIs in relation to finance … including e.g. creditor and debtor invoices raised
- Other "performance" indicators may also be identified in relation e.g. to Customer activities

5.15 Increasingly, for Organisations, financial information is presented as part of an overall report on performance generally. Currently, the Quarterly Digest does not make direct references to non-financial data to support the review of the financial position.

5.16 The Council has, however, already made some progress to producing integrated performance reports through its "Business Intelligence Project".

5.17 The Business Intelligence Project is responsible for development of integrated performance management information, providing metrics that can help the senior management team monitor overall performance. A Dashboard is being developed.

5.18 In developing a view of Reporting across the Council, consideration will be given to all existing work streams to ensure work programmes are aligned within agreed objectives.

5.19 There is no one model of financial management system that suits all organisations. As part of the exercise, it is intended to review reporting practices and reporting in similar organisation, to understand what good may look like. This may be used to inform the future development of reporting at the Council.

5.20 The project will also consider any training needs of Members in relation to financial reporting. All reports produced should be fully understood by users.

6. Reasons for Recommendation

6.1 The Finance and Services Scrutiny Committee have asked for a review of the information presented through the Finance Quarterly Digest.

6.2 A number of options have been proposed in this report. The phased approach to the changes is proposed to allow Members time to consider the options presented in the paper.

6.3 Feedback from Members will help shape and inform the future for financial reporting.

7. Resource implications

7.1 It should be recognised that any changes to the reporting agenda will need to be iterative and development of reporting processes will need dependent on system reporting capability.

7.2 All financial information should come from the Council Tech1 financial system. This will ensure integrity and consistency of reporting and ownership of the information from the Finance team.

Contact Officer	Andrew Small (01296) 585507
Background Documents	n/a

This page is intentionally left blank