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Date: Friday, 25 January 2019

Governance Support
Town Hall
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Dear Member

COUNCIL - THURSDAY, 31 JANUARY 2019

I am now able to enclose, for consideration at the Thursday, 31 January 2019 meeting of the Council, the following reports that were unavailable when the agenda was printed.

Yours sincerely

June Gurry
Clerk

Meeting: Council **Date:** 7 February 2019

Wards Affected: All

Report Title: Revenue Budget 2019/2020

Is the decision a key decision? Yes

When does the decision need to be implemented? Immediately

Executive Lead Contact Details: Gordon Oliver, Elected Mayor and Executive Lead for Finance, 01803 207001, mayor@torbay.gov.uk

Supporting Officer Contact Details: Martin Phillips, Head of Finance, 01803 207285, martin.phillips@torbay.gov.uk

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1. Proposal and Introduction

1.1 The Council has a statutory responsibility to set a budget each year. By setting and approving the net revenue budget for 2019/2020, the budget allocations proposed and the expenditure undertaken will be used to achieve a range of objectives across a number of plans within the Council. This will meet the ambitions expressed within the Corporate Plan and other related strategies.

1.2 In accordance with the Council's Constitution, Members are asked to either confirm their agreement to the recommended budget or put forward objections, and then any amendments for consideration at future meetings.

1.3 Within the budget setting process, the Chief Finance Officer must statutorily provide advice as to the robustness of the budget and this report sets out this opinion.

2. Reason for Proposal

2.1 The Council has a statutory responsibility to set a revenue budget each year.

3. Mayor's Budget Proposal

3.1 That the proposals identified for 2019/2020, as set out in the Elected Mayor's Response to Consultation and the Draft Revenue Budget Digest, be approved.

3.2 That the net revenue expenditure of £111.367m resulting in a Council Tax requirement of £68.688m for 2019/2020 (a 2.99% increase in Council Tax) be approved.

3.3 That the Dedicated Schools Grant be used in accordance with the Schools Financial Regulations and that the Chief Finance Officer be authorised to make amendments as required when the final figures are confirmed.

3.4 That the proposed Fees and Charges for 2019/2020 be approved.

3.5 That, in accordance with the requirement of the Local Government Act 2003, the advice given by the Chief Finance Officer with respect to the robustness of the budget estimates and the adequacy of the Council's reserves (as set out in the report) be considered and noted.

3.6 That it be noted that once Brixham Town Council has set its budget for 2019/2020, the resulting precept will be included as part of the Torbay Council budget for Council Tax setting purposes.

4. Background Information

4.1 The Elected Mayor has published his Budget Proposals and these have been circulated to all Members of the Council. All Members have also been provided with copies of the supporting information which has been published alongside the Budget Proposals namely (online documents can be found at www.torbay.gov.uk/council/finance/budget/budget-201920/):

- Elected Mayor's response to budget consultation
- Chief Financial Officer's Report
- Revenue Budget Digest 2019/2020 (including the proposals for service change, income generation and savings) (available online)
- Fees and Charges 2019/2020 (available online)
- Equality Impact Assessments (available online)
- Report on outcome of budget consultation (available online)
- Review of Reserves 2019/20 (see separate item)
- Capital Strategy 2019/20 (see separate item)
- Capital Budget 2019/20 (see separate item)

5. Robustness of the budget estimates

5.1 Key to budget setting is the robustness of the budget proposals, which is linked to both service demands and the risks associated with those services. A number of assumptions have been made in the development of the budget for 2019/2020 in order to mitigate against the risks. A number of specific risks and their mitigation are shown below:

Risk	Risk Rating	Mitigation
Inability to deliver a balanced budget over the next three financial years	High	Annual Planning cycle for budgeting supported by the transformation programme
Impact of the use of one off government grants in 2019/20 to support a balanced budget.	Medium	That Council approve additional income, efficiencies or savings to the level used to balance the budget early in 2019/20 so as to ensure that the Council is prudent in its use of the same.
Identified budget reductions for 2019/2020 are not achieved	Medium	Monthly monitoring of current year financial position by Senior Leadership Team including a "savings tracker".

Risk	Risk Rating	Mitigation
		Contingency budget of £0.250m in 2019/20 revenue budget. Directors, Executive Heads and all managers have a responsibility to ensure they maintain spend within their approved budget allocation. The Council also has in place a series of regular revenue and capital monitoring reports, which are presented to the Overview and Scrutiny Board and Full Council which review the budget on a quarterly basis throughout the financial year, which mitigates against the risk of inadequate financial control.
Overspend against the proposed 2019/2020 Children's Services budget	Medium	Director of Children's Services (DCS) has a service improvement plan and a Childrens transformation programme of work that is now established and being implemented, supported by a range of monitoring and performance arrangements. 2019/20 Children's Services Budget has been re-based to current spend levels – i.e. a £4.4m increase from 2018/19 allocated budget.
Overspend against the proposed 2019/2020 Adult Social Care budget	Low	Risk Share in place in which Council pays an additional fixed payment with no exposure to any over or under spends.
Volatility of NNDR Income	Medium	Provision for appeals and non-collection included in 2019/20 NNDR income estimate.
Insufficient income generated	Medium	Annual cycle for budgeting supported by the transformation programme. Prudent view taken of new income streams in 2019/20 and a contingency held.
Insufficient investment fund income	Medium	Prudent view taken of new income streams in 2019/20. Investment and Regeneration Committee continues to review investment opportunities.
Insufficient reserve levels as a result of a significant budget variance or unforeseen event.	Medium	Review of Reserves report presented to the Council and £4.6m maintained in the General Fund balance and £2m balance held in CSR Reserve.
Exposure to changes in interest rates	Low	Treasury Management Strategy to be approved by the Council. All borrowing currently on fixed rate deals.
Inflationary pressures	Low	Budget build has included estimates of inflation where applicable.
Income linked to major prudential borrowing schemes not achieved at forecast levels.	Medium	Approval by Council supported by a detailed business case. Income streams reviewed as part of budget monitoring Mitigation in schemes, such as a "pre let" required.

Risk	Risk Rating	Mitigation
Insufficient capacity to deliver the Transformation Programme	Low	Provision in 2019/20 budget for £0.5m for transformation.

5.2 In accordance with the requirement of the Local Government Act 2003, the Chief Financial Officer must report to the Council on “the robustness of the estimates made for the purposes of the (budget) calculations” and the “adequacy of the proposed financial reserves”.

5.3 Taking account of the financial risks facing the Council and the mitigations outlined in paragraph 5.1 above, the Chief Financial Officer’s Statement is as follows:

> “I have taken into account information, risks and assurances from the Mayor, the Executive and the Senior Leadership Team in forming my opinion. My opinion is that the 2019/2020 budget is based on robust budget estimates.
>
> This opinion is supported by the maintenance of Council reserves at a prudent level and the delivery of the transformation programme and a dedicated transformation team to lead the programme”.

5.4 In relation to reserve levels, the statement in the 2019/20 review of reserves report is as follows:

Head of Finance Statement.

The Council is continuing to face unprecedented financial challenges. I am satisfied that the Council’s General Fund and Earmarked Reserves, including Insurance Reserves, are adequate for the Council’s Financial Plans for 2019/20 to meet any known or predicted liabilities over the period in which the liabilities are expected to become due for payment, if the following actions are undertaken:

a) The CSR has a balance of £1.0m to fund the 2018/19 projected overspend,
b) The General Fund reserve has a minimum balance equal to 4% of net budget,
c) That a minimum ongoing balance of £2m (after (a) above) is in the CSR reserve,
d) That Children's Social Care, deliver the improvements and cost reductions for 2019/20 and future years supported by a robust financial recovery plan,
e) That the revised Risk Share Agreement for Adult Social Care is maintained for 2019/20,
f) That a balanced revenue budget is set for 2019/20,
g) That the budgeted Investment Property surplus for 2019/20 is achieved,
h) That the Council continues to delivers its transformation programme at pace in the short term.

3.10 At this stage, with the significant uncertainty in relation to central government funding for 2020/21, I am currently unable to give any assurance in relation to 2020/21. I recommend, however, that the Council continues to be prudent in its use of reserves and plans for future risks and their mitigation. These to include:

a) Maintaining a balance on the CSR reserve of £2m,
b) Protection to the current level of General Fund Reserve,
c) No reserves used to balance 2019/20 or future year budgets,
d) Specific material risks remain mitigated for – such as insurance, NNDR volatility and investment fund,

e) Regular updates and awareness of the risks identified in the Medium Term Resource Plan,
f) That the Council continues to delivers its transformation programme at pace in the medium term,
g) Continued focus on reducing spend in children's' social care,
h) Renegotiation of risk share agreement for adult social care for 2020/21 onwards.

Agenda Item 19
Appendix 1

January 2019

Budget Overview and Proposals for 2019/2020

Elected Mayor's Response to Consultation

Contents

1 Statement by the Elected Mayor, Gordon Oliver

In accordance with the Council's Constitution, I am proposing the budget for 2019/2020 for members' consideration.

The Council is committed to creating a prosperous and healthy Torbay and a Council fit to meet the challenges of the future.

I am proposing a balanced Revenue Budget of £111.4m for 2019/2020. Central Government reductions in local government grants and increasing demands on our services means the Council needs to be innovative. As we have over recent years, we need to continue to find alternative ways of working, change the way we operate and work differently with our local communities and partners.

I thank the Overview and Scrutiny Board and our partners for their feedback on the budget proposals. In particular I thank all those service users and residents who took the time to provide their views either through completing a consultation questionnaire or by attending meetings. I would also like to thank officers and Executive Leads for their support in the preparation of all of the budget proposals.

I have considered all the responses I received carefully. I have also considered the decisions and changes that have taken place since November and have had to balance the Council's priorities in developing my proposals. What follows is a summary of the changes that I am proposing since my draft budget was published in November 2018.

The Council continues to face an immense challenge to prepare and deliver robust budgets year-on-year which provide the statutory services of the Council as well as those discretionary services which are valued by our communities. Demand for children's and adults social care is increasing and the Government is continuing to reduce the amount of Revenue Support Grant it provides to local government – reductions which started in 2010.

The Council has, however, been notified of two additional grants from central government since my budget proposals were published in November 2018. The Social Care Grant of £1.4m will be allocated in full to children's social care. This will result in a £4.4m (14%) investment to meet demand and cost pressures in this vital service in my budget at a time where Council core funding is reducing. The Winter Pressures Grant of £0.8m will be allocated in full to Adult Social Care.

I am recommending that three of my original proposals are not implemented:

- The reduction in the reactive maintenance linked to the routine inspection of playgrounds.
- The relocation of the administrative base of the Registration Service from its two current offices to Torquay Town Hall.
- The reduction in the capacity of the Council's Senior Leadership Team

I am recommending a delay in the implementation of three other proposals until 1 October 2019 and therefore only a part-year saving will be achieved in 2019/2020:

- Illuminations – Delaying implementation will enable time for sponsorship and/or an alternative approach to be agreed, communicated and introduced.

- Natural Environment – Delaying the contract savings will enable changes in the contracts to be made and time to engage with communities as to alternative arrangements, with the final plans effectively communicated.
- Torbay Coast and Countryside Trust – I am proposing that the Council will market test the level of management fee currently paid to the Trust. This will be the first time this has taken place since the Trust was established. The market testing has yet to be scoped but I am confident the exercise can be completed by 1 October 2019.

I am also recommending an increase from the proposed reduction in the highways budget which will be offset in 2019/2020 by utilising the expected underspend on the current year's budget. The underspend will be mitigated this year by the use of one-off transport funding from Government to enable a reserve contribution to be made in the current year.

Despite this, the Council will still spend approximately £3.6 million per week on services in the community (excluding funding for schools and housing benefit payments), and we also plan to spend £91 million on capital schemes.

The proposals within the revenue budget will have an impact on local residents, visitors, our communities and service users; if I had a choice I would not be proposing to make these changes. However, I hope that the Council can continue to work with its partners and communities to ensure a prosperous and healthy Torbay.

Gordon Oliver
Elected Mayor of Torbay

2 Introduction

This document and the papers which support it set out the Elected Mayor's final proposals for Torbay Council's budget for 2019/2020. It is part of the longer-term work that is continuing to ensure that the Council is fit for the future.

The Council's Budget Overview and Proposals for 2019/2020 was first published in November 2018 for consultation. During the consultation period, feedback has been received from service providers, partner organisations, service users, the community and voluntary sector and the general public. This report reflects the feedback received and outlines the changes that have been made to the Elected Mayor's proposals as a result. It also reflects the details of the Local Government Funding Settlement which was published in December 2018.

The document should be read alongside a series of other documents:

- **Torbay Council – Draft Revenue Budget Digest**
  This provides a description of what each Council service does and how much it is proposed that they will spend next year including how much income they will receive. It sets out details of all of the proposals for service change, income generation and savings in order to produce a balanced budget for 2019/2020.

- **Equality Impact Assessments**
  Where a proposal has been assessed as having a material impact on service users, an Equalities Impact Assessment has been prepared. These have been updated with the results of the consultation and any mitigating actions identified.

- **Fees and Charges**
  The amount that the Council proposes to charge for its services over the next year.

- **Treasury Management Strategy**
  This aims to support the provision of all Council services by the management of the Council's cash flow, debt and investment operations and effectively control the associated risks.

- **Capital Plan**
  This sets out the amount that it is proposed to spend in 2019/2020 on the capital projects that the Council is undertaking.

- **Capital Strategy**
  This sets out the principles to be used in the allocation of capital investment across all the Council's services and informs decisions on capital spending priorities within the Council's four year Capital Plan.

- **Reserves**
  The current and forecast position on the use of Council reserves.

