Appendix L

Welwyn Hatfield Borough Council

Medium-Term Financial Strategy and Financial Governance Framework

2020/21 - 2022/23

WELWYN HATFIELD

CONTENTS

1 Introduction

Welcome to our Medium-Term Financial Strategy (MTFS) and Financial Governance Framework. This document sets out our financial forecasts, risks, challenges and strategies for the period 2020 to 2023. It also provides the detail behind our financial governance framework including our strategies and policies.

1.1 This strategy has been prepared in unprecedented times of economic uncertainty and a decline in public sector funding. It is also prepared at a time where pressures and expectations on local government continue to rise.

1.2 We have already set our business plan and priorities for the period of 2018 to 2021, and we set an annual action plan in line with these targets:

https://www.welhat.gov.uk/businessplan

1.3 This strategy, which is reviewed annually, supports our overall direction and provides details of the financial strategies in place to deliver our objectives. It is a crucial component of the Council's strategic planning framework. Our key decisions need to be made with consideration to a financial plan that looks beyond the short term.

1.4 Whilst there are many challenges ahead, we start the next three years in a reasonably strong financial position with healthy reserves and clear strategies in place to support the delivery of the efficiency savings required to deliver a balanced budget.

1.5 We have an ambitious investment programme, specifically on Housing and Regeneration within the Borough. Although part of this programme is partly grant funded, there will be borrowing requirements, and these will need to be carefully managed along with the ongoing cost implications.

1.6 Our priority has always been to safeguard frontline services where possible, but inevitably there have been, and will continue to be, some difficult decisions that result in changes to services for our residents, customers and businesses. Meeting savings requirements will require an increasingly commercial and innovative approach with new ways of working.

1.7 We have a strong and successful record of delivering the efficiency savings required, and since the start of austerity measures in 2010, we have successfully delivered nearly £15m of efficiency savings.

1.8 As we move forward we are determined to continue with our successes and the MTFS sets out how we will ensure we have the resources we need to achieve the ambitions set out in the Council's Business Plan.

Duncan Bell	**Ka Ng**
Executive Member for Resources	**Corporate Director (Resources, Environment and Cultural Services)**

2 Revenue Forecasts and Strategy

We maintain two revenue accounts. The Housing Revenue Account (HRA) which is solely for the day to day activities of or Social Housing Landlord function (our tenants), and the General Fund Revenue Account (GF) which is for or day to day activities for all other services.

2.1) Local, National and Economic Context

2.1.1 The following section sets out some of the key considerations we have to be conscious of when we set our budgets and review our medium to longer-term forecasts.

2.1.2 There are a significant number of uncertainties and risks, and because of this, we undertake sensitivity analysis to understand the potential impact of material changes and ensure our reserves are adequate to deal with any such impacts (Annex A).

Grant Funding and Business Rates (General Fund)

2.1.3 Grant funding for local government continues to be extremely uncertain as we move into the next three-year period. Most recently, the Government announced a one-year finance settlement, meaning there is only a single year of certainty in the level of funding that will be provided. This makes medium to longer-term planning extremely difficult and increases risk.

2.1.4 Revenue Support Grant (RSG), previously provided by the Government was removed from 2019/20, meaning we have become increasingly reliant on the more volatile income sources such as business rates. It was also previously proposed that a negative RSG would be in place from 2018/19, although the Government has moved away from this direction in the short-term.

2.1.5 The Business Rates system has seen significant changes including changes to the appeals process, additional reliefs being granted by Government and proposals for a more regular revaluation cycle. These make the income stream extremely volatile and difficult to predict in the medium term. Historic appeals data is used for our forecasting, along with any known factors from Government announcements.

2.1.6 The government also piloted a 75% business rates retention scheme, and Hertfordshire's was in this scheme for 2019/20, but this has been removed for 2020/21. Some Hertfordshire Councils have been accepted into a pooling arrangement for 2020/21, of which we are one, and this will see a greater share of income retained than if we acted on our own. This cannot be guaranteed in future years and may be affected by the governments planned business rates retention review.

2.1.7 Numerous consultations and announcements have set the national direction for a review of Local Government Finance, but the outcome of these and the impacts on our finances are uncertain. These include a fair funding review, a reset of the business rates baseline, a revised business rates retention scheme, a spending review and a review of New Homes Bonus.

2.1.8 The New Homes Bonus Scheme was introduced to encourage councils to facilitate greater housing growth. However, over time, the benefits of the grant have been reduced, including the term over which the grant is paid, and the introduction of a baseline level of growth for which no grant is paid. The Government is consulting on their proposals for the 2020/21 allocation, which will not come with future allocations. This further increases the medium-term financial uncertainties.

2.1.9 No long-term certainty has been provided over whether the previously proposed grant reductions (through negative RSG), will be taken into account in the various funding reviews, and adversely impact future income for us.

2.1.10 These reviews are being undertaken at a time where Central Governments focus is on services such as housing, social care, education, policing and health. Many of these services are provided by other authorities such as the police and county council, and this increases the uncertainty around the funding that may be provided to us in future.

Economic and Market Conditions

2.1.11 There continues to be extreme uncertainty in economic and market conditions, and it is unclear how the UKs exit from the EU will impact the country's economy.

2.1.12 Sudden economic changes could have material impacts on our finances, as service demand would be impacted by such changes. This could include an increased housing demand, increased welfare support, adverse impacts on out interest income and borrowing costs, increased fuel and utility costs and impacts on our commercial property and other income.

2.1.13 Credit conditions for larger UK banks have remained relatively stable over the past year. The UK's departure from the European Union was delayed three times in 2019 and while there remains some concern over a global economic slowdown, this has not manifested in any credit issues for banks.

2.1.14 We will take a balanced approach to our forecasts, using national and professionally derived forecasts for the economy. This is a key area in our sensitivity analysis and reserves strategy.

2.1.15 Rates which have been used to inform our strategies and forecasts, along with the sources for this information, are shown in the table below:

Area	2020/21	2021/22	2022/23	Source
GDP	1.0%	Not avail.	Not avail.	MHCLG Average Market Forecasts
CPI	1.9%	2%	2%	Office for Budget Responsibility
RPI	2.8%	3.1%	3.1%	Office for Budget Responsibility
RPIX	2.7%	3.0%	3.0%	Office for Budget Responsibility
10 Year Borrowing	2.5%	2.6%	2.6%	Arlingclose Treasury Advisors
20 Year Borrowing	3.0%	3.1%	3.1%	Arlingclose Treasury Advisors
Bank of England Base Rate	0.75%	0.75%	0.75%	Arlingclose Treasury Advisors

*all as at 31 October 2019

2.1.16 Fuel continues to be a very volatile cost, and whilst we do enter into longer term arrangements for our utilities, these are still subject to market fluctuations, as are vehicle fuel costs. On this basis we take a more prudent approach to forecasting fuel increases.

2.1.17 Our ambitious housing and regeneration delivery programmes mean our capital expenditure, and income, is directly impacted by changes in market conditions. These changes can impact on the resources available to the council, or the cost of investment. In turn, this can directly impact on the cost of borrowing, and our revenue forecasts.

2.1.18 The rates provided by Arlingclose is their view of the most likely position. They also believe there is a risk rates could be higher or lower than this, depending on economic data. They currently judge that risks are significantly weighted to rates being lower being lower.

Contracts and Shared Services

2.1.19 We are in contractual arrangements with service providers for some of our services. Many of our contracts are directly linked to RPI or RPIX.

2.1.20 A few of these, which have been in long term arrangements, have recently expired and been re-tendered, or will be expiring in the coming years and we will need to consider the future delivery method for these services. A list of our key contracts, annual values and end dates are in the table below:

Service	Provider	Average Annual Value	End Date
ICT	Sopra Steria	£0.793m	Dec 2022
Revenues and Benefits	Sopra Steria	£1.753m	Dec 2022
Customer Services	Sopra Steria	£0.609m	Dec 2022
Waste Services and Ground Maintenance	Urbaser	£4.500m	March 2029
Grounds Maintenance	Continental Landscapes	£1.100m	March 2029
Housing Repair and Maintenance (HRA)	Mears	£12.000	Sept 2022

2.1.21 We also have some shared service arrangements with other Councils, these deliver efficient services and provide economies of scale. Our two key shared services are the Herts Shared Internal Audit Service, and Herts Building Control.

2.1.22 Market and inflationary increases may have a direct impact on our finances when existing arrangements come to an end, and we put in place new arrangements for service delivery.

Demographics, Business and Local Plan

2.1.23 Demographics of the area have a direct impact on our services and finances. Our Local Plan, which is currently under review, sets the direction for the area in terms of housing and commercial developments, and general growth in the area.

2.1.24 Increases in the numbers of households and businesses, positively impacts on the council tax, business rates and other income that we can raise, but also places more pressure on services and can be directly linked to contractual increases.

2.1.25 Other demographic changes can also impact on our services and finances, for example an aging population may increase demands on sheltered accommodation, housing benefit and council tax support.

2.1.26 Average increases for previous years will be assumed for planning purposes, until a new Local Plan has been adopted, at which points forecasts will be reviewed.

Legislative changes

2.1.27 Legislative changes made by Government, often have a direct impact on the services we provide and the income we can raise. This can include increased duties, transfer of functions and restrictions on income generation.

2.1.28 In recent years, we have been restricted from increasing housing rental income (HRA) in line with inflation, and in fact have had to reduce rent by 1% per annum for four consecutive years. This had a material effect on the income available to the Council for the development of new housing. The Government has announced that we can start to increase rents by CPI +1% from 2020/21.

