

CORPORATE SERVICES SCRUTINY COMMITTEE

Date: Thursday 24 January 2019

Time: 5.30 pm

Venue: Rennes Room, Civic Centre, Paris Street, Exeter

Members are invited to attend the above meeting to consider the items of business.

If you have an enquiry regarding any items on this agenda, please contact Mark Devin, Democratic Services Officer on 01392 265477.

Entry to the Civic Centre can be gained through the Customer Service Centre, Paris Street.

Membership -

Councillors Sheldon (Chair), Warwick (Deputy Chair), Hannan, Holland, Lamb, Musgrave, Thompson, Vizard M and Wood

Agenda

Part I: Items suggested for discussion with the press and public present

1 Apologies

To receive apologies for absence from Committee members.

2 Minutes

To approve and sign the minutes of the meeting held on 22 November 2018.

3 Declarations of Interests

Councillors are reminded of the need to declare any disclosable pecuniary interests that relate to business on the agenda and which have not already been included in the register of interests, before any discussion takes place on the item. Unless the interest is sensitive, you must also disclose the nature of the interest. In accordance with the Council's Code of Conduct, you must then leave the room and must not participate in any further discussion of the item. Councillors requiring clarification should seek the advice of the Monitoring Officer prior to the day of the meeting.

4 Local Government (Access to Information) Act 1985 - Exclusion of Press and Public

It is considered that the Committee would be unlikely to exclude the press and

public during consideration of the items on this agenda, but if it should wish to do so, the following resolution should be passed:-

RECOMMENDED that, under Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting of the particular item(s) on the grounds that it (they) involve(s) the likely disclosure of exempt information as defined in the relevant paragraphs of Part I of Schedule 12A of the Act.

5 Questions from the Public under Standing Order 19

Details of questions should be notified to the Corporate Manager Democratic and Civic Support at least three working days prior to the meeting. Further information and a copy of the procedure are available from Democratic Services (Committees) (Tel: 01392 265115) and also on the Council web site - <https://exeter.gov.uk/councillorsfaq/>

6 Questions from Members of the Council under Standing Order 20

To receive questions from Members of the Council to appropriate Portfolio Holders.

ITEMS FOR CONSIDERATION BY THE EXECUTIVE

7 Annual Pay Policy Statement

To consider the report of the City Solicitor & Head of HR. (Pages 5 - 14)

8 Revenue Budget Proposals 2019/20

To consider the report of the Chief Finance Officer. (Pages 15 - 30)

9 Capital Strategy and Capital Programme - 2019/20 - 2021/22

To consider the report of the Chief Finance Officer. (Pages 31 - 52)

10 Treasury Management Strategy Report 2019/20

To consider the report of the Chief Finance Officer. (Pages 53 - 64)

11 Prudential Code for Capital Finance in LA / Incorporating Annual Statement of Minimum Revenue Position

To consider the report of the Chief Finance Officer. (Pages 65 - 84)

ITEMS FOR DISCUSSION

12 Estimates, Fees & Charges 2019/20

To consider the report of the Chief Finance Officer. (Pages 85

Date of Next Meeting

The next scheduled meeting of the Corporate Services Scrutiny Committee will be held on **Thursday** 28 March 2019 at 5.30 pm in the Civic Centre.

Find out more about Exeter City Council services by looking at our web site <http://www.exeter.gov.uk>. This will give you the dates of all future Committee meetings and tell you how you can ask a question at a Scrutiny Committee meeting. Alternatively, contact the Democratic Services Officer (Committees) on (01392) 265107 for further information.

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REPORT TO: CORPORATE SCRUTINY COMMITTEE, EXECUTIVE AND COUNCIL

Date of Meeting: Scrutiny Committee Resources - 24 January 2019
Executive - 12 February 2019
Council - 26 February 2019

Report of: City Solicitor & Head of HR
Title: Annual Pay Policy Statement

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

To set out the council's annual Pay Policy Statement 2019/20 which must be approved by Full Council each financial year in line with legislation.

2. Recommendations:

It is recommended that Corporate Scrutiny Committee notes and Executive recommends to Council to approve:

- (i) The attached Policy, Report and Appendix be adopted and published in accordance with the legislation.
- (ii) Delegated authority be given to the City Solicitor & HR to make necessary amendments to the pay policy statement following any changes in legislation or subsequent increases in pay.

3. Reasons for the recommendation:

Section 38 (1) of the Localism Act 2011 requires English and Welsh Authorities to produce a statutory Pay Policy Statement each financial year commencing in 2012/13 and thereafter each subsequent financial year. The Secretary of State for Communities and Local Government issued further guidance in early 2013. The Equality Act 2010 (Specific Duties and Public Authorities) regulations 2017

4. What are the resource implications including non-financial resources:

There are no new resource implications created as a result of the revisions to the Pay Policy Statement.

5. Section 151 Officer comments:

There are no financial implications arising from adoption of this policy. The salaries are already budgeted for.

6. What are the legal aspects?

(a) Local Authorities are required by Section 38 (1) of the Localism Act 2011 to set out a written statement each financial year relating to:

- The remuneration of chief officers
- The remuneration of its lowest paid employees

- The relationship between the remuneration of its chief officers and the remuneration of its employees who are not chief officers

(b) The Equality Act 2010 (Specific Duties and Public Authorities) regulations 2017 requires local authorities who employ over 250 or more employees to produce a gender pay gap report.

- Compare the difference in pay between females and males.

7. Monitoring officer Comments

This report raises no issues for the Monitoring Officer.

8. Report Details:

In line with statutory requirements, the Council's Pay Policy Statement has been reviewed and updated for 2019/20 for approval by full Council prior to publishing on the Council's website.

The revised policy and appendix take into account the following changes:

- The increase in the nationally determined living wage (Grades 1 and 2) in November 2018 which comes into effect at Exeter City Council on 1 April 2019 (paragraph 3.2)
- Implementation of the nationally agreed pay award for 2019/20 for employees on Spinal Column Points 12-59 inclusive (Appendix 1)
- Implementation of the nationally negotiated 2019/20 pay award for Chief Officers and Chief Executives (Appendix 1)

9 How does the decision contribute to the Council's Corporate Plan?

The attached Statement supports a well-run Council and our compliance with statute.

10 What risks are there and how can they be reduced?

There are no new implications arising from the recommendations.

11 What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, Economy safety and the environment?

Consideration has been given to the impact upon differing groups and a full assessment is not required.

12 Are there any other options?

No.

City Solicitor & HR

Originator: David Knight, HR Transactional Services Manager

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:

None

Contact for enquiries: Democratic Services (Committees), Room 2.3, (01392) 265115

Exeter City Council

Pay Policy Statement 2019/20

1 Purpose and scope of the Policy

- 1.1 Section 38 (1) of the Localism Act 2011 (Part 1, Chapter 8, Sections 38 to 43) requires English and Welsh local authorities to produce a statutory pay policy statement each financial year.
- 1.2 The Act requires that a relevant authority must approve, through Full Council, a pay policy statement for the following financial year and this must set out the authority's policies for the financial year relating to:
 - (a) the remuneration of its chief officers, (see Appendix 1)
 - (b) the remuneration of its lowest-paid employees (see Section 4 and Appendix 1), and
 - (c) the relationship between:
 - (i) the remuneration of its chief officers (Section 4 and Appendix 1), and
 - (ii) the remuneration of its employees who are not chief officers (see Section 4 and Appendix 1)
- 1.3 The statement must state:
 - (a) the definition of "lowest-paid employees" adopted by the authority for the purposes of the statement, and (see Section 3)
 - (b) the authority's reasons for adopting that definition. (see Section 3)
- 1.4 The statement must include the authority's policies relating to:
 - (a) the elements of remuneration for each chief officer, (see Section 2 and 5 and Appendix 1)
 - (b) remuneration of chief officers on recruitment, (see Section 5 and Appendix 1)
 - (c) increases and additions to remuneration for each chief officer, (see Section 5)
 - (d) the use of performance-related pay for chief officers, (see Section 5)
 - (e) the use of bonuses for chief officers, (see Section 5)
 - (f) the approach to the payment of chief officers on their ceasing to hold office under or to be employed by the authority, and (see Section 5)
 - (g) the remuneration of chief officers who return to local authority employment (See Section 5)

- (h) the publication of and access to information relating to remuneration of chief officers. (see Section 6)
- 1.5 This policy also takes into account “Openness and accountability in local pay: Guidance under section 40 of the Localism Act February 2012” and the letter from the Secretary of State to leaders of local authorities and chairs of fire and rescue authorities of 20 February 2013 which advocate:
- (a) Publishing the ratio between the highest paid employee and the median average earnings across an organisation (Section 4, Appendix 1)
 - (b) Explaining the approach to the setting and publication of fees for chief officers in respect of local election duties (Section 5)
 - (c) Setting out the policy for the remuneration of chief officers who return to Local Authority employment where the chief officer was a previously employed chief officer who left with a severance payment and applies to come back as a chief officer under an employment contract or contract for services (Section 5)
 - (d) Setting out the policy in respect of the employment of individuals and Chief Officers in receipt of a Local Government Pension Scheme pension, including pension abatement arrangements (Section 5)
 - (e) Full Council having the opportunity to approve salary packages and the cost of severance packages of £100,000 or more (Section 5)
- 1.6 In the context of managing scarce public resources, remuneration at all levels within the Council needs to be adequate to secure and retain high-quality employees dedicated to the service of the public, but at the same time providing value for money to the residents of Exeter.
- 1.7 Exeter City Council already works within a pay and reward framework which seeks to ensure that its pay and reward processes and procedures facilitate the retention and recruitment of employees with the right skills and capabilities to meet the needs of the Council now and in the future. The framework also takes account of regional and national variations, local market factors and is open and transparent and complies with equal pay legislation.
- 1.8 This Statement complies with the requirements of the Localism Act 2011 and the statutory guidance issued by Communities and Local Government in ‘Openness and accountability in local pay: Guidance under section 40 of the Localism Act’ which was issued on 17 February 2012.

2 Definition of Chief Officers

- 2.1 The posts which are defined as ‘Chief Officers’ for the purposes of this Statement are those scheduled in the Local Government and Housing Act 1989 under sections 4(1), 5(1), 2(6, 7 and 8) together with other members of the councils Strategic & Senior Management. For Exeter City Council this term includes:

- Chief Executive and Growth Director (Head of Paid Service Section 4(1))
- Directors x4 (Non-Statutory Officers Section 2 (7a))
- Chief Finance Officer (Section 151 Officer (Statutory Officer Section 2 (6d))
- City Solicitor & HR (The Council's Monitoring Officer)
- Corporate Managers x3

2.2 The post of Chief Executive & Growth Director is made on terms and conditions of employment agreed by the Joint National Council for Chief Executives and supplemented by local terms and conditions of employment agreed by Exeter City Council.

2.3 All the remaining posts are made on the terms and conditions of employment agreed by the Joint National Council for Chief Officers and supplemented by terms and conditions of employment agreed by Exeter City Council.

2.4 With the exception of the Chief Executive and Growth Director all Chief Officer posts as defined in this Statement are subject to job evaluation using HAY. The remuneration of the Council's Chief Officers is set out in Appendix 1.

3 Definition & Remuneration of Lowest Paid

3.1 All posts which are not designated as Chief Officers in accordance with this Statement, and with the exception of apprentice roles, are subject to job evaluation using the National Joint Council for Local Government Services National Agreement on Pay and Conditions of Service.

3.2 The Council has adapted the National Local Government Pay Scale to include locally agreed spinal column points. With effect from 1 January 2014, the Council adopted the Living Wage as its minimum spinal column point, and the Living Wage of £9.00 / hour from 1 April 2019 equates to Grade 1 and Grade 2 of the Council's pay scale. The Living Wage is determined nationally in or around November each year. The Council applies any uplift to the living wage from 1 April in the year following the increase.

3.3 The Council therefore defines its lowest paid employees as those on Grade 1 of the Council's pay scale. The Council has adopted this definition as it can be easily understood.

3.4 The Council has 16 grades (excluding Apprentice) on its existing pay scale for employees not designated as Chief Officer in this Statement. With the exception of Grades 1 and 2, each Grade provides for incremental progression of between 1 and 3 scale points subject to satisfactory service. Increments are applied on the 1 April each year (or on the 6 month anniversary of the employee's appointment if the appointment falls between October and March inclusive, with subsequent increments applying from 1 April each year) until the postholder reaches the maximum of the grade.

4 Relationship between Remuneration

- 4.1 The Hutton Review of Fair Pay in the Public Sector outlined that the most appropriate metric for pay dispersion is the multiple of Chief Executive to median earnings. Whilst not a requirement of this Statement, tracking this multiple as recommended in the Code of Recommended Practice for Local Authorities on Data Transparency will ensure public service organisations are accountable for the relationship between the pay of their executives and the wider workforce.
- 4.2 The Council also publishes as part of this Statement the relationship between its Chief Executive and lowest paid employee. Both of these pay multiples are set out in Appendix 1.
- 4.3 Through this policy the pay multiple of the Chief Executive and Growth Director will be monitored annually. Should the multiplier between the annual salary paid to a full time employee on the lowest spinal column point and the annual full time salary payable to the Chief Executive and Growth Director be greater than 10, this will be reported to full Council for consideration.

5 Chief Officer Remuneration

- 5.1 The Joint Negotiating Committee has previously emphasised that ‘it is good governance that local authorities can demonstrate that decisions on pay and reward packages for chief executives and chief officers have been made in an open and accountable way.’
- 5.2 Salaries for chief officers operate on the basis of fixed pay points and are therefore not subject to a salary scale providing for incremental progression. New appointments will be made to the appropriate pay point in force at the time of the appointment. These fixed pay points will be agreed through an accountable and transparent process. Salary levels will be consistent with similar organisations which aim to pay according to median salaries. There will be due regard to balance the need to ensure value for money but enable Exeter City Council to recruit and retain high quality chief officers in the context of national, regional and local labour markets.
- 5.3 In determining any future changes to the remuneration package for appointments to Chief Officer posts as defined in this Statement, the Leader of the Council will take independent pay advice. The Leader will then, in consultation with the Chief Executive and Growth Director, except in relation to the pay of the Chief Executive and Growth Director, make recommendations which will be subject to the approval of full Council.
- 5.4 The Leader of the Council, in consultation with the Chief Executive and Growth Director, except in relation to the remuneration package of the Chief Executive and Growth Director, may recommend to full Council changes to the remuneration package following an annual review. Any changes to the remuneration packages will be subject to full Council approval.

- 5.5 Salary increases for Chief Officers defined in this Statement in relation to cost of living will be made in line with increases agreed by the Joint National Council's for Chief Officers and Chief Executives as appropriate.
- 5.6 At present, there are no additional payments made to chief officers in relation to performance related pay or the use of bonuses.
- 5.7 Any termination payments to chief officers on ceasing office will comply with Exeter City Council's Organisational Change and Local Government Pension Scheme Employer Discretions Policies which are subject to the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006, as amended and in force at the time. All such payments are equally applicable to all employees.
- 5.8 The Employer Discretions Policy and severance payments (which include redundancy / efficiency compensation, pension strain and pay in lieu of notice) in excess of £100,000 are subject to approval at Full Council. No additional payments will be made to Chief Officers without express approval by Full Council.
- 5.9 A chief officer appointment (under an employment contract or contract for services) will not be offered to any former chief officer in receipt of a severance payment, except in circumstances where they left employment as a result of being made redundant from their previous Chief Officer role, without the approval of Full Council.
- 5.10 Exeter City Council will not enter into employment or service contracts with any persons in receipt of a local government pension within 12 months of the termination date of their previous employment without the approval of Full Council. Employees of the Council who are also in receipt of a local government pension may have their pension abated in accordance with legislation / policy as enacted / determined by the relevant pension administrator.
- 5.11 The Council's Policy on Market Supplements applies to all posts at the Council, including Chief Officers. Evidence based market supplements will be subject to periodic review to ensure they continue to be justifiable. No Chief Officer is currently in receipt of a Market Supplement.
- 5.12 Additional payments are made by Central Government to officers (including the Returning Officer) carrying out additional duties at Parliamentary, European and other national elections and referendums. These payments are set nationally and are not within the scope of this Statement. Payments to the Returning Officer and other officials for duties in relation to City Council elections are linked proportionately to these national rates.

