Charnwood

CABINET

This meeting will be recorded and the sound recording subsequently made available via the Council's website.

Please also note that under the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012, other people may film, record, tweet or blog from this meeting. The use of any images or sound recordings is not under the Council's control.

To: Councillors Barkley (Deputy Leader), Bokor, Harper-Davies, Mercer, Morgan (Leader), Poland, Rollings, Smidowicz and Taylor (for attention)

All other members of the Council
(for information)

You are requested to attend the meeting of the Cabinet to be held in The Preston Room, Woodgate Chambers, Woodgate, Loughborough on Thursday, 13th February 2020 at 6.00 pm for the following business.

Chief Executive

Southfields
Loughborough

31st January 2020

AGENDA

1. APOLOGIES

2. DISCLOSURES OF PECUNIARY AND PERSONAL INTERESTS

3. LEADER'S ANNOUNCEMENTS

4. MINUTES OF PREVIOUS MEETING 4 - 11

To approve the minutes of the previous meeting.

5. QUESTIONS UNDER CABINET PROCEDURE 10.7

The deadline for questions is noon on Wednesday, 5th February 2020.

6. BUDGET SCRUTINY PANEL 12 - 36

A report of the Head of Strategic Support to consider the recommendations of the Budget Scrutiny Panel following its scrutiny of the Council's draft budget for 2020/21.

7. GENERAL FUND AND HRA REVENUE BUDGETS 2020/21 37 - 52

A report of the Head of Finance and Property Services to consider the proposed General Fund and Housing Revenue Account (HRA) Revenue Budgets for 2020/21, incorporating the proposed Council Tax levy, and the 2020/21 proposals to increase rent and service charges within the ring fenced Housing Revenue Account, for recommendation to Council.

Key Decison

8. CAPITAL STRATEGY, TREASURY MANAGEMENT STRATEGY STATEMENT, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY 2020/21 53 - 115

A report of the Head of Finance and Property Services to consider a Capital Strategy, the Treasury Management Strategy Statement, the Annual Investment Strategy and Minimum Revenue Provision (MRP) Policy for 2020/21, together with changes to the Council's Financial Regulations and other elements of the Constitution necessary to enable delivery of the Investment Strategy, for recommendation to Council.

Key Decision

9. NEW CAPITAL PLAN 2020-21 TO 2022-23 116 - 124

A report of the Head of Finance and Property Services to consider a new Capital Plan 2020/21 to 2022/23 and sources of funding, for recommendation to Council.

Key Decision

10. INSURANCE ARRANGEMENTS

A report of the Head of Strategic Support to consider joining the Local Government Mutual as an alternative to traditional insurance. **To Follow.**

This report contains an exempt appendix, circulated to members. If it is necessary for reference to be made to information contained within the appendix, members of the public will be excluded for that part of the meeting on the grounds that it will involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972.

Notification was given on 20th January 2020 that the public could potentially be excluded during this item since exempt or confidential information could be considered. No representations regarding considering this item in exempt session have been received.

Key Decision

11. STRATEGIC RISK REGISTER 2020/21 125 - 132

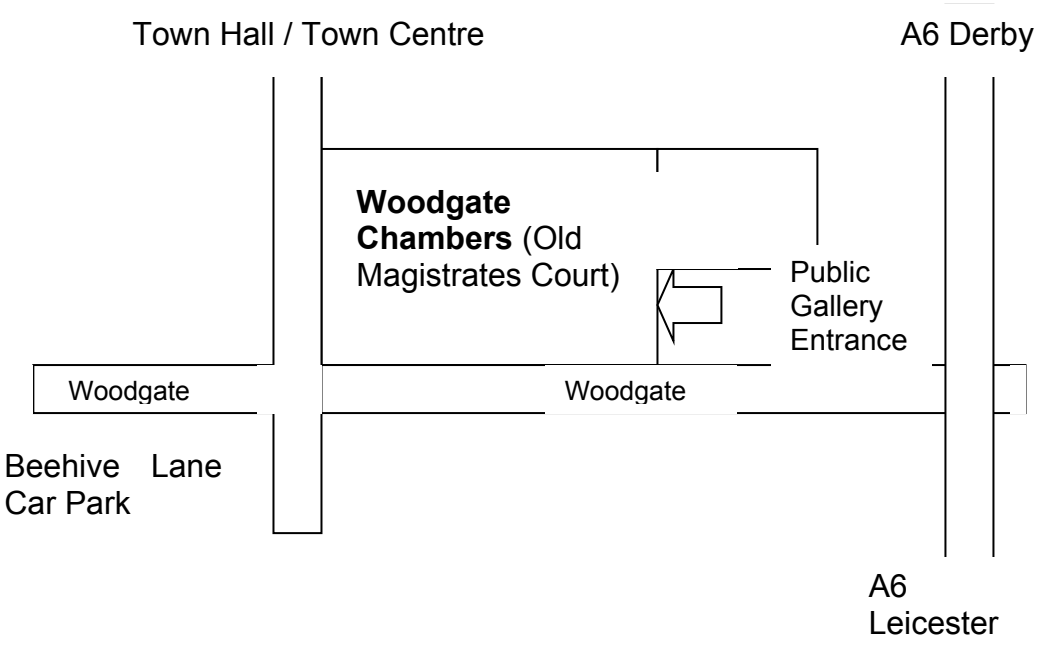
A report of the Head of Strategic Support to consider an updated Strategic Risk Register.

12. REGULATION OF INVESTIGATORY POWERS ACT - POLICY AND REVIEW OF USE DURING 2019 133 - 153

A report of the Head of Strategic Support to consider a Regulation of Investigatory Powers Act (also known as RIPA, or the 2000 Act) Policy, and a summary of the use of RIPA during 2019.

WHERE TO FIND WOODGATE CHAMBERS AND PUBLIC ACCESS

Woodgate Chambers
70 Woodgate
Loughborough
Leics
LE11 2TZ



CABINET
16TH JANUARY 2020

PRESENT: The Leader (Councillor Morgan)
The Deputy Leader (Councillor Barkley)
Councillors Harper-Davies, Mercer, Poland, Rollings, Smidowicz and Taylor

B. Angell (Independent Chair, Audit Committee)
Councillor Rattray

Chief Executive
Strategic Director of Corporate Services
Strategic Director of Housing, Planning, Regeneration and Regulatory Services
Head of Strategic Support
Head of Planning and Regeneration
Neighbourhoods and Partnerships Manager
Improvement and Organisational Development Manager
Corporate Improvement and Policy Officer
Democratic Services Officer (LS)

APOLOGIES: Councillor Bokor

The Leader stated that this meeting would be recorded and the sound recording subsequently made available via the Council's website. He also advised that, under the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012, other people may film, record, tweet or blog from this meeting, and the use of any such images or sound recordings was not under the Council's control.

62. DISCLOSURES OF PECUNIARY AND PERSONAL INTERESTS

No disclosures were made.

63. LEADER'S ANNOUNCEMENTS

No announcements were made.

64. MINUTES OF PREVIOUS MEETING

The minutes of the meeting held on 16th December 2019 were confirmed as a correct record and signed.

65. QUESTIONS UNDER CABINET PROCEDURE 10.7

No questions had been submitted.

66. INTERNAL AUDIT PLAN - RECOMMENDATION OF THE AUDIT COMMITTEE

Considered, a report of the Head of Strategic Support to consider a recommendation of the Audit Committee in respect of the resources available to complete the Council's Internal Audit Plan, alongside an officer recommendation and advice in that respect (item 6 on the agenda filed with these minutes).

Mr Angell, Independent Chair of the Audit Committee, presented the recommendation of the Audit Committee.

The Head of Strategic Support assisted with consideration of the report. Further to the report, he updated the Cabinet on the recruitment position.

Mr Angell and the Audit Committee were thanked for the recommendation in respect of the matter.

RESOLVED that Cabinet note the actions that have been taken to address the resourcing issues with the Internal Audit team and that the proposed shared Internal Audit service is designed to address the ongoing issues that have been experienced over the last 18 months to two years, and that there are no other steps they wish officers to take to address the concerns of the Audit Committee.

Reason

To acknowledge the actions that have been taken in response to the ongoing resourcing issues for Internal Audit and to determine if Cabinet wish officers to take any further steps.

67. PRIVATE SECTOR LICENSING SCHEME

Considered, a report of the Head of Strategic and Private Sector Housing to consider proposals for Private Sector Licensing and the resources required to complete a public consultation exercise (item 7 on the agenda filed with these minutes).

Councillor Rattray, Chair of the Scrutiny Commission, presented a report detailing the Commission's pre-decision scrutiny of the matter and recommendation (copy filed with these minutes).

The Strategic Director of Housing, Planning, Regeneration and Regulatory Services assisted with consideration of the report.

RESOLVED

1. that the proposals for Private Sector Licensing be noted;

2. that the supporting evidence and risks be noted;

3. that the proposal for a consultation exercise be approved, as required by Section 56(3) of the Housing Act 2004 for Additional Licensing and Section 80(9) of the Housing Act 2004 for Selective Licensing;

4. that a one-off budget of up to £30,000 be approved to be funded from the Reinvestment Reserve in 2019/20 to undertake the consultation exercise;

5. that the report of the Scrutiny Commission be noted.

Reasons

1&2. To enable the Cabinet to consider the information and evidence gathered.

3&4. To use the Reinvestment Reserve to fund the statutory consultation to support the implementation of an Additional and Selective Licensing Scheme in consultation with the respective Lead Members.

5. To acknowledge the work undertaken by and the views of the Scrutiny Commission.

68. CHARNWOOD GRANTS STRATEGIC PARTNERS 2020/21 - 2021/22

Considered, a report of the Head of Neighbourhood Services to consider proposals for the Strategic Partner Grant Scheme funding for 2020/21 and 2021/22 (item 8 on the agenda filed with these minutes).

Councillor Rattray, Chair of the Scrutiny Commission, presented a report detailing the Commission's pre-decision scrutiny of the matter and recommendation (copy filed with these minutes).

The Neighbourhoods and Partnerships Manager assisted with consideration of the report.

The Leader wished to thank officers for the considerable work undertaken with Strategic Partners and also Strategic Partners for working with the Council.

RESOLVED

1. that the following Strategic Partner Grants be approved, subject to budget approval:

Organisation	Amount Awarded 2020/21 (Year 1)	Amount Awarded 2021/22 (Year 2)
Charnwood Citizens Advice Bureau*	Up to £90,928	Up to £90,928
Clockwise Credit Union	£8,298	£8,298
Equality Action	£20,978	£20,978
Fearon Hall Community Association	£30,489	£30,489

Gorse Covert Community Association	£20,432	£20,432
John Storer Charnwood	£86,656	£86,656
Shepshed Volunteer Centre (John Storer Charnwood)	£9,781	£9,781
Living Without Abuse	£17,165	£17,165
Syston Volunteer Centre**	£9,781	£9,781

*Charnwood CAB funding includes £62,428 for the CAB element and up to £28,500 for Specialist Money Management and Debt Advice (SMMDA) element
**Funding approved in principle for Syston Volunteer Centre – see resolution 3 below;

2. that the Head of Neighbourhood Services be given delegated authority to finalise the terms and conditions of the Strategic Partner Grants awarded and Service Level Agreements and agree a final grant award amount with Charnwood Citizens Advice Bureau, in consultation with the Cabinet Lead Member;

3. that a Strategic Partner Grant be awarded in principle to Syston Volunteer Centre, subject to them continuing to work with the Council and receipt of evidence demonstrating that they have revisited their business plan and are moving towards further community engagement/volunteering activities, by the end of March 2021 (end of Year 1) and that the Head of Neighbourhood Services be given delegated authority, in consultation with the Cabinet Lead Member, to determine the most appropriate way forward;

4. that the report of the Scrutiny Commission be noted.

Reasons

1. To provide appropriate levels of financial support to those organisations that have submitted applications and been assessed as meeting the criteria for the Strategic Partner Grant Scheme.

2. To enable the grants awarded to be finalised with an approved Service Level Agreement and appropriate information to be supplied to the Council about the outcomes of the projects/services and determine final grant award amounts.

3. To ensure that the organisation is developing and progressing before any continued (Year 2) funding is awarded.

4. To acknowledge the work undertaken by and the views of the Scrutiny Commission.

69. CORPORATE PLAN 2020 - 2024

Considered, a report of the Chief Executive to consider the final version of the Corporate Plan 2020 – 2024, for recommendation to Council (item 9 on the agenda filed with these minutes).

Councillor Rattray, Chair of the Scrutiny Commission, presented a report detailing the Commission's pre-decision scrutiny of the matter and recommendation (copy filed with these minutes).

The Improvement and Organisational Development Manager assisted with consideration of the report.

RESOLVED

1. that **it be recommended to Council** that:

    a) the new Corporate Plan 2020-2024, attached to the report of the Chief Executive, be approved;
    b) delegated authority be given to the Chief Executive, in consultation with the Leader, to make minor amendments to the Plan;
    c) delegated authority be given to the Chief Executive, in consultation with the Leader, to design the final document for publication;

2. that the report of the Scrutiny Commission be noted.

Reasons

1. a) To enable the draft Corporate Plan to set out the direction for the Council for the period 2020-2024.
    b) To allow minor corrections and amendments to be made in a timely manner prior to publication.
    c) To ensure that a designed version of the Corporate Plan can be developed for public circulation.

2. To acknowledge the work undertaken by and the views of the Scrutiny Commission.

70. MODERN SLAVERY STATEMENT 2019/20

Considered, a report of the Strategic Director of Corporate Services to consider a Modern Slavery Statement, including the associated commitments to practical action (item 10 on the agenda filed with these minutes).

The Corporate Improvement and Policy Officer assisted with consideration of the report.

RESOLVED

1. that the 2019/20 Modern Slavery Statement, appended to the report of the Strategic Director of Corporate Services, be approved;

2. that delegated authority be given to the Chief Executive, in consultation with the Leader, to annually review and approve the Council's Modern Slavery Statement.

Reasons

1. To identify all potential modern slavery risks related to the business of the Council and to put in place steps that are aimed at ensuring there is no slavery or human trafficking within the Council's own business or supply chains.

2. To allow the annual review and publication of a Modern Slavery Statement, as specified within legislative requirements.

71. DESIGN SUPPLEMENTARY PLANNING DOCUMENT

Considered, a report of the Head of Planning and Regeneration to consider the adoption of the Design Supplementary Planning Document, prepared to support and provide guidance on the Local Plan Core Strategy policies (item 11 on the agenda filed with these minutes).

Councillor Rattray, Chair of the Scrutiny Commission, presented a report detailing the Commission's pre-decision scrutiny of the matter and recommendation (copy filed with these minutes).

The Scrutiny Commission was thanked for its useful pre-decision scrutiny work, both in respect of this item and items considered earlier in the meeting.

The Head of Planning and Regeneration assisted with consideration of the report.

The Leader wished to thank officers for the work undertaken to produce a robust and useful document.

RESOLVED

1. that the Design Supplementary Planning Document, set out in Appendix 1 to the report of the Head of Planning and Regeneration, be adopted;

2. that the report of the Scrutiny Commission be noted.

Reasons

1. To provide supplementary guidance on Local Plan Core Strategy Policies CS2: 'High Quality Design', CS15: 'Open Spaces, Sport and Recreation', CS16 'Sustainable Construction and Energy' and Borough of Charnwood Local Plan policies: EV/1 'Design' and H/17 'House Extensions'.

2. To acknowledge the work undertaken by and the views of the Scrutiny Commission.

72. SILEBY NEIGHBOURHOOD PLAN

Considered, a report of the Head of Planning and Regeneration to consider approval for the Sileby Neighbourhood Plan to be 'made' as part of the statutory development plan for the Neighbourhood Area (item 12 on the agenda filed with these minutes).

The Head of Planning and Regeneration assisted with consideration of the report.

RESOLVED that the Sileby Neighbourhood Plan, attached as an appendix to the report of the Head of Planning and Regeneration, is 'made' part of the statutory development plan for Charnwood, in accordance with the provisions of Section 38(A)(4) of the Planning and Compulsory Purchase Act 2004.

Reason

To fulfil the legal duty to make the Sileby Neighbourhood Plan part of the development plan for Charnwood.

73. WRITE OFF REPORT FOR BUSINESS RATE PROPERTIES

Considered, a report of the Head of Customer Experience to consider the write off of irrecoverable debts in line with Financial Procedure Rules (item 13 on the agenda filed with these minutes).

The Strategic Director of Corporate Services assisted with consideration of the report. In response to a suggestion that the director information now included in the report should list all directors involved at the time a company started to experience difficulties, he confirmed that that information could be included in future reports subject to it being available in the public record at Companies House. The information would assist awareness of others where there was a history of irrecoverable debt.

RESOLVED that the following debts be written off:

1) £23,849.60 owed by JPH Sports Ltd;
2) £33,086.38 owed by Phoenix Pub Group Ltd; and
3) £20,495.66 owed by CMJ Brothers Ltd.

Reason

The normal enforcement/recovery and tracing of these debts have been exhausted and write off is now the only alternative. The Council's financial procedures require any debt over £20,000 be approved by Cabinet.

NOTES:

1. The decisions in these minutes not in the form of recommendations to Council will come into effect at noon on 24th January 2020 unless called in under Scrutiny Committee Procedure Rule 11.7.

2. No reference may be made to these minutes at the Council meeting on 24th February 2020 unless notice to that effect is given to the Democratic Services Manager by five members of the Council by noon on 24th January 2020.

3. These minutes are subject to confirmation as a correct record at the next meeting of the Cabinet.

CABINET – 13TH FEBRUARY 2020

Report of the Head of Strategic Support

Part A

ITEM 6 BUDGET SCRUTINY PANEL

Purpose of Report

To consider the recommendations of the Budget Scrutiny Panel following its scrutiny of the Council's draft budget for 2020/21.

Recommendation

Set out below are the Panel recommendations to the Cabinet (1-10), followed by the officer response and recommendation in each case. The Cabinet is asked to consider each of these and decide which recommendations it wishes to agree, if any.

Recommendations 1-5 relate to future budgets and budget scrutiny, recommendations 6-9 relate to the draft General Fund and HRA Budget 2020/21 and recommendation 10 relates to the draft Capital Plan 2020/21 to 2022/23.

Reason

To acknowledge the work undertaken by and the views of the Budget Scrutiny Panel and to ensure implementation of scrutiny recommendations where agreed by the Cabinet.

Panel Recommendation 1

In order to effectively scrutinise the budget going forward, a greater clarity of the "direction of travel" is required by the Budget Scrutiny Panel. Early dialogue with the Cabinet Lead Member and the Leader of the Council would provide the Panel with the context in which to consider the budget. Further, there may be scope for consideration of a longer budgetary timeframe than the Medium Term Financial Strategy provides for, in order to allow adequate time for the scale of change that may be required to meet the Council's ambitions and to ensure the Budget Scrutiny Panel is able to fully scrutinise each budget in terms of its role within the overall cycle.

Response of the Strategic Director of Corporate Services

The desire for an early conversation on 'direction of travel' and the budget context is both understandable and reasonable. There will be challenges in facilitating earlier engagement, including the Leader, Cabinet Lead Member and Officers having sufficient information to make engagement worthwhile, and the practical difficulties around meeting availabilities in the summer months, but we will seek bring forward conversations as far as possible.

I would note for information that a particular challenge next year may be the timing of the outputs of the 'Fair Funding' review, without which information on our future financial position will be extremely limited.

I anticipate that once the outcome of the Fair Funding review is known the Council will receive a multi-year settlement which will enable a longer term view of the Council's future financial position to be developed.

Officer Recommendation 1

That Cabinet notes that officers will seek to facilitate a dialogue on the budget context and financial direction of travel as early as is practical in relation to the 2021/22 budget setting process.

Panel Recommendation 2

Recognising the need for the new Chief Executive to have the opportunity to contribute to these important issues, the Budget Scrutiny Panel is keen that progress on the pulling together of the Transformation Group and the creation and delivery of a realistic, achievable and effective Transformation Plan is continued at pace. The potential savings required are essential in managing a process towards a balanced budget and a Council able to live within its means and provide the necessary services to the public.

Response of the Strategic Director of Corporate Services

I agree with the above comments of the Budget Scrutiny Panel.

Officer Recommendation 2

That Cabinet notes that Members can expect to see periodic reports reflecting progress with the Council's transformation and commercialisation plans, and that Members can engage with proposals and general progress with transformation and commercialisation plans through the Council's existing governance structures (Cabinet, Council and Scrutiny).

Panel Recommendation 3

The parallel plans for improved revenue generation are also essential and the Budget Scrutiny Panel will keenly monitor activity and progress in this area.

Response of the Strategic Director of Corporate Services

I agree with the above comments of the Budget Scrutiny Panel.

Officer Recommendation 3

Recommendation is as per Officer Recommendation 2 above.

Panel Recommendation 4

That a significant communication effort be made with all Council stakeholders to ensure that everyone understands the importance and nature of the budget situation and that everyone's efforts are focused on clear and achievable goals. Much of the budget process and numbers are currently "out of focus" for many members and stakeholders, and this then does not allow for everyone to articulate and focus their efforts behind a clear and understandable set of aims and objectives. This clarity of language should be embedded in future budget consultation processes to ensure the public are able to easily access the headlines of the Council's budgets and plans.

Response of the Strategic Director of Corporate Services

I agree that a significant communication effort is required to ensure that the importance and nature of the budget situation is understood by all stakeholders. I believe that this is a view shared by the Leader, Chief Executive and all other members and Officers directly involved in managing our budget processes.

Officer Recommendation 4

That communication styles, methods and language used should be an ongoing agenda item for the Budget Scrutiny Panel, allowing Members and Officers to work together and develop an effective communication programme in respect of the Council's budgets and plans.

Panel Recommendation 5

Further to communication with staff, the Panel would welcome asking them to come up with suggestions for reduction in controls. The experience of a Panel member is that less important areas are often over controlled while the more strategic areas are often not well controlled at all.

Response of the Strategic Director of Corporate Services

The sentiment around this comment is recognised. It is anticipated that process controls would be considered as part of the planned series of service reviews that will be developed under the Council's Transformation Programme.

Officer Recommendation 5

That Cabinet notes that process controls will be considered as part of the planned series of service reviews that will be developed under the Council's Transformation Programme and that, in addition, approval limits set out within the Council's Financial Regulations and Financial Procedures will be reviewed to ensure limits appropriately reflect current circumstances.

Panel Recommendation 6

Regarding increasing revenue generation, there is a need to match investment amounts with returns and at the level the investment opportunity may require.

There is a feeling at present within the Budget Scrutiny Panel that "random" amounts of money are being committed/allocated for "general as yet unspecified revenue generation" rather than revenue generation ideas which might deliver the agreed and required return then being appropriately funded and the investment amount being allocated and agreed.

Response of the Strategic Director of Corporate Services

It is fair to say that some initiatives outlined within the MTFS are not yet fully developed. However, it is, and will continue to be the case, that returns on investment are considered in line with business cases that support the initial investment, before funding is approved and allocated.

Going forward, this evaluation and approval process will lie with the Transformation and Commercialisation delivery boards for all significant investment.

Officer Recommendation 6

That the Cabinet notes the evaluation and approval processes above.

Panel Recommendation 7

Regarding increasing revenue generation, there is the need to ensure that the appropriate skills and culture change are embedded within all Council stakeholders.

Response of the Strategic Director of Corporate Services

I agree with the Panel's comments.

Officer Recommendation 7

That the Cabinet notes that a Cabinet report will be prepared (envisaged for March/April 2020) that will provide further detail on the Council's commercialisation plans and address the specific matters raised by the Panel.

Panel Recommendation 8

Recognition that there are some major one-off incidents within the 2019/20 budget whose impact on the 2020/21 budget requires to be mitigated. These include the current slight overspend forecast on the General Fund, the one cost (at present) of the unforeseen, significant increase in Supported Living Allowance payments and the need to deliver on the budgeted savings already set out in the 2019/20 budget, which have not yet been achieved.

Response of the Strategic Director of Corporate Services

The Panel's identification of issues outlined above is valid.

Officer Recommendation 8

That Cabinet notes the Panel's observations.

Panel Recommendation 9

The HRA major budgetary issue would appear to be the assurance that adequate provisions are being made for the repayment of the long-term borrowing, against our housing stock. The Budget Scrutiny Panel remain comfortable at present that the HRA loan liabilities and repayment timeframes are being adequately planned for.

Response of the Strategic Director of Corporate Services

I agree with the Budget Scrutiny Panel's observations.

Officer Recommendation 9

That Cabinet notes the Panel's observations.

Panel Recommendation 10

The draft Capital Plan would appear to be adequately covered in terms of the funding required in order to deliver it. What remains a constant issue is the annual underspend on this account, something which would appear to be likely again in the current year and leaves open the question for the 2020/21 Capital Plan. Continued effort is required, however, to ensure that all projects are viable, deliverable to the timeframes agreed when funding is allocated.

Response of the Strategic Director of Corporate Services

I broadly agree with the Panel's comments. Some of the underspend arises due to slippage in projects that are required to be included within the Capital Plan but not within the Council's gift; nonetheless I consider that there is generally room for improvement in the project management of the Council's capital projects.

Officer Recommendation 10

That Cabinet notes that the processes covering reporting and monitoring of the Capital Plan will be reviewed in the forthcoming financial year.

Policy Justification and Previous Decisions

The Scrutiny Management Board, at its meeting on 13th January 2020, agreed that the report of the Budget Scrutiny Panel be submitted for consideration by the Cabinet.

Scrutiny Committee Procedure 11.12(a) sets out the procedures by which a report of a Scrutiny Committee should be considered by the Cabinet.

In accordance with Scrutiny Committee Procedure 11.12(d), background information and officer advice has been provided within this report to enable the Cabinet to make any decisions without undue delay.

Implementation Timetable including Future Decisions and Scrutiny

A report setting out the draft General Fund and HRA Budget 2020/21 is included on the agenda for this meeting, for recommendation to Council at its meeting on 24th February 2020 for approval.

The Cabinet's response to the Panel's recommendations will be fed back to the Scrutiny Commission, indicating what (if any) action the Cabinet proposes to take. Where necessary, the Scrutiny Commission will review the implementation of any Cabinet decisions at an appropriate time, usually after 6 months.

Report Implications

Implications, if any, are as set in out in the above officer responses.

Key Decision: No

Background Papers: None

Officer to contact: Laura Strong
Democratic Services Officer
(01509) 634734
laura.strong@charnwood.gov.uk

Part B

Background

1. Following a decision of the Scrutiny Commission at its meeting on 3rd June 2019 and a decision of the Corporate Services Scrutiny Committee at its meeting on 25th June 2019, a Budget Scrutiny Panel undertook scrutiny of the Council's draft budget for 2020/21.

2. The Scrutiny Commission considered the Panel's report at its meeting on 13th January 2020 and resolved that the recommendations of the Panel be submitted for consideration by the Cabinet. The report agreed by the Scrutiny Commission is set out at Annex 1. This includes a foreword by the Chair of the Panel, Councillor Parsons.

Annexes

Annex 1 Report of the Budget Scrutiny Panel, January 2020

REPORT OF THE BUDGET SCRUTINY PANEL – 2020/21 DRAFT BUDGET

Foreword by Councillor Geoff Parsons, Chair of the Panel

In the current volatile local authority funding climate, subject to political change and increasing service pressures, there can be no doubt that Charnwood Borough Council is moving into potentially "choppier waters".

The Council has maintained front line services over recent years, which has been managed with acceptable use of reserves, prudently replenished and accumulated during a better funding period. Budget pressures have grown and this approach going forward will no longer provide adequate assurance for the Budget Scrutiny Panel that service provision can be maintained. Any aspiration to improve or expand services will require a more proactive approach to funding.

The current Medium Term Financial Strategy provides a reasonably secure funding envelope within which to plan and deliver the requisite changes required, however there is no room for complacency and a determined effort is required.

This budget, combined with the Medium Term Financial Strategy, highlights an increase in risk to the Council, one which it is well placed to manage, but which requires steady, determined activity in order to secure the future. The Budget Scrutiny Panel maintains an important function in challenging the Cabinet and its budgetary plans and ensuring that the voice of the public is heard with regard to the financial security of the services provided and the efficiency and effectiveness with which public money is spent.