2.1.29 Other legislative changes made in recent years include changing planning fees to allow additional investment into planning services, increasing our duties on homelessness which in turn increased our costs, and changing legislation around houses in multiple occupation, expanding the licencing remit of council and allowing charges to be made for these licences.

2.1.30 In 2020/21 it is planned that some of the functions of local land charges will transfer to Her Majesty's Land Registry. This is likely to have an adverse impact on our budget, although at this stage it is not anticipated this will be a material impact, as part of the income generation function of the work will remain with the council.

2.1.31 Legislative changes rarely come with additional ongoing funding. We will sometimes receive a one off grant from the Government which will help support set up costs of new requirements, but we generally have to find ways to cover the ongoing costs of these changes.

Pay and Pensions

2.1.32 For the review of pay and employment conditions, we are part of an arrangement with the National Joint Council which allows negotiations to take place with the unions at a national level.

2.1.33 The most recent agreement was a two year pay settlement which ended in 2019/20, and included a review of pay structures, a 2% increase per annum, with higher increases for those on the lower pay scales to ensure these met the level of the National Living Wage.

2.1.34 No agreement has been reached for 2020/21 onwards. The Unions have requested some large increases, and it is not expected that an outcome will be reached quickly. This is a key area for our sensitivity analysis and reserves strategy.

2.1.35 We are also part of a nationally agreed scheme for pensions. In 2016, the valuations of the scheme showed that it was 83% funded, meaning there was a historical deficit which would need funding from future contributions.

2.1.36 The latest triennial valuation (2019) now shows the fund as 94% funded, and strong improvement from the previous valuation.

2.1.37 We have historically opted to make additional one-off payments on triennial valuations, in order to maintain our medium-term contribution rates at existing levels.

2.1.38 We will again make a one-off contribution to the pension fund before the end of 2019/20, to ensure stabilised rates for the next triennial period. This payment will be for £1.848m, of which £1.201m would be attributable to the General Fund, and £0.647m to the Housing Revenue Account. We have set aside funds in an earmarked reserve to support with this payment. It is proposed that a contribution will be made to replenish this reserve in 2020/21, to fund the triennial review due within the period of this MTFS.

Welfare Support

2.1.39 We provide direct welfare support through the Council Tax Support Scheme, which is funded locally as a direct cost to our budget. Other support, such as Housing Benefit, is administered by us but is funded by the Government.

2.1.40 Impacts on the wider economy from factors such as Brexit, may have a direct impact on us through the level of Council Tax Support that will need to be funded.

2.1.41 In addition, the Government continues to roll out universal credit, which will see Housing Benefit removed from our administration, as it will bring Housing Benefit together with other welfare support provided by the Government.

2.1.42 At this stage, indications are that we will continue to have responsibility for providing Housing Benefit to those of pensionable age for the foreseeable future.

2.1.43 Welfare reforms are expected to have a direct impact on our Housing Revenue Account. As additional caps to benefits are made and claimants transition to universal credit, we expect it to become more difficult to collect rental income.

Council Tax

2.1.44 The Government remains committed to its manifesto promise of council tax referendum principles. These principles aim to strike a balance between giving local authorities the flexibility to determine their own level of council tax and ensuring local residents have the final say on excessive increases.

2.1.45 Historically, we froze Council Tax for seven consecutive years, followed by two £5 per annum increases, and then in 2019/20 a 2.5% increase.

2.1.46 For 2020/21, the government has capped our increase in council tax by a maximum of 2% or £5 (whichever is greater). For our budget, we have set a 1.49% increase for 2020/21.

2.1.47 Local government is being driven by central government to become more financially self-sustainable and it is expected that local tax, fees and charges for services and other locally driven income sources will become more important. However, these referendum principles do act to restrict the level of self-sustainability we are able to achieve.

Capital, Investments and Borrowing

2.1.48 Our capital plans can have a direct impact on our revenue budget. Through spending reserves and capital balances on investment (such as regeneration and housing), we hold less cash, and therefore get less interest return.

2.1.49 If we borrow to fund a capital project, we incur interest costs on this borrowing, and also have a duty to ensure repayment is affordable in the medium to longer-term.

2.1.50 With capital projects, there may also be ongoing revenue costs (for example as maintenance of vehicles), or savings that need to be considered in the medium to longer-term context.

2.1.51 We have previously raised all of our long-term borrowing from the PWLB. However, the government recently increased new borrowing rates by 1%, which will have an impact on our future borrowing costs.

2.2) Revenue Forecasts and Assumptions

General Fund

2.2.1 Starting with our proposed 2020/21 budget, we have undertaken medium-term forecasts for our General Fund Revenue budget. We have used the following key assumptions, along with other known factors (such as one off items, our reserves strategy and any savings or growth already identified in budget reports for future years):

	Assumption
Grant Funding (2.1.3 onwards)	No Revenue Support Grant received Reducing New Home Bonus (no legacy payments from 2020/21, no new payments from 2020/21) – No grant from 2023/24
Business Rates (2.1.3 onwards)	Reset of Business Rates Baseline – current values assumed excluding local (pilot/pool gains)
Inflation / Contracts (2.1.11 onwards)	Contracts inflated by RPI Income and general costs inflated by CPI Fuel inflated by 5%
Pay and Pensions (2.1.31 onwards)	Pay inflated by 2% per annum No change to pensions contribution rate Additional triennial contribution to fund
Welfare Support (2.1.38 onwards)	All costs associated with welfare reform will be met by the Government No material changes to Council Tax Support
Council Tax (2.1.43 onwards)	Growth in housing numbers by 1% per annum Increase in charge by 1.5% per annum
Borrowing and Investments (2.1.47-49 and 2.1.11 onwards)	Average Investment Income Rate 0.7% (excluding CCLA property fund) Average Borrowing Rate 3% over the three year plan Housing Company based on company business plan and risk-based adjustments

2.2.2 The forecasts based on these assumptions, shown in table 2.2a, indicate a savings requirement of £1.587m in 2021/22 and a further £0.343m in 2022/23.

2.2.3 We have already embarked on a number of projects and programmes to support the delivery of these challenging targets (section 2.3), but additional efficiencies will need to be identified in order to continue to deliver a balanced budget.

Table 2.2a - General Fund Forecasts

	2020/21 Budget £'000	2021/22 Forecast £'000	2022/23 Forecast £'000
Cost Of Services			
Employees	14,111	14,386	14,717
Premises	3,496	3,566	3,637
Supplies and Services	5,022	4,923	4,932
Transport	102	103	103
Third Party Payments	13,831	14,108	14,390
Transfer Payments	28,323	28,323	28,323
Income	(45,654)	(46,215)	(46,264)
Net Recharge to HRA	(5,365)	(5,473)	(5,582)
Net Cost of Services	**13,865**	**13,720**	**14,007**
Impact of previous savings			(1,587)
Revised Net Cost of Services	**13,865**	**13,720**	**12,420**
Other Income and Expenditure			
Income from Council Tax	(10,781)	(11,051)	(11,327)
Business Rates Retention	(4,908)	(4,070)	(4,150)
Collection Fund (Surplus)/Deficit	1,472	0	0
New Homes Bonus Grant	(1,028)	(357)	(156)
Interest Income	(30)	(157)	(242)
Capital Financing (Leases, contributions to capital, interest, minimum revenue provision)	1,509	1,899	2,104
Parish Precepts	1,627	1,668	1,709
Contributions from Earmarked Reserves	(1,329)	(65)	(15)
Contribution to Pensions Earmarked Reserve	1,200	0	0
Planned use of Working Balances	(1,597)	0	0
Total Other Income and Expenditure	**(13,865)**	**(12,133)**	**(12,076)**
Savings Target (Single Year)	**0**	**1,587**	**343**
Savings Target (Cumulative)	**0**	**1,587**	**1,930**

Housing Revenue Account

2.2.4 For the Housing Revenue Account, due to the longer-term basis of investment in housing, we undertake 30-year planning and forecasting. This is in line with the wider housing sector, and the focus is on the affordability of investment and new build housing rather than meeting savings targets. We do however continue to monitor and review the services provided to ensure these continue to deliver best value.

2.2.5 Based upon the proposed 2020/21 budget and other known factors (such as one-off items, our reserves strategy and any savings or growth already identified in budget reports for future years), we have undertaken forecasts for our HRA using the following key assumptions:

	Assumption
Inflation / Contracts	Contracts inflated by RPI Income and general costs inflated by CPI Fuel inflated by 5%
Pay and Pensions	Pay inflated by 2% per annum No change to pensions contribution rate Additional triennial contribution to fund
Housing Rent	CPI + 1% for first five years CPI for all years after this
Borrowing	Average borrowing rate of 3.5% over the 30 year plan
Investment	Investing in stock based upon conditions survey and our minimum housing standards Continuing to replace sold Right to Buy properties through new development and/or purchase of properties.

2.2.6 The main expenditure activities of the HRA are in relation to the management, repairs, maintenance and investment into our social housing.

2.2.7 The forecasts based on these assumptions, shown in table 2.2b, demonstrate that we will be able to maintain our HRA reserves in line with our reserves policy (Annex A). Based on the longer forecasts, debt is expected to be repaid within a 22-year period, well within the remit of the 30-year plan.