6 Transparency & Publication of Data

- 6.1 This Statement aims to ensure that the process for setting pay at a senior level is transparent fair and consistent. This policy will be reviewed annually to track the relationship of chief officer pay with the rest of the workforce.
- 6.2 The Council will publish its Pay Policy Statement on the Exeter City Council website alongside information related to the Council's management structure. Further information relating to the remuneration of Chief Officers is published in the Council's annual Statement of Accounts.

7 Equality Impact Considerations

- 7.1 The principles of equal pay are integral to this policy and applied consistently within the pay and reward frameworks adopted by Exeter City Council. The definition of Equal Pay is:
- Like work where the woman and the man are doing the same job
 - Work rated as equivalent where the 2 jobs are different but have been evaluated by the employer's job evaluation scheme at the same level/grade
 - Work of equal value where the jobs are different but an argument is made that both jobs should be regarded as being of equal value or worth.

8 Related Policies/Strategies, Procedures and Legislation

- 8.1 Exeter City Council pay and reward policies and procedures are operated within the framework of JNC and NJC terms as nationally negotiated and agreed and supplemented by local agreements. The Council applies the national framework for job evaluation and works within equality and equal pay legislation in order to apply all pay related issues in a fair, consistent and transparent way.
- 8.2 Key policies/procedures/strategies and legislation include:
- Exeter City Council Pay and Reward Policies, frameworks and local agreements
 - Equal Pay Legislation
 - Equality Act 2010
 - Localism Act 2011
 - Openness and accountability in local pay: Guidance under section 40 of the Localism Act February 2012
 - Local Government Act 1972
 - Local Government & Housing Act 1989

1. Levels and elements of remuneration for each chief officer role as at April 2019

Post title	Full time Remuneration
Chief Executive and Growth Director	£116,744
Directors x4 Chief finance officer City Solicitor & Head of HR	£72,828 - £83,232
Corporate Manager x 3	£60,622

2. The FT remuneration of the lowest paid employee

Post title	Full time Remuneration
MRF Operative	£17,364

3. The multiplier of the remuneration of the chief officer based upon taxable earnings:

Post Title	Full time Remuneration
Annual median pay of all employees	£21,166
Pay multiple of Chief Executive and Growth Director to median	5.52
Pay multiple of Chief Executive and Growth Director to lowest paid FT employee	6.72

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EXETER CITY COUNCIL

REPORT TO: CORPORATE SCRUTINY COMMITTEE
DATE OF MEETING: 24 JANUARY 2019

REPORT OF: CHIEF FINANCE OFFICER
TITLE: REVENUE BUDGET PROPOSALS 2019/20

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

1.1 To outline the strategic framework within which the estimates have been prepared and highlight the issues that will affect the actual setting of the overall level of council tax.

1.2 This report also summarises the overall budget position arising from the current cycle of Scrutiny Committee meetings.

2. Recommendations:

2.1 That Corporate Scrutiny Committee notes the report and comments accordingly.

3. Reasons for the recommendation:

3.1 To ensure that the Council is in a position to set a balanced budget and determine the Council Tax for the City of Exeter in line with the statutory timeframe.

4. What are the resource implications including non-financial resources

4.1 The report sets out the proposed budget for 2019/20. Details of the resource implications are set out in section 8.

5. Section 151 Officer comments:

5.1 The proposed budget will achieve the requirement to maintain a minimum balance in excess of £3 million. The Medium Term Financial Plan is reliant on substantial savings being delivered both for the 2019/20 budget and also in the following year in order to maintain and strengthen the Working Balance to ensure the Council is able to cope with any issues arising from the fair funding review.

6. What are the legal aspects?

6.1 As part of the budget and the Council Tax fixing process, the Council is required by the Local Government Finance Act 1992 to make various specific calculations and decisions:-

- (a) it must calculate its budget requirement in accordance with Section 32 of the Act;
- (b) it must calculate the City Council element of the Council Tax - first for Band D and then for all bands - in accordance with Sections 33 to 36;
- (c) it must set the overall Council Tax for each band in accordance with Section 30.

7. Monitoring Officer's comments:

7.1 Legislation does not prescribe how much the minimum level of reserves should be. The Section 151 officer is tasked with recommending the minimum level of reserves required as part of the budget setting process having regard to elements of risk in the Council's finances. Section 25 of the Local Government Act 2003 requires the S151 officer to report on the adequacy of the Council's financial resource.

The Monitoring officers comments are intended to assist all members of the Council in consideration of the complex legal background to their budgetary and Council Tax decisions and in particular to set out the legal factors and requirements which Members of the City Council need to consider in reaching decisions on the budget and Council Tax.

In coming to a decision in relation to the revenue budget and the council tax, the City Council and Councillors have the following legal duties:

- a. To act in accordance with their statutory duties and responsibilities;
- b. To act reasonably; and
- c. To have careful regard to their fiduciary duty to its rate payers and Council tax payers.

The City Council has a clear legal duty to set a balanced budget. A resolution not to set a Council tax would be unlawful so would be a resolution to set a Council tax which deliberately did not balance the budget.

When making a decision, councillors are reminded of the obligation to act reasonably and in accordance in accordance with the principals set down in the Wednesbury case. This means that councillors are required to take into account all relevant considerations and ignore any irrelevant considerations. Put simply, it would be unlawful for the Council to come to a view which is unreasonable in the sense that it is so irrational that no reasonable authority could have reached it.

The meaning of fiduciary duty is more difficult to define but can be summarised as a duty to conduct administration in a business-like manner with reasonable care, skill and caution and with due regards to the council's rate payers. When discharging their fiduciary duties councillors will need to consider the following:

- a. Prudent use of the council's resources, including the raising of income and the control of expenditure;
- b. Financial prudence both long and short term;
- c. Striking a fair balance between the interest of the council tax payers on the one hand and the community interest and adequate and efficient services on the other hand;
- e. Acting in good faith with a view to complying with statutory duties and exercising its statutory powers for the benefit of the community.

Restriction on voting

Members' attention is drawn to the provisions of S.106 of the Local Government Finance Act 1992 which applies to members where:

- a. they are present at a meeting of full Council, the Executive or Committee and at the time of the meeting an amount of Council tax and has remained unpaid for at least 2 months and
- b. Any budget or Council tax calculation or recommendation or decision which might affect the making of any such calculation, is the subject of consideration at the meeting.

In these circumstances, any such members shall at the meeting and as soon as practical after its commencement disclose the fact that S.106 applies to them and shall **not vote** on any question concerning budget setting.

Failure to comply with these requirements is a criminal offence unless such member can prove that they did not know S.106 applied to them at the time of the meeting or that the matter in question was the subject of consideration at that meeting.

8. Report Details:

8.1 Local Government Provisional Finance Settlement 2019-20

8.1.1 4 year Settlement

During the settlement for 2016-17, the Government offered Local Authorities the opportunity to apply for a 4year agreed settlement subject to producing an efficiency plan. The Council took up this offer and were notified in November that the Government had agreed the Settlement.

8.1.2 The provisional settlement for 2019-20 was announced in December and the figures in the Medium Term Financial Plan have been updated.

8.1.3 Appendix 1 shows as a comparison the formula funding settlement figures for all Devon authorities. The final settlement figures will be announced later this month but at this stage it is not expected that they will be significantly different from the provisional announcement. The figures show that the most rural of authorities have fared worse this year in percentage terms of formula funding reduction.

8.1.4 Core spending power is a new definition used by the Government, which encompasses an individual authority's:

- Council Tax Requirement including estimates of Council Tax increases and increases in the Taxbase;
- Social Care Precept (not applicable for district councils);
- Formula Grant;
- New Homes Bonus;
- Rural Services Delivery Grant and
- Better Care Fund (not applicable for district councils).

Appendix 2 shows a comparison of Devon authorities using this definition of revenue spending power. Using this measure Exeter's core spending power reduces by 15.2% over the period.

8.2 COUNCIL TAX

8.2.1 The Government has announced in respect of the local authority tax referendum threshold, that Shire District councils will be allowed increases of less than 3% or up to and including £5, whichever is higher. Upper Tier Authorities may increase their Council Tax by up to three per cent above the threshold as long as the additional income is spent on Adult Social Care. This is on top of the 2.99% increase they may make for other services but can total no more than 6% over a three year period, which began in 2017-18. Exeter's budget strategy for next year assumes that council tax will increase by £5, which, along with the estimated surplus on the collection fund of £96,331 and increase in the taxbase will raise an extra £208,000.

8.3 BUSINESS RATES PILOT

8.3.1 All authorities in Devon have taken part in the Business Rate pilot for the 100% retention of Business Rates during 2018-19. They have also applied to be a 75% pilot during 2019-20, but unfortunately have been unsuccessful. The aim therefore is for all Devon Authorities to revert to acting as a pool.

8.4 KEY ASSUMPTIONS

8.4.1 An overall allowance of £602,380 has been set aside for inflation. The inflationary increases allowed in the budget are:

Pay Award	2.0%
Pay – Increments	0.5%
Electricity	25%
Gas	6%
Oil	2.5%
Water	0.0%
Insurance	8%
Rates	2.5%
Fuel	3.0%
General Inflation	0.0%
Income (excluding Car Parks)	3.0%

8.4.2 General inflation has again been held at zero; however where there are contracts in place, inflation at around RPI has been added. The pay award for 2019/20 has been included as a two year settlement was agreed for 2018/19.

8.4.3 In respect of interest rates, next year's budget reflects the likelihood that whilst base rate may remain low, borrowing for cashflow purposes will increase and the Council may begin to take out borrowing over a longer timeframe as a result.

8.5 FURTHER ISSUES TO BE CONSIDERED

8.5.1 Before the Council can finalise its revenue budget for next year there are a number of issues that require further consideration as follows: -

- Equality Impact Assessment
- New Homes Bonus
- Future spending pressures and review of the medium term financial planning process
- The level of reserves and balances

8.6 EQUALITY IMPACT ASSESSMENT

8.6.1 Equality Impact Assessments (EQIA) form part of the Council's decision making process and are a tool to help the Council identify what effect or possible effects its work may have on different groups of people. All local authorities have a legal responsibility to assess their policies and functions, and to set out how they will monitor any possible negative impact on equality target groups. The Council needs to consider the impact on equalities of all new and reviewed Council strategies, policies, projects, services or functions, budget decisions and restructures. By anticipating the consequences of its actions on equality groups the Council can make sure that, as far as possible, any negative consequences are eliminated, minimised or counterbalanced by other measures, and opportunities for promoting equality are maximised. As part of this process any revenue savings proposals are assessed for any potential equality issues and EQIA's are undertaken as appropriate with the results available on the council's web site.

8.7 NEW HOMES BONUS

8.7.1 The Government have deferred any further changes to the New Homes Bonus in 2019/20. As members will remember the Government has removed £800 million from New Homes Bonus in order to fund Adult Social Care and completed the reduction to four years payment in 2018-19. Additionally, no payment has been made on housing growth below 0.4%. This has resulted in Exeter being awarded £2.518 million for 2019-20.

8.7.2 To date the Council has received New Homes Bonus of £20.644 million over the period 2011/12 to 2018/19 and has provisionally been notified that it will receive a further £2.518 million in 2019/20. The methodology for using the New Homes Bonus has the following impact:-

Year	Top Slice (revenue)	Community Projects	Major Projects /Debt Reduction	Unused / Projects	Revenue	Total
	£000's	£000's	£000's	£000's	£000's	£000's
2011/12	-	-	-	389	-	389
2012/13	120	361	601	241	-	1,323
2013/14	120	286	1,757	42	-	2,205
2014/15	120	286	2,372	-	-	2,778
2015/16	120	286	3,123	-	-	3,529
2016/17	159	150	2,000	923	1,000	4,232
2017/18	164	150	1,500	783	1,000	3,597
2018/19	164	150	1,150	127	1,000	2,591
2019/20	25	150	1,000	149	1,194	2,518
Total	992	1,819	13,503	2,654	4,194	23,162

8.8 REVISED MEDIUM TERM REVENUE PLAN (APPENDIX 3)

- 8.8.1 An updated Medium Term Financial Plan (MTFP) is set out in Appendix 3. The MTFP currently indicates that significant reductions are required in 2020-21. The reductions required total £2.400 million and partly result from a reset of the business rates, which will mean that all the growth that Exeter has benefitted from in its business rates baseline will be redistributed and is intended to coincide with the introduction of the new formula resulting from the fair funding review currently being undertaken and the move to 75% business rates retention.
- 8.8.2 The amount of savings required in 2020-21 could vary significantly based on the results of the fair funding review and any changes to the distribution of growth introduced in the move to 75% business rates retention. Additionally there are further uncertainties and factors that could affect the future financial position. These include: potential costs arising from the review of service plans, the cost of any new statutory functions, and additional borrowing and revenue costs in respect of any new capital programme commitments. Any additional revenue costs / reduced income streams that are not currently identified within the medium term financial plan will have to be met from further savings and will require careful consideration from members.

8.9 BALANCES AND RESERVES

- 8.9.1 The Council's current policy is such that the minimum level of the General Fund Balance will remain above £3 million. As the Council faces great uncertainty in the medium term over funding it is prudent to hold reserve levels at this level to offset sudden losses of income or unexpected expenditure. The latest estimated position of the General Fund Balance is that it will be £3.188 million as at 31 March 2020, equivalent to 21.8% of Exeter's net revenue budget. The Council's revised medium-term financial plan (Appendix 3) indicates that the General Fund Balance will increase slightly to £3.434 million by the end of 2022/23.
- 8.9.2 The Council also has other reserves that have been earmarked for specific purposes. The Council's proposed revenue budget for 2019/20 includes a net transfer from earmarked reserves of £169,000. This is broken down as shown below:-

Transfer (from)/ to reserves:

	2019/20 £'000
Transfers to Reserves	
New Homes Bonus	<u>2,518</u>
	2,518
Transfers from Reserves	
New Homes Bonus	(2,586)
Other	(45)
Sports	<u>(56)</u>
	(2,687)

8.10 REVENUE ESTIMATES 2019/20 (APPENDIX 4)

8.10.1 The Council's revenue estimates for next year are being considered during the current cycle of Scrutiny Committee meetings for the final budget report to the Executive on 12 February 2019. In total, Service Committee Expenditure for 2019/20 is £12,696,930 which is £278,520 higher than the current year.

8.10.2 In addition there are other items to take into account referred to as 'below the line' as they do not form part of the individual service controllable budgets. These include an estimate of £216,000 for net borrowing in respect of the overall cash balances, £1,738,020 towards repaying debt in respect of the Council's capital programme, New Homes Bonus grant and transfers in respect of balances and reserves. The Council's total General Fund Expenditure budget requirement for 2019/20 is planned to be £11,137,700, an increase of £293,310 compared to 2018/19.

8.11 COUNCIL TAX BUDGET REQUIREMENT 2019/20

8.11.1 As stated above, the Government is setting the referendum trigger for District Councils at above £5 or 3%, whichever is higher. The budget has been set on the basis of a £5 increase, although this is ultimately a Member decision. It should be noted that in the Government spending calculations, they have assumed that all District Councils will raise their Council Tax by £5 and have set the spending reductions accordingly.

8.11.2 When all the Government Grant funding is taken into account the resultant net expenditure to be financed from council tax is £5,831,320 (as indicated in Appendix 4), an increase of £207,590 compared to 2018/19.

8.11.3 Each year the Council must estimate the likely surplus or deficit position on its Collection Fund and any such amounts must be taken into account when determining the band D Council Tax amount for 2019/20. For next year it is estimated that the collection fund will have a surplus (£96,331), which will be used to fund part of the expenditure to be financed from Council Tax.

8.11.4 After taking into account the surplus and the taxbase of 36,988, the proposed band D council tax for 2018/19 is £155.05, which means that the council tax would increase annually by £5.00 or 3.33%. An increase of 2.99% would reduce the Council Tax requirement by £18,994, which would have to be taken from reserves.

9. How does the decision contribute to the Council's Corporate Plan?

9.1 The budget underpins the Corporate Plan by determining the amount of funds available to the Council to deliver its priorities.

10. What risks are there and how can they be reduced?

10.1 The key risks revolve around ensuring that the Council has sufficient funds to both meet the financial plans set out in the report and to protect itself against any unexpected expenditure that occurs. The risk is mitigated by ensuring that there are sufficient reserves held to offset unexpected expenditure needs. Regular monitoring is undertaken and reported to both the Strategic Management Board and Members.

11. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, Economy safety and the environment?

11.1 Not applicable.

12. Are there any other options?

12.1 Not applicable.

Dave Hodgson, Chief Finance Officer

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:

None

Contact for enquiries:

Democratic Services (Committees)

Room 2.3

(01392) 265275

FORMULA GRANT DECREASES - DEVON AUTHORITIES

Authority	Grant 2017/18 £m	Grant 2018/19 £m	Yearly Decrease %	Grant 2019/20 £m	Yearly Decrease %	Grant Decrease 2017/18 - 2019/20	
						£m	%
Devon	128.307	121.019	(5.7%)	101.542	(16.1%)	(26.765)	(20.9%)
Plymouth	77.535	72.436	(6.6%)	66.932	(7.6%)	(10.603)	(13.7%)
Torbay	44.576	41.612	(6.6%)	38.440	(7.6%)	(6.136)	(13.8%)
East Devon	3.024	2.873	(5.0%)	2.625	(8.6%)	(0.399)	(13.2%)
Exeter	5.177	4.842	(6.5%)	4.429	(8.5%)	(0.748)	(14.4%)
Mid Devon	2.564	2.683	4.6%	2.178	(18.8%)	(0.386)	(15.1%)
North Devon	3.622	3.571	(1.4%)	2.959	(17.1%)	(0.663)	(18.3%)
South Hams	2.046	2.182	6.6%	1.897	(13.1%)	(0.149)	(7.3%)
Teignbridge	4.016	3.685	(8.2%)	3.339	(9.4%)	(0.677)	(16.9%)
Torrige	2.939	3.110	5.8%	2.473	(20.5%)	(0.466)	(15.9%)
West Devon	1.762	1.958	11.1%	1.622	(17.2%)	(0.140)	(7.9%)

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REVENUE SPENDING POWER CHANGES - DEVON AUTHORITIES

Authority	Core Spending Power 2016/17	Core Spending Power 2017/18	Core Spending Power 2018/19	Core Spending Power 2019/20	Core Spending Power Change	
	£m	£m	£m	£m	£m	%
Devon	504.4	520.6	533.9	554.4	50.0	9.9%
Plymouth	187.1	191.0	186.5	198.4	11.3	6.0%
Torbay	110.1	113.3	115.1	119.1	9.0	8.2%
East Devon	15.5	15.5	15.1	15.3	(0.2)	(1.3%)
Exeter	15.1	14.1	13.0	12.8	(2.3)	(15.2%)
Mid Devon	10.6	10.1	9.5	9.8	(0.8)	(7.5%)
North Devon	11.3	10.7	10.9	11.0	(0.3)	(2.7%)
South Hams	10.7	9.7	9.3	9.9	(0.8)	(7.5%)
Teignbridge	15.9	15.2	14.4	14.5	(1.4)	(8.8%)
Torrige	9.3	8.7	8.3	8.1	(1.2)	(12.9%)
West Devon	8.6	7.5	7.2	7.4	(1.2)	(14.0%)

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MEDIUM TERM REVENUE PLAN (2018/19 - 2022/23)

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	
Resources							
Revenue Support Grant	1,320	0	365	0	0	0	
Business Rates Income (assumed by Government)	3,857	4,842	4,185	4,426	4,515	4,605	
Business Rates growth	2,000	1,228	1,511	0	0	0	
Business Rates pooling / pilot benefit	400	734	150	0	0	0	
NNDR Deficit to Cover	0	(1,651)	0	0	0	0	
CIL income	191	335	95	95	95	95	
New Homes Bonus	3,597	2,591	2,518	2,414	2,327	2,478	
Council Tax	5,338	5,624	5,831	5,979	6,228	6,480	
Likely resources	16,703	13,703	14,655	12,914	13,165	13,658	
Expenditure							
Service expenditure							
Committee expenditure base budget	12,549	12,852	12,975	12,697	10,522	10,486	
Inflation	110	500	602	300	300	300	
Potential increase in service costs	1,458	568	1,083	135	(43)	135	
Budgeted reductions	(1,265)	(945)	(1,963)				
	12,852	12,975	12,697	13,132	10,779	10,921	
Supplementary Budgets	1,463	1,923					
Net Interest	82	(140)	216	399	563	552	
Forecast Committee movements	(1,223)	589					
RCCO	917	150	0	0	0	0	
Repayment of debt	648	608	738	988	1,014	998	
Additional repayment of debt	117	1,000	1,000	1,000	1,000	1,000	
	14,856	17,105	14,651	15,519	13,356	13,471	
Other funding							
Contribution to/ (from) earmarked reserves	2,419	(1,725)	(169)	(95)	(4)	147	
Contribution to/ (from) balances - Other	(572)	(1,677)	173	100	106	40	
	1,847	(3,402)	4	5	102	187	
Reductions identified during 2016-17				0	0	0	
Further reductions required				(2,400)			(2,400)
Potential reductions identified				(210)	(293)		
Total Net Budget	16,703	13,703	14,655	12,914	13,165	13,658	

Total additional savings required by 2022/23 (2,400)

Opening General Fund Balance	5,264	4,692	3,015	3,188	3,288	3,394
Closing General Fund Balance	4,692	3,015	3,188	3,288	3,394	3,434
Balance as a percentage of budget	28.1%	22.0%	21.8%	25.5%	25.8%	25.1%

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	2018-19 Budget	2019-20 Budget	Change
	£	£	£
SCRUTINY - PEOPLE	2,935,040	3,456,890	521,850
SCRUTINY - PLACE	9,366,030	8,165,740	(1,200,290)
SCRUTINY - CORPORATE	7,396,760	6,949,230	(447,530)
less Notional capital charges	(6,722,380)	(5,874,930)	847,450
<u>Service Committee Net Expenditure</u>	12,975,450	12,696,930	(278,520)
Net Interest	100,000	216,000	116,000
New Homes Bonus	(2,590,900)	(2,517,780)	73,120
Revenue Contribution to Capital	150,000	0	(150,000)
Minimum Revenue Provision	1,720,160	1,738,020	17,860
<u>General Fund Expenditure</u>	12,354,710	12,133,170	(221,540)
Transfer To/(From) Working Balance	(82,320)	173,530	255,850
Transfer To/(From) Earmarked Reserves	(428,000)	(169,000)	259,000
<u>General Fund Net Expenditure</u>	11,844,390	12,137,700	293,310
Formula Grant	(4,841,660)	(4,429,000)	412,660
CIL Admin		(95,380)	(95,380)
Business Rates Growth	(1,379,000)	(1,782,000)	(403,000)
Council Tax	(5,623,730)	(5,831,320)	(207,590)
	0	0	0
Working Balance	March 2018	March 2019	
	3,015,615	3,189,145	

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REPORT TO **CORPORATE SERVICES SCRUTINY COMMITTEE,
EXECUTIVE AND COUNCIL**

Date of Meeting: **Corporate Services Scrutiny Committee - 24 January 2019
Executive - 12 February 2019
Council - 26 February 2019**

Report of: **Chief Finance Officer**

Title: **Capital Strategy and Capital Programme (2019/20 -
2021/22)**

Is this a Key Decision?

Yes

Is this an Executive or Council Function?

Council

1. What is the report about?

To approve the Capital Strategy and General Fund and Housing Revenue Account Capital Programmes for 2019/20 along with schemes identified for the following two years.

2. Recommendations:

It is recommended that Corporate Services Scrutiny Committee supports and the Executive recommends to Council to approve:

- i. The General Fund capital programme for 2019/20 as set out in Appendix 3
- ii. The HRA capital programme for 2019/20 as set out in Appendix 4
- iii. The Capital Strategy as set out in Appendix 5

3. Reasons for the recommendation:

In accordance with the Prudential Code for Capital Finance in Local Authorities, the Council is required to prepare three-year capital expenditure plans and consider the affordability of its capital investment during all the years in which it will have a financial impact on the authority.

The key objectives of the Prudential Code are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable and in considering its programme for capital investment, the Council is therefore required to have regard to:

- Affordability e.g. implications for Council Tax and rent levels
- Prudence and sustainability e.g. implications for external borrowing
- Value for money e.g. option appraisal
- Stewardship of assets e.g. asset management planning
- Service objectives e.g. strategic planning for the authority
- Practicality e.g. achievability of the forward plans

The CIPFA revised 2017 Prudential and Treasury Management Codes require 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 the capital strategy is to ensure all elected members fully understand the long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

4. What are the resource implications including non-financial resources

The financial resources required are set out in the body of this report.

5. Section 151 Officer Comments:

The proposed capital programme aligns with the Medium Term Financial Plan and the revenue implications have been built into both the General Fund and HRA budgets. The Capital Strategy is a new requirement for all Councils.

6. What are the legal aspects?

The capital expenditure system is framed by the Local Government and Housing Act 1989.

7. Monitoring Officer's comments:

When making a decision, councillors are reminded of the obligation to act reasonably and in accordance with the principals set down in the Wednesbury case. This means that councillors are required to take into account all relevant considerations and ignore any irrelevant considerations. Put simply, it would be unlawful for the Council to come to a view which is unreasonable in the sense that it is so irrational that no other reasonable authority could have reached it.

Members are under a duty to conduct administration in a business-like manner with reasonable care, skill and caution and with due regards to the council's rate payers. When discharging their duties councillors will need to consider the following:

- a. Prudent use of the council's resources;
- b. Financial prudence both long and short term;
- c. Striking a fair balance between the interest of the council tax payers on the one hand and the community interest and adequate and efficient services on the other hand;
- d. Acting in good faith with a view to complying with statutory duties and exercising its statutory powers for the benefit of the community.

8. Report Details:

CAPITAL PROGRAMME (2019/20 – 2021/22)

8.1 AVAILABLE CAPITAL RESOURCES

In considering the affordability of the Council's capital plans, the authority is required to consider all of the resources currently available to it and estimated resources for the future.

Together with money from the Council's own capital receipts and capital reserves, the annual capital programme is financed from; Government grants, Section 106 monies, partnership funding and other external grants and contributions. If necessary, the Council may borrow to supplement these funds.

Under the prudential capital finance system, individual authorities are responsible for deciding the level of their affordable borrowing. The system is designed to encourage authorities that need, and can afford, to borrow for capital investment to do so.

The Council must ensure that any borrowing decisions remain affordable and to this end, has to adopt a number of prudential indicators, which are set out in the Prudential Code for Capital Finance in Local Authorities, developed by CIPFA. A separate report setting out the Council's Prudential Indicators is also presented to this Committee.

8.2 General Fund Available Resources

The Council will have to continue to use borrowing for capital purposes. Appendix 1 sets out the use of the resources available in respect of the General Fund.

A borrowing requirement of £40.211 million has been identified over the next four financial years, which will have an ongoing impact on the Council Tax. The approximate current annual revenue cost of borrowing £1 million is:

Type of Borrowing	Interest £	Money Set Aside for Repayment of Debt £	Total Annual Payment £
Short term	9,000	40,000	49,000
Long term (>25 years)	23,200	40,000	63,200

8.3 Housing Revenue Account Available Resources

The capital programme for 2019/20 will be funded from the Major Repairs Reserve, Revenue Contributions and any external contributions and capital receipts generated in the period. Appendix 2 sets out the use of the resources available in respect of the HRA.

9. GENERAL FUND CAPITAL PROGRAMME

The proposed capital programme is detailed in Appendix 3. The table below sets out the total of new capital bids included within the three-year capital expenditure plans for Council to consider for approval:

Status	2019/20 £	2020/21 £	2021/22 £	Future Years £
New Bids	3,284,920	0	0	0
Pre-Approved Schemes	33,128,950	16,546,510	1,217,900	1,053,900
Total General Fund Capital Programme	36,413,870	16,546,510	1,217,900	1,053,900

The capital programme has been set out in line with the Council Purposes, in order to demonstrate how the Council's capital priorities help to contribute towards their achievement. Although a number of schemes contribute to the achievement of more than one vision theme, they have been placed under the theme to which it is considered the scheme contributes the most.

10. HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME

For 2019/20, the HRA medium term financial plan provides for a capital programme of £20.591 million. This comprises capital investment of £11.389 million for improvements to the Council's existing housing stock and £9.202 million towards the provision of new council homes.

In terms of investment in existing stock the proposed budgets for 2019/20 provide for the following:

- 245 kitchen replacements
- 245 bathroom replacements
- Refurbishment of 17 LAINGS properties
- 480 boiler replacements
- Year 2 of storage facility improvements in accordance with the Fire Safety Management Policy
- Refurbishment of Rennes House to commence following replacement of the lifts
- 200 properties to have window replacements
- Re-roofing to 142 houses

A copy of the HRA Capital Programme is attached at Appendix 4. The HRA Capital Programme will be funded by:

HRA Capital Finance	£
Major Repairs Reserve	8,432,086
Revenue Contribution to Capital	2,500,000
Capital Receipts	4,030,000
Commuted sums	5,320,000
External contributions	308,424
Total HRA Capital Financing 2019/20	20,590,510

11. Capital Strategy

The 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 proposed Capital Strategy is attached at Appendix 5.

12. How does the decision contribute to the Council's Corporate Plan?

The Capital Programme contributes to all of the key purposes, as set out in the Corporate Plan.

13. What risks are there and how can they be reduced?

Areas of budgetary risk are highlighted to committee as part of the quarterly budget monitoring updates.

14. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?

No impact

14. Are there any other options?

No

DAVE HODGSON
Chief Finance Officer

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:

None

Contact for enquiries:

Democratic Services (Committees)

Room 2.3

(01392) 265275

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GENERAL FUND AVAILABLE RESOURCES

GENERAL FUND	2018-19 £	2019-20 £	2020-21 £	2021-22 £	Future Years £	TOTAL £
CAPITAL RESOURCES AVAILABLE						
Capital Receipts Brought Forward	6,306,833					6,306,833
GF Capital Receipts	163,590	0	1,259,750	0	0	1,423,340
GF Ringfenced Capital Receipts	0	0	0	0	0	0
Revenue Contributions to Capital Outlay	0	284,920	0	0	0	284,920
Disabled Facility Grant	801,181	500,000	500,000	500,000	500,000	2,801,181
New Homes Bonus	198,069	13,477,952	0	0	0	13,676,021
Community Infrastructure Levy	1,903,193	4,667,620	254,679	0	0	6,825,492
Other - Grants/External Funding/Reserves/S106	515,839	800,480	0	0	0	1,316,319
Total Resources Available	9,888,705	19,730,972	2,014,429	500,000	500,000	32,634,106
GENERAL FUND CAPITAL PROGRAMME						
Capital Programme	16,225,060	36,413,870	16,546,510	1,217,900	1,053,900	71,457,240
Total General Fund	16,225,060	36,413,870	16,546,510	1,217,900	1,053,900	71,457,240

UNCOMMITTED CAPITAL RESOURCES:						
Capital Receipts Brought Forward	6,306,833	6,253,895	2,253,895	1,387,400	1,387,400	6,306,833
Resources in Year	3,581,872	19,730,972	2,014,429	500,000	500,000	26,327,273
Less Capital Receipts to Carry Forward	(6,253,895)	(2,253,895)	(1,387,400)	(1,387,400)	(1,387,400)	(1,387,400)
Less Spend in Year	(16,225,060)	(36,413,870)	(16,546,510)	(1,217,900)	(1,053,900)	(71,457,240)
Borrowing Requirement	12,590,250	12,682,898	13,665,586	717,900	553,900	40,210,534

