ADDENDUM TO COUNCIL
25 February 2019

7.2 To adopt recommendations from the following:

7.2.1 Cabinet – 13 February 2019

7.2.1.1 **Treasury Management Strategy Statement and Annual Investment Strategy 2019/20 (APPENDIX A)**

Consideration was given to a report of the Finance Portfolio Holder which presented the Treasury Management and Annual Investment Strategies of the Council. These had been produced in accordance with the latest statutory requirements and relevant codes of practice. The strategies set out the criteria within which cash surpluses could be invested and how external borrowing would be managed should the Council choose to take on debt in the year.

Borrowing costs were currently limited to the interest payable on short term borrowing which was used to even out the Council's cash flow throughout the year although prudential borrowing to cover the deficit in the capital programme was permitted in the strategy.

Having considered the options and for the reasons set out in the report, Cabinet agreed to the following:

Recommended:

1. **That the Treasury Management Strategy Statement and the Annual Investment Strategy for 2019/20 as set out in the report be approved.**
2. **That the Minimum Revenue Provision (MRP) policy be approved.**
3. **That the Prudential Indicators as set out in Annex 1 to the report be approved.**

7.2.1.2 **Revenue Budget and Council Tax Proposals 2019/20 (APPENDIX B)**

Consideration was given to a report of the Finance Portfolio Holder, which presented proposals for the final Revenue Budget and Council Tax for the financial year 2019/20. The report took into account the previous budget information and options for changes in service delivery that were presented to the cabinet in October 2018 and January 2019.

The Finance Portfolio Holder updated the Committee on a minor amendment to the figure in recommendation 6 and to the Parish Precepts figure on Annex 1 and Annex 5. An amended report and Annexes would be attached to the Council agenda for 25 February 2019 when the recommendations will be considered.

The report was the culmination of a process that started in May 2018. It showed the savings and additional income that had been identified to enable the Council to propose a balanced budget for 2019/20.

Having considered the options and for the reasons set out in the report, Cabinet agreed to the following:

Recommended:

1. **That the Revised Forecast for 2018/19 as set out in Column 3 of Annex 1 be approved.**

2. **That a transfer of £500,000 to the Asset Management Plan in 2018/19 be approved as detailed in paragraph 3.5.**

3. **That the Savings Options, Income Generation Proposals and Revenue Pressures as set out in Annexes 2 - 4 be approved.**

4. **That subject to recommendation 3 above and taking due regard of the Head of Finance's comments in Annex 8, the budget for 2019/20 as set out in Column 6 of Annex 1 be approved.**

5. **That subject to recommendations 3 and 4 above, the revenue estimates for each Service contained in Annex 7 be approved.**

6. **That a Council Tax Requirement for 2019/20 of £8,868,722 be approved.**

7. **That a Special Expenses Levy of £346,804 be made in respect of the area of Andover to cover the cost of providing burial grounds, public halls, sports grounds and playgrounds.**

8. **That a general precept of £6,924,282 be levied for the year 2019/20.**

9. **That the Medium Term Forecast contained in Annex 6 be noted.**

10. **That a Band D Council Tax excluding Parishes and Special Expenses of £141.41 in 2019/20 be approved – a freeze at 2018/19 levels.**

11. **That a draw from the Collection Fund Equalisation Reserve of £61,200 in 2019/20 be approved as detailed in paragraph 4.5.**

12. **That delegated authority be given to the Head of Finance in consultation with the Leader, Finance Portfolio Holder and the Chief Executive to make changes to the budget following Cabinet to take account of new issues, changes to figures notified by Parish Councils or any late changes in the final Local Government Finance Settlement.**

Revised report to Cabinet – 13 February 2019 **APPENDIX A**

ITEM Treasury Management Strategy Statement and Annual Investment Strategy 2019/20

Report of the Finance Portfolio Holder

Recommended:

1. That the Treasury Management Strategy Statement and the Annual Investment Strategy for 2019/20 as set out in the report be approved.

2. That the Minimum Revenue Provision (MRP) policy be approved.

3. That the Prudential Indicators as set out in Annex 1 be approved.

Recommendation to Council

SUMMARY

- This report presents the Treasury Management and Annual Investment Strategies of the Council and has been produced in accordance with the latest statutory requirements and relevant codes of practice.
- Borrowing costs are currently limited to the interest payable on short term borrowing which is used to even out the Council's cash flow throughout the year although prudential borrowing to cover the deficit in the capital programme is permitted in the strategy.
- The major objectives of the Treasury Management Strategy for 2019/20 are:
  - To manage effectively and control the risks associated with treasury management activities.
  - To invest prudently having regard to the security and liquidity of investments and the predictability of returns.
  - To aim to achieve the optimum return on investments commensurate with the proper levels of security, liquidity and protection of capital.

1. Introduction

1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity before considering investment return.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations, which may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, when prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

1.5 Chartered Institute of Public Finance and Accountancy (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."

1.6 Revised reporting is required for the 2019/20 reporting cycle due to revisions of the Ministry of Housing Communities and Local Government (MHCLG) Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy has been reported separately and was approved by Cabinet on 10 October 2018.

2. Reporting Requirements

2.1 Capital Strategy

2.1.1 The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

- a high-level long term 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

2.1.2 The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

2.1.3 This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

2.1.4 Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

2.1.5 Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

2.1.6 If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

2.1.7 To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

2.2 Treasury Management Reporting

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

a) **Prudential and treasury indicators and treasury strategy** (this report) – The first, and most important report is forward looking and 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).

b) **A mid year treasury management report** – This will update Councillors with the progress of the capital programme, amending prudential indicators as necessary, and whether any policies require revision.

c) **An annual treasury report** – This is a backward looking review document and provides details of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

2.3 **Treasury Management Strategy for 2019/20**

2.3.1 The strategy for 2019/20 covers two main areas:

a) Capital issues

- the capital plans and the prudential indicators;
- the MRP strategy.

b) 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
- policy on use of external service providers.

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

2.4 **Treasury Management Consultants**

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

2.4.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of the external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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

2.4.4 The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments require specialist advisors, and the Council uses appropriate external advisors in relation to this activity.

3. Prudential Indicators, Treasury Limits and MRP Statement

The Capital Prudential Indicators 2019/20 – 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.

3.1 Capital Expenditure

3.1.1 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. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £000	2017/18 Actuals	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Services	9,619.3	20,251.0	6,951.4	1,850.0
Commercial Activities/non-financial investments	7,855.9	10,040.0	3,060.0	3,000.0
Total	**17,475.2**	**30,291.0**	**10,011.4**	**4,850.0**

3.1.2 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 £000	**2017/18 Actuals**	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
Capital Expenditure	**17,475.2**	**30,291.0**	**10,011.4**	**4,850.0**
Financed by:				
Capital receipts	947.6	5,183.3	50.0	50.0
Capital receipts reserve	7,685.5	5,775.0	2,939.9	1,485.6
Capital grants	682.2	750.0	850.0	0.0
External Contributions	2,517.2	749.1	1,880.5	1,600.0
External financing (approved Feb 2018)	0.0	5,900.0	0.0	0.0
Revenue/General Fund	5,642.7	11,933.6	4,291.0	1,714.4
Net financing need for the year	**0.0**	**0.0**	**0.0**	**0.0**

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

3.2.1 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 the underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

3.2.2 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.

3.2.3 The CFR includes any other long-term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes within the CFR.

3.2.4 The Council is asked to approve the CFR projections below:

	2017/18 Actuals £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
CFR b/f	(678.0)	(678.0)	5,222.0	5,091.4
Net CapEx/Financing need for year	0.0	5,900.0	0.0	0.0
Additional financing need for the year (above)	0.0	0.0	0.0	0.0
Less MRP and other financing movements	0.0	0.0	(130.6)	(134.1)
Total CFR	**(678.0)**	**5,222.0**	**5,091.4**	**4,957.3**

Movement in CFR	**0.0**	**5,900.0**	**(130.6)**	**(134.1)**

3.2.5 A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in 3.1.1 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity.

3.3 Minimum Revenue Provision (MRP) Policy Statement

3.3.1 MRP is the statutory requirement to make a charge to the Council's General Fund to make provision for the repayment of the Council's past capital debt and other credit liabilities.

3.3.2 The scheme of MRP was set out in former regulations 27, 28 and 29 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. This system was radically revised in 2008 by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008, which shifted the emphasis from regulations to guidance. The key principle of the new system and accompanying guidance is that an authority's debt liability should be repaid over a similar period to that which the asset associated with the capital expenditure provides benefits or, in the case of borrowing supported by Revenue Support Grant, in-line with the period implicit in the determination of that grant. Local authorities are asked by the Secretary of State "to prepare an annual statement of their policy on making MRP for submission to their full Council".

3.3.3 The type of approach intended by the MRP guidance is clearly to enable local circumstances and discretion to play a part, as the guidance in general contains a set of recommendations rather than representing a prescriptive process. The guidance makes it clear that councils can follow an alternative approach, provided they still make a prudent provision.

3.3.4 Since 2003 the Council has had no external debt and so has not been required to make MRP. The Council is evaluating funding options to support its programme of capital expenditure and in 2018/19 an element of borrowing has been required. Where borrowing is taken out, the principles established in the Prudential Code of prudence, affordability and sustainability will be followed.

3.3.5 It is recommended that members approve the following MRP policy to be applied form 2018/19 onwards:

- In respect of capital expenditure incurred in 2018/19 and subsequent financial years the MRP policy will be to use the Asset Life Method. MRP will be charged based on the estimated life of the associated assets, calculated on an annuity basis.

- Repayments included in any annual finance leases will be applied as MRP in accordance with the terms of the agreement.

4. Borrowing

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

4.2 Portfolio position as at 31 December 2018

Investment Term	**£'000**
Callable on Demand	14,704
Callable Deposits (10 to 100 days' notice)	31,299
Investments maturing on or before 31 March 2018	13,500
Investments maturing between 1 April 2019 and 31 March 2020	22,000
Investments maturing after 31 March 2020	5,000
Total Investment Portfolio	**86,503**

4.3 Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits.

4.4 One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

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

4.6 **Treasury Indicators: limits to borrowing activity**

4.6.1 **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.

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

- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
- The Council is asked to approve the authorised limit stated in Annex1

4.7 **Prospects for interest rates**

4.7.1 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. Annex 2 draws together a number of current City forecasts together with the Link central view, for short term bank rate and longer fixed interest rates.

4.7.2 There are a number of factors that could affect the forecast changes to interest rates. A detailed view of the current economic background is contained within Annex 3 to this report.

4.8 **Investment and borrowing rates**

- Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over next few years.

- Borrowing interest rates have been volatile so far in 2018-19 and have increased modestly since the summer. 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, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

4.9 **Borrowing Strategy**

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

4.9.2 When borrowing the Head of Finance will;

- ensure the ongoing revenue liabilities to be created, and the implications for the future plans and budgets have been considered.
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.
- consider the merits and demerits of alternative forms of funding and consider the alternative interest rate bases available, the most appropriate periods to fund and the repayment profiles to use.

4.9.3 In normal circumstances the main sensitivities of the economic forecast are likely to be the two scenarios noted below. Council officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of interest rate forecast:

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

4.9.4 Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The Head of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances, reporting any decisions at the next available opportunity.

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

4.10.1 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.

4.10.2 In determining whether borrowing will be undertaken in advance of need the Council will ensure that there is a clear link between the capital programme and maturity profile of the debt portfolio which supports the need to take funding in advance of need.

4.11 **Municipal Bond Agency**

4.11.1 It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority intends to make use of this new source of borrowing as and when appropriate.

5. Annual Investment Strategy

<u>Investment Policy – management of risk</u>

5.1 The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

5.2 The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

5.3 The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

5.4 The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

- Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
- **Other information:** 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.
- This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists below under the categories of 'specified' and 'non-specified' investments.
- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5.5 Specified investments

5.5.1 All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum rating criteria where applicable.

	Minimum Credit Criteria(para 5.7.4)	**Limits**
Debt Management Agency Deposit Facility	--	No Limit
Term deposits – local authorities	--	No Limit
Term deposits / bonds – banks and building societies *	Per Link colour code (see 5.7.2)	£15M total investment
Term deposits – banks backed by UK Government Guarantees **	--	£15M total investment
Money Market Funds	Long term AAA	£15M total investment
UK Government Gilts / Treasury Bills	UK Sovereign Rating	£15M total investment

Bonds issued by multilateral development banks	Long term AAA	£15M total investment
Bonds issued by a financial institution which is guaranteed by the UK government	UK Sovereign Rating	£15M total investment

* If forward deposits are to be made, the forward period plus the deal period will not exceed one year in aggregate.