1. Background

Following a decision of the Scrutiny Commission at its meeting on 3rd June 2019 and a decision of the Corporate Services Scrutiny Committee at its meeting on 25th June 2019, a Budget Scrutiny Panel has undertaken scrutiny of the Council's draft budget for 2020/21.

2. Panel Membership

Councillors Parsons (Chair), Baines, Bolton and Miah.

3. Meetings and Matters Considered

<u>25th September 2019</u>

At this meeting, the Panel considered:

- the draft Medium Term Financial Strategy 2020-23 (Cabinet report 19th September 2019);

- the approach taken by the Council to budget setting;
- following a request by the Chair that it be provided, information and advice to assist effective scrutiny of the draft budget 2020/21, including a more detailed analysis of the General Fund budget (2019/20) to better understand gross expenditure and budget challenges.

4th December 2019

At this meeting, the Panel considered:

- the impact of the revised Medium Term Financial Strategy on the budget;
- the draft General Fund and HRA Budget 2020/21 (Cabinet report 16th December 2019);
- the draft Capital Plan 2020/21 to 2022/23 (Cabinet report 16th December 2019);

The detail of the discussion at the above meetings is set out in the minutes of those meetings, attached as an **appendix** to this report.

8th January 2020

At this meeting, the Panel agreed its report.

4. Officers and Cabinet Lead Members

The Panel was assisted in its scrutiny of the Council's draft budget for 2020/21 by:

The Cabinet Lead Member for Finance and Property Services
The Strategic Director of Corporate Services
The Head of Finance and Property Services

5. Recommendations - Future Budgets and Budget Scrutiny

The Panel wishes to make the following recommendations in respect of future budgets and budget scrutiny:

(i) *In order to effectively scrutinise the budget going forward, a greater clarity of the "direction of travel" is required by the Budget Scrutiny Panel. Early dialogue with the Cabinet Lead Member and the Leader of the Council would provide the Panel with the context in which to consider the budget. Further, there may be scope for consideration of a longer budgetary timeframe than the Medium Term Financial Strategy provides for, in order to allow adequate time for the scale of change that may be required to meet the Council's ambitions and to ensure the Budget Scrutiny Panel is able to fully scrutinise each budget in terms of its role within the overall cycle.*

(ii) Recognising the need for the new Chief Executive to have the opportunity to contribute to these important issues, the Budget Scrutiny Panel is keen that progress on the pulling together of the Transformation Group and the creation and delivery of a realistic, achievable and effective Transformation Plan is continued at pace. The potential savings required are essential in managing a process towards a balanced budget and a Council able to live within its means and provide the necessary services to the public.

(iii) The parallel plans for improved revenue generation are also essential and the Budget Scrutiny Panel will keenly monitor activity and progress in this area.

(iv) That a significant communication effort be made with all Council stakeholders to ensure that everyone understands the importance and nature of the budget situation and that everyone's efforts are focused on clear and achievable goals. Much of the budget process and numbers are currently "out of focus" for many members and stakeholders, and this then does not allow for everyone to articulate and focus their efforts behind a clear and understandable set of aims and objectives. This clarity of language should be embedded in future budget consultation processes to ensure the public are able to easily access the headlines of the Council's budgets and plans.

(v) Further to communication with staff, the Panel would welcome asking them to come up with suggestions for reduction in controls. The experience of a Panel member is that less important areas are often over controlled while the more strategic areas are often not well controlled at all.

6. Recommendations and Observations – Draft General Fund and HRA Budget 2020/21

The Panel wishes to make the following recommendations and observations in respect of the draft General Fund and HRA Budget 2020/21:

(i) Regarding increasing revenue generation:

- *There is a need to match investment amounts with returns and at the level the investment opportunity may require. There is a feeling at present within the Budget Scrutiny Panel that "random" amounts of money are being committed/allocated for "general as yet unspecified revenue generation" rather than revenue generation ideas which might deliver the agreed and required return then being appropriately funded and the investment amount being allocated and agreed.*

- *There is the need to ensure that the appropriate skills and culture change are embedded within all Council stakeholders.*

(ii) Recognition that there are some major one-off incidents within the 2019/20 budget whose impact on the 2020/21 budget requires to be mitigated. These include the current slight overspend forecast on the General Fund, the one cost (at present) of the unforeseen, significant increase in Supported Living Allowance payments and the need to deliver on the budgeted savings already set out in the 2019/20 budget, which have not yet been achieved.

(iii) The HRA major budgetary issue would appear to be the assurance that adequate provisions are being made for the repayment of the long-term borrowing, against our housing stock. The Budget Scrutiny Panel remain comfortable at present that the HRA loan liabilities and repayment timeframes are being adequately planned for.

7. Recommendations and Observations – Draft Capital Plan 2020/21 to 2022/23

The Panel wishes to make the following recommendations and observations in respect of the draft Capital Plan 2020/21 to 2022/23:

The draft Capital Plan would appear to be adequately covered in terms of the funding required in order to deliver it. What remains a constant issue is the annual underspend on this account, something which would appear to be likely again in the current year and leaves open the question for the 2020/21 Capital Plan. Continued effort is required, however, to ensure that all projects are viable, deliverable to the timeframes agreed when funding is allocated.

8. Background Papers

No further papers to those already identified in/appended to this report.

9. Appendix

Minutes of the meetings of the Budget Scrutiny Panel held on 25th September and 4th December 2019.

January 2020

BUDGET SCRUTINY PANEL
25TH SEPTEMBER 2019

PRESENT: The Chair (Councillor Parsons)

Councillors Baines, Bolton and Miah

Councillor Barkley (Deputy Leader of the Council and Cabinet Lead Member for Finance and Property Services)

Strategic Director of Corporate Services
Head of Finance and Property Services
Democratic Services Officer (LS)

APOLOGIES: None

The Chair stated that the meeting would be recorded and the sound recording subsequently made available via the Council's website. He also advised that, under the Openness of Local Government Bodies Regulations 2014, other people may film, record, tweet or blog from this meeting, and the use of any such images or sound recordings was not under the Council's control.

1. DISCLOSURES OF PECUNIARY AND PERSONAL INTERESTS

No disclosures were made.

2. DECLARATIONS - THE PARTY WHIP

No declarations were made.

3. QUESTIONS UNDER SCRUTINY COMMITTEE PROCEDURE 11.17

No questions had been submitted.

4. DRAFT MEDIUM TERM FINANCIAL STRATEGY 2020-23

Considered a report of the Strategic Director of Corporate Services setting out the draft Medium Term Financial Strategy (MTFS) 2020-23, to be considered by Cabinet on 19th September 2019, for scrutiny by the Panel (item 5 on the agenda filed with these minutes).

Assisting with consideration of the report: The Cabinet Lead Member for Finance and Property Services, the Strategic Director of Corporate Services, the Head of Finance and Property Services.

The Cabinet Lead Member briefly set out the key issues and risks for the MTFS 2020-23, highlighting in particular the value of having put aside reserves, the uncertainty of the environment in which the Council was operating and the need for

transformation/efficiency plans to deliver. He considered that the MTFS was as accurate as it could be based on the information currently available.

For context, the Chair referred to there currently being considerable activity taking place in the area of the Council's finances, including the new Capital Plan for 2020-23 due to be considered by Cabinet (and this Panel) in December 2019 and the Investment Strategy agreed by Cabinet in September 2019 that and the Treasury Management Strategy for 2019/20 (part of Capital Strategy) agreed by Council in February 2019, both of which were of crucial importance and included changes in approach. All illustrated a new environment in which to manage and move forward with the Council's finances, taking as a starting point the position stated by the Cabinet Lead Member that the Council wished to maintain front line services. The role of this Panel was to scrutinise the budget being proposed to achieve that.

Councillor Baines arrived at 6.10pm.

Summary, key points of discussion:

(i) All suggestions to assist the Council with achieving the outcome needed were welcomed by the Cabinet Lead Member.

(ii) Agenda page 9, reference to proposed use of £1.1m of reserves in 2020/21 assuming delivery of £0.5m of transformation and delivery savings. Confirmed that this was a separate matter to the proposed request for funding of £220,000 from the Reinvestment Reserve to facilitate the mobilisation of the Council's Transformation Programme that had recently been notified by a General Exception Notice. The latter was a new request, further explanation of the funding for which was provided.

(iii) Reference to the challenge presented in finding required savings, together with the concern expressed by the Corporate Services Scrutiny Committee at its last meeting when considering the 2019/20 Period 4 revenue position that budgeted for managed savings were not yet being achieved. Very important to continue to monitor the position in that respect.

(iv) The settlement from the Government for 2020/21 had not yet been confirmed. Brief discussion regarding the uplift anticipated, together with the likely direction towards adult social care and children's services.

(v) Agenda page 17, reference to MTFS assuming maximum permitted annual increase in Council Tax of 2%. If the Council did not have reserves, that increase would not be sufficient to maintain front line services. Question as to whether consideration had been given to establishing the position of residents on a higher increase. In response, that had been considered, but would require a referendum, the cost of which would likely exceed any increase in income. The Cabinet Lead Member did not consider such an approach to be appropriate, rather the Council needed to work towards transformation to reduce costs and increase income over the period of the MTFS.

(vi) Representation could be made to the Government department or local Members of Parliament that district council funding was not sufficient, either by the Council if it so wished, or by individual councillors. Representation on the issue was being made by the Local Government Association, also via the District Councils' Network. In respect of the latter, reference to discussion regarding a possible relaxation of the capping limit on district councils to 2% or

£12. Any £12 increase would be a decision for the Council but would be of considerable financial assistance. This was currently only being discussed and the assumption should be that this would not be an option.

(vi) The Council had put aside reserves for the purpose of the resilience now needed.

(vii) View that residents may not be averse to an increase in charges if that allowed good local services to be maintained.

(viii) Agenda page 18, reference to expected increase in (Council) tax base of 1.9% year on year for the period of the MTFS and the number of properties that represented? In response, stated as between 1,500-1,700 a year. View that developments around the Borough seemed to involve more than that, noted that time lag to properties being completed and on the Council Tax Register.

(ix) Agenda page 20, question regarding the level of risk associated with outstanding business rates appeals? In response, explanation was provided of the likely risk, knowledge held on the matter and the substantial provision held by the Council in that respect, the conclusion being that the provision for both the 2010 and 2017 valuation lists was at a sufficient and realistic level. The provision could be seen in the Council's Statement of Accounts and was available should it be required (as a provision rather than cash). Hoped that that represented an over-provision that would realise a windfall in the future.

(x) Agenda page 20, confirmed that £450,000 from 75% Business Rate Retention pilot represented a one-off income in 2019/20 and was not included in the 2019/20 budget. It could not be used towards budgeted for managed savings, rather for spend to save initiatives and public realm works in line with the pilot bid.

(xi) Agenda page 20, reference to Empty Property costs (business rates) for which reliefs could not be claimed back, estimated at £500,000 each year from 2020/21. That was a cost to the Council. While the Council was able to claim back some reliefs, that was not the case in respect of Empty Properties. The estimated cost was considered to be realistic and prudent, based on detailed consideration of the position with business rates and a recognition of an increase in empty properties. The position was being monitored regularly as an important area of risk, also revised for the final MTFS if needed.

(xii) Agenda page 20, question regarding whether business rate income growth factor of 3% per annum was realistic given number of shops closing? In response, this was based on information from the Council's financial consultants looking at national trends. Many other, less visible businesses were trading successfully, for example logistics and warehousing, such that 3% was not unrealistic. The position would be monitored. A similar growth rate had been applied last year.

(xiii) Agenda page 22, question as to why the housing growth forecast in the New Homes Bonus calculation and the housing growth projections by the Council's Planning Service differed? Noted that that question had been asked by the Cabinet when it had considered the draft MTFS and that a more detailed explanation therein might be useful. In summary, the key difference was a Government termed "deadweight" which assumed, in calculating the New Homes Bonus, a 0.4% growth anyway, which added approximately 300 homes.

(xiv) Agenda page 27, concern regarding the Government proposal that councils provide a garden waste collection service free of charge, given the effect that would have on the income to the Council from its current service, which was

substantial. In response, the Cabinet Lead Member and officers present confirmed that they were aware of the issue/risk at this stage, but that the proposal was unlikely to be realised within the period of this draft MTFS. No action could be taken until further information was available on the proposal. The likelihood of compensation for councils that would lose income was briefly discussed.

(xv) Agenda page 29, question as to whether work had started to identify the efficiencies required by the draft MTFS and the process for that, particularly the £0.5m required in 2020/21? In response, reference made to Table 25 in the MTFS (agenda page 34), that set out proposals for £300,000 of the £467,000 in 2020/21, some of which were firmer than others at this stage. Efficiencies required in years 2 and 3 of the MTFS presented more of a challenge and required a more rigorous identification approach. Reference to the focus on transformation by the Council's new Chief Executive, such that efficiencies to be made would be increasingly firmer. In terms of keeping councillors informed, significant service changes would require Cabinet approval and would be available for scrutiny. The Chair concluded discussion of this issue by stating that it was incumbent on the Panel to consider whether the savings promised were delivered as time progressed. To that end, he hoped that membership of the Panel would be a constant, also to enable the Panel's knowledge and understanding to increase.

(xvi) The Head of Finance and Property Services provided a brief outline of how the draft MTFS would form the basis of the 2020/21 budget working papers and the role of Heads of Service in finding percentage reductions.

(xvii) Agenda page 30, reference to the Investment Strategy agreed by Cabinet in September 2019 and the £10m stated therein to expand the Council's commercial property portfolio. It was explained that that represented a statement of intent to invest the amount and financing of that would be based on professional advice as to the best way to do so at the time (borrowing or internal funds or a mix of the two).

(xviii) The Cabinet Lead Member referred to financial parameters and checks in place, including Minimum Revenue Provision and capital ratios which could not be exceeded, also the stringent due diligence that would be undertaken where significant investment was proposed. Brief discussion regarding risk appetite, being risk aware not risk averse.

(xix) Agenda page 33, view that the Council should be looking to more shared service arrangements with other district councils to achieve back office cost savings. Net loss on Building Control trading activities could not be afforded, particularly non-statutory elements. Recent move to shared service arrangement for Internal Audit. Shared arrangements sometimes needed for resilience rather than saving.

(xx) Agenda page 35, reference to stated shortfalls in Housing Rent Allowance budgets and the reason for that as stated in the MTFS. In response, this was a national trend, expected to further increase and was demand-led (the driving cost was Supported Living Allowance and the Borough had two major providers/centres), further details of which were outlined. The Council could only work to monitor the position. The final version of the MTFS would look to more accurately reflect what was expected in relation to this risk. This was a key area of concern.

(xxi) Agenda page 36, Table 26, question as to why planning fee income risk was stated as zero? In response, based on limited information currently available and experience to date (the income was currently on target at Period 4, 2019/20, would review position for final MTFS.

(xxii) Agenda page 38, reference to the interest and principal payable on loans for commercial investment being an ongoing 'revenue' charge to the Council. Minimum Revenue Provision would ensure that an appropriate charge was made in the accounts for such repayments, further information on which was briefly outlined, including how that provided for replacement assets.

(xxiii) Agenda page 41, it would be useful if Table 28 could also provide the information referred to in the note to that table, as the balances brought forward were calculated based on that information, to better understand the history of the matter.

(xxiv) Agenda page 42, the Chair referred to his observation, in relation to the draft MTFS and other Council financial documents referenced earlier in the meeting, that reserves had been put aside to meet a more challenging financial environment, but a more stringent/aggressive approach was now needed to secure future finances. He reiterated this Panel's role in helping to achieve that.

(xxv) Agenda page 43, housing rents, question as to whether there was a further 1% reduction in rents required for 2020/21, or whether rents would stay the same or increase, as that would affect the Housing Revenue Account position? That was not known at this meeting.

In respect of (xxiii) above, the Head of Finance and Property Services agreed to include that information in the next version of the MTFS.

In respect of (xxv) above, the Head of Finance and Property Services agreed to send a response by email to members of the Panel.

RESOLVED that the draft MTFS 2020-23 and the Panel's scrutiny of the matter, summarised above, be noted.

Reason

To acknowledge the Panel's consideration of the draft MTFS 2020-23 as part of its budget scrutiny role.

5. APPROACH TO BUDGET SETTING

Discussed, the approach taken by the Council to budget setting.

Assisting with the discussion: The Cabinet Lead Member for Finance and Property Services, the Strategic Director of Corporate Services, the Head of Finance and Property Services.

Summary, key points of discussion:

(i) The budget setting process was briefly outlined. The Council's objective had been to maintain front line services whilst achieving a balanced budget, through

a mix of commercialisation and efficiency savings. The existing service provision was considered to be appropriate, but the financial challenge ahead may require that to change.

(ii) Substantial savings had been achieved in recent years and further substantial savings would be needed over the next three years. Achieving those would become increasingly difficult and transformation and investments to produce income were also being looked to.

(iii) Reference to budget information being net (of income) rather than gross. The gross figures had been provided to the Panel and were useful in illustrating true costs and how much was being spent to produce the income.

(iv) Elements of the Council's costs could not be touched as part of the process, for example contract costs which were increased by the contract inflation amount each year. Such costs amounted to around £10m. There were approximately £6m of costs that could be targeted for savings.

(v) Question as to whether crowdsourcing within the Council has been undertaken to identify potential savings/income generation? In response, previous year's concept of Big Ideas within the Corporate Management Team and the outcomes of that were briefly outlined. Reference was made to the use of crowdsourcing by the Coalition Government that followed the 2010 General Election and the good ideas that had generated from many sources, including the public. A member of the Panel considered that input from members of the public could be useful.

(vi) Reference to the benefit of a properly resourced audit function in identifying efficiencies and cost savings in commercial organisations and whether the new internal audit shared service arrangement at the Council might contribute to that through its Value for Money work? In response, the Council's internal audit remained a small team and was primarily tasked with assurance.

(vii) Question regarding non-statutory services and how those were considered in the budget process? Also, how spending was considered and evaluated against other spending? That was undertaken by relevant Cabinet Lead Members, the aim being to maintain front line services. Reference to a good starting point being a list of statutory and non-statutory services and the income and costs relating to those. That exercise had been undertaken, further details of which were outlined. The information from that could be provided to Councillor Baines to assist his work as Chair of the informal scrutiny panel on generating commercial income, if he so wished.

(viii) The Chair referred to the approach of maintaining current services and whether budget scrutiny should ask for clearer information on the long-term direction of travel, as that affected the questions the Panel needed to ask, also to consider whether a different approach was necessary.

(ix) Reference to the challenge of recent years in maintaining front line services and balancing the budget and the considerable work needed on transformation moving forward. All suggestions to assist that were welcomed.

(x) Question as to why the shortfall now stated had not been identified earlier and services remodelled such that the shortfall did not exist at this stage and an MTFS could be presented in which expenditure and income were equal and savings did not need to be found? Reference also to the Council having been in the position of having a shortfall for several years. In response, the MTFS was updated on an annual basis with continual changes in circumstances being contended with. Last year's MTFS had indicated a surplus in year 3 based on

the information and circumstances at that time. Significant changes since that time meant that the Council now dealing with a different scenario and that was being recognised in the draft MTFS 2020-23. It was likely that the position would continue to change moving forward. The Council had managed to build up reserves despite the challenging environment in which it had been operating over recent years and that had improved its current position and provided it with a period of time to make the changes now needed.

(xi) Processes by which suggestions for savings or income generation were considered and taken forward were briefly outlined, that depended on the source and/or nature of the idea.

RESOLVED that the Panel's consideration of the approach taken by the Council to budget setting, summarised above, be noted.

Reason

To acknowledge the Panel's consideration of this matter as part of its budget scrutiny role.

The Cabinet Lead Member for Finance and Property Services was thanked for attending the meeting and assisting the Panel with its scrutiny work.

6. EFFECTIVE BUDGET SCRUTINY

Discussed, information and advice from the Strategic Director of Corporate Services to assist effective scrutiny of the draft budget 2020/21, following a request by the Chair that this be provided to the Panel.

The following information was circulated at the meeting and explained in brief: The Comprehensive Income and Expenditure Statement and the Balance Sheet as at 31st March 2019 (as set out in the Council's Statement of Accounts 2018/19).

The Director also presented a more detailed analysis of the General Fund budget to assist the Panel with a more in-depth understanding of gross expenditure and budget challenges. He agreed to send that information by email to members of the Panel, together with a similar analysis of the Housing Revenue Account, for use moving forward.

RESOLVED that the information and advice from the Strategic Director of Corporate Services to assist effective scrutiny of the draft budget 2020/21 be welcomed and noted.

Reason

To acknowledge the Panel's consideration of the information and advice as part of its budget scrutiny role.

NOTES:

1. No reference may be made to these minutes at the Council meeting on 4th November 2019 unless notice to that effect is given to the Democratic Services Manager by five members of the Council by noon on the fifth working day following publication of these minutes.

2. These minutes are subject to confirmation as a correct record at the next meeting of the Budget Scrutiny Panel.

BUDGET SCRUTINY PANEL
4TH DECEMBER 2019

PRESENT: The Chair (Councillor Parsons)

Councillors Baines, Bolton and Miah

Barkley (Deputy Leader of the Council and Cabinet Lead Member for Finance and Property Services)

Strategic Director of Corporate Services
Head of Finance and Property Services
Democratic Services Officer (LS)

APOLOGIES: None

The Chair stated that the meeting would be recorded and the sound recording subsequently made available via the Council's website. He also advised that, under the Openness of Local Government Bodies Regulations 2014, other people may film, record, tweet or blog from this meeting, and the use of any such images or sound recordings was not under the Council's control.

7. MINUTES OF THE PREVIOUS MEETING

Reference Minute 4, paragraph (ix) (agenda page 6): Explanation was provided of the likely timing of the windfall that it was hoped would be realised as a result of the over-provision for business rates appeals.

Reference Minute 4, paragraph (xv) (agenda page 7): The Chair wished to highlight the issue raised, response given, and conclusion set out, for discussion later at this meeting.

Reference Minute 4, paragraph (xix) (agenda page 7): An update on the position with the shared service arrangement for Internal Audit was given.

Reference Minute 5, paragraph (viii) (agenda page 9): The Chair wished to highlight the issue raised, for consideration later at this meeting. Knowing the Council's long-term direction of travel was necessary for effective scrutiny.

The minutes of the meeting of the Panel held on 25th September 2019 were confirmed as a correct record and signed.

8. DISCLOSURES OF PECUNIARY AND PERSONAL INTERESTS

No disclosures were made.

9. DECLARATIONS - THE PARTY WHIP

No declarations were made.

10. QUESTIONS UNDER SCRUTINY COMMITTEE PROCEDURE 11.17

No questions had been submitted.

11. IMPACT OF REVISED MEDIUM TERM FINANCIAL STRATEGY ON BUDGET

Considered a report of the Strategic Director of Corporate Services setting out the impact of revisions to the Medium Term Financial Strategy (MTFS) 2020-2023 on the draft budget (item 6 on the agenda filed with these minutes).

Assisting with consideration of the report: The Strategic Director of Corporate Services, Head of Finance and Property Services.

Summary, key points of discussion:

(i) Reference to the greater financial challenge being faced as a result of the loss of New Homes Bonus set out. Also, concern regarding the amount of mitigation being assumed in relation to that. In response, stated that assumption based on many councils being very exposed to the loss, such that Government was likely to mitigate that. The methods by which that might be done were briefly outlined. Revised MTFS reflected the position and risk.
(ii) Current position in respect of Nonspecific Savings target in 2019/20 General Fund revenue budget was confirmed, at Period 7 approximately £78k of the £300k target had been identified. Also, that MTFS 2020-2023 assumed similar savings of £300k each year.
(iii) Reference to significant overspend relating to Supported Living Allowance in 2019/20, not budgeted for in the year. Forecast overspend by year end of approximately £600k, pressure in the current year.
(iv) General Fund currently budgeted year end to overspend slightly, unusual for the Council. Likely that Capital budget would be underspent at year end.
(v) Additional to the circumstances set out in (ii), (iii) and (iv) above was the loss of New Homes Bonus set out in the report. Concluded that Council was under significant financial pressure moving forward and the Panel may wish to put forward its view of that.
(vi) Concern that General Election may delay announcement of the settlement from the Government for 2020/21, expected just before Christmas.
(vii) Key message at end of report, “plans being developed to address financial challenges via commercialisation and transformation initiatives”. Reference to Quarter 2 amber status of Business Plan objective DES3 – CMT, Transformation Programme and the intention that the new Chief Executive would take that forward as part of a new Corporate Plan. Importance of progressing/accelerating that programme highlighted given the financial challenge faced.

RESOLVED that the report setting out the impact of revisions to the Medium Term Financial Strategy 2020-2023 on the draft budget be noted.

Reason

To acknowledge the Panel's consideration of the matter as part of its budget scrutiny role.

12. DRAFT GENERAL FUND AND HRA BUDGET 2020/21

Considered a report of the Head of Finance and Property Services setting out the draft General Fund and Housing Revenue Account (HRA) Budget 2020/21, to be considered by Cabinet on 16th December 2019, for scrutiny by the Panel (item 7 on the agenda supplement filed with these minutes).

Having undertaken scrutiny of the matter, the Panel would need to identify any observations or recommendations that it wished be included in its draft report.

Assisting with consideration of the report: The Cabinet Lead Member for Finance and Property Services, the Strategic Director of Corporate Services, the Head of Finance and Property Services. A summary of the current position, the challenges faced, and the actions planned, particularly in relation to the General Fund, was given by the Cabinet Lead Member, assisted by the Strategic Director.

Summary, key points of discussion:

(i) Currently no plans to reduce services or staff.
(ii) Reference to recent review of recharges and firm approach in respect of any non-necessary service pressures.
(iii) High priority being given to meeting the challenge, particular reference to commercialisation and transformation work.
(iv) Reference to £975k deficit in draft Budget, balances on agenda supplement page 8 (Table 1 in the report) set out the working balance of £4.8m which took into account the shortfall for 2019/20 of £971k also.
(v) Reference to importance of transformational changes in meeting the shortfall, historically those changes had not been realised. In response, the MTFS included a transformation/efficiency plan, that had been refined as part of the budget setting process such that all items included were considered to be deliverable (those that were not considered so had been removed). Reference also to the challenge of the £300k Nonspecific Savings target in the draft Budget and how that had been dealt with via line by line reduction in individual non-staff, non-contractual budgets. In conclusion, draft Budget figures reflected elements of transformation plan considered to be deliverable in 2020/21.
(vi) Question regarding elements of commercialisation within the draft Budget? Agenda supplement page 14 (Appendix 1 in the report) showed the inclusion of £150k net income from new commercial property investment and £30k commercialisation income from review of fees and charges, considered to be achievable amounts, based on experience elsewhere and investment Council would make into capability in the area of commercial property investment.
(vii) Question regarding level of reserves at end last financial year? Agenda supplement page 8 (Table 1 in the report), 2018/19 column showed end of year reserves of £10.7m, representing all the reserves, focus was working balance of £6.8m. Confirmed that expecting to use reserves of £1m in the current year. Although in line with the budget, the Council had been spending in excess of funding, illustrated by its use of reserves, question as to when it would decide

not to do so by either cutting services or making efficiency savings at a faster rate? Not appropriate to continue to overspend, better to make tough choices now. In response, reference to high priority being given to both increasing income and making savings, realistically and clearly set out in the MTFS. Recognised that continued use of reserves was not sustainable. A prudent approach was being taken in a very uncertain environment and officers and Cabinet Lead Members would be working hard to deliver the draft Budget set out, there being no other option.

(viii) All activity taking place in the area of the Council's finances and all policies and plans relating to that indicated that the Council was endeavouring to deal with the challenge faced. It was hoped that the speed of transformation required would reflect that and could be achieved.

(ix) Suggestion that undertaking a sensitivity analysis/considering the worse case scenario might provide a more prudent approach? Challenge being set by MTFS/draft Budget considered appropriate/realistic. Not possible to state exact contribution to required savings from transformation.

(x) Following concern regarding the need for commercialisation proposals to deliver, further information given on the expertise to be secured to ensure that, together with the challenges involved. Checks and scrutiny that any proposed investment would be subject to briefly outlined.

(xi) No general inflation provision for some of services, represented an additional pressure.