Table 2.2b – Housing Revenue Account Forecasts

	2020/21 Budget £'000	2021/22 Forecast £'000	2022/23 Forecast £'000
Income			
Rental Income	(49,175)	(50,653)	(52,879)
Non Dwelling Rents	(551)	(562)	(573)
Charges for Services and Facilities	(2,622)	(2,674)	(2,727)
Other Income	(413)	(462)	(471)
Total Income	**(52,801)**	**(54,351)**	**(56,650)**
Expenditure			
Repairs and Maintenance	9,688	9,881	10,079
Management, Special Service and Rates/Taxes	13,870	14,142	14,424
Allowance for Doubtful Debt	490	506	529
Depreciation	15,440	15,749	16,064
Other Expenditure	28	29	30
Total Revenue Expenditure	**39,516**	**40,308**	**41,126**
Other Items of Income and Expense			
Interest Payable	6,373	6,745	7,100
Interest Received	(163)	(162)	(163)
Revenue Contribution to Capital	7,224	7,383	8,474
Net (surplus)/deficit	**149**	**(77)**	**(113)**

	2020/21 Budget £'000	2021/22 Forecast £'000	2022/23 Forecast £'000
HRA Reserves			
Opening HRA Balance	2,789	2,640	2,717
Net (deficit)/surplus	(149)	77	113
Closing HRA Balance	**2,640**	**2,717**	**2,830**

2.3) Revenue Strategies and Efficiency Programmes

2.3.1 We have embarked on a range of projects and programmes which will support us to deliver our aims and also support the delivery of a balanced budget. Principally these focus on the General Fund, although our Modernisation Programme will deliver efficiencies for both revenue funds.

2.3.2 In addition to these, there are numerous strategies and policies which are reviewed on an annual basis which can be used to help us drive efficiencies.

Modernisation Programme

2.3.3 In 2019, following a very positive Local Government Association Peer Challenge report and recommendations, our chief executive set out a vision to all staff on the modernisation and transformation of our services. A suite of strategic, medium-term projects are underway to change the way we work and deliver services, including our customer services strategy and digital strategy. These various streams of work will not only improve the services we deliver but also generate efficiencies in the way we deliver them.

Baseline Reset

2.3.4 A baseline budget reset was undertaken for the 2020/21 budget following a historic trend of underspends. This review involved reviewing the average spend for the previous three years, and resetting budgets based on need. This review will form part of a rolling programme of budget reviews in the future, but savings would not be anticipated of the same level in future years.

Housing Company

2.3.5 In 2019, we started the process of setting up a wholly owned company, with the ambition to meet a housing demand not being met on the open market. The company “Now Housing”, will provide an intermediary rental product to residents who do not qualify for social housing, but cannot afford market rental. Through sharing of employees, and the financing arrangements of the company, efficiencies will also be generated for the Council.

Local Plan

2.3.6 We are in the process of reviewing our local plan, which will identify key sites for future housing and employment developments. The plan will impact on housing numbers in the area, therefore affecting council tax and grant income. It will also impact on employment developments, affecting business rates.

Asset Management Strategy / Property Development

2.3.7 We will be updating our asset management strategy, which will assist us to drive value from our assets, both revenue and capital, which will support in delivering the required efficiencies.

2.3.8 In addition, we will be continuing to drive forward with the redevelopment and regeneration of council owned sites identified in the asset management strategy and local plan. This will in turn increase asset value, revenue/capital returns, and council tax and business rates generation.

Crematorium

2.3.9 We have embarked on a project to deliver a crematorium with the borough to help meet the bereavement demands of the area. This project continues to progress, and in addition to meeting service demands, it will also generate income which will help us meet our efficiency targets.

Contracts

2.3.10 As a number of our large contracts come towards an end, we will take the opportunity to undertake market testing and analysis to understand if outsourcing these services still offers the best value for money. We will consider all options for these services, including delivering directly, outsourcing, and shared services.

Financial Planning Framework

3.1.1 Our growth and savings are reviewed and approved in line with our Financial Planning Framework (Annex D), which includes reviewing proposals against our corporate objectives.

Fees and Charges

2.3.11 As part of our budget setting process, we maintain a fees and charges strategy which provides the key principles behind the setting of fees and charges (Annex B). In general, the key principles are:

- We will charge users for services, where we have the power to do so
- We will aim to recover the cost of services through fees and charges
- We will be transparent and be able to justify when there is a policy decision not charge or fully recover the cost of a service

Risk Management

2.3.12 Risk Management is a key feature of our financial planning process. We are aware of the need for effective risk management and consider the assessment and minimisation of risk to be vital. We have a Risk Management Strategy in place, and our financial risks are assessed in line with our overall approach to risk management.

2.3.13 To mitigate risk we monitor our spend and income against budgets, and use performance and risk management software to monitor and report on risks and key indicators which have financial implications.

2.3.14 We report quarterly to Cabinet, Resources Overview and Scrutiny Committee and to Performance Clinics, which provides the platforms for Members to scrutinise our financial and non-financial performance and risks.

2.3.15 As part of determining our minimum reserves (working balances), we undertake a high-level assessment on the risks we have identified in our MTFS. This informs our reserves policy. A summary showing the potential impact of some of the key risks we have identified is shown in the following table:

Risk	Scenario	Impact (£m)
Business Rates	Significant economic downturn, loss of businesses located in the Borough and high level of appeals (Maximum impact)	2.20
Council Tax	Economic downturn adversely impacts development of new housing and 10% increase in Council Tax Support	0.21
Inflation	Salary and contract inflation greater that budgeted by 1%	0.26
Pensions	Current service costs increase by 1%	0.10
Borrowing	Changes in economy adversely impact borrowing rates by 1%	0.15
Efficiencies	We fail to deliver 10% of our budgeted savings	0.16

Reserves Policy

2.3.16 Our Reserves Policy (Annex A) sets out how we will maintain an adequate level of reserves for future risks and uncertainties, and how we will use our earmarked reserves to help us achieve our objectives (such as through funding a one off invest to save project). In summary:

- We will report annually on the adequacy of our reserves
- We will maintain a minimum working balance on the General Fund of 5% of turnover (excluding benefit grant income)
- We will maintain a minimum working balance on the HRA of 5% of turnover
- We will ensure reserves are monitored and reported on regularly

Capital Costs

2.3.17 Our Capital Forecasts and Strategy (section 3) sets out our approach to how we determine what we spend on capital projects, and how these assessed for revenue implications.

2.3.18 Our Minimum Revenue Provision Policy (Annex C) sets out how we determine the most efficient and affordable way to repay our borrowing.

2.3.19 Our Treasury Management Strategy (Annex F) and Investment Strategy (Annex E) ensure we take a risk based approach to the management of our cash, investments and borrowing, balancing risk against return/cost.

Council Tax

2.3.20 We set our council tax increases on an annual basis as part of our budget setting process. For the purposes of forecasting, a 1.5% increase has been assumed for future years. However, we may decide to increase at a different level when setting the budget, to help meet our challenging targets. The table blow shows the impact of an additional 0.5% charge on the current assumptions:

	2020/21	2021/22	2022/23
	£000	£000	£000
Tax-base Assumptions	42,590.0	43,015.9	43,446.0
Current Forecasts			
Previous Years Band D Tax	£211.77	£214.92	£218.14
Council Tax Band D increase	1.49%	1.50%	1.50%
Increase (£)	£3.15	£3.22	£3.27
Average Band D tax (£)	£214.92	£218.14	£221.41
Council Tax Income (1.5% all years)	£9.153m	£9.383m	£9.619m
Additional 0.5%			
Previous Years Band D Tax	£211.77	£216.00	£220.32
Council Tax Band D increase	2.00%	2.00%	2.00%
Increase (£)	£4.23	£4.32	£4.40
Average Band D tax (£)	£216.00	£220.32	£224.72
Council Tax Income (2% future years)	£9.199m	£9.477m	£9.763m
Cumulative Impact of additional 0.5%	**£46k**	**£94k**	**£144k**

3 Capital Forecasts and Strategy

Capital expenditure is what we spend on assets, such as property, vehicles, buildings and software, which will last more than one year. For local councils, it can also include spend on assets owned by others, such as grants to voluntary organisations made for capital purposes.

3.1) Summary and Approach

3.1.1 Our Capital Forecasts and Strategy provide a high-level overview of how our capital expenditure, financing and treasury activities contribute to our overall financial position, and how they contribute to the delivery of our services.

3.1.2 A key aspect of our capital activities is ensuring we have clear risk management processes and indicators in place to inform robust decisions, and to understand the implications of any decisions on our longer-term financial sustainability.

3.1.3 We maintain a register of our assets and key components, which along with our asset management strategy, helps to inform future capital expenditure requirements and capital income opportunities.

3.1.4 Our budgets are set and approved in line with our Financial Planning Framework (Annex D), and expenditure is capitalised in line with international accounting standards, the CIPFA code of conduct and our own accounting policies (which are published in our annual statement of accounts).

3.1.5 As with our revenue accounts, we maintain separate capital records for our General Fund and our Housing Revenue Account assets.

Economic and Market Conditions

3.1.6 As outlined in our revenue summary, there continues to be extreme uncertainty in economic and market conditions, and it is unclear how the UKs exit from the EU will impact the country's economy.

3.1.7 Sudden and material changes in market and economic conditions can potentially have significant impacts on the Councils capital programme.

3.1.8 Increases in inflation can directly impact the cost of delivery of a capital project and increase our borrowing requirements.