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HRA AVAILABLE RESOURCES

HOUSING REVENUE ACCOUNT	2018-19 £	2019-20 £	2020-21 £	2021-22 £	2022-23 £	TOTAL £
CAPITAL RESOURCES AVAILABLE						
Usable Receipts Brought Forward						7,704,749
Major Repairs Reserve Brought Forward						11,169,004
Other HRA Sales	1,904,500	150,000	0	0	0	2,054,500
RTB sales	1,306,552	650,000	500,000	500,000	400,000	3,356,552
Surrender back to DCLG - pending investment in replacement affordable housing	0	(965,712)	0	0	0	(965,712)
Major Repairs Reserve	3,180,337	3,224,210	3,224,210	3,224,210	3,224,210	16,077,177
Revenue Contributions to Capital	7,196,555	2,500,000	3,100,000	4,500,000	3,400,000	20,696,555
External contributions	284,000	308,424	0	0	0	592,424
Grant funding - Estate Regeneration Funding	756,257	0	0	0	0	756,257
Grant funding - Zero Energy Buildings Project	216,000	0	0	0	0	216,000
Commuted sums	471,107	5,320,000	949,432	0	0	6,740,539
Total Resources available	15,315,308	11,186,922	7,773,642	8,224,210	7,024,210	68,398,045
CAPITAL PROGRAMME						
HRA Capital Programme	14,871,217	20,590,510	12,419,250	10,368,585	8,895,408	67,144,970
Total Housing Revenue Account	14,871,217	20,590,510	12,419,250	10,368,585	8,895,408	67,144,970
UNCOMMITTED CAPITAL RESOURCES:						
Usable Receipts Brought Forward	7,704,749	8,760,801	4,565,089	2,615,089	2,365,089	7,704,749
Major Repairs Reserve Brought Forward	11,169,004	10,557,043	5,349,167	2,653,559	759,184	11,169,004
Resources in Year	15,315,308	11,186,922	7,773,642	8,224,210	7,024,210	49,524,292
Less Estimated Spend	(14,871,217)	(20,590,510)	(12,419,250)	(10,368,585)	(8,895,408)	(67,144,970)
Uncommitted Capital Resources	19,317,844	9,914,256	5,268,648	3,124,273	1,253,075	1,253,075
WORKING BALANCE RESOURCES:						
Balance Brought Forward	10,212,244	6,344,212	5,757,397	5,534,683	4,301,654	10,212,244
HRA Balance Transfer - Surplus/(Deficit)	(3,868,032)	(386,815)	(222,714)	(1,233,029)	25,674	(5,684,916)
Supplementary budget to be requested		(200,000)				(200,000)
Balance Carried Forward	6,344,212	5,757,397	5,534,683	4,301,654	4,327,328	4,327,328
Balance Resolved to be Retained	(4,000,000)	(4,000,000)	(4,000,000)	(4,000,000)	(4,000,000)	(4,000,000)
Uncommitted HRA Working Balance	2,344,212	1,757,397	1,534,683	301,654	327,328	327,328
TOTAL AVAILABLE CAPITAL RESOURCES	21,662,056	11,671,653	6,803,331	3,425,927	1,580,403	1,580,403

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GENERAL FUND - CAPITAL PROGRAMME 2019/20 AND FUTURE YEARS						
SCHEMES LISTED WITHIN COUNCIL PURPOSES	NEW BID	2019/20	2020/21	2021/22	Future Years	What the scheme is trying to achieve
		£	£	£	£	
PEOPLE						
HELP ME FIND SOMEWHERE TO LIVE						
Disabled Facility Grants		500,000	500,000	500,000	500,000	To meet the legal duty to pay grants to enable disabled people to remain in their homes.
Sub-Total - Help Me Find Somewhere Suitable to Live		500,000	500,000	500,000	500,000	
PEOPLE TOTAL		500,000	500,000	500,000	500,000	
PLACE						
WELL RUN COUNCIL						
Vehicle Replacement Programme		400,000	400,000	400,000	400,000	To ensure that the Council's vehicles are replaced so that a safe and reliable fleet is maintained.
Car Park Resurfacing, Lining & Boundary Improvements		200,000				To ensure income generating car parks are safe and welcoming to use.
Waste Infrastructure		163,000	144,000	144,000		To reduce on-street presentation of domestic and commercial rubbish. Infrastructure to consist of communal domestic waste collection points in selected streets, 'Recycle on the Go' bins in the city centre and communal trade waste facilities.
Sub Total - Well Run Council		763,000	544,000	544,000	400,000	
IMPROVE THE ENVIRONMENT AND MY NEIGHBOURHOOD						
Repair Canal Bank at M5		25,990				To re-strengthen and raise canal banks at this known vulnerable location.
Kings Arms Bridge		15,000				To replace the current Kings Arms Bridge which has declined in condition.
Bowling Green Marshes Coastal Defence Scheme		28,900				To repair the coastal defences to retain the level of protection to the freshwater marshes. The scheme is entirely funded by the Environment Agency.
Exeter Flood Alleviation Scheme		200,000				Approximately 30 to 40 properties in Exwick and Countess Wear that are not protected from the Environment Agency's main flood scheme will be offered property level protection. The scheme is entirely funded by the Environment Agency.

GENERAL FUND - CAPITAL PROGRAMME 2019/20 AND FUTURE YEARS						
SCHEMES LISTED WITHIN COUNCIL PURPOSES	NEW BID	2019/20	2020/21	2021/22	Future Years	What the scheme is trying to achieve
		£	£	£	£	
Replacement of Mallison Bridge (Exeter Quay)		300,000				The current bridge has been identified as requiring replacement by DCC engineers. Opportunity to replace with a flatter, wider, 'fit for use' bridge to cater for heavy use.
Parks Infrastructure		250,000	100,000			To ensure public safety in parks and open spaces. Works include resurfacing parking areas and repairs to steps, railings and gates.
Cemeteries & Churchyards Infrastructure Improvements		80,000	20,000	20,000		To provide adequate and safe access to graves. Works include improvements to path and road layout and surfacing improvements and provision of suitable parking.
Purchase of Harbour Patrol Vessel for Exe Estuary		50,000				Purchase of RHIB type vessel for Harbour Patrol purposes in order to comply with Port Marine Safety Code requirements to deter speeding and monitor the use of the Estuary as part of ECC's Safety Management System.
Repairs to Turf Lock Pier Head		100,000				Stabilisation work to Turf Lock Pier Head by providing rock protection on the seaward side and making good displaced masonry slabs in other areas.
Repair to Walls at Farm Hill		60,000				To ensure stability and integrity of structures.
Bank Repairs & Stabilisation to Watercourses		20,000	20,000			To ensure stability and integrity of watercourses at Pinhoe, Monkerton and Northbrook to prevent bank slips/blockages that could result in localised flooding in populated areas.
Sub Total - Improve the Environment & My Neighbourhood		1,129,890	140,000	20,000	0	
KEEP ME/MY ENVIRONMENT SAFE & HEALTHY						
City Wide Property Level Protection		30,000				To protect properties in Old Tiverton Road and Longbrook Street from flooding. The scheme will be funded by Devon County Council.
Sub Total - Keep Me/My Environment Safe & Healthy		30,000	0	0	0	

GENERAL FUND - CAPITAL PROGRAMME 2019/20 AND FUTURE YEARS						
SCHEMES LISTED WITHIN COUNCIL PURPOSES	NEW BID	2019/20 £	2020/21 £	2021/22 £	Future Years £	What the scheme is trying to achieve
PROVIDE GREAT THINGS FOR ME TO SEE & DO						
Outdoor Leisure Facilities		80,000				To provide facilities at Omaha Drive.
Sports Facilities Refurbishment		56,430				To undertake replacement of plant and equipment within the leisure management contract.
Riverside Leisure Centre	NEW	3,000,000				To undertake essential repairs to the fabric of the building
Sub Total - Provide Great Things for Me to See, Do & Visit		3,136,430	0	0	0	
DELIVER GOOD DEVELOPMENT						
Leisure Complex - Build Project		26,017,300	12,167,690			To develop a new leisure complex and swimming pool on part of the bus station site to replace Pyramids.
Bus Station Construction		2,208,430	3,000,920			To redevelop Exeter's Bus and Coach Station.
Sub Total - Deliver Good Development		28,225,730	15,168,610	0	0	
PLACE TOTAL		33,285,050	15,852,610	564,000	400,000	
CORPORATE SERVICES						
WELL RUN COUNCIL						
Council Signage Improvement		40,000	40,000			A phased replacement of council signage across the city.
Annual Contribution to Strata		53,900	53,900	53,900	53,900	Contribution to Strata led projects
DR VDI Infrastructure	NEW	53,900				
ECC Cabinet & Network Replacement	NEW	125,000				
Street Scene and Other Asset Management	NEW	35,940				
Legal Case Management	NEW	23,360				
ECM - Scoping Exercise	NEW	17,970				
Cash and Income Management	NEW	28,750				

GENERAL FUND - CAPITAL PROGRAMME 2019/20 AND FUTURE YEARS						
SCHEMES LISTED WITHIN COUNCIL PURPOSES	NEW BID	2019/20	2020/21	2021/22	Future Years	What the scheme is trying to achieve
		£	£	£	£	
Loan to Exeter City Living Ltd		2,150,000				To provide the second loan payment to Exeter City Living in order to implement and complete the year one business case
Capitalised Staff Costs		100,000	100,000	100,000	100,000	To provide for the cost of certain Council employees, which will be directly involved in the construction or acquisition of assets and qualify as capital expenditure, including engineers and surveyors.
Sub Total - Well Run Council		2,628,820	193,900	153,900	153,900	
CORPORATE SERVICES TOTAL		2,628,820	193,900	153,900	153,900	

TOTAL CAPITAL PROGRAMME		36,413,870	16,546,510	1,217,900	1,053,900	
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New Bids		3,284,920	0	0	0	
Pre-Approved		33,128,950	16,546,510	1,217,900	1,053,900	
TOTAL CAPITAL PROGRAMME		36,413,870	16,546,510	1,217,900	1,053,900	

HOUSING - CAPITAL PROGRAMME 2019/20 AND FUTURE YEARS

DESCRIPTION	2018/19 B/fwd	2019-20	2019-20	2018/19 B/fwd	2020-21	2020-21	2021-22	2022-23	Total
	£	£	Total £	£	£	Total £	£	£	£
INVESTMENT IN EXISTING STOCK									
1 Adaptations	75,000	517,500	592,500		560,820	560,820	560,810	560,000	2,274,130
2 Balcony Walkway Improvements	100,000	135,000	235,000		108,710	108,710	108,720	108,000	560,430
3 Bathroom Replacements (inc. Communal)		918,750	918,750		918,750	918,750	948,750	918,750	3,705,000
4 Boiler Replacement Programme & Central Heating		590,670	590,670		590,500	590,500	590,670	590,500	2,362,340
5 Common Area Footpath & Wall Improvements	100,000	59,360	159,360		95,800	95,800	132,300	159,370	546,830
6 Communal Area Improvements - New Flooring		97,890	97,890		73,840	73,840	49,790	73,840	295,360
7 Communal Door and Screen Replacements	100,000	108,060	208,060		208,070	208,070	185,130	208,070	809,330
8 Door Replacements (inc. Outbuildings)		172,490	172,490		213,490	213,490	213,490	231,000	830,470
9 Electrical Central Heating		15,000	15,000		15,000	15,000	15,760	15,000	60,760
10 Electrical Rewires - Communal		213,200	213,200		213,490	213,490	213,490	213,490	853,670
11 Electrical Rewires - Domestic		354,000	354,000		354,000	354,000	354,000	354,000	1,416,000
12 Energy Conservation	25,000	0	25,000	25,000	0	25,000	0	0	50,000
13 Estate Improvements		50,000	50,000		50,000	50,000	50,000	50,000	200,000
14 Fire Risk Assessment Works	150,000	65,200	215,200		344,830	344,830	344,830	344,830	1,249,690
15 Fire Safety Storage Facilities	90,000	150,000	240,000		150,000	150,000	150,000	150,000	690,000
16 Garage Upgrades		68,400	68,400		68,400	68,400	68,400	68,400	273,600
17 Kitchen Replacements (inc. Communal)		1,347,250	1,347,250		1,347,500	1,347,500	1,347,500	1,347,500	5,389,750
18 LAINGS Refurbishments		1,298,580	1,298,580		0	0	0	0	1,298,580
19 Loft and Cavity Insulation		52,690	52,690		52,690	52,690	52,690	52,690	210,760
20 Reroofing - Flats	81,820	177,590	259,410		250,000	250,000	250,000	250,000	1,009,410
21 Reroofing - Houses (outbuildings, chimney, gutters, downpipes, fascia)	98,180	1,043,610	1,141,790		1,141,790	1,141,790	1,141,790	1,054,500	4,479,870
22 Housing Management System		25,000	25,000		0	0	0	0	25,000
23 Porch Canopies		90,480	90,480		55,810	55,810	54,470	66,920	267,680
24 Rennes House Structural Works	490,000	1,510,000	2,000,000	1,500,000	500,000	2,000,000	1,485,275	0	5,485,275
25 Soil Vent Pipe Replacement	40,000	63,950	103,950		33,740	33,740	49,110	49,110	235,910
26 Structural Repairs		155,250	155,250		160,680	160,680	166,300	194,128	676,358
27 Window Replacements		758,750	758,750		758,750	758,750	785,310	785,310	3,088,120
Sub total - Investment in Existing Stock	1,350,000	10,038,670	11,388,670	1,525,000	8,266,660	9,791,660	9,318,585	7,845,408	38,344,323
PROVISION OF NEW COUNCIL HOMES									
28 Social Housing Acquisitions - Section 106	390,000		390,000		50,000	50,000	50,000	50,000	540,000
29 Social Housing Acquisitions - Open Market		1,000,000	1,000,000		1,000,000	1,000,000	1,000,000	1,000,000	4,000,000
30 St Loyes Extracare Scheme	(676,924)	8,488,764	7,811,840	1,400,000	177,590	1,577,590	0	0	9,389,430
Sub total - Investment in the Provision of New Homes	(286,924)	9,488,764	9,201,840	1,400,000	1,227,590	2,627,590	1,050,000	1,050,000	13,929,430
Total HRA Capital Programme	1,063,076	19,527,434	20,590,510	2,925,000	9,494,250	12,419,250	10,368,585	8,895,408	52,273,753

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Exeter City Council Capital Strategy

Introduction

This capital strategy sets out how, when the City Council considers often-competing calls for investments, it takes account of stewardship, value for money, prudence, sustainability and affordability in a long term context, and gives due consideration to both risk and reward and impact on the achievement of the Council's priority outcomes. It is part of the Council's integrated operational, revenue, capital and balance sheet planning.

As local authorities become increasingly complex and diverse, it is vital that Councillors and senior Officers are fully informed about the long term context in which investment decisions are made and about all the financial and operational risks to which the authority is exposed. With local authorities having increasingly wide powers around commercialisation and more being part of group arrangements or combined authorities, it is increasingly important for Councils to look outside their own individual authority and take into account the residual risks and liabilities all around them.

This capital strategy covers both the General Fund and the Housing Revenue Account, supporting service provision and linking with the Council's Corporate Strategy and Medium Term Financial Strategy. It provides a framework for the development of the three year capital programme.

Purpose and Aims

The Prudential Code for Capital Finance in Local Authorities was updated by the Chartered Institute of Public Finance and Accountancy in December 2017. The framework established by the Prudential Code supports local strategic planning, local asset management planning and proper option appraisal.

The objectives of the Prudential Code are to ensure that the capital expenditure plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.

The Prudential Code requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are made with sufficient regard to the long run financing implications and potential risks to the authority.

The Prudential Code sets out that in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a capital strategy. The capital strategy should set 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 purpose of this capital strategy is to help achieve the strategic priorities of the Corporate Plan 2018 – 2021, which are to:

- Provide services and developments that build on Exeter's growth and success and meet local communities' aspirations, and so help deliver the emerging Exeter Vision 2040.
- Focus on three strategic programmes that address the current, major challenges facing the city:

- Tackling congestion and accessibility
 - Promoting active and healthy lifestyles
 - Building great neighbourhoods
- Provide value-for-money services despite continuing central government budget reductions.
 - Lead a well-run Council.

These priorities contribute to developing the Exeter Vision for 2040, which at the time of writing (November 2018) is:

"By the time they are an adult, a child born in Exeter today will live in a city that is inclusive, healthy and sustainable – a city where the opportunities and benefits of prosperity are shared and all citizens are able to participate fully in the city's economic, social, cultural and civic life."

What is Capital Expenditure?

An understanding of what constitutes capital expenditure is fundamental to realising the benefits that an authority can obtain under the Prudential framework. Unless expenditure qualifies as capital it will normally fall outside the scope of the framework and be charged to revenue in the period that the expenditure is incurred. If expenditure meets the definition of capital, there may be opportunities to finance the outlay from capital receipts or by spreading the cost over future years revenues.