(xii) Agenda supplement page 10, paragraph 23, Reinvestment Reserve: Confirmed that transfer of £122k related to 2020/21.

(xiii) Agenda supplement page 10, paragraph 24, Capital Plan Reserve: Confirmed that £1,093k was current year's anticipated end of year balance.

(xiv) HRA, concern that proposed 2.7% rent increase would further increase arrears. May be the case, would monitor. Anticipated that most tenants would be in position to afford increase.

(xv) Information provided on the consultation arrangements for the draft Budget, those consulted, and the documents provided to assist that. All comments taken into account, ideas to assist the Council welcomed. Confirmed that officers and Cabinet Lead Members available to assist with queries from any consultee. Complexity of information recognised.

(xvi) Reference recommendation 2 in the report, that Loughborough Special Expenses Budget and Levy 2020/21 be endorsed for consultation. Confirmed that, due to General Election, next Loughborough Area Committee meeting had been moved from December to 6th January 2020, new meeting date should allow for the Committee to be consulted on the matter, members of the Committee had been consulted on the change of meeting date and implications of that.

RESOLVED that the report setting out the draft General Fund and HRA Budget 2020/21 be noted and Recommendations 1 and 2 to Cabinet therein be endorsed.

Reason

To acknowledge the Panel's consideration of the matter as part of its budget scrutiny role and to provide the opportunity for consultation on the budgets set out.

13. DRAFT CAPITAL PLAN 2020/21 TO 2022/23

Considered a report of the Head of Finance and Property Services setting out the draft Capital Plan 2020/21 to 2022/23, to be considered by Cabinet on 16th December 2019, for scrutiny by the Panel (item 8 on the agenda supplement filed with these minutes).

Having undertaken scrutiny of the matter, the Panel would need to identify any observations or recommendations that it wished be included in its draft report.

Assisting with consideration of the report: The Cabinet Lead Member for Finance and Property Services, the Strategic Director of Corporate Services, the Head of Finance and Property Services. Explanation was provided of the categorisation of schemes as Live, Committed or Third Party.

Summary, key points of discussion:

(i) Agenda supplement page 24, scheme entitled Loughborough Playground Improvement Plan, concern regarding possible link between recycled crumb material and childhood cancers, important that this scheme to replace that material was given high priority. Further explanation provided on possible link, confirmed that works had been identified as a priority.
(ii) Concern that no monies had been allocated for Charnwood Grants next year. In response, proposal to carry forward underspend, Head of Service confirmed comfortable with that position.
(iii) Concern regarding the cost per seat of the seating scheme proposed for Loughborough Town Hall theatre, total investment of £225k. Scheme represented increase in number of seats/extension to auditorium, with anticipated increase in revenue for sell out events, payback of approximately £70k per annum. Early strand of commercialisation agenda.
(iv) Reference to £0.5m per annum for Carbon Neutral Action Fund, importance of work acknowledged, but significant sum, clarity of spend going forward would be needed. Discussion regarding what work towards that would involve, how specific projects would be identified and implemented in due course. All options were being considered, including solar energy projects.
(v) Bedford Square Gateway scheme provision of £890k in 2020/21, not known at this meeting whether scheme had been suitably progressed to enable that to be spent? Response could be provided following the meeting.

The Democratic Services Officer would ask the Head of Planning and Regeneration for a response to the issue raised in (v) above and email that to the Panel.

RESOLVED that, subject to the request for a response from the Head of Planning and Regeneration in respect of the issue raised in (v) above, the report setting out the draft Capital Plan 2020/21 to 2022/23 be noted and the recommendation to Cabinet therein be endorsed.

Reason

To acknowledge the Panel's consideration of the matter as part of its budget scrutiny role and to provide the opportunity for consultation on the Plan set out.

14. FURTHER MEETING OF THE PANEL

Noted that a further meeting of the Panel would be held on 8th January 2020, for the purpose of agreeing the Panel's report. The Panel's report was scheduled for consideration by Scrutiny Commission on 13th January 2020. The Commission would be requested to recommend the report to Cabinet at its meeting on 13th February 2020.

Given the short period of time between the Panel's meeting to agree its report and consideration of that report by Scrutiny Commission, the Democratic Services Officer wished to clarify the process by which the Panel would identify any specific recommendations or observations it wished to make in its report, such that the report considered by the Panel on 8th January 2020 had already been seen by all members, commented upon and any required amendments made, and any further amendments agreed at the Panel's meeting on 8th January 2020 would be minimal.

RESOLVED that the Democratic Services Officer sends to the Chair as soon as possible the minutes of the meetings of the Panel on 25th September and 4th December 2019, to assist identification of any recommendations or observations to be highlighted in the Panel's report, and then liaises with all members of the Panel on the content of that report prior to Christmas, such that any amendments required at the Panel's meeting on 8th January 2020 are minimal.

Reason

To ensure that the Panel's final report is available for consideration by Scrutiny Commission on 13th January 2020.

NOTES:

1. No reference may be made to these minutes at the Council meeting on 20th January 2020 unless notice to that effect is given to the Democratic Services Manager by five members of the Council by noon on the fifth working day following publication of these minutes.

2. These minutes are subject to confirmation as a correct record at the next meeting of the Budget Scrutiny Panel.

CABINET – 13TH FEBRUARY 2020

Report of the Head of Finance and Property Services
Lead Member: Councillor Tom Barkley

Part A

ITEM 7 GENERAL FUND AND HRA REVENUE BUDGETS 2020/21

Purpose of the Report

This report sets out the proposed General Fund and Housing Revenue Account (HRA) Revenue Budgets for 2020/21, which together, represent the financial spending plans for all services of the Council. It is a legal requirement to set a balanced budget each financial year. The report also incorporates the proposed Council Tax levy which must be set by Council at its meeting on 24th February 2020. The indicated Council Tax for Charnwood Borough Council as a whole is based on the budget to be recommended to Council and it is proposed that there is equivalent to an overall increase of £5.00 (3.63%) per band D property per annum in 2020/21 including Loughborough Special Levy. This is the allowable increase for the Council based upon Charnwood's current band D charge being in the lowest quartile across England.

The report also presents the 2020/21 proposals to increase rent and service charges within the ring fenced Housing Revenue Account.

Recommendations

That Council are recommended:

1. To approve the Original General Fund Revenue Budget for 2020/21 at £17,771,035 as set out in Appendix 1.

2. To set a base Council Tax at £126.52 at Band D, an increase of £4.43 on the 2019/20 rate as set out in Appendix 2.

3. To set the Loughborough Special Levy at £76.46, a 1.99% increase on 2019/20 rate, as set out in Appendix 3.

4. To approve the following item to the Loughborough Special Levy:

   Ongoing annual funding of £5K for the Remembrance Day Parade for essential health and safety event management costs.

5. To approve the Original HRA Budget for 2020/21 as set out in Appendix 5.

6. To amend the HRA weekly rents in line with the Ministry of Housing, Communities and Local Government (MHCLG) guidance.

7. To amend the non-HRA dwelling properties in line with the Ministry of Housing, Communities and Local Government (MHCLG) guidance.

8. To approve the HRA service charges in accordance with the MHCLG Guidance.

9. To approve that the shop rents retain their current rents in accordance with an assessment by the Valuation Office.

10. To approve that garage rents retain their current rents in accordance with an assessment by the Valuation Office.

11. To approve that the Leasehold Management and Administration charge increases to £116.11 per annum.

12. That the Lifeline weekly charge is increased in line with MHCLG Guidance.

13. To determine that the basic amount of Council Tax for 2020/21 is not excessive according to the principles set out by the Secretary of State.

14. That delegation be given to the s151 Officer, in conjunction with the Lead Member for Finance and Resources, to amend this report for Council in line with the final settlement and updated NNDR figures.

Reasons

1. That the necessary finance is approved to carry out services in 2020/21.

2. That the Council Tax can be set in accordance with legal and statutory requirements.

3. That a Loughborough Special Levy can be set in accordance with legal and statutory requirements.

4. To enable items to be added to the Loughborough Special Rate: this being ongoing funding of £5K for the Remembrance Day Parade in order to comply with health & safety requirements in management of this event.

5. To ensure sufficient funding for the Housing Revenue Account in 2020/21.

6. To comply with social housing rents guidance.

7. To be consistent with the other council house stock.

8. To ensure the correct alignment of costs and service charges for tenants in accordance with best practice.

9. That shop rents follow the assessment and guidance provided by the Valuation Office.

10. To increase the rent generated for garages in line with the guidance from the Valuation Office.

11. That there is sufficient recovery of the costs associated with operating the leasehold flat and shop services.

12. That there is sufficient recovery of the costs associated with operating the Lifeline service.

13. To comply with the requirements of the Local Government Finance Act 1992.

14. To update the budget report in line with final settlement figures once these are received.

Policy Justification and Previous Decisions

The budget is essential to all policies of the Council and the setting of a Council Tax levy is a legal requirement of the Council. The rents are set in accordance with MHCLG Guidelines.

Implementation Timetable including Future Decisions and Scrutiny

This report will be available for consideration by the Scrutiny on 10th February 2020 and, if approved by Cabinet, will be tabled for agreement by Full Council on 24th February 2020. The actual budget will then come into effect on 1st April 2020.

The draft budget was also considered by the Budget Scrutiny Panel on 4th December 2019 and their comments are referred to later in this report.

Report Implications

Financial Implications

The effects of the adoption of these budgets are explained in Part B of the report.

Risk Management

The risks associated with the decision Cabinet is asked to make and proposed actions to mitigate those risks are set out in the table below. The s151 officer has also set out key risks facing the Council in relation to current and future budget provision in paragraph 26 of Part B of this report.

Risk Identified	**Likelihood**	**Impact**	**Overall Risk**	**Risk Management Actions Planned**
Failure to take account of the spending plans of the Council.	Unlikely (2)	Minor (1)	Very Low (2)	Robust budget planning and Budget Monitoring process in place.
Exceptional spending being required during the financial year.	Unlikely (2)	Minor (1)	Very Low (2)	Working Balance reserve is sufficient to manage normal and most one-off events.
Some of the Budget funding is still provisional as awaiting the final settlement and therefore may change.	Likely (3)	Minor (1)	Low (3)	The Council has sufficient reserves to cover expenditure in the short term. Recommendation 14 seeks delegated authority to amend the budget if there are any changes.

Key Decision: Yes

Background Papers: None

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Part B

General Fund Revenue Budget 2020/21

1. Appendix 1 shows the General Fund summary position and includes a variance column comparing the Original budget being recommended to Council with the draft one reported to Cabinet on 16th December 2019. The changes are set out below.

2. The precept requirement has reduced by £42K since the draft report this is primarily to do with the reduction in the estimated Collection Fund surplus of £43K and other minor changes to the precept figure set out below.

3. At the date of drafting this report the provisional NNDR (National Non-Domestic Rates, also known as business rates) income figure has not yet been finalised. Whilst this has the potential to alter the Council's projected funding position it is not anticipated that any changes would be material in the context of the General Fund budget. If material, an update will be provided to Cabinet at the date of the meeting and for the purposes of the Council meeting updated figures will be provided.

   The Council was part of a successful Leicestershire-wide bid to participate in the 75% business rate retention pilot scheme, however the government has now discontinued the Scheme. The Council is currently in a "levy position" meaning that the NDR income for the year is greater than the index linked spending baseline. The council is part of the Leicestershire business rate pool which means that they do not have to pay this balance over to Central Government and payments instead are directed to the Local Enterprise Partnership (LLEP) via the business rates pool.

4. Due to timing differences between years in finalising amounts due to other parties, e.g. the County, Police and Fire in respect of Council Tax and the County, Fire and central government in respect of NNDR, the authority operates a Collection Fund. This acts like a trust account where amounts are paid in/out during the year and surpluses/deficits are retained at the year end and then paid out/recovered in following years once final figures are known. The Collection Fund and the NNDR figure are linked and both of these figures will change for the final report to Council on 24th February 2020 as the figures for County, Fire and Police are still provisional.

5. The amount due to the Council from Council Tax receipts has reduced by £6k compared with the draft report. This is due to the council tax base being slightly lower than anticipated in the draft report.

6. The New Homes Bonus (NHB) Grant figure for 2020/21 shows a decrease of £7k since the draft report. This grant is the confirmed settlement figure based on housing growth in the borough for 2020/21. As part of the fairer funding review it is not yet known what the financial impact will be in future years this has been delayed until 2020.

7. The recommendation made in the draft budget was to increase the Loughborough Special rate by 1.99% and increase band D base Council Tax overall by £5.00 per annum. This recommended increase is within the guidelines issued by central government. As noted in the MTFS, Charnwood set the 24th lowest rate out of a total of 192 District Councils for 2020/21, placing us in the lowest 12.5% of charges across District Councils currently. This recommended increase will have the positive impact of increasing the base budget going forward which will help to protect the Council against future funding reductions.

8. There is a proposed reduction in overall revenue reserves of £1.1m which still allows for reserves to be maintained above the minimum recommended level in line with good practice. The Council has built up a prudent level of reserves in the past to cope with reductions in available funding as well as one-off emergencies. This planned use of reserves is in line with the anticipated use of reserves included within the MTFS.

Consultation on the Budget

9. A programme of consultation commenced following the consideration of the draft budget by Cabinet 16th December 2019. This has involved partner organisations, scrutiny committees, unions and businesses.

Budget Scrutiny Panel

10. A Budget Scrutiny Panel has undertaken scrutiny of the draft budget for 2020/21. The recommendations of the Panel are set out in a separate report to this Cabinet meeting (item 6 on the agenda).

Comments of the Industrial and Commercial Ratepayers Meeting TBC

11. A consultation meeting with representatives of Industrial and Commercial Ratepayers was held on 15th January 2020. The following issues were identified by consultees as agenda items for the meeting:

    There were anticipated step changes in terms of the Council's financial situation in coming years, but the Council was conscious of this and were in the process of identify ways to accommodate for this.

    The Council would not rely on the increase of the business element retention increase to gain significant revenue. The current regime was a 50% business rate and from this, approximately £46m was collected per annum. Of this sum, only £4m was retained. The Council is currently participating in a 75% business rate pilot, with an expectation that this would provide a short-term increase in rates of approximately £400k. The Council did not anticipate that there would be a substantial increase in business rates collection over the coming years and much of the Investment Strategy would focus on growth and supporting business in the Borough.

    The Council employed a number of methods to support businesses including arrangements which aimed to draw people into the town centre, changing models which encouraged more people to consider living in the town centre and therefore utilise the facilities in the area, the enterprise zones and employing a full time Economic Growth Officer. The Towns Deal and the subsequent developments associated with this, could also benefit local businesses considerably. The draft Local Plan 2019-36 would help to inform the Council on potential areas of population and business growth and employment opportunities on a long-term basis.

    The outlook on HRA funding was currently positive and an investment of £22m had been added into this.

The Local Government Association enabled Councils to communicate financial concerns to central Government. The Council utilised this opportunity but was also proactively identifying ways to maintain finances internally.

Comments of the Loughborough Area Committee

12. At the Committee the discussions on aspects of the budget relating to the special expense area, in particular the additional ongoing costs of £5K for the Remembrance Day Parade to support infrastructure and delivery costs such as traffic management, barriers, medical support and health and safety measures.

13. We would like to take this opportunity to thank all those who responded to the consultation. Further of the consultation discussions and responses referred to above are available as meeting minutes, published on the Council's website.

Loughborough Special Expenses (Appendix 3)

14. The proposed increase is 1.99% in Loughborough Special Expense Levy, the rate being £76.46 for 2020 compared to £74.97 2019/20 and includes an ongoing service pressure request of £5K for the Remembrance Day Parade for essential health & safety cover.

Council Tax Base

15. The tax base, as approved by a decision delegated to the s151 Officer, has been used in the relevant calculations.

Precept Amount

16. The NNDR and Collection Fund figures are not yet available, and the draft settlement has been used in these calculations. Appendix 2 shows an equivalent overall increase of £4.43 on the Base Band D Council Tax plus the Loughborough Special Levy. The band D rate for 2020/21 is set at £126.52 for the base precept.

Parish and Town Councils and Other Precepts

17. All Parish and Town Council precepts have been received and are detailed in Appendix 4. Approved precept information is still to be received from the County Council, the Police and Fire Authorities and the figures therefore shown in Appendix 2 are provisional. These will be updated in time for the main Council meeting on 24th February 2020.

General Fund Revenue Balances and Reserve

18. The General Fund Balances are included in Appendix 1. The budget shows that £926k, is required (16% of the opening balance) from the Working Balance to balance this year's budget, in addition a transfer of £170K is required to increase the Reinvestment Reserve balance to its recommended £500K level. The Working Balance is estimated to be £4.8m as at March 2021, which is above the recommended minimum balance of £2m required to cover approximately 6 weeks of running costs. An additional recommended minimum

balance of £2m (taking the total to £4m) is included in order to cover future uncertainties around business rate retention, additional responsibilities and the outcome of the fairer funding review.

The Capital Plan Reserve is estimated to be £1.2m at the end of March 2021. This revenue reserve is used to finance General Fund capital expenditure and there are no restrictions on the types of capital schemes that this can be used for, this reserve can also be used for revenue expenditure. In addition, there is no minimum balance for this reserve.

Housing Revenue Account

19. The overall budget position for 2020/21 is a breakeven. The overall position of the balances is a reduction of £1,457k which is an additional revenue contribution to capital to fund the 2020/21 capital programme from balances.

20. There have only been some minor changes to the final budget compared with the draft budget that was presented to Cabinet on 16th December 2019. Rent income includes an amended projection on the additional properties being purchased/gifted to the council whilst service charge changes reflect some high-cost items that will be spread over a three-year period.

HRA Balances

21. The HRA Balances have been budgeted at £110 per property at approximately £607k. At 31 March 2020, the HRA Financing Fund balance is forecast as being £8,736k. This includes adding an estimated underspend of £544k from the 2019/20 budget, which is the forecast underspend of balances as at the revenue monitoring for December 2019 (Period 9).

HRA Services Pressures

22. The ongoing service pressures for the HRA are the same as those listed in the draft budget (see Cabinet report 16 December 2019) and total £107k per annum.

23. At its meeting of 6th November 2019, the Housing Management Advisory Board were consulted about the service pressure relating to the extension of a Universal Credit Officer for a further two years. The board felt strongly that there needed to be sufficient resources in place to support the tenants moving over to Universal Credit and did not feel that one officer was sufficient. The Board was advised that the situation would be closely monitored and that in addition to additional income and financial inclusion officers recruited in anticipation of changes to welfare benefits, there was an additional Tenancy Support Officer now being recruited to help the team going forward. The Board resolved to feedback to Cabinet on their concerns.

Report of the Chief Finance (Section 151) Officer under Section 25 of the Local Government Finance Act, 2003

24. Section 25 of the Local Government Act 2003 requires the Chief Finance Officer (Section 151 Officer) of a local authority to report on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides. This report must be considered by Cabinet and full Council as part of the budget approval and council tax setting process.

25. The proposed budget is set against the context of continued reductions in core Government funding. There is inherent and significant volatility in respect of business rate appeals which can lead to material swings in available funding between financial years and the volatility in the New Homes Bonus which is part of the fairer funding review due in late 2020. The Council has an adopted Medium-Term Financial Strategy (MTFS) that takes all of the above into account and provides resilience over the medium term.

26. The Council's S151 Officer is required to report to Cabinet and full Council the key risks facing the Council in relation to current and future budget provision. An assessment of material risks has been carried out and the two biggest risks i.e. those that are most likely and with the biggest impact have been identified as being the certainty over both the level of business rates income and the future funding through the New Homes Bonus scheme. and associated mitigating actions are detailed below:

26.1. Business Rates

Business rates, represents one of the biggest financial risk to the Council, because it is such a complex area manage and budget for. Detailed work has been undertaken as part of the budget process to model income trends including growth and the impact potential business rates appeals to arrive at an expected level of business rates income for the year. Furthermore, monitoring of the actual business rates position is performed throughout the year to identify any variances from the expected levels so that the impact of variances can be assessed and monitored.

It was envisaged that the new national business rate retention scheme would be in place from 2020/21 (with a headline 75% retention rate compared to the current 50% retention scheme currently in place), as the centrepiece of the new funding regime derived from the Fair Funding review. However, this will now be delayed until the 2021/22 financial year, therefore the NNDR funding stream remains volatile.

26.2. New Homes Bonus

The scheme was introduced by the Government in 2011/12 to promote housing growth. Originally the scheme provided grant funding in the form of a 'bonus' per house to councils for each house built and completions within the authority's boundaries in a year for the following six years. This was reduced to the following 5 years for 2017/18 completions onwards, also in 2017/18 the Government introduced a "deadweight" factor so that no NHB payments will be made to a local authority for housing growth of less than 0.4%. The government introduced a further reduction to the number of years for legacy payments to 4 years in 2018-19, 2019/20, and have remained at 4 years for 2020.

On 3 October 2019, the Ministry of Housing, Communities and Local Government released a 'Technical Consultation' on proposals for the 2020/21 Financial Settlement which states a strong indication on a reduction to the future New Homes Bonus funding starting from 2021/22 of around £1.1m and £1.7m in

2022/23, the outcome of the fairer funding model is not yet known and therefore future funding remains uncertain. It is anticipated that the new model will be linked to housing growth.

Robustness of Estimates

27. Alongside this the Local Government Finance Act 1992 also requires the authority to take due consideration before setting the budget as there is no recourse to setting a further levy during the year, and any unexpected financial event would have to be met from reserves, or by cutting expenditure on services.

28. This budget has been drawn up using the best estimates of the cost of service delivery by those officers delivering the services, under the overall management of the Chief Financial Officer and with professional advice and guidance from the Financial Services team. The basis of estimation has been to take account of all known costs in delivering a set level of service together with any new or amended services that have been approved by Members. The same basis has been applied in estimating the income level for those services that generate revenue for the Council.

29. However, during the eighteen months period, from the start of the budget process until the end of that financial year, there are likely to be budgets that have pressures on spending; equally there are budgets that will under spend. The key is to ensure that the position is under control at all times and that timely, effective action is taken where budget issues are identified in year. Additionally, financial procedures are in place to ensure that all decisions that affect spending are fully considered before committing the authority, and that effective monitoring is in place.

30. All spending plans are based on the service planning process and the proposed use of reserves and balances conforms to the specification as laid down and published in the Financial Strategy.

Adequacy of Reserves

31. The Chief Financial Officer can confirm that the levels of reserves for both the General Fund and HRA are considered to be adequate to fund the planned expenditure identified by the Council as presented in this report. However, they will need to be monitored and reviewed in the future to ensure that they can be maintained at an adequate level.

Assurance Statement of the Council's Section 151 Officer

32. The Chief Financial Officer confirms that this budget, as set out above and in the attached appendices, is robust and meets the requirements of the Council for its current spending plans and conforms with the procedures agreed for the use of balances.

Appendices

1 – General Fund Budget Summary 2020/21
2 – Council Tax Analysis 2020/21
3 – Loughborough Special Expenses 2020/21
4 – Council Tax Town and Parish Council Precepts 2020/21
5 – HRA Revenue Budget Summary 2020/21
6 – General Fund Service Pressures and Savings 2020/21

Appendix 1

Actual 2018/19 £000	General Fund Budget Summary	Original Budget 2019/20 £000	Draft Budget 2020/21 £000	Final Budget 2020/21 £000	Variance Draft Vs Final £000
17,844	General Fund Service Expenditure	18,496	18,389	18,382	(7)
0	One Off Directorates Savings Target	(300)	0	0	0
0	Net Ongoing Service (Savings) & Pressures	(341)	575	575	0
0	Net One Off Service Pressures	283	81	81	0
17,844	**Net Service Expenditure**	**18,138**	**19,045**	**19,038**	(7)
752	Revenue Contributions to Capital	0	0	0	0
29	Council Tax Support Grants to Parishes	0	0	0	0
356	Interest Paid	240	240	240	0
(447)	Less: Interest on Balances	(390)	(500)	(500)	0
18,534	**Total Borough Expenditure**	**17,988**	**18,785**	**18,778**	**(7)**
214	Contribution (from)/to Reinvestment Reserve	0	(36)	(36)	0
48	Contribution(from)/to Working Balance	(798)	(1,075)	(1,069)	6
(234)	Contribution (from)/to Collection Fund	(173)	100	143	43
(451)	Contribution(from)/ to Capital Plan Reserve	0	0	0	0
(51)	Contribution (from)/to Other Reserves	(63)	(45)	(45)	0
(13)	Contribution (from)/to Growth Support Fund	0	0	0	0
18,047	**Precept Requirement**	**16,954**	**17,729**	**17,771**	**42**
745	Revenue Support Grant	0	0	0	0
4,957	NNDR	5,290	4,947	4,947	0
6,502	Council Tax Receipts	6,893	7,294	7,288	(6)
1,194	Loughborough Special Levy	1,213	1,259	1,271	12
3,620	New Homes Bonus	3,731	4,129	4,122	(7)
1,263	General Government Grants	0	0	0	0
(234)	Collection Fund Surplus/(Deficit)	(173)	100	143	43
18,047	**Precept Income**	**16,954**	**17,729**	**17,771**	**42**
£p	**Council Tax for Band D**	**£p**	**£p**	**£p**	
117.09	**Base Borough Council Tax**	**122.09**	**127.09**	**126.52**	
74.97	**Loughborough Special Levy**	**74.97**	**76.46**	**76.46**	

£000 Actual 2018/19	REVENUE BALANCES	£000 Original 2019/20	£000 Draft 2020/21	£000 Final 2020/21
7,057	**Working Balance at 1 April**	4,990	5,900	5,900
28	Transfer from/(to) General Fund	(971)	(975)	(926)
(214)	Transfer from/(to) Reinvestment Reserve	0	(122)	(170)
6,871	**Balance at 31 March**	**4,019**	**4,803**	**4,804**
595	**Reinvestment Reserve Balance at 1 April**	608	414	366
214	Transfers from/(to) Fund one off Item	0	(36)	(36)
0	Transfers from/(to) General Fund	0	122	170
809	**Balance at 31 March**	**608**	**500**	**500**
2,644	**Capital Plan Reserve Balance at 1 April**	1,711	1,288	1,288
(451)	Funding of Capital Expenditure	(618)	0	0
2,193	**Balance at 31 March**	**1,093**	**1,288**	**1,288**
114	**Growth Support Fund Balance at 1 April**	0	5	5
(13)	Funding of Capital Expenditure	0	0	0
101	**Balance at 31 March**	**0**	**5**	**5**
813	**Other Revenue Reserve Balances at 1 April**	805	700	700
(50)	Transfers from/(to) Fund one off Item	(63)	(45)	(45)
763	**Balance at 31 March**	**742**	**655**	**655**
10,737	**TOTAL BALANCES**	**6,462**	**7,251**	**7,252**

Appendix 2

COUNCIL TAX ANALYSIS 2020/21					
2019/20			2020/21		% Change Per Band D
56,462.4		**TAX BASE (at CBC collection rate)**	57,607.2		
16,183.5		**LOUGHBOROUGH TAX BASE**	16,621.0		2.03
£	£ p		£	£ p	%
16,954,156	300.27	TOTAL BUDGET REQUIREMENT	17,771,035	308.49	2.74
(1,213,277)	(21.49)	Less: Loughborough Special Levy	(1,270,842)	(22.06)	2.66
15,740,879	278.79		16,500,193	286.43	2.74
		Less:			
(3,730,729)	(66.07)	New Homes Bonus	(4,121,865)	(71.55)	8.29
(5,290,366)	(93.70)	NNDR	(4,947,000)	(85.87)	(8.35)
6,719,784	119.01		7,431,328	129.00	8.39
173,710	3.08	Collection Fund (Surplus)/Deficit	(142,865)	(2.48)	(180.61)
6,893,494	**122.09**	**BASIC BOROUGH PRECEPT**	**7,288,463**	**126.52**	**3.63**
		Other Precepts			
3,677,802	65.14	Parishes	3,821,293	66.33	1.83
72,959,643	1,292.18	Leicestershire County Council	72,959,643	1,266.50	(1.99)
3,762,654	66.64	Combined Fire Authority	3,762,654	65.32	(1.98)
12,604,113	223.23	Police & Crime Commissioner	12,604,113	218.79	(1.99)
93,004,212	1,647.19		93,147,703	1,616.94	(1.84)
1,213,277	74.97	SPECIAL LEVY (LOUGHBOROUGH)	1,270,842	76.46	1.99
101,110,983	1,790.77	**TOTAL REQUIREMENT**	101,707,008	1,765.53	(1.41)
99,897,706	1,769.28	**AVERAGE PARISH PRECEPT**	100,436,166	1,743.46	(1.46)
97,433,181	1,779.11	**LOUGHBOROUGH PRECEPT**	97,885,715	1,753.59	(1.43)