** Subject to the maximum of any guarantee period in issue by the Government on the date the investment was made.

5.5.2 Whilst these requirements are in place to ensure the safety of the Council's investments it does present an operational difficulty for managing short term (up to one week) funds as these types of accounts are only available from major banks.

5.5.3 The following criteria are proposed for investment accounts for balances held for up to seven days.

	Minimum 'High' Credit Criteria	**Limits**
On Call accounts	Short-term F1, Long-term A Individual C, Support 1	£15M total investment
Term deposits – maximum of 7 days	Short-term F1, Long-term A Individual C, Support 1	£15M total investment

5.5.4 Accounting treatment of investments - the accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

5.6 **Non-Specified Investments**

5.6.1 These are investments which do not meet the Specified Investment criteria. A maximum of 50% will be held in aggregate in non-specified investments with no more than £5M to be held with any one counterparty (excluding other local authorities).

Maturities in excess of 1 year

	Minimum Credit Criteria (para.5.7.4)	**Max. maturity period**
Term deposits – local authorities	--	60 months
Term deposits - Banks	Per Link colour code	24 months
Fixed term callable deposits with variable rate and variable maturities	Per Link colour code (see para.5.7.2)	24 months
Certificates of deposits issued by banks	Short-term F1+, Long-term AA- Individual B, Support 2	24 months
UK Government Gilts	UK Sovereign Rating	60 months
Bonds issued by multilateral development banks	AAA	60 months
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	60 months
Sovereign bond issues (i.e. other than the UK govt)	AAA	60 months

5.6.2 There may be occasions when the counterparty limit will be exceeded as a result of credit interest being applied to deposit balances. Where this occurs, it will be permitted without the need to immediately withdraw the amount by which the gross balance exceeds the counterparty limit.

5.7 Creditworthiness Policy

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

- Credit watches and credit outlooks from credit rating agencies
- Credit default swap (CDS) spreads to give early warning of likely changes in credit ratings
- Sovereign ratings to select counterparties from only the most creditworthy countries

5.7.2 This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are referred to as durational bands. The Council will therefore use counterparties within the following durational bands.

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi-nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No Colour not to be used

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

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

5.7.5 All credit ratings will be monitored daily**.** The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use for new investments will be withdrawn immediately.
- In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

5.7.6 Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

5.7.7 **Country risk**

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide).

6. Investment Strategy

6.1 The Council will continue to manage its investment portfolio using internal resources.

6.2 A mid-year report on investment performance will be presented to the Overview and Scrutiny Committee. At the end of the financial year a report summarising investment activity will be presented to Cabinet as part of the Treasury Management Outturn.

6.3 The Council will avoid locking into longer term deals while investment rates are at historically low levels unless exceptionally attractive rates are available which make longer term deals worthwhile.

6.4 Investment returns expectations.

6.5 Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

- 2018/19 0.75%
- 2019/20 1.25%
- 2020/21 1.50%
- 2021/22 2.00%

6.6 For 2019/20 it is suggested that the Council should budget for an investment return of 0.10% above base rate on investments placed during the financial year.

6.7 The overall balance of risks to economic growth in the UK is probably neutral.

6.8 The balance of risk to increases in Bank Rate and shorter term PWLB rates, are probably also even and are dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

6.9 For its cash flow generated balances, the Council will seek to utilise its business reserve accounts and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

6.10 **Investment risk benchmarking**

Role of the Section 151 Officer

6.10.1 The S151 officer is responsible for:

- Recommending treasury management policy / practices for approval, reviewing the same regularly, and monitoring compliance
- Submitting regular treasury management policy reports
- Submitting budgets and budget variations
- Receiving and reviewing management information reports
- Reviewing the performance of the treasury management function
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- Ensuring the adequacy of internal audit, and liaising with external audit

7. Risk Management

7.1 Whilst the protection of the authority's capital and the pursuit of reasonable returns are two vital features of effective treasury management, there is also a need to address other treasury risks. The main treasury management risks have been identified as;

- Liquidity Risk - The risk that cash will not be available when it is needed.
- Interest Rate Risk - The risk that changes in the rates of interest create an unexpected or unbudgeted burden on the Council's finances.
- Inflation Risk - The risk that growth in the authority's investment income,does not keep pace with the effects of inflation on its expenditure.
- Credit Risk - The risk that a counterparty defaults on its obligations.
- Operational Risk - The risk of loss through fraud, error, corruption, system failure or other eventualities in treasury management dealings, and failure to maintain effective contingency management arrangements.

7.2 Techniques and procedures to manage these risks are in place and include:

- Reliable cash flow forecasting and monitoring;
- Access to reliable and informed sources of information concerning both economic developments and the likely future course of interest rates;
- Managing exposure to interest rates;
- A sound diversification policy for investments;
- Rigorous assessment of credit-worthiness of counterparties;
- Fidelity insurance;
- Suitable treasury management policies, including back-up measures for system failures and staff absences

7.3 Despite these measures, there is a risk of a financial institution collapsing and not repaying a loan to the authority. The current arrangements are designed to reflect this level of risk and reduce the authority's exposure. However, a residual risk remains, which cannot be fully mitigated, as the authority must undertake a level of Treasury Management activity with its cash surpluses.

8. Resource Implications

There are no direct resource implications arising from this report. However, the restrictions on the types of investment that can be used identified in this report will have an effect on the return on investments that the Council can expect to achieve in the year.

9. Equality Issues

An EQIA screening has been completed in accordance with the Council's EQIA methodology and no potential for unlawful discrimination or low level negative impact have been identified, therefore a full EQIA has not been carried out.

10. Consultations

The Council's treasury advisors, Link Asset Services, have been consulted in the preparation of this report.

11. Conclusion and reasons for recommendation

11.1 This report presents the Council's Treasury Management strategy for 2019/20. Whilst largely unchanged from the 2018/19 strategy, it sets out the criteria within which cash surpluses can be invested and how external borrowing will be managed should the Council choose to take on debt in the year.

11.2 The report and annexes show how the Council plans to minimise its risks to the current economic climate by stipulating creditworthiness requirements on lenders and limiting the maximum amount available to be invested at any one time.

Background Papers (Local Government Act 1972 Section 100D)			
Confidentiality It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	3	File Ref:	
(Portfolio: Finance) Councillor Peter Giddings			
Officer:	Laura Berntsen	Ext:	8204
Report to:	Cabinet	Date:	13 February 2019

ANNEX 1

PRUDENTIAL INDICATORS

PRUDENTIAL INDICATOR	2017/18	2018/19	2019/20	2020/21	2021/22
EXTRACT FROM BUDGET	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	Actual	**Forecast**	**Estimate**	**Estimate**	**Estimate**
Capital Expenditure	**17,475**	**30,291**	**10,011**	**4,850**	**1,250**
Ratio of financing costs to net revenue stream	**-4.3%**	**-4.8%**	**-3.4%**	**-4.2%**	**-3.9%**
Capital Financing Requirement (CFR) b/f	-678	-678	5,222	5,091	4,957
Minimum Revenue Provision			-131.0	-134.0	-138.0
External Debt		5,900			
Capital Financing Requirement (CFR) c/f	**-678**	**5,222**	**5,091**	**4,957**	**4,819**
Gross debt <= CFR actuals + 3 years					
Gross debt	0	5,900			
CFR + 3 years movement		5,222			
Difference		**678**			
Gross debt higher than CFR due to negative CFR b/f.					

PRUDENTIAL INDICATORS

PRUDENTIAL INDICATOR	2017/18	2018/19	2019/20	2020/21	2021/22
TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	Actual	**Forecast**	**Estimate**	**Estimate**	**Estimate**
Authorised Limit for external debt	**15,000**	**20,000**	**20,000**	**20,000**	**20,000**
Operational Boundary for external debt	**10,000**	**15,000**	**15,000**	**15,000**	**15,000**
Upper limit for fixed interest rate exposure					
Net principal re fixed rate borrowing / investments	**100 %**	**100 %**	**100 %**	**100 %**	**100 %**
Upper limit for variable rate exposure					
Net principal re variable rate borrowing / investments	**50 %**	**50 %**	**50 %**	**50 %**	**50 %**
Upper limit for total principal sums invested for over 364 days (amount shown subject to being not more that 50% of the portfolio size at the time the investment is placed)	**£35,000**	**£35,000**	**£35,000**	**£35,000**	**£35,000**

Maturity structure of fixed rate borrowing during 2019/20	Upper limit	Lower limit
Less than 1 year	100 %	0 %
1 year to less than 2 years	100 %	0 %
2 years to less than 5 years	100 %	0 %
5 years to less than 10 years	100%	0 %
10 years or longer	100%	0 %

Note: During 2019/20 short term borrowing is expected to meet cash flow requirements and may be used to finance the current temporary deficit on the Capital Programme.

Interest Rate Forecasts 2019 – 2022

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Link Asset Services Interest Rate View	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
Bank Rate													
Link Asset Services	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
Capital Economics	0.75%	1.00%	1.25%	1.50%	1.70%	1.75%	2.00%	2.00%	-	-	-	-	-
5yr PWLB Rate													
Link Asset Services	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
Capital Economics	2.03%	2.15%	2.40%	2.65%	2.70%	2.75%	2.80%	2.85%	-	-	-	-	-
10yr PWLB Rate													
Link Asset Services	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
Capital Economics	2.43%	2.55%	2.80%	3.05%	3.05%	3.05%	3.05%	3.05%	-	-	-	-	-
25yr PWLB Rate													
Link Asset Services	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.96%	3.08%	3.33%	3.58%	3.53%	3.48%	3.43%	3.38%	-	-	-	-	-
50yr PWLB Rate													
Link Asset Services	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
Capital Economics	2.78%	2.90%	3.15%	3.40%	3.40%	3.40%	3.40%	3.40%	-	-	-	-	-

ANNEX 3

ECONOMIC BACKGROUND

GLOBAL OUTLOOK. World growth has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China and the Eurozone, overall world growth is likely to weaken.

Inflation has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to a marked acceleration of wage inflation. The US Fed has therefore increased rates nine times and the Bank of England twice. However, the ECB is unlikely to start raising rates until late in 2019 at the earliest.

KEY RISKS - central bank monetary policy measures
Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as quantitative easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation, is coming towards its close. A new period is well advanced in the US, and started more recently in the UK, of reversing those measures i.e. by raising central rates and, (for the US), reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of a reduction in spare capacity in the economy and of unemployment falling to such low levels, that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This meant that both asset categories were exposed to the risk of a sharp downward correction and we have indeed, seen a sharp fall in equity values in the last quarter of 2018. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery, by taking too rapid and too strong action, or, conversely, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.** At the time of writing, (early January 2019), financial markets are very concerned that the Fed is being too aggressive with its policy for raising interest rates and was likely to cause a recession in the US economy.

The world economy also needs to adjust to a sharp change in **liquidity creation** over the last five years where the US has moved from boosting liquidity by QE purchases, to reducing its holdings of debt, (currently about $50bn per month). In addition, the European Central Bank ended its QE purchases in December 2018.

UK. The flow of positive economic statistics since the end of the first quarter of 2018 has shown that pessimism was overdone about the poor growth in quarter 1 when adverse weather caused a temporary downward blip. Quarter 1 at 0.1% growth in GDP was followed by a return to 0.4% in quarter 2 and by a strong performance in quarter 3 of +0.6%. However, growth in quarter 4 is expected to weaken significantly.

At their November quarterly Inflation Report meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary or contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years time, but declined to give a medium term forecast. However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also *raise* Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor could potentially provide fiscal stimulus to support economic growth, though at the cost of increasing the budget deficit above currently projected levels.

It is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Getting parliamentary approval for a Brexit agreement on both sides of the Channel will take well into spring 2019. However, in view of the hawkish stance of the MPC at their November meeting, the next increase in Bank Rate is now forecast to be in May 2019, (on the assumption that a Brexit deal is agreed by both the UK and the EU). The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

Inflation. The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.3% in November. In the November Bank of England quarterly Inflation Report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate. This inflation forecast is likely to be amended upwards due to the Bank's report being produced prior to the Chancellor's announcement of a significant fiscal stimulus in the Budget; this is likely to add 0.3% to GDP growth at a time when there is little spare capacity left in the economy, particularly of labour.