The Elected Mayor's final budget proposals will be considered at the Adjourned Meeting of the Council being held on 7 February 2019. If the proposed revenue and capital budgets are approved by a majority of members then they will be adopted on the night. If an objection to the budget is proposed and approved by a majority of councillors, the budget will be deferred to the following meeting. Any objections will be considered by the Elected Mayor and he will respond to the meeting of the Council on 21 February 2019 when the budget will be decided.

Council Tax levels will be set at the meeting of the Council on 21 February 2019 as the Council has to wait for notifications from the Fire and Rescue Authority, the Police Authority and Brixham Town Council before setting the overall Council Tax for Torbay.

Details of the meetings when the budget proposals will be discussed are available on the Council's website: **www.torbay.gov.uk/meetings-and-decisions**

3 Revenue Budget 2019/2020

The Council's financial planning for 2019/2020 started in March 2018 and the Elected Mayor's draft budget proposals were published on 2 November 2018 for eight weeks of public consultation.

The proposals set out for 2019/2020 includes a range of options of savings to be made through changes to services, raising of income or reductions in expenditure. These savings are part of the £18.5 million of savings which will need to be achieved by 2021/22 to provide a balanced budget as set out in the Council's Medium Term Financial Plan.

Funding Changes

The budget has been updated as various funding and income streams have been confirmed since the draft budget proposals were published in November 2018. The changes in funding are set out in the Table 1 below:

Description	Increase in Funding £000	Reduction in Funding £000	Commentary
NNDR Income	80		Forecast NNDR income for 2019/20 including s31 grant and top up grant
Council Tax Income	279		The Council Tax Base was set by Council in December 2018.
New Homes Bonus		111	Actual allocation announced in the Local Government Settlement.
	359	111	
Net Funding Changes	**248**		

Service Expenditure Changes

Since the Elected Mayor's budget proposals were issued in November 2018, the Elected Mayor has considered the views of the wider community and Members of the Council which have been provided during the consultation period. This has included the views of the Council's Overview and Scrutiny Board which were set out in its report to the Elected Mayor available at **www.torbay.gov.uk/scrutiny**.

The results of the consultation have been included within each relevant Equality Impact Assessment and in the overall report from the consultation exercise. The budget proposals issued in November 2018 have been updated and are set out in the Budget Digest. All of these documents are available at **www.torbay.gov.uk/budget-201819**.

A summary of changes in income and expenditure since the initial proposals were published are summarised in Table 2 below. This includes changes in the funding of the Council as a result of new legislation and Government announcements, changes in the proposals that the Elected Mayor had previously put forward, decisions taken by the Council since the draft budget was published and other pressures within the Council's services.

The table at the end of this document lists all of the Elected Mayor's proposals with those highlighted indicating the amended or new proposals.

Description	Reduction in Expenditure £000	Increase in Expenditure £000	Commentary
Winter Pressures Grant	829		New one off grant from Government which is ring fenced to adult social care
Winter Pressures Expenditure		829	Grant allocated in full to adult social care to meet demand and cost pressures
Social Care Grant	1,415		New one off grant from Government which is not ring fenced
Allocation to children’s social care		1,415	Grant allocated in full to children’s social care to meet demand and cost pressures
Highways Maintenance		320	Implement the proposed reduction from 1 April 2019, offset by utilising the expected underspend on the 2018/2019 budget
Highways Maintenance		130	Implement an additional reduction from 1 April 2019, offset by utilising the expected underspend on the 2018/2019 budget.
Highways Funding	450		Use of reserve to fund for one year
Children’s playgrounds		7	Full re-instatement of proposed reduction
Registration of Births, Deaths and Marriages		45	Full re-instatement of proposed reduction
SLT restructure		55	Re-instatement of proposed reduction with a full-year impact of £100,000 in 2020/21
Torbay Coast and Countryside Trust		23	Implement the proposal from 1 October 2019 and therefore part year effect only. The full-year reduction of £45,000 will be included in the 2020/21 revenue budget.
Illuminations		10	Implement the proposal from 1 October 2019 and therefore part year effect only. The full-year reduction of £20,000 will be included in the 2020/21 revenue budget.
Natural Environment		50	Implement the proposal from 1 October 2019 and therefore part year effect only. The full-year reduction of £125,000 will be included in the 2020/21 revenue budget.
Funding of delaying the implementation of the three proposals above	83		Use of Comprehensive Spending Review Reserve to fund in 2019/20
Torbay Coast and Countryside Trust loan		32	Loss of the interest on the loan previously provided to Torbay Coast and Countryside Trust which is due to be repaid.
TOR2 Advance		235	Impact of the Council not providing an advance payment to TOR2 in 2019
TOR2 Pensions	150		Saving arising from TOR2 pension fund in surplus
Heart of the South West Joint Committee		4	Annual contribution to support the costs of the Heart of the South West Joint Committee
Department of Work and Pension Grants	13		Actual value of Department of Work and Pension grants now announced
Other adjustments		33	
	2,940	**3,188**	
Net Expenditure Changes		**248**	

Summary Budget Proposals

As a result of the changes to funding and service expenditure detailed in the sections above, the Elected Mayor's budget proposals for 2019/2020 are as follows:

	2019/2020	
	£000	**£000**
Elected Mayor's Budget Proposal (October 2018) – **Funding**	111,119	
Funding Changes (from Table 1 above)	248	
Elected Mayor's Budget Proposal (February 2019) – **Funding**		**111,367**
Elected Mayor's Budget Proposal (October 2018) – **Net Expenditure**	111,119	
Service Expenditure Changes (from Table 2 above)	248	
Elected Mayor's Budget Proposal (February 2019) – **Net Expenditure**		**111,367**

Revenue Budget 2019/2020

The Council is being asked to approve the Elected Mayor's proposal for the total net revenue budget for 2019/2020 and the budget that will be required to be funded from Council Tax, as set out in the following table:

	2019/2020	
	£000	**£000**
Net Revenue Expenditure	111,367	
Total Net Revenue Expenditure		111,367
Funded by:		
Business Rate Retention Scheme	(33,554)	
Revenue Support Grant	(6,421)	
New Homes Bonus and Local Services Support Grant	(988)	
Council Tax Requirement (2.99%)	(68,688)	
Collection Fund (Council Tax and NNDR)	(1,716)	
Total Income		(111,367)

The value of Council Tax resulting from a rise in the Torbay element of the Council Tax of 2.99% is £68.688 million. A 2.99% rise will increase the Band D Council Tax in Torbay by £43.64.

When the Council formally sets the Council Tax, the Council's budget has to include the budget for the Brixham Town Council which is due to be confirmed on 24 January 2019. The value of this precept will be included as part of the Torbay Council budget for Council Tax setting purposes.

The Council is also being presented the allocation of the 2019/2020 revenue budget to individual services as identified in the Budget Digest which has been circulated separately. The allocation of budget to services is a key part of the Council's financial control arrangements. The Financial Regulations in the Constitution govern any subsequent in-year budget changes. The approval of fees and charges for 2019/2020, in addition to supporting the achievement of budgeted income, provides clarity to services and service users. The Officer Scheme of Delegation governs any subsequent in-year changes to fees and charges.

A summary of the budget by service area is shown in the table below:

Service	Expenditure £000	Income £000	Net £000
Joint Commissioning Team			
Childrens' Services	88,011	(51,776)	36,235
Adult Social Care and Housing	53,300	(14,093)	39,207
Public Health	9,627	(544)	9,083
Sub-Total – Joint Commissioning Team	**150,938**	**(66,413)**	**84,525**
Joint Operations Team			
Corporate Services	73,395	(63,523)	9,872
Place Services	39,605	(18,736)	20,869
Finance & Central	20,866	(21,080)	(214)
Investment Portfolio	6,369	(10,054)	(3,685)
Sub-Total – Joint Operations Team	**140,235**	**(113,393)**	**26,842**
Total	**291,173**	**(179,806)**	**111,367**

4 Capital Plan 2019/2020

The proposed Capital Plan of £91 million for the next financial year is predominantly comprised of schemes which have previously been approved.

£3 million is allocated to continue to improve the facilities in Torbay's schools and early years settings so that we can ensure that our children get the best start in life including classrooms at Brunel Academy and investment in classrooms in Paignton.

Over £30 million is planned to be spent on Investment Fund properties to generate an income stream to support key council services to compensate for central government funding reductions.

Over £35 million is planned to be spent as we work towards a more prosperous Torbay. Schemes such as the redevelopment of Claylands, town centre regeneration schemes, further transport improvements on the Western Corridor and investment in Edginswell Business Park, are aimed at ensuring jobs are maintained and created in Torbay. We will continue to maintain and improve the infrastructure within Torbay. Fisheries related investment at Oxen Cove and Jetty and the creation of the Electronics and Photonics Innovation Centre should be operational early in the financial year.

We will invest £2 million to ensure Torbay remains an attractive and safe place to live and visit including replacement of the Torbay-wide CCTV system, the continuation of our toilet modernisation programme and investment in the Harbour Lights in Paignton.

We will invest £16 million in protecting and supporting vulnerable adults. This includes the planned first phase of investment in the Council's housing company and for affordable housing to meet the Council's Housing Strategy.

The schemes within the Capital Plan will contribute towards a healthier Torbay through supporting our children and young people in their learning environment, promoting economic regeneration or protecting our natural environment

Appendix 1: Summary Budget Proposals 2019/2020

(The proposals are for revenue budget reductions and those in bold have changed since November 2018)

Proposal	Amount £000	Proposal	Amount £000
Adult Services and Housing		**Community Safety**	
Joint Commissioning Team	113	Home Improvement Agency	60
Place		Environmental Health service to Fishing Industry	20
Resort Services	20	Scores on the Doors	5
Tor Bay Harbour	50	Temporary Accommodation	10
UNESCO Geopark	10	Licensing	18
Highways	**450**	**Corporate Services and Operations**	
Oldway Mansion costs	118	Members Allowances	50
School Crossing Patrols	28	Internal Audit	20
Asset Rationalisation	36	Insurance Premiums and Fees	80
Illuminations	**20**	**Registration of Births, Deaths and Marriages**	**0**
Playgrounds	**0**	Apprenticeships	212
Asset Management	226	Union Duties Allowance	10
Parking	5	Oldway Mansion Insurance Costs	25
Regeneration	59	Corporate Support	20
Natural Environment	**75**	**Senior Leadership Team Restructure**	**0**
Events	164	**Customer Services**	
Torbay Coast and Countryside Trust	**22**	Pensions	43
Sea Fisheries	25	Vacancy Management	60
Archives	10	Debt Recovery	26
Business Support	50	**Public Health**	
Street Lighting	25	Adult Substance Misuse	100
Children's Services			
Business Support	150		
Procurement and Contract Management	550		

Further details of the proposals and the following document are available online at
www.torbay.gov.uk/fit-for-the-future

REVENUE BUDGET 2019/2020

Chief Finance Officer's Report

Published: 25 January 2019

1 Introduction

1.1 This report by the Council's Chief Finance Officer provides further information to support both the Elected Mayor's Budget proposals and the Opinion on the robustness of the budget estimates which is included in the covering report to the Revenue Budget 2019/20.

1.2 This report aims to provide further information and an overview of a number of key factors, including a number of "technical" finance issues, that have influenced the 2019/20 budget and raises issues for future financial years.

2 Overview – Context and Outlook

- Budget Overview
- Local Government Settlement 2019/20
- Use of one off grant funding in 2019/20
- Formula Funding and Business Rates Consultations 2020/21
- NNDR 100% Pilot
- Dedicated Schools Grant
- Adult Social Care
- Children's Services
- Estimation of Collection Fund Surplus/Deficit
- NNDR – National Non-Domestic Rates
- Council Tax and Referendum Limits
- Link between Capital Plan and Revenue budget
- External Peer Reviews
- CIPFA Financial Resilience Index
- Transformation Programme
- Longer Term Future Council Funding

3 Budget Overview

3.1 Central government has continued with the same financial plans for ongoing reductions in "core" funding for local government as before. The Ministry of Housing, Communities and Local Government (MHCLG, formerly DCLG) are continuing with the "four year offer" funding to Councils. This results in Torbay's Revenue Support Grant reducing from £27m in 2015/16 to £6m in 2019/20. For 2019/20 the reduction is £4m (from £10m to £6m).

3.2 These ongoing reductions in core funding combined with rising costs and demand continue to create significant financial challenges to the Council. Members need to consider the 2019/20 budget in the context of the significant future year budget reductions required.

3.3 The Chancellor's Budget in October 2018 and provisional local government finance settlement for 2019/20 announced in December 2018 did however provide some additional funding for Councils which are now included as part of the final budget proposals. The recognition of spending pressures in Councils and these extra funds, although welcome, were one off, partly ring fenced and only offset a part of the total revenue support grant reduction.

3.4 The Council's financial planning for 2019/20 started in March 2018 and the Elected Mayor's provisional budget proposals were published on 2 November 2018 enabling a period for consultation and scrutiny of the proposals. To achieve a balanced budget, the proposals for 2019/20 have required a range of reductions and income generation and a number of difficult choices for the Council.

3.5 The Elected Mayor's budget proposals have sought to limit the impact of the reductions on the more vulnerable in society and, within Children's social care, the Council is recommended to invest additional funds for the safeguarding of children resulting in an increased budget for that service of over £4.3m.

3.6 To support the difficult budget challenges facing the Council it is proposed by the Elected Mayor that the Council increases its Council Tax requirement by 2.99%.

3.7 As the Council has raised Council tax for Adult Social Care by 3% in both 2017/18 and 2018/19 there will be no Council tax rise for this service in 2019/20.

3.8 Members of the Overview and Scrutiny Board (through the Priorities and Resources Review Panel) examined the proposals in detail and stakeholders and residents have had the opportunity to make representations on the proposals through the consultation. The Elected Mayor reviewed all of the responses received and the final saving proposals were drawn up after consideration of the responses.