There are three ways in which expenditure can qualify as capital under the framework:-

- The expenditure results in the acquisition, construction or enhancement of fixed assets (tangible and intangible) in accordance with 'proper practices'.
- The expenditure meets one of the definitions specified in regulations made under the 2003 Local Government Act.
- The Secretary of State makes a direction that the expenditure can be treated as capital expenditure.

Approach to Capital Investment

The Council's approach to capital investment is fundamental to the Council's financial planning processes. It aims to ensure that:

- Capital expenditure contributes to the achievement of the Council's strategic plan.
- An affordable and sustainable capital programme is delivered.
- Use of resources and value for money is maximised.
- A clear framework for making capital expenditure decisions is provided.
- A corporate approach to generating capital resources is established.

- Access to sufficient long term assets to provide services are acquired and retained.
- Invest to save initiatives to make efficiencies within the Council's revenue budget are encouraged.
- An appraisal and prioritisation process for new schemes is robust.

Governance Arrangements

Capital Programme Approvals

The Authority's constitution and financial regulations govern the capital programme as set out below:

- All capital expenditure must be carried out in accordance with the financial regulations and the Council's Constitution.
- The expenditure must comply with the statutory definition of capital purposes as defined within this document and wider financial standards.
- The Capital Programme approved by Full Council as part of the Council's annual budget report sets the capital funding availability for the Council, the prioritisation of funding and the schemes receiving entry into the Capital Programme.
- Officers are not authorised to commit expenditure without prior formal approval as set out in the financial regulations.
- Each scheme must be under the control of a responsible person/project manager.
- Any agreements (such as section 106) which contractually commit to procure capital schemes will need to follow the same approval process as other capital expenditure before it can be formally incorporated into the capital programme.

Full Council:

- Approves the capital programme as part of the Annual Budget Report within the strategic boundaries set by the Council.
- Approves capital schemes into the approved capital programme to enable commencement of delivery and schemes to start to incur expenditure

Funding Streams

Exeter City Council's Capital Programme is funded from a mix of sources including:

- **Prudential Borrowing** – The introduction of the Prudential Code in 2004 allowed the Council to undertake unsupported borrowing. This borrowing is subject to the requirements of the Prudential Code for Capital Expenditure for Local Authorities. The Council must ensure that unsupported borrowing is affordable, prudent and cost effective. This funding can also be used as an option to front fund development to stimulate growth. This has provided the Council with the flexibility to raise capital funding as demand and business need have dictated. This type of borrowing has revenue implications for the Council in the form of financing costs.
- **External Grants** – The largest capital grant received by Exeter City Council is the Better Care Fund payment administered by Devon County Council.
- **Section 106, Community Infrastructure Levy (CIL) and External Contributions** – Elements of the capital programme are funded by contributions from private sector developers and partners.
- **Revenue Funding** – The Council can use revenue resources to fund capital projects on a direct basis and this funding avenue has been used in the past. However, the impact of austerity on the Council's revenue budget has reduced options in this area and therefore the preference is for Invest to Save options to be adopted where feasible.
- **Capital Receipts** – The Council is able to generate capital receipts through the sale of surplus assets such as land and buildings. The Council seeks to maximise the level of these resources which will be available to support the Council's plans.

The size of the Capital Programme will be influenced by funding sources and financing costs. The main limiting factor on the Council's ability to undertake capital investment is whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and running costs, after allowing for any support provided by central government, now mainly through capital grants.

The Council is required to set aside a Minimum Revenue Provision (MRP) in respect of capital expenditure previously financed by borrowing. In recent years, the Council has sought to minimize the revenue consequences of borrowing by optimising the use of capital receipts to reduce the levels of MRP in the short to medium term.

Local authorities have been given the opportunity to use capital receipts to fund one off costs associated with transformation to 2021/22. This approach will be reviewed on an annual basis.

Stewardship of Assets

The Council's Asset Management Plan sets out the condition of its assets and the arrangements for managing these effectively. The Council's Corporate Property Strategy enhances these arrangements, including increasing the awareness that efficient use of property is an important element of maximising the value obtained from the Council's overall resources.

Service Objectives

The option appraisal of proposed capital schemes overseen considers, amongst other factors, the following:

- How the proposal help achieve the objectives and priorities set out in the Council's Strategic Plan 2018-2021.
- How the proposal will help achieve objectives set out in Departmental Strategic Plans.
- The service improvements and other anticipated benefits expected to be delivered from the investment.

Monitoring

- Capital budget holders are responsible for providing quarterly forecasts to the Finance Team. Any slippage, acceleration, underspends or overspends on schemes is identified as soon as possible.
- All forecasts are collated by the Finance Team and reported to Scrutiny, the Executive and Council on a quarterly basis

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REPORT TO: SCRUTINY COMMITTEE – CORPORATE
EXECUTIVE
COUNCIL

DATE OF MEETING: CORPORATE – 24 JANUARY 2019
EXECUTIVE – 12 FEBRUARY 2019
COUNCIL – 26 FEBRUARY 2019

REPORT OF: CHIEF FINANCE OFFICER
TITLE: TREASURY MANAGEMENT STRATEGY REPORT 2019/20

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

To seek adoption by the Council of the Treasury Management Strategy Report, incorporating the Annual Investment Strategy 2019/20, as required under section 15(1)(a) of the Local Government Act 2003.

2. Recommendations:

That Scrutiny and Executive support and Executive recommend to Council the adoption of the new Treasury Management Strategy and delegations contained therein.

3. Reasons for the recommendation:

The Council adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes, which requires the Council to approve a treasury management strategy before the start of each financial year.

In addition, the Ministry of Housing, Communities and Local Government (MHCLG) Guidance on Local Authority Investments requires the Council to approve an investment strategy before the start of each financial year.

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. Non-financial investments are covered in the Capital Strategy which is presented in a separate report to this Committee.

The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority’s treasury management strategy.

4. What are the resource implications including non financial resources

Treasury Management is carried out by the Finance team of the Council, with advice procured from a specialist advisor. Prudent Treasury Management supports the Council’s financial position by generating interest on investments / deposits and seeking to minimise the amount of interest paid on borrowing.

5. Section 151 Officer comments:

The strategy sets out the parameters under which the section 151 Officer and his team can operate. The Strategy aligns with the assumptions set out in the Council's MTFP and will enable good management of the Council's cash position throughout the year.

6. What are the legal aspects?

In February 2012 the Council adopted the updated *CIPFA Treasury Management in the Public Services: Code of Practice*, which requires the Council to approve a treasury management strategy before the start of each financial year. Adoption of the Code is required by regulations laid under the Local Government Act 2003.

7. Monitoring Officer's comments:

This report raises no issues for the Monitoring Officer

8. Report Details:

Key issues to be considered

This is a statutory Strategy recommended for adoption by full Council. The key issues to be considered are:

- Investments in the CCLA – LAMIT fund have been made and details of the dividend yield are included in paragraph 3.2 of Appendix A attached to this report.
- Section 4.3 sets the limits on the value of investments to be held by any one institution and the type of institution that can be used.
- The maximum limit to be lent to any one organisation in respect of Property Funds was approved in December 2017, the maximum to be lent to any one organisation for this type of investment is £10m.
- All other limits on the value of investments to be held by one institution remains at £5m (other than the UK Government).
- Paragraph 3 of Appendix A attached to this report, sets out the current levels of borrowing and investments, along with the estimated changes and the financial impact for the year on both the General Fund and HRA.
- Sections 5 and 6 set out the planned strategy for the year, which Council must be satisfied meets their objectives and is in line with the level of risk they are comfortable to take.

9. How does the decision contribute to the Council's Corporate Plan?

Treasury Management supports the Council in generating additional funds for investing in Services, whilst minimising the amount of interest paid on borrowings. It does not in itself contribute to the Council's Corporate Plan.

10. What risks are there and how can they be reduced?

The investment limits are designed to reduce risk as far as possible, however with any investments there is a risk of default. The Council minimises this risk by keeping borrowing as low as possible and therefore the amount available for investment low. Investments tend to be in immediate access accounts, or short term (less than three months). The risk of keeping borrowing short term is that rates will rise causing the Council to lock into higher interest rates over the long term.

11. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, Economy safety and the environment?

No impact.

12. Are there any other options?

No.

David Hodgson, Chief Finance Officer

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:

None

Contact for enquiries:

Democratic Services (Committees)

Room 2.3

(01392) 265275

APPENDIX A

EXETER CITY COUNCIL

TREASURY MANAGEMENT STRATEGY 2019/20

1. Introduction

- 1.1 The Council's strategy is based on the requirements of the MHCLG's Guidance on Local Government Investments ("Guidance") and CIPFA's Treasury Management in Public Services: Code of Practice and Cross Sectoral Guidance Notes ("CIPFA TM Code").

2. Economic Context

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

UK. The flow of positive economic statistics since the end of the first quarter this year has shown that pessimism was overdone about the poor growth in quarter 1 when adverse weather caused a temporary downward blip. Quarter 1 at 0.1% growth in GDP was followed by a return to 0.4% in quarter 2; quarter 3 is expected to be robust at around +0.6% but quarter 4 is expected to weaken from that level.

Inflation. The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.4% in October. In the November Bank of England quarterly inflation report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate. This inflation forecast is likely to be amended upwards due to the Bank's inflation report being produced prior to the Chancellor's announcement of a significant fiscal stimulus in the Budget; this is likely to add 0.3% to GDP growth at a time when there is little spare capacity left in the economy, particularly of labour

2.2 Interest rate forecasts

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 Link Asset Services forecast to March 2022.

Bank Rate															
	NOW	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Link Asset Services	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
5yr PWLB Rate															
	NOW	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Link Asset Services	1.70%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.50%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate															
	NOW	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Link Asset Services	2.07%	2.30%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate															
	NOW	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Link Asset Services	2.65%	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate															
	NOW	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Link Asset Services	2.50%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

The flow of generally positive economic statistics after the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. Growth has been healthy since that meeting, but is expected to weaken somewhat during the last quarter of 2018. At their November meeting, the MPC left Bank Rate unchanged, but expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. The next increase in Bank Rate is therefore forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

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

3. Current and Expected Treasury Portfolios

3.1 Investments

3.2 The Council's current investments as at 19 December 2018 was as follows:

Property Funds

Amount	Investment	Dividend Yield
5,000,000	CCLA - LAMIT Fund	4.27%

Note: Dividend yield as at 30 September 2018

Money Market Funds

Amount	Investment	Interest Rate
£5,000,000	Amundi Asset Management	0.75%
£5,000,000	Federated Investors	0.74%
£5,000,000	Aberdeen Standard Investments	0.74%
£1,000,000	Black Rock Asset Management	0.71%
£1,500,000	CCLA Public Sector Deposit Fund	0.74%

Fixed Term Deposits

Amount	Investment	Interest Rate	No of Days Invested	Maturity Date
£3,000,000	Eastleigh Borough Council	0.75%	97	19/02/2019
£5,000,000	London Borough of Southwark	0.95%	364	26/02/2019
£5,000,000	Blackpool Borough Council	0.81%	99	15/03/2019
£3,000,000	Salford City Council	0.78%	210	22/03/2019
£5,000,000	Slough Borough Council	0.60%	364	03/04/2019
£5,000,000	Surrey County Council	1.00%	182	03/06/2019
£3,000,000	Goldman Sachs	1.00%	182	19/06/2019
£3,000,000	North Ayrshire Council	0.70%	364	25/06/2019
£3,000,000	The City of Liverpool	0.85%	364	13/08/2019
£5,000,000	Dundee City Council	0.85%	364	21/08/2019
£3,000,000	Cambridgeshire County Council	1.15%	364	09/12/2019

3.3 Borrowings

The Council's short term borrowing is currently £10m.

Long term borrowing remains at £56.884m. Details of the loans are set out below.

Existing Loans

Amount	Lender	Interest rate	Date of repayment
£10,000,000	London Borough of Wandsworth	0.90%	05/12/2019
£56,884,000	PWLB	3.48%	28/03/2062

3.4 Expected changes

In July the Council approved the establishment of a Housing Development Company. The Council is expecting to borrow £2.2 million during this financial year over 25 years from the PWLB and will lend the money to the Company at a rate of 4.86%. It is expected that the transaction will take place in the near future.

The future cash flow forecast includes planned borrowing of £13 million as part of the 2019/20 capital programme. The decision of whether to take external long-term borrowing will be made in light of current and forecast interest rates and the decision is delegated to the section 151 Officer and Leader of the Council.

3.5 Budget implications

The net budget for interest payments in 2019/20 is £216,000 in respect of the General Fund. The HRA covers the interest costs relating to the long term borrowing of £56.9 million. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

4. **Investment Strategy**

4.1 The Council holds surplus funds, which represent income received in advance of expenditure plus balances and reserves held. Much of the Council's cash has been used to reduce the amount of debt taken on during the current financial year. Both the CIPFA Code and the MHCLG Guidance require the Council to invest its funds prudently, and to have regard to the **security** and **liquidity** of its investments before seeking the highest rate of return, or **yield**.

4.2 Specified Investments

Specified investments are those expected to offer relatively high security and liquidity, and can be entered into with the minimum of formalities. The MHCLG Guidance defines specified investments as those:

- denominated in pounds sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
 - the UK Government,
 - a UK local authority, parish council or community council, or
 - a body or investment scheme of "high credit quality".

- 4.3 The Council defines the following as being of “high credit quality” for making specified investments, subject to the monetary and time limits shown.

In-house investment	Monetary limit¹	Time limit
UK owned banks and building societies holding short-term credit ratings no lower than F1+ and P-1	£4m each	12 months
Foreign owned banks that deal in sterling holding short-term credit ratings no lower than F1+ and P-1	£3m each	9 months
UK owned banks and building societies holding short-term credit ratings no lower than F1 and P-1	£3m each	6 months
Money market funds ² and similar pooled vehicles holding the highest possible credit ratings (AAA)	£5m each	3 months
Property Funds	£10m each	3 months
UK Central Government	no limit	12 months
UK Local Authorities ³ Upper Tier Lower Tier	£5m each £3m each	12 months 12 months

¹ banks within the same group ownership are treated as one bank for limit purposes

² as defined in the Local Authorities (Capital Finance and Accounting) Regulations 2003

³ as defined in the Local Government Act 2003

- 4.4 The maximum that will be lent to any one organisation (other than the UK Government) will be £5 million, with the exception of Property Funds where the limit is £10m. For an individual bank, the limit is £4 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes.

4.5 Non specified Investments

- No non specified investments will be made by the Council.

4.6 Foreign countries

Investments in foreign countries will be limited to those that hold a AAA or AA+ sovereign credit rating from all three major credit rating agencies, and to a maximum of £3 million per country. Only banks that are domiciled in the UK but are owned in another country will be used and need to meet the rating criteria of and will count against the limit for both countries. There is no limit on investments in the UK.

4.7 Liquidity management

The Council uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments.

Limits on long-term investments are set by reference to the Council’s medium term financial plan and cash flow forecast.

4.8 Credit ratings

The Council uses credit ratings from two main rating agencies Fitch Ratings Ltd and Moody's Investors Service to assess the risk of loss of investments. The lowest available credit rating will be used to determine credit quality.

Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an institution has its credit rating downgraded so that it fails to meet the above criteria then:

- no new investments will be made,
- any existing investments that can be recalled at no cost will be recalled, and
- full consideration will be given to the recall of any other existing investments

Where a credit rating agency announces that it is actively reviewing an organisation's credit ratings with a view to downgrading it so that it is likely to fall below the above criteria, then no further investments will be made until the outcome of the review is announced.

4.9 Other information on the security of investments

Full regard will be given to other available information on the credit quality of banks and building societies, including credit default swap prices, financial statements and rating agency reports. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the above criteria.

4.10 Investment instruments

Investments may be made using any of the following instruments:

- interest paying bank accounts
- fixed term deposits
- call or notice deposits (where the Council can demand repayment)
- certificates of deposit
- treasury bills and gilts issued by the UK Government
- bonds issued by multilateral development banks
- shares in money market funds

5. Planned investment strategy for 2019/20 – In-House

5.1 The cash flow forecast will be used to divide surplus funds into three categories:

- Short-term – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows over the same period.
- Medium-term – cash required to manage the annual seasonal cash flow cycle, including amounts to cover forecast shortages, planned uses of reserves, and a longer-term contingency.
- Long-term – cash not required to meet cash flows, and used primarily to generate investment income.