As for the **labour market** figures in October**,** unemployment at 4.1% was marginally above a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 3.3%, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates less CPI inflation), earnings are currently growing by about 1.0%, the highest level since 2009. This increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the **political arena**, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy is fuelling a, (temporary), boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. The strong growth in employment numbers and the reduction in the unemployment rate to 3.9%, near to a recent 49 year low, has fed through to an upturn in wage inflation which hit 3.2 % in November, However, CPI inflation overall fell to 2.2% in November and looks to be on a falling trend to drop below the Fed's target of 2% during 2019. The Fed has continued on its series of increases in interest rates with another 0.25% increase in December to between 2.25% and 2.50%, this being the fifth increase in 2018 and the ninth in this cycle. However, they did also reduce their forecast for further increases from three to two. This latest increase compounded investor fears that the Fed is over doing the rate and level of increases in rates and that it is going to cause a US recession as a result. There is also much evidence in previous monetary policy cycles, of the Fed's series of increases doing exactly that. Consequently, we have seen stock markets around the world plunging under the weight of fears around the Fed's actions, the trade war between the US and China, an expectation that world growth will slow, Brexit etc.

The tariff war between the US and China has been generating a lot of heat during 2018, but it is not expected that the current level of actual action would have much in the way of a significant effect on US or world growth. However, there is a risk of escalation if an agreement is not reached soon between the US and China.

Eurozone. Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this was probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of nearly 2% for 2018, the horizon is less clear than it seemed just a short while ago. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank ended all further purchases in December 2018. The ECB is forecasting inflation to be a little below its 2% top limit through the next three years so it may find it difficult to warrant a start on raising rates by the end of 2019 if the growth rate of the EU economy is on a weakening trend.

China. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. Progress has been made in reducing the rate of credit creation, particularly from the shadow banking sector, which is feeding through into lower economic growth. There are concerns that official economic statistics are inflating the published rate of growth.

Japan - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It is likely that loose monetary policy will endure for some years yet to try to stimulate growth and modest inflation.

Emerging countries. Argentina and Turkey are currently experiencing major headwinds and are facing challenges in external financing requirements well in excess of their reserves of foreign exchange. However, these countries are small in terms of the overall world economy, (around 1% each), so the fallout from the expected recessions in these countries will be minimal.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.2 are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall. If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for ten years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England monetary policy** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **eurozone sovereign debt crisis**, possibly in **Italy**, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. The EU rejected the initial proposed Italian budget and demanded cuts in government spending which the Italian government initially refused. However, a fudge was subsequently agreed, but only by *delaying* the planned increases in expenditure to a later year. This can has therefore only been kicked down the road to a later time. The rating agencies have started on downgrading Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold it. Unsurprisingly, investors are becoming increasingly concerned by the words and actions of the Italian government and consequently, Italian bond yields have risen – at a time when the

government faces having to refinance large amounts of debt maturing in 2019.

- Weak capitalisation of some **European banks**. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.
- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD is reviewing whether it can continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018, (a new party leader has now been elected). However, this makes little practical difference as she is still expected to aim to continue for now as the Chancellor. However, there are five more state elections coming up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of electoral support for both the CDU and SPD which could also undermine her leadership.
- **Other minority eurozone governments.** Spain, Portugal, Ireland, the Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile. Sweden is also struggling to form a government due to the anti-immigration party holding the balance of power, and which no other party is willing to form a coalition with. The Belgian coalition collapsed in December 2018 but a minority caretaker government has been appointed until the May EU wide general elections.
- **Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU while **Italy,** in 2018, also elected a strongly anti-immigration government. Elections to the EU parliament are due in May/June 2019.
- Further increases in interest rates in the US could spark a **sudden flight of investment funds** from more risky assets e.g. shares, into bonds yielding a much improved yield. Throughout the last quarter of 2018, we saw sharp falls in equity markets interspersed with occasional partial rallies. Emerging countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to this risk of an investor flight to safe havens e.g. UK gilts.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks,** especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if both sides were to agree a compromise that removed all threats of economic and political disruption.
- **The Fed causing a sudden shock in financial markets** through misjudging the pace and strength of increases in its Fed Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

UK ECONOMICS UPDATE

Our new economic forecasts in various Brexit outcomes

• **Given the huge and growing uncertainty surrounding Brexit, we are now placing much more emphasis on three forecasts for the economy that are based on different Brexit outcomes. The key point, though, is that in each scenario we are a bit more optimistic than the consensus about the outlook for the economy and sterling. That's especially clear in our forecasts for 2020.**

• We've been playing this forecasting game a long time and have not before had a situation where upcoming political events could lead to such a wide range of possible near-term outcomes for the economy and the financial markets. **As such, it's not particularly useful to convey things in a central forecast.**

• **So until the Brexit fog clears, we will present three main forecasts to clients**; one based on something similar to Thersea May's deal being approved by Parliament by 29th March 2019; one based on the UK leaving the EU on 29th March in various forms of no deal; and one based on an extension of the Article 50 negotiating period and a subsequent softer Brexit, which we are calling the "fudge and delay" scenario.

• The key forecasts are in Table 1. If May's deal is agreed, we think GDP growth could rise from about 1.4% last year to 1.8% this year. That's lower than our previous forecast of 2.2% due to revisions released in the Q3 National Accounts subtracting 0.2 percentage points (ppts), a sharper global slowdown than we previously thought knocking off 0.1ppt, and slightly weaker investment and consumption subtracting another 0.1ppt as Brexit uncertainty weighed a bit more on activity in Q4 than we had expected.

• In the scenario that assumes Article 50 is extended for a few months before a (probably softer) Brexit deal is agreed, then a longer period of uncertainty means GDP growth this year only rises to 1.5% before more pent up demand is released and growth climbs to 2.2% in 2020. In the no deal scenario, GDP growth in 2019 could be between -0.2% (disorderly no deal) and +1.0% (orderly no deal) depending on how many side agreements are put in place. In both types of no deal, GDP growth still rebounds in 2020.

• **The probabilities of these three scenarios are subjective and will shift as the politics evolves.** But our sense is that in recent weeks the chances of May's deal being passed have declined (perhaps from 30% to about 25%), the chances of a no deal Brexit have increased again (from around 20% to 25%) and the probability of some form of fudge and delay is about 50%.

• As the fudge and delay scenario has the highest probability, that's the forecast we will provide when we are required to give a single figure. **But even that forecast is really just a guide as there are many flavours of fudge and lengths of delay.** The numbers below are based on Parliament taking more control over Brexit in the coming weeks, Brexit being delayed for at least a few months as Article 50 is extended and Parliament agreeing a softer Norway-style deal with the EU. But there are many other ways in which this scenario could play out, including a general election and/or a second referendum.

Table 1: Capital Economics Forecasts Based on Various Brexit Outcomes										
Previous Forecast						**Current Forecasts**				
(Probabilities in brackets)			May's Deal F'cast		May's Deal F'cast		Fudge & Delay F'cast		No deal Forecasts **(25%)**	
(25%)			**(50%)**			Orderly **(12.5%)**		Disorderly **(12.5%)**		
	2019	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**
GDP (% y/y)	2.2	2.0	1.8	2.0	**1.5**	**2.2**	1.0	1.8	-0.2	1.3
Bank Rate* (%)	1.50	2.00	1.50	2.00	**1.25**	**1.75**	0.25	0.75	0.25	0.25
$/£*	1.45	1.45	1.40	1.45	**1.35**	**1.40**	1.20	1.25	1.12	1.12
10 Year Yield* (%)	2.25	2.25	2.00	2.25	**1.75**	**2.00**	0.75	1.25	0.75	0.75
*End-period; Source: Capital Economics										

This all may sound similar to the old joke about putting 10 economists in a room and getting 11 opinions! **But one constant is that we still firmly believe the economy and sterling will perform better than widely expected in all three scenarios.**

• There's no denying that Brexit has reduced GDP growth. Initially this was a result of the squeeze in real incomes due to the rise in imported inflation caused by the lower pound. But more recently, the uncertain outlook has forced businesses to postpone investment and households to delay spending. That may have reduced GDP growth over the past two years by a cumulative 0.50-0.75ppts. But at times when there is heightened political uncertainty, there's a tendency for analysts to overestimate the economic implications. That was the case for the UK immediately after the EU referendum and for the US after the election of President Trump. We think this is another one of those occasions.

• That's why in the two scenarios where there is a deal, we think interest rates and gilt yields will rise by more and the pound will be stronger than the consensus forecasts and the financial markets assume. If May's deal is agreed, then the Monetary Policy Committee (MPC) may raise interest rates by 0.25% three times this year and twice next year. The first hike could come as soon as May. **By the end of 2020, Bank rate would then have risen from 0.75% to 2.00%, 10-year gilt yields may have risen from 1.25% now to 2.25% and the pound may have appreciated from $1.28/£ to about $1.45/£.**

• In the fudge and delay scenario, the prolonged uncertainty means that rates are likely to be kept at 0.75% for longer, so 10-year yields and the pound don't rise as far. But as long as the extension to Article 50 is relatively short, such as three months, then the MPC may still raise rates twice this year and twice next year. **Rates, 10-year yields and the pound may then end 2020 at 1.75%, 2.00% and $1.40/£ respectively.**

• Of course, things would be different if Article 50 is extended for more than three months, perhaps to allow for a new government to negotiate a new deal after a general election and/or for a second referendum. A six-month extension would presumably keep the MPC on hold probably for all of this year. As long as the economy holds up well, however, a 12-month or 24-month extension could mean the MPC can't ignore the recent rise in wage growth and raises rates again in the next few months! And the pound could be much weaker than we've suggested if Labour won a general election and/or a second referendum resulted in a no deal Brexit. **If any of these events become much more likely, we will alter our forecasts.**

• Even in a no deal scenario, we aren't as downbeat as most. In an orderly no deal, the economy would probably stagnate or contract for a quarter or two. In a disorderly no deal, a recession would be likely. **But there are two reasons why we doubt either scenario would be cataclysmic.** First, the economic disruption caused by components or products not being able to get in or out of the country would probably last only a few months as people got used to new systems. Second, despite what the Bank of England has said, we believe Bank rate would be swiftly cut to 0.25% and quantitative easing may be restarted. The Chancellor would probably also loosen fiscal policy, perhaps by something like 1% of GDP.

• So after a painful three to six months, economic activity would probably rebound quicker and by more than most are expecting. Given the extent of the uncertainty in any no deal scenario, there's little point in tweaking the forecasts we published in October to incorporate factors such as a slightly sharper global slowdown. (See our *UK Economics Focus* "How would the economy weather a no deal Brexit?" 8th Oct.)

• **Finally, it's worth reflecting on how all this will affect the UK relative to the rest of the G7.** Brexit has contributed to the UK missing out on the synchronised global upturn in 2016, 2017 and 2018. But the global economy is now *slowing*. So if there is any kind of no deal Brexit, the UK will fall further behind. **But in our May deal and fudge and delay scenarios, the release of some pent up demand means that in 2020 the UK may be the fastest growing G7 economy.**

• **This explains why in those two scenarios our forecasts imply that in the first half of 2020 the Bank of England would be *raising* interest rates when the US Fed is *cutting* them. Although that wouldn't be unprecedented, it doesn't happen often. But neither does Brexit.**

Report to Cabinet – 13 February 2019 **APPENDIX B**

ITEM **Revenue Budget and Council Tax Proposals 2019/20**

Report of the Finance Portfolio Holder

Recommended:

1. **That the Revised Forecast for 2018/19 as set out in Column 3 of Annex 1 be approved.**
2. **That a transfer of £500,000 to the Asset Management Plan in 2018/19 be approved as detailed in paragraph 3.5.**
3. **That the Savings Options, Income Generation Proposals and Revenue Pressures as set out in Annexes 2 - 4 be approved.**
4. **That subject to recommendation 3 above and taking due regard of the Head of Finance's comments in Annex 8, the budget for 2019/20 as set out in Column 6 of Annex 1 be approved.**
5. **That subject to recommendations 3 and 4 above, the revenue estimates for each Service contained in Annex 7 be approved.**
6. **That a Council Tax Requirement for 2019/20 of £8,868,722 be approved.**
7. **That a Special Expenses Levy of £346,804 be made in respect of the area of Andover to cover the cost of providing burial grounds, public halls, sports grounds and playgrounds.**
8. **That a general precept of £6,924,282 be levied for the year 2019/20.**
9. **That the Medium Term Forecast contained in Annex 6 be noted.**
10. **That a Band D Council Tax excluding Parishes and Special Expenses of £141.41 in 2019/20 be approved – a freeze at 2018/19 levels.**
11. **That a draw from the Collection Fund Equalisation Reserve of £61,200 in 2019/20 be approved as detailed in paragraph 4.5.**
12. **That delegated authority be given to the Head of Finance in consultation with the Leader, Finance Portfolio Holder and the Chief Executive to make changes to the budget following Cabinet to take account of new issues, changes to figures notified by Parish Councils or any late changes in the final Local Government Finance Settlement.**

Recommendation to Council

SUMMARY:

- This report presents proposals for the final Revenue Budget and Council Tax for the financial year 2019/20.
- The report takes into account the previous budget information and options for changes in service delivery that were presented to the Cabinet in October 2018 and January 2019.