3.8 This report supports the Revenue Budget 2019/20. Other budget related reports being presented to Council which are relevant to the Council's overall financial position are:

a) 2018/19 Revenue and Capital Budget Monitoring Report – Quarter Three

b) 2019/20 Capital Plan

c) Capital Strategy and Capital Receipts Strategy

d) 2019/20 Treasury Management Strategy, including Investment Policy and Minimum Revenue Provision Policy

e) 2019/20 Review of Reserves

f) Annual Strategic Agreement (for adult social care)

3.9 Also relevant are:

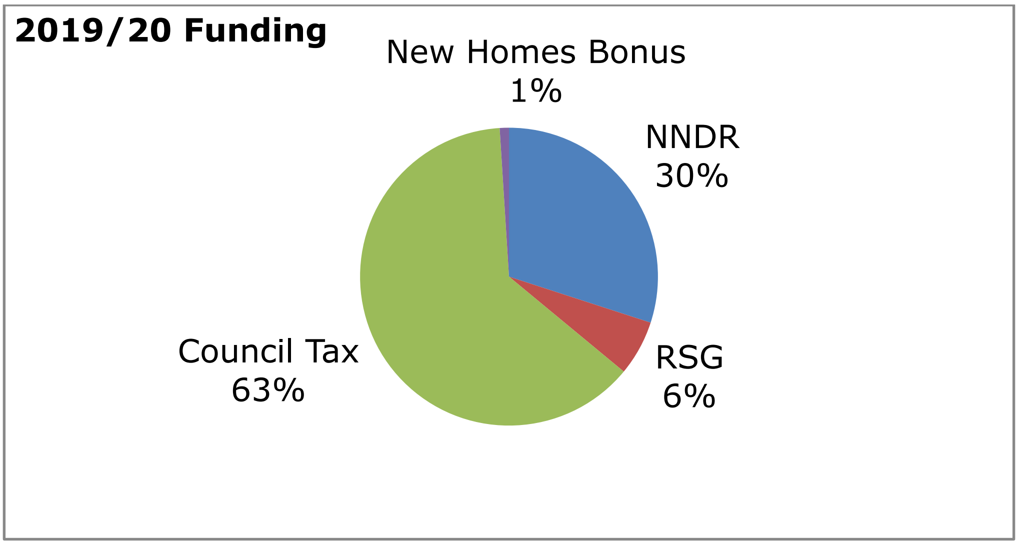
g) Medium Term Resource Plan (on website)

h) Corporate Asset Management Plan

3.10 Budget Digest pages, Fees and Charges and updated budget proposals sheets are available separately along with any relevant equalities impact assessments.

3.11 A summary of the Council's 2019/20 budget is as follows:

	2019/20	
Elected Mayor's Budget Proposal:	£'000	£'000
Net Revenue Expenditure	111,367	
Total Net Revenue Expenditure		111,367
Funded By:		
Business Rate Retention Scheme	33,554	
Revenue Support Grant	6,421	
New Homes Bonus Grant & LSSG	988	
		40,963
Council Tax Requirement	68,688	
Collection Fund - NNDR/Council Tax	1,716	
		70,404
Total Income		111,367



3.14 A summary of the 2019/20 budget by Service area is shown in the table below.

Directorate/Service	Expenditure £000's	Income £000's	Net £000's
Adult Services and Housing	53,300	-14,093	39,207
Children's Services	88,011	-51,776	36,235
Dedicated Schools Grant included in Children's Services. 2019/20 allocation to be announced	*39,678*	*-39,678*	*0*
Public Health	9,627	-544	9,083
Sub Total – Joint Commissioning Team	**150,938**	**-66,413**	**84,525**
Corporate Services			
Community Services	4,351	-2,502	1,849
Corporate Services	6,153	-1,815	4,338
Customer Services	62,891	-59,206	3,685
Housing benefit included in Customer Services	*55,996*	*-55,996*	*0*
Sub Total - Corporate Services	**73,395**	**-63,523**	**9,872**
Finance	20,866	-21,080	-214
Place			
Business Services and Regeneration and Assets	29,527	-16,009	13,518
Investment Properties	6,369	-10,054	-3,685
Planning and Transport	10,078	-2,727	7,351
Sub Total -Place	**45,974**	**-28,790**	**17,184**
TOTAL	**291,173**	**-179,806**	**111,367**
Sources of Funding			
Council Tax	0	-68,688	-68,688
Collection Fund Surplus	0	-1,716	-1,716
Revenue Support Grant	0	-6,421	-6,421
Business Rates (NNDR)	0	-33,554	-33,554
New Homes Bonus and Other Grants	0	-988	-988
TOTAL	**0**	**-111,367**	**-111,367**

4 Local Government Finance Settlement 2019/20

4.1 The MHCLG announced the provisional Local Government Finance Settlement on 13 December 2018. Since that date a number of individual departmental announcements have also been made. Where these are known, these have been included in the 2019/20 budget proposals.

4.2 The key issues from the announcements (to date) are as follows:

- The Council's Revenue Support Grant (RSG) is as per the four year funding "offer" linked to the submission of an Efficiency Plan in October 2016. Torbay's RSG has reduced from £20m in 2016/17 to £14m in 2017/18 and to £10m in 2018/19 – in 2019/20 it will be £6m.

- Referendum limit for all Councils set at 3% and over for 2019/20, or for a district council, by £5. MHCLG projections of spending power for Councils assume that this rise is approved.

- There were no changes to the calculation of the New Homes Bonus Grant. The "reward" for housing growth will continue to be paid for four years (not six years as per the original scheme). Reward will only be paid on growth over a threshold of 0.4% (not 0% as per the original scheme).

- A number of one off funding streams were announced for Torbay:

    - £1.415m for "Social Care", un-ring fenced grant.
    - £0.829m for "Winter Pressures" - ring fenced grant for adult social care
    - £0.268m for Special need pressures – ring fenced grant within the Dedicated Schools Grant.

- 15 new 100% NNDR pilots for 2019/20 were announced, however a number were withdrawn including disappointingly the Devon wide bid, including Torbay.

- No funding announcements for 2020/21 onwards. 2020/21 will also be the first settlement after the next Central Government Spending Review in 2019. That uncertainty combined with a new 75% NNDR scheme and a new funding formula makes longer term financial planning very challenging.

4.3 Note: At the time of writing this report (24/1/19) the final local government finance settlement has not been issued by MHCLG.

5 Use of One Off grant funding in 2019/20

The budget proposals apply the one off "Social Care" grant of £1.415m in full to Children's Services to meet current levels of demand and cost. There is a clear risk to future year budgets from this proposal as, if demand remains at current levels and the grant (or alternative funding) is not repeated in 2020/21, the funding gap for that year increases.

It is essential that the Members and officers engage in budget planning for 2020/21 in March 2019. It is strongly recommended that the Council approve additional income, efficiencies or savings to the level used to balance the budget early in 2019/20 so as to ensure that the Council is prudent in its use of the one off grant.

6 Formula Funding and Business Rates Consultations 2020/21

As part of the Provisional Local Government Finance Settlement in December 2018, MHCLG issued two important consultation documents:

- NNDR Retention Scheme: From 2020/21 the MHCLG intend to introduce a 75% NNDR retention scheme for all Councils. The consultation seeks views on the design of the scheme and how and when any NNDR growth is redistributed between Councils to keep the link between funding and need whilst retaining an incentive for growth. In addition the consultation suggests that NNDR baselines are changed on an annual basis to ensure councils are not disadvantaged by the impact of appeals.

- New funding formula to allocate new funding baselines and income baselines to all councils from 2020/21. The aim is to have as simplified a formula as possible that focusses on a limited number of key cost drivers. The consultation proposes an eight block formula which is then adjusted for general factors to reflect labour costs, rates costs and sparsity.

  There are seven specific formulas for major services – adults social care, children's' social care, highways, public health, legacy capital costs, fire and flood defence. All other services will form part of a "Foundation" block where it is proposed that this formula will be based purely on total population.

  This proposal, although meeting the criteria of being transparent and simple, does not take into account other place based factors that can influence costs and demand such as deprivation and coastal town issues. Also some services included in the Foundation block such as concessionary fares, home to school transport and housing/homelessness are clearly not linked to total population.

  The Council will be responding to this consultation and will be liaising with the LGA and other "influencers" to ensure that MHCLG are aware of the impact that the formula would have upon Torbay, in the hope that it is modified to be reflective of the issues Torbay faces.

5 NNDR 100% Pilot

5.1 Before the 2017 election it was MHCLG's intention to introduce a 100% NNDR retention (currently 49%) by the "end of parliament". A Local Government Finance Act was expected in 2017 to establish the legal basis for this change however this was not included in the Queens Speech for the business of the new government. As a consequence MHCLG invited Councils to submit bids for 100% NNDR pilot areas. A Devon Wide bid was submitted in 2018/19 for all Councils in Devon, including Torbay and the Devon bid was one of 11 that were agreed.

5.2 In the provisional Local Government Finance Settlement 2019/20 15 new 100% NNDR pilots for 2019/20 were announced, however a number were withdrawn including, disappointingly, the Devon wide bid including Torbay. As the 100% Pilot has ceased the previous NNDR pool arrangement will now recommence.

5.3 The current gain from the NNDR pool arrangements is based on a "saving" on the levy paid on growth by councils. The consultation for 2020/21 proposes the ending of levy payments therefore the gain from the pool will end in 2020/21. The Council in its financial planning assumes a reduction in NNDR income when the pool ends.

6 Dedicated Schools Grant

6.1 The Council has to confirm that it will be directing the entire grant received in respect of Dedicated Schools Funding through to those areas defined in the School Finance Regulations. For 2019/2020 the allocation of Dedicated Schools Grant (DSG) before academy school recoupment is £105m. Of this total, it is estimated that approximately £39m will be retained in the Council's budget for expenditure related to its (maintained) schools and other residual functions.

6.2 The DSG and the schools funding formula is being changed with full introduction of a new national simplified minimum per pupil funding formula from 2021/22. DSG from 2018/19 is now allocated over four "blocks" – schools, central schools, early years and higher needs. Movement of funding between these blocks is now severely limited and will cease altogether for schools block from 2021/22 with the introduction of the national school funding formula.

6.3 Under the current regulations a local area can continue to take local decisions on the allocation of the school block until the new national formula is in place in 2021/22. The Schools Forum proactively established a task and finish group of representatives across all educational phases to ensure that allocations to schools in the interim delivered the minimum funding allocation per pupil whilst minimising the disruption to individual school budgets whilst moving to the principles of the new national formula.

6.4 It should be noted that this estimated figure will be adjusted throughout the year to reflect changes to early years funding and any Academy conversions. It is recommended that the Chief Finance Officer be authorised to make appropriate changes as and when the funding changes.

6.5 The key financial pressure within the DSG is in the Higher Needs block. The pressures on the Higher Needs block arise from the level of demand and referrals from schools for support to pupils. In recognition of this pressure Schools Forum for 2018/19 helpfully agreed to move 0.5% of the school block to higher needs, which is the maximum local discretion permissible under the current arrangements. The over spend on the block in 2018/19 is estimated to be £2.7m.

6.6 The Council and Schools Forum have also set up a group to implement a "higher needs financial recovery plan". Schools Forum have, with the aim to achieve a balanced budget for 2019/20, agreed a package of changes and the submission of a disapplication request to the Department for Education to move £1.4m from the schools block to the higher needs block. As at writing (24/01/19) the DfE have not announced its decision in this respect.

6.7 As recognition of the national issues in the Higher Needs block, the DfE have allocated Torbay Council an extra £0.268m in both 2018/19 and 2019/20 to support Higher Needs pressures. Although welcome the additional funding in 2018/19 is only 10% of the predicted overspend.

6.8 Until the higher needs block achieves financial balance the DSG reserve will be used to fund the cumulative deficit.

7 Adult Social Care

7.1 The Council's budget proposals for 2019/20 includes the contract sum as agreed in the September 2017 Risk Share Agreement (RSA) to the ICO for adult social care of £38.6m. The budget proposals include the continuation of the subsidy to the CCG of £0.9m as a result of the mediation process in 2016/17 between the council and the CCG for the Better Care Fund. If the current RSA does expire then this payment will not be made beyond that point and the Council and CCG will have to renegotiate the allocation of the Better Care Fund in line with national guidance.

7.2 From April 2015 central government integrated some social care funding and some health funding into a Better Care Fund which is operated as a pooled budget (approx. £12m) between the Council and the Clinical Commissioning Group (CCG) as the host. For the Council this includes the (former) s.256 funds (£3m) the Council had received directly for adult social care which is part of the contract funding for adult social care.

7.3 The original Better Care Fund allocations have been increased since 2017/18 by the Improved Better Care Fund. The governance and reporting for the IBCF is similar to the BCF however the IBCF is directly awarded to the Council and is for adult social care. The Council is host for the IBCF.

7.4 The Council in 2019/20 has an allocation of £7.749m of Improved Better Care Fund (IBCF) and £0.829m of Winter Pressures Funds. These funds are ring fenced for Adult Social care and will be allocated by the Director of Adult Services. There are no IBCF allocations yet announced for 2020/21.

7.5 The Council along with its risk share partners, the ICO and the CCG, are aiming to renew the current risk share for a further five years from April 2020.

8 Children's Services

8.1 The budget for Children's Services comprises the following elements

2018/19		
Total Children's 2018/19	**31,912**	
2019/20		
Total 2018/19	31,912	
Budget – rebase	2,250	
Budget – future demand	550	
Savings	(700)	
Inflation	781	
Social Care Grant	1,415	
Other Changes	28	
Total 2019/20	**36,236**	
Net Increase year on year	4,324	14% increase

8.2 The budget proposals have reflected the current financial issues within the service and have provided a contingency for future cost pressures, whether from demand, case complexity or unit costs. As a result, the base budget for Children's Services, has for 2019/20, increased by over £4.3m – a 14% increase.