5.2 The Council's in-house managed funds are based on the likely cash-flow position. Investments will be made to ensure that cash flow is protected and borrowing is minimised. However, on occasion, money has been invested for a longer period up to 364 days. These are funds which are not required for day-to-day cash management purposes.

5.3 The Council will seek to utilise its call accounts (which are linked to base rate), money market funds (Aberdeen, Blackrock, Federated, Amundi and CCLA) and use short-dated deposits to ensure liquidity of assets for day-to-day cashflow. Although these are essentially cash, a monetary limit in line with the banks credit rating is retained on the accounts. The Council will also make use of the Government's Debt Management Office to ensure the highest possible security for cash. Additionally, the Council will hold a balance on its general account to cover any payments due. On occasion, where significant payments are to be made, there may be in excess of £3 million in this account.

6. Borrowing Strategy

6.1 The Council's capital financing requirement (CFR, or underlying need to borrow) as at 31 March 2019 is expected to be £99.4 million, and is forecast to rise to £127.5 million by March 2020 as capital expenditure is incurred.

6.2 The maximum expected long-term borrowing requirement for 2019/20 is:

	£m
Borrowed in prior years	10.0
Not borrowed in previous years	32.5
Long term borrowing (HRA)	56.9
Forecast increase in CFR	28.1
TOTAL	127.5

6.3 The Council made a one-off payment on 28 March 2012, to buy itself out of the HRA subsidy system. The final settlement figure of £56.884 million was confirmed in February 2012. The amount was borrowed from the Public Works Loans Board over a 50 year period and is repayable on maturity at the end of the loan term. The interest rate was 3.48% fixed for the term of the loan.

6.4 To reduce risk and minimise cost on the General Fund, it has been decided to defer borrowing until later years, and to reduce the size of the Council's investment balance instead, however some targeted long term borrowing will be undertaken in 2019-20, where the costs will be offset against future income streams.

6.5 In addition, the Council will borrow for short periods of time (normally up to two years) to cover cash flow shortages.

Currently the Council has borrowing of £10 million, due for repayment on 5 December 2019.

6.6 Sources of borrowing

The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board
- any institution approved for investments above
- any other bank or building society on the Financial Services Authority list.

6.7 Debt instruments

Loans will be arranged by one of the following debt instruments:

- fixed term loans at fixed or variable rates of interest
- lender's option borrower's option (LOBO) loans.

As an alternative to borrowing loans, the Council may also finance capital expenditure and incur long-term liabilities by means of:

- leases
- Private Finance Initiative.

6.8 Borrowing strategy to be followed

With short-term interest rates currently much lower than long-term rates, it continues to be more cost effective in the short-term to not borrow and reduce the level of investments held instead, or to borrow short-term loans. However, with long-term rates forecast to rise in the coming years, any such short-term savings will need to be balanced against potential longer-term costs.

If required, the council may arrange forward starting loans during 2019/20, where the interest rate is fixed in advance, but the cash is received in a later period.

7. Policy on Use of Financial Derivatives

- 7.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans).
- 7.2 The Localism Bill 2011 includes a general power competence that removes the uncertain legal position over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The latest CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.
- 7.3 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 7.4 Derivative counterparties
Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.
- 7.5 In reality, whilst the Council is required to include the above policy, the only type of transaction used is the forward deal, which means the Council agrees to borrow funds at a set price for a set period, in advance of the date the loan is actually taken. This is done to ensure the availability of funds at the time that they are needed.

8. Treasury Management Prudential Indicators

- 8.1 The Council sets each year, in February, prudential indicators for Treasury Management, to ensure that proper control of borrowing and investing is maintained. These indicators can be found in the Council's budget book.

9. Other Matters

- 9.1 The revised MHCLG Investment Guidance also requires the Council to approve the following matters each year as part of the investment strategy:
- 9.2 Investment consultants
The Council contracts with Link Asset Services to provide advice and information relating to its investment and borrowing activities. However, responsibility for final decision making remains with the Council and its officers. The services received include:
- advice and guidance on relevant policies, strategies and reports,
 - advice on investment decisions,
 - notification of credit ratings and changes,
 - other information on credit quality,
 - advice on debt management decisions,
 - accounting advice,
 - reports on treasury performance,
 - forecasts of interest rates, and

- training courses.

The quality of the advisory service is monitored by the Chief Finance Officer

9.3 Investment training

The needs of the Council's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by Link Asset Services and CIPFA.

9.4 Investment of money borrowed in advance of need

The Council may, from time to time, borrow in advance of spending need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit. The maximum periods between borrowing and expenditure is expected to be two years, although the Council does not link particular loans with particular items of expenditure.

9.5 The Treasury Management Role of the Section 151 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.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe (say 20+ years – to be determined in accordance with local priorities.)
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- 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
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- 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
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following
 - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
 - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
 - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
 - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
 - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

10. Investment Reports

- 10.1 At the end of the financial year, the Council will prepare a report on its investment activity as part of its Annual Treasury Report. Progress will also be reported after six months of the financial year.

CHIEF FINANCE OFFICER
DECEMBER 2018

REPORT TO **CORPORATE SERVICES SCRUTINY COMMITTEE,
EXECUTIVE AND COUNCIL**

Date of Meeting: **Corporate Services Scrutiny Committee - 24 January 2019
Executive - 12 February 2019
Council - 26 February 2019**

Report of: **Chief Finance Officer**

Title: **The Prudential Code for Capital Finance in Local
Authorities (Incorporating the Annual Statement of
Minimum Revenue Provision)**

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

To set out the proposed 2019/20 prudential indicators for capital finance for adoption by the Council and set the annual statement of Minimum Revenue Provision (MRP).

2. Recommendations:

It is recommended that Corporate Services Scrutiny Committee supports and the Executive recommends to Council to approve the adoption of:

- i. The Prudential Indicators set out in Appendix A-C
- ii. The Annual Statement of Minimum Revenue Provision for the Council

3. Reasons for the recommendation:

With effect from 1 April 2004, the Government abolished the capital finance legislation in Part 4 of the Local Government and Housing Act 1989 and the Local Authorities (Capital Finance) Regulations 1997 (Statutory Instrument 1997/319) and replaced it with a new Prudential system based on self-regulation. This means that Councils are free to borrow for capital investment where the borrowing is affordable.

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 came into force on 31 March 2008. The Regulations require Full Council to approve an Annual Statement of Minimum Revenue Provision which is the amount set aside from revenue for the repayment of debt principal relating to the General Fund only. The Housing Revenue Account remains exempt from making Minimum Revenue Provision although it can make voluntary set asides if it wishes.

The Prudential Indicators / MRP report will be incorporated within the Budget Book for approval at the full Council meeting as per the statutory requirement.

4. What are the resource implications including non financial resources

The financial resources required are set out in the body of this report.

5. Section 151 Officer comments:

The report is a statutory requirement that sets the repayment of debt policy and the prudential indicators. This includes the overall borrowing limits within which the section 151 Officer operates. These indicators align with both the proposed capital programme, the medium term financial plan and the potential new build within the HRA proposed after the lifting of the HRA borrowing cap.

6. What are the legal aspects?

With effect from 1 April 2004, the Government abolished the capital finance legislation in Part 4 of the Local Government and Housing Act 1989 and the Local Authorities (Capital Finance) Regulations 1997 (Statutory Instrument 1997/319) and replaced it with a new Prudential system based on self-regulation. More detailed information is set out in paragraph 3 above.

7. Monitoring Officer's comments:

When making a decision, councillors are reminded of the obligation to act reasonably and in accordance with the principals set down in the Wednesbury case. This means that councillors are required to take into account all relevant considerations and ignore any irrelevant considerations. Put simply, it would be unlawful for the Council to come to a view which is unreasonable in the sense that it is so irrational that no other reasonable authority could have reached it.

Members are under a duty to conduct administration in a business-like manner with reasonable care, skill and caution and with due regards to the council's rate payers. When discharging their duties councillors will need to consider the following:

- a. Prudent use of the council's resources;
- b. Financial prudence both long and short term;
- c. Striking a fair balance between the interest of the council tax payers on the one hand and the community interest and adequate and efficient services on the other hand;
- d. Acting in good faith with a view to complying with statutory duties and exercising its statutory powers for the benefit of the community.

8. Report Details:

PRUDENTIAL INDICATORS

- 8.1** The Prudential Code requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long run financing implications and potential risks to the authority. Effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudential approach to capital expenditure, investment and debt.

To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used, and the factors that must be taken into account.

The proposed prudential indicators for the next three years are shown in Appendix A-C.

8.2 Key issues to consider

Appendix C summarises the prudential code indicators for the Council and of particular importance are:

- The Capital Financing Requirement - demonstrates the amount that the Council has an underlying need to borrow, regardless of whether that amount has actually been borrowed
- The Operational Boundary - this sets the amount of borrowing that the Council intends to keep within over the period covered by the indicators
- The Authorised Limit - the maximum that the Section 151 officer is allowed to borrow to cover the Operational Boundary and day to day cashflow needs. The Council is not allowed to exceed this amount of borrowing without first authorising an increase to the limit.

8.3

Lifting of the HRA Borrowing Cap

Since April 2012 each local authority had a limit on the amount of borrowing it could have for the purposes of the HRA, called the 'debt cap'. For Exeter City Council, the debt cap was £57,882,413.

The HRA debt cap was formally removed on 29 October 2018, as a result local authorities are now able to borrow for housebuilding in accordance with the Prudential Code.

Officers are currently investigating sites for the development of new council housing in order to make use of this new flexibility and to contribute to local housing delivery.

9. **ANNUAL STATEMENT OF MINIMUM REVENUE PROVISION**

The Regulations require that "a local authority shall determine for the current financial year an amount of minimum revenue provision which it considers to be prudent".

Minimum Revenue Provision (MRP) is an amount set aside from revenue to meet the repayment of debt principal. It is in effect a replacement for depreciation that you would normally expect to see within a Company's Accounts. Under the old Regulations this was 4% of principal outstanding for the General Fund and no requirement to set aside MRP in the Housing Revenue Account. In local government accounting depreciation is charged and then reversed out so it does not affect the level of Council Tax, however MRP is charged to the General Fund and therefore does affect levels of Council Tax.

The Secretary of State for Communities and Local Government has issued guidance under section 21(1A) of the Local Government Act 2003. This states that "the broad aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of the grant."

The guidance notes detail five options which the Secretary of State considers prudent. These are described in section 10 below:

- Regulatory Method;
- Capital Financing Requirement Method;
- Asset Life (Equal Instalment) Method;
- Asset Life (Annuity) Method; and
- Depreciation Method

Key issue to consider

Section 11 sets out the proposed policy for MRP, which matches the amount set aside against the useful life of the assets. The only exception to this is the writing off of historic debt which is being undertaken over 50 years.

10. MRP OPTIONS

Regulatory Method

MRP is equal to the amount determined in accordance with the former regulations 28 and 29 of the 2003 Regulations as if they had not been revoked. In effect this is 4% of the debt principal outstanding.

Capital Financing Requirement Method

MRP is equal to 4% of the non-housing Capital Financing Requirement, which is a Prudential Indicator.

Asset Life (Equal Instalment) Method

Where capital expenditure on an asset is financed wholly or partly by borrowing then MRP is determined by reference to the life of the asset and an equal amount charged in each year.

Asset Life (Annuity) Method

MRP is the principal element for the year of the annuity required to repay over the asset life the amount of capital expenditure financed by borrowing.

Depreciation Method

MRP is equal to the provision required in accordance with depreciation accounting in respect of the asset, including any amount of impairment chargeable to the Income and Expenditure Account. As standard depreciation rules are used where an asset is part financed by loan, e.g. 50% loan, 50% Capital Receipt, then the full 100% depreciation charge on the asset is required to be charged as MRP. MRP is required to be charged annually until the cumulative amount of the provision is equal to the original expenditure financed by borrowing. Should the asset be disposed of then the charge needs to continue as if the asset had not been disposed of unless the debt is repaid.

11. MINIMUM REVENUE PROVISION POLICY 2019/20

The Council's MRP policy is to match borrowing against specific capital investment and adopt either the Asset Life (Equal Instalment) or the Asset Life (Annuity) method for MRP. In this way the funding for the asset will be paid off over the useful life of that asset. This will ensure that loans are repaid over the asset life thus freeing financial resources for investment in other schemes or in asset renewal. They are also simple to operate and gives certainty in each year as to the level of charge for principal.

The other advantage is that it makes business cases and scheme appraisals easier to compile. As a general rule the Council will seek to borrow over the same period of the asset life up to a maximum of 50 years in line with the Regulations. The total capital financing requirement at the end of 2018/19 is likely to be approximately £99.4 m, some of which has financed redundancy payments and other shorter dated expenditure. Therefore MRP for 2019/20 will be calculated based on the capital financing requirement at the end of 2018/19 using the varying periods of repayment. The MRP charge for 2019/20 will be approximately £0.988 million. For the avoidance of doubt, it is proposed to use both options from 2016/17 onwards, depending on the asset being financed.

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), voluntary revenue provision or overpayments, can, if needed, be reclaimed in future 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 2019 the total VRP overpayments were £5.602 million

- 12. How does the decision contribute to the Council's Corporate Plan?**
The Capital Programme contributes to all of the key purposes, as set out in the Corporate Plan.
- 13. What risks are there and how can they be reduced?**
Areas of budgetary risk are highlighted to committee as part of the quarterly budget monitoring updates.
- 14. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?**
No impact
- 15. Are there any other options?**
No

Dave Hodgson, Chief Finance Officer

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:

1. The Prudential Code for Capital Finance in Local Authorities
2. The Prudential Code Guidance Notes

Contact for enquiries:

Democratic Services (Committees)

Room 2.3

(01392) 265275

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General Fund Prudential Indicator Calculations

The purpose of the prudential indicators is to demonstrate that the Council's financial plans meet the statutory requirement to be affordable, prudent and sustainable.

General Fund Capital Expenditure

The prudential indicator for capital expenditure should be based upon a capital programme that takes into account the Council's asset management and capital investment strategies.

Strategic Theme	2017/18 Actual £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
IMPROVE THE ENVIRONMENT AND MY NEIGHBOURHOOD	124	959	1,130	140	20
KEEP ME/MY ENVIRONMENT SAFE & HEALTHY	1,061	636	30	0	0
HELP ME FIND SOMEWHERE SUITABLE TO LIVE	959	1,183	500	500	500
WELL RUN COUNCIL	322	3,982	3,392	738	698
PROVIDE GREAT THINGS FOR ME TO SEE & DO	371	1,000	3,136	0	0
MAINTAIN THE ASSETS OF OUR CITY	10	4,089	0	0	0
DELIVER GOOD DEVELOPMENT	1,019	2,176	26,076	15,169	0
COMMERCIAL ACTIVITIES/NON-FINANCIAL INVESTMENTS*	200	2,200	2,150	0	0
Total General Fund Capital Expenditure	4,066	16,225	36,414	16,547	1,218

* Commercial activities/non-financial investments relate to areas such as capital expenditure on investment properties, loans to third parties etc.

General Fund Financing costs

The figures for the actual financing costs will be taken from the Council's financial statements using the definition of financing costs specified in the Prudential Code. Estimates for the current and future years should be calculated in a manner consistent with this definition.

Description	2017/18 Actual £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Interest payable with respect to short term borrowing	118	105	241	324	410
Interest payable under 'irredeemable' long term liabilities	0	0	0	0	0
Interest and investment income	(215)	(230)	(200)	(200)	(200)
Replacement for Minimum Revenue Provision (England and Wales)	648	608	738	988	1,016
Voluntary contribution to financing costs in respect of short-life assets	117	1,000	1,000	1,000	1,000
Total General Fund Financing Costs	668	1,483	1,779	2,112	2,226

General Fund Estimates of the ratio of financing costs to net revenue stream

The net revenue stream is the estimate of the amounts to be met from government grants and local taxpayers. An important theme of the Code is transparency. For this reason the authority's calculation of the net revenue stream should be consistent with the figure that can be identified in the Income and Expenditure Account for 'Net Operating Expenditure'.