- The headline financial figures in the report are :-
    - ♦ Band D Council Tax (excluding Parishes and Special Expenses) to be frozen at £141.41.
    - ♦ Revenue savings proposals totalling £124,430 – Annex 2
    - ♦ Income Generation proposals totalling £510,400 – Annex 3
    - ♦ Additional spending pressures on services of £642,720 – Annex 4
- The final recommendations arising from this meeting for the Budget and Council Tax for 2019/20 will be considered by Council on 25 February 2019.

1 Introduction

1.1 The Cabinet considered the Budget Strategy for 2019/20 in October 2018. The report showed a best, middle and worst case scenario of the budget gap the Council expected to face for 2019/20.

1.2 An update of the budget forecast was presented to Cabinet in January 2019 in light of the provisional Local Government Finance Settlement and further work that had been carried out to identify the savings necessary to balance the budget for 2018/19.

1.3 This report presents the proposals for the 2019/20 Revenue Budget and Council Tax to be considered at this meeting before a final recommendation is made to Council.

2 Background

2.1 This report deals with the overall revenue budget and council tax for the Borough for the 2019/20 financial year. The key issue that needs to be considered is how to set a balanced budget with due regard to:-

- The estimated cost of providing existing services at their current levels
- Managing service delivery where external grant funding is reducing considerably
- Predictions of a sustained low level of investment income
- The level of savings to be taken into account in setting the budget
- The availability and use of balances to support revenue spending
- The level of Council Tax to be set for the Borough of Test Valley, and
- The impact on budget projections for the medium term.

2.2 It is impractical to examine every possible permutation of the seven items set out above and therefore, this report sets out a specific budget proposal for debate that incorporates all of these items and takes into account discussions that have been held with the Leader and Portfolio Holders.

2.3 The following sections provide more detailed information on the final budget proposals that have been put forward. They compare the figures to those presented to Cabinet on 16 January 2019.

3 2018/19 Revised Forecast

3.1 The original budget for 2018/19 included no draw from general reserves in the year. This continues to be the case and general reserves are expected to remain at £2M at the end of the year.

3.2 The budget monitoring report presented to Cabinet on 7 November 2018 identified additional income and savings of £553,000 in Services and £67,000 additional investment income to the end of September.

3.3 Savings made to date are reflected in the revised forecast shown in the annexes to this report.

3.4 It is currently anticipated that a positive variance will arise when the outturn position is known, although the final value will not be known until outturn is reported to Cabinet in May 2019.

3.5 The Asset Management Plan Update report to Cabinet on 7 November 2018 included a Reserve Works List for 2019/20 with an estimated cost of £300,800 which could not be included in the programme as there were insufficient funds in the reserve available. It is, therefore, recommended to transfer £500,000 into the Asset Management Plan Reserve in 2018/19 to cover this list and ease any further pressures on the Reserve which may arise.

3.6 No decisions will be taken on how to deploy any further positive variance or cover any negative variance arising in 2018/19 until the outturn position is known.

4 2019/20 Budget Proposals

4.1 Annex 1 sets out the proposed budget for 2019/20. The figures shown take into account changes in the detailed estimates arising from the budget process together with the savings options and budget pressures set out in the annexes to this report.

4.2 The Net Cost of Services shown in Annex 1 includes some items of expenditure, such as depreciation and capital grants, that do not form part of the Council Tax calculation. These charges can vary significantly and distort the figures shown against each Service. Annex 5 shows the same figures as Annex 1 with these items removed.

4.3 Annex 7 sets out a summary of the estimates by main service area. The figures in Annex 7 exclude capital financing charges and are reconciled to the summary shown in Annex 5.

Overall Budget

4.4 All of the changes outlined in this report are reflected in the figures shown in Annex 1 which represents the proposed budget before the Cabinet. The Net General Fund Requirement is £11.902M and the Council Tax Requirement is £8.869M.

The budget gap shown in the January budget update was £21,000. Since then, there have been a number of movements, and the gap has now been closed. A summary of the movements is shown in the following table.

	£'000
Budget Gap per January report	**21**
Net reduction in pressures (see Annex 4)	(13)
Forecast reduction in retained Business Rates Income (see para. 4.5)	61
Additional investment income, net of borrowing costs	(51)
Increased revenue contribution to capital in respect of property purchases in 18/19	25
Other budget changes	18
Draw from Collection Fund Equalisation Reserve (see para 4.5)	(61)
Final Budget Position	**0**

4.5 Work has continued during January to calculate the impact of the Business Rates Retention Scheme. The budget for 2019/20 now includes an estimate of a reduction in income from this source totalling £61,200 (see paragraphs 4.19 – 4.23 for further details). It is recommended to make a draw from the Collection Fund Equalisation Reserve to fund this expected reduction.

4.6 Additional investment income of £51,300 is expected as a result of an increase in the average portfolio and an expected increase in interest rates.

4.7 Project Enterprise property investments in 2018/19 have resulted in an increase in the revenue contribution to capital of £25,200 in 2019/20 (see paragraphs 4.13 – 4.18).

4.8 During the detailed budget work, a number of small adjustments have been identified and included in this budget update. These have increased the budget gap by £18,000.

Savings made to set a balanced budget

4.9 Annexes 2 and 3 show that the Council has identified a number of areas to reduce its net expenditure in 2019/20. This combination of reduced expenditure and increased income streams is estimated to reduce net costs by £634,800 next year; however, this is just one piece of a much larger budget savings' jigsaw.

The following table shows the savings delivered and additional income generated in recent years in the context of the Council's net budget requirement. It also shows the budget reductions in comparison to the increase in Council Tax over the same period.

Year	Net Budget Requirement £'000	Savings Made £'000	Savings as % of Budget Requirement	Council Tax Band D	Council Tax Increase in Year
2008/09	12,325	669	5.43%	£113.31	4.48%
2009/10	12,504	1,729	13.83%	£118.44	4.53%
2010/11	12,966	614	4.74%	£121.41	2.51%
2011/12	11,606	957	8.25%	£121.41	0.00%
2012/13	11,063	1,229	11.11%	£121.41	0.00%
2013/14	11,062	1,249	11.29%	£126.41	4.12%
2014/15	10,452	1,165	11.15%	£126.41	0.00%
2015/16	9,030	905	10.02%	£126.41	0.00%
2016/17	12,064	839	6.95%	£131.41	3.96%
2017/18	12,379	1,419	11.46%	£136.41	3.80%
2018/19	12,908	982	7.61%	£141.41	3.67%
2019/20	11,902	635	5.34%	£141.41	0.00%

4.10 In each of the last eleven years the reductions to net expenditure identified by the Council during its budget setting, most notably as part of the 'Corporate Challenge' process, have considerably outstripped the additional income demanded through Council Tax increases.

4.11 During the period from 2008/09 to present the Council has delivered budget reductions totalling £12.392M, equivalent to more than £1M per year. This includes additional income generated by Project Enterprise (see paragraphs 4.13 – 4.18).

4.12 This clearly demonstrates the efforts the Council has made in recent years to control expenditure and keep Council Tax increases to a minimum.

Project Enterprise

4.13 Project Enterprise was established in 2014 to increase the income generated by the Council from its investments and reduce its reliance on the Government's Revenue Support Grant.

4.14 Since 2014, the Council has invested in a number of properties that have sought to generate additional revenue income. This additional income has been generated by investing the cash reserves held by the Council in projects that will yield greater returns than the current cash investment portfolio.

4.15 The amount of investment in completed projects is currently £27.479M. Net rental income from these investments is forecast to be £2.009M in 2019/20. This represents an average return on investment of 7.3%.

4.16 In contrast, the Council’s cash investment portfolio is forecast to generate an average return of 0.86% in 2019/20. Had the Council not purchased the additional properties and left the investment in cash reserves, this would be expected to generate £236,300 in 2019/20.

4.17 Income from Project Enterprise investments is therefore, expected to be £1.772M greater than would have been achieved by retaining the balances in cash.

4.18 Some of the income generated from the completed investments is used to replenish the Capital Receipts Reserve over the lifetime of the investment. For 2019/20, £439,700 is included within the Transfer to Capital Balances line in Annex 1 for this purpose. The remainder of the income will be used to support Council services.

Business Rates Retention Scheme

4.19 The Government introduced the Business Rates Retention Scheme in 2013. It is a complex scheme with baseline assessments, top ups and tariffs, levy payments and safety nets.

4.20 If this was not complicated enough, the Government has introduced a further layer of complexity in awarding S31 grants to offset the impact of policies aimed at protecting small businesses. This can create apparent surpluses or deficits on the Council's Collection Fund and corresponding deficits or surpluses in the General Fund and volatility in yearly cashflows.

4.21 The Head of Revenues has delegated authority (in consultation with the Head of Finance and the Economic Portfolio Holder) to approve the annual National Non Domestic Rates returns to Central Government. In so doing, this effectively sets the initial shares of income to be allocated to the main preceptors and the Government from the Collection Fund.

4.22 The Head of Finance has consulted with the Acting Head of Revenues (Local Taxation) and reviewed his budget working papers. In the early years of the rates retention scheme, the Council adopted a cautious approach of budgeting for the settlement figure only. Following the business rates revaluation exercise which was implemented from April 2017, it is estimated that income due to the Council in each of the next 3 years will be as per the following table:

	2019/20 £'000s	**2020/21 £'000s**	**2021/22 £'000s**
Business rates income	4,576	2,395	2,395
Section 31 grants	2,186	1,406	1,406
2018/19 deficit on collection fund	(58)	0	0
Provision for levy payable to government	(2,038)	0	0
Renewable energy rates 100% retained	436	434	434
Total income from business rates retention scheme	**5,102**	**4,235**	**4,235**
Less income from business rates retention scheme included in January report	5,163	4,260	4,260
Reduction in retained income from business rates retention scheme	**(61)**	**(25)**	**(25)**

4.23 This income is built into the Medium Term Forecast. It is extremely vulnerable to both the level of appeals that may occur as a result of the 2017 revaluation exercise and the reset of the Business Rates Retention Scheme due in 2020 in which the Government maintains the power to take away all of the accumulated growth in income generated since 2013. The estimates for 2020/21 and 2021/22 exclude any growth in income above the baseline settlement figure. The Council maintains a Collection Fund Equalisation Reserve to mitigate against this volatility.

Draws from Reserves

4.24 Draws from reserves are expected to be for one-off or specific expenditure. No further general draws from reserves are budgeted in 2019/20 to close the overall budget gap.

Local Government Finance Settlement

4.25 Full details of the *Provisional* Local Government Finance Settlement were given in the Budget Update report to Cabinet on 16 January and are not repeated here. The *Final* Local Government Finance Settlement was released on 29 January and there were no changes from the *Provisional* Settlement.

Robustness of Estimates and Adequacy of Revenue Reserves

4.26 Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (Head of Finance) to report on the robustness of the budget estimates and adequacy of reserves at the time the Council is deciding the level of Budget Requirement and Council Tax for the forthcoming year. This is shown in full detail in Annex 8.

Council Tax

4.27 Under delegated authority the Head of Revenues, in consultation with the Head of Finance, sets the Council Tax base for the forthcoming financial year. The Council Tax resolution is reported directly to Council for consideration with the budget proposals. This report assumes that the figure prepared for the Council Tax Resolution does not change.

4.28 Should the tax base change, the resultant change in income to the Council will be met by an adjustment to/from the Budget Equalisation Reserve rather than amending the proposed Council Tax charge.