8.3 From April 2018 the Council has an arrangement in place with Plymouth City Council for the management of the service. In July 2018 a joint Director of Children's Services across Torbay and Plymouth was appointed.

8.4 The following is an extract from the agreed "programme vision document" with Plymouth City Council that helpfully summarises the financial relationship from April 2018;

"Each council area will retain financial and statutory accountability for their children's services"

"The joint DCS will be a full member of both council area's senior leadership teams and will also be expected to report and be accountable to each council areas respective governance structures"

"Both councils will retain financial accountability for children's services and Torbay Council will provide Plymouth City Council with the appropriate budget for the operational delivery of children' services. The budgets for both councils will not be pooled and the section 151 officers for both council areas will continue to provide financial oversight and scrutiny of their respective budget in relation to children's services."

9 Estimation of Collection Fund Surplus/Deficit

9.1 The Council makes an estimate of the surplus or deficit on the Collection Fund at year end from under or over achieving the estimated council tax collection rate. As the Council sets a collection rate within its tax base equivalent to the amount collected in the 12 months of the next financial year any surplus primarily represents the collection of sums due in respect of previous years. This indicates a level of success in collecting old year debts and raises the overall, longer term, collection rate well above the "in year" rate, which is 96%.

9.2 The latest estimate of the Collection Fund in year in respect of Council Tax as at 31 March 2019 is a £2.0m surplus. This surplus has to be shared in 2019/20 between Torbay Council, Devon and Cornwall Police and Crime Commissioner's Office and Devon and Somerset Fire and Rescue Authority in accordance with their demands on the Collection Fund for 2018/19. The estimated share of the 2018/19 surplus to be distributed in 2019/20 is as follows:

	Share of Surplus £m	**Share %**
Torbay Council	1.716	84%
Devon and Cornwall Police and Crime Commissioners Office	0.221	11%
Devon and Somerset Fire and Rescue Authority	0.099	5%
Totals	2.036	100%

9.3 As a local precepting authority, as defined in the Local Government Finance Act 2012, Brixham Town Council will not be entitled to a share of any surplus or deficit on the collection fund.

10 National Non-Domestic Rates

10.1 As a result of the 100% NNDR Pilot not being continued for 2019/20, the Council's NNDR income in 2019/20 comprises three parts: a 49% share of NNDR income, a s.31 grant to reflect the loss of NNDR income to the council from central government changes to the NNDR (e.g. SBR) and a Top Up grant that reflects the difference in the Council's assessed "need" for funding compared to its actual ability to raise NNDR income (as assessed in 2013).

10.2 Since the introduction of the Business Rates Retention Scheme in April 2013, the Council is also required to declare a surplus or deficit for NNDR in a similar way as set out above for council tax. The forecasting of NNDR has involved a wide range of complex variables and influences and is a new area which has caused further complications for medium term financial planning. Overall the Council has declared an estimated net position of "nil" on its Collection Fund in respect of NNDR as at 31st March 2019. Any surplus or deficit based on outturn 2018/19 data will be part of the 100% NNDR Pilot position. Any surplus or deficit arising in 2019/20 will be apportioned between the Council (49%), the Devon and Somerset Fire and Rescue Authority (1%) and central government (DCLG) (50%).

11 Council Tax and Referendum Limits

11.1 To control the level by which local authorities can increase Council Tax, the Government has set limits at which point a referendum would be required. This has been set at 3% or over for 2019/2020. The Elected Mayor's budget proposal is for a 2.99% increase in this element. There is no "flexibility" now available to the Council for any council tax increases in relation to adult social care.

11.2 Councillors will be aware that the Council Tax bill sent out to residents is made up of three main component parts, namely Torbay Council, Devon and Cornwall Police Authority and Devon and Somerset Fire and Rescue Authority. The Secretary of State will consider the three component parts, not the overall bill, and, if one of the three organisations were capped, the Council would have to re-bill. Councillors will also be aware that, in addition, there will be a separate Council Tax charge for residents in the Brixham Town Council area.

11.3 At the time of writing, Brixham Town Council, the Devon and Cornwall Police and Crime Commissioner's Office and the Devon and Somerset Fire and Rescue Authority have not set their budgets for 2019/2020 or their Council Tax level. For 2019/20 the Police and Crime Commissioner is allowed to raise their element of the Council tax bill by £24 (Band D) which would equate to a rise of 13% on their precept. Once all of these have been declared they will be including in the Council Tax setting report which will be presented to the Council at the end of February 2019.

11.4 The Council Taxbase report in December 2018 referred to a proposal to change the discount period for empty homes. The Head of Finance, in consultation with the Elected Mayor, has reviewed the public consultation feedback and has agreed the change.

11.5 In 2018/19 the Torbay Council area had the lowest band D Council Tax in Devon at £1,731.69 including Adult Social Care, Fire and Police precept but excluding parish precepts. A summary of other local Council's Band D rates are as follows:

	Torbay (Unitary council)	Plymouth (Unitary council)	Exeter (City Council)	South Hams (District Council)	Teign-bridge (District Council)
District Council	-	-	150.05	160.42	165.17
Devon County	-	-	1,331.19	1,331.19	1,331.19
Total including Adult Social Care Precept	**1,459.40**	**1,470.38**	1,481.24	1,491.61	1,496.36
Fire & Police	272.29	272.29	272.29	272.29	272.29
Band D (excluding parish precepts)	**1,731.69**	**1,742.67 +0.6%**	**1,753.53 +1.3%**	**1,763.90 +1.9%**	**1,768.65 +2.1%**

10.7 The differential between Torbay and the other Councils increases when Town and parish precepts are added. The 2018/19 precept for Brixham Town Council was £46.77.

12 Link between Capital plan and Revenue budget

12.1 There is always a strong link between the Council’s capital expenditure and its revenue income and expenditure in particular from capital expenditure funded by borrowing. All borrowing will result in increased revenue costs from both interest costs and principal repayments (reflected by the minimum revenue provision). For the majority of schemes, such as an “invest to save” scheme, these costs should be offset by an income or rental stream. There have, however, been capital projects approved funded initially by prudential borrowing that have an ongoing revenue cost.

12.2 The Capital Plan 2019/20 and the Capital Strategy 2019/20 identifies the schemes to be funded from both types of prudential borrowing and the potential value of borrowing and ongoing interest and principal repayment costs. As the Council significantly increases its range and value of schemes funded from prudential borrowing it is important that all members are aware of the overall current and potential future levels of borrowing and the risks and rewards associated.

12.3 As at 24/1/19 the Councils external borrowing was £285m. The Council’s projected external debt could exceed £423m by 2020/21 with a resulting increase in borrowing costs. These borrowing costs will be offset by any income from the assets funded. Further analysis of the Council’s borrowing and the schemes it relates to is contained in the 2019/20 Capital Strategy.

	As at 31/12/18 £m	**%**	**Projected £m**	**%**
Supported Borrowing	73	26	73	17
Devon County Council	19	7	19	4
Investment Fund	154	54	200	47
Other Prudential Borrowing	39	13	131	32
	285		**423**	

12.4 A debt of this level is a key consideration for the Council. The Council should comply with the standards of decision making for prudential borrowing as per the Local Government Act 2003 supported by proper practice as outlined in the Prudential Code and Treasury Management Code of Practice. Both codes were reissued in December 2017. The key consideration is whether any borrowing is “prudent”. The focus and due diligence therefore is, not so much on the total borrowing, but the robustness of the business case with a particular focus on future income streams and future asset values. All Members need however to be aware of the risks and rewards of each scheme and the proportionality of the total borrowing, ongoing borrowing costs and total income streams in relation to the Council’s budget and balance sheet position.

13 External Peer Financial Reviews

13.1 In November 2016 the Council’s financial position and its financial management was subject to two “peer” reviews from the LGA and CIPFA. Both reports were reported to Council at its meeting on 2 February 2017. The reviews were useful in that they both highlighted a number of key issues for the Council which are useful to set out now as they remain relevant:

- Need to make tough financial decisions at pace to achieve a balanced budget
- Need to ensure due diligence is maintained when doing “new” activities
- Focus on the key issues that will make a financial difference
- Critically review the current RSA for ASC
- Support service improvements in Children Services
- Increase levels of both uncommitted (CSR) and general reserve
- Ensure have the correct capacity to ensure the achievement of financial gains

13.2 In November 2018 a further LGA financial review was undertaken (reported to Council in January 2019). The report was positive in the achievements that Torbay has made to date to deliver a balanced budget. Some recommendations from that report are as follows:

a) Torbay should continue to plan on the basis that it is a self-standing Unitary Authority.

b) Officers need to begin work now, Council wide, on further transformation and savings proposals for the future, to present to the incoming administration in May 2019 and give them a head start and room to manoeuvre in planning the budget for 2020 and beyond.

c) Torbay establishes a formal saving delivery plan for Children’s Services which should include an analysis of the current case load to try and determine any structural reasons as to why Torbay has such a high demand for Children’s services. This delivery plan should be monitored corporately at both officer and member level.

d) The negotiation on the future of the ICO risk share must leave the authority in a position where it is financially sustainable as a whole and must not be conducted in isolation from the corporate position.

e) On the TOR2 contract, as well as considering the early termination, there should be immediate focus on developing detailed specifications for services after the end of the contract, which in planning terms is now getting close – especially if some of the services need to be procured or if expensive vehicles and plant are to be purchased. Torbay should detail the services it wants and can afford and should seek to deliver significant ongoing savings from this process.

f) The Council should continue to investigate the option of establishing Town Councils that could raise precepts and provide communities with a different set of options for future service provision. This work should be progressed to a point where members are able to make an informed decision and be capable of being implemented in April 2020 should the new administration chose to do so.

g) Torbay should continue its discussion with Government about a possible Town Deal. This and similar approaches should be pursued through the Torbay Together initiative.

h) Torbay should continue to explore all possible options to work regionally and sub regionally, to raise its profile and exploit any possible funding streams e.g. through the LEP.

14 CIPFA Financial Resilience Index

14.1 To provide more information and transparency on Councils' financial position, in particular after the issues in Northamptonshire County Council, CIPFA is intending to issue a "Financial Resilience Index" to provide information.

14.2 Whilst the Index is still to be issued formally, based on draft information it is understood that Torbay's position on the "Indicators of Financial Stress" will ranked as a "higher risk" council but we will not be in the highest level of risk. Factors that show that Torbay Council has a higher risk assessment in relation to children's social care where the council's share of its budget on this service is high and it has an inadequate OFSTED judgement. Other factors showing a higher level of risk are the rate of use of council earmarked reserves and the overall level of reserves compared to budget.

14.3 Conversely lower risk is reflected by a lower than average level of spend on adult social care and no reduction in the level of general (unallocated) reserves.

14 Transformation Programme

14.1 Key to the longer term financial viability of the Council is the Council's transformation programme supported by a dedicated transformation team. The team supports the development of projects to help deliver financial savings. A number of these projects have already resulted in some savings which have been incorporated in previous year budgets and some for 2019/20. Projects include investment fund, income optimisation, council re design and improving collection fund income.

14.2 The financial challenge facing the council is significant and therefore the transformation process is key to bringing forward viable projects "at pace". It is expected that the Council's 2020/21 budget will be significantly informed by these projects.

15 Longer Term Future Council Funding

15.1 The Medium Term Resource Plan will be updated by the end of March 2019 to include the impact of the approved 2019/20 budget and the latest estimates of future year costs and funding. As an initial guide, prior to more detailed work being undertaken post budget setting, it is estimated that between 2020/21 and 2021/22 the Council will require in the region of £12m of reductions to achieve a balanced budget.

15.2 As 2020/21 will be the first settlement after the next central Government Spending Review in 2019, alongside the new 75% NNDR scheme, there is a considerable amount of uncertainty which makes longer term financial planning very challenging.

15.3 The aim is that Councils will not have any central government “core” funding with the Councils funded from council tax and NNDR. Councils therefore have a clear incentive that, to secure funding for services in the future, there has to be increases in both its council tax base (housing) and NNDR (business). It must be noted that MHCLG are still intending to control Council spend by the retention in the system of both funding baselines and income baselines. This is not only to control total funding therefore enabling overall funding reductions by changing tariff and top up grants, but also to enable total funding to be redistributed on need.

15.4 This reliance on local taxation as the prime source of funding has risks as the link between a council’s need for funding to provide services (linked to population and demand) and its funding linked, in part, to economic growth may not move in a similar direction. In addition NNDR income is volatile and is, to a large extent, outside a Council’s direct control. Spreading NNDR risk and reward over a wider area is therefore a benefit.

Meeting: Council **Date:** 7 February 2019

Wards Affected: All

Report Title: Capital Plan 2019/2020

Is the decision a key decision? Yes

When does the decision need to be implemented?

Executive Lead Contact Details: Mayor Gordon Oliver, Executive Lead for Finance, 01803 207001, mayor@torbay.gov.uk

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1. Proposal and Introduction

1.1 Torbay Council's Capital Plan totals £212 million for the 4 year programme to 31 March 2022 with £94 million scheduled to have been spent in 2018/2019 and £91 million due to be spent in 2019/2020. The Council's Capital Plan is updated on a quarterly basis as new funding announcements and allocations are made.

1.2 The attached document provides high-level information on the proposed capital expenditure and funding for 2019/2020 and is part of the total Plan. Shown against the targeted actions of the Council's Corporate Plan, it gives details of the capital schemes which have previously been approved by the Council. However, in some cases, it sets out funding which has been allocated to services but where specific schemes have not yet identified.

2. Reason for Proposal

2.1 To enable the Council to agree its Capital Expenditure for the 2019/2020 financial year as required by the Constitution.