3.1.9 Such increases, along with changes in the housing market, could make some of our planned schemes unviable to deliver.

3.1.10 We mitigate these risks where possible, by taking professional market advice, ensuring inflation is applied to future capital schemes in our programme, and build in a risk-based contingency to our capital projects.

3.2) Capital Forecasts and Assumptions

3.2.1 A summary of our capital expenditure forecasts including rephasing in 2019/20 are as follows:

	2020/21	2021/22	2022/23	2023/24	2024/25
	£'m	£'m	£'m	£'m	£'m
General Fund (GRF)	30.020	4.035	1.561	1.411	1.501
Housing Revenue Account	37.257	42.832	28.101	17.061	16.349
Sub-Total	**67.277**	**46.867**	**29.662**	**18.472**	**17.850**
Loans to Now Housing (GRF)	25.418	17.072	12.770	18.595	3.603
Total	**92.695**	**63.939**	**42.432**	**37.067**	**21.453**

3.2.2 The majority of spend in our general fund is in relation to regeneration and property projects, and for the delivery of new affordable housing in our HRA. A detailed list of our capital projects can be found in our budget pack, published on our website by April each year.

3.2.3 We have a range of sources available to us to finance our capital expenditure. These include grant receipts, income from the sale of assets, contributions from our revenue balances, and borrowing. We determine the financing for expenditure as part of our budget setting process.

3.2.4 A large proportion of the financing for our HRA, comes from a statutory process for the sale of our housing to tenants (the Right to Buy scheme). We have assumed 40 sales per year.

3.2.5 The tables below show our forecasts for the financing of our capital expenditure.

General Fund	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**
Grants and Contributions	13.009	1.292	0.592	0.592	0.592
Reserves and Revenue Contributions	4.015	1.508	0.884	0.819	0.909
Borrowing	12.996	1.235	0.085	0.000	0.000
Sub-Total	**30.020**	**4.035**	**1.561**	**1.411**	**1.501**
Borrowing for Now Housing	25.418	17.072	12.770	18.595	3.603
Total	**57.438**	**21.107**	**14.331**	**20.006**	**5.104**

Housing Revenue Account	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**
Grants and Contributions	0.672	0.000	0.000	0.000	0.000
Reserves and Revenue Contributions	20.072	11.782	8.392	5.324	5.121
Borrowing	16.513	31.050	19.709	11.737	11.228
Total	**37.257**	**42.832**	**28.101**	**17.061**	**16.349**

3.2.6 As shown in the tables above, we do finance some of our schemes through the use of borrowing. We can decide to postpone external borrowing and use our revenue reserves to support the cash flows of capital expenditure. This is known as internal borrowing and reduces the interest costs we incur on borrowing in the short to medium term.

3.2.7 The total amount of cash required to fund the schemes we borrow for (whether internally or externally) is known as the Capital Financing Requirement (CFR). It is important that we monitor our requirement, as this will require repayment in the longer term, and we ensure we have strategies in place for repayment. Our CFR forecasts are as follows:

	2020/21	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**
General Fund	52.140	52.166	50.953	49.616	48.279
Loans to Now Housing (GRF)	25.418	42.480	55.196	73.692	77.146
Housing Revenue Account	234.590	244.241	241.250	228.787	214.215
Total	**312.148**	**338.887**	**347.398**	**352.095**	**339.64**

3.3) Capital Strategies and Indicators

3.3.1 In order to ensure our longer-term financial sustainability, and the affordability of our capital plans, we maintain numerous strategies and make use of indicators. These also help inform our decisions and monitor risk.

Financial Planning Framework

3.3.2 Our schemes are reviewed and approved in line with our Financial Planning Framework (appendix D), which includes the calculation and approval of our capital indicators on risk exposure and affordability. This ensures sound governance is embedded into our budgetary approval process.

Financing Approach

3.3.3 We will always seek to apply for and utilise grant funding, ringfenced funds and contributions received before utilising other unrestricted funds. This minimises the ongoing burden of borrowing, and maintains capital reserves where possible.

3.3.4 We aim to restrict borrowing to income generating, or long-term assets (40+ years). This is also to minimise the ongoing impact of borrowing.

3.3.5 We aim to fund the shorter-term projects, rolling programme and any other schemes from capital reserves and balances. We can also make a voluntary revenue contribution to capital, to reduce borrowing or to reduce the use of capital balances.

Debt Repayment

3.3.6 We must ensure that we set enough money aside each year, for the repayment of our CFR. There are different statutory arrangements that govern the requirements for our General Fund and Housing Revenue Account.

3.3.7 For the General Fund, we maintain a minimum revenue provision (MRP) policy (Annex C). This sets out how we will determine over what period we should set aside funds to fully repay our CFR.

3.3.8 We will ensure that there is a balance between the cost of MRP and the affordability of debt, through the annual review of our MRP policy. Our general approach is to pay for an asset over its expected life, subject to the maximum statutory limits.

3.3.9 The Housing Revenue Account makes annual repayments of debt, and the affordability is assessed as part of our thirty-year business plan. Our business plan shows debt repayment well within the thirty-year period, demonstrating the affordability of our plans.

3.3.10 For the General Fund, in order to ensure affordability, we forecast and monitor the value of the minimum revenue provision (MRP). Based on our capital plans, our forecast of total MRP, and of the incremental impact of MRP, is shown in the table below:

	2020/21	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**
Previous Years MRP	0.628	0.976	1.209	1.299	1.337
Increase in MRP	0.348	0.232	0.090	0.038	0.000
Total MRP	**0.976**	**1.209**	**1.299**	**1.337**	**1.337**

3.3.11 Where we borrow to make investments into services, which do not have a direct financial return (for example the replacement of our fleet), overall affordability is monitored through the use of the following indicators:

- Value: Cost of general fund borrowing in relation to total service income (income generating services, excluding community and commercial property)
- Value: Cost of general fund borrowing in relation to council tax (non-income generating services)
- Term: Years until debt free (Housing Revenue Account)

Investments and Commercial Strategy

3.3.12 We can undertake capital investment activities which will purely or partially generate a profit.

3.3.13 However, we do not generally undertake activities which are purely for profit generation, as the main purpose of our capital investment activities are usually to meet our corporate objectives, which may or may not have a partial objective of generating profit.

3.3.14 To ensure that we make robust and informed decisions, including a full understanding of risk, we will maintain an Investment Strategy (Annex E).

3.3.15 In summary, where we undertake investment activities, we will ensure we maintain a suite of indicators to monitor against, ensure professional advice is taken where appropriate and ensure officers maintain their professional development.

3.3.16 Our key indicators for investments and commercial activities are as follows:

- Ratio: Loan to value / CFR to asset base (community and commercial property)
- Ratio: Principal cover / MRP to income stream (community and commercial property)
- Ratio: Interest Cover / Income to interest cost (community and commercial property)
- Ratio: Interest Cover / Income to interest cost (Housing Company)

3.3.17 Additional indicators to monitor performance (such as occupancy rates of community and commercial assets) are monitored as part of the Councils performance framework and reviewed annually.

Treasury Management Strategy

3.3.18 Our Treasury Management Strategy (Annex F) ensures we maintain sufficient and not excessive funds to meet our spending needs. It provides the framework for managing the risks involved with investing our surplus cash and borrowing for investment in services or for cashflow purposes.

3.3.19 Our main priorities for the investment of cash balances are to ensure the security of our cash, and to maintain the appropriate level of liquidity to meet our needs. We give these objectives priority over the return on investment (interest income).

3.3.20 Our main priorities when undertaking borrowing are to achieve a low but certain cost of finance, whilst retaining flexibility should plans change in the future. These objectives can be conflicting, and so we seek to strike a balance between short and long term borrowing.

3.3.21 We formally report on our treasury management activities regularly (strategy setting, mid-year, and at year-end) and monitor against a set of indicators. These are:

- Borrowing Limit – Operational Boundary
- Borrowing Limit – Authorised Limit
- Borrowing Limit – Maturity Structure of Borrowing
- Investment Limit – Cash invested beyond one year

3.3.22 This strategy also set out how we apportion interest costs and income between our revenue accounts, the limits with financial institutions and details our use of specialist advisors.

4 Professional Advice, Skills, Training and Capacity

In order to ensure we can enact our strategy and governance framework; we must ensure we have the correct skills and capacity to do so. This section applies to all areas of our medium-term financial strategy and governance framework, including our policies, strategies and frameworks.

4.1.1 We have professionally qualified staff across a range of disciplines, including finance, legal and property.

4.1.2 We ensure our staff maintain continual professional development and attend courses to keep abreast of new developments and to enhance and develop their skills.

4.1.3 We will ensure we have or procure the right skills and knowledge to support the delivery of our all of our financial strategies and governance frameworks. Where specialist or technical knowledge is required, we will engage professional external advisors.

4.1.4 We establish project teams from the relevant professional disciplines as required but will also utilise external professional advice to support with technical/professional specialisms and/or capacity.

4.1.5 External advice will always be sought for significant investments, including treasury investments (such as treasury advice), commercial investments (such as property, treasury and legal advice), or service investments (such as legal advice, market expert advice and treasury advice).

4.1.6 Internal and external training is also available to our Members to ensure they have the up to date knowledge and expertise to understand an scrutinise financial decisions.

Annex A – Reserves Policy

A1 This policy supports our Medium-Term Financial Strategy and is reviewed annually. It sets the minimum level of balances required, explains the different types of reserves held, and our governance arrangements.