4.29 The Government has implemented a clear shift in council tax policy and has assumed that local authorities will put up their council tax by the maximum they are allowed each year. This Council has received verification that an increase to Council tax of £5 will be allowable without triggering a referendum. The Government has automatically included this increase and the additional income that it generates in its calculations of the spending power of the Council as part of the settlement process. However, even after taking into account that there is no Council Tax freeze grant available and the loss of Revenue Support Grant, this report recommends that the Council freezes Council Tax. This has been made possible by the continuation of strong business rate growth within the borough and the considerable extra self-generated income received from prudent investments through Project Enterprise.

4.30 For 2019/20 it is recommended that Council Tax is frozen at £141.41.

4.31 The Andover Special Expenses Levy has been recalculated to take into account the parish boundary changes which results in additional playgrounds, sports grounds and public halls being included, as well as an increase to the Andover tax base from 13,638 to 15,945. The levy required to cover the costs is £366,800 (£23.00 per Band D property). However, it is recommended to freeze the Andover Special Expenses Levy for 2019/20 at £21.75 per Band D property, £346,800 in total.

5 Medium Term Forecast and Beyond

5.1 Annex 6 sets out the Medium Term Forecast for the General Fund budget up to the 2021/22 financial year. The figures shown in Annex 6 are reconciled to the revenue summary shown in Annex 5.

5.2 In order to maintain a balanced budget, current forecasts indicate a small surplus of £38,500 in 2020/21. This amount decreases by £749,000 to a deficit of £710,500 which is the level of cumulative savings needed to close the forecast budget gap for 2021/22.

5.3 Work to identify options for Councillors to consider meeting these savings targets will flow from the annual Corporate Challenge process which will commence in May 2019. An initial forecast for 2020/21 based on a best, middle and worst case scenario will be presented to Cabinet in October 2019.

5.4 Looking further ahead, financial forecasts become less certain, but it is inevitable that, with fewer opportunities to make savings and efficiencies, pressure will increase on the Council to use its reserves to ensure financial stability.

5.5 Clearly, other factors will come into play, e.g. a move to 75% retention of Business Rates, an expected recovery in interest rates, Government policy and finance changes, but Cabinet is encouraged to keep this longer term uncertainty in mind when recommending a freeze to the level of Council Tax for 2019/20 to Council.

6 Corporate Objectives and Priorities

6.1 The Budget encompasses all elements of the Council's activities and therefore contributes to all the Council's Corporate Objectives and Priorities.

7 Consultations

7.1 Consultation on the Budget has been carried out with the Leader, Deputy Leader, individual Portfolio Holders, Overview & Scrutiny Committee, Local Business groups (as detailed in the report to Cabinet in January 2019) and Heads of Service.

8 Risk Management

8.1 A risk assessment has been completed in accordance with the Council's Risk Management Methodology and has identified significant (Red or Amber) risks as detailed in paragraph 2.4 of Annex 8.

9 Equality Issues

9.1 An EQIA screening has been completed in accordance with the Council's EQIA methodology and no potential for unlawful discrimination or negative impact have been identified, therefore a full EQIA.

10 Conclusion and reasons for recommendation

10.1 This report is the culmination of a process that started in May 2018. It shows the savings and additional income that have been identified to enable the Council to propose a balanced budget for 2019/20.

10.2 If approved, the recommendations of this report will be considered by Council on 25 February 2019.

<table>
<tr><td colspan="4"><u>Background Papers (Local Government Act 1972 Section 100D)</u>

“Provisional local government finance settlement: England 2019 to 2020” - MHCLG Consultation December 2018
“Fair Funding Review: A review of local authorities’ relative needs and resources” - MHCLG December 2018
“Business Rates Retention Reform: Sharing risk and reward, managing volatility and setting up the reformed system” – MHCLG December 2018
“Final local government finance settlement: England 2019 to 2020” – MHCLG January 2019
</td></tr>
<tr><td colspan="4"><u>Confidentiality</u>
It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.</td></tr>
<tr><td>No of Annexes:</td><td>8</td><td>File Ref:</td><td>N/A</td></tr>
<tr><td colspan="4">(Portfolio: Finance) Councillor Giddings</td></tr>
<tr><td>Officer:</td><td>Jenni Carter</td><td>Ext:</td><td>8236</td></tr>
<tr><td>Report to:</td><td>Cabinet</td><td>Date:</td><td>13 February 2019</td></tr>
</table>

ANNEX 1

GENERAL FUND REVENUE SUMMARY

(1) Actual Spend 2017/18 £'000	(2) Original Estimate 2018/19 £'000	(3) Forecast 2018/19 £'000		(4) Gross Expend. 2019/20 £'000	(5) Gross Income 2019/20 £'000	(6) Original Estimate 2019/20 £'000
			Service Requirements			
495.5	588.7	605.0	Chief Executive's Office	2,291.3	(1,559.1)	732.2
7,241.5	2,725.9	2,300.0	Community & Leisure	3,904.8	(1,679.7)	2,225.1
5,451.4	4,926.8	4,867.5	Environmental Service	8,312.5	(3,293.7)	5,018.8
(5,878.9)	(5,763.3)	(4,026.1)	Estates & Economic Development	7,614.9	(12,762.5)	(5,147.6)
0.2	0.5	26.7	Finance	887.3	(887.3)	0.0
1,685.6	2,835.3	2,100.2	Housing & Environmental Health	5,729.2	(2,540.0)	3,189.2
29.4	0.2	29.2	I.T.	1,424.3	(1,424.3)	0.0
459.7	346.8	281.7	Legal & Democratic	1,506.7	(1,506.7)	0.0
2,162.0	1,731.5	1,862.5	Planning & Building	3,462.9	(1,800.5)	1,662.4
1,454.1	1,290.6	1,164.8	Revenues	3,046.3	(680.1)	2,366.2
13,100.5	**8,683.0**	**9,211.5**		**38,180.2**	**(28,133.9)**	**10,046.3**
			Other Requirements			
(137.6)	(200.0)	(459.5)	Net Cost of Benefit Payments	31,230.0	(31,430.0)	(200.0)
3,323.5	4,270.7	4,301.2	Corporate & Democratic Core	6,922.9	(4,152.3)	2,770.6
16,286.4	**12,753.7**	**13,053.2**	**Net Cost of Services**	**76,333.1**	**(63,716.2)**	**12,616.9**
			Corporate Requirements			
0.0	441.6	178.1	Contingency Provision	612.8	0.0	612.8
(6,065.5)	(4,847.2)	(4,248.8)	Depreciation Reversal and Deferred Charges	0.0	(4,659.8)	(4,659.8)
(527.8)	(426.8)	(637.6)	Investment Income	0.0	(568.1)	(568.1)
0.0	157.5	26.3	Borrowing Costs	158.1	0.0	158.1
0.0	130.8	0.0	Minimum Revenue Provision	130.6	0.0	130.6
(53.6)	0.0	0.0	Transition Grant	0.0	0.0	0.0
(1,210.0)	(1,201.8)	(1,375.4)	Small Business Rate Relief	0.0	(1,390.9)	(1,390.9)
(420.5)	(273.3)	(309.2)	Other Government Grants	0.0	(848.0)	(848.0)
(4,921.3)	(3,836.7)	(3,836.7)	New Homes' Bonus	0.0	(3,788.2)	(3,788.2)
2,528.6	1,931.2	1,977.9	Provision for NDR surplus 'levy'	2,037.8	0.0	2,037.8
0.0	0.0	0.0	Levy surplus allocation	0.0	(35.9)	(35.9)
(903.2)	(454.0)	(454.0)	100% Retention of NDR from Renewable Energy	0.0	(436.2)	(436.2)
16.7	0.0	0.0	Year End Write Offs	0.0	0.0	0.0
4,729.8	**4,375.0**	**4,373.8**	**Net General Fund Expenditure**	**79,272.4**	**(75,443.3)**	**3,829.1**
6,391.0	3,337.4	4,023.4	Transfer to Earmarked Reserves	4,056.6	(807.1)	3,249.5
421.1	2,117.1	1,252.6	Transfer to Asset Management Reserve	2,117.1	0.0	2,117.1
1,888.6	3,078.9	3,181.5	Transfer to Capital Balances	2,706.1	0.0	2,706.1
(974.3)	0.0	0.0	Transfer to Pension Reserve	0.0	0.0	0.0
0.0	0.0	0.0	Transfer to / (from) General Reserves	0.0	0.0	0.0
12,456.2	**12,908.4**	**12,831.3**	**General Fund Requirements**	**88,152.2**	**(76,250.4)**	**11,901.8**
(417.5)	(56.0)	(56.0)	Revenue Support Grant	0.0	0.0	0.0
(4,524.4)	(5,236.6)	(5,159.4)	Business Rates Retained	16,875.7	(21,452.1)	(4,576.4)
1,403.5	1,508.7	1,508.7	Parish Precepts	1,597.6	0.0	1,597.6
(132.9)	(112.7)	(112.7)	Surplus on Previous Years' Collection Fund - Ctax	0.0	(111.9)	(111.9)
(634.4)	(407.6)	(407.6)	(Surplus)/Deficit on Previous Years' Collection Fund - NDR	57.6	0.0	57.6
8,150.5	**8,604.2**	**8,604.2**	**Council Tax Requirement**	**106,683.1**	**(97,814.4)**	**8,868.7**
(6,454.2)	(6,798.9)	(6,798.9)	Test Valley Borough Council precept	0.0	(6,924.3)	(6,924.3)
(1,403.5)	(1,508.7)	(1,508.7)	Parish Precepts	0.0	(1,597.6)	(1,597.6)
(292.8)	(296.6)	(296.6)	Andover Special Expenses Levy	0.0	(346.8)	(346.8)
(8,150.5)	**(8,604.2)**	**(8,604.2)**	**Summary of Council Tax Requirement**	**0.0**	**(8,868.7)**	**(8,868.7)**

ANNEX 2

SUMMARY OF CORPORATE CHALLENGE SAVINGS OPTIONS

Service / Ref	Service	Function	Savings Option Proposed	2019/20 £	2020/21 £	2021/22 £
Efficiency Savings:						
HEH01	Housing & Environmental Health	Supplies and Services	Reduce equipment and vet's fees budgets	2,000	2,000	2,000
HEH02	Housing & Environmental Health	Supplies and Services	Delete building maintenance budget and charge to the Asset Management Plan if needed	4,000	4,000	4,000
CL01	Community & Leisure	Employee costs	Delete vacant salary budget following minor restructure	25,200	25,200	25,200
IT01	IT	Supplies and Services	Savings in corporate software costs	8,700	8,700	8,700
IT02	IT	Supplies and Services	Budget for consultancy fees relating to Graphical Information System (GIS) aerial mapping no longer required	6,500	6,500	6,500
REV01	Revenues - Local Taxation	Employee costs	Delete two vacant posts	39,300	39,300	39,300
REV02	Revenues - Customer Services	Employee costs	Reduce hours for vacant post	4,250	4,250	4,250
ENV01	Environmental	Street Scene	Reduce budget for hiring of standpipes following review	5,000	5,000	5,000
				94,950	**94,950**	**94,950**
Budget Realignment Savings:						
FIN01	Finance	Transfer Payments	Reduce added years pension budget to align with actual cost due to natural attrition	21,000	21,000	21,000
HEH03	Housing & Environmental Health	Transport	Align officers' travelling and car allowance budgets to actual costs	4,480	4,480	4,480
HEH04	Housing & Environmental Health	Licences	Increase Animal Welfare Licence fee budget to match income received	2,000	2,000	2,000
IT03	IT	Storage Area Networks (SANS) and Servers	Budget reduced due to historic overprovision	2,000	2,000	2,000

ANNEX 2

SUMMARY OF CORPORATE CHALLENGE SAVINGS OPTIONS

Service / Ref	Service	Function	Savings Option Proposed	2019/20 £	2020/21 £	2021/22 £
				29,480	29,480	29,480
Total Saving Options in October Budget Strategy				124,430	124,430	124,430
Total Saving Options in January Budget Update				0	0	0
Total Saving Options in this Budget Update				0	0	0
Total Saving Options				124,430	124,430	124,430