Final Figures still awaited

Appendix 3

LOUGHBOROUGH SPECIAL EXPENSES		
2019/20		**2020/21**
Original Budget	**Service**	**Original Budget**
£		**£**
67,800	Loughborough CCTV	68,400
81,800	Community Grants - General / Fearon Hall / Gorse Covert	80,300
44,900	Marios Tinenti Centre / Altogether Place / Community Hubs	45,700
9,600	Charnwood Water Toilets	8,800
34,500	Voluntary & Community Sector Dev Officer post (75% LSX)	35,300
4,400	Biggin Street Toilet - Friday Opening	4,500
120,000	Contribution towards Loughborough Open Spaces Grounds Maintenance	121,000
(5,100)	November Fair	(8,300)
	Parks:	
404,700	Loughborough - including Loughborough in Bloom	350,400
68,200	Gorse Covert and Booth Wood	69,800
	Sports Grounds:	
112,700	Derby Road	115,300
43,700	Lodge Farm	43,200
72,900	Nanpantan	74,300
20,200	Park Road	19,000
21,400	Shelthorpe Golf Course	20,700
45,100	Loughborough Cemetery	37,300
52,000	Allotments - Loughborough	43,300
15,600	Carillon Tower	14,000
51,200	Festive Decorations and Illuminations	48,400
102,500	Town Centre Management	99,600
1,368,100		**1,291,000**
(148,931)	Adjustments from Year 2017/18	0
0	Adjustments from Year 2018/19	(20,158)
(5,892	Council Tax Support Grant	0
1,213,277	AMENDED TOTAL	**1,270,842**
Divided by 16,183.50	**Council Tax Base**	**Divided by 16,621.00**
74.97	**Special Council Tax**	**76.46**

Appendix 4

2020/21 Council Tax - Parish Precepts

Parish/Meeting/Town Council	Precept Requirement	Council Tax Base	Parish/ Special Requirement at Band D
	£		£
Anstey	292,176	2,530.9	115.44
Barkby / Barkby Thorpe	10,218	160.4	63.70
Barrow-upon-Soar	215,515	2,468.8	87.30
Beeby	0	42.7	0.00
Birstall	432,255	4,542.6	95.16
Burton-on-the-Wolds, Cotes, & Prestwold	30,000	555.1	54.04
Cossington	14,500	217.3	66.73
East Goscote	58,700	941.5	62.35
Hamilton Lea	0	254.9	0.00
Hathern	46,200	897.4	51.48
Hoton	11,550	148.0	78.04
Mountsorrel	508,904	2,956.9	172.11
Newtown Linford	51,500	542.8	94.88
Queniborough	58,690	1,199.0	48.95
Quorndon	276,337	2,474.2	111.69
Ratcliffe-on-the-Wreake	3,000	91.4	32.82
Rearsby	20,918	486.1	43.03
Rothley	138,000	2,195.6	62.85
Seagrave	18,984	275.5	68.91
Shepshed	310,000	4,718.8	65.69
Sileby	217,523	2,749.6	79.11
South Croxton	11,751	136.4	86.15
Stonebow Village	0	4.2	0.00
Swithland	4,500	161.7	27.83
Syston	514,820	4,361.4	118.04
Thrussington	12,000	255.5	46.97
Thurcaston & Cropston	39,332	944.8	41.63
Thurmaston	397,373	2,813.8	141.22
Ulverscroft	0	63.1	0.00
Walton-on-the-Wolds	4,500	130.8	34.40
Wanlip	3,000	86.3	34.76
Woodhouse	81,496	977.8	83.35
Wymeswold	37,515	600.9	62.43
	3,821,257	40,986.2	
Loughborough (Special Expenses)	1,270,842	16,621.0	76.46
Total	5,092,099	57,607.2	
Average			88.39

2018/19 Actual	Housing Revenue Budget Summary	2019/20 Final Budget	2020/21 Draft Budget	2020/21 Final Original budget	Variance from 15.19
£000		**£000**	**£000**	**£000**	**£000**
	Expenditure				
4,901	Supervision and Management	5,118	5,550	5,550	0
6,289	Repairs and Maintenance	6,461	6,769	6,769	0
130	Rents, Rates and other charges	139	139	139	0
335	Provision for Bad and Other Charges	383	383	383	0
3,025	Depreciation	3,057	3,189	3,189	0
(13,072)	Net Revaluation increase of non-current assets	0	0	0	0
19	Debt Management Expenses	10	10	10	0
1,627	**Expenditure Sub-total**	15,168	16,040	16,040	0
	Income				
(20,698)	Dwelling Rent Income	(20,548)	(20,883)	(20,937)	(54)
(365)	Shops, Land and Garages Rent	(373)	(373)	(360)	13
(55)	Warden Service Charges	(55)	(55)	(57)	(2)
(293)	Central Heating and Communal Charges	(322)	(400)	(350)	50
(226)	Leasehold Flat and Shop Service Charges	(156)	(158)	(158)	0
(26)	Hostel Service Charges	(24)	(24)	(31)	(7)
(11)	Council Tax recharged	(11)	(11)	(11)	0
(21,674)	**Income Sub-total**	(21,489)	(21,904)	(21,904)	0
(20,047)	**Net (income)/Cost of service**	(6,321)	(5,864)	(5,864)	0
(82)	Transfer from General Fund - Grounds Maintenance	(84)	(84)	(84)	0
2,743	Interest Payable	2,706	2,706	2,706	0
(93)	Investment Income and Mortgage Interest	(88)	(66)	(66)	0
(17,479)	**Net Operating Expenditure/(Income)**	(3,787)	(3,308)	(3,308)	0
3,716	Revenue Contribution to Capital	3,659	3,308	3,308	0
(389)	Pension Adjustment	0	0	0	0
5	Reversal of Gain on Revaluation	0	0	0	0
13,072	Adjusted to charges based on impairment of General Fund Asset	0	0	0	0
16,404	Appropriations	3,659	3,308	3,308	0
(1,075)	**(Surplus)/Deficit for the year**	**(128)**	**0**	**0**	**0**
(617)	**HRA Balance at beginning of year**	(613)	(610)	(610)	0
(1,075)	(Surplus)/Deficit for the year	(128)	0	0	0
1,079	Transfer to/from Reserves	131	3	3	0
(613)	**HRA Balance at end of year**	**(610)**	**(607)**	**(607)**	**0**
(6,982)	**HRA Financing Fund at beginning of year**	(8,061)	(8,736)	(8,736)	0
(1,079)	Transfer to/from Reserves	(131)	(3)	(3)	0
0	Adjustments to 2019/20 budget	(544)	0	0	0
0	Revenue to Capital	0	1,457	1,457	
(8,061)	**HRA Financing Fund at end of year**	**(8,736)**	**(7,282)**	**(7,282)**	**0**
(2,633)	**Major Repairs Reserve at end of year**	**(2,324)**	**(2,324)**	**(2,324)**	**0**
(11,307)	**Overall HRA balances at end of the year**	**(11,670)**	**(10,213)**	**(10,213)**	**0**

Appendix 6

General Fund Service Pressures & Savings Summary (Option for Change)			£ 000's	£ 000's
	Head of Service	**Ongoing One-Off**	**Savings**	**Pressures**
Decrease in grant from MHCLG to administer the Council Tax Support service	Karey Barnshaw	Ongoing		18
Decrease in grant from DWP to administer the housing benefit service	Karey Barnshaw	Ongoing		93
The implementation of the selected Cloud computing model	Karey Barnshaw	Ongoing		111
Reduced Housing Benefit Subsidy grants claims for supported living	Karey Barnshaw	Ongoing		465
Increase in rent/services charges of Industrial Units	Dave Wall	Ongoing	(14)	
Transformation – ICT enabled. Saving realised online booking system	Simon Jackson	Ongoing	(12)	
Net Income relating to New Commercial property investment	Simon Jackson	Ongoing	(150)	
Commercialisation Income – Review of fees and charges	Simon Jackson	Ongoing	(30)	
Member Grant scheme to support local community and voluntary sector and £26k added to Capital Plan each year.	Julie Robinson	Ongoing		26
Garden Waste Sticker increase in costs and increase provision	Matt Bradford	Ongoing		20
Increased Bulky Waste Income	Matt Bradford	Ongoing	(60)	
Shortfall in income generated from Garden Waste subscriptions	Matt Bradford	Ongoing		60
Reduced Income from Loughborough crematorium turnover commission	Matt Bradford	Ongoing		20
Increased Net Income - Trade Waste	Matt Bradford	Ongoing	(5)	
Loughborough Remembrance Parade funded from Loughborough Special Expenses	Sylvia Wright	Ongoing		5
Loughborough Market income target adjustment	Sylvia Wright	Ongoing		20
Tourism SLA - Leicestershire Promotions	Sylvia Wright	Ongoing		27
Price increase and increase in number of Private Sector Alarm Charges	Peter Oliver	Ongoing	(34)	
LCC street management reimbursement	Alan Twells	Ongoing	(15)	
Empty Homes legal Fees new reserve set up in 2019/20	Alison Simmons	Ongoing	(50)	
Building control shortfall of income currently under review	Richard Bennett	Ongoing		80
Ongoing Total Service (Savings) and Pressures			**(370)**	**945**
Net Ongoing Pressures				**575**
Charnwood Forest Regional Park - partnership funding for landscape partnership Funded from Reinvestment Reserve	Matt Bradford	One-off		36
Contribution towards Strategic Growth Plan Funded from Planning Reserve	Richard Bennett	One-off		45
One-Off Total Services Pressures				**81**
Grand Total Service Pressures				**656**

CABINET – 13TH FEBRUARY 2020

Report of the Head of Finance and Property Services

Lead Member: Councillor Tom Barkley

Part A

ITEM 8 CAPITAL STRATEGY (INCLUDING THE TREASURY MANAGEMENT STRATEGY) FOR 2020/21

Purpose of Report

This report introduces the Capital Strategy, which is required under the terms of the 'Prudential Code', a statutory code of practice. The report also sets out the Treasury Management Strategy Statement together with the Annual Investment Strategy and Minimum Revenue Provision (MRP) Policy. These latter strategies and the MRP policy are integral to the overarching Capital Finance Strategy and are therefore presented within a single report for context.

The report also sets out changes to the Council's Financial Regulations and other elements of the Constitution which are considered necessary to enable delivery of the Investment Strategy.

This Cabinet report recommends the approval of the above strategies and proposed amendments to the Constitution to Council.

Finally, in reviewing the overall Capital Strategy it has been identified that a more advantageous method of financing the environmental services fleet may be available, as compared to that set out in the Cabinet report of 13 September 2018 (see 'Environmental Services – Options for delivery from June 2020). This Cabinet report asks that the original decision on fleet financing be amended to allow more flexible approach in this area.

Recommendations

1. That the Capital Strategy, as set out at Appendix A of this report be approved and recommended to Council.

2. That the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy as shown at Appendix B of this report be approved and recommended to Council.

3. That the Prudential and Treasury Indicators, also set out in within Appendix B of this report be approved and recommended to Council.

4. That the proposed changes to the Constitution, as set out in Appendix C of this report, be approved and recommended to Council, with effect from 1st March 2020.

5. That the Environmental services fleet (due for renewal in June 2020) Cabinet is funded in the most financially advantageous way, having regard to the financial resources available to the Council at that time.

Reasons

1. To enable the Council to comply with the statutory code of practice issued by CIPFA: 'The Prudential Code for Capital Finance in Local Authorities, 2017 Edition'.

2. To ensure that the Council's governance and management procedures for Treasury Management reflect best practice and comply with the CIPFA Treasury Management in the Public Services Code of Practice, Guidance Notes and Treasury Management Policy Statement.

3. To ensure that funding of capital expenditure is taken within the totality of the Council's financial position and that borrowing and investment is only carried out with proper regard to the Prudential Code for Capital Finance in Local Authorities.

4. To enable the efficient and timely execution of the Investment Strategy incorporated within the overall Capital Strategy.

5. To supersede Cabinet Recommendation of 13 September 2018 relating to the financing of the Environmental Services fleet (Minute 29 (4) refers) and allow more advantageous methods of financing the fleet to be adopted.

Policy Justification and Previous Decisions

The Capital Strategy must be approved by Council on an annual basis.

The Treasury Management Strategy Statement, Prudential and Treasury Indicators and Annual Investment Strategy must be approved by Council each year and reviewed half yearly.

The latest version of the Medium Term Financial Strategy (covering financial years 2020 - 2023) outlines the prospective financial challenges facing the Council and the contribution expected of the Investment Strategy in mitigating these challenges.

Implementation Timetable including Future Decisions and Scrutiny

If approved by Council the Capital Strategy (including its component strategies) will come into effect from 1 April 2020.

If approved by Council the changes to the Constitution will come into to effect from the date of the Council meeting being 24 February 2020

This report is available for the consideration of the Scrutiny Commission on 10 February 2020.

Report Implications

The following implications have been identified for this report.

Financial Implications

There are no direct financial implications arising from this report.

Financial issues arising from the implementation of the strategies are covered within the report.

Risk Management

The risks associated with the decision Cabinet is asked to make and proposed actions to mitigate those risks are set out in the table below.

Risk Identified	*Likelihood*	*Impact*	*Overall risk*	*Risk Management actions planned*
Poor treasury investment decisions due to inadequate treasury management strategies in place	Unlikely 2	Serious 3	Moderate 6	Strategy developed in accordance with CIPFA guidelines and best practice. Adherence to clearly defined treasury management policies and practices
Loss of council funds through failure of borrowers	Remote 1	Major 4	Low 4	Credit ratings and other information sources used to minimise risk Adherence to clearly defined treasury management policies and practices
Volatile market changes (such as interest rates or sector ratings) occur during year	Possible 3	Significant 2	Moderate 6	Approved strategy in place, regular monitoring of position and use of Treasury Consultants and other sources to provide the latest advice.
Significant losses arising from investments in non-financial instruments (such as loans to third parties or property investments)	Possible 3	Serious 3	Moderate 9	Professional advice will be sought in advance of non-standard or new investment activity. Adherence to strategy which set out limits to investment in individual asset classes.

Key Decision: Yes

Background Papers: Investment Strategy 2019 - 20, Cabinet Report 19 September 2019

Treasury Management mid-year update – Cabinet Report 14 Nov 2019

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Part B

Background

1. The Capital Strategy is a requirement arising from the extant version of the 'Prudential Code'. This code is a statutory code of practice and was published by the Chartered Institute of Public Finance & Accountancy (CIPFA) taking effect from 1 April 2019. It was issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003. Under that section local authorities are required to 'have regard' to 'such guidance as the Secretary of State may issue'.

2. The Council's treasury management activities also fall within the scope of the Prudential Code.

3. The Capital Strategy forms part of the Council's integrated revenue, capital and balance sheet planning. It sets out the long-term context in which capital expenditure and investment decisions are made, considers risks and rewards and the potential impacts on Council objectives

4. The Capital Strategy is an overarching strategy that encompasses the following aspects:

    - Capital expenditure and governance
    - Capital financing and the borrowing
    - Treasury management investments (essentially financial assets) set out within the Annual Investment Strategy
    - Commercial strategy – investment in non-financial assets (including commercial properties and prospective housing development)
    - Access to knowledge and skills (enabling the strategy to be delivered)
    - Treasury Management policy statement and practices (presented as a separate appendix)

5. The Treasury Management Strategy Statement, incorporating the Annual Investment Strategy, have been prepared in accordance with the revised code and accordingly include:

    - the treasury limits in force which will limit the treasury risk and activities of the council,
    - the Prudential and Treasury Indicators
    - the current treasury position
    - the borrowing requirement

- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- the use of external fund managers and treasury advisers
- Minimum Revenue Provision (MRP) Policy

Salient features of the proposed Capital Staregy for 2020/21

6. The most recent Medium Term Financial Strategy (due to be approved at the Council meeting of 20 January 2020) includes a transformation and efficiency plan that sets out a range of responses to the likely future financial challenges facing the Council. These include a more proactive approach to treasury management and prospective investments in commercial property. Delivering against this plan requires an update on the existing Capital Strategy as well as associated changes to the Council's Constitution.

7. The principal changes and matters of note proposed within the Strategies and other Appendices to this report are:

    - An amendment to the Annual Investment Strategy to increase counterparty limits on deposits with HSBC (the Council's bankers) to take advantage of an easily accessible term deposit at favourable interest rates (see Appendix B – B3)

    - An amendment to the Annual Investment Strategy to increase counterparty limits on deposits with Money Market Funds to easily deposit short term 1 day notice money (see Appendix B – B3)

    - An amendment to the Annual Investment Strategy to increase the maximum maturity period for local authority investments from 24 to 60 months (see Appendix B – B3)

    - An amendment to the Annual Investment Strategy to add Housing Associations (with adequate credit references) to the list of allowed non-specified investments, again to offer the potential of achieving greater investment returns (see Appendix B – B3)

- Other amendments to the Strategies to allow the development of a commercial property portfolio enabled by total borrowings of up to £25m including:
    - Uplift to the estimates of the Capital Financing Requirement (see Appendix B, section 2.2)
    - Increasing the allowed limits to borrowing and investment activity (see Appendix B, sections 3.2 and 4.4)
- Implementing a policy on MRP which specifically addresses prospective acquisitions of commercial property (see Appendix B, sections 2.4 and Appendix B (2))
- Amending the Financial Regulations and other elements of the Council's constitution to enable the Council to take advantage of commercial property opportunities on an efficient and timely basis (see Appendix C)

8. For the purposes of the Capital Strategy and other documents associated with this report it is assumed that the Council will target the development of a commercial property portfolio with the (approximate) acquisition value of £25m over the period to 31 March 2023. However, it should be noted that extant Capital Plans only have approval for commercial property acquisitions of a value up to £10m (notionally split as £5m in 2019/20 and £5m in 2020/21); increasing this amount will therefore require an amendment to the Capital Plan as and when this is considered appropriate.

9. In developing a commercial property portfolio it will be necessary to put detailed arrangements in place, including access to professional skills and resources, and defined processes setting out how individual opportunities will be evaluated and (if appropriate) purchased (or disposed). It may be noted that the intention is to present a further Cabinet report covering these specific matters in forthcoming months.

10. Advice has been obtained from the Council's treasury management advisers in developing the above proposals.

11. As stated in Part A, this report also requests that the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy together with the Prudential and Treasury Indicators, be approved and recommended to Council.

<u>Financing of the Environmental Services fleet</u>

12. As part of the process of developing the Capital Strategy and assessing future investment plans and borrowing need, the plan to finance the acquisition of the Council's Environmental Services fleet, as reflected in Minute 29 (4) of the Cabinet meeting of 13 September 2018, has been

reviewed. The decision of Cabinet was that the fleet be financed by a '50:50' mix of external and internal borrowing. It remains possible that this precise mix of financing does prove optimal when the fleet has to be purchased (in June 2020) but Cabinet are asked (Part A, Recommendation 5.) to allow flexibility in the mix of financing used and therefore allow the fleet to be financed by the most advantageous method available to the Council.

Appendices

Appendix A: Capital Finance Strategy

Appendix B: Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy for 2019-20

Sub appendices contained within this document:

B (1) Economic background

B (2) Minimum Revenue Provision

B (3) Treasury Management Practice

B (4) Approved countries for investment

B (5) List of approved brokers for investment

B (6) Current investments (snapshot at 6 January 2020)

B (7) Treasury management scheme of delegation

B (8) Treasury management role of the Section 151 Officer

Appendix C: Proposed amendments to the Financial Regulations and other areas of the Constitution

Charnwood Borough Council

Capital Strategy

2020 – 2021

Foreword

The requirement for the Capital Strategy arises from the terms of the 'Prudential Code', a statutory code of practice. This second iteration of our Capital Strategy builds on our initial thinking and develops in more detail some of our plans and aspirations in the areas of capital planning, treasury management, new borrowing, and, in particular, our intention to develop a portfolio of commercial property to help us mitigate the financial challenges outlined in the latest version of our Medium Term Financial Strategy.

In that Medium Term Financial Strategy we outlined the likely financial challenges facing the Council and set out our responses to these within the transformation and efficiency plan that formed part of this document. Our plans include a more proactive approach to treasury management, prospective investments in commercial property and the development of commercial opportunities. We have aspirations to deliver housing through the mechanism of a Housing Development Company in order to meet the ongoing demand for new homes within our Borough and, more generally, to adopt a more proactive approach to commercialism and development. Enabling these initiatives require additional flexibility in the Council's treasury management and borrowing policies which are introduced within the Capital Strategy and associated Treasury Management Strategy.

This version of the Capital Strategy outlines important changes, in particular the anticipated use of prudential borrowing to support commercial investment and a more financially advantageous approach to refreshing the environmental services fleet. Security and liquidity will remain as key elements of the Council's treasury management approach, and we will always want to be prudent in the way that we manage our finances, but the anticipated challenges ahead point us towards a more proactive approach in the use of our financial assets.

Councillor Tom Barkley

Cabinet Lead Member for Finance & Property

February 2020

CAPITAL STRATEGY (INCLUDING TREASURY MANAGEMENT)

The purpose of the Capital Strategy is to demonstrate that the Council takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. The Capital Strategy comprises a number of distinct, but inter-related, elements as follows:

1. **Capital expenditure**; which includes an overview of the governance process for approval and monitoring of capital expenditure, including the Council's policies on capitalisation, and an overview of its capital expenditure and financing plans.

2. **Capital financing and borrowing**; provides a projection of the Council's capital financing requirement, how this will be funded and repaid. It therefore sets out the Council's borrowing strategy and explains how it will make prudent revenue provision for the repayment of debt should any borrowing be required.

3. **Treasury management investments**; explains the Council's approach to treasury management investment activities, including the criteria for determining how and where funds will be invested to ensure that the principal sums are safeguarded from loss and that sufficient liquidity is maintained to ensure that funds are available when needed.

4. **Commercial investments**; provides an overview of those of the Council's current and any potential commercial investment activities that count as capital expenditure, including processes, due diligence and defining the Council's risk appetite in respect of these, including proportionality in respect of overall resources.

5. **Knowledge and skills**; summarises the knowledge and skills available to the Council and provides confirmation that these are commensurate with the Council's risk appetite. Further details are provided in the following sections.

6. (Appendix B). **Treasury management policy statement and practices**; this is presented separately; it updates to the Council's Treasury Management Policy Statement and to its Treasury Management Practices. These set out the Council's policies, objectives and approach to risk management of its treasury management activities, and the manner in which it seeks to achieve its policies and objectives for treasury management.

1. Capital expenditure

Capitalisation policies

1. Capital expenditure involves acquiring or enhancing non-current assets with a long-term value to the Council, such as land, buildings, and major items of plant and equipment or vehicles, as well as the contribution or payments of grants to others to be used to fund capital expenditure. Capital assets shape the way services are delivered for the long term and may create financial commitments for the future in the form of financing costs and revenue running costs. Subsequent expenditure on existing assets is also classified as capital expenditure if these two criteria below are met.

2. Expenditure is classified as capital expenditure when the resulting asset:
   - Will be held for use in the delivery of services, for rental to others, or for administrative purposes; and
   - Is of continuing benefit to the Council for a period extending beyond one financial year.

3. There may be instances where expenditure does not meet this definition, but would nevertheless be treated as capital expenditure. This is known as 'Capitalisation' and it is the means by which the Government, exceptionally, permits local authorities to treat revenue costs as capital costs. It allows exceptional revenue costs, that should be met from revenue resources to be treated as capital expenditure. Permission is given through capitalisation directions, which the Secretary of State can issue under section 16(2)(b) of the Local Government Act 2003.

4. The Council operates a de-minimis limit of £10,000 for capital expenditure. This means that items below this limit are charged to revenue rather than capital.

Governance

5. A three year Capital Plan is prepared by officers and approved by Council. Potential schemes are identified by Officers, in conjunction with Cabinet members, and supported by a Capital Application form. Following a process of review by senior officers a report is prepared for Cabinet with recommendations as to which schemes to include in the Plan, how the Plan would be funded and other elements such as risk and compliance with the Prudential Code.

6. Once adopted the three year Capital Plan is formally reviewed by Cabinet at the end of year two when Heads of Service are asked to submit proposals for the following three years. 'Year three' of the current plan would then become 'year one' of the new plan.

7. New schemes can only be added outside of this procedure where they are in substitution of existing schemes or have a separate source of funding so that the actual total level of the Plan would not increase.

8. All schemes of £50,000 in value or greater require Capital Appraisal and all procurement and contracting must adhere to the Contract Procedure Rules. The Section 151 Officer[1] makes recommendations to Cabinet as to whether funding should be released to allow new schemes to be included in the Capital Plan.

9. After the end of the financial year an outturn report detailing the total amount of capital expenditure incurred during the year is submitted to Cabinet by the Section 151 Officer.

10. Prior to the closure of the Council's accounts a report detailing the proposed method of funding the capital expenditure incurred is submitted to Cabinet by the Section 151 Officer as required by the Local Government & Housing Act 1989.

Current Capital Plan

11. The Council has a policy of preparing a three year Capital Plan, and then refreshing this every other year. Due to timings, there are at the time of drafting this strategy essentially two Capital Plans in existence. The first covering the financial years 2018/19 - 2020/21, was originally approved by Council on 26 February 2018 with the latest amendments approved by Cabinet at its meeting of 16 December 2019. There is also a 'new' capital plan covering financial years 2020/21 – 2022/23 which is due for approval by Council on 24 February 2020.

12. Assuming approval of the latter plan by Council, the Plans will be merged to create to single Plan from 1 April 2020.

13. In totality, in the period 1 April 2020 to 31 March 2023, capital expenditure is planned as follows:

General Fund	£33m
HRA	£29m

Amounts within the General Fund include £4.8m that is required to finance the purchase of the Environmental Services Fleet and £25m for the creation of a commercial property portfolio.

14. The Capital Plan is funded by a combination of the following sources:

Capital grants and contributions - amounts awarded to the Council in return for past or future compliance with certain stipulations.

Capital receipts – amounts generated from the sale of assets and from the repayment of capital loans, grants or other financial assistance.

Revenue contributions – amounts set aside from the revenue budget.

[1] The Council's statutory Finance Officer appointed under section 151 of the Local Government Act 1972; also known as the Chief Financial Officer

Prudential borrowing - In addition to the above the Council also has the option to borrow to fund capital expenditure. At this point in time the Council has not taken any borrowing to fund General Fund capital expenditure but some level of borrowing will now be required if the Council is to deliver its Capital Plan within the projected timescales.

15. The Council has taken out borrowing to fund the purchase of its housing stock (held within the Housing Revenue Account) from the Government under the 2012 Self-Financing Regime. This totals £79m.

16. Borrowing allows the Council to defer the funding of its capital expenditure so that it does not need to fund immediately from cash resources, but instead charges to the revenue budget over a number of years into the future.

17. The implications of financing capital expenditure from 'borrowing' are explained later on in Treasury Management Investments.

2. Capital Financing Requirement and borrowing

18. The Council is required by regulation to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities (referred to as the 'Prudential Code') when assessing the affordability, prudence and sustainability of its capital investment plans. Fundamental to the prudential framework is a requirement to set a series of prudential indicators. These indicators are intended to collectively build a picture that demonstrates the impact over time of the Council's capital expenditure plans upon the revenue budget and upon borrowing and investment levels, and explain the overall controls that will ensure that the activity remains affordable, prudent and sustainable.

19. As referenced in the previous section, the Council's capital expenditure plans mean that it is highly likely that the Council will need to finance this expenditure using prudential borrowing. This is an important departure from historical practice and the implications of this approach are set out within Appendix B of this document set which details with prudential borrowing within the overall context of the Council's Capital Financing Requirement.