Description	2017/18 Actual £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Financing costs	668	1,483	1,779	2,112	2,226
Net revenue stream	13,106	11,112	12,137	10,500	10,749
Ratio of financing costs to net revenue stream %	5.1%	13.3%	14.7%	20.1%	20.7%

General Fund Capital Financing Requirement

The Capital Financing Requirement will reflect the Council's underlying need to finance capital expenditure.

Actual General Fund Capital Financing Requirement at 31 March 2018

	£'000
Property, Plant and Equipment	146,165
Investment Properties	39,942
Heritage Assets	22,643
Intangible Assets / Other Long term Assets	4,185
Revaluation Reserve	(85,685)
Capital Adjustment Account	(97,057)
General Fund Capital Financing Requirement 31 March 2018	30,193

Estimated General Fund Capital Financing Requirement at 31 March 2019

Estimate of General Fund Capital Financing Requirement 31 March 2018	30,193
Estimate of change in Property, Plant and Equipment	0
Estimate of change in Investment Properties	0
Estimate of change in Intangible Assets / Other Long term Assets	0
Estimate of change in Revaluation Reserve	0
Estimate of change in Capital Adjustment Account	11,325
Estimate of General Fund Capital Financing Requirement 31 March 2019	41,518

Estimated General Fund Capital Financing Requirement at 31 March 2020

Estimate of General Fund Capital Financing Requirement 31 March 2019	41,518
Estimate of change in Property, Plant and Equipment	0
Estimate of change in Investment Properties	0
Estimate of change in Intangible Assets / Other Long term Assets	0
Estimate of change in Revaluation Reserve	0
Estimate of change in Capital Adjustment Account	28,093
Estimate of General Fund Capital Financing Requirement 31 March 2020	69,611

Estimated General Fund Capital Financing Requirement at 31 March 2021

Estimate of General Fund Capital Financing Requirement 31 March 2020	69,611
Estimate of change in Property, Plant and Equipment	0
Estimate of change in Investment Properties	0
Estimate of change in Intangible Assets / Other Long term Assets	0
Estimate of change in Revaluation Reserve	0
Estimate of change in Capital Adjustment Account	4,958
Estimate of General Fund Capital Financing Requirement 31 March 2021	74,569

Estimated General Fund Capital Financing Requirement at 31 March 2022

Estimate of General Fund Capital Financing Requirement 31 March 2021	74,569
Estimate of change in Property, Plant and Equipment	0
Estimate of change in Investment Properties	0
Estimate of change in Intangible Assets / Other Long term Assets	0
Estimate of change in Revaluation Reserve	0
Estimate of change in Capital Adjustment Account	(1,297)
Estimate of General Fund Capital Financing Requirement 31 March 2022	73,272

HRA Prudential Indicator Calculations

Local authorities that have a Housing Revenue Account (HRA) are required to prepare separate calculations for their HRA and non-HRA elements.

HRA Capital Expenditure

The prudential indicator for capital expenditure should be based upon a capital programme that takes into account the Council's asset management and capital investment strategies.

Description	2017/18 Actual £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
MAINTAIN OUR PROPERTY ASSETS	3,264	9,215	11,389	9,792	9,319
HELP ME FIND SOMEWHERE SUITABLE TO LIVE	3,001	5,656	9,202	2,628	1,050
Total HRA Capital Expenditure	6,265	14,871	20,591	12,420	10,369

HRA Financing costs

Description	2017/18 Actual £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Interest payable with respect to short term borrowing	0	0	0	0	0
Interest payable under 'irredeemable' long term liabilities	1,980	1,980	1,980	1,980	1,980
Interest and investment income	(227)	(220)	(165)	(165)	(80)
Voluntary Revenue Provision (England and Wales)	0	0	0	0	0
Voluntary contribution to financing costs in respect of short-life assets	0	0	0	0	0
Total HRA Financing Costs	1,753	1,760	1,815	1,815	1,900

HRA Estimates of the ratio of financing costs to net revenue stream

For the Housing Revenue Account the net revenue stream, for the purposes of the Code, is the amount to be met from rent income.

Description	2017/18 Actual £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Financing costs	1,753	1,760	1,815	1,815	1,900
Net revenue stream	19,022	18,600	18,250	18,925	19,625
Ratio of financing costs to net revenue stream %	9.2	9.5	9.9	9.6	9.7
Negative for a debt free authority	%	%	%	%	%

HRA Capital Financing Requirement

The Capital Financing Requirement will reflect the Council's underlying need to finance capital expenditure.

Actual HRA Capital Financing Requirement at 31 March 2018

Description	£'000
Property, Plant and Equipment	267,953
Investment Properties	0
Revaluation Reserve	(66,512)
Capital Adjustment Account	(143,559)
Actual HRA Capital Financing Requirement 31 March 2018	57,882

Estimated HRA Capital Financing Requirement at 31 March 2019

Estimate of HRA Capital Financing Requirement 31 March 2018	57,882
Estimate of change in Property, Plant and Equipment	6,265
Estimate of change in Investment Properties	0
Estimate of change in Intangible Assets / Other Long term Assets	0
Estimate of change in Revaluation Reserve	0
Estimate of change in Capital Adjustment Account	(6,265)
Estimate of HRA Capital Financing Requirement 31 March 2019	57,882

Estimated HRA Capital Financing Requirement at 31 March 2020

Estimate of HRA Capital Financing Requirement 31 March 2019	57,882
Estimate of change in Property, Plant and Equipment	14,871
Estimate of change in Investment Properties	0
Estimate of change in Intangible Assets / Other Long term Assets	0
Estimate of change in Revaluation Reserve	0
Estimate of change in Capital Adjustment Account	(14,871)
Estimate of HRA Capital Financing Requirement 31 March 2020	57,882

Estimated HRA Capital Financing Requirement at 31 March 2021

Estimate of HRA Capital Financing Requirement 31 March 2020	57,882
Estimate of change in Property, Plant and Equipment	20,591
Estimate of change in Investment Properties	0
Estimate of change in Intangible Assets / Other Long term Assets	0
Estimate of change in Revaluation Reserve	0
Estimate of change in Capital Adjustment Account	(20,591)
Estimate of HRA Capital Financing Requirement 31 March 2021	57,882

Estimated HRA Capital Financing Requirement at 31 March 2022

Estimate of HRA Capital Financing Requirement 31 March 2021	57,882
Estimate of change in Property, Plant and Equipment	12,420
Estimate of change in Investment Properties	0
Estimate of change in Intangible Assets / Other Long term Assets	0
Estimate of change in Revaluation Reserve	0
Estimate of change in Capital Adjustment Account	(12,420)
Estimate of HRA Capital Financing Requirement 31 March 2022	57,882

Limit on indebtedness

The HRA borrowing cap was limited to £57,882k, but the cap was formally removed on 29 October 2018 so Local Authorities will now be able to borrow for housebuilding.

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Prudential Indicator CalculationsPRUDENTIAL INDICATORS OF AFFORDABILITYTotal Actual / Estimates of Capital Expenditure

The prudential indicator for capital expenditure should be based upon a capital programme that takes into account the Council's asset management and capital investment strategies.

Description	2017/18 Actual £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Total General Fund Capital Expenditure	4,066	16,225	36,414	16,547	1,218
Total HRA Capital Expenditure	6,265	14,871	20,591	12,420	10,369
Total Actual / Estimates of Capital Expenditure	10,331	31,096	57,005	28,967	11,587

Total Actual / Estimates of Financing Costs

Description	2017/18 Actual £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Total General Fund Financing Costs	668	1,483	1,779	2,112	2,226
Total HRA Financing Costs	1,753	1,760	1,815	1,815	1,900
Total Actual / Estimates of Financing Costs	2,421	3,243	3,594	3,927	4,126

Actual / Estimates of Ratio of Financing Costs to Net Revenue Stream

The net revenue stream is the estimate of the amounts to be met from government grants and local taxpayers, and for the Housing Revenue Account, is the estimate of the amounts to be met from rent income.

Description	2017/18 Actual £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
General Fund Ratio of Financing Costs to Net Revenue Stream	0.1	0.1	0.1	0.2	0.2
HRA Ratio of Financing Costs to Net Revenue Stream	9.2	9.5	9.9	9.6	9.7

Prudential Indicator CalculationsActual / Estimates of Capital Financing Requirement

The Capital Financing Requirement will reflect the Council's underlying need to finance capital expenditure.

Description	2017/18 Actual £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
General Fund Capital Financing Requirement	30,193	41,518	69,611	74,569	73,272
HRA Capital Financing Requirement	57,882	57,882	57,882	57,882	57,882
Total Actual / Estimates of Capital Financing Requirement	88,075	99,400	127,493	132,451	131,154

Authorised Limit

In England and Wales the prudential indicator for the Authorised Limit for external debt for the current year is the statutory limit determined under Section 3 (1) of the Local Government Act 2003: 'A local authority shall determine and keep under review how much money it can afford to borrow'

The Authorised Limit should not be set so high that it would never in any possible circumstances be breached. It should reflect a level of borrowing which, while not desired, could be afforded but may not be sustainable. The Authorised Limit must therefore be set to establish the outer boundary of the Council's borrowing, based on a realistic assessment of the risks.

Description	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Borrowing	170,000	192,000	210,000
Other long term liabilities	0	0	0
Authorised Limit	170,000	192,000	210,000

Prudential Indicator Calculations**Operational Boundary**

The Operational Boundary is the focus of day-to-day treasury management activity within the authority. It is a means by which the authority manages its external debt to ensure that it remains within the self-imposed Authorised Limit. The Operational Boundary may be breached temporarily on occasions due to variations in cashflow. However, a sustained or regular trend above the Operational Boundary would be significant and should lead to further investigation.

Description	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Borrowing	160,000	182,000	200,000
Other long term liabilities	0	0	0
Operational Boundary	160,000	182,000	200,000

The Authorised Limit and the Operational Boundary have been increased to include capacity to enable the establishment of a HRA development programme following removal of the debt cap.

Actual External Debt

The prudential indicator for actual external debt will not be directly comparable to the authorised limit and operational boundary, since the actual external debt will reflect the actual position at one point in time.

Description	2017/18 Actual £'000	To be repaid	
		within 12 months	after 12 months
Actual borrowing as at 31 March 2018	66,906	0	66,906
Actual long term liabilities as at 31 March 2018	0	0	0
Actual External Debt as at 31 March 2018	66,906	0	66,906

Prudential Indicator Calculations
PRUDENTIAL INDICATORS OF PRUDENCE

Gross Debt and Capital Financing Requirement

The Code makes it necessary, if a financial strategy is to be prudent, that it is one in which in the medium term gross debt is only used for capital purposes. In the Code this requirement is to be demonstrated through a comparison of gross debt with the Capital Financing Requirement.

Description	£'000
Total Capital Financing Requirement at 31 March 2018	88,075

2018/19 Estimated Change in Capital Financing Requirement	
Capital expenditure	31,096
Application of useable capital receipts	(2,372)
Application of capital grants/contributions	(15,791)
The replacement for MRP	(608)
Additional voluntary contributions	(1,000)
Total Estimated Change in Capital Financing Requirement 2018/19	11,325

2019/20 Estimated Change in Capital Financing Requirement	
Capital expenditure	57,005
Application of useable capital receipts	(8,996)
Application of capital grants/contributions	(18,178)
The replacement for MRP	(738)
Additional voluntary contributions	(1,000)
Total Estimated Change in Capital Financing Requirement 2019/20	28,093

Prudential Indicator Calculations

2020/21 Estimated Change in Capital Financing Requirement	
Capital expenditure	28,967
Application of useable capital receipts	(4,576)
Application of capital grants/contributions	(17,445)
The replacement for MRP	(988)
Additional voluntary contributions	(1,000)
Total Estimated Change in Capital Financing Requirement 2020/21	4,958

Capital Financing Requirement:	
Opening Balance 2017/18	88,075
Estimated Closing Balance 2020/21	132,451
This is an increase over the three years of	44,376

Operational Boundaries to Exposure to Interest Rate Risks

Interest rate risk management is a top priority for local authority management. The setting of upper limits has the effect of setting ranges within which the Council will limit its exposure to both fixed and variable interest rate movements.

Description	2018/19 £'000	2019/20 £'000	2020/21 £'000
Total projected interest payable on borrowing	2,221	2,304	2,390
Total projected interest receivable on investments	(365)	(365)	(280)
Net Interest	1,856	1,939	2,110
Upper limit - fixed rates = 100%	(365)	(365)	(280)
Upper limit - variable rates = 20%	(73)	(73)	(56)

This means that the Chief Finance Officer will manage fixed interest rate exposure within the range 0% to 100% and variable interest rate exposure within the range 0% to 20%

Prudential Indicator Calculations**Operational Boundary to the Exposure Inherent in the Maturity Structure of Borrowings**

This indicator is designed to be a control over the Council having a large concentration of fixed rate debt needing to be replaced at times of uncertainty over interest rates. The indicator is, in effect, a limit on longer term interest rate exposure and is set for the forthcoming year.

The analysis of borrowing by maturity used in the Code uses the same periods as that required in the local authority SORP.

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

Period	Upper Limit	Lower Limit
Under 12 months	100%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	20%	0%
5 years and within 10 years	20%	0%
10 years and above	100%	0%

Investments

Description	At 31/3/2017 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Long-term investments	5,855	5,855	5,855	5,855
Short-term investments	17,976	24,000	0	0
Cash and cash equivalents	22,666	12,000	5,000	5,000
Total Investments	46,497	41,855	10,855	10,855

REPORT TO: CORPORATE SCRUTINY COMMITTEE
DATE OF MEETING: 24 January 2019
REPORT OF: Chief Finance Officer
TITLE: Corporate Scrutiny Committee - Estimates 2019/20

Is this a Key Decision?

Yes

Is this an Executive or Council Function?

Council

1. What is the report about?

This report sets out the proposed revenue and capital estimates for 2019/20 in respect of Corporate Services.

2. Recommendations:

That Members of Corporate Scrutiny Committee support the estimates for 2019/20 and recommends their approval at the Special Meeting of the Council on 26 February 2019.

3. Reasons for the recommendation:

Local authorities have a statutory duty to set an annual budget and to monitor the budget throughout the year.

4. What are the resource implications including non financial resources

The financial resources required to deliver Corporate Services during 2019/20 are set out in the body of this report.

5. Section 151 Officer comments:

The budget is in line with the updated medium term financial plan and forms part of a proposed balanced budget for the Council in 2019/20. The budget will ultimately be agreed on 26 February along with the Council Tax for 2019/20.

Members should note that further reductions totalling £2.4 million will have to be identified in order to balance the budget for the following year.

6. What are the legal aspects?

Part 2 of the Local Government Act 2003 provides the legislative framework for the process of setting and managing budgets. The act Corporates a duty on authorities to set robust estimates, maintain adequate reserves.

7. Monitoring Officer Comments:

Section 25 of the Local Government Act 2003 requires the S151 officer to report on the adequacy of the Council's financial resource. Where following review, it appears there has been a deterioration in the financial position, an authority must take such action, if any, as it considers necessary to deal with the situation.

8. Report Details:

BUDGET FRAMEWORK FOR CORPORATE SERVICES

8.1 ANNUAL BUDGET SETTING

Budgets are revisited each year to make amendments for assumptions made on interest rates, inflation and other changed circumstances.

8.2 INFLATION

An overall allowance of £165,250 has been set aside for inflation within Corporate Services. The inflationary increases allowed in the budgets are:

Pay award	2%
Pay – Increments	0.5%
Electricity	25%
Gas	6%
Oil	2.5%
Water	0.0%
Insurance	8%
Rates	2.5%
Fuel	3.0%
General Inflation	0%
Income (excluding Car Parks)	3%

General inflation has again been held at zero; however, where contractual arrangements are in Corporate, inflation in accordance with the terms of the contract has been added.

8.3 INTEREST RATES

In respect of interest rates, next year's budget reflects the likelihood that whilst base rate may remain low, borrowing for cashflow purposes will increase and the Council may begin to take out borrowing over a longer timeframe as a result.

8.4 LIKELY REVENUE RESOURCES 2018/19 TO 2022/23

Resources remain broadly similar to the medium term financial plan as the Government has agreed the four year settlement, however at the end of the four year settlement a significant reduction is anticipated when the Government implement the business rates reset.