ANNEX 3

SUMMARY OF CORPORATE CHALLENGE INCOME GENERATION PROPOSALS

Service / Ref	Service	Function	Savings Option Proposed	2019/20 £	2020/21 £	2021/22 £
PB01	Planning and Building	CIL	Additional income from Community Infrastructure Levy (CIL) admin fee	25,000	30,000	35,000
PB02	Planning and Building	Building Control	Increase budget for building control deposits	35,000	35,000	35,000
ENV02	Environmental	Street Scene	Increase expected level of income from collection of abandoned shopping trolleys	7,000	7,000	7,000
ENV03	Environmental	Vehicle Workshop	Increase charge for private MOT testing (first increase in six years)	2,500	2,500	2,500
ENV04	Environmental	Garden Waste	Increase subscription charge by £1.75	22,500	22,500	22,500
ENV05	Environmental	Waste Collection	Increase charge for black bin by £4	5,000	5,000	5,000
CORP01	Project Enterprise	Income	Additional unbudgeted income from property investments	22,000	22,000	22,000
CORP02	Project Enterprise	Income	Anticipated net income from property investments during the year	100,000	100,000	100,000
Total Income Generation Proposals in October Budget Strategy				**219,000**	**224,000**	**229,000**
Income Generation Proposals in January Budget Update:						
ENV07	Environmental	Income	Additional income from increased numbers of Green Waste subscribers and sale of bins	52,500	52,500	52,500
CORP04*	Project Enterprise	Income	Additional income from acquisitions in 2018/19 and end of rent deferral period	67,500	67,500	67,500
CORP05*	Estates & Economic Development	Income	Additional Income from other corporate properties partly offset by reversal of draw from Income Equalisation Reserve	216,900	190,900	171,400
HEH06 *	Housing & Environmental Health	Income	Ringfenced Homelessness Grant	233,400	0	0

ANNEX 3

SUMMARY OF CORPORATE CHALLENGE INCOME GENERATION PROPOSALS

Service / Ref	Service	Function	Savings Option Proposed	2019/20 £	2020/21 £	2021/22 £
				570,300	**310,900**	**291,400**
Movement on reserves:						
CORP05*	Estates & Econ Development	Income	Reverse draw from Income Equalisation Reserve	(45,500)	(19,500)	0
HEH06 *	Housing & Environmental Health	Income	Ringfenced Homelessness Grant	(233,400)	0	0
				(278,900)	**(19,500)**	**0**
Total Income Generation Proposals in January Budget Update				**291,400**	**291,400**	**291,400**
Total Income Generation Proposals in this Budget Update				**0**	**0**	**0**
Total Income Generation Proposals				**510,400**	**515,400**	**520,400**

ANNEX 4

SUMMARY OF REVENUE PRESSURES

Service / Ref	Service	Item	2019/20 £	2020/21 £	2021/22 £
Pressures previously identified in February 18 Budget Strategy:					
FIN02	ALL	Increase in Employers' pension contributions resulting from 2016 Pension Fund actuarial revaluation	126,000	126,000	126,000
REV03	Revenues	Reduction in Housing Benefits Administration grant	40,100	40,100	40,100
REV04	Revenues	Reduction in Council Tax Support Administration grant	27,900	27,900	27,900
ENV06	Environmental	Incremental cost of additional waste collection coverage re. new properties	20,000	40,000	60,000
ALL	ALL	Additional transfer to Asset Management Reserve to cover expected peak in work programme in 2018-2020.	900,000	0	0
			1,114,000	**234,000**	**254,000**
Draw from reserves to offset pressures:					
FIN02a	ALL	Draw from Pension Equalisation Reserve	(100,000)	0	0
			(100,000)	**0**	**0**

N.B. All of the above costs have already been included in the budget forecasts as the budget was approved in February 2018.

ANNEX 4

SUMMARY OF REVENUE PRESSURES

Service / Ref	Service	Item	2019/20 £	2020/21 £	2021/22 £
Pressures identified in Budget Strategy:					
CEX01	Chief Executives	New Communications Officer	39,200	39,200	39,200
CORP03	Corporate	Payment of Andover BID Levy on Council-owned properties	22,000	22,000	22,000
IT04	IT	Additional cost of corporate Microsoft Enterprise Licence renewal	25,000	25,000	25,000
ENV08	Environmental	Additional summer Garden Waste Collection round	36,000	36,000	36,000
EST01	Estates & Econ Development	Additional cost of proposed changes to Pay and Display Parking payment methods	62,000	62,000	62,000
PB03	Planning and Building	Permanent establishment of two part-time scanning posts	39,000	39,000	39,000
LD01	Legal and Democratic	Permanent establishment of additional solicitor post	62,750	62,750	62,750
			285,950	**285,950**	**285,950**
Total of New Pressures identified in October Budget Strategy			**285,950**	**285,950**	**285,950**
FIN02b	ALL	Adjustment to increase in Employers' pension contributions resulting from 2016 Pension Fund actuarial revaluation	14,000	14,000	14,000

ANNEX 4

SUMMARY OF REVENUE PRESSURES

Service / Ref	Service	Item	2019/20 £	2020/21 £	2021/22 £
CORP03a	Corporate	Correction to payment of Andover BID Levy on Council-owned properties	(5,100)	(5,100)	(5,100)
CEX02	Chief Executives	Temporary Digital Transformation Manager post made permanent and retitled to Business Transformation Manager	56,700	56,700	56,700
EST02 *	Estates & Economic Development	Two new temporary posts for 22 months as approved by Council 21/11/18 financed from the Capacity Building Reserve	74,290	64,670	0
EST03	Estates & Economic Development	Two new permanent posts as approved by Council 21/11/18 financed from Project Enterprise income	89,870	89,870	89,870
EST04	Estates & Economic Development	One-off additional costs relating to essential works required following building compliance review	93,000	0	0
HEH05 *	Housing & Environmental Health	Continuation of temporary staff financed from the homelessness Reserve	61,700	0	0
LD01	Legal and Democratic	Net cost of borough elections over amount set aside in reserves	47,800	12,000	12,000
PP01 *	Planning Policy	Project Consultancy costs financed from the LDF Reserve	65,000	0	0
REV03a	Revenues	Higher than anticpated Housing Benefits Administration grant	(17,600)	(17,600)	(17,600)
REV04a	Revenues	Higher than anticpated Council Tax Support Administration grant	(23,550)	(23,550)	(23,550)
REV05	Revenues	Reduction in court fee income net of reduction in summons costs	35,000	35,000	35,000
ALL	ALL	Pension auto-enrolment costs	80,000	80,000	80,000
			571,110	**305,990**	**241,320**

ANNEX 4

SUMMARY OF REVENUE PRESSURES

Service / Ref	Service	Item	2019/20 £	2020/21 £	2021/22 £
Draw from reserves to offset pressures:					
EST02*	Estates & Economic Development	Draw from Capacity Building Reserve re two temporary posts	(74,290)	(64,670)	0
HEH05*	Housing & Environmental Health	Draw from Homelessness Grant Reserve	(61,700)	0	0
PP01 *	Planning Policy	Draw from LDF reserve to finance consultancy costs	(65,000)	0	0
			(200,990)	**(64,670)**	**0**
Total of New Pressures identified in January Budget Update			**370,120**	**241,320**	**241,320**
REV05a	Revenues	Amend reduction in court fee income net of reduction in summons costs	(20,000)	(20,000)	(20,000)
ENV09	Environmental	Transfer of the maintenance of All Saints Closed Church Yard, Barton Stacey as per Cabinet report 16/1/19	6,650	6,650	6,650
Total of New Pressures identified in this Budget Update			**(13,350)**	**(13,350)**	**(13,350)**
Total of New Pressures			**642,720**	**513,920**	**513,920**

GENERAL FUND REVENUE SUMMARY

(1) Actual Spend 2017/18 £'000	(2) Original Estimate 2018/19 £'000	(3) Forecast 2018/19 £'000		(4) Gross Expend. 2019/20 £'000	(5) Gross Income 2019/20 £'000	(6) Original Estimate 2019/20 £'000
			Service Requirements			
297.1	588.7	605.0	Chief Executive's Office	2,291.3	(1,559.1)	732.2
3,455.7	1,689.4	2,582.8	Community & Leisure	2,841.2	(1,679.7)	1,161.5
4,289.9	4,190.0	4,227.7	Environmental Service	7,569.5	(3,293.7)	4,275.8
(6,783.3)	(6,550.1)	(6,104.2)	Estates & Economic Development	7,019.4	(12,762.5)	(5,743.1)
(88.9)	0.5	26.7	Finance	887.3	(887.3)	0.0
1,676.0	1,833.7	1,647.9	Housing & Environmental Health	4,604.1	(2,540.0)	2,064.1
(171.9)	(114.2)	(64.5)	I.T.	1,350.2	(1,424.3)	(74.1)
354.3	346.8	281.7	Legal & Democratic	1,506.7	(1,506.7)	0.0
1,888.2	1,731.5	1,862.5	Planning & Building	3,462.9	(1,800.5)	1,662.4
1,251.0	1,290.6	1,164.8	Revenues	3,046.3	(680.1)	2,366.2
6,168.1	**5,006.9**	**6,230.4**		**34,578.9**	**(28,133.9)**	**6,445.0**
			Other Requirements			
(137.6)	(200.0)	(459.5)	Net Cost of Benefit Payments	31,230.0	(31,430.0)	(200.0)
4,340.2	4,223.0	4,254.4	Corporate & Democratic Core	6,864.4	(4,152.3)	2,712.1
10,370.7	**9,029.9**	**10,025.3**	**Net Cost of Services**	**72,673.3**	**(63,716.2)**	**8,957.1**
			Corporate Requirements			
0.0	441.6	178.1	Contingency Provision	612.8	0.0	612.8
(527.8)	(426.8)	(637.6)	Investment Income	0.0	(568.1)	(568.1)
0.0	157.5	26.3	Borrowing Costs	158.1	0.0	158.1
0.0	130.8	0.0	Minimum Revenue Provision	130.6	0.0	130.6
(53.6)	0.0	0.0	Transition Grant	0.0	0.0	0.0
(1,210.0)	(1,201.8)	(1,375.4)	Small Business Rate Relief	0.0	(1,390.9)	(1,390.9)
(420.5)	(273.3)	(309.2)	Other Government Grants	0.0	(848.0)	(848.0)
(4,921.3)	(3,836.7)	(3,836.7)	New Homes' Bonus	0.0	(3,788.2)	(3,788.2)
2,528.6	1,931.2	1,977.9	Provision for NDR surplus 'levy'	2,037.8	0.0	2,037.8
0.0	0.0	0.0	Levy surplus allocation	0.0	(35.9)	(35.9)
(903.2)	(454.0)	(454.0)	100% Retention of NDR from Renewable Energy	0.0	(436.2)	(436.2)
16.7	0.0	0.0	Year End Write Offs	0.0	0.0	0.0
4,879.6	**5,498.4**	**5,594.7**	**Net General Fund Expenditure**	**75,612.6**	**(70,783.5)**	**4,829.1**
6,391.0	3,337.4	4,023.4	Transfer to Earmarked Reserves	4,056.6	(807.1)	3,249.5
421.1	2,117.1	1,252.6	Transfer to Asset Management Reserve	2,117.1	0.0	2,117.1
764.5	1,955.5	1,960.6	Transfer to Capital Balances	1,706.1	0.0	1,706.1
0.0	0.0	0.0	Transfer to General Reserves	0.0	0.0	0.0
12,456.2	**12,908.4**	**12,831.3**	**General Fund Requirements**	**83,492.4**	**(71,590.6)**	**11,901.8**
(417.5)	(56.0)	(56.0)	Revenue Support Grant	0.0	0.0	0.0
(4,524.4)	(5,236.6)	(5,159.4)	Business Rates Retained	16,875.7	(21,452.1)	(4,576.4)
1,403.5	1,508.7	1,508.7	Parish Precepts	1,597.6	0.0	1,597.6
(132.9)	(112.7)	(112.7)	Surplus on Previous Years' Collection Fund - Ctax	0.0	(111.9)	(111.9)
(634.4)	(407.6)	(407.6)	(Surplus)/Deficit on Previous Years' Collection Fund - NDR	57.6	0.0	57.6
8,150.5	**8,604.2**	**8,604.2**	**Council Tax Requirement**	**102,023.3**	**(93,154.6)**	**8,868.7**
(6,454.2)	(6,798.9)	(6,798.9)	Test Valley Borough Council precept	0.0	(6,924.3)	(6,924.3)
(1,403.5)	(1,508.7)	(1,508.7)	Parish Precepts	0.0	(1,597.6)	(1,597.6)
(292.8)	(296.6)	(296.6)	Andover Special Expenses Levy	0.0	(346.8)	(346.8)
(8,150.5)	**(8,604.2)**	**(8,604.2)**	**Summary of Council Tax Requirement**	**0.0**	**(8,868.7)**	**(8,868.7)**