A2 The policy applies to both the General Fund and Housing Revenue Account reserves, both revenue and capital. It is important that our Councillors understand the reserves policy and the importance of maintaining an adequate level of reserves when reviewing and approving our budget, which will be done with the advice of our Chief Financial Officer.

A3 CIPFA guidelines were issued in November 2008 under LAAP Bulletin No. 77. The main areas covered in these guidelines are set out in this policy together with our approach to these.

The Existing Legislative/Regulatory Framework

A4 The requirement for financial reserves and safeguards are set out in in statute (Local Government Finance Act 1992 and Local Government Act 2003). These requires us to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement, and to ensure safeguards are in place, including:

- Setting a balanced budget
- Having the view of the Chief Finance Officer on the robustness of estimates and adequacy of reserves when considering the budget requirement
- Making arrangements for proper administration of our financial affairs, where the Chief Finance Officer is the responsible person (Section 151 duties)

A5 The Chief Finance Officer must report (under section 114) to all our councillors if there is, or is likely to be, unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year. The issue of a section 114 notice by the Chief Finance officer cannot be taken lightly and has serious operational implications.

A6 Guidance on specific levels of reserves and balances is not given in statute, by CIPFA or the Auditors. There is no statutory minimum level of reserves. It is up to local authorities themselves to set their own level of reserves and balances on the advice of the Chief Finance Officer.

The role of the Chief Financial Officer

A7 Within the existing statutory and regulatory framework, it is the responsibility of the Section 151 Officer to advise the Council about the level of reserves that it should hold and to ensure that there are clear protocols for their establishment and use. For the Council, the Section 151 Officer is the Corporate Director (Resources, Environment and Cultural Services).

A8 The Council then, acting on the advice of the Section 151 Officer, and taking into account all local circumstances, must make its own judgements on the level of reserves and balances.

A9 Local circumstances include the strategic, operational and financial risks and the adequate and effective systems of internal control.

A10 The Chief Finance Officer will report to the Council on the adequacy of reserves, and reserve movements will be considered as part of our budget monitoring arrangements.

Types of Reserve

A11 Usable reserves can be held for three main purposes:

- Working Balances – These reserves help to cushion the impact of uneven cash flows, avoid unnecessary temporary borrowing, and provide funds for unexpected events or emergencies.
- Earmarked Reserves – These are where funds are set aside for a future purpose such as to help deliver a long-term strategy, to change processes, or deliver specific one off projects. These future purposes can be very specific, or may be quite broad, dependant on the level of detail known when setting up a reserve.
- Capital Reserves – These are where we keep the balance of an unutilised capital funds. These funds can be made up of capital receipts, contributions, grants and contributions from revenue.

A12 We also hold other 'un-useable' reserves that arise out of legislation and accounting standards. These reserves are not cash backed and cannot be used for other purposes. These are separated on the face of our core financial statements which are published each year.

Target Working Balances / Reserves

A13 The principles used by the Chief Finance Officer to assess the adequacy of unallocated general reserves when setting the budget, ensure that account is taken of the strategic, operational and financial risks facing the authority.

A14 Setting the level of reserves is just one of several interrelated decisions in the formulation of the medium-term financial strategy (MTFS) and the budget for a particular year.

A15 Consideration is given to the key assumptions underpinning the budget alongside the authority's financial management arrangements, and the risks, opportunities, economic and local factors identified in the MTFS. We also consider previous guidance issued by the Audit Commission.

A16 For the General Fund, a risk-based approach is taken to estimate reserve requirements, which is then considered as a percentage of turnover. This provides a risk-based approach to short term reserve levels, and a proxy for our forecasts of medium-term reserve requirements.

A17 For 2020/21, the minimum working balances have been assessed as £2.6m, which equates to around 5% of turnover (excluding benefits subsidy). On this basis, the medium-term minimum working balance has been set as 5% of turnover.

A18 We may decide to make use of the working balances to help balance the budget in the short term, such as for one off expenditure, due to a delay to an efficiency proposal, or to reduce the level of working balances to target. However, working balances will not be utilised for recurrent expenditure without this being explicit in the budget report, and on the advice of the Chief Financial Officer.

A19 For the Housing Revenue Account, due to the restricted nature of the funds, and lower exposure to as many risks, the target working balance is maintained as low as reasonably possible to minimise borrowing costs. On this basis, 5% of turnover is used, which supports cashflows, and provides a cushion for risk.

Earmarked Reserves

A20 Our earmarked reserve balances, the reason for holding these reserves, along with any budgeted contributions to and from these reserves, will be approved by Full Council as part of the annual budget setting process.

A21 Additional contributions to and from these reserves may be made during the year, or at the end of the year, as approved by Full Council or under delegated authority as appropriate.

A22 Priorities may also be identified as part of the budget setting process where reserves, or increases to reserves may be required. Should there be a favourable variance at year end these would be the first areas for consideration.

A23 We will not create earmarked reserves for expenditure that should be treated as a provision, which is determined by accounting standards and the CIPFA code of practice on Local Government Accounting.

Capital Reserves

A24 There is no target/minimum balance for capital reserves.

A25 Capital receipts and contributions are restricted for capital use, and reserves are used in line with the capital financing strategies set out in the MTFS.

A26 Consideration will be given to other financing methods to enable reserves to be utilised for future capital expenditure, while balancing the risk of investing and cost to carry.

A27 We will consider the strategic disposal of assets to generate additional capital receipts where appropriate and will do this in line with our asset management strategy.

Reporting and Governance Framework

A28 The Chief Finance Officer has a duty to local taxpayers and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds.

A29 Compliance with this policy assists the Chief Finance Officer to be satisfied that there are governance arrangements in place for our reserves.

A30 The level and utilisation of reserves is determined formally by the Council at its meetings to approve the annual budget and the final accounts. These decisions are informed by the advice and judgement of the Chief Finance Officer.

A31 The budget report presented annually will include the budget for the next financial year will include a statement from the Chief Financial Officer on the adequacy of reserves over the lifetime of the medium-term financial strategy.

A32 We actively monitor our budgets throughout the year, and we will report on any forecast changes in the level of balances or reserves.

A33 Our annual statement of accounts includes a schedule of all reserves in the balance sheet. Significant reserve movements are explained in the Chief Finance Officer's foreword to the accounts and out-turn reports.

Annex B – Fees and Charges Strategy

B1 This Strategy supports our Medium-Term Financial Strategy and is reviewed annually. It sets out our approach to setting our fees and charges.

B2 A significant proportion of our income is derived from fees and charges and a balance has to be struck between meeting our statutory responsibilities and the subsidies we provide for discretionary services. Our strategy has three core underlying principles:

- We will raise income from users of services wherever there is a power/duty to do so
- Income raised should cover the full costs of providing the service, and will rise annually
- Any departures from this policy must be justified with reference to the Council's priorities and policies

Raising Income for Services

B3 We believe that raising charges to recover costs is preferable to removing a service completely, and we aim to recover costs of services from the users of those services, unless there are wider benefits for funding a service in another way.

B4 Statutory defined fees and charges will change in line with the governing legislation.

B5 We will approve a full list of fees and charges at Full Council as part of our budget setting process, which will be published.

B6 Concessionary charges may be set for a service and will be appropriate to the circumstances of the customer while encouraging increased participation for less advantaged groups. This should not lead to unjustifiable preferential treatment.

Covering Service Cost

B7 We will aim to recover the full cost of services through the collection of fees and charges, including overheads, where it is possible to do so.

B8 Our fees and charges will increase at least in line with inflation unless there is a clear reason for an alternative approach.

B9 Consideration will be given to local circumstances, economic conditions, comparability/ benchmarking, the impact of changes on the usage of the service and the user's ability to pay.

Departures from Policy

B10 When we do not raise income in areas where we have the power to do so, we forego the opportunity to cover the cost of the service, which will increase our savings targets.

B11 Members will scrutinise fees and charges and will be supplied with information to allow them to make decisions in a structured and explicit manner. Any decision to forego income or to subsidise a service is considered a policy decision.

Annex C – Minimum Revenue Provision Policy

C1 This Strategy supports our Medium-Term Financial Strategy and is reviewed annually. It sets out our approach to determining how we will efficiently and prudently set aside funds for the repayment of our borrowing.

C2 Where we finance General Fund capital expenditure through debt, we must also ensure we put aside resources to repay that debt in future years.

C3 An amount is charged to the revenue account on an annual basis for this, and this is known as the Minimum Revenue Provision (MRP).

C4 In determining how much we should set aside each year, we must have regard to the guidance issued by the Government and the Local Government Act. The most recent guidance was issued in 2018 by the Ministry for Housing, Communities and Local Government.

C5 In order to ensure a prudent and efficient approach is taken to the repayment of debt, we will align the period of MRP charges to the period of which the capital expenditure/asset provides benefit.

C6 The guidance requires us to produce this annual statement/policy each year and sets out a number of options for determining an MRP charge. Our policy on charging MRP is as follows:

- We will adopt the Asset Life method for the calculation of our MRP, where the charge is calculated to reflect the life of the asset.
- We will calculate MRP on a straight-line basis, where an equal instalment is made each year, and this charge will go to the repayment of external debt, or to the balance sheet to reduce the level of capital financing requirement.
- We will not charge MRP in the year of purchase/scheme completion. MRP will be charged from the following financial year.
- For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, we will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement. In years where there is no principal repayment, MRP will be charged in accordance with our standard asset life policy.