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
RSG	0	365	0	0	0
Council Tax	5,624	5,831	5,979	6,228	6,480
Business Rates	6,804	5,846	4,426	4,515	4,605
Resources	12,428	12,042	10,405	10,743	11,085
Increase/(decrease)		(386)	(1,637)	338	342
Annual % change		(3.1%)	(13.6%)	3.2%	3.2%

The medium term financial plan is based upon an assumption that under the council tax referendum threshold, Shire District councils will be allowed increases of less than 3% or up to and including £5, whichever is higher. Exeter's budget strategy for next year assumes that council tax will increase by £5, which, along with the estimated surplus on the collection fund of £96,331 and increase in the taxbase will raise an extra £208,000.

All authorities in Devon have taken part in the Business Rate pilot for the 100% retention of Business Rates during 2018-19. They have also applied to be a 75% pilot during 2019-20, but unfortunately have been unsuccessful. The aim therefore is to revert to acting as a pool.

Last year, the Government removed £800 million from New Homes Bonus in order to fund Adult Social Care. The Government will reduce the payment to four years from 2018-19 and additionally, no payment will be made on housing growth below 0.4%. This is expected to lead to an award of approximately £2.518 million for 2019-20.

8.5 GENERAL FUND CAPITAL PROGRAMME

The proposed General Fund Capital Programme for the next three years has been established. The total of the current Corporate Services programme is as follows:

	2019/20 £'000	2020/21 £'000	2021/22 £'000
New Bids	285	0	0
Pre-approved	2,344	194	154
Total	2,629	194	154

The proposed capital programme for Scrutiny Committee - Corporate is attached at Appendix 1.

8.6 KEY BUDGET CHANGES PROPOSED FOR 2019/20

The table below sets out the key changes between the budgets for the current financial year and the draft estimates for 2019/20, with any significant movements +/- £30k explained. Please also refer to Appendix 2.

LOCAL GOVERNMENT PAY OFFER

In addition to the key changes highlighted below, a significant budgetary pressure in respect of pay has impacted on revenue budgets across Council services.

In April 2018, UNISON accepted the Local Government Association's two-year pay offer, covering the period April 2018 to March 2020 with employees paid at the lower spinal column points receiving increases in excess of 2%. The offer includes a revised pay spine with effect from 1 April 2019, which employers will need to apply to their own grading structure. The LGA have reported that the total increase to the national pay bill resulting from the offer is 5.6% over 2 years. The proposed budgets reflect the impact of the pay offer for this committee, in conjunction with annual increments, re-grades and changes to posts.

Key changes between budgets for 2018/19 and draft estimates for 2019/20	
86A6 Grants / Central Support / Consultation	£104,360
Officers Responsible: Directors	
<ul style="list-style-type: none"> This management unit brings together an otherwise-disparate group of support services. The main element of the apparent increase is that the base 	

Key changes between budgets for 2018/19 and draft estimates for 2019/20

estimate for 2018/19 does not include a £68,000 supplementary budget to support bringing Communications in-house approved in June 2018.

- The total base budget for 2018/19 was £1,566,300 while the equivalent base estimate for 2019/20 is £1,220,640, a reduction of 22%.

86B1 Financial Services**£46,370****Officer Responsible: Chief Finance Officer**

- This apparent increase is in fact the result of limiting the internal “income” from recharging support services to operational services only when either the operational services is chargeable by law on a full-cost-recovery basis, or the recharge represents a material cost to the support service. The adjustment here is balanced by a saving in recharged costs shown in operational services.
- The budget cost of Financial Services (ie before income) was £710,890 in 2018/19 and is estimated at £715,000 for 2019/20, an increase of £4,110.

86B5 CORPORATE SUPPORT**£(62,390)****Officer Responsible: Corporate Manager Democratic and Civic Support**

- Rental income in the Civic Centre will increase by £18,000 following the granting of a new lease.
- Funding for part of a vacant post has been transferred to 86B1 - Financial Services (above) decreasing costs in this unit by £11,000
- The budgets for supplies and services have been reduced by £18,000 reflecting current expenditure levels, particularly for postage costs and maintenance of equipment.
- The budget for National Non Domestic Rates (NNDR) for the Civic Centre has been reduced by £10,000 to reflect the actual charges incurred.

86B6 IT Services**£129,020****Officer Responsible: Chief Finance Officer**

- £58,500 of this is inflation as allowed-for under the contract (2.5% CPI on employee costs, 3.1% RPI on supplies and services).
- The balance is from service enhancements requested by Services, such as £41,900 for new Revenues & Benefits software and £15,000 for new mobile canvassing devices.

86B7 Strategic Management**(£48,890)****Officers Responsible: Directors**

- This is primarily the final budget benefit from the deletion of the Deputy Chief Executive post in 2018/19.

86B8 Procurement	(£63,960)
<p>Officer Responsible: Chief Finance Officer</p> <ul style="list-style-type: none"> This reflects the structural savings now that the Procurement team is made up of established employed posts, with 25% of the team's time and expertise used by the HRA and funded there. 	

8.7 FEES AND CHARGES

The proposed Fees and Charges for Scrutiny Committee - Corporate in 2019/20 are included at Appendix 3.

9. How does the decision contribute to the Council's Corporate Plan?

Corporate Service budgets contribute to 2 key purposes, as set out in the Corporate Plan:

Providing value-for-money services; Leading a well-run council.

10. What risks are there and how can they be reduced?

The key risks revolve around ensuring that the Council has sufficient funds to both meet the financial plans set out in the report and to protect itself against any unexpected expenditure that occurs. The risk is mitigated by ensuring that there are sufficient reserves held to offset unexpected expenditure needs. Regular monitoring is undertaken and reported to both the Strategic Management Board and Members.

11. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?

No impact

12. Are there any other options?

No

DAVE HODGSON
Chief Finance Officer

Authors:
Sally Reeve & Adrian Rutter

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:

None

Contact for enquiries:
Democratic Services (Committees)
Room 2.3
(01392) 265275

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SCRUTINY COMMITTEE - CORPORATE

	2018/19 Charges				Proposed Charges 2019/20			
	Fee £ p	VAT @ 20% £ p	Total £ p	VAT Code	Fee £ p	VAT @ 20% £ p	Total £ p	VAT Code
W SUPPLY OF PHOTOCOPIES								
Monochrome A4	0.34	0.07	0.41	3	0.42	0.08	0.50	3
A3	0.60	0.12	0.72	3	0.62	0.12	0.75	3
Colour A4	1.55	0.31	1.86	3	1.67	0.33	2.00	3
A3	2.83	0.57	3.40	3	2.92	0.58	3.50	3
X HIRE OF COMMITTEE ROOMS AT CIVIC CENTRE								
For official and quasi-official purposes (as determined by Committee)		No Charge				No Charge		
Other Organisations								
Committee Room A - Bad Homburg (1/2 day up to 7.30pm)	70.00	14.00	84.00	3	72.10	14.42	86.50	3
Committee Room B - Rennes (1/2 day up to 7.30pm)	85.00	17.00	102.00	3	87.50	17.50	105.00	3
A & B - Bad Homburg & Rennes (as one room) (1/2 day up to 7.30pm) (special charge after 8pm to be negotiated)	175.00	35.00	210.00	3	180.42	36.08	216.50	3
Morning Coffee/Afternoon Tea (Per cup)	0.83	0.17	1.00	3	0.83	0.17	1.00	3
Afternoon Tea (Per cup)	0.74	0.14	0.88	3	0.73	0.15	0.90	3
Y DATA PROTECTION ACT ENQUIRIES								
After May 2018, when the GDPR comes in to force, we will no longer be able to make a charge for this service – the fee will remain unchanged until that time (Maximum subject to Data Protection Act)	44.20	-	44.20	9		FOC		
Z COUNCIL MINUTES								
Inclusion on mailing list (per annum) for:								
1 Council Agenda/Committee Minutes	60.00	-	60.00	7	62.00	-	62.00	7
2 Planning Committee Agenda	130.00	-	130.00	7	134.00	-	134.00	7
3 Executive	95.00	-	95.00	7	98.00	-	98.00	7
4 Other Committee/Sub-committee Agenda	60.00	-	60.00	7	62.00	-	62.00	7
AA GENERAL CONVEYANCING, SALE OF COUNCIL HOUSING, ETC.								
All recharges are based on the actual amount of work involved, the market rate and at the discretion of the Corporate Manager Legal								
AB GUILDHALL LETTINGS								
Note: Fees and charges are at the discretion of the Corporate Manager Democratic and Civic Support owing to the competition in the market (a) Private Hire - Charges are per hour (or part thereof) for the room only - minimum charge £100.00								
(i) Main Hall								
Monday - Saturday								
08.30 - 17.00	70.00	14.00	84.00	3	72.10	14.40	86.50	3
17.00 - 20.00	95.00	19.00	114.00	3	97.92	19.58	117.50	3
20.00 - 00.00	125.00	25.00	150.00	3	128.75	25.75	154.50	3
Sunday	160.00	32.00	192.00	3	165.00	33.00	198.00	3
(ii) Jury Room								
Monday - Saturday								
08.00 - 17.00	50.00	10.00	60.00	3	51.67	10.33	62.00	3
17.00 - 20.00	70.00	14.00	84.00	3	72.10	14.40	86.50	3
20.00 - 00.00	85.00	17.00	102.00	3	87.50	17.50	105.00	3
Sunday	105.00	21.00	126.00	3	108.33	21.67	130.00	3

	<u>2018/19 Charges</u>				<u>Proposed Charges 2019/20</u>			
	Fee £ p	VAT @ 20% £ p	Total £ p	VAT Code	Fee £ p	VAT @ 20% £ p	Total £ p	VAT Code
(iii) Main Hall and Jury Room								
Monday - Saturday								
08.30 - 17.00	95.00	19.00	114.00	3	97.92	19.58	117.50	3
17.00 - 20.00	145.00	29.00	174.00	3	149.17	29.83	179.00	3
20.00 - 00.00	195.00	39.00	234.00	3	200.85	40.17	241.00	3
Sunday	235.00	47.00	282.00	3	242.08	48.42	290.50	3
(b) Charity Hire - Charges are per hour (or part thereof) for the room only - minimum charge £50.00								
(i) Main Hall								
Monday - Saturday								
08.30 - 17.00	40.00	8.00	48.00	3	41.25	8.25	49.50	3
17.00 - 20.00	55.00	11.00	66.00	3	56.65	11.33	68.00	3
20.00 - 00.00	70.00	14.00	84.00	3	72.10	14.40	86.50	3
Sunday	85.00	17.00	102.00	3	87.50	17.50	105.00	3
(ii) Jury Room								
Monday - Saturday								
08.00 - 17.00	30.00	6.00	36.00	3	30.83	6.17	37.00	3
17.00 - 20.00	40.00	8.00	48.00	3	41.25	8.25	49.50	3
20.00 - 00.00	50.00	10.00	60.00	3	51.67	10.33	62.00	3
Sunday	55.00	11.00	66.00	3	56.65	11.33	68.00	3
(iii) Main Hall and Jury Room								
Monday - Saturday								
08.30 - 17.00	55.00	11.00	66.00	3	56.65	11.33	68.00	3
17.00 - 20.00	75.00	15.00	90.00	3	77.08	15.42	92.50	3
20.00 - 00.00	95.00	19.00	114.00	3	97.92	19.58	117.50	3
Sunday	125.00	25.00	150.00	3	128.75	25.75	154.50	3

CORPORATE SERVICES - CAPITAL PROGRAMME 2019/20 AND FUTURE YEARS

SCHEMES LISTED WITHIN COUNCIL PURPOSES	NEW BID	2019/20	2020/21	2021/22	Future Years	What the scheme is trying to achieve
		£	£	£	£	
CORPORATE SERVICES						
WELL RUN COUNCIL						
Council Signage Improvement		40,000	40,000			A phased replacement of council signage across the city.
Annual Contribution to Strata		53,900	53,900	53,900	53,900	Contribution to Strata led projects
DR VDI Infrastructure	NEW	53,900				
ECC Cabinet & Network Replacement	NEW	125,000				
Street Scene and Other Asset Management	NEW	35,940				
Legal Case Management	NEW	23,360				
ECM - Scoping Exercise	NEW	17,970				
Cash and Income Management	NEW	28,750				
Loan to Exeter City Living Ltd		2,150,000				To provide the second loan payment to Exeter City Living in order to implement and complete the year one business case.
Capitalised Staff Costs		100,000	100,000	100,000	100,000	To provide for the cost of certain Council employees, which will be directly involved in the construction or acquisition of assets and qualify as capital expenditure, including engineers and surveyors.
Sub Total - Well Run Council		2,628,820	193,900	153,900	153,900	
CORPORATE SERVICES TOTAL		2,628,820	193,900	153,900	153,900	
New Bids		284,920	0	0	0	
Pre-Approved		2,343,900	193,900	153,900	153,900	
TOTAL CAPITAL PROGRAMME		2,628,820	193,900	153,900	153,900	

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GENERAL FUND REVENUE

APPENDIX 2

5CORP - CORPORATE SERVICES

Subjective Analysis	BASE ESTIMATE 2018/2019	INFLATION	NEW PROPOSALS RECURRING	NEW PROPOSALS NON-RECURRING	OTHER ADJUSTMENTS	NEW ESTIMATE 2019/2020
PAY	6,894,290	137,910	(226,610)	0	58,550	6,864,140
PREMISES	1,360,400	31,720	0	0	21,070	1,413,190
SUPPLIES & SERVICES	3,912,180	10,090	(410,000)	0	117,170	3,629,440
TRANSPORT	26,160	880	0	0	(170)	26,870
SUPPORT SERVICES	421,790	0	0	0	3,330	425,120
CAPITAL CHARGES	353,270	0	0	0	(9,440)	343,830
Total Expenditure	12,968,090	180,600	(636,610)	0	190,510	12,702,590
INCOME	(5,571,330)	(15,350)	(79,000)	0	(87,680)	(5,753,360)
Total Income	(5,571,330)	(15,350)	(79,000)	0	(87,680)	(5,753,360)
Net Expenditure	7,396,760	165,250	(715,610)	0	102,830	6,949,230

continued

GENERAL FUND REVENUE

APPENDIX 2

5CORP - CORPORATE SERVICES

Represented By	BASE ESTIMATE 2018/2019	INFLATION	NEW PROPOSALS RECURRING	NEW PROPOSALS NON-RECURRING	OTHER ADJUSTMENTS	NEW ESTIMATE 2019/2020
83A1 CORPORATE PROPERTY - ESTATES	(2,701,900)	12,420	0	0	(6,940)	(2,696,420)
83C4 PROPERTIES	(23,850)	370	0	0	(5,110)	(28,590)
83C5 CORPORATE PROPERTY - ASSETS	1,088,770	11,070	0	0	18,360	1,118,200
83C6 CORPORATE PROPERTY - ENERGY	98,630	2,890	0	0	(3,910)	97,610
86A2 ELECTIONS & ELECTORAL REG	374,760	7,190	0	0	(9,460)	372,490
86A3 CORPORATE	(13,900)	(6,220)	(15,000)	0	1,000	(34,120)
86A4 CIVIC CEREMONIALS	208,700	5,670	(5,000)	0	(2,280)	207,090
86A5 DEMOCRATIC REPRESENTATION	647,540	15,420	(73,000)	0	5,140	595,100
86A6 GRANTS/CENT SUPP/CONSULTATION	1,502,000	13,240	(398,960)	0	104,360	1,220,640
86A7 UNAPPORTIONABLE OVERHEADS	1,507,310	7,270	0	0	600	1,515,180
86B1 FINANCIAL SERVICES	520,200	14,620	(14,930)	0	46,370	566,260
86B2 INTERNAL AUDIT	94,460	2,870	0	0	(400)	96,930
86B3 HUMAN RESOURCES	605,690	10,810	(14,220)	0	(1,620)	600,660
86B4 LEGAL SERVICES	202,790	12,120	(2,500)	0	2,940	215,350
86B5 CORPORATE SUPPORT	753,030	30,250	(45,000)	0	(62,390)	675,890
86B6 IT SERVICES	1,664,240	(830)	(50,000)	0	129,020	1,742,430
86B7 STRATEGIC MANAGEMENT	787,060	20,630	(97,000)	0	(48,890)	661,800
86B8 PROCUREMENT	81,230	5,460	0	0	(63,960)	22,730
Net Cost	7,396,760	165,250	(715,610)	0	102,830	6,949,230