ANNEX 6

MEDIUM TERM FINANCIAL PLAN

	Original Estimate 2019/20 £'000	Base Changes £'000	Budget Forecast 2020/21 £'000	Base Changes £'000	Budget Forecast 2021/22 £'000
Service Requirements					
Chief Executive's Office	732.2	(125.9)	606.3	0.0	606.3
Community & Leisure	1,161.5	(344.2)	817.3	379.8	1,197.1
Environmental Service	4,275.8	(7.1)	4,268.7	20.0	4,288.7
Estates & Economic Development	(5,743.1)	(229.1)	(5,972.2)	(64.7)	(6,036.9)
Finance	0.0	0.0	0.0	0.0	0.0
Housing & Environmental Health	2,064.1	171.7	2,235.8	0.0	2,235.8
I.T.	(74.1)	0.0	(74.1)	0.0	(74.1)
Legal & Democratic	0.0	(187.9)	(187.9)	0.0	(187.9)
Planning & Building	1,662.4	(5.0)	1,657.4	(5.0)	1,652.4
Revenues	2,366.2	0.0	2,366.2	0.0	2,366.2
Inflation		600.0	600.0	600.0	1,200.0
	6,445.0	**(127.5)**	**6,317.5**	**930.1**	**7,247.6**
Other Requirements					
Net Cost of Benefit Payments	(200.0)	0.0	(200.0)	0.0	(200.0)
Corporate & Democratic Core	2,712.1	0.0	2,712.1	0.0	2,712.1
Net Cost of Services	**8,957.1**	**(127.5)**	**8,829.6**	**930.1**	**9,759.7**
Corporate Requirements					
Contingency Provision	612.8	0.0	612.8	0.0	612.8
Investment Income	(568.1)	0.0	(568.1)	0.0	(568.1)
Borrowing Costs	158.1	(4.5)	153.6	(4.6)	149.0
Minimum Revenue Provision	130.6	3.5	134.1	3.6	137.7
Small Business Rate Relief	(1,390.9)	189.1	(1,201.8)	0.0	(1,201.8)
Other Government Grants	(848.0)	590.5	(257.5)	0.0	(257.5)
New Homes' Bonus	(3,788.2)	1,220.7	(2,567.5)	992.5	(1,575.0)
Provision for NDR Levy	2,037.8	(2,037.8)	0.0	0.0	0.0
Levy surplus allocation	(35.9)	35.9	0.0	0.0	0.0
100% Retention of NDR from Renewable Energy	(436.2)	2.4	(433.8)	0.0	(433.8)
Net General Fund Expenditure	**4,829.1**	**(127.7)**	**4,701.4**	**1,921.6**	**6,623.0**
Transfer to Earmarked Reserves	3,249.5	(803.7)	2,445.8	(927.8)	1,518.0
Transfer to Asset Management Reserves	2,117.1	(900.0)	1,217.1	0.0	1,217.1
Transfer to Capital Reserves	1,706.1	(198.4)	1,507.7	0.0	1,507.7
Transfer to General Reserves	0.0	0.0	0.0	0.0	0.0
Total General Fund Expenditure	**11,901.8**	**(2,029.8)**	**9,872.0**	**993.8**	**10,865.8**
SURPLUS / (FURTHER SAVINGS) TO BE IDENTIFIED	**0.0**	**38.5**	**38.5**	**(749.0)**	**(710.5)**
General Fund Requirements	**11,901.8**	**(1,991.3)**	**9,910.5**	**244.8**	**10,155.3**

ANNEX 7

GENERAL FUND REVENUE ACCOUNT

SUMMARY ESTIMATES

Service Requirements	Final Outturn 2017/18 £'000	Original Estimate 2018/19 £'000	Forecast 2018/19 £'000	Original Estimate 2019/20 £'000
Chief Executive's Office	297.1	588.7	605.0	732.2
Community & Leisure	3,455.7	1,689.4	2,582.8	1,161.5
Environmental Service	4,289.9	4,190.0	4,227.7	4,275.8
Estates & Economic Development	(6,783.3)	(6,550.1)	(6,104.2)	(5,743.1)
Finance	(88.9)	0.5	26.7	0.0
Housing & Environmental Health	1,676.0	1,833.7	1,647.9	2,064.1
IT	(171.9)	(114.2)	(64.5)	(74.1)
Legal & Democratic	354.3	346.8	281.7	0.0
Planning & Building	1,888.2	1,731.5	1,862.5	1,662.4
Revenues	1,251.0	1,290.6	1,164.8	2,366.2
	6,168.1	**5,006.9**	**6,230.4**	**6,445.0**
Other Requirements				
Net Cost of Benefit Payments	(137.6)	(200.0)	(459.5)	(200.0)
Corporate & Democratic Core	4,340.2	4,223.0	4,254.4	2,712.1
Net Cost of Services	**10,370.7**	**9,029.9**	**10,025.3**	**8,957.1**

ANNEX 7

CHIEF EXECUTIVE'S OFFICE

SUMMARY ESTIMATES

Principal Activities	Final Outturn 2017/18 £'000	Original Estimate 2018/19 £'000	Forecast 2018/19 £'000	Original Estimate 2019/20 £'000
Chief Executive's Office	(106.6)	7.9	27.9	0.0
Human Resources Service	(41.0)	(13.0)	16.0	(40.1)
Human Resources Function	10.2	15.0	13.2	40.1
Planning Policy	388.9	417.9	408.4	577.0
Local Development Framework	45.6	148.9	138.8	144.2
Climate Change	0.0	12.0	0.8	11.0
Net Total Expenditure	**297.1**	**588.7**	**605.0**	**732.2**

ANNEX 7

COMMUNITY & LEISURE SERVICE

SUMMARY ESTIMATES

Principal Activities	Final Outturn 2017/18 £'000	Original Estimate 2018/19 £'000	Forecast 2018/19 £'000	Original Estimate 2019/20 £'000
Leisure Management	**(22.3)**	**1.3**	**0.0**	**0.0**
Parks, Countryside & Sport				
Managed Sports Facilities	1,201.1	(652.2)	(225.4)	(1,316.0)
Outdoor Sports Facilities	220.7	149.3	183.8	189.0
Playgrounds	(81.2)	24.8	42.1	11.3
Sports Development	22.6	35.2	32.8	18.1
Cemeteries	(54.5)	(63.2)	(0.4)	(85.4)
Grounds Maintenance	274.8	85.8	112.9	100.0
Nature Reserves	(19.3)	96.1	127.8	113.2
Urban Parks & Open Spaces	405.6	429.9	609.6	360.1
Total - Parks, Countryside & Sport	**1,969.8**	**105.7**	**883.2**	**(609.8)**
Community Development				
Community Engagement	1,066.1	1,126.9	1,159.9	1,174.3
Total - Community Development	**1,066.1**	**1,126.9**	**1,159.9**	**1,174.3**
Arts & Culture				
Andover Summit Events	15.9	11.4	12.1	11.2
Arts Function	13.5	46.6	28.8	26.3
The Lights	363.2	342.5	447.3	500.5
Heritage	49.5	55.0	51.6	59.0
Total - Arts & Culture	**442.1**	**455.5**	**539.7**	**597.0**
Net Total Expenditure	**3,455.7**	**1,689.4**	**2,582.8**	**1,161.5**

ANNEX 7

ENVIRONMENTAL SERVICE

SUMMARY ESTIMATES

Principal Activities	Final Outturn 2017/18 £'000	Original Estimate 2018/19 £'000	Forecast 2018/19 £'000	Original Estimate 2019/20 £'000
Grounds Maintenance	1,145.0	1,111.1	1,106.0	1,199.0
Waste Collection	2,040.1	1,968.6	2,047.5	2,009.6
Green Waste Collection	(74.2)	(45.6)	(79.1)	(146.1)
Street Cleansing	1,054.7	1,047.3	1,028.0	1,073.6
Vehicle Workshop	128.0	73.2	103.1	115.4
Depot costs	(3.7)	35.4	22.2	24.3
Net Total Expenditure	**4,289.9**	**4,190.0**	**4,227.7**	**4,275.8**

ESTATES & ECONOMIC DEVELOPMENT SERVICE

SUMMARY ESTIMATES

Principal Activities	Final Outturn 2017/18 £'000	Original Estimate 2018/19 £'000	Forecast 2018/19 £'000	Original Estimate 2019/20 £'000
Estates Support Unit	**607.0**	**663.7**	**776.2**	**1,934.2**
Rental Income				
Andover Market	(17.8)	(19.3)	(19.3)	(29.7)
Business Park Development	(6,251.5)	(6,530.6)	(6,616.0)	(7,042.2)
Union Street	(83.9)	(89.8)	(81.4)	(76.6)
Chantry Centre	(478.5)	(355.6)	(321.5)	(371.4)
Corporate Properties	(341.6)	(305.8)	(316.2)	(576.5)
Total - Rental Income	**(7,173.3)**	**(7,301.1)**	**(7,354.4)**	**(8,096.4)**
Economic Development and Promotion	103.7	101.6	129.2	76.2
Promotion of Tourism	114.5	102.3	137.9	98.0
Total Economic Development and Promotion	**218.2**	**203.9**	**267.1**	**174.2**
Town Centre Management	**26.3**	**35.6**	**37.2**	**18.9**
Premises Management				
Public Halls	177.5	189.6	245.3	51.1
Leisure Facilities	38.1	47.0	54.3	45.1
Public Conveniences	212.5	197.6	202.1	144.1
Office Accommodation	(167.3)	(191.3)	96.6	514.0
Andover Magistrates Court	55.4	39.0	75.0	67.3
Depot Costs	(62.2)	(69.7)	(64.3)	(75.8)
Andover Bus Station	(13.4)	14.3	43.8	15.9
Building Maintenance	224.1	256.1	247.0	109.0
Building Cleaning	59.9	54.2	53.9	2.7
Maintenance Works	0.0	302.7	148.3	395.7
Total - Premises Management	**524.6**	**839.5**	**1,102.0**	**1,269.1**
Transport				
Engineers	71.5	66.1	25.1	169.5
Highways	129.7	128.4	167.5	7.8
Parking	(1,234.2)	(1,247.2)	(1,176.9)	(1,281.4)
Community Transport	46.9	61.0	52.0	61.0
Total - Transport	**(986.1)**	**(991.7)**	**(932.3)**	**(1,043.1)**
Net Total Income	**(6,783.3)**	**(6,550.1)**	**(6,104.2)**	**(5,743.1)**

ANNEX 7

FINANCE SERVICE

SUMMARY ESTIMATES

Principal Activities	Final Outturn 2017/18 £'000	Original Estimate 2018/19 £'000	Forecast 2018/19 £'000	Original Estimate 2019/20 £'000
Finance Service	(88.9)	0.5	26.7	0.0
Net Total Expenditure / (Income)	**(88.9)**	**0.5**	**26.7**	**0.0**

ANNEX 7

HOUSING & ENVIRONMENTAL HEALTH SERVICE

SUMMARY ESTIMATES

Principal Activities	Final Outturn 2017/18 £'000	Original Estimate 2018/19 £'000	Forecast 2018/19 £'000	Original Estimate 2019/20 £'000
General Management	(11.7)	0.0	0.0	0.0
Housing Options	499.6	704.4	587.0	649.5
Hampshire Home Choice	6.5	5.4	4.8	1.7
Housing Development	65.9	78.7	36.6	179.8
Business Support Team	(10.7)	0.0	0.0	0.0
Pest Control	105.3	86.6	107.2	68.1
Environmental Protection	302.3	275.6	253.2	340.1
Housing Standards	310.4	226.7	276.8	218.9
Animal Welfare	101.1	112.0	106.5	110.3
Health Protection	307.4	344.3	275.9	495.7
Net Total Expenditure	**1,676.0**	**1,833.7**	**1,647.9**	**2,064.1**

I.T. SERVICE

SUMMARY ESTIMATES

Principal Activities	Final Outturn 2017/18 £'000	Original Estimate 2018/19 £'000	Forecast 2018/19 £'000	Original Estimate 2019/20 £'000
Management	(818.4)	(801.1)	(826.6)	(990.6)
Service Desk	(18.9)	2.6	(9.8)	66.7
Infrastructure	481.7	478.9	480.0	520.7
Corporate Services	183.7	205.4	292.0	329.1
Net Total Income	**(171.9)**	**(114.2)**	**(64.5)**	**(74.1)**