Annex D – Financial Planning Framework

D1 This Framework supports our Medium-Term Financial Strategy and is reviewed annually. It sets out our approach to how we will determine our budget priorities, how we will assess budget changes, and our governance process.

D2 When setting our budget, we start with our medium-term strategy, which includes all previously known factors and assumptions. We then take into account any changes to our plans based on the outturn of the most recent financial year. Outlined in the table below are the key stages involved in producing the budget:

June	We agree our strategic priorities for the next year. Cabinet approves the framework for the budget setting process for the following year.
July/August	Budget setting guidance if issued to our senior officers. Officers are then asked to submit bid forms which outlines any proposals they are recommending for incorporation into our budgets, including capital projects, efficiencies and growth.
September / October	We update our medium-term financial forecasts to reflect the new bids submitted and/or amendments made to existing bids. All of the bids are reviewed by the Corporate Director (Resources, Environmental and Cultural Services) to ensure that the bids submitted have complied with the approved budget guidance.
October / November	All bids are then challenged and scrutinised by the Corporate Management Team, before discussion with for comments and recommendations.
December	The Provisional Local Government Finance Settlement is announced by the government (this indicates the levels of funding we will receive and any policy decisions that may change our budgets).
January	Our draft capital and revenue budgets are presented to Cabinet and to Resources and Overview Scrutiny Committee for consideration. Growth, savings and capital bids are considered against our priorities, and the impact on affordability and risk indicators considered. Any budget consultation with the public and/or business rates payers is also analysed and fed into the budget decision process.
February	Full Council approves next financial year's council tax, capital and revenue budget, and new Medium-Term Financial Strategy and Financial Governance Framework.
April	The new financial year commences, and the budget approved is then assessed under the monitoring process.

Annex E – Investment Strategy

E1 This policy supports our Medium-Term Financial Strategy (MTFS) and is reviewed annually. It ensures we fully understand and consider the risks and opportunities of commercial and service-based investments.

E2. It sets out our approach to investing money, specifically in relation these commercial and service investment activities.

E3 Service based investment activities covers us lending money to, or buying shares in, other organisations.

E4 Commercial investment activities cover property and other similar investments to where profit/return is the main purpose of the investment.

E5 Investments made for treasury management activities (surplus cash arising from day to day activities and cash-flows), are covered separately by the councils Treasury Management Strategy (Annex F).

E6 We will ensure we have professionally qualified staff, and make use of external professional advice where appropriate, as set out in our MTFS.

Service Based Investments - Loans

E7 We have a number of loan arrangements with local charities, residents, its joint venture and its employees to support local public services and stimulate economic growth and provide affordable housing.

E8 Our wholly owned company, Now Housing, which will be providing affordable housing in the Borough, is due to start trading in 2020/21. We will be lending the company money to invest in housing.

E9 These loans are treated as capital expenditure. The main risks associated with service loans, is that the borrower will be unable to repay the principal amount lent and/or interest due. In order to limit the risk, and exposure remains appropriate and proportionate, limits are set.

E10 We will set these limits giving consideration to the financial risks, an assessment of the demand for such services, our risk appetite and professional advice received. A summary of our loans for service purposes, and limits are shown in the table below:

Category of borrower	2018/19 actual			2019/20	2020/21
	Balance owing £000	Loss allowance £000	Net figure in accounts £000	Forecast Balance £000	Limit £000
Joint Venture	107	0	107	107	172
Local charities	146	0	146	130	146
Local residents	4,443	0	4,443	4,513	4,800
Employees	135	0	135	112	250
Housing Company	0	0	0	0	26,000
TOTAL	**4,822**	**0**	**4,822**	**4,862**	**31,368**

E11 We are required through accounting standards to set aside a loss allowance for loans, to reflect the likelihood of non-payment. We make every reasonable effort to recover sums lent and have appropriate credit control arrangements in place.

E12 Loans to residents shown in the table, are for the rent to mortgage scheme, which in no longer in operation. Although not in operation, balances are still collectable, and a charge is made against the relevant properties which ensures recovery when the asset is sold. There is therefore minimal risk with non-recovery.

E13 In relation to the Housing Company, debt will be secured against the property owned by the company. Due to the anticipated high gearing ratio of the company, a downturn in the housing market may lead to the assets being a lower value than the loans. However, as the aim is to hold the assets in the long term to provide affordable housing, not to make capital returns, short-term changes in the property markets should not impact on the longer-term ability of the company to repay borrowing.

E14 In making loans, we will ensure we fully consider risk implications, both on the individual loan, and the cumulative exposure to risk.

E15 We will ensure that full due diligence is undertaken, that security is in place where appropriate, and that loans are actively monitored.

E16 Any business case will set out the benefits and risks of the investment and will require approval in line with our constitution and approved policies.

E17 To monitor the exposure risks associated with service-based investments, we will report the following information:

- Total service investments made
- Ratio of Cost to Returns (Cost of borrowing against returns generated)

Commercial Property Investments

E18 We hold a small portfolio of local commercial property, purely for the intention of generating a profit to support local services. These assets are historical asset holdings, and have no debt associated with them.

E19 These properties are defined as investment properties, and per international accounting standard 40, and had a value as at the 31 March 2019 of £5.615m, generating around £428k per annum in rental income, which supports the delivery of local services.

E20 While we have no plans to invest in further property, purely for financial return, we monitor our existing commercial property investments.

E21 We consider property investment to be secure, if its accounting value is the same as, or higher than its purchase price including taxes and transaction costs.

E22 We review our investment property valuations each year to monitor the risk of fluctuations in value.

E23 We also monitor the net rental income generated by our property investments to identify trends, as reductions in market rent would could point to a fall in property value.

E24 If we wish to undertake further investment in property purely for financial return, we will ensure full due diligence is carried out, professional advice is obtained, and a business case presented weighing up the risks and benefits. Consideration will be given to liquidity (assets of this type are harder to convert back to cash at short notice) and of the wider property market. Any investments of this type would require budget approval from Full Council.

Service Based Property Investments

E25 In addition to the property we hold purely for commercial returns, we also hold a large portfolio of assets for service reasons, and these assets also generate returns for the Council. Such assets include town centre and neighbourhood centre retail units, car parks, community assets and business centres.

E26 These properties had a (gross book) value as at the 31 March 2019 of £78.667m, generating around £6.747m per annum in rental income, and had £19.814m of debt associated with them.

E27 Whilst the primary purpose of holding these assets is not financial return, they do face similar risks to those assets held purely for financial return.

E28 For this reason, we make use of three ratios to help us monitor risks for the community and commercial asset portfolio. These indicators are:

- Loan to value (Capital Financing Requirement related to these assets, compared to the value of the assets)
- Principal cover (Minimum Revenue Provision Charge in relation to these assets, compared to the net income stream generated from these assets)
- Interest Cover (Income derived from these assets divided by the interest cost associated with these assets)

Annex F – Treasury Management Strategy

F1.1 This strategy supports our Medium-Term Financial Strategy (MTFS) and is reviewed annually. It ensures we appropriately manage and protect our cash balances and carefully manage our borrowing to support our activities.

F1.2 Treasury Management is the management of the our cash flows, borrowing and investments and associated risks. This activity involves substantial sums of money and therefore exposes us to financial risks such as loss of funds and impacts from changing interest rates.

F1.3 The successful identification, monitoring and control of these risks are therefore central to prudent financial management.

F1.4 Our treasury risk management is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code), which requires the approval of a treasury management strategy before the start of each year.

F1.5 Our strategy also fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code. It ensures we fully understand and consider the risks and opportunities of commercial and service-based investments.

Balance sheet summary and forecast

F2.1 To take a view on likely treasury activity in 2020/21 it is necessary to look at the Council's balance sheet to estimate the level of funds available for investment purposes and any borrowing requirements, as shown in the table below:

	31.3.19 Actual £m	**31.3.20 Estimate £m**	**31.3.21 Forecast £m**	**31.3.22 Forecast £m**	**31.3.23 Forecast £m**
General Fund CFR	33.614	40.121	52.140	52.166	50.953
Loans Requirement (Now Housing)	0.000	0.000	25.418	42.480	55.196
HRA CFR	241.580	238.078	234.590	244.241	241.250
Total CFR	**275.194**	**278.199**	**312.148**	**338.887**	**347.399**
Less: Other debt liabilities	(2.356)	(2.338)	(2.320)	(2.302)	(2.284)
Loans CFR	**272.838**	**275.861**	**309.828**	**336.585**	**345.515**
Less: Existing borrowing	(246,699)	(232.899)	(212.899)	(191.499)	(168.799)
Internal/(over) borrowing	**26.139**	**42.962**	**96.929**	**145.086**	**176.315**
Less: Usable reserves	(45.143)	(40.323)	(31.796)	(26.548)	(24.081)
Less: Working capital	(8.187)	(8.200)	(6.200)	(4.200)	(2.200)
New Borrowing (cumulative)	0.000	(5.179)	(43.515)	(81.858)	(104.541)
New Borrowing (cumulative - Now Housing)	0.000	0.000	(25.418)	(42.480)	(55.196)
Investments	**(27.191)**	**(10.740)**	**(10.000)**	**(10.000)**	**(10.000)**

Interest rate forecasts

F3.1 Another factor to consider when setting a treasury management strategy is the forecast for interest rates. The rates assumed are set out in our MTFS (section 2.1), which are provided by our treasury management advisors, Arlingclose.