3. Recommendation(s) / Proposed Decision

3.1 That the Capital Plan for 2019/2020 as set out in Appendix 1 to the submitted report be approved.

Appendices

Appendix 1: Proposed Capital Plan for 2019/2020

Capital Plan Budget 2019/2020

Torbay Council's Capital Plan totals £200 million for the 4 year programme to 31 March 2022 with £84 million scheduled to be spent in 2018/19 and £91 million due to be spent in 2019/2020[1].

This document provides high-level information on the proposed capital expenditure and funding for 2019/2020 and is part of the total Plan. Shown against the targeted actions of the Council's Corporate Plan, it gives details of the capital schemes which have previously been approved by the Council. However, in some cases, it sets out funding which has been allocated to services but where specific schemes have not yet been identified.

In accordance with Torbay Council's Constitution, the figures presented will form the approved capital budget for the coming year.

	£m	%
Protecting children and giving them the best start in life	2.926	3
Working towards a more prosperous Torbay	34.002	37
Investment Fund	30.573	34
Promoting healthy lifestyles across Torbay	0	0
Torbay remains an attractive and safe place to live & visit	2.267	3
Protecting and supporting vulnerable adults	16.855	18
Corporate Support	4.200	5
Total Capital Expenditure 2019/20	**90.823**	**100**

Details of how the Council is intending to fund the expenditure in the capital plan is as follows:

	£m	%
Prudential Borrowing	73.907	81
Capital Grants	10.315	11
Capital Contributions	1.485	2
Revenue Contributions	1.640	2
Use of Reserves	1.096	1
Capital Receipts	2.380	3
Total Capital Funding	**90.823**	**100**

[1] Capital Plan – Quarter 3 Monitoring Report - (Council, December 2018)

Targeted Action 1: Protecting children and giving them the best start in life

Scheme Name	Description	Latest Approval	Total Estimated Scheme Cost £000	2019/2020 Budget £000
Brunel Academy	Phase 1 of development at Brookfield site/Brunel academy	Council – 24 Sept 2015 Updated Council - 20 Sept 18	1,000	750
Capital Repairs & Maintenance	Balance of 18/19 allocation to be allocated to schools	n/a	378	20
Medical Tuition Service - Relocation	Relocation of former Education Other than at School (EOTAS) facility from Halswell House to Parkfield	Council - 20 Sept 2018	601	205
Roselands Primary – Additional classroom	Expansion of primary school places in Paignton pending opening of new Paignton Primary School	Council – 19 October 2018	599	559
Education Review Projects	This budget has been established from unallocated education capital funding to be used to support future projects.	n/a	857	125
New Paignton Primary School	Council contribution to new Free School in Paignton	Council – 8 August 2017	602	600
Special Provision Fund	A specific grant to make capital investments in provision for pupils with special educational needs and disabilities.	Council – 13 September 2017	616	167
Torbay School Relocation	The Council agreed the reallocation of £3m previously allocated to Children's Services for the relocation of Torbay School. The decision was subsequently made to relocate Torbay School from its present site at Torquay Road, Paignton to the MyPlace facility in Paignton in order to better meet the needs of the young people attending this Special School. This decision was later overturned when planning permission was refused. Subsequently part of the original budget has been reallocated to other Childrens Services projects	Council – 26 February 2015 Chief Executive – 8 July 2016 Council – 10 May 2017	1,200	500
Sub-total				**2,926**

Targeted Action 2: Working towards a more prosperous Torbay

Scheme Name	Description	Latest Approval	Total Estimated Scheme Cost £000	2019/2020 Budget £000
Claylands Redevelopment	Council-owned land at Claylands will be redeveloped using a combination of Council and Heart of the South West Local Enterprise Partnership funding. When fully developed the site will support approximately 350-400 jobs and will support the growth of the business rate base.	Council – 10 December 2015 **Updated at Council – 19 October 2017**	10,400	7,310
Edginswell Business Park	To purchase and develop for regeneration land at Edginswell.	Council 22 June 2017	6,620	3,500
Investment Fund	This fund is provided to enable the Council to acquire properties. In addition, the fund will be used to increase the Council's business tax base by investing capital resources within Torbay to stimulate growth. Fund increased to £200 million. Purchases included in capital plan when purchased.	Council – 22 September 2016 Council – 8 August 2017	200,200	30,573
Electronics and Photonics Innovation Centre (EPIC)	This is Phase Three of the Innovation Centre project which will support the electronics and photonics sector by providing office and clean room space for small start-up businesses.	Council – 26 February 2015	7,749	677
South Devon Highway	The scheme is substantially complete but there are still other costs to be determined (including compensation claims) before the final cost of this major infrastructure improvement is known.	Council – 13 February 2008	20,224	407
Integrated Transport Schemes	Grant allocations from the Department for Transport for 2015/2016-2020/2021. The allocations are linked to the value of the planned maintenance backlog on the road network. The Council agreed to allocate these resources in line with Government intentions.	Council – 26 February 2015 **Updated at Council – 13 September 2017**	n/a	550
Roads Structural Maintenance			n/a	1,174
Torquay Gateway Road Improvements	The Council successfully submitted a bid to the Local Transport Board for improvements at Torquay Gateway. The Government subsequently confirmed its funding to the Local Transport Board to support this scheme with the Council approving a contribution to the scheme.	Council – 27 September 2014	2,927	1,764
Western Corridor Improvements	The Council successfully submitted a bid to the Local Transport Board for improvements to the Western Corridor. The Government subsequently confirmed its funding to the Local Transport Board to support this scheme with the Council approving a contribution to the scheme.	Council – 27 September 2014	12,271	1,870
Town Centre Regeneration	Council received a report in October 2017 proposing to borrow £25 million to support Town centre Regeneration	**Council 19th October 2017**	25,016	16,750
Sub-total				**64,575**

Targeted Action 3: Promoting healthy lifestyles across Torbay

The proposed Capital Plan does not include any capital projects which specifically support this targeted action. However, the capital schemes set out against the other targeted actions will contribute towards a healthier Torbay be it through giving our children and young people the best start in life, promoting economic regeneration or protecting our natural environment.

Targeted Action 4: Ensuring Torbay remains an attractive and safe place to live and visit

Scheme Name	**Description**	**Latest Approval**	**Estimated Scheme Cost £000**	**2019/2020 Budget £000**
CCTV System Replacement	Replacement of the Torbay-wide CCTV system.	Council – 25 February 2016	472	320
Flood Defence Schemes	This budget represents resources for flood alleviation work largely funded by Environment Agency at Cockington and Monksbridge	Council – 27 September 2012	740	399
Princess Pier – Structural Repairs	Structural repairs to the superstructure alongside potential substructure repairs expected to the funded by the Environment Agency.	Council – 1 February 2012 **Updated Council 13 September 2017**	1,683	648
Public Toilets	As part of the Healthmatic contract for public toilets there is an investment programme to improve a number of toilets.	Council – 7 Dec 2017 Updated - 20 Sept 2018	1,180	400
Paignton Harbour Light redevelopment	To redevelop the Harbour Light building at Paignton Harbour.	Council - 22 June 2017	600	500
Sub-total				**2,267**

Targeted Action 5: Protecting and supporting vulnerable adults

Scheme Name	**Description**	**Latest Approval**	**Estimated Scheme Cost £000**	**2019/2020 Budget £000**
Affordable Housing	This is the capital resource set aside for affordable housing awaiting allocation to specific schemes. This is mainly funded from Right to Buy receipts, Section 106 contributions and housing grants. The Council agreed that these resources should be ringfenced for affordable housing.	Council – October 2016	2,883	2,385
Empty Homes Scheme	An "invest to save" scheme to bring empty homes back into use to be funded from New Homes Bonus grant.	Council – 8 December 2011	500	457
Private Sector Renewal	Residual of pre 2010 Housing Grant which is currently unallocated.	n/a	n/a	113
Torbay Housing Company Loan	To facilitate the work of the Housing Rental Company, in the form of a loan for a capital purpose	Council 20 July 2017	25,000	12,500
Extra Care Housing	The potential purchase of a site for Extra Care Housing funded from ring fenced Adult Social Care resources	Housing Committee 21 January 2019	1,400	1,400
Sub-total				**16,855**

All targeted actions: Corporate Support

Scheme Name	Description	Approved	Estimated Scheme Cost £000	2019/2020 Budget £000
Council Fleet Vehicles	Acquisition for replacement refuse vehicles.	Council – 31 January 2019	4,771	2,694
Essential Capital Repair Works	Balance of a budget to fund essential capital repair works over four years. The Executive Head – Business Services is authorised to make allocations from this fund to specific schemes.	Council – 25 February 2016	872	872
Payroll Project	Implementation of new payroll software	Council – 25 September 2014	370	3
General Capital Contingency	This is capital provision which is set aside to cover urgent, unavoidable additional capital costs where alternative funding is unavailable. This is approximately 0.5% of the current four year capital plan. It should be noted that all capital projects should have contingencies within the individual project costs.	n/a	631	631
Sub-total				**4,200**

Meeting: Council **Date:** 7 February 2019

Wards Affected: All Wards in Torbay

Report Title: Treasury Management Strategy 2019/20 (incorporating the Annual Investment Strategy 2019/20 and the Minimum Revenue Provision Policy 2019/20)

Is the decision a key decision? Yes

Executive Lead Contact Details: Mayor Gordon Oliver, 01803 207001, mayor@torbay.gov.uk

Supporting Officer Contact Details: Pete Truman, Principal Accountant, 01803 207302, pete.truman@torbay.gov.uk

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1. Proposal and Introduction

1.1 The Treasury Management Strategy appended to this report aims to support the provision of all Council services by the management of the Council's cash flow, debt and investment operations in 2019/20 and effectively control the associated risks and the pursuit of optimum performance consistent with those risks.

1.2 The views of the Audit Committee are sought ahead of the consideration of this Policy Framework document by the Council at its meetings in February 2018.

2. Reason for Proposal

2.1 The Treasury Management Strategy is considered under a requirement of the CIPFA Code of Practice on Treasury Management.

The Strategy has been fully updated for provisions in a new edition of the Code released in December 2017 and the recommended policy statement and practices are presented at Appendix 2 for adoption by the Council.

2.2 The approval of an Annual Investment Strategy by Council is a requirement of the Guidance on Local Government Investments issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003. This Strategy sets out the Council's policies for managing its investments under the priorities of security first, liquidity second and then returns.

2.3 In addition, the Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

2.4 Under Ministry of Housing, Communities and Local Government regulations the Council is required to approve a Minimum Revenue Provision (MRP) Statement in advance of each year.

3. Recommendations

3.1 That Council approve:

- **the Treasury Management Strategy for 2019/20 (incorporating the Annual Investment Strategy 2019/20);**
- **the Prudential Indicators 2019/20;**
- **the Annual Minimum Revenue Provision Policy Statement for 2019/20; and**
- **adoption of the CIPFA Code of Practice: Treasury Management in the Public Services**

as set out in the Appendices to this report.

4. Treasury Management Strategy

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

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

4.3 Currently the Council's approved capital plan has a future borrowing requirement of approx. £129 million which will have a significant impact on the Treasury Management function in the short and medium term. In addition the timing of this borrowing is currently very uncertain which makes planning difficult. It should be noted that this report is based on the Council's approved capital plan as at Quarter Three of 2018/19 (draft). The final version of this Treasury Management Strategy to Council in February will be updated to include the final position as at Quarter Three plus any significant capital activity by end of January 2019.

5. Prudential Indicators

5.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans. The proposed indicators for 2019/20 are set out in Appendix 1 to the Treasury Management Strategy.

6. Minimum Revenue Provision (MRP) policy statement

6.1 The Council is required to set aside an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision (MRP)). The policy has been updated in line with the new Prudential Code.

6.2 MRP calculations exclude the impact of capital schemes approved but not commenced.

6.3 The recommended MRP Policy for 2019/20 is set out at Appendix 2 to the Treasury Management Strategy and will be applicable from date of approval.

7 Adoption of the CIPFA Code of Practice: Treasury Management in the Public Services

7.1 Following the updated CIPFA Code of Treasury Management Code of Practice (2017) and the updated CIPFA supporting Guidance Notes (2018) the Treasury Management Policy Statement and Practices (TMP's) have been updated and are presented for re approval by Council as set out in Annex 2.

Appendices

Appendix 1	Treasury Management Strategy 2019/20
Appendix 2	Treasury Management Policy Statement and Practices

Agenda Item 21
Appendix 1

January 2019

Treasury Management Strategy 2019/20

incorporating the Annual Investment Strategy and the Minimum Revenue Provision Policy

Contents

1 Introduction

The Council defines its treasury management activities as:

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

The Strategy for 2019/20 covers two main areas:

- Treasury management issues
  - the current treasury position;
  - treasury indicators which limit the treasury risk and activities of the Council;
  - prospects for interest rates;
  - the borrowing strategy;
  - the investment strategy;
  - policy on use of external service providers;
  - reporting arrangements and management evaluation
  - other matters

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

2 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

The table below includes the impact of the approved capital plan (as at draft quarter three 2018/19) which shows a future borrowing requirement of £129 million (£81m Investment Fund) by 2021/22, but makes no assumption at this stage on the timing or level of the borrowing required

	2018/19 estimate	2019/20 Estimate	2020/21 Estimate
Reserves	20	15	14
Capital Funding	5	5	5
Provisions	2	2	2
Other	1	0	0
Total "core" funds	**28**	**22**	**21**
Working capital*	10	10	10
Total (under)/over borrowing	(41)	(109)	(129)
Expected cash position	**(3)**	**(77)**	**(98)**

* Working capital balances shown are estimated year end; these may be higher mid-year

Memorandum: (Under)/Over Borrowing	Note	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
-Investment Fund	1	(33)	(81)	(81)
- Other	2	(8)	(28)	(48)
Total		**(41)**	**(109)**	**(129)**

Notes

1. The approved Investment Fund of £200million has already been substantially applied to various commercial investments including retail units in Torquay and Dorset, office accommodation in Exeter and Gloucester and a distribution centre in Kent. The outstanding balance of £81m represents the amount of the Fund which has not yet been borrowed for as at 31st December 2018.
2. Other schemes relates to non-Investment Fund items within the approved Capital Plan that when these schemes progress will require borrowing including housing initiatives, town centre regeneration, Claylands, Edginswell, Harbour View car park development, etc.