20. The full details of the Council's Capital Financing Requirement (CFR) position and the limits that have been set for borrowing and all the associated prudential indicators are provided In the Treasury Management Strategy Statement (Appendix B).

3. Treasury management investment

21. The Treasury Management Code and statutory regulations require the Council to prepare an annual strategy that explains how the Council will invest its funds, giving priority to security and liquidity, and then to yield. This Annual Investment Strategy is set out in full in the Treasury Management Strategy Statement (Appendix B).

22. The Council's Treasury Management Strategy Statement (TMSS) covers 'specified investments' and loans to other local authorities. The policies are designed to comply with the Statutory Guidance on Local Government Investments ('the Guidance'), effective from 1 April 2018. The Council manages treasury operations in line with its TMSS, which in turn is in accordance with the guidance. The Council is required to review the TMSS on an annual basis.

23. The Guidance defines in detail what criteria an investment would meet to be categorised as 'specified' One of the criteria of specified investments is that the local authority has a contractual right to repayment within 12 months. Certain loans to other local authorities made by the Council have a term of up to two years (with an intention to increase the allowed maimum to five years), so do not fall strictly within the definition. However, the Council considers that management of this type of financial instrument should fall within the ambit of the TMSS.

CHANGES TO THE TREASURY MANAGEMENT STRATEGY FOR 2020/21

24. Interest rates are at historically low levels and are expected to remain so for several months ahead. In a continuation of the current direction, in which the Council has sought to increase returns from its treasury management activities.

25. Assuming an average fund under management of £50m, an increase in return by an average of 0.1%, this would generate additional income of £50,000 per annum.

26. Given the above the following amendments have been made to the TMSS:

- An amendment to increase counterparty limits on deposits with HSBC (the Council's bankers) to take advantage of an easily accessible term deposit at favourable interest rates (see Appendix B – B3)

- An amendment to the Annual Investment Strategy to increase counterparty limits on deposits with Money Market Funds to easily deposit short term one day notice money (see Appendix B – B3)

- An amendment to increase the maximum maturity period for local authority investments from 24 to 60 months (see Appendix B – B3)

- An amendment to add Housing Associations (with adequate credit references) to the list of allowed non-specified investments, again to offer the potential of achieving greater investment returns (see Appendix B – B3).

4. Commercial investments

27. The prolonged low interest rate environment has meant that treasury management investments have not generated significant returns. However, the introduction of the general power of competence has given local authorities far more flexibility in the types of activity they can engage in. These changes in the economic and regulatory landscape, combined with significant financial

challenges, have led many authorities to consider different and more innovative types of investment.

28. CIPFA has issued an update to its Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (the Treasury Management Code). One of the main changes introduced by the new Code is to require authorities to incorporate all of the financial and non-financial assets held for financial return in authorities' annual capital strategies.

29. Separately, the Ministry of Housing, Communities and Local Government has issued Statutory Guidance on Local Government Investments under section 15(1)(a) of the Local Government Act 2003 and effective for financial years commencing on or after 1 April 2018.

30. As is the case for treasury activities, commercial investment should balance:

- Security – to protect the capital sums invested from loss
- Liquidity – ensuring the funds invested are available for expenditure when needed
- Returns – ensuring that the Council's investment ability is used effectively.

31. At present commercial investments of are primarily undertaken by the Council in order to generate income to support the delivery of a balanced budget. Such investments are only entered following a full assessment of the risks and having secured expert external advice (i.e. where it is relevant to do so).

32. Commercial investment may be defined quite widely and could include, for example:
    - Commercial property investment held solely for the purposes of generating a financial return
    - Investments in wholly owned companies and joint ventures (which maybe in the form of equity or loans)
    - Wider scale and more ambitious regeneration projects
    - Ad-hoc complex investments

33. The Statutory Guidance describes non-financial investment as being in non-financial assets held primarily or partially to generate a profit. Usually it will be expected that the underlying asset could be 'realised' to recoup the capital invested.

34. There are important aspects of financial reporting that Council's must be aware of. In terms of reporting it is necessary to state whether:

- The fair value of non-financial investments is sufficient to provide security against losses, and that the underlying assets provide adequate security for the originating capital investment
- Where the fair value is insufficient detail of mitigating actions should be provided to protect the capital invested
- Additionally, where the fair value assessment recognises a loss in the non-financial investment the subsequent Capital Strategy will need to reflect the impact of loss of security and the associated revenue consequences.

35. Fair value accounting in this context is covered by International Financial Reporting Standard 9, as modified by a five-year statutory override applicable to local authorities (covering financial years from 2018/19). The implication of the override is that if a local authority recognises a loss on investment then this will not impact on the general fund, or, therefore, on an authority's ability to set its budget. However, the override is (currently) time limited and a major downturn in the value of specific assets, or the property market generally, represents a clear risk in future financial periods.

36. The following paragraphs outline options open to the Council and sets out the strategic approach the Council intends to adopt in this area.

Commercial Investment properties

37. The Council already owns land and buildings that have been acquired for capital appreciation and/or solely to earn rentals, rather than for the supply of goods or services or for administrative purposes. Such assets are classified as investment properties (unless they are acquired as the outcome of a regeneration priority).

38. In considering its approach to investment properties the Council has to consider the application of parameters including:
    - Maximum and minimum cost of prospective acquisitions
    - The maximum proportion of the Council's investment assets that should be held in the form of investment properties
    - The balance of property assets held with different sectors of the market
    - Possible geographical limits on prospective acquisitions
    - Whether properties are acquired purely on commercial grounds or whether other policy objectives, such as regeneration, should also be taken into account
    - The required rental yield from properties held for investment

39. In the context of the Capital Strategy, the Council is planning to use capital to invest in property to produce a revenue return to sustain the delivery of key

services for the Borough's residents. This capital will, where available, be in the form of capital receipts and/or prudential borrowing.

40. Outlined below is the Commercial Property Investment Strategy which proposes a formal approach to invest in property that provides a positive surplus and financial return. This is achieved by buying property that has a tenant who pays rent to the owner of the property – the landlord. The tenant needs to be of good financial standing and the property and lease must meet certain standards such as being in a commercially popular location and have a number of years left on the lease providing a certain and contractually secure rental income into the future.

41. The Council may fund the purchase of the property by borrowing money – potentially from the Public Works Loans Board (funded by the Central Government). As the number of acquisitions increases purchases fianced by borrowing can be expected. The rental income paid by the tenant must exceed the cost of repaying the borrowed money each year. The annual surplus then supports the Council's budget position, and enables the Council to continue to provide services for local people.

42. Historically, property has proved to be one of, if not the best, investment in terms of capital growth over the last 50 years. If the Council owns the property for 20 years plus, and the property is managed and maintained appropriately, the Council should expect to see an increase in the value of the property as well as a net annual surplus of revenue.

43. Local authorities have very wide powers to acquire, sell, appropriate and develop land, such that it is rare to need to use the powers in the Localism Act 2011. Specific property related powers are very wide and include the following:
    a. Sections 120 to 123 of the Local Government Act 1972
    b. Section 227, Town and Country Planning Act 1990
    c. Section 233, Town and Country Planning Act 1990
    d. Local Authorities (Land) Act 1963 (development)
    e. Housing Act 1985
    f. Sections 24-26 Local Government Act 1988

44. There are various powers that would usually be sufficient for the Council to undertake any property acquisition, sale or related project in its area where at least part of the motivation is connected with the broad benefit or improvement of its area, as it is in the case of this strategy.

45. Section 120 of the Local Government Act 1972 to acquire land (inside or outside of their area) for the purposes of any of their functions, and then this gives us the power to borrow as contained in Section 1 of the Local Government Act 2003 - A local authority is empowered to borrow money for any purpose relevant to its functions under any enactment.

46. Each acquisition will be evaluated on its merits to consider the relevant purpose(s), legal powers, financial powers and any other implications. It is

planned that the details of the Council's evaluation process will be set out in Cabinet report prior to any property acquisitions being undertaken.

47. The strategy for 2020/21 is set out below:

STRATEGY FOR 2020/21 - INVESTMENT IN COMMERCIAL PROPERTY

An amount of £10m to expand the Council's commercial property portfolio has been added to the forthcoming capital plan. Looking at the financial challenges outlined within the latest version of the MTFS it is envisaged that the portfolio will grow to around £25m, with an additional £10m being added to the capital plan in 2021/22 and a further £5m in 2022/23.

This investment will be purely to generate investment returns to address the financial challenges outlined in the MTFS and to protect/support service delivery to residents.

No specific minimum or maximum will be applied to any single property investment, to avoid restricting the Council's actions should financially advantageous opportiunities present themselves. However, it is envisaged that acquistions, at least initially, will be in the range of £1m - £5m. It should also be noted that availability of funds set aside in the capital plan provide a natural limit on the cost of acquisitions.

The minimum gross yield acceptable will be based on extant commercial yields and informed by professional advice:

- Default minimum yield would be in line with benchmark commercial property yields (currently around 7%)
- After allowing for interest payments and MRP charge the target net return will normally be 3.5%
- In certain circumstances, a minimum net yield less than 3.5% may be acceptable and advantageous to the Council, particularly where risk balancing may be required. In the instance that a net yield less than 3.5% is achieved, the rationale for the departure will be clearly explained in the accompanying business case.

Generally, property acquisitions will be located outside of the Borough; this will allow the Council to act in the same way as a commercial landlord and not allow returns to be compromised by local non-commercial considerations.

Reserves will be created out of rental income to allow for the impact of:

- MRP requirements
- Allowance for void rental periods and landlord repair obligations

After creation of reserves, and taking account of actual or notional[2] borrowing costs, the target net yield expected on individual acquisitions , as noted above, will be 3.5% (based on current market conditions.

Appropriate independent professional advice will be sought for each property acquisition.

In order to act in a timely manner the Council's governance rules will be amended to allow more rapi decision making; details are set out at Appendix C of the Capital Strategy report.

At present it will be assumed that this funding is phased as an initial £10m to 31 March 2021, with a further £10m in 2021/22 and £5m in 2022/23.

Loans to local enterprises and third parties

48. Loans to local enterprises or partner public sector bodies could be considered, as part of a wider strategy for local economic growth, even though they may not

[2] In evaluating prospective acquisitions it will be assumed that borrowing costs will be incurred (whether or not borrowing is required); this is to allow like for like evaluation of acquisitions independent of financing.

all be seen as prudent if adopting a narrow definition of prioritising security and liquidity. Such loans could be considered as an option to generate a yield. There would need to be a set of criteria drawn up which would need to be met before any loan was given. These might include:

- Whether or not the loan has security
- The term of the loan
- The profile of capital repayments
- The credit rating of the counterparty
- That total financial exposure to this type of loan is proportionate
- An allowed 'expected credit loss' model for assessing credit risk is adopted[3]
- Appropriate credit control arrangements to cover overdue payments are in place
- The local authority has formally agreed the total level of loans by type that it is willing to make, and the total loan book is within that self-assessed limit.

49. The Council will not proactively seek to market loans to third parties but will consider offering loans to local enterprises, local charities, on a case by case basis, as and when approached.

50. The Council will also consider offering a loan, on a case by case basis, to any subsidiaries that may exist at a point time; in particular, this would apply should the Council have a subsidiary Housing Development Company.

51. The strategy in this area is set out below:

STRATEGY FOR 2020/21 – LOANS TO THIRD PARTIES AND SUBSIDIARIES

No money will be set aside within the Capital Plan unless and until a specific proposal is available for consideration.

Should an opportunity to offer a loan to a third party arise reports will be taken to Cabinet, and Council if required, to seek specific approval for that transaction.

All prospective debtor organisations will be either be located, or will have substantial operations, within the Borough.

Any asset created through the loan will be located within the Borough.

The purpose of the loan will support local economic growth as defined within the extant Corporate Plan.

The maximum total loan book the Council would manage will be £10m.

The maximum single loan to an individual organisation will be:

- Secured loan £5m

[3] As defined within International Financial Reporting Standard 9 – in broad terms the likelihood of a creditor defaulting in future must be considered in accounting for impairment (compared to previous Standards in which accounting was based on actually incurred losses)

- Unsecured loan £2m

The maximum total value of unsecured loans will be £4m.

Loans will be offered on a commercial basis with rates offered dependent on risk; unsecured loans will attract higher interest rates. Rates offered will be in accordance with independent professional advice

Due diligence will be carried out on prospective debtor organisations.

Generally, independent professional advice will be taken to ensure that the structure of loan finance offered, and the risk and return associated with that structure is appropriate.

Support for Subsidiaries

52. The Council does not currently have any wholly owned local trading or housing companies. Should the Council decide to form a subsidiary then Council could decide to provide the funding required to support these organisations. As with providing loans to local enterprises and third parties there would need to be a set of criteria drawn up which would need to be met before any loan was given. This would mitigate the risk of loss to the Council.

53. However, the Council is actively considering the creation of a Housing Development Company. It may be appropriate to invest directly in the equity of a Housing Development Company, rather than in the form of a loan, as described above. The basis of investment will be equivalent, as described below.

STRATEGY FOR 2020/21 - INVESTMENT IN A HOUSING DEVELOPMENT COMPANY

An amount of £10m to fund the HDC may be allocated within the capital plan – but no funding is allocated at present.

This funding *may* be in the form of an equity investment in the HDC, upon which dividends or and / or management fees will be due to the Council.

Pro tem it will be assumed that this funding is phased £5m in 2021/22 and £5m in 2022/23.

It is assumed that this funding be financed through Council borrowing, as and when investment is required.

At minimum, dividends and management fees will cover all of the Council's borrowing costs, in cases where the subsidiary company is wholly owned by the Council.

At minimum dividends and management fees will cover all of the Council's borrowing costs, plus a margin of in cases where a subsidiary company or joint venture is only partially owned by the Council.

Professional advice will be taken to ensure:

- Anyt loans are structured in the most advantageous way, having regard to risk, prospective returns, and tax implications
- MRP can be avoided or mitigated through the loan structure

Appropriate due diligence will be carried out on prospective partner organisations.

In total, the maximum investment in a HDC, whether by loan or equity investment, will be an amount of £10m.

Other commercial investments

54. Investment in other types of asset, or in larger and more complex arrangements, is not considered within this iteration of the Commercial Investment strategy. In practice, should opportunities arise, the Commercial Investment and Capital Strategies could be amended, subject to the approval of full Council, to allow emerging opportunities to be exploited. It can also be assumed that any significant investment would be subject to the specific approval by Cabinet.

5. Knowledge and Skills

55. The Council recognises the importance of ensuring that all officers involved in the treasury management function (including commercial investment activities) are fully equipped to undertake the duties and responsibilities allocated to them. The Strategic Director for Corporate Services is responsible for recommending and implementing the necessary arrangements and does this by:

- Appointing individuals who are capable and experienced.
- Providing training and technical guidance to all individuals involved in the delivery of the treasury management function to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills to undertake the duties and responsibilities allocated to them.
- Appointing a treasury management advisor and other professional advisors when required. This ensures that the individuals involved in delivery of the Council's treasury management activities have access to specialist skills and resources. In addition, professional advisors are employed as required to ensure that the Council has access to the specialist skills and resources necessary to undertake commercial investment activities.

56. Treasury management advisors - The Council employs Link Asset Services (Treasury Solutions) to provide it with treasury management advice. The services provided by Link Asset Services (Treasury Solutions) include advice on treasury matters and capital finance issues, economic and interest rate analysis and creditworthiness information. Notwithstanding this, the final decision on all treasury matters remains vested with the Council. The services received from Link Asset Services (Treasury Solutions) are subject to regular review, including through periodic re-tendering.

6. Treasury management Policy Statement and Treasury Management Practices

57. The Council's Treasury Management Policy Statement and its Treasury Management Practices have been updated to reflect the requirements of the updated Treasury Management Code. They are presented for approval in the Treasury Management Strategy (Appendix B).

APPENDIX B

Charnwood Borough Council

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2020/21

Including Commercial activities/non treasury activities

INDEX

1. INTRODUCTION

1.1 Background

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

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

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.

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.

CIPFA defines treasury management as:

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

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA 2017 Prudential and Treasury Management Codes (and subsequent releases) requires all local authorities to prepare a capital strategy report, which provides 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

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.

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.

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.

Where the Council has borrowed to fund any non-financial investment, there should also be an explanation of why borrowing was required and why the borrowing is justified in the light of MHCLG Investment Guidance and the CIPFA Prudential Code.

If any non-financial investment sustains a loss during in a financial year, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

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

1.2.2Treasury Management reporting

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

a) **Prudential and treasury indicators and treasury strategy** (this report) - The first and most important report covers:
   - the capital plans (including prudential indicators);
   - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
   - the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
   - an investment strategy (the parameters on how investments are to be managed).

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

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

Scrutiny
The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee and the reports are also available for consideration by the Scrutiny Commission.

1.3 Treasury Management Strategy for 2020/21
The strategy for 2020/21 covers two main areas:

Capital issues
- Capital plans and prudential indicators;
- Minimum revenue provision (MRP) policy.

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

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.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Suitable training is provided for members on a periodic basis as part of the wider Member training programme. Officers are also available to train and advise members on an ad hoc basis outside of this programme if required. The training needs of

treasury management officers are reviewed annually as part of the Personal Review process

1.5 Treasury management consultants

The Council uses Link Asset Services Treasury Solutions as its external treasury management advisors. The council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the service of our external service providers. All decisions will be undertaken with regards to all available information, but not solely, our treasury advisers.

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

The scope of investments within the Council's operations may include both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties in the future. The commercial type investments require specialist advisers, and the Council would appoint suitably qualified specialist advisers in relation to this activity when required.

2. THE CAPITAL PRUDENTIAL INDICATORS 2021/22-2022/23

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

2.1 Capital expenditure

The Council's capital expenditure plans are the key driver of Treasury Management activity. 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	2018/19 Actual £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'0003
General Fund	2,985	5,739	7,507	3,677	2,727
HRA	6,086	9,094	7,646	7,381	7,724
Commercial Investments	0	5,000	5,000	10,000	5,000
Total	9,071	19,833	20,153	21,058	15,451

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	2018/19 Actual £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Total Capital Expenditure as per above table	**9,071**	**19,833**	**20,153**	**21,058**	**15,451**
Financed by:					
Capital receipts	1,359	2,770	2,633	2,936	2,006
Capital grants	1,264	2,909	390	1,191	1,171
Capital reserves	1,732	5,495	3,189	3,189	3,189
Revenue Contributions	4,716	3,659	4,141	3,742	4,085
Net financing need internal/external borrowing	0	5,000	9,800	10,000	5,000
Total Funding	**9,071**	**19,833**	**20,153**	**21,058**	**15,451**

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

The second prudential indicator is the Council's Capital Financing Requirement (CFR). This 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 underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR will not increase indefinitely if expenditure is funded by borrowing, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

It should be noted at that the Council has only taken borrowing to fund the HRA Self-financing to date, however a Cabinet report of 13 September 2018 approved the purchase of fleet of vehicles in 2020 of £4.8m that may be wholly or partially funded by borrowing. The funding options will be reviewed further prior to purchase. Also, an Investment Strategy report taken to Cabinet on 19 September 2019 projected borrowing of £10m for commercial property investment in 2019/20 and 2020/21, which means that the CFR will then increase (Net of MRP Charge). In anticipation of an amendment to the Capital Plan a further £10m has been assumed for commercial property investment for 2021/22 with a further £5m assumed for 2022/23. The resultant CFR projections are set out in the table below.

	2018/19 Actual £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Capital Financing Requirement					
CFR – General Fund - Fleet	0	0	4,800	4,200	3,600
CFR – HRA	81,820	81,820	81,820	81,820	81,820
CFR – Commercial Activites		5,000	9,934	19,799	24,528
Total CFR	**81,820**	**86,820**	**96,554**	**105,819**	**109,948**
Movement in CFR	**0**	**5,000**	**9,734**	**9,265**	**4,129**
Movement in CFR represented by					
Net financing need as per 2.1 for the year (above)	0	5,000	9,800	10,000	5,000
Less MRP and other financing movements	**0**	0	(66)	(735)	(871)
Movement in CFR	**0**	**5,000**	**9,734**	**9,265**	**4,129**

2.3 Core Funds and Expected investment balances

The application of resources (capital receipts, Capital Reserves, Revenue Contributions to Capital, Capital Grants) to finance Capital expenditure will have an ongoing impact on investments unless resources are supplemented each year by new resources (assets sales, grants etc). Detailed below are estimates of the year end balances held for each resource.

The current three year Capital plan runs through to 2020/21 and a new three year Capital plan starts in 2020/21 running to 2022/23[1]. Funding for this capital expenditure plus the additional £15m funding it is anticipated will be allocated for commercial property investment is funded as per table above in 2.1. Any additional proposals for capital expenditure will require a capital appraisal and business plan to be considered by Senior Leadership Team and Cabinet approval. The funding position is regularly reviewed and if there is a need to borrow, this will require a further appraisal and a revision to the Capital programme and the Treasury Management Strategy in year it will be brought back to full Council for approval.

2.4 Minimum revenue provision (MRP) policy statement

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

[1] The plans will be merged once the new Capital Plan has been approved by Council

MHCLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

MRP Overpayments - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), VRP or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2020 the total VRP and overpayments were £0m.

The Council has for the General Fund a CFR requirement and therefore will need to make a MRP provision. As the Council is likely to fund capital expenditure from borrowing in the near future and as there is a statutory requirement to have an approved MRP Statement in place in advance for each year, an MRP policy has been included in this Treasury Management Strategy as Appendix B(2). Council is asked to adopt and approve the MRP policy statement.

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the capital expenditure of the Council over the next 3 years. 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. This will involve both the management 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.

3.1 Current portfolio position

One of the key indicators is that the Council's 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 2020/21 and the following two financial years. This is to ensure that the Council conducts its activities within well-defined limits. Also the indicator allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes or speculative purpose.

The table below shows the forward projections for external debt against the underlying need to finance capital expenditure through borrowing or other long term liabilities, i.e. the CFR, highlighting any over or under borrowing.

	2018/19 Actual £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
External Debt at 1 April	81,190	81,190	86,190	95,990	105,990
Expected change in Debt	0	5,000	9,800	10,000	5,000
Actual debt at 31 March	81,190	86,190	95,990	105,990	110,990
Capital Financing Requirement	81,820	86,820	96,620	106,620	111,620
Under/(over) borrowing	630	630	630	630	630

The table shows that the Council has complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments and existing plans. Within the above figures there is £25m debt that relates to new commercial activities and non-financial investment.

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. 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 2020/21 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.

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

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary.

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

Operational boundary	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Debt	81,190	81,190	81,190	81,190
Commercial Activities/Non-financial investments	15,000	15,000	25,000	30,000
Other long term liabilities	0	0	0	0
Total	**96,190**	**96,190**	**106,190**	**111,190**

The authorised limit for external debt.

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by 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

It should be noted that the authorised limit (as shown in the table below) has been set based on the current capital expenditure and funding plans. The Council has decided to take forward commercial investment plans as part of the investment Strategy report to Cabinet on 19th September and following this the authorisaton limits have increased by £15m, these were recommended to Council as part of the 14th November Treasury Management Mid year cabinet report, and it is also recommended that the limits increase further to cover projected additional borrowing in 2021/22 of £10m and £5m in 2022/23.

The authorised limit will be amended as follows (assuming the Capital Strategy is approved by Council) :

Authorised limit	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Debt	96,000	96,000	96,000	96,000
Commercial Activities/Non-financial investments	15,000	15,000	25,000	30,000
Other long term liabilities	0	0	0	0
Total	111,000	111,000	121,000	126,000

In October 2018 the Government published the “Limit of Indebtedness (Revocation) Determination 2018”. This removed the HRA debt cap which was £88,770k. This means that the HRA is able to determine its own level of borrowing in alignment with prudential guidelines. This means that it can borrow providing it can demonstrate that the interest and loan repayments are affordable, within the overall HRA.

3.3 Prospects for interest rates

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

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

The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged.

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit and the outcome of the general election. In its meeting on 7 November, the MPC became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then the MPC were likely to cut Bank Rate. However, if they were both to dissipate, then rates would need to rise at a “gradual pace and to a limited extent”. Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. There is still some residual risk that the MPC could cut Bank Rate as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC would raise Bank Rate.

Bond yields / PWLB rates. There has been much speculation during 2019 that the bond market has gone into a bubble, as evidenced by high bond prices and remarkably low yields. However, given the context that there have been heightened expectations that the US was heading for a recession in 2020, and a general

background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated, as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

During the first half of 2019-20 to 30 September, gilt yields plunged and caused a near halving of longer term PWLB rates to completely unprecedented historic low levels. *(See paragraph 3.7 for comments on the increase in the PWLB rates margin over gilt yields of 100bps introduced on 9.10.19.)* There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but also in the UK due to a correlation between US treasuries and UK gilts; at various times this correlation has been strong but at other times weak. However, forecasting the timing of this, and how strong the correlation is likely to be, is very difficult to forecast with any degree of confidence. Changes in UK Bank Rate will also impact on gilt yields.

One potential danger that may be lurking in investor minds is that Japan has become mired in a twenty-year bog of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be fretting that this condition might become contagious to other western economies.

Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt-fuelled boom that now makes it harder for central banks to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop. (A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

In addition, PWLB rates are subject to ad hoc decisions by **H.M. Treasury** to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented on 9.10.19.

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

3.4 Investment and borrowing rates

- In Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.
- Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9.10.19. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, the unexpected increase of 100 bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management. Now that the gap between longer term borrowing rates and investment rates has materially widened, and in the long term Bank Rate is not expected to rise above 2.5%.
- There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

3.5 Borrowing strategy

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

Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Council will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances both internally and externally.

When the Council invests in commercial property it is likely that this will be funded by external borrowing in the long term. Although in the short to medium term the Council is able to temporarily utilise its cash balances as a short to medium term alternative to external borrowing i.e. internally borrow. This is considered to be an effective strategy at present as:

- It enables the Council to avoid significant external borrowing costs in the short to medium term (i.e. making it possible to avoid net interest payments); and
- It mitigates the risks associated with investing cash.

3.6 Policy on borrowing in advance of need

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

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

3.7 Debt rescheduling

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

The reasons for any rescheduling to take place will include:

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

Consideration will also be given to identify whether there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

However, rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

The Council currently has one long term market debt which matures in 2024 and it carries a current interest rate of 11.625%. The cost of replacing this debt is prohibitive and this position is unlikely to change in the next three years.

The £79.19m of HRA debt is at fixed interest rates and the twenty four loans are repayable from 2024 to 2061. Their maturity dates are set to match income and expenditure levels in the HRA Business Plan and they will be reviewed in line with that plan. However, the primary objective of the plan over the next few years is to invest in the Council's housing stock and this position is not expected to change in the near future. Therefore these debts are unlikely to be rescheduled over the next three years. All rescheduling will be reported to the Cabinet at either the half year or full year report stage.

3.8 Municipal Bond Agency

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 may make use of this new source of borrowing as and when appropriate.

4. ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – management of risk

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).

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

The above guidance from the MHCLG and CIPFA places 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: -

1. 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.

2. **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.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 12B (3) 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. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments are revised from £25m to a total of £30m, (see paragraph 4.3).

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.

7. **Transaction limits** are set for each type of investment in 4.2.

8. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.4).

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).

10. This authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling**.

12. As a result of the change in accounting standards for 2018/19 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18.)

    However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year.
The above criteria has changed from last year due to a new investment Strategy.

Investment instruments identified for use in the financial year are listed in appendix 12B (3) under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices.

4.2 Creditworthiness policy

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 and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

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

This modelling approach combines credit ratings, credit Watches and credit Outlooks 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 coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

Dark pink	Up to 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
Light pink	Up to 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
Purple	Up to 2 years
Blue	Up to 1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	Up to 1 year
Red	Up to 6 months
Green	Up to 100 days
No colour	not to be used

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.

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.

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service.

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

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

UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

4.3 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch, other than the UK where the Council has set no limit. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 12B (4). This list will be added to, or deducted from by officers should ratings change in accordance with this policy.

4.4 Investment strategy

In-house funds - Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow (amend as appropriate), where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations.