Borrowing Strategy

F4.1 **Objectives:** The Council's primary objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

F4.2 **Strategy:** The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). It represents the amount of debt the Council needs to/has taken to fund the capital programme after repayments and Minimum Revenue Provision (MRP) are taken into account.

F4.3 Whether external borrowing is taken out depends on the level of cash balances held by the Council, and forecasts relating to this are set out in section F2.1.

F4.4 We manage and monitor our cash position to ensure sufficient funds are available to meet all requirements, taking advice from the Council's treasury advisors Arlingclose Ltd in relation to timing and structure of borrowing. This may be through utilising cash balances held by the Council (internal borrowing) in the short or medium term.

F4.5 When required and prudent, the Council will borrow externally from external bodies (such as the Government through the Public Works Loan Board (PWLB) or the money markets). Following the 1% increase to PWLB rates in October 2019, this may no longer be the cheapest source of borrowing available, so we will always consider other sources where appropriate.

F4.6 We may borrow in advance of need to take advantage of low interest rates, if deemed to be in our financial interest. Any borrowing in advance of need will not exceed the capital financing requirement for the current year plus 2 years. Borrowing for short periods of time to cover unexpected cash flow shortages may also be undertaken if required.

F4.7 **Context:** At 1 April 2020 the Council will hold around £238.073m of long term HRA loans. The debt portfolio was originally structured to mirror projected cash surpluses arising from the HRA business plan on the introduction of self-financing, with all loans being repaid by 2028.

F4.8 Our budget shows there is further borrowing requirement of £16.513m in 2020/21, to support the Affordable Housing Programme. We continue to generate receipts from right to buy sales, however the number of sales has started to reduce over the last two years.

F4.9 In addition to this, the Government's four-year rent reduction policy impacted on our ability to repay loans as quickly as it originally intended. This means that in the medium term of the 30 Year HRA Business Plan, additional borrowing will be needed to extend the duration of the repayment period.

F4.10 The forecast General Fund borrowing requirement on 1 April 2020 of £40.121m relates to the acquisition and refurbishment of properties in recent years to support the economic development and regeneration of town and neighbourhood centres in the Borough.

F4.11 **Sources of borrowing:** Our approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board and any successor body
- Any institution approved for investments (see section 7)
- Any other bank or building society authorised to operate in the UK
- Any other UK public sector body
- UK public and private sector pension funds (except Hertfordshire Pension Fund)
- Capital market bond investors
- Special purpose companies created to enable local authority bond issues

F4.12 **Other sources of debt finance:** In addition, we may finance our capital expenditure through other methods that are not directly borrowing cash, but would be classed as debt liabilities:

- Leasing
- Hire purchase
- Private Finance Initiative
- Sale and leaseback

F4.13 We have previously raised all of our cash borrowing from the PWLB but will consider other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

F4.14 **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates.

F4.15 We may take advantage of this and replace some of our loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in the our risk exposure.

F4.14 **Housing Company:** We will lend to our housing company (Now Housing) from 2020/21 for the provision of affordable housing. We will undertake our borrowing in line with our Treasury Management Strategy. Loans and repayments will be covered through robust loan agreements, and will be undertaken in line with the companies business plan, subject to approval by our section 151 officer.

F4.16 **Governance and Reporting:** We maintain a number of indicators to monitor and limit our risk exposure in relation to our debt, some of which are required by legislation.

F4.17 Maturity structure of borrowing: This indicator is set to control the Council's exposure to refinancing risk. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Maturity Structure of Borrowing	Upper Limit	Lower Limit
Under 12 months	20%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	80%	0%
10 years and within 20 years	100%	0%
20 years and above	100%	0%

F4.18 Authorised Borrowing Limit: The authorised limit is what we determine to be our maximum affordable borrowing in any one year. It is not the amount the Council expects to borrow to meet its capital expenditure requirements, but provides headroom over and above our capital requirements to allow for unusual cash movements, or to take advantage of low interest rates and to borrow in advance of need.

Authorised Borrowing Limit	**2020/21**	**2022/23**	**2023/24**
	£'m	**£'m**	**£'m**
External Borrowing	303,483	312,307	302,002
Other Long-term Liabilities	2,103	2,103	2,103
External Borrowing for Now Housing	26,000	42,500	55,500
Total	**331,586**	**356,910**	**379,605**

F4.19 Operational Boundary: The operational boundary is based on the Council's estimate of most likely scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement, and is a key management tool for in-year monitoring. The operational boundary below is set based upon our expected year end position and may be exceed during the year based on upon cashflow requirements, and the timing of borrowing repayments.

Operational Boundary	**2020/21**	**2022/23**	**2023/24**
	£'m	**£'m**	**£'m**
External Borrowing	273,483	282,307	292,002
Other Long-term Liabilities	2,103	2,103	2,103
External Borrowing for Now Housing	26,000	42,500	55,500
Total	**301,586**	**326,910**	**349,605**

Investment Strategy

F5.1 We holds significant invested funds, representing the income we have received in advance of our expenditure, plus the balances and reserves we hold. It is expected that our investment balances will range between £10m and £60m in the 2020/21 financial year.

F5.2 Our non-treasury investments, such as investment in property, are covered separately by our investment strategy (Annex E of our MTFS).

F5.3 **Objective:** To ensure funds are invested prudently, giving regard to the security and liquidity of investments, before seeking the highest rate of return, or yield. We will aim to strike a balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

F5.4 **Strategy:** Interest rates are forecast to remain low throughout 2020/21 and it is anticipated that we will make use of internal borrowing to fund our capital expenditure in year. This means investment balances are likely to remain low.

F5.5 In this environment we will need to maintain liquidity to meet our day to day expenditure and so will keep a large proportion of our investment balances in short term liquid investments.

F5.6 Where cashflow allows, we will continue to look for opportunities to diversify into more secure and/or higher yielding asset classes and to identify core cash that can be invested for longer periods to improve yield.

F5.7 **Negative interest rates:** There is a small chance that during 2020/21, the Bank of England could set its Bank Rate at or below zero, which is likely to cause negative interest rates for all low risk, short term investment options.

F5.8 This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Managing Investment Risks

F6.1 We maintain a list of counterparties that we can invest with (section 7), and actively monitor the risk of investing with these counterparties.

F6.2 **Risk assessment and use of credit ratings:** Credit ratings are obtained and monitored by our treasury advisors, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- No new investments will be made;
- any existing investments that can be recalled or sold at no cost will be; and
- full consideration will be given to recall or sale of all other existing investments with the affected counterparty.

F6.2 Where a credit rating agency announces that a rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”), and that indicates that a rating is likely to fall below the approved rating criteria, we will only invest in these institutions the investment can be withdrawn on the next working day. This policy will not apply to negative outlooks, which indicate a long term direction of travel rather than an imminent change of rating, and will only apply during the period of the rating revew.

F6.3 **Other information on the security of investments:** We understand that credit ratings are good predictors of investment default, but not perfect.

F6.4 Full regard will be given to other available information on the credit quality of the organisations in which we invest, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from our treasury management advisor.

F6.5 No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet other criteria such as minimum credit rating.

F6.6 When deteriorating financial market conditions affect the creditworthiness of all organisations, as in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In such extreme circumstances, a report would be presented to members to provide an understanding of the impact to us.

F6.7 In these circumstances, we will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions.

F6.8 If these restrictions mean that insufficient commercial organisations of “high credit quality” are available to invest our cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office, invested in government treasury bills, or with

other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

F6.9 **Liquidity management:** We use cash flow analysis to determine the maximum period for which funds may prudently be committed. Our forecasts are compiled on a prudent basis to minimise the risk of being forced to borrow on unfavourable terms to meet our financial commitments. Limits on long term investments are set with reference to the Council's medium-term financial strategy and cash flow forecast.

F6.10 **Interest rate risk:** We manage our exposure to fluctuations in interest rates with a view to containing interest costs and/or securing interest revenues, to meet budget expectations. This is achieved through the prudent use of approved instruments, methods and techniques, primarily to create stability, and certainty of costs and revenues, whilst retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. Advice is taken from our treasury advisors in this respect.

F6.11 **Governance and Reporting:** We maintain a key indicators to monitor and limit our risk exposure in relation to our investments:

F6.12 Principal sums invested for periods longer than one year: The purpose of this indicator is to balance our liquidity needs, and control our exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond one year will be:

	2020/21	**2022/23**	**2023/24**
	£m	**£m**	**£m**
Sums invested beyond one year	5.000	5.000	5.000

Approved investment counterparties

F7.1 We may invest our surplus funds with any of the counterparties in the following table, subject to the cash limits (per counterparty) and time limits shown. The levels are unchanged from 2019/20. The table must be read in conjunction with the remainder of this section.

Credit Rating	Banks Unsecured	Banks Secure	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£3m 5 years	£4m 20 years	£4m 50 years	£3m 20 years	£3m 20 years
AA+	£3m 5 years	£4m 10 years	£4m 25 years	£3m 10 years	£3m 10 years
AA	£3m 4 years	£4m 5	£4m 15 years	£3m 5 years	£3m 10 years
AA-	£3m 3 years	£4m 4	£4m 10 years	£3m 4 years	£3m 10 years
A+	£3m 2 years	£4m 3	£4m 5 years	£3m 3 years	£3m 5 years
A	£3m 13 months	£4m 2	£4m 5 years	£3m 2 years	£3m 5 years
A-	£3m 6 months	£4m 13 months	£3m 5 years	£3m 13 months	£3m 5 years
Pooled funds	£4m per fund				

F7.2 **Credit Ratings:** Investment limits are set by reference to the lowest published long-term credit rating from a selection of rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

F7.3 **Banks Unsecured:** These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. This class includes accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks.