3 Prospects for Interest Rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view (at December 2018).

Link Asset Services Interest Rate View	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	0.90%	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.10%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

PWLB rates are quoted at the discounted Certainty Rate which Torbay Council is eligible for.

- Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.
- Borrowing interest rates have been volatile so far in 2018-19 and have increased modestly since the summer. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

This outlook continues to support a policy of restricting new borrowing and running down spare cash balances (Internal borrowing) to reduce net financing costs. However, this policy will need to be carefully monitored to avoid delaying borrowing to a point where rates are significantly higher than the current forecast affordable levels.

4 Borrowing

4.1 The current borrowing position

The Council's borrowing portfolio position with forward projections (excluding new borrowing) is summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement (CFR)), highlighting any over or under borrowing.

£m	2017/18 Actual	2018/19 Revised	2019/20 Estimate	2020/21 Estimate
Debt at 1 April	153	273	285	284
Change in Debt	120	12	(1)	(4)
Other long-term liabilities – School PFI	7	7	6	6
Other long-term liabilities – EFW PFI	12	12	12	12
Actual gross debt at 31 March	**292**	**304**	**302**	**298**
The Capital Financing Requirement	**280**	**345**	**411**	**427**
(Under) / over borrowing	**12**	**(41)**	**(109)**	**(129)**

The table above based on the draft quarter three 2018/19 capital monitoring report shows the Council's capital financing requirement (including PFI liabilities) rising to £427m (£200m Investment Fund) by the end of 2020/21 of which £129m is yet to be borrowed (£81m Investment Fund). This total could increase if Council approve any additional schemes to be funded from borrowing such as for additional regeneration schemes.

4.2 The Borrowing Strategy

The Council's Capital Investment Plan at quarter 3 2018/19 (draft) is detailed within the Prudential Indicators at Appendix 1. This plan and the impact on core cash, indicate the need to borrow £129 million of funds over the next three years to ensure that gross debt is in line with the CFR. If the profile of capital spend changes, the in-year treasury strategy will be updated and borrowing decisions expedited by the Chief Finance Officer under delegated powers.

It is proposed that the Council generally maintain an under borrowed position of around £10million, using existing cash resources to temporarily fund capital transactions thereby limiting the additional borrowing cost on the General Fund until income streams are realised. The timing of borrowing will be prompted by cash requirements but the Chief Finance Officer will look to take advantage of market volatility and secure funding at any point where rates fall below the forecast level.

The budget for payment of interest on debt for 2019/20 has been based on £285m of borrowing as at 20/12/18 with an overall borrowing rate of 3.34% (3.40% in 2018/19).

The Chief Finance Officer has recognised the value in aligning current low borrowing rates to the business cases of specific schemes generating new income streams and this policy is currently being applied to Investment Fund related schemes. Decisions on other schemes will be made on a case by case basis and non-applicable schemes will continue to reflect the Council's average rate of borrowing.

The outlook for interest rates in section 2 recognises the risk of deferring borrowing and exposure to higher borrowing costs. In the event of a significant rise in the outlook for interest rates, the Chief Finance Officer has delegated authority to vary the primary strategy outlined above and take a greater proportion of the borrowing requirement earlier to protect the affordability of capital schemes over the longer term.

The Council will not borrow more than, or in advance of its needs for treasury management purposes, purely in order to profit from the investment of the extra cash sums generated. (This provision does not apply to non-treasury investments whereby an income stream will be generated from the asset acquired through borrowing).

Any decision to borrow in advance, linked to forecast interest rates, will be within forward approved CFR estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. No borrowing in advance will be made in relation to any capital project funded from borrowing until individual schemes have been approved by Council and there is a high assumption of spend occurring.

Finance officers continue to monitor alternative funding sources to PWLB. These could include borrowing from financial institutions, LGA Bond Agency and private finance. While these currently offer no advantage over PWLB, groundwork has been prepared if the Council's circumstances change in the future.

Treasury Indicators for limits to borrowing activity are published within Appendix 1 to this report.

5 Annual Investment Strategy

Investment policy

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

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

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

In accordance with the above guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings. The creditworthiness policy adopted is detailed at Appendix 4.

A decision by the Chief Finance Officer to temporarily remove all Eurozone Banks, regardless of rating, from the approved counterparty list for in-house investments remains in place but does not form part of this policy.

Investment instruments identified for use in the financial year are listed at Appendix 5 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be set within the schedules accompanying the Council's Treasury Management Practices.

Investment strategy

Investment rates are forecast to improve marginally during 2019/20.

Based on strategic cash flow forecasts £15million of the Council's investments can be regarded as core cash available to be invested over a longer periods in higher risk/return instruments. £5 million of this core cash has been placed with the Local Authorities Property Fund (current yield around 4.26%). Investment of part of the remaining balance has been limited to one year deposits to track the forecast increase in rates. Further investment of residual core cash will depend on cash flow requirements and the effect of internal borrowing.

As such extensive use is expected to be made of the Council's money market funds to maintain sufficient liquidity, with fixed deposits of 3 or 6 month durations to add value to returns.

In the event that the primary strategy is varied by the CFO resulting in additional cash from new borrowing, opportunities will be sought for longer term deposits to enhance returns but likely limited to one year maximum to track forecast Bank Rate rises.

The Council's holding in the Funding Circle (peer-to-peer lending platform) is being wound down as previously approved and at 31/12/18 a balance of £56,000 remained.

The overall investment performance will be benchmarked against the 7-Day LIBID market rate and is budgeted at 0.87%

Investment treasury indicator and limits are published within Appendix 1 to this report

The Head of Finance will monitor any implications of the introduction of IRFS9 on financial instruments and the impact of any MHCLG guidance issued on statutory overrides for Local Authorities.

Non-Financial Investments Strategy

The MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments.

The previous sections relate solely to treasury management “cash” investments and the appropriate risk management framework and strategy for non-financial investments is produced in full at Appendix 6.

6 Treasury Management Consultants

Link Asset Services (formerly Capita Asset Services) was reappointed as the Council's external treasury management advisors for three years from February 2016, following a full tender process. The agreement has been extended for a further year and a new tender process will be carried out before February 2020.

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

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

The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments are not covered by the expertise supplied by Link Asset Services and alternative specialist advice for these is obtained through the Torbay Economic Development Company.

7 Reporting Arrangements and Management Evaluation

Members will receive the following reports for 2019/20 as standard in line with the requirements of the Code of Practice:

- Annual Treasury Management Strategy
- Mid-Year Treasury Review report
- Annual Treasury Outturn report

The CFO will inform the Mayor/Executive Lead for Finance of any long-term borrowing or repayment undertaken or any significant events that may affect the Council's treasury management activities. The CFO will maintain a list of staff authorised to undertake treasury management transactions on behalf of the Council.

The Chief Finance Officer is authorised to approve any movement between borrowing and other long-term liabilities within the Authorised Limit (see Appendix 1). Any such change will be reported to the next meeting of the Council.

The impact of these policies will be reflected as part of the Council's revenue budget and therefore will be reported through the quarterly budget monitoring process.

The Council's management and evaluation arrangements for Treasury Management will be as follows:

- Monthly monitoring report to the Chief Finance Officer, Finance Manager-Budget & Technical, Executive Lead for Finance and Group Leaders
- Quarterly meeting of the Treasury Manager/ Finance Manager-Budget & Technical/ Chief Finance Officer to review previous quarter performance and plan following period activities
- Regular meetings with the Council's treasury advisors
- Membership and participation in the LINK Investment Benchmarking Club
- The Audit Committee is the body responsible for scrutiny of Treasury Management.

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny and appropriate training will be arranged following the Council Elections in May 2019.

The training needs of treasury management officers are periodically reviewed.

8 Other Matters

8.1 Advancing cash

If approved the Council will advance cash to Torbay Council schools at a rate equivalent to that of the forecast investment yield (to reflect the lost investment opportunity), with the option of an additional 0.25% risk premium. The service will have to identify the funding for this advance from revenue or reserves in the year of the advance.

8.2 Investing cash for Local Payment Scheme (LPS) Schools

If agreed by the Chief Finance Officer the Council will invest LPS school surplus balances on a temporary basis and endeavour to match Bank Rate on these investments on a variable basis. This will be for cash on a longer-term basis and will not apply to daily cash flow balances.

8.3 Soft Loans

Accounting for financial instruments require the recognition of soft loans i.e. where a loan is made at a lower than ‘competitive’ rate the cost implicit in achieving the lower rate must be reflected in the Council’s accounts.

8.4 Anti-Money Laundering

The Council will comply with all relevant regulations.

Appendix 1

Prudential & Treasury Management Indicators 2018/19 – 2020/21

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

Capital Expenditure

The Council's Capital Plan monitoring report for quarter 3 (draft) is summarised below for approval as the required prudential indicators for capital expenditure.

Capital expenditure at quarter 3 2018/19 (draft) £m	2018/19 Revised	2019/20 Estimate	2020/21 Estimate
Services	39	61	27
Commercial Activities/non-financial investments	55	26	0
Total	94	87	27

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

Financing of capital expenditure £m (quarter 3 18/19 draft)	2018/19 Revised	2019/20 Estimate	2020/21 Estimate
Capital receipts	2	1	0
Capital grants	20	11	3
Capital reserves	1	2	0
Capital Contributions	1	0	0
Revenue	0	1	0
Net financing (Borrowing) need for the year	**70**	**72**	**24**

The net financing need for commercial activities / non-financial investments included in the above table against expenditure is shown below:

Commercial activities / non-financial investments £m	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Capital Expenditure	55	26	0
Financing costs	0.0	0.0	0.0
Net financing (Borrowing) need for the year	**55**	**26**	**0**
Percentage of total net financing need	79%	36%	0

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

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include the financing of the asset and so the Council is not required to separately borrow for these schemes. The Council currently has £20m of such schemes, mostly PFI schemes, within the CFR.

The Council is asked to approve the CFR projections below:

£m	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Capital Financing Requirement			
Total CFR	**345**	**411**	**427**
Movement in CFR	**65**	**66**	**16**

Movement in CFR represented by			
Net financing need for the year (above)	70	72	23
Less MRP, VRP and other financing movements	(5)	(6)	(7)
Movement in CFR	**65**	**66**	**16**

External Debt

The Operational Boundary

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

Operational boundary £m	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Borrowing	450	450	450	450
Long term liabilities	20	20	20	20
Total	470	470	470	470

The Authorised Limit for external borrowing and long-term liabilities.

This is a key prudential indicator represents a control on the maximum level of borrowing. It represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.
This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Authorised limit £m	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Borrowing	500	500	500	500
Other long term liabilities	20	20	20	20
Total	520	520	520	520

A comparison of Gross Debt and the Capital Financing Requirement is also a key indicator of prudence. This indicator is to ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years.

£m	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Debt at 1 April	273	285	284
Change in Debt	12	(1)	(4)
Other long-term liabilities – School PFI	7	6	6
Other long-term liabilities – EFW PFI	12	12	12
Gross Debt at 31 March	**304**	**302**	**298**
Capital Financing Requirement	**345**	**411**	**427**
(Under) / over borrowing	**(41)**	**(109)**	**(129)**

Affordability

To assess the affordability of a council's capital programme, the following indicators provide an indication of the impact of the capital investment plans on the Council's overall finances.

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream For Torbay investment income includes income from investment fund properties and the effect of this is also shown as an additional, local indicator.

£M	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
Net Revenue Stream	£112m	£111m	£111m
Financing Costs Interest Paid & MRP as at 31/03/18 Interest Received	 £14m (£1m)	 £15m (£1m)	 £16m (£1m)
Sub Total	£13m	£14m	£15m
Percentage of Financing Costs to Net Revenue Stream	**12%**	**13%**	**14%**
Financing costs excludes income from Investment Property portfolio which is included within the Net Revenue Stream. *Gross Rental Income (as at Sept 18)*	£(9)m	£(10)m	£(10)m
Percentage of Financing Costs to Net Revenue Stream including Investment Property Gross Rental Income	4%	4%	5%

Each £1m of new debt costs £70,000 per annum. Therefore, borrowing £129m for the under borrowing by 2020/21, the borrowing cost of the £129m would be approx. £9m per annum in MRP and interest.

Maturity structure of borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Maturity structure of fixed interest rate borrowing 2019/20		
	Lower	**Upper**
Under 12 months	0%	30%
12 months to 2 years	0%	30%
2 years to 5 years	0%	30%
5 years to 10 years	0%	40%
10 years to 20 years	0%	50%
20 years to 30 years	0%	60%
30 years to 40 years	0%	50%
40 years to 50 years	0%	50%

Investment treasury indicator and limit

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

Upper limit for principal sums invested for longer than 365 days			
£m	**2019/20**	**2020/21**	**2021/22**
Principal sums invested for longer than 365 days	£m 20	£m 20	£m 20
Current investments (as at 31/12/18) in excess of 1 year	5	5	5

Appendix 2
Policy on Minimum Revenue Provision for 2019/20

The Minimum Revenue Provision is a statutory charge that the Council is required to make from its revenue budget. This provision enables the Council to generate cash resources for the repayment of borrowing.