On the assumption that the UK and EU agree a Brexit deal by the end of 2019 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.25% by quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 0.75%
- Q1 2022 1.00%
- Q1 2023 1.25%

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

2019/20	0.75%
2020/21	1.00%
2021/22	1.00%
2022/23	1.50%
2023/24	1.50%
2024/25	1.75%
Later years	2.25%

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.

- In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

Additionally the Council currently has loans to other Local Authorities and has invested in two property funds in 2018/19 following a selection process assisted by our Treasury Advisors Link. Both of these investment types are for periods of greater than 365 days and it is anticipated that returns on investments will be above the rates shown for the proportion of funding invested for these longer periods. Potential sums to be invested in this way are given below and the current snapshot of investments held for over 365 days is shown in Appendix 12B (6).

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

The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 365 days			
£m	**2019/20**	**2020/21**	**2021/22**
Principal sums invested > 365 days	£25m	£30m	£30m

4.5. Investment risk benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio. For cash investments this will be the 3 month London Interbank Bid Rate (LIBID) which matches the weighted average time period of our current cash investments. Should the Council invest in Property Funds an appropriate additional benchmark will be added to measure the performance of these investments. This will be reported in the next available treasury report to Members.

4.6 End of year investment report

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

APPENDICES FOR APPENDIX 12B

B (1). Economic Background

B (2). Minimum Revenue Provision Policy

B (3). Treasury management practice 1 – credit and counterparty risk management

B (4). Approved Countries for Investment

B (5). Approved Brokers for investments

B (6). Current Investments as at 6th January 2020

B (7). Treasury management scheme of delegation

B (8). The treasury management role of the section 151 officer

APPENDIX B(1)

ECONOMIC BACKGROUND

UK. Brexit. 2019 has been a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October, with or without a deal. However, in September, the Supreme Court overturned his proroguing of Parliament and Parliament carried a bill to delay **Brexit** until 31 January 2020 if there is no deal by 31 October. MPs also voted down holding a general election before 31 October, though one could happen before the end of 2019. Despite Johnson agreeing a deal with the EU in mid October, so far, there has been no majority of MPs for any one option to move forward on enabling Brexit to be implemented. At the time of writing (25.10.19), the whole Brexit situation is highly fluid and could change radically by the day. Given these circumstances and the possibility that there could be an imminent general election, any interest rate forecasts are subject to material change as the situation evolves. If Parliament fully approves the withdrawal bill, then it is possible that growth could recover relatively quickly. The MPC could then need to address the issue of whether to raise Bank Rate at some point in the coming year when there is little slack left in the labour market that could cause wage inflation to accelerate; this would then feed through into general inflation. On the other hand, if there was a no deal Brexit and there was a significant level of disruption to the economy, then growth could weaken even further than currently: the MPC would then be likely to cut Bank Rate in order to support growth. However, with Bank Rate still only at 0.75%, the MPC has relatively little room to make a big impact and it would probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction.

The first half of 2019 saw UK **economic growth** falling to -0.2% in quarter 2 as Brexit uncertainty took a toll. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The **MPC** meeting of 19 September reemphasised their concern about the downturn in world growth and also expressed concern that prolonged Brexit uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth. This mirrored investor concerns around the world which are now expecting a significant downturn or possibly even a recession in some major developed economies. It was therefore no surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit. However, it is also worth noting that since Boris Johnson became Prime Minister, the government has made significant statements on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and, conversely, take some pressure off the MPC to cut Bank Rate to support growth.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell to 1.7% in August and September. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the **labour market,** despite the contraction in quarterly GDP growth of -0.2% q/q, (+1.3% y/y), in quarter 2, employment continued to rise, but at only a muted rate of 31,000 in the three months to July after having risen by no less than 115,000 in quarter 2 itself. However, in the three months to August, employment swung into negative with a fall of 56,000, the first fall for two years. Unemployment duly rose from a 44 year low of 3.8% on the Independent Labour Organisation measure in July to 3.9%. Wage inflation also edged down slightly from a high point of 3.9% to 3.8% in August, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%. As the UK economy is very much services sector driven, an 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. The quarter 2 GDP statistics also included a revision of the savings ratio from 4.1% to 6.4% which provides reassurance that consumers' balance sheets are not over stretched and so will be able to support growth going forward. This would then mean that the MPC will need to consider carefully at what point to take action to raise Bank Rate if there is an agreed Brexit deal, as the recent pick-up in wage costs is consistent with a rise in core services inflation to more than 4% in 2020.

In the **political arena**, if there is a general election soon, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up although, conversely, a weak international backdrop could provide further support for low yielding government bonds and gilts.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of growth to a robust 2.9% y/y. **Growth** in 2019 has been falling back after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2. Quarter 3 is expected to fall further. The strong growth in employment numbers during 2018 reversed into a falling trend during 2019, indicating that the economy is cooling, while inflationary pressures are also weakening.

The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not intended to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc). It then cut rates again in September to 1.75% - 2.00% and is thought likely to cut another 25 bps in December. At its September meeting it also said it was going to **start buying Treasuries again**, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market. Despite those protestations, this still means that the Fed is again expanding its balance sheet holdings of government debt. In the first month, it will buy $60bn , whereas it had been reducing its balance sheet by $50bn per month during 2019. As it will be buying only short-term (under 12 months) Treasury bills, it is technically correct that this is not quantitative easing (which is purchase of long term debt).

Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This **trade war** is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany

as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1 and then fell to +0.2% q/q (+1.0% y/y) in quarter 2; there appears to be little upside potential to the growth rate in the rest of 2019. German GDP fell by -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a **third round of TLTROs**; this provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt;** (at its October meeting it said this would start in November at €20bn per month - a relatively small amount compared to the previous buying programme). It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments will need to help stimulate growth by 'growth friendly' fiscal policy.

On the political front, Austria, Spain and Italy have been in the throes of **forming coalition governments** with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The latest results of two German state elections will put further pressure on the frail German CDU/SDP coalition government.

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 shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

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.

WORLD GROWTH. Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support (i.e. subsidies) to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates.

The trade war between the US and China is a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in **government bond yields** in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.3 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.** On this basis, while GDP growth is likely to be subdued in 2019 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement is likely to lead to a boost to the rate of growth in subsequent years which could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- 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. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

However, there would appear to be a majority consensus in the Commons against any form of non-agreement exit so the chance of this occurring has diminished.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal was agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

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 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** 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.** In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **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. The SPD has done particularly badly in state elections since then which has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.

- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but his time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on **some $19trn of corporate debt in major western economies,** if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is $15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- **Geopolitical risks,** for example in 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 agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary 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.

APPENDIX B(2)

MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

Under Regulation 27 of the 2003 Regulations, local authorities are required to charge MRP to their revenue account in each financial year. It should cover the gap between the Capital Financing Requirement (CFR) and grant income and capital receipts.

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (MRP). It is also allowed to undertake additional voluntary payments if desired (voluntary revenue provision - VRP). Any planned overpayments must be recorded clearly in the MRP statement.

MHCLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year; hence, the inclusion of this policy within the Capital Strategy.

The Council is required to calculate in each financial year a prudent provision to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits (asset life). MRP cannot be negative, and can only be zero if the CFR is nil or negative, or if the charge is fully reduced by reversing previous overpayments. A maximum asset life of 40 years can be used, except freehold land which can be 50 years.

In calculating MRP the Council must base its calculation on methods set out within 'guidance' issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. Under that section local authorities are required to 'have regard' to this guidance. The extant guidance distinguishes between borrowing incurred prior to 2008 and that incurred in subsequent years. The Council did not incur borrowing to finance assets prior to 2008 and hence its options on which its MRP calculation is based are restricted to Options 3. and 4. as set out in guidance, as below:

Option 3: Asset Life Method

Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the useful life of the asset.

There are two main methods by which this can be achieved, as described below.

(a) Equal instalment method

MRP is the amount given by the following formula:

$$\frac{A - B}{}$$

C

Where:

A is the amount of capital expenditure in respect of the asset financed by borrowing or credit arrangements.

B is the total provision made before the current financial year in respect of that expenditure.

C is the inclusive number of financial years from the current year to that in which the estimated useful life of the asset expires.

(b) Annuity method

MRP is the principal element for the year of the annuity required to repay over the asset's useful life the amount of capital expenditure financed by borrowing or credit arrangements. The authority should use an appropriate interest rate to calculate the amount. Adjustments to the calculation to take account of repayment by other methods during repayment period (e.g. by the application of capital receipts) should be made as necessary.

Option 4: Depreciation method

MRP is deemed to be equal to the provision required in accordance with deprecation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements. This should include any amount for impairment charged to the income and expenditure accounts.

Selected Charnwood calculation methods

- For assets with a life of 10 years or less, the straight line asset life method (Option 3 (a)) will be used
- For assets with a life in excess of 10 years, the annuity asset life method (Option 3 (b)) will be used.

The asset life method calculation requires estimated useful lives of assets to be input in to the calculations. These life periods will be determined by the Council's Chief Financial Officer (this is the Council's designated s151 Officer, a role currently held by the Strategic Director of Corporate Services), with regard to the statutory guidance and advice from professional valuers if required.

The Chief Financial Officer may also determine that if, in their opinion, the straight line method is more prudent for an asset with a life in excess of 10 years then this option may be used.

Generally, the straight line asset life method is considered appropriately prudent for assets with a relatively short term life (such as most types of plant and equipment). Assets purchased with a longer life will usually be land and buildings and hence an annuity asset life method will be used reflecting that such assets will in practice have a value at the end of the designated asset life. One aspect of the annuity asset life method is that it generates MRP payments that are relatively low in early years which then increase over the asset life. This structure of MRP is well-suited to commercial properties as the increase in MRP could be expected (broadly) to mirror increasing rental income created by periodic rent reviews.

The designated asset life of land and buildings, including commercial property for investment purposes, will usually be set at 40 years, in accordance with the guidance and in common with other local authorities.

In line with the extant guidance MRP will be not be charged until the later of the year after capital expenditure is incurred or the year after the asset becomes operational

The calculation of MRP is also subject to the following details:

- An average asset life for each project will normally be used. There will not be separate MRP schedules for the components of a building (e.g. plant, roof etc.). Asset life will be determined by the Chief Finance Officer. A standard schedule of asset lives will generally be used (as stated in the Statement of Accounts accounting policies).
- MRP will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for single assets when expenditure is being financed from borrowing the MRP will be deferred until the year after the asset becomes operational.
- Other methods to provide for debt repayment may occasionally be used in individual cases where this is consistent with the statutory duty to be prudent, as justified by the circumstances of the case, at the discretion of the Chief Finance Officer.

APPENDIX B(3)

TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year** with the exception of other Local Authorities which have a maximum of 2 years and investments in Property Funds which are longer-term investments. All investments will meet the minimum 'high' quality criteria where applicable.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories. The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria /	**** Max % of total investments/ £ limit per institution**	**Max. maturity period**
DMADF – UK Government	N/A	Unlimited	6 months
UK Government gilts	UK sovereign rating	Unlimited	12 months
UK Government Treasury bills	UK sovereign rating	Unlimited	12 months
Bonds issued by multilateral development banks	AAA	Unlimited	6 months
Money Market Funds (CNAV, LVAV & VNAV)	AAA	£10m any one institution and £30m in total	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	£7m any one institution and £18m in total	Liquid
Local authorities	N/A	£5m any one institution and £20m in total	5 Years
Property Funds	N/A	£5m in total	20 Years
Term deposits with banks and building societies	Purple	£8m any one institution and £12m in total	Up to 12 months
	Blue	£7m any one institution and £12m in total	Up to 12 months
	Orange	£8m & (£12m for HSBC only) any one institution and £25m in total	Up to 12 months
Term deposits with banks and building societies	Red	£8m any one institution and £40m in total	Up to 6 Months
	Green	£6m any one institution and £20m in total	Up to 100 days
	No Colour	Nil	Not for use

Non Specified Investments: In light of the current and forecast low interest rates on specified investments the Council included the opportunity to invest in established Property Funds run by Fund Managers in a previous Treasury Management Strategy. These funds are longer term investments (typically 2-5 years) and give potentially higher returns than more liquid investment categories. Investments totaling £5m have been made in Property Funds since 2018. These investments will form part of the £30m limit for investments of over 365 days duration.

The Council will also add investments with Housing Associations of up to £5m, for up to a two year period. Prior to this the Council will undertake a separate due diligence exercise to ensure they have the minimum credit rating requirement and generally satisfy the Council's lending policuies.

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, a review of the accounting implications of new transactions will be carried prior to any investment decision.

APPENDIX B(4)

APPROVED COUNTRIES FOR INVESTMENTS @14/11/2019

This list is based on those countries which have sovereign ratings of AA- or higher (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Hong Kong
- U.K.

AA-

- Belgium
- Qatar

APPENDIX B(5)

List of Approved Brokers for Investments

The list below represents approved brokers that the Council will use to facilitate its investment strategy when necessary;

King and Shaxson

Tradition (UK) Ltd

RP Martin

Link Asset Services Agency Treasury Services

APPENDIX B (6)

Current Investments as at 6th January 2020 (for information only).

For illustrative purposes only the Council's investments as at 6th January 2020 are set out below. Please note that these investments alter on a daily basis.

Institution	**Colour**	**Amount invested £m**	**Transaction Limit**	**Maturity Date**	**Time Limit**
National Westminster Bank PLC	Blue	4,000	7,000	05/02/2020	12 Months
Lancashire County Council	N/A	2,000	5,000	30/01/2020	5 Years
Wyre Forest District Council	N/A	2,000	5,000	09/10/2020	5 Years
Liverpool City Council	N/A	2,000	5,000	14/10/2020	5 Years
Santander	Red	8,000	8,000	180 Day Notice	6 Months
Sumitomo Mitsui Banking Corporation Europe	Red	3,000	8,000	13/01/2020	6 Months
Close Brothers	Red	5,000	8,000	24/04/2020	6 Months
Goldman Sachs international Bank	Red	2,500	2,500	35 Day Notice	6 Months
Goldman Sachs international Bank	Red	2,500	2,500	95 Day Notice	6 Months
Standard Chartered Bank	Red	3,000	8,000	183 Days	6 Months
Bank of Scotland	Orange	8,000	8,000	95 Days	12 Months
HSBC Bank	Orange	5,000	12,000	3 Months	12 Months
Money Market Funds	AAA Rated	13,840	18,000 in total	1 Day	12 Months
Property Funds	N/A	5,000	5,000 in total		240 Months
TOTAL		**65,840**			

APPENDIX B(7)

TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Cabinet

- approval of/amendments to the organisation's adopted clauses, treasury management policy
- statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing monitoring reports and acting on recommendations;

(iii) Audit Committee/Overview Scrutiny Board

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

APPENDIX B(8)

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

- recommending clauses, 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;
- recommending the appointment of external service providers.
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non- financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above

APPENDIX C

Proposed amendments to the Financial Regulations and other areas of the Constitution

Proposed amendments to the Financial Regulations

Amendments are proposed to Section 16.5, 'Specific Financial Responsibilities' as set out below.

1. The heading, **'(b) Capital Expenditure'**, is modified to read, **'(b) Capital Expenditure, excluding Capital Expenditure in respect of commercial property acquired for investment purposes'**

2. A new heading (c) is inserted into the Financial Regulations entitled, **'(c) Capital Expenditure in respect of commercial property acquired for investment purposes.**

3. Text will be inserted under new heading (c) as follows:

> Periodically the Council will invest in commercial property for the purposes of making a financial return. Such investments (or divestments) may require actions in a time frame that is not naturally enabled by usual Council decision making processes. The standard processes in respect of Capital Expenditure are therefore modified in respect of commercial properties that are acquired for investment purposes.
>
> The Council approves the three-year Capital Plan. Funding for commercial property for investment purposes will be explicitly identifiable within the Capital Plan. Cabinet is able to make changes to the Capital Plan in respect of Capital Expenditure in respect of commercial property investment under the same conditions that apply to other capital expenditure.
>
> Executive decisions relating to the investment and release of funding for the purchase of individual commercial properties, providing available funding exists within the extant Capital Plan, will be delegated to the Leader, or another Cabinet Member to whom the Leader may delegate authority.
>
> Opportunity may allow the financially advantageous disposal of commercial properties. Approval of commercial property disposals will be delegated to the Leader or Cabinet Lead Member covering the finance portfolio, or other Cabinet Members to whom the Leader may delegate authority.

4. Subsequent headings under 16.5 will be re-referenced to reflect the insertion of new heading (c); hence, **'(c) Virement'** will become **'(d) Virement'**, etc. References within the body of the text will also be amended to reflect the insertion of the new heading.

5. **'(f) Disposal of Assets'** will be re-referenced in line with the above and amended to read **'(g) Disposal of Assets excluding commercial property assets that were acquired for investment purposes**.

The above changes require formal approval by Council as referenced in Recommendation 4. of this report

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Governance processes – for information

Financial Regulations

To enable the above changes to the Financial Regulations it will be necessary to update the Financial Procedure rules (a matter delegated to the Section 151 officer). It is intended that a summary of the updates will be presented to Cabinet at a forthcoming Cabinet report which will provide more detail covering the evaluation of opportunities and (potential) acquisition and disposal of commercial properties.

Delegation of Executive Functions

The nature of commercial property acquisitions is such that delegated authority will be required to complete transactions in a timely manner. Therefore arrangements for delegated executive authority will need to be put in place to enable the Strategic Director of Corporate Services to complete acquisition and disposal transactions in respect of commercial properties for investment purposes where approved funding exists within the Capital Plan (for acquisitions), and subject to pre-agreed procedures being undertaken.

Section 9E of the Local Government Act 2000 (as amended) gives authority to the Leader of the Council to arrange for Executive functions to be discharged by:

- himself/herself;
- the Cabinet;
- another Member of the Cabinet;
- a committee of the Cabinet, or
- an officer of the Council

The Leader of the Council can amend the scheme of delegation relating to Executive functions at any time. These decisions can take immediate effect, and the Constitution requires that they are reported to the next meeting of the Council.

Key Decisions and Exemption from Call-in

A key decision is an executive decision which is likely:

- To result in the council incurring expenditure which is, or the making of savings which are, significant having regard to our budget for the service or function to which the decision relates.

- To be significant in terms of its effects on communities living or working in an area comprising two or more wards in the borough

It is highly probable that any commercial property acquisition will exceed £150,000 in value, and therefore each purchase will be a key decision. However, due to the nature of the purchases being made (i.e. on the open market), it is unlikely that the required advance notice (28 days) for a key decision will be able to be given for each transaction, and therefore a General Exception notice will be published at least five days in advance of the proposed decision date.

In addition it would not be practical for the usual call-in arrangements for key decisions to be applied as any delay caused could result in a potential purchase falling through, and therefore it is proposed that the Chair of the Scrutiny Commission confer a blanket approval for decisions taken under this delegated authority to be exempted from Call-in under scrutiny procedure rule 11.9 within the Constitution. These arrangements will be put into place following approval of full Council and it is anticipated that the blanket approval from the Chair of the Scrutiny Commission be reviewed on an annual basis.

All cases of exemption from Call-in must be reported to the next relevant Council meeting, and this will ensure that Members are kept informed about each relevant acquisition that is made.

CABINET – 13TH FEBRUARY 2020

Report of the Head of Finance and Property Services

Lead Member: Councillor Tom Barkley

Part A

ITEM 9 CAPITAL PLAN 2020/21 TO 2022/23

Purpose of Report

That the new Capital Plan 2020/21 to 2022/23 and sources of funding be approved and recommended to Council.

Recommendation

That the new Capital Plan for 2020/21 to 2022/23 for the General Fund and HRA schemes set out in Appendix 1 is approved and recommended to Council.

Reason

The new Capital Plan becomes the basis for capital spending by the Council for the next 3 years.

Policy Justification & Previous Decisions

The Council's Capital Plan is an integral element of all policies. The draft report was reported to Budget Scrutiny Panel on the 4th December 2019 and Cabinet on the 16th December 2019 and a consulatation peiord from 17th December 2019 to 15th January 2020. There are no changes from the draft report to this report.

Implementation Timetable including Future Decisions and Scrutiny

The new Capital Plan will be considered by Council on 24 February 2020. Provided it is approved, the new Capital Plan will come into effect on 1 April 2020.

Any changes to the Plan after 1 April 2020 will then be considered by Cabinet, and Council if necessary, as part of the Capital Plan Amendment process. These reports are also available for scrutiny by the Scrutiny Commision and the Corporate Services Scrutiny Committee.

Report Implications

The following implications have been identified for this report.

Financial Implications

There are no direct financial implications from approving this report for consultation. However, if the final report is approved then there will be financial implications for the Council and these are set out in Part B of this report. Overall, the Capital Plan will be fully funded through the use of revenue and capital resources.

Risk Management

There are no specific risks associated with the decision Cabinet is being asked to make. However, the risks associated with the eventual adoption of the new Capital Plan and the actions planned to mitigate those risks are set out in the table below:

Risk Identified	Likelihood	Impact	Overall Risk	Risk Management Actions Planned
Insufficient funding	Remote (1)	Major (4)	Low (4)	The funding of the Capital Plan is regularly monitored and any apparent shortfalls are brought to the attention of Cabinet with suggested solutions
General Risks associated with capital expenditure	Unlikely (2)	Serious (3)	Moderate (6)	The Capital Plan is controlled through Capital Monitoring & Senior Management Team and Cabinet.

Equality and Diversity

There are no specific Equalities & Diversity issues affecting the recommendation in this report, though any such issues affecting particular schemes will be considered as part of those schemes' formal appraisal.

Sustainability

As with other items above, there are no direct sustainability issues affecting the recommendation, but any affecting specific schemes will be considered as part of the appraisal of those schemes.

Key Decision: Yes

Background Documents: None

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Part B

Background

1. The Council operates the Capital Plan on a three year basis to reflect the longer term nature of capital expenditure and in accordance with best practice. Heads of Service held discussions with their Lead Members and Directors before submitting Capital Appraisals to the Senior LeadershipTeam (SLT) for initial appraisal. These appraisal forms cover areas such as 'spend to save' schemes, replacement of an existing asset, scheme affordability, scheme achievability etc. Schemes are categorised as either live, Committed or Third party schemes. Live schemes are project managed by Charnwood Borough Council, Committed schemes are scheme committed in principal but required further consideration in order to commence and third party schemes are fully funded by external resources.

2. These schemes were considered by SLT and from this appraisal process a New Capital Plan for 2020/21 to 2022/23 was produced for the General Fund and HRA included in Appendix 1 .

3. Cabinet should note that only limited information is available at present and the costings and income generation/savings for the new schemes are on 'best estimate' basis. Firm quotations or tender prices have not been obtained at this stage.

New Capital Plan 2020/21 to 2022/23

4. The tables below show a summary of the schemes, split between General Fund and Housing Revenue Account schemes, and the anticipated funding positions. The General Fund, Table 1 excludes schemes in the current approved Capital Plan and includes those schemes recommended for inclusion in the draft new 3 year capital plan. Table 2, shows all the Housing Revenue Account schemes and it should be noted that these schemes are fully funded.

Table 1

	2020/21	2021/22	2022/23	TOTAL
	£'000	£'000	£'000	£'000
General Fund				
Gross Cost of Schemes	2,707	3,677	2,727	9,111
Total Cost	**2,707**	**3,677**	**2,727**	**9,111**
Anticipated External Funding	390	1,191	1,171	2,752
CBC Capital Receipts	2,317	2,486	1,556	6,359
Total Funding	**2,707**	**3,677**	**2,727**	**9,111**

5. The New Plan Schemes are set out in more detail in Appendix 1.

6. Table 1 shows total proposed schemes of £9.1m requiring council capital receipts funding of £6.3m. As at 31 March 2023 there will be approximately £11.9m capital receipts estimated in balances therefore the new plan is fully affordable from within current resources. This assumes that there are no major capital receipts during the three years of the plan as there are currently no potential disposals firm enough to be included. It should be noted that the costs shown above are estimates made by the relevant services and do not reflect firm quotes or tender prices.

7. Anticipated External Funding is in respect of grants and capital contributions which are expected over the next three years. It should be noted that the grants are scheme specific and cannot be used to fund other schemes.

8. There is approximately £1.2m in the Capital Plan Reserve that can be used for either Capital or Revenue one off expenditure.

Table 2

	2020/21	2021/22	2022/23	TOTAL
	£'000	£'000	£'000	£'000
Housing Revenue Account				
Gross Cost HRA Schemes	7,646	7,381	7,724	22,751
Total Cost	**7,646**	**7,381**	**7,724**	**22,751**
Revenue Contribution to Capital	4,141	3,742	4,085	11,968
Capital Receipts	316	450	450	1,216
Major Repairs Reserve/HRA Finance Fund	3,189	3,189	3,189	9,567
Total Funding	**7,646**	**7,381**	**7,724**	**22,751**

9. Appendix 1 shows all of the HRA schemes for the capital plan period including new schemes, existing schemes and changes to existing schemes.

10. The Major Repairs Reserve, or equivalent, effectively represents the amount set aside for depreciation each year and this becomes a cash amount that will be spent on capital works. As at 1 April 2019 there is £3.9m uncommitted in the Major Repairs Reserve. The Housing Revenue Account report shows that in 2020/21 the depreciation budget is £3,189k and the RCCO budget is £4,141k. It can be reasonably assumed that these levels will continue for 2021/22 and 2022/23 so the plan is fully funded.

11. The level of capital expenditure will be set so as to ensure that the housing stock is kept in good repair and at a level that allows the Council to service the £79.19m borrowing that it undertook to pay the government in March 2012. As such the HRA Capital Plan will be adequately funded over the three years.

Prudential Code

12. In order to comply with the Prudential Code capital expenditure must be affordable in the long term, and therefore sustainable, which requires that the decision making process must be prudent. The revenue impact of the capital expenditure must be contained within the forward plans of the authority which provides a level of Council Tax that the Council considers acceptable. Implementation of the proposed General Fund Capital Plan would result in net revenue savings and therefore is in line with the proposed Revenue Budget and the Medium Term Financial Strategy.

13. Consideration has been given to undertaking prudential borrowing in order to fund General Fund capital expenditure. However, this would incur additional revenue costs for both interest and repayments which the council would have to be able to fund as well as the savings programme which is required to continue to fund services in the light of reduced central government funding. In view of this and as set out in the current Medium Term Financial Strategy, the Council does not intend to undertake any such material borrowing in the medium term.

14. Risk Management

    There are no specific risks associated with the decision Cabinet is being asked to make. However, the risks associated with the eventual adoption of the new Capital Plan and the actions planned to mitigate those risks are set out in Part A of this report.

Appendices

A list of schemes together with brief explanations is attached at Appendix 1.