ANNEX 7

LEGAL & DEMOCRATIC SERVICE

SUMMARY ESTIMATES

Principal Activities	Final Outturn 2017/18 £'000	Original Estimate 2018/19 £'000	Forecast 2018/19 £'000	Original Estimate 2019/20 £'000
Legal				
Legal Service	6.2	2.3	(63.6)	(277.9)
Land Charges	(62.7)	(72.5)	(80.2)	(90.8)
Democratic				
Council Elections	282.9	264.4	262.8	326.3
Registration of Electors	146.0	164.2	169.4	80.8
Lotteries, Amusements and Gaming Permits	26.5	27.8	28.2	(7.2)
Alcohol and Entertainment Licensing	(52.7)	(47.9)	(44.6)	(33.7)
Scrap Metal Dealers	2.2	2.1	2.0	(0.1)
Hackney Carriages and Private Hire Vehicles	5.9	6.4	7.7	2.6
Net Total Expenditure	**354.3**	**346.8**	**281.7**	**0.0**

ANNEX 7

PLANNING & BUILDING SERVICE

SUMMARY ESTIMATES

Principal Activities	Final Outturn 2017/18 £'000	Original Estimate 2018/19 £'000	Forecast 2018/19 £'000	Original Estimate 2019/20 £'000
Development Control & Enforcement	1,857.9	1,657.2	1,806.9	1,691.9
Building Control	30.3	74.3	55.6	(29.5)
Net Total Expenditure	**1,888.2**	**1,731.5**	**1,862.5**	**1,662.4**

ANNEX 7

REVENUES SERVICE

SUMMARY ESTIMATES

Principal Activities	Final Outturn 2017/18 £'000	Original Estimate 2018/19 £'000	Forecast 2018/19 £'000	Original Estimate 2019/20 £'000
Customer Services Unit	(60.5)	(35.6)	(142.4)	965.0
Local Taxation Services	746.2	730.5	734.3	636.2
Council Tax Support Administration	374.7	357.6	369.9	426.1
Housing Benefit - Rent Allowances Administration	190.6	238.1	203.0	338.9
Net Total Expenditure	**1,251.0**	**1,290.6**	**1,164.8**	**2,366.2**

ANNEX 7

NET COST OF BENEFITS PAYMENTS

SUMMARY ESTIMATES

Principal Activities	Final Outturn 2017/18 £'000	Original Estimate 2018/19 £'000	Forecast 2018/19 £'000	Original Estimate 2019/20 £'000
Council Tax Benefits	3.6	0.0	25.0	0.0
Housing Benefit - Rent Allowances	(141.2)	(200.0)	(484.5)	(200.0)
Net Total Income	**(137.6)**	**(200.0)**	**(459.5)**	**(200.0)**

ANNEX 7

CORPORATE & DEMOCRATIC CORE

SUMMARY ESTIMATES

Principal Activities	Final Outturn 2017/18 £'000	Original Estimate 2018/19 £'000	Forecast 2018/19 £'000	Original Estimate 2019/20 £'000
Corporate Management				
Corporate Management	1,439.1	1,282.2	1,294.9	489.3
Delivering Public Services Electronically	62.4	45.6	43.4	12.0
Corporate Public Relations, Information and Consultation	137.1	149.3	153.3	12.3
Best Value & Performance	107.3	73.8	74.1	11.5
Emergency Planning	32.6	33.9	33.9	33.6
Net Total Expenditure	**1,778.5**	**1,584.8**	**1,599.6**	**558.7**
Democratic Representation and Management				
Councillors	798.9	782.8	791.7	458.8
Councillor Meetings	429.4	422.9	459.7	403.5
Mayoral Office	95.6	104.7	97.2	38.2
Civic Ceremonies	6.1	6.6	10.4	6.5
Subscriptions	22.0	19.4	22.1	22.3
Representing Local Interests	6.5	6.5	6.5	0.0
Other Democratic Activities	141.9	139.7	138.1	19.8
Net Total Expenditure	**1,500.4**	**1,482.6**	**1,525.7**	**949.1**
Allocated Central Overheads	**(24.8)**	**(29.8)**	**(29.3)**	**(18.1)**
Non-Distributable Costs	**1,086.1**	**1,185.4**	**1,158.4**	**1,222.4**
Net Total Expenditure	**4,340.2**	**4,223.0**	**4,254.4**	**2,712.1**

ANNEX 8

Statement on the Robustness of Estimates and Adequacy of Revenue Reserves

1. Introduction

1.1 There are a range of safeguards in place to help prevent local authorities over-committing themselves financially. These include:

- the balanced budget requirement (England, Scotland and Wales) (sections 32, 43 and 93 of the Local Government Finance Act 1992)
- the chief finance officer's duty to report on robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003) when the authority is considering its budget requirement (England and Wales)
- legislative requirements for each local authority to make arrangements for the proper administration of their financial affairs and that the chief finance officer (CFO) / proper officer has responsibility for the administration of those affairs (section 151 of the Local Government Act 1972)
- the requirements of the Prudential Code
- auditors' consideration of whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based, in the context of auditors' statutory responsibility to satisfy themselves that the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

1.2 These requirements are reinforced by section 114 of the Local Government Finance Act 1988 which requires the CFO in England and Wales to report to all the authority's councillors, in consultation with the Monitoring Officer, if (in broad terms) there is or is likely to be unlawful expenditure or an unbalanced budget.

Local Government Act 2003

1.3 The 2003 Local Government Act places specific responsibilities on Chief Finance Officers in England and Wales. The Act requires the CFO to report on the robustness of the budget and the adequacy of proposed financial reserves. This statement meets this statutory requirement and **the Council is required to have regard to this report when it sets the budget.**

2. Robustness of Estimates

2.1 In terms of the robustness of the estimates, all known factors have been considered and the financial implications have been assessed at the point of preparation. Various budget assumptions have been made including the treatment of inflation and interest rates, estimates on the level and timing of capital receipts, the treatment of demand-led pressures, the treatment of planned efficiency savings/productivity gains and levels of income, financial risks inherent in any new arrangements and capital developments and the availability of funds to deal with major contingencies and the need for any provisions. In each of these areas the Council's financial standing, management and track record has been considered in order to prepare robust budget proposals.

2.2 The draft budget has been prepared in conjunction with the Heads of Service and individual business unit managers. The savings / additional income were proposed by / agreed with the relevant Head of Service / business unit manager and all relevant officers have been fully consulted in the estimates now presented to the Cabinet.

2.3 I have discussed the estimates with my Accountancy staff to the extent that I deem necessary. The processes followed are sound and well established and identical to those that have produced robust estimates in the past. The Council has also demonstrated that it has a sound system of internal control in place. I am therefore satisfied that the draft budgets are sufficient to meet the expenditure commitments, of which I have been made aware, for next year and are adequate for the purpose of setting the council tax rate for 2019/20. Subject to some important reservations listed in paragraph 2.4 below, a reasonable degree of assurance can be given about the robustness of the estimates and the adequacy of reserves.

2.4 The exceptions relate to the provision of estimates for items outside the direct control of the Council:

- Income from fees and charges.
- Income from grants provided by external funders.
- Demand for an increased level of existing services.
- External competition and changing markets, e.g. commercial rents.
- Macro-economic factors - Changes in interest rates have a major impact on the investment returns expected. The returns are controlled by market interest rates available. The Council has tried to maximise returns by careful consideration of the timing and duration of investments. Returns will continue to be monitored regularly and reviewed quarterly to identify any major shortfall, or excess, as soon as possible. A mid-year review of Treasury Management activities will be reported to the Council's Overview and Scrutiny Committee.
- The impact of changes in Government funding.
- The impact of local business rates retention – It is nearly six years since the new scheme was introduced and monitoring its effect is still proving to be a challenge. The rates income is volatile and can fluctuate significantly in year as it is influenced by changes in the business rates base, business rates relief, losses on collection and losses due to appeals many of which go back a number of years.
- The impact of Universal Credit.
- Proposed changes to increase the locally retained share of business rate income to 75% by the end of this Parliament in exchange for as yet unidentified new responsibilities.
- The Government's "fair funding review" of authorities' funding needs coupled with a reset of the business rates baseline.

In view of these uncertainties, it will be important for the Cabinet and Overview and Scrutiny Committee to maintain a diligent budget monitoring regime during 2019/20.

3. Adequacy of Revenue Reserves

3.1 Reserves are an integral part of the annual and medium term financial planning process and are held for two main purposes:

- A working balance to help cushion the impact of uneven cash flows and minimise unnecessary temporary borrowing, and
- A means of building up funds to meet known or predicted liabilities. These are known as earmarked reserves.

In addition, the Council builds a small contingency into its budget each year to cushion the impact of unexpected events or emergencies.

3.2 Taking into account the revenue draws that are shown in the budget forecast for 2018/19, 2019/20 and over the remainder of the medium term plan, there will be an estimated working balance at the end of 2021/22 of £2M. I consider that, given my comments in the previous section on the robustness of the estimates and the uncertainties surrounding the next three-year period, this represents a prudent minimum level of working balances.

3.3 I have also reviewed the Council's estimated earmarked reserves to assess their adequacy and appropriateness over the medium term. It is clear that if these reserves are to fulfil their purpose, i.e. to meet known or predicted liabilities, then the amount held in them must be sufficient to meet these liabilities.

3.4 The Council currently has a range of earmarked revenue reserves with balances and projected balances as follows:

	Earmarked Revenue Reserves:	At 31/3/18 £000s	At 31/3/22 £000s
a)	Developer commuted sums	5,805	4,650
b)	Investment Equalisation Reserve	250	250
c)	Budget Equalisation Reserve	682	600
d)	Income Equalisation Reserve	300	300
e)	Pension Equalisation Reserve	200	0
f)	Collection Fund Equalisation Reserve	3,616	3,630
g)	Capacity Building Reserve	163	0
h)	Special Projects Reserve	612	350
i)	Asset Management Plan	1,847	1,220
j)	Local Development Framework	127	0
k)	All risks self-insurance reserve	149	50
l)	New Homes Bonus	8,431	11,880
m)	Enterprise and Innovation Reserve	369	0
n)	Benefit Reform Reserve	134	0
o)	Other earmarked reserves	703	100
p)	Valley Housing Ltd. Reserve	250	0
q)	Housing Reserve	175	0
	Total:	23,813	23,030

3.5 The Council has faced severe financial challenges over the spending review period. Over the last five years, support from the Government has reduced by £1.5M. In order to be in a position to set a balanced budget for 2019/20, it has had to find another £0.63M worth of savings and additional income. Looking forward over the next two years to 2022, the Government will be reviewing how local authorities are financed through its “Fair Funding Review”.

3.6 Initial proposals suggest that this will have a significantly adverse effect on the Council’s finances. Areas of particular concern are a flatter distribution of funding which takes into account and assumes maximum council tax increases to preserve spending power, a full baseline reset of business rates in 2020-21 and the gradual removal of the New Homes Bonus.

3.7 Some of the earmarked reserves above have been specifically established to help with the transition period, and all of the “equalisation” reserves will be available to smooth the impact of spending reductions over the medium term.

3.8 Other earmarked reserves, such as the Asset Management Plan reserve also have an important role to play as they have been set up to ensure that the Council has adequate financing available for planned maintenance and renewal of assets.

3.9 The New Homes Bonus will become increasingly important to the Council, not only as a source of financing for the Community Asset and Revenue Funds, but also as a reserve contingency against planned reductions to local government resources by Central Government and additional financing for the Capital Investment Programme.

3.10 I am satisfied that the earmarked revenue reserves are adequate for their particular purposes, but given the uncertainties highlighted in paragraph 2.4, there is little room for manoeuvre. With this in mind, I have to emphasise the importance of:

- achieving all of the savings options put forward for 2019/2020,
- continuing with the systematic review of all services through the corporate challenge process,
- seizing procurement and capital investment opportunities,
- generating new income streams through Project Enterprise,
- exploring different ways of working,
- keeping financial forecasts up-to-date in order to plan and adapt to changing circumstances, and
- maintaining firm budgetary control and effective monitoring processes.

William Fullbrook
Head of Finance