The basis for the calculation of the provision is prescribed by legislation (Local Authorities (Capital Finance and Accounting (England) (Amendment) Regulations 2012 and supported by statutory guidance (last issued March 2018), which states that Councils are required to "determine for the current financial year an amount of MRP that it considers to be prudent" and prepare an annual statement on their MRP calculation to their full Council.

One of the aims of this legislation is to ensure that the repayment of principal owed for Capital expenditure is charged on a prudent basis. Central Government guidance says:

> "*the broad aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the Capital expenditure provides benefits*"

For Supported Borrowing, (borrowing funded by central government), the Council will charge MRP at 2% of the balance as at 31 March after the deduction of the value of adjustment A (a set value in 2004), fixed at the same cash value as that of the whole debt is repaid after 50 years.

The Council will charge a VRP (voluntary revenue provision) for the supported borrowing within the adjustment A value that is outstanding as at 31 March relating to transferred debt from Devon County Council fixed at the same cash value as that of the whole debt is repaid after 50 years (which is similar to the supported borrowing calculation).

For capital expenditure funded from unsupported borrowing, less any repayment to date, the Council will make a provision based on the cumulative expenditure incurred on each asset (including investment fund properties) in the previous financial years using a prudent asset life, which reflects the estimated usable life of that asset. (See table below).

The MRP for each asset will be calculated on the asset life method using an annuity calculation. An adjustment to the MRP calculation will be made where there is expenditure in the previous financial year, but the asset is not yet operational. MRP will be calculated on the total expenditure on that asset in the financial year after the asset becomes operational or 12 months after operational or when there is an income stream in relation to that asset. The Head of Finance will be reviewing in 2019/20 the annuity rates used in the MRP calculation.

The Council will continue to charge services for their use of unsupported borrowing using a prudent asset life (or a shorter period) on an annuity calculation (or a straight line basis if no MRP on the asset). Where possible the same asset life and borrowing interest rate will be used for both the charge to services and the calculation of the MRP.

To mitigate any negative impact from the changes in accounting for leases and PFI schemes the Council will include in the annual MRP charge an amount equal to the amount that has been taken to the balance sheet to reduce the balance sheet liability for a PFI scheme or a finance lease. The calculation will be based on the annuity method using the Internal Rate of Return (IRR) implicit in the PFI or lease agreement.

Where loans are given for capital purposes they come within the scope of the prudential controls established by the Local Government Act 2003 and the Local Authorities (LINK Finance and Accounting) (England) Regulations 2008.

If a loan agreement does not include contractual commitments that the funds be put towards capital expenditure no MRP will be made, if however capital contract commitments are included then an MRP will be made on a prudent basis using Asset Life Method linked to the life of the asset being funded.

The Capital Financing Requirement (CFR) will increase by the amount of the loan. Once the funds are returned to the local authority, the returned funds are classed as a capital receipt with those receipts being earmarked specifically to that loan, and the CFR and loan will reduce accordingly. If the expectation is that funds will be repaid in full at some point in the future, there is no requirement to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The position of each loan will be reviewed on an annual basis by Chief Finance Officer.

Where expenditure is on an investment fund property a MRP <u>may</u> not be applied where there is a clear decision or realistic expectation that an asset purchased as an investment property will be sold in the future where the capital receipts from that sale will be set aside to enable repayment of the borrowing associated with the asset. These assets will be reviewed each year to asses any reduction in value including acquisition costs. If any reduction in value has occurred then an MRP will be charged to recover the loss in the medium term, such as over five to ten years.

Where relevant, the suggested asset lives for certain types of capitalised expenditure as detailed in the MRP guidance issued by DCLG will be used. The guidance issued in March 2018 suggests a minimum asset life of 50 years.

Each asset life will be considered in relation the asset being constructed by the Chief Finance Officer; however as a guide the following are typical ranges for asset lives that will be used.

Asset Type	Range of Asset Life
Freehold Land (speciifed in DCLG statutory gudiance)	50 years
Buildings	20-40 years
Investment Properties	25-50 years
Software	5-10 years
Vehicles & Equipment	5-8 years
Highway Network	25-40 years
Structural Enhancements	10-25 years
Infrastructure	25-50 years

For capital expenditure where land and buildings are not separately identified a blended asset life can be used.

Appendix 3

Economic Summary (Link Asset Services – January 2019)

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

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. However, over about the last 25 years, we have been through a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets. In 2016, we saw the start of a reversal of this trend with a sharp rise in bond yields after the US Presidential election in November 2016, with yields then rising further as a result of the big increase in the US government deficit aimed at stimulating even stronger economic growth. That policy change also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment. Unsurprisingly, the Fed has continued on its series of robust responses to combat its perception of rising inflationary pressures by repeatedly increasing the Fed rate to reach 2.00 – 2.25% in September 2018. It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative easing, when they mature. We have, therefore, seen US 10 year bond Treasury yields rise above 3.2% during October 2018 and also seen investors causing a sharp fall in equity prices as they sold out of holding riskier assets.

Rising bond yields in the US have also caused some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure has been dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

Appendix 4
Creditworthiness Policy

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

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

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands, illustrated below, which indicate the relative creditworthiness of counterparties. The Chief Finance Officer applies and reviews suitable financial and durational limits to each of these bands.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
up to 5yrs	up to 5yrs	up to 5yrs	up to 2yrs	up to 2yrs	up to 1yr	up to 6mths	up to 100days	no colour

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

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

All credit ratings will be monitored on a monthly basis and for each investment transaction. The Council is alerted to changes to ratings of all three agencies through its use of the LINK Asset Services' creditworthiness service.

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

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

UK banks – ring fencing

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

In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

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

Sovereign ratings

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ and also have banks operating in sterling markets. The exception to this is the United Kingdom which has been exempted from the rating criteria to ensure cash services can continue to operate following a downgrade to AA.

The list of countries that qualify using this credit criteria as at the date of this report (based on the lowest available rating) are shown below and this list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

AAA		AA+
Australia	Netherlands	
Canada	Norway	Finland
Denmark	Singapore	U.S.A
Germany	Sweden	
Luxembourg	Switzerland	
Exempted from Sovereign Rating Criteria		
United Kingdom		

Appendix 5

Approved Investment Instruments: Specified and Non-Specified

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the categories below .

Specified Investments

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

Investment Type	**Minimum 'High' Credit Criteria**
Debt Management Agency Deposit Facility	--
UK Government gilts	UK sovereign rating
UK Government Treasury Bills	UK sovereign rating
Term deposits – local authorities	LAs and other public bodies classified as colour band "Yellow"
Term deposits – banks and building societies	Creditworthiness system colour band "Green" and above
UK part nationalised banks	Creditworthiness system colour band blue
Banks part nationalised by high credit rated (sovereign rating) countries – non UK	Sovereign rating AA+
Bonds issued by multilateral development banks	AA+
Money Market Funds (CNAV)	MMF rating AAA
Money Market Funds (LVNAV)	MMF rating AAA
Money Market Funds (VNAV)	MMF rating AAA
Ultra-Short Dated Bond Funds with a credit score of 1.25	*MMF/bond fund rating AAA
Ultra-Short Dated Bond Funds with a credit score of 1.5	*MMF/bond fund rating AAA
Bond Funds	* bond fund rating AAA
Gilt Funds	UK sovereign rating

Non-Specified Investments

Investment instruments with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

Investment Type	**Minimum Credit Criteria**	**Max investment or % of total investments**	**Max. maturity period ***
UK nationalised/part-nationalised banks (maturities over one year)	Creditworthiness system colour band "Blue"	50%	2 years
Term deposits (over one year) – local authorities and other public sector bodies	LAs and other public bodies classified as colour band "Yellow"	50%	5 years
Term deposits (over one year) – banks and building societies	Creditworthiness system colour band "Purple"	75%	2 years
Certificates of deposits issued by banks and building societies (maturities under one year)	Creditworthiness system colour band "Green" and above	50%	1 year
Certificates of deposits issued by banks and building societies (maturities over one year)	Creditworthiness system colour band "Purple"	50%	1 year
UK Government Gilts	UK sovereign rating	100%	5 years
Bonds issued by multilateral development banks	AA+	50%	5 years
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	50%	5 years
Sovereign bond issues (other than the UK govt)	Sovereign rating AA+	50%	5 years
Structured Deposits (Fixed term maturities with variable rate and variable maturities)	Creditworthiness system colour band "Orange" <1 year "Purple" >1 year	25%	2 years
Commercial paper	Creditworthiness system colour band "Red" and above	35%	5 years
Floating Rate Notes	Long-term AA	35%	5 years
Property Fund: *the use of these investments would normally constitute capital expenditure*	--	£10million	5 years
Property Fund: *not classified as capital expenditure*	--	£10million	5 years
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):**-** 1.Corporate Bond Funds 2.Gilt Funds	AAA	35%	5 years
Corporate Bonds	AA	35%	5 years
Multi Asset Funds	--	35%	5 years
Peer to Peer Lending	Funding Circle rating B or equivalent	£500,000 Individual loan - £2,000	5 years

Appendix 6
Non Treasury Investments Strategy

Background

As clarification the following descriptions have been used

- “Investments – Yield” .These are property purchases where the objective is to increase rental income to the Council with an additional “multiple benefit” to the Council

- “Investments – Loans or Co Investment” .These are loans to business for capital expenditure where the objective is to increase rental income and/or interest returns to the Council. Co Investment is where Council with another investor provides finance or jointly purchases, with an additional ‘multiple benefit’ to the Council.

- “Regeneration” – these are property purchases, private sector or Council development projects within Torbay with the aim of increasing regeneration within Torbay.

This appendix sets out an outline for the management of the Investment and Regeneration Fund including purchases/investments and loans. The approach adopted should reflect a suitable balance between the risks inherent in the types of property/investments and loans to be acquired and the financial rewards obtainable whilst limiting risks appropriately. In addition, the portfolio of investments being acquired should be diversified in order to spread risks via a balanced portfolio, such diversification principally being across geographical location and the use type of properties held.

The risks of investing in property may be mitigated through the acquisition of assets with secure, long income streams. This needs to be balanced against the requirement for a given level of income yield on capital invested in a careful and controlled manner, with specific analysis of risk criteria carried out in the ‘due diligence’ stage prior to the completion of each purchase.

Achieving a spread of risk across a greater number of assets and by acquiring properties across the range of different property asset classes, namely retail, leisure, office and industrial, is to be desired, however it has to be recognised that opportunities to do this may not arise, and ultimately if individual business cases are robust groupings in any individual property class should not pose any increased risk to the Council.

The principle of being relatively risk-averse by limiting fresh investment to properties with good unexpired lease terms, and with tenants of strong financial standing, will be adopted.

All properties will be reviewed by nominated officers on a quarterly basis to review each property for potential disposal or investment depending on both current and future asset values and rental streams. Officers to include Monitoring Officer, Chief Finance Officer and lead Council officer for asset management. These officers to use external support as required.

Minimum and maximum yield

	Investment - Yield	Investment- loans & co investment	Regeneration
Yield	Rental	Loan repayments or rental	Rental
Target Yield Required	1.25% above forecast borrowing costs and forecast relevant ongoing costs Yield to be an average of an appropriate initial five year period	If capital loan 2% above forecast borrowing rates and forecast relevant ongoing costs Yield to be an average of an appropriate initial five year period	0% above forecast borrowing costs and forecast relevant ongoing costs Yield to be an average of an appropriate initial five year period Forecast to be subject to sensitivity analysis of estimates to ensure a 0% return can be realistically achieved.

Assets or loans producing initial yields in excess of 10.0% are likely to exhibit high risk characteristics, such as very short unexpired leases, or financially weak or insubstantial tenants, or obsolete buildings and are therefore to be the subject of very careful analysis before a decision is made.

Assessment of risks

	Investment - Yield	Investment- loans	Regeneration
Independent Valuation of asset	Yes	If applicable	If applicable
Condition Survey	Yes	If applicable	If applicable
Independent Assessment of Asset Life	Yes	If applicable	If applicable
Independent Assessment of Residual value	Yes	If applicable	If applicable
Independent Assessment of legal issues in relation to site	Yes	If applicable	Yes
Independent Assessment of future rental	Yes – future rent reviews and on lease break/expiry	If applicable	Yes – future rent reviews and on lease break/expiry
Security required	-	As appropriate to the identified risk	-
Financial Assessment of tenant or loanee	Yes	Yes	Yes
Pre commitment required	As appropriate to the identified risk	As appropriate to the identified risk	As appropriate to the identified risk t

	Investment - Yield	Investment- loans & co investment	Regeneration
Risk Appetite	Risk averse	Risk averse	Risk neutral
Consideration of State Aid	-	Yes	Yes
"Green Book" Financial profile over life of asset (IRR)	Yes	Yes	Yes
MRP	Yes – over asset life	No – of loan expected to be repaid – annual assessment required	Yes – over asset life
Assessment of impact on Council of any potentially abortive costs and how funded	Yes	Yes	Yes
Assessment of impact on Council of default or significant loss in value and how funded	Yes	Yes – Impairment (or contingency for) to be assessed on annual basis by CFO	Yes
Allowance for future costs, income shortfall and management of assets	An indicative amount of 0.25% - on total purchase costs per annum – but actual amount to be calculated on the specifics of the proposal	-	An indicative amount of 0.25% - on total costs per annum – but actual amount to be calculated on the specifics of the proposal
Lease	Tenants of good financial standing and a good remaining lease term	Loanee of strong financial standing	Tenants of good financial standing and a good remaining lease term
Loan	-	Interest rate to be linked to assessed financial risk Enforceable security required on all loans Interest required on a quarterly basis from start of loan Loan to be on a repayment basis as soon as possible	-
Reputational Issues	No "sin" assets or tenants	No "sin" assets or tenants	No "sin" assets or tenants

A rigorous assessment of all risks is required in each case of fresh investment in order firstly to value each property and then to check its suitability for inclusion in the portfolio. The risks fall into two categories, firstly economic and property market risks in specific property market sub-sectors and locations and secondly asset-specific risks (as set out below). These can be measured and an assessment made of the likely future performance of the investment carried out based on the ranges of likely future rental growth of the property and also the projected disposal price or capital value at the end of the period over which the cash flow analysis is being measured. Financial returns are modelled over a medium-term horizon of five years, based on proposed offer prices, to determine the acceptability of each investment, and can be compared against general market forecasts. Internal Rate of Return (IRR) calculations will be carried out to model the expected cash flows from each investment. The anticipated returns can be modelled on different bases to reflect the range of risks applicable in each case, to ensure that forecast returns properly reflect the measured risks. In this way a Business Case is put together to support each recommended property acquisition.