New Capital Plan 2020/21 - 2022/23

Head of Service	Scheme Name	Expenditure 2020/21 £	Expenditure 2021/22 £	Expenditure 2022/23 £	Expenditure Total £	External Funding 2020/21 £	External Funding 2021/22 £	External Funding 2022/23 £	External Funding Total £	Net CBC Funding 2020/21 £	Net CBC Funding 2021/22 £	Net CBC Funding 2022/23 £	Net CBC Funding Total £	3 Year Revenue Savings Total £	3 Year Revenue Costs Total £	Scheme overview
	General Fund															
	Directorate of Housing, Planning & Regeneration and Regulatory Services															
	Live Schemes															
A Simmons	Disabled Facilities Grants	-	1,058,000	1,058,000	2,116,000	-	1,058,000	1,058,000	2,116,000	-	-	-	-	-	-	Adaptations and alterations to allow residents to continue living at home.
A Simmons	Private Sector Housing Grants	-	75,000	75,000	150,000	-	-	-	-	-	75,000	75,000	150,000	-	-	Assist the most vulnerable people living in the Private Sector in conjunction with the Private Sector Housing Grants Policy.
	Committed Schemes															
R Bennett	Bedford Square Gateway	890,000	500,000	-	1,390,000	390,000	-	-	390,000	500,000	500,000	-	1,000,000	-	-	To improve the quality of the public realm in Bedford Square, Wards End and Devonshire Square with better pedestrian connectivity to the Cattle Market.
R Bennett	Carbon Neutral Action Fund - Block Sum	500,000	500,000	500,000	1,500,000	-	-	-	-	500,000	500,000	500,000	1,500,000	-	-	Part of a 10 year action plan to deliver the Council's aspiration to be carbon neutral by 2030.
	Directorate of Housing, Planning & Regeneration and Regulatory Services - Total	**1,390,000**	**2,133,000**	**1,633,000**	**5,156,000**	**390,000**	**1,058,000**	**1,058,000**	**2,506,000**	**1,000,000**	**1,075,000**	**575,000**	**2,650,000**	**-**	**-**	
	Directorate of Community Wellbeing															
	Live Schemes															
J Robinson	CCTV	-	45,000	45,000	90,000	-	-	-	-	-	45,000	45,000	90,000	-	-	Replacement CCTV cameras.
S Wright	Loughborough Town Hall - Lower Level Elevation Repairs & Feasibilty Study	40,000	-	-	40,000	-	-	-	-	40,000	-	-	40,000	-	-	Condition survey identified several improvements required to the frontage of the building.
S Wright	Town Hall - Victorial Room - Air Handling	50,000	-	-	50,000	-	-	-	-	50,000	-	-	50,000	-	-	Installation of air handling units in the roof void.
S Wright	Town Hall - additional seating	75,000	150,000	-	225,000	-	-	-	-	75,000	150,000	-	225,000	70,000	-	Increase the number of seats at the Town Hall by 60 seats.
S Wright	Lighting strategy to support the Masterplan lane strategy - feasiblity study	10,000	-	-	10,000	-	-	-	-	10,000	-	-	10,000	-	-	Lighting strategy to support the Masterplan lane strategy - feasiblity study
M Bradford	Loughborough Playground Improvement Plan	-	50,000	50,000	100,000	-	-	-	-	-	50,000	50,000	100,000	-	-	Resurface play areas from rubber crumb to artificial grass. Recent studies, in America, show there may be a link with recycled crumb material and childhood cancers.
M Bradford	Queens Park - Improvements to Childrens Play Provision & Adult Recreation Provision	-	100,000	105,000	205,000	-	-	-	-	-	100,000	105,000	205,000	-	-	Improvements include basket swing refurbishment, new outdoor gym, infrastructure improvements to Maze, Aviary, resurfacing footpaths and flood mitigation.
M Bradford	Allotment Improvements	35,000	-	-	35,000	-	-	-	-	35,000	-	-	35,000	-	-	Works to include site security, signage and DDA compliance access to plots.
M Bradford	Loughborough in Bloom - Biodiversity Improvements	20,000	-	-	20,000	-	-	-	-	20,000	-	-	20,000	-	-	Environmental and landscape improvements to main road corridors into Loughborough to create attractive "Bee Highways".
M Bradford	Charnwood Water - Access Improvements	40,000	-	-	40,000	-	-	-	-	40,000	-	-	40,000	-	-	Surfacing and enhancement of circular walkway around the lake to provide multi-user access for residents.
M Bradford	Community Tree Planting & Establishment	25,000	25,000	-	50,000	-	-	-	-	25,000	25,000	-	50,000	-	-	Plant 100,000 trees over the next four years to make Charnwood one of the greenest Borough's.
M Bradford	Jubilee Walk, Shepshed - surfacing & enhancement	-	50,000	-	50,000	-	25,000	-	25,000	-	25,000	-	25,000	-	-	Surfacing and enhancement of circular walkway around the lake to provide multi-user access for residents between Charnwood Raod and Tickow Lane.
M Bradford	Moat Road - Multi Use Games Area & Play Improvements	-	40,000	-	40,000	-	-	-	-	-	40,000	-	40,000	-	-	Refurbishment of existing play area and resurfacing adjacent car park.
M Bradford	Morley Quarry - access works	-	50,000	-	50,000	-	25,000	-	25,000	-	25,000	-	25,000	-	-	Creation of circular surfaced waymarked trail.
M Bradford	Queens Park Aviary Improvements	20,000	-	-	20,000	-	-	-	-	20,000	-	-	20,000	-	-	Essential infrastructure improvements and enhancements to the building indenfitied by the annual condtion survey.
M Bradford	Playing Pitch Strategy Action Plan	60,000	100,000	140,000	300,000	-	-	-	-	60,000	100,000	140,000	300,000	-	-	Maintain sports grounds in Loughborough.
M Bradford	Closed Churchyard Wall	25,000	25,000	-	50,000	-	-	-	-	25,000	25,000	-	50,000	-	-	Maintenance of walls, fences and other structures within the churchyards.
M Bradford	Lodge Farm - Multi Use Games Area	-	80,000	-	80,000	-	-	-	-	-	80,000	-	80,000	-	-	Ball Court/Multi Use Games Area to maintain provision in the South West of Loughborough.
M Bradford	Parish Green Masterplan	5,000	70,000	-	75,000	-	-	-	-	5,000	70,000	-	75,000	-	-	Restoration and enhancement of Loughborough's Parish Green, comprising of All Saints church and churchyard, Rectory Wildlife Garden, Fearon Hall and Rectory Museum.
M Bradford	Park Road Access Resurfacing	60,000	-	-	60,000	-	-	-	-	60,000	-	-	60,000	-	-	Resurfacing car park and markings and resurface access to car park.
M Bradford	Delivery of Open Space Strategy	20,000	20,000	20,000	60,000	-	-	-	-	20,000	20,000	20,000	60,000	-	-	Feasibility Study

New Capital Plan 2020/21 - 2022/23

Head of Service	Scheme Name	Expenditure 2020/21	Expenditure 2021/22	Expenditure 2022/23	Expenditure Total	External Funding 2020/21	External Funding 2021/22	External Funding 2022/23	External Funding Total	Net CBC Funding 2020/21	Net CBC Funding 2021/22	Net CBC Funding 2022/23	Net CBC Funding Total	3 Year Revenue Savings Total	3 Year Revenue Costs Total	Scheme overview
		£	£	£	£	£	£	£	£	£	£	£	£	£	£	
J Robinson	Charnwood Community Facilities Grants	-	20,000	20,000	40,000	-	-	-	-	-	20,000	20,000	40,000	-	-	Grants to community organisations and Parish/Town Councils to support the renovation and improvement of community buildings which enhance access by the local communities they serve.
J Robinson	Member Grants - Members Choice	26,000	26,000	26,000	78,000	-	-	-	-	26,000	26,000	26,000	78,000	-	78,000	Councillors allocated £1k each to fund local community projects within their ward. There is also an equivalent revenue budget request of £26k per annum.
	Third Party Schemes															
M Bradford	Allendale Road - Public Open Space Improvements	-	82,800	-	82,800	-	82,800	-	82,800	-	-	-	-	-	-	Additional youth equiment/facilities and open space area improvements. Project fully funded by S106 contributions.
M Bradford	Farnham Road Public Open Space Improvements	-	-	113,000	113,000	-	-	113,000	113,000	-	-	-	-	-	-	Installation of Multi Use Games Area and improvements to existing public open space - fully funded from S106 contributions.
	Community Wellbeing - Total	**511,000**	**933,800**	**519,000**	**1,963,800**	**0**	**132,800**	**113,000**	**245,800**	**511,000**	**801,000**	**406,000**	**1,718,000**	**70,000**	**78,000**	
	Directorate of Corporate Services															
	Live Schemes															
L Tansey	Unit4 Agresso Upgrade	12,000	35,000	-	47,000	-	-	-	-	12,000	35,000	-	47,000	-	-	Reports upgrade and moving to next milestone during 2021-22.
L Tansey	Planned Building Improvements	500,000	500,000	500,000	1,500,000	-	-	-	-	500,000	500,000	500,000	1,500,000	-	-	Planned Improvements to Council owned Buildings
A Ward	Legal Case Management System	20,000	-	-	20,000	-	-	-	-	20,000	-	-	20,000	-	-	New system required to support modern working practices and integration with other council systems and software.
K Barnshaw	Server Redesign	70,000	-	-	70,000	-	-	-	-	70,000	-	-	70,000	16,000		Server Redesign
K Barnshaw	Hardware Replacement Programme	-	45,000	45,000	90,000	-	-	-	-	-	45,000	45,000	90,000	-	-	Replacement of ageing current devices and continue rollout of end-user devices to support Office365, Windows 10 and future upgrades, procurement of hardware infrastructure and delivery of mobile functionality/devices.
K Barnshaw	Infrastructure Development	-	30,000	30,000	60,000	-	-	-	-	-	30,000	30,000	60,000	-	-	CBC network, switches, servers and security enhancements. Support to an effective ICT infrastructure which is crutial to front line and back office services.
K Barnshaw	Cloud Implementation	194,000	-	-	194,000	-	-	-	-	194,000	-	-	194,000	-	213,000	Implementation of selected Cloud computing model to support entire IT environment, including CCTV infrastructure.
K Barnshaw	Meeting Rooms - presentation screens	10,000	-	-	10,000	-	-	-	-	10,000	-	-	10,000	-	-	Insatallation of screens in the remaining identified meeting rooms.
	Corporate Services - Total	**806,000**	**610,000**	**575,000**	**1,991,000**	**-**	**-**	**-**	**-**	**806,000**	**610,000**	**575,000**	**1,991,000**	**16,000**	**213,000**	
	Total General Fund Schemes	**2,707,000**	**3,676,800**	**2,727,000**	**9,110,800**	**390,000**	**1,190,800**	**1,171,000**	**2,751,800**	**2,317,000**	**2,486,000**	**1,556,000**	**6,359,000**	**86,000**	**291,000**	
	HRA															
	Directorate of Housing, Planning & Regeneration and Regulatory Services															
	Live Schemes															
A Simmons	Acquisition of Affordable Housing to meet housing need	1,053,900	1,500,000	1,500,000	4,053,900	-	-	-	-	1,053,900	1,500,000	1,500,000	4,053,900	-	-	Acquisition of properties to increase the supply of Affordable Homes for Rent.
Following HRA schemes replace what is already in the Capital Plan for 2020/21:-																
P Oliver	Major Adaptations	450,000	450,000	450,000	1,350,000	-	-	-	-	450,000	450,000	450,000	1,350,000	-	-	Installing major adaptations for disabled tenants such as ramps, rails, lighting and other general works. This includes remodelling bathrooms and installing level access showers, altering property layouts, extension, thorough the floor lifts and other major adaptations.
P Oliver	Stairlifts	60,000	80,000	80,000	220,000	-	-	-	-	60,000	80,000	80,000	220,000	-	-	Installation or upgrade of stairlifts to meet needs of occupants. Lift users will be safer, more independent and more likely to stay in their homes
P Oliver	Minor Adaptations	50,000	50,000	50,000	150,000	-	-	-	-	50,000	50,000	50,000	150,000	-	-	Minor adaptations for disabled tenants such as hand rails and other general works to support vulnerable people live independently in their homes
P Oliver	Major Voids	280,000	280,000	280,000	840,000	-	-	-	-	280,000	280,000	280,000	840,000	-	-	Carrying out major works to void properties including kitchens, bathrooms, damp and other works to meet the fit to let standard. Works support the delivery of the Decent Homes Standard and the Charnwood Standard

New Capital Plan 2020/21 - 2022/23

Head of Service	Scheme Name	Expenditure 2020/21	Expenditure 2021/22	Expenditure 2022/23	Expenditure Total	External Funding 2020/21	External Funding 2021/22	External Funding 2022/23	External Funding Total	Net CBC Funding 2020/21	Net CBC Funding 2021/22	Net CBC Funding 2022/23	Net CBC Funding Total	3 Year Revenue Savings Total	3 Year Revenue Costs Total	Scheme overview
		£	£	£	£	£	£	£	£	£	£	£	£	£	£	
	Decent Homes															
P Oliver	Kitchens	400,500	580,500	598,500	1,579,500	-	-	-	-	400,500	580,500	598,500	1,579,500	-	-	Replacement of kitchens to meet the Charnwood and Decent Homes Standards
P Oliver	Bathrooms	915,000	787,800	1,186,600	2,889,400	-	-	-	-	915,000	787,800	1,186,600	2,889,400	-	-	Replacement of bathrooms to meet the Charnwood and Decent Homes Standards
P Oliver	Electrical Upgrades	200,000	290,000	290,000	780,000	-	-	-	-	200,000	290,000	290,000	780,000	-	-	Electrical Upgrades to meet the Charnwood and Decent Homes Standards
P Oliver	Window Replacement	35,000	195,000	40,000	270,000	-	-	-	-	35,000	195,000	40,000	270,000	-	-	Replacement of windows to meet the Charnwood and Decent Homes Standards
P Oliver	Heating	439,300	331,200	411,700	1,182,200	-	-	-	-	439,300	331,200	411,700	1,182,200	-	-	Replacement of heating systems and boilers to meet the Charnwood and Decent Homes Standards
P Oliver	Sheltered housing improvements	200,000	200,000	200,000	600,000	-	-	-	-	200,000	200,000	200,000	600,000	-	-	Replacement of heating systems and boilers at sheltered accommodation to meet the Charnwood and Decent Homes Standards
P Oliver	Door Replacement	1,000,000	300,000	300,000	1,600,000	-	-	-	-	1,000,000	300,000	300,000	1,600,000	-	-	Replacement of doors to meet the Charnwood and Decent Homes Standards
P Oliver	Roofing Works & Insulation	650,000	650,000	650,000	1,950,000	-	-	-	-	650,000	650,000	650,000	1,950,000	-	-	Re-roof properties due to poor condition or emergency dilapidations.
P Oliver	Major Structural Works	250,000	250,000	250,000	750,000	-	-	-	-	250,000	250,000	250,000	750,000	-	-	Major structural improvement works at properties suffering from subsidence or other building defects.
	Compliance															
P Oliver	Asbestos Removal	150,000	150,000	150,000	450,000	-	-	-	-	150,000	150,000	150,000	450,000	-	-	Removal of asbestos from properties, or other action as appropriate to manage the risks associated with asbestos
P Oliver	Communal Area Improvements	200,000	200,000	200,000	600,000	-	-	-	-	200,000	200,000	200,000	600,000	-	-	Undertake improvements to communal areas including flooring, painting, renewal of bannisters and other fixtures. Communal areas in some locations are in poor condition.
P Oliver	Communal Area Electrical Upgrades	200,000	200,000	200,000	600,000	-	-	-	-	200,000	200,000	200,000	600,000	-	-	Electrical upgrades at communal areas to meet the Charnwood Standard. These works include (but are not limited to) installation of emergency lighting and LEDs
P Oliver	Smoke/CO & Heat Detection	30,000	30,000	30,000	90,000	-	-	-	-	30,000	30,000	30,000	90,000	-	-	Installation of carbon monoxide alarms and upgrades from battery to hard wired alarm systems
P Oliver	Fire Safety Works	300,000	100,000	100,000	500,000	-	-	-	-	300,000	100,000	100,000	500,000	-	-	Works to reduce the risk posed by fire, including new installations or replacement of fire doors and fire resistant windows
	General Capital Works															
P Oliver	Mobility Scooter Storage	15,000	15,000	15,000	45,000	-	-	-	-	15,000	15,000	15,000	45,000	-	-	Mobility scooters when driven through and stored in communal areas are a fire hazard. Alternative options including on site mobility storage maybe needed in order to advance the Council's policy around mobility scooters
P Oliver	Garages	50,000	25,000	25,000	100,000	-	-	-	-	50,000	25,000	25,000	100,000	-	-	Capital works on garages in order to maintain the rental income stream
P Oliver	Door Entry Systems	200,000	200,000	200,000	600,000	-	-	-	-	200,000	200,000	200,000	600,000	-	-	To provide doors and door entry mechanisms to communal areas where there are currently none and there is an identified need for their installation or where the existing door and door entry systems requires upgrading
P Oliver	Estate and External Works	205,000	205,000	205,000	615,000	-	-	-	-	205,000	205,000	205,000	615,000	-	-	Estate improvement works including those related to the provision and upgrade of footpaths, car parks and fencing
P Oliver	Housing Capital Technical Costs	312,000	312,000	312,000	936,000	-	-	-	-	312,000	312,000	312,000	936,000	-	-	Capitalisation of the relevant revenue elements of salaries for those working on implementing the capital plan.
	Total HRA	**7,645,700**	**7,381,500**	**7,723,800**	**22,751,000**	**0**	**0**	**0**	**0**	**7,645,700**	**7,381,500**	**7,723,800**	**22,751,000**	**0**	**0**	
	Total General Fund & HRA	**10,352,700**	**11,058,300**	**10,450,800**	**31,861,800**	**390,000**	**1,190,800**	**1,171,000**	**2,751,800**	**9,962,700**	**9,867,500**	**9,279,800**	**29,110,000**	**86,000**	**291,000**	

CABINET - 13TH FEBRUARY 2020

Report of the Head of Strategic Support
Lead Member: Councillor Poland

Part A

ITEM 11 STRATEGIC RISK REGISTER

Purpose of Report

The report proposes an updated Strategic Risk Register for approval.

Recommendations

1. That the draft Strategic Risk Register for 2020/21 as set out in the Appendix to this report is adopted, and that the Audit Committee monitor progress against those risks on the register by receiving quarterly monitoring reports.

2. That authority is delegated to the Head of Strategic Support to make amendments to the risk register where required, in consultation with the relevant risk owner and Lead Member.

Reasons

1. To ensure that the most significant risks to the Council achieving its objectives are identified and actively managed.

2. To ensure that the Strategic Risk Register is kept up to date and relevant.

Policy Justification and Previous Decisions

Sound risk management arrangements that are embedded and applied consistently throughout the Council will support the achievement of Corporate Plan objectives by ensuring that resources and activity are concentrated on the areas of greatest risk.

The maintaining and monitoring of the Strategic Risk Register will support the delivery of the Council's corporate goals in ensuring that the identified risks are appropriately managed.

Implementation Timetable including Future Decisions and Scrutiny

If approved the Strategic Risk Register will come into effect for the financial year 2020/21.

Cabinet will continue to receive an annual risk management report which will include the proposed Strategic Risk Register for the forthcoming year, and the risk register will be monitored on a quarterly basis by the Audit Committee.

Report Implications

The following implications have been identified for this report.

Financial Implications

There are no financial implications associated with these decisions.

Risk Management

The risks associated with the decision Cabinet is asked to make and proposed actions to mitigate those risks are set out in the table below.

Risk Identified	Likelihood	Impact	Overall Risk	Risk Management Actions Planned
A significant Strategic Risk has not been identified and therefore may not be appropriately managed.	Unlikely (2)	Serious (3)	Moderate (6)	The register has been developed following consultation with Members and the Senior and Corporate Management Teams, and will be reviewed, and updated if necessary, on a quarterly basis.
Risks may have been wrongly assessed resulting in insufficient risk management actions being taken.	Unlikely (2)	Serious (3)	Moderate (6)	The risk register will be reviewed, and updated if necessary, on a quarterly basis.

Key Decision: No

Background Papers: None

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Part B

Background

1. The proposed updated Strategic Risk Register for 2020/21 has been produced following consultation with the Senior and Corporate Leadership Teams, Cabinet members and Audit Committee members.

2. The main suggested change is to delete the previous strategic risk which was described as:

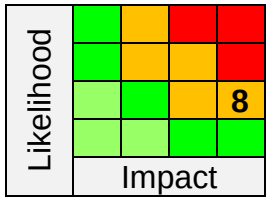
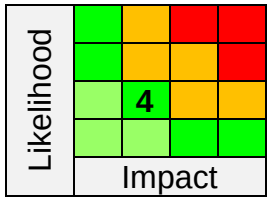
   'Failure to maintain adequate risk management arrangements and processes, including monitoring risks at operational level and escalating these where required'.

3. It is considered that this risk is no longer required, as the Council has a sound and well embedded approach to risk management, which includes a quarterly process for reviewing and updating the Strategic Risk Register, including ongoing oversight by the Audit Committee and an annual review by Cabinet, as well as processes for identifying and monitoring lower level operations risks within team plans, and an escalation process for these if required.

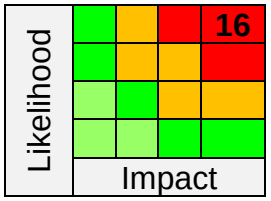
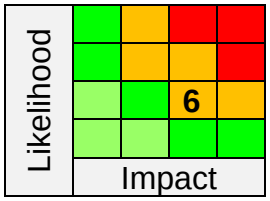
Appendices

Updated Strategic Risk Register

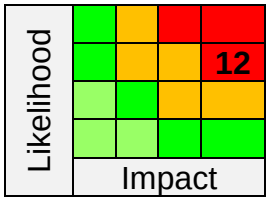
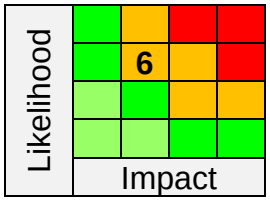
APPENDIX - Strategic Risk Register 2020/21

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR1 Inadequate business continuity and recovery arrangements, resulting in major internal and/or external disruption to services in the event of an incident.	Strategic	• Inability to deliver key/critical services e.g.benefits, refuse collection, homelessness applications, emergency repairs. • Reduction in access channels available to residents / customers i.e. contact centre, customer services, telephony			MAINTAIN AS CURRENT
Current Treatments and Controls	• Business Continuity Planning • IT Disaster Recovery Plan • Website hosted externally • Off-site data back-up arrangements • Stand-by generator for ICS building • Cloud based telephony infrastructure • Contingency planning for failure of major contractor				
Risk Owner	Strategic Director of Corporate Services				
Planned Future Actions and Responsible Officer(s).	Description: Not applicable		Responsible Officer: N/A	Target Date: N/A	

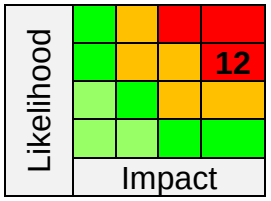
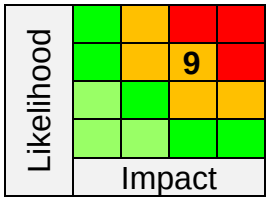
APPENDIX - Strategic Risk Register 2020/21

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR2 Inadequate data sharing and data security arrangements.	Strategic	• Ineffective processes for sharing data with other agencies / authorities leading to data breaches • Major reputational damage and loss of public confidence • Potentially significant fines			MAINTAIN AS CURRENT
Current Treatments and Controls	• Information sharing agreements in place with key agencies and authorities • Annual IT health checks including penetration testing • Data Protection Officer in post • Data protection training and awareness for staff and councillors • IT security policies in place • Protective marking of emails • Policies are reviewed on a regular basis				
Risk Owner	Strategic Director of Corporate Services				
Planned Future Actions and Responsible Officer(s).	Description: Not Applicable	Responsible Officer: N/A		Target Date: N/A	

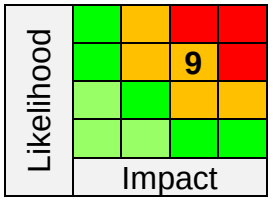
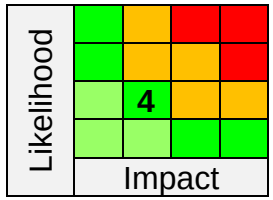
APPENDIX - Strategic Risk Register 2020/21

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR3 Inadequate civil contingency arrangements resulting in failure to respond appropriately to a major incident (eg. flooding, terrorism etc).	Strategic	• Inability to respond to affected peoples' basic needs (food, shelter etc) • Adverse effect on the local economy • Major reputational damage and loss of public confidence • Extending the recovery phase longer than necessary			MAINTAIN AS CURRENT
Current Treatments and Controls	• Participation in the Local Resilience Partnership and Forum (LRP and LRF) • Appropriate emergency and incident planning in place • Regular Testing and exercising of emergency plans • Training and awareness for relevant staff • 24/7 call-out arrangements for senior managers (SMT / CMT) • Participation in county-wide Events Safety Group (SAG) • Reviews periodically undertaken within current Treatments and Controls				
Risk Owner	Chief Executive				
Planned Future Actions and Responsible Officer(s).	Description: Participation in LRF's 'no-deal' Brexit planning processes, including appointment of a 'Brexit Lead Officer'		Responsible Officer: Head of Strategic Support	Target Date: Ongoing	

APPENDIX - Strategic Risk Register 2020/21

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR4 Significant reduction in external funding and/or income generated leading to a reduction in the financial resources available for service provision and/or to fund corporate objectives.	Strategic	• Inability to meet demand for services • Inability to meet statutory duties • Ceasing or reducing some services			MAINTAIN AS CURRENT
Current Treatments and Controls	• Annual production and monitoring of Medium Term Financial Strategy (MTFS) • Treasury Management Strategy • Budget and revenue monitoring processes • Business continuity planning • Production and monitoring of efficiency plan • Maintenance of reserves at specified required levels • Monitor, consider and respond to government proposals affecting budgets and/or income • Consider commercialisation opportuntiies				
Risk Owner	Strategic Director of Corporate Services				
Planned Future Actions and Responsible Officer(s).	Description: Not Applicable		Responsible Officer: N/A	Target Date: N/A	

APPENDIX - Strategic Risk Register 2020/21

Risk Code and Title	Primary Risk Type	Potential Consequences	Inherent Risk Matrix	Residual (Current) Risk Matrix	Direction of Travel
SR5 Ineffective strategic communication arrangements	Strategic	• Reputational damage • Adverse media coverage • Damage to relationships with partners • Damage to staff morale			MAINTAIN AS CURRENT
Current Treatments and Controls	• Adequately staffed and experienced corporate communications team • Corporate Communications Plan in place • Regular monitoring of all media sources • Continue to expand on social media use and reach • 'Horizon scanning' for potential communication issues at each Corporate Management Team meeting				
Risk Owner	Chief Executive				
Planned Future Actions and Responsible Officer(s).	Description: Not Applicable	Responsible Officer: N/A		Target Date: N/A	

CABINET – 13TH FEBRUARY 2020

Report of the Head of Strategic Support
Lead Member: Councillor Poland

Part A

ITEM 12 REGULATION OF INVESTIGATORY POWERS ACT: POLICY AND REVIEW OF USE DURING 2019

Purpose of Report

To approve a Regulation of Investigatory Powers Act (also known as RIPA, or the 2000 Act) Policy, and consider a summary of the use of RIPA during 2019.

Recommendations

1. That it be noted that there has been no use of RIPA by the Council during the calendar year 2019.

2. That the Audit Committee be requested to continue its responsibility for receiving a quarterly report on the use of RIPA, and to report to Cabinet any concerns arising from those reports that may indicate that the use of RIPA is not consistent with the Policy or that the Policy may not be fit for purpose.

3. That the RIPA Policy Statement, attached as an appendix to this report, be approved with no amendments required.

Reasons

1. To ensure compliance with the requirements of the Home Office's current 'Code of Practice – Covert Surveillance and Property Interference' relating to the involvement of elected Members in approving the RIPA policy and reviewing the Council's use of RIPA on at least an annual basis.

2. To ensure compliance with the requirements of the Home Office's latest 'Code of Practice – Covert Surveillance and Property Interference' relating to elected Members considering reports on the use of RIPA on at least a quarterly basis to ensure that is it being used consistently with the policy and the policy remains fit for purpose.

3. To ensure that the Council's RIPA Policy Statement remains up to date and consistent with the relevant legislation and codes of practice..

Policy Justification and Previous Decisions

The use of RIPA to conduct covert surveillance in appropriate instances may support many of the Council's enforcement and anti-fraud policies. The Home Office Code of Practice, which relevant bodies are obliged to follow when using RIPA, requires that elected Members should set a RIPA policy on an annual basis.

Implementation Timetable including Future Decisions and Scrutiny

The Audit Committee will continue to receive regular quarterly monitoring reports on any use of RIPA by the Council.

Report Implications

The following implications have been identified for this report.

Financial Implications

None.

Risk Management

The risks associated with the decision Cabinet is asked to make and proposed actions to mitigate those risks are set out in the table below.

Risk Identified	Likelihood	Impact	Overall Risk	Risk Management Actions Planned
Failure to follow RIPA requirements could lead to inadmissible evidence in enforcement or other criminal cases, leading to reputational damage for the Council.	Unlikely (2)	Significant (2)	Low (4)	Annual approval of an appropriate RIPA policy and ongoing monitoring by elected Members.

Key Decision: No

Background Papers: None

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Part B

Background

1. RIPA provides for the authorisation of covert surveillance by the Council where that surveillance is likely to result in the obtaining of private information about a person.