F7.4 **Banks Secured:** These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. This class includes covered bonds, reverse repurchase agreements and other collateralised arrangements with banks or building societies. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

F7.5 **Government:** These investments are not subject to bail-in and there is generally a lower risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years. This class includes loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks.

F7.6 **Corporates:** These investments are not subject to bail- in but are exposed to the risk of the company going insolvent. This class includes loans, bonds and commercial paper issued by companies other than banks and registered providers.

F7.7 **Registered Providers**: These bodies are tightly regulated by the Regulator of Social Housing and, as providers of public services, they retain the likelihood of receiving government support if needed. This class includes Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as Housing Associations.

F7.8 **Pooled Funds:** These are shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short term Money Market Funds that offer same-day liquidity and very low or no volatility will be used alongside instant bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

F7.9 Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow diversification into asset classes other than cash without the need to own and manage the underlying investments. As these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting our investment objectives will be monitored regularly.

F7.10 **HSBC Group:** As an exception to the criteria in the table above, the maximum limit for unsecured deposits in HSBC banking group is increased to £4m, subject to the bank's lowest long term credit rating remaining at A+ or above. This is to allow balances up to £1m to be invested in an interest bearing call account when it is not cost effective to place the funds elsewhere. Overnight balances in the Council's operating bank accounts at HSBC will not count

towards their investment limit, on the basis that they cannot always be controlled and unexpected payments are often received.

F7.11 **Investment Limits:** The maximum that will be lent to any one organisation (other than the UK government) will be £4m in order that no sum in excess of available reserves is put at risk in the case of a single default. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on investments in brokers' nominee accounts and industry sectors as below.

F7.12 Our treasury advisors generally recommend a secured bank deposit limit of 30% of general fund reserves and unsecured limit of 15%, to ensure resilience in the event of a default.

F7.13 On the basis or General Fund reserves (including general, earmarked and capital balances) are anticipated to be £23.2m at 31 March 2020, this would mean limits of £6.96m and £3.48m respectively. Due to the short dated nature of the majority of our investments, and reserves being able to absorb more than one default, it is believed that the limits in the below table are currently acceptable. The situation will, however, be kept under continuous review.

	Cash limit
Any single organisation, except the UK Central Government	£4m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£4m per group
Any group of pooled funds under the same management	£4m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Registered providers and registered social landlords	£6m in total
Money market funds	£28m in total

Policy on Use of Financial Derivatives

F8.1 The CIPFA Code requires us to clearly our policy on the use of derivatives. We do not plan to use derivatives currently.

F8.2 If required, we 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 we are exposed to. Any additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk.

F8.3 Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall strategy.

F8.4 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 limits.

F8.5 We will seek and consider external advice before entering into financial derivatives to ensure that we fully understand any implications.

Markets in Financial Instruments Directive

F9.1 We have opted up to professional client status with our providers of financial services, including advisors, banks, brokers and fund managers. This allows us access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies.

F9.2 Given the size and range of the Council's treasury management activities the Corporate Director (Resources, Environment and Cultural Services) believes this to be the most appropriate status.

Policy on apportioning interest to the Housing Revenue Account

F10.1 All long-term loans in the Council's portfolio are assigned in their entirety to either the General Fund or the HRA pool at the time the loan is agreed. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account.

F10.2 Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Council's average rate on investments, adjusted by credit risk.

Annex G – Summary of Performance and Risk Indicators

G1.1 This strategy supports our Medium-Term Financial Strategy (MTFS) and is reviewed annually. It provides a summary of all of our key indicators used to monitor performance and manage risk.

Reserves and Balances

We will maintain minimum working balances as follows:

	2019/20 Minimum £'m	2020/21 Minimum £'m	2020/21 Minimum £'m
General Fund	2.600	2.600	2.600
Housing Revenue Account	2.640	2.718	2.832

Capital Expenditure and Financing

Based on our capital schemes, we expect our capital expenditure to be as follows:

	2020/21 £'m	2021/22 £'m	2022/23 £'m	2023/24 £'m	2024/25 £'m
General Fund (GRF)	30.020	4.035	1.561	1.411	1.501
Housing Revenue Account	37.257	42.832	28.101	17.061	16.349
Sub-Total	**67.277**	**46.867**	**29.662**	**18.472**	**17.850**
Loans to Now Housing (GRF)	25.418	17.072	12.770	18.595	3.603
Total	**92.695**	**63.939**	**42.432**	**37.067**	**21.453**

Based on this expenditure we expect our financing to be as follows:

General Fund	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**
Grants and Contributions	13.009	1.292	0.592	0.592	0.592
Reserves and Revenue Contributions	4.015	1.508	0.884	0.819	0.909
Borrowing	12.996	1.235	0.085	0.000	0.000
Sub-Total	**30.020**	**4.035**	**1.561**	**1.411**	**1.501**
Borrowing for Now Housing	25.418	17.072	12.770	18.595	3.603
Total	**55.438**	**21.107**	**14.331**	**20.006**	**5.104**

Housing Revenue Account	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**
Grants and Contributions	0.672	0.000	0.000	0.000	0.000
Reserves and Revenue Contributions	20.072	11.782	8.392	5.324	5.121
Borrowing	16.513	31.050	19.709	11.737	11.228
Total	**37.257**	**42.832**	**28.101**	**17.061**	**16.349**

Based on the above expenditure and financing, we expect our capital financing requirement (CFR) to be:

	2020/21	2021/22	2022/23	2023/24	2024/25
	£'m	£'m	£'m	£'m	£'m
General Fund	52.140	52.166	50.953	49.616	48.279
Loans to Now Housing (GRF)	25.418	42.480	55.196	73.692	77.146
Housing Revenue Account	234.590	244.241	241.250	228.787	214.215
Total	**312.148**	**338.887**	**347.398**	**352.095**	**339.64**

Based on these capital plans, and the longer-term 30-year Housing business plan, we expect our HRA debt to be repaid in 23 years.

We have set the following maturity structure limits for borrowing:

Maturity Structure of Borrowing	Upper Limit	Lower Limit
Under 12 months	20%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	80%	0%
10 years and within 20 years	100%	0%
20 years and above	100%	0%

We have set the following authorised limits (maximum) for borrowing:

Authorised Borrowing Limit	2020/21	2022/23	2023/24
	£'m	£'m	£'m
External Borrowing	303,483	312,307	302,002
Other Long-term Liabilities	2,103	2,103	2,103
External Borrowing for Now Housing	26,000	42,500	55,500
Total	**331,586**	**356,910**	**379,605**

We have set the following operational boundaries (expected levels) for borrowing:

Operational Boundary	2020/21	2022/23	2023/24
	£'m	£'m	£'m
External Borrowing	273,483	282,307	292,002
Other Long-term Liabilities	2,103	2,103	2,103
External Borrowing for Now Housing	26,000	42,500	55,500
Total	**301,586**	**326,910**	**349,605**

Investments (Cash/Treasury)

We have set the following limits for long term investments:

	2020/21	2022/23	2023/24
	£m	£m	£m
Sums invested beyond one year	5.000	5.000	5.000

We have set the following counterparty limits:

	Cash limit
Any single organisation, except the UK Central Government	£4m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£4m per group
Any group of pooled funds under the same management	£4m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Registered providers and registered social landlords	£6m in total
Money market funds	£28m in total

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£3m 5 years	£4m 20 years	£4m 50 years	£3m 20 years	£3m 20 years
AA+	£3m 5 years	£4m 10 years	£4m 25 years	£3m 10 years	£3m 10 years
AA	£3m 4 years	£4m 5 years	£4m 15 years	£3m 5 years	£3m 10 years
AA-	£3m 3 years	£4m 4 years	£4m 10 years	£3m 4 years	£3m 10 years
A+	£3m 2 years	£4m 3 years	£4m 5 years	£3m 3 years	£3m 5 years
A	£3m 13 months	£4m 2 years	£4m 5 years	£3m 2 years	£3m 5 years
A-	£3m 6 months	£4m 13 months	£3m 5 years	£3m 13 months	£3m 5 years
Pooled funds	£4m per fund				

Investments (Non-Treasury)

We monitor a suite of indicators to monitor performance and risk of service based and commercial investments:

	2018/19 Actual £'m	2019/20 Estimate £'m	2020/21 Estimate £'m
Income Generating Assets held for service purposes			
Ratio: Loan to value (CFR to asset base)	£1 : £3.97	£1 : £3.84	£1 : £3.01
Ratio: Principal cover (MRP to income stream)	£1 : £13.12	£1 : £13.57	£1 : £13.45
Ratio: Interest cover (interest cost to income)	N/A	N/A	£1 : £32.22
Non-Income Generating Assets held for service purposes			
Cost of borrowing in relation to council tax	£6.67	£6.58	£18.09
Commercial Assets			
Ratio: Loan to value (CFR to asset base)	N/A	N/A*	N/A*
Ratio: Principal cover (MRP to income stream)	N/A*	N/A*	N/A*
Ratio: Interest cover (income to interest cost)	N/A*	N/A*	N/A*

*****As there is currently no debt associated with these assets, these indicators have not been calculated. The value of assets was £5.615m at 31 Mrch 2019, and generated £428k.