2. Surveillance includes monitoring, observing or listening to persons, their movements, conversations or other activities and communications. Surveillance is covert if it is carried out in a manner calculated to ensure that any persons who are subject to the surveillance are unaware that it is or may be taking place.

3. The Council only has the power to authorise covert surveillance under RIPA for the purpose of preventing or detecting crime, or of preventing disorder.

4. RIPA applications are required to be approved by a Justice of the Peace (JP) at the Magistrates' Court in addition to an internal authorisation process. The Protection of Freedoms Act 2012 requires that local authority authorisations and notices under RIPA for the use of particular covert investigation techniques can only be given effect once an order approving the authorisation or notice has been granted by a Justice of the Peace (JP). This would require the Council to make a formal application to a Magistrates' Court, followed by a hearing at Court in private at which the application for a surveillance order may be granted or declined by the Magistrates.

5. A local authority can only obtain an authorisation under RIPA for the use of directed surveillance where the local authority is investigating particular types of criminal offences. These are:

   - Criminal offences which attract a custodial sentence of six months or more; or
   - Certain criminal offences under sections 146, 147 or 147A of the Licensing Act 2003 involving the sale of alcohol to children; or
   - Certain criminal offences under section 7 of the Children and Young Persons Act 1933 relating to the sale of tobacco to minors.

6. Examples of offences which would not meet the above conditions are:

   - Any fine-only offences, such as littering, dog fouling or a householder failing the duty of care to check that household waste taken for disposal was taken by a person authorised to transfer waste (section 34 of the Environmental Protection Act 1990).
   - Any offences attracting a penalty of less than 6 months imprisonment, for instance false representations for obtaining benefit (s. 112 of the Social Security Administration Act 1992), which has a maximum penalty of 3 months imprisonment.

7. Examples of offences which would meet the above conditions are any offence attracting a penalty of 6 months or more imprisonment, such as:
   - Fly tipping (section 33 of the Environmental Protection Act 1990), which has a penalty of up to 5 years imprisonment.
   - Offences given special status under RIPA as amended, such as the selling of alcohol or tobacco to children.

8. The requirements around the RIPA authorisation process are complex, and the Home Office has responsibility for issuing a Code of Practice under the Act to specify the processes and procedures which must be followed. The Code of Practice includes a best practice requirement that:

   'Elected members of a local authority should review the authority's use of the 2000 Act and set the policy at least once a year. They should also consider internal reports on use of the 2000 Act on a regular basis to ensure that it is being used consistently with the local authority's policy and that the policy remains fit for purpose', (s3.35).

9. The Cabinet is therefore responsible for receiving an annual overall report on the use of RIPA and for approving the RIPA policy each year, and the Audit Committee are responsible for receiving quarterly reports on the use of RIPA and for reporting back to Cabinet any concerns relating to potential inconsistency with the policy, or if the policy does not appear fit for purpose.

10. The Council has not used it's RIPA powers during 2019.

11. There are no amendments proposed to the RIPA Policy Statement for the next 12 months, which is attached as an appendix.

Appendices

Appendix: RIPA Policy Statement (February 2020)

CHARNWOOD BOROUGH COUNCIL

COVERT SURVEILLANCE

REGULATION OF INVESTIGATORY POWERS ACT 2000

POLICY STATEMENT

(February 2020)

Policy Statement
Regulation of Investigatory Powers Act 2000

Introduction

The Regulation of Investigatory Powers Act 2000 (RIPA) provides a legal framework for covert surveillance activities by public authorities (including local authorities). The Office of Surveillance Commissioners (OSC) operates as an independent inspector to monitor these activities.

The use of surveillance (both overt and covert) to provide information is a valuable resource for the protection of the public and the maintenance of law and order. To discharge their responsibilities local authorities and law enforcement agencies use unaided surveillance and surveillance devices. RIPA and codes of practice under it provide a legal framework and procedure to authorise the use of covert surveillance. Surveillance is covert if it is carried out in a manner that is calculated to ensure that people who are subject to is are unaware that it is or may be taking place.

In some circumstances, it may be necessary for Council employees, in the course of their duties, to make observations of people in a covert manner. Actions of this sort may constitute an interference with a person's right to privacy. This may give rise to legal challenge as a potential breach of "the right to respect for private and family life" under Article 8 of the European Convention on Human Rights and the Human Rights Act 1998. RIPA provides a procedure to defend the Council against such challenges.

Purpose

This policy statement is designed to ensure that Charnwood Borough Council meets the legal requirements in relation to the use of covert surveillance. It also promotes a professional approach in undertaking surveillance so that those affected may have confidence that the Council will act effectively and in a fair and lawful manner. It should be read in conjunction with the Regulation of Investigatory Powers Act 2000 and the current versions of the Code of Practice on the use of Covert Human Intelligence sources and the Code of Practice on Covert Surveillance.

STATEMENT OF INTENT

This policy statement applies only to the use of covert surveillance, although it is expected that usually any surveillance activity undertaken by or on behalf of the Council will be overt.

The Council will fulfil its lawful obligations and use directed surveillance within the terms of the Regulation of Investigatory Powers Act 2000 and the directions of the Office of Surveillance Commissioners.

The Council will keep its policy and procedures under review and update them as necessary and in accordance with any changes in the law.

The Council will take necessary steps to ensure that all employees and councillors are aware of all relevant policy standards, procedures, legislation

and best practice. Employees have a duty to follow this policy and its procedures and any employee acting outside this policy will be subject to the Council's disciplinary procedures.

Evidence gathered by surveillance will be treated as confidential and will only be disclosed to persons (internal and external) whose authority has been explicitly established. Such evidence may only be removed by employees from a Council office with the authority of their Head of Service of another senior officer formally designated by the Head of Service. Employees will be responsible for any misuse, security breach of unauthorised disclosure while such evidence is in their control.

Evidence gathered by covert surveillance will be held for as long as the law requires (a minimum of 5 years) after which it may be destroyed in a secure manner.

The Council will keep in place appropriate security measures as required.

Appropriate physical security will be provided for visitors being received and supervised at all times within the Council offices where evidence gathered by surveillance is stored.

Each service will be responsible for the security of evidence collected by it. Security arrangements will be reviewed regularly. All reported breaches or potential weaknesses will be investigated by the Head of Service concerned and where necessary further or alternative measures introduced.

A reporting structure will be established headed by the RIPA Monitoring Officer with a liaison officer in each service so that authorisation, review, renewal and cancellation forms and procedures are:

- co-ordinated and consistent, and
- available for inspection by the OSC;

and so that any problems can be identified and investigated.

The intention is that subjects of covert surveillance carried out by or on behalf of the Council can be assured that evidence collected (including personal data) will be processed with care and in accordance with the law.

Council employees will not carry out intrusive surveillance within the meaning of the Regulation of Investigatory Powers Act 2000. This is covert surveillance carried out in relation to anything taking place on any residential premises or in any private vehicle; and involves the presence of an individual or a device on the premises or in the vehicle, or by means of a surveillance device capable of providing information of the same quality and detail as might be expected to be obtained from a device actually present on the premises or in the vehicle.

Although the law does not impose a requirement on the Council to seek or obtain authorisations, it will seek to adhere to the authorisation, review, renewal and cancellation procedure provided for by RIPA and the codes of practice before conducting any covert surveillance. The Council will not gather evidence by covert surveillance of individuals where it is disproportionate or unnecessary in relation to the purposes of the investigation.

Surveillance carried our by a third party on behalf of the Council shall be subject to a contract which stipulates compliance with the law and this policy.

PRINCIPLES OF SURVEILLANCE

In planning and carrying out covert surveillance Council employees shall comply with the following principles:

Lawful Purposes

Directed surveillance shall only be carried out where necessary to achieve one or more of the permitted purposes (see section 28(3) of RIPA) available to local authorities, namely;

a) for the purposes of preventing or detecting crime or the prevention of disorder.

Employees carrying out surveillance shall not interfere with any property or harass any person.

Confidential Material

Applications where a significant risk of acquiring confidential material has been identified shall always require the authorisation of the Chief Executive (or in his absence a Director) after consulting with the RIPA Monitoring Officer.

Confidential material consists of;

- matters subject to legal privilege (eg. between a professional advisor and client)
- confidential personal information (eg. relating to a person's spiritual, physical or mental health), or
- confidential journalistic material.

DEFINITIONS

Unless the context otherwise requires, in this document the expressions in the first column shall have the meaning in the second column and any reference to a statute or statutory instrument or code of practice within the document shall include amendments to it.

Authorising Officer	means a person entitled to give an authorisation for directed surveillance or for the use of a covert human intelligence source in accordance with section 30 of RIPA and the Regulation of Investigatory Powers (Prescription of Offices, Ranks and Positions) Order SI. No. 2417, as adapted to the organisational structure of the Council and who is

	included in the list of officers designated as such by the Council within the Delegations to Officers section of the Council's Constitution.
Council	means Charnwood Borough Council
Covert Human Intelligence Source (CHIS)	means a person who establishes or maintains a personal or other relationship with a person for the covert purpose of facilitating the doing of anything falling within sections 26(8)(b) or (c) of RIPA, namely: (b) to covertly use such a relationship to obtain information or to provide access to any information to another person; or (c) to covertly disclose information obtained by the use of such a relationship, or as a consequence of the existence or such a relationship
Covert Surveillance	means surveillance carried out in a manner that is calculated to ensure that persons who are subject to this surveillance are unaware that it is or may be taking place
Directed Surveillance	means covert surveillance which is not intrusive and is undertaken; (a) for the purpose of a specific investigation or a specific operation, (b) in such a manner as is likely to result in the obtaining of private information about a person (whether or not one specifically identified for the purposes of the investigation or operation), and (c) otherwise than by way of an immediate response to events or circumstances, the nature of which is such that it would not be reasonably practicable for an authorisation under Part II of RIPA to be sought for carrying out the surveillance

Private Information	means information about a person relating to his or her private or family life
Private Vehicle	means any vehicle that is used primarily for the private purposes of the person who owns it or of a person otherwise having the right to use it
Residential Premises	means so much of any premises as is for the time being occupied or used by any person, however temporarily, as living accommodation (including hotels or prison accommodation that is being so occupied or used)
Social Media	means websites and applications that enable users to create and share content or to participate in social networking (eg. Twitter and Facebook)
Surveillance Device	means any apparatus designed or adapted for use in surveillance
Surveillance *	is defined in section 48 of RIPA, and includes: (a) monitoring, observing or listening to persons, their movements, their conversations or their activities or communications, (b) recording anything monitored, observed or listened to in the course of the surveillance, and (c) surveillance by or with the assistance of s surveillance device * surveillance does not include references to: (a) any conduct of a covert human intelligence source for obtaining or recording (whether or not using a surveillance device) any information which is disclosed in the presence of the source, (b) the use of a covert human intelligence sources for so obtaining or recording information, or (c) any such entry on or

	interference with property or with wireless telegraphy as would be unlawful unless authorised under section 5 of the Intelligence Services Act 1994 (warrants for the intelligence services, or Part III of the Police Act 1997 (powers of the police and of customs officers)
Necessity	means that the use of covert surveillance is considered to be necessary, and that there are no other suitable means or processes which can be applied to obtain the information required
Proportionality	means that the following considerations must have been applied: (a) balancing the size and scope of the proposed activity against the gravity and extent of the perceived crime or offence (b) explaining how and why the methods to be adopted will cause the least possible intrusion on the subject and others (c) considering whether the activity is an appropriate use of the legislation and a reasonable way, having considered all reasonable alternatives, of obtaining the necessary result (d) evidencing, as far as reasonably practicable, what other methods have been considered and why they were not implemented.

SCOPE OF PROCEDURE

The procedure does not apply to:

- Observations that are not carried out covertly, or
- Ad-hoc covert observations that do not involve the systematic surveillance of a specific person(s)
- Unplanned observations made as an immediate response to events.

In cases of doubt, the authorisation procedure described below should be followed.

AUTHORISATION PROCEDURE

General

All directed surveillance and the use of covert human intelligence sources must be for a purpose that is necessary and proportionate to enable the Council to perform its duties and services and is subject to the inspection of the OSC.

Authorisation will be obtained using the forms based on the current Home Office Model and approved by the Council's RIPA Monitoring Officer.

Forms, codes of practice and supplementary material will be available on the Council's intranet and will be maintained by the RIPA Monitoring Officer.

Applications for directed surveillance will only be made to an Authorising Officer. Officers responsible for management of an investigation will normally be no lower than a Team Leader and will not be graded below Senior Officer grade.

Authorising Officers will be at least Head of Service level, and will be trained to properly understand the requirements of RIPA. Authorising Officers should avoid authorising their own activities wherever possible and only do so in exceptional circumstances. An alternative Authorising Officer will otherwise be the Authorising Officer for such activities.

Authorising Officers shall ensure they are fully aware of their responsibilities and comply with the requirements of the law including the requirement to obtain magistrate's approval, the relevant codes of practice and the Council's policies and procedures in respect of the authorisation, review, renewal and cancellation of authorisations for covert surveillance.

Where an application for authorisation is refused, the Authorising Officer shall record the refusal on the application and the reasons for it on the case file and supply a copy of it to the RIPA Monitoring Officer as with other authorisations as quickly as possible and in any event within 7 days. The Authorising Officer shall also ensure that any supplementary information and supporting documents submitted with any application for authorisation, review, renewal or cancellation are recorded and retained on the case file as required by the codes of practice or other legal requirement.

Consideration needs to be given at the start of the investigation as to whether or not the criminal offence that is being investigated meets the threshold criteria for RIPA authorisations:

- Criminal offences which attract a custodial sentence of six months or more; or
- Certain criminal offences under sections 146, 147 or 147A of the Licensing Act 2003 involving the sale of alcohol to children; or

- Certain criminal offences under section 7 of the Children and Young Persons Act 1933 relating to the sale of tobacco to minors.

If the Authorising Officer is satisfied that these criteria have been met then a further form requesting authorisation by the Magistrates' Court must be completed and sent to the Court together with a completed copy of the internal RIPA authorisation and any other appropriate evidence to support the application. Prior to this a hearing date must be listed with the Leicester Magistrates' Court for hearing the application by a Justice of the Peace.

Guidance on the process for obtaining Magistrate's authorisation can be obtained from the RIPA Monitoring Officer, and is available on the relevant section of the Council's intranet.

The effective authorisation period only commences once magisterial concurrence is given.

Directed Surveillance

All applications for directed surveillance authorisation will be made on **Form 1** (reference *RIPA 1 DS authorising* form). The applicant in all cases should complete this, and approval must be obtained from an Authorising Officer and from a magistrate. In urgent cases there are arrangements in place for out of hours approval to be obtained from a magistrate.

All applications for review of directed surveillance authorisation will be made on **Form 2** (reference *RIPA 2 DS review* form). The applicant in all cases should complete this where the investigation/operation is to be continued or cancelled.

All applications for directed surveillance renewals will be made on **Form 3** (reference *RIPA 3 DS renewal* form). The applicant in all cases should complete this where surveillance requires to continue beyond the previously authorised period (including previous renewal). As well as approval from an Authorising Officer, Magistrates approval is required for all renewals.

Where authorisation ceases to be either necessary or appropriate the Authorising Officer will cancel an authorisation using **Form 4** (reference *RIPA 4 DS cancellation* form).

Any person giving an authorisation for the use of directed surveillance must record on the appropriate form the matters they took into account in reaching their decision and they must be satisfied that:

- no overt means are suitable for the purpose
- the authorisation is for a prescribed lawful purpose
- account has been taken of the likely degree of intrusion into the privacy of persons other than those directly implicated/targeted in the operation or investigation (collateral intrusion)
- measures are being taken, wherever practicable, to avoid unnecessary intrusion into the lives of those affected by collateral intrusion
- the authorisation is necessary
- the proposed surveillance is proportionate and any equipment to be used is specified.

Necessity
Surveillance operations shall only be undertaken where there is no reasonable and effective alternative way of achieving the desired objective(s).

Effectiveness
Surveillance operations shall be undertaken only by suitably trained employees (or under their direct supervision). The Authorising Officer will determine which employees are to be involved in an operation and ensure that they are suitably trained.

Proportionality
The use of surveillance shall not be excessive but shall be in proportion to the significance/harm of the matter being investigated. Consideration of proportionality will be based on the factors set out in the Definitions section of this policy.

Authorisation
All directed surveillance shall be authorised in accordance with this procedure. Care must be taken by Authorising Officers to ensure that each authorisation is completed in its entirety by them, and in handwriting.

Use of a Covert Human Intelligence Source (CHIS)

Proper records must be kept of the authorisation and use of a source as required by Regulation 3 of Regulation of Investigatory Powers (Source Records) Regulations 2000, namely:

(a) the identity of the source
(b) the identity, where known, used by the source
(c) any relevant investigating authority other than the authority maintaining the records
(d) the means by which the source is referred to within each relevant investigating authority
(e) any other significant information connected with the security and welfare of the source
(f) any confirmation made by a person granting or renewing an authorisation for the conduct or use of a source that the information in (e) above has been considered and that any identified risks to the security and welfare of the source have, where appropriate, been properly explained to and understood by the source
(g) the date when, and the circumstances in which, the source was recruited
(h) the identities of the persons who, in relation to the source, are discharging or have discharged the functions mentioned in section 29(5)(a) to (c) of RIPA or in any order made by the Secretary of State under section 29(2)(c)
(i) the periods during which those persons have discharged those responsibilities
(j) the tasks given to the source and the demands made of him or her in relation to the activities as a source
(k) all contacts or communications between the source and a person acting on behalf of any relevant investigating authority

(l) the information obtained by each relevant investigating authority by the conduct or use of the source
(m) any dissemination by that authority of information obtained in that way, and
(n) in the case of a source who is not an undercover operative, every payment, benefit or reward and every offer of a payment, benefit or reward that is made of provided by or on behalf of any relevant investigating authority in respect of the source's activities for the benefit of that or any other relevant investigating authority.

In addition, the Code of Practice requires records to be kept of:

- a copy of the authorisation together with the supporting documentation and notification of the approval given by the Authorising Officer
- a copy of any renewal of an authorisation, together with the supporting documentation submitted when the renewal was requested
- the reason why the person renewing the authorisation considered it necessary to do so
- any risk assessment made in relation to the source
- the circumstances in which tasks were given to the source
- the value of the source to the investigating authority
- a record of the results of any reviews of the authorisation
- the reasons why, if any, for not renewing an authorisation
- the reasons for cancelling an authorisation
- the date and time when any permission was given by the Authorising Officer to cease using a source.

Authorising Officers must not grant an authorisation for a CHIS unless they believe that there are arrangements in place to ensure at all times there is a person responsible for maintaining a record of the use of that source, and that the person responsible is fully aware of their duty of care towards, and the safeguarding of, the CHIS.

Only the Chief Executive, or in his absence a Strategic Director, may authorise the use of a juvenile or vulnerable CHIS.

All applications for authorisation for the use or conduct of a CHIS will be made on **Form 5** (reference *RIPA 5 CHIS authorising* form). The applicant in all cases should complete this. All applications need to be approved by a Magistrate as well as by an Authorising Officer.

All applications for review of authorisation for the use or conduct of a CHIS will be made on **Form 6** (reference *RIPA 6 CHIS review* form). The applicant in all cases should complete this where the investigation/ operation is to be continued or cancelled.

All applications for authorisation for the use or conduct of a CHIS renewals will be made on **Form 7** (reference *RIPA 7 CHIS renewal* form). The applicant in all cases should complete this where the surveillance requires to continue beyond the previously authorised period (including a previous renewal). As well as approval from an Authorising Officer, Magistrates approval is required for all renewals.

Where authorisation ceases to be either necessary of appropriate the Authorising Officer will cancel an authorisation using **Form 8** (reference *RIPA 8 CHIS cancellation* form).

Forms and other relevant material will be available on the Council's intranet and will be maintained by the RIPA Monitoring Officer.

Any person giving an authorisation for the use of CHIS must record on the appropriate form matters taken into account in reaching their decision and must be satisfied that:

- no overt means are suitable for the purpose
- the authorisation is for a prescribed lawful purpose
- account has been taken of the likely degree of intrusion into the privacy of persons other than those directly implicated/targeted in the operation or investigation (collateral intrusion)
- measures are being taken, wherever practicable, to avoid unnecessary intrusion into the lives of those affected by collateral intrusion
- the authorisation is necessary
- the proposed surveillance is proportionate and any equipment to be used is specified.

Necessity
Surveillance operations shall only be undertaken where there is no reasonable and effective alternative way of achieving the desired objective(s).

Effectiveness
Surveillance operations shall be undertaken only by suitably trained or experienced employees (or under their direct supervision). The Authorising Officer will determine which employees are to be involved in an operation and ensure that they are suitably trained.

Proportionality
The use of surveillance shall not be in excess but shall be in proportion to the significance/harm of the matter being investigated. Consideration of proportionality will be based on the factors set out in the Definitions section of this policy.

Authorisation
All directed surveillance shall be authorised in accordance with this procedure. Care must be taken by Authorising Officers to ensure that each authorisation is completed in its entirety by them, and in handwriting.

DURATION TIME OF AUTHORISATIONS

Authorisations

Written authorisations for directed surveillance expire after 3 months, starting on the day from which they took effect.

Written authorisations for the use of a CHIS expire after 12 months beginning on the day on which they took effect.

Renewals

If at any time before an authorisation expires, an Authorising Officer considers it necessary for the authorisation to continue for the purpose for which it was given, it may be renewed in writing for a further period of 3 months for directed surveillance of 12 months for a CHIS, in each case starting on the day on which the previous authorisation ceases to have effect. Applications should only be made approximately two weeks before the authorisation is due to expire, as this will allow time for a magistrate's approval to be sought. In the case of a CHIS, a review must be carried out immediately beforehand.

Authorising Officers may renew authorisations more than once, provided they continue to meet the criteria for authorisation.

Renewals must be approved by a magistrate.

Review

Authorising Officers shall review all authorisations at regular intervals or not more than one month. In the case of a CHIS the review shall be as frequently as considered necessary and practicable and include: the use made of the source during the period authorised, the tasks given to the source and the information obtained. Details of the review and the decision reached shall be noted on the original application.

Cancellation

Authorising Officers must cancel an authorisation if they are satisfied that the need for it no longer satisfies the criteria for authorisation or, additionally in the case of a CHIS, that satisfactory arrangements for the source's case no longer exist. Where necessary, the safety and welfare of the CHIS shall continue to be taken into account after the authorisation has been cancelled.

SOCIAL MEDIA

RIPA implications must be considered in relation to the use of social media sites (such as Twitter and Facebook) for gathering evidence to assist in enforcement activities, as set out below:

- officers must not create a false identity in order to 'befriend' individuals on social media networks without authorisation under RIPA
- officers viewing an individual's public profile on a social media network should do so only to the minimum degree necessary and proportionate in order to obtain evidence to support or refute the suspicions or allegations under investigation
- repeated viewing of open profiles on social media networks to gather evidence or to monitor an individual's status, must only take place once RIPA authorisation has been obtained

- officers should be aware that it may not be possible to verify the accuracy of information on social media networks and, if such information is to be used as evidence, take reasonable steps to ensure its validity.

RECORD KEEPING, TRAINING AND MONITORING

Security and Retention of Records

Each service or discrete location within a service which makes use of RIPA must maintain a record of all applications for authorisations (including refusals), renewals, reviews and cancellations on the appropriate forms. Each individual form will be given a unique central reference number by the RIPA Monitoring Officer, although services may also allocate their own investigation or operation numbers as well. The unique central reference number should follow on in sequential order from the used for previous forms. The lead officer in each service responsible for the investigation or operation will maintain progress record sheets for directed surveillance and CHISs.

Documents created under this procedure are confidential and shall be treated as such. Services shall make appropriate arrangements for their retention, security and destruction in accordance with RIPA and the codes of practice. In the case of a CHIS, special care will be taken to preserve the confidentiality of any source and information provided by them.

The Authorising Officer shall retain, together, the original authorisation, review and renewal forms until cancelled. On cancellation, the original forms and any associated documents shall be retained in a secure place for at least 5 years after cancellation.

All completed RIPA forms must be submitted to the RIPA Monitoring Officer as soon as possible, and in any event, within 7 days of their completion. This will include forms which have resulted in an authorisation being refused.

Training

The RIPA Monitoring Officer will be responsible for ensuring that RIPA training for the Senior Responsible Officer and Authorising Officer takes place and must retain a record of all training undertaken. Refresher training will be provided at intervals of no more than 2 years.

Central Register

The RIPA Monitoring Officer will maintain the central register of authorisations. Authorising Officers shall notify the RIPA Monitoring Officer as soon as reasonably practicable of the grant, renewal and cancellation of any authorisation and the name of the applicant officer to ensure the accuracy of the central register. They shall send on a regular monthly basis a signed and dated photocopy of any authorisation (including refusals), renewals, reviews and cancellation forms for directed surveillance and similarly for those for the use of a CHIS.

The RIPA Monitoring Officer

The Council has designated an officer to act as the RIPA Monitoring Officer (currently the Head of Strategic Support). The RIPA Monitoring Officer will have responsibility for keeping an oversight of the Council's RIPA administration arrangements, and in particular:

- for organising RIPA training within the Council,
- raising awareness of RIPA and its regulatory framework amongst officers and Members, for example by maintaining appropriate guidance on the Intranet and by publishing articles about RIPA in internal publications,
- maintaining the Central Record of Authorisations, and
- Examining submitted RIPA documents to ensure they are of the required standard.

The Senior Responsible Officer

The Council has designated the Strategic Director of Corporate Services to act as the Senior Responsible Officer, who is responsible for:

- the integrity of the process in place within the Council for the management of CHIS and Directed Surveillance;
- compliance with Part 2 of the Act and with the Codes;
- engagement with the IPCO inspectors when they conduct their inspections, where applicable; and
- where necessary, oversight of the implementation of post-inspection action plans approved by the relevant oversight Commissioner.

The Authorising Officers

The Council's designated authorising officers are:

- Chief Executive
- Strategic Director of Corporate Services
- Head of Customer Experience, and
- Head of Neighbourhoods and Communities.

Elected Members

Elected Members:

- should review the Authority's use of the RIPA and set the policy at least once a year,
- should also consider reports on the use of RIPA Act on at least a quarterly basis to ensure that is it being used consistently with the policy and the policy remains fit for purpose,
- they should not however be involved in making decisions on specific authorisations.

The Investigatory Powers Commissioner's Office (IPCO)

The IPCO provides an independent overview of RIPA powers. This scrutiny includes inspection visits to local authorities by inspectors appointed by the IPCO.

RIPA established an independent tribunal. This tribunal has full powers to investigate and decide any cases within its jurisdiction.

The Council will ensure that copies of the Tribunal's information sheet, their complaint form and their Human Rights Act claim form will be made available at the Council's main offices. These and the relevant codes of practice produced by the Home Office will be made available on the Council's intranet.

ADVICE

Further advice about covert surveillance will be provided by the RIPA Monitoring Officer. In particular, advice should be sought before considering the use of a CHIS where the considerations of risk assessment, duty of care and safeguarding responsibilities, insurance, managing the source and ensuring confidentiality require specific consideration.

FURTHER INFORMATION AND ENQUIRIES

The RIPA Monitoring Officer is the first point of contact on any of the matters raised in this policy statement. Enquiries should be addressed to:

The RIPA Monitoring Officer
Head of Strategic Support
Charnwood Borough Council
Southfields Road
Loughborough
LE11 2TX

Tel: (01509) 634573

The RIPA Monitoring Officer will be responsible for dealing with all internal and external enquiries.

HOME OFFICE CODES OF PRACTICE

The Home Office have produced Codes of Practice which give guidance on the use of covert surveillance and covert human intelligence sources by public authorities under part 2 of RIPA 2000. They are available via the following link:

https://www.gov.uk/government/publications/covert-surveillance-and-covert-human-intelligence-sources-codes-of-practice

COMPLAINTS

Any complaints relating to the Council's use of RIPA or the application of this policy statement should be in writing, dated and include details of the complaint and also an account of the nature of the problem, and should be sent to:

The Chief Executive
Charnwood Borough Council
Southfields Road
Loughborough
LE11 2TX

The Council will attempt to complete internal investigations within 20 working days. An acknowledgement of the complaint will be sent as soon as possible after its receipt.