Allowance for future costs, income shortfall and management of assets

For each purchase or development an allowance is to be made to cover the following issues:

- Future management costs of the asset – both ongoing costs such as liaison with tenants, asset inspections, insurance arrangements, service charge management, lease term enforcement and management of site but also cyclical costs such as rent reviews, marketing of vacant space, investment in assets and potential disposal.
- Future void or rent free periods on asset
- Future landlord repair and maintenance and investment costs in asset
- Abortive costs or set up/feasibility costs not chargeable as capital expenditure a purchase associated with the potential purchase or development of assets

The table above gives an indicative value based on a percentage of total purchase costs to be set aside each year. The Chief Finance Officer will vary this percentage depending on an assessment of future issues and costs relevant to each asset – e.g. the expectation of an extended rent free period.

Asset-specific risks

Income and capital returns for property will depend principally on the following five main characteristics;
• Location of property
• Building specification quality
• Length of lease unexpired
• Financial strength of tenant(s)
• Rental levels payable relative to current open market rental values

Location – this is the single most important factor in considering any property investment. In the retail sector prime or good secondary locations in major regional or sub-regional shopping centres are likely to provide good long-term prospects, or alternatively prime locations in sub-regional or market towns.

Industrial and warehouse property has a wider spectrum of acceptable locations with accessibility on good roads to the trunk road and motorway network being the key aspect.

Experienced knowledge will be required to ensure that good locations are selected where property will hold its value in the long term.

Building specification quality – In office property especially it is important to minimise the risk of obsolescence in building elements, notably mechanical and electrical plant. Modern, recently-built office and industrial property should be acquired to ensure longer-term income-production and awareness of the life-cycle of different building elements and costs of replacement is critical in assessing each property's merits. For town centre retail property trends have been towards larger standard retail units being in strongest demand from retailers.

Length of lease unexpired – At present capital values are highest for long-term leased property and values tend to reduce significantly when unexpired lease terms fall below five years, as owners expect significant capital expenditure to be necessary when leases expire and tenants may not renew leases and continue to occupy. Fresh investments should be made ensuring that diminishing lease terms will not either adversely affect capital value or that significant capital expenditure and voids are experienced.

Financial strength of tenant(s) – assessment will be required of each tenant of potential acquisitions through analysis of their published accounts and management accounts where necessary. Risk of tenant default in rent payment is the main issue but the relative strength of a tenant's financial standing also impacts upon capital value of property which is let to that tenant and careful analysis of financial strength is a key part of due diligence prior to purchase of investments.

Rental levels – care is required in all purchases to assess market rents local to each property to check whether rents payable under leases are above or below current levels, as this will impact on whether growth in rents in the future will be fully reflected in the specific property being analysed.

Environmental and regulatory risks - Risks such as flooding and energy performance are taken into account during the due diligence process on every property purchase.

Reputational risks – An assessment of any reputational risks will be undertaken in respect of all proposals, and this will be a relevant factor in decision making.

TREASURY MANAGEMENT POLICY STATEMENT

1. The Council defines its treasury management activities as:

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

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

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

4. Non Treasury Investments are other investments that are undertaken for reasons other than treasury management activities. These include Investment Properties, Loans and Guarantees.

TREASURY MANAGEMENT PRACTICES

TMP1 Risk Management

The Council regards a key objective of its treasury management and other investment activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures covering all external investment including investment properties.

The Chief Finance Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 *Reporting Requirements and Management Information Arrangements*.

In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

1.1 Credit and Counterparty Risk Management

The risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

This Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 *Approved Instruments Methods and Techniques* and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

1.2 Liquidity Risk Management

This is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.

The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

1.3 Interest Rate Risk Management

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 *Reporting requirements and management information arrangements*.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

1.4 Exchange Rate Risk Management

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the Council has failed to protect itself adequately.

It will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

1.5 Inflation Risk

Inflation risk, also known as purchasing power risk, is the chance that the cash flows from an investment won't be worth as much in the future because of changes in purchasing power due to inflation

The Council will keep under review the sensitivity of its treasury and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole of the Council's inflation exposure.

1.6 Refinancing Risk Management

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancing, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised is managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the Council as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

1.7 Legal and Regulatory Risk Management

The risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

This organisation will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] *credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

1.8 Fraud, Error and Corruption, and Contingency Management

The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

1.9 Price Risk Management

The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

TMP 2 Performance Measurement

The Council is committed to the pursuit of value for money in its treasury management activities and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.

TMP 3 Decision Making and Analysis

The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past and for demonstrating that reasonable steps were taken to ensure all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

TMP 4 Approved Instruments, Methods and Techniques

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined and parameters defined in TMP1 *Risk Management*

Where the Council intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The Council will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

The Council has reviewed its classification with financial institutions under MIFID II and has set out in the schedule to this document those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

TMP 5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Chief Finance Officer will ensure that the reasons are properly reported in accordance with TMP6 *Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

The Chief Finance Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Chief Finance Officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule to this document.

The Chief Finance Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

The delegations to the Chief Finance Officer in respect of treasury management are set out in the schedule to this document. The Chief finance Officer will fulfill all such responsibilities in accordance with the Council's policy statement and TMPs and, if a CIPFA member, the *Standard of Professional Practice on Treasury Management.*

TMP 6 Reporting Requirements and Management Information Arrangements

The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum:

- Full Council will receive:
  - an annual report on the strategy and plan to be pursued in the coming year
  - a mid-year review
  - an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Council's treasury management policy statement and TMPs.

- The Audit Committee will receive regular monitoring reports on treasury management activities and risks.
- The Audit Committee will have responsibility for the scrutiny of treasury management policies and practices.
- Local authorities should report the treasury management indicators as detailed in their sector-specific guidance notes.

The present arrangements and the form of these reports are detailed in the schedule to this document.

TMP 7 Budgeting, Accounting and Audit Arrangements

The Chief Finance Officer will prepare, and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk management*, TMP2 *Performance measurement,* and TMP4 *Approved instruments, methods and techniques.* The Chief Finance Officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 *Reporting requirements and management information arrangements.*

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

TMP 8 Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Chief Finance Officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Chief Finance Officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1[2] *liquidity risk management.* The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

TMP 9 Money Laundering

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule to this document.

TMP 10 Training and Qualifications

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Chief Finance Officer will recommend and implement the necessary arrangements.

The Chief Finance Officer will ensure that Council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are detailed in the schedule to this document.

TMP 11 Use of External Service Providers

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Chief Finance Officer, and details of the current arrangements are set out in the schedule to this document.

TMP 12 Corporate Governance

The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedule to this document, is considered vital to the achievement of proper corporate governance in treasury management, and the Chief Finance Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

TMP 13 Non Treasury Investments

Risk Management:

Linked to principles in TMP1, the Council regards a key objective of its non-treasury investments to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures covering all non-treasury investment including investment properties.

The Chief Finance Officer will design, implement and monitor all arrangements for the identification, management and control of non-treasury investments, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting Requirements and Management Information Arrangements.

The risks, and proportionality of, associated with the level of borrowing, ongoing costs and ongoing income are reflected as part of the council's Capital Strategy. For Investment Properties the risks are identified in reporting to the Investment and Regeneration Committee.

Performance and Management

Linked to principles in TMP2, the strategic management and reporting of Investment Properties performance is the responsibly of the Director of Place with support from the Head of Finance. A Project Board for the Management of Investment properties will meet on a quarterly basis to review performance.

The operational management of these properties is sourced by the Council, primarily from the TDA.

The monitoring of the performance of loans and guarantees will be undertaken by the Head of Finance.

Decision Making, Governance and organisation

Linked to the principles in TMP5, for Investment Properties the approval to purchase are taken by the Investment and Regeneration Committee in line with the approved Investment and Regeneration Strategy. If decision outside the Strategy parameters this will be a Council approval.

Loans and Guarantees are approved by Council, subject to the officer scheme of delegation.

Reporting and Management Information

Linked to the principles in TMP6, for Investment Properties the risks are assessed in reporting to the Investment and Regeneration Committee and to Council in the Capital Strategy.

Loans and Guarantees are to be included in TM reporting to Audit Committee

Training and Qualifications (linked to the principles in TMP10)

The Council sources appropriate expertise from, primarily, the TDA and external advisors as required.

A list of the qualifications and relevant training by members of both the Audit Committee and Investment and Regeneration Committee will be maintained.

TORBAY COUNCIL

Meeting: Overview & Scrutiny Board **Date**: 30 January 2019

Council **Date:** 7 February 2019

Wards Affected: All

Report Title: **Capital Strategy 2019/20**

Is the decision a key decision? Yes

When does the decision need to be implemented? Immediately

Executive Lead Contact Details: Gordon Oliver, Elected Mayor and Executive Lead for Finance, 01803 207001, mayor@torbay.gov.uk

Supporting Officer Contact Details: Martin Phillips, Head of Finance, 01803 207285, martin.phillips@torbay.gov.uk

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1. Proposal and Introduction

1. The Council has a statutory responsibility to comply with the CIPFA Prudential Code (revised December 2017) which is the “proper practice” document linked to the Local Government Act 2003. Part of this compliance is to approve a Capital Strategy.

2. The Capital Strategy is the policy framework document that sets out the principles to be used to guide the allocation of capital investment across all the Council’s services and informs decisions on capital spending priorities within the Council’s 4-year Capital Plan.

3. The revised Prudential Code places more emphasis on the risks associated with Council capital activities in particular the higher risks associated with more commercial activities and requires the Chief Finance Officer to “report explicitly on the affordability and risks associated with the capital strategy”.

1.4 In accordance with the Council’s Constitution, the Capital Strategy is required to be approved on an annual basis.

2. Reason for Proposal

2.1 The Council has a responsibility to approve a Capital Strategy each year.

3. Proposal

Overview and Scrutiny Board

3.1 That the Capital Strategy attached at Appendix 1 be reviewed.

Council

3.1 That the Capital Strategy be approved.

4. Supporting Information

4.1 The Capital Strategy is an overarching document. There are clear links to other documents such as

- Treasury Management Strategy – the operational plan for management of treasury activities including borrowing.

- Asset Management Plan – the operational plan for management of assets

- Capital Plan and quarterly Budget Monitoring – the key documents for the financial reporting on the capital plan, both its expenditure and funding.

Appendix 1 – Capital Strategy

CAPITAL STRATEGY

& CAPITAL RECEIPTS STRATEGY

Review JANUARY 2019

CONTENTS

1. Introduction

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

This Strategy is based on principles of the Prudential Code for Capital Finance in Local Authorities (December 2017). The key messages from the Code is, in relation to capital expenditure, the consideration of Prudence, Affordability and Sustainability.

The Capital Strategy therefore is the policy framework document that sets out the principles to be used to guide the allocation of capital investment across all the Council's services and informs decisions on capital spending priorities within the Council's 4-year Capital Plan. In addition as part of the Strategy the Head of Finance reports on the delivery, affordability and risks associated with this Strategy.

Inevitably the full picture of the control system around the Council's wide range of capital expenditure and its funding is reflected in a range of documents, monitoring and management arrangements. A summary of five key aspects of capital activities are shown in the table below

Capital Expenditure	Debt and Borrowing Treasury Management (TM)	Commercial Activity	Other Long-Term Liabilities (e.g PFI schemes)	Knowledge and Skills
•strategic service plans + asset management plans + capital strategy •pipeline process •capitalisation rules •long-term forecasts •basis of estimating future costs and sensitivity to risk	•projections of external debt and internal borrowing •how debt will be repaid •authorised limit and operational boundary •how TM decisions are made and how they are scrutinised	•dependency of budget on commercial activity •policies for approval and scrutiny •on-going management •implications of borrowing	•identification and approval •on-going monitoring	•knowledge and skills available •use of advisers •training plans
Key Documents				
Capital Strategy Asset Management Plan Council Reports	Treasury Management Strategy TM Mid-Year Review TM Outturn Report	Capital Strategy Investment and Regeneration Strategy Capital Budget	Treasury Management Strategy Statement of Accounts	Treasury Management Strategy

Housing Committee Reports Capital Budget Quarterly Budget Monitoring Reports Statement of Accounts	Revenue Budget Medium Term Resource Plan	Revenue Budget Medium Term Resource Plan Statement of Accounts		
Key Committees and Meetings				
Council Housing Committee Capital & Growth Board	Audit Committee Council	Audit Committee Investment and Regeneration Committee	Audit Committee	

Capital investment is technically described as: **Expenditure on the acquisition, creation, or enhancement of 'non-current assets' i.e. items of land, property and plant which have a useful life of more than 1 year.** A fuller definition is attached at Appendix 2. Expenditure outside this definition will be, by definition, revenue expenditure.

Most non-current assets are properties that are used in service delivery. The Council's land, buildings and infrastructure asset base of some 3,700 properties has a Balance Sheet value (as at 31/3/18) of approx. £445 million, of which £115m are Investment Properties. The outstanding borrowing as at 31/12/18 was £285m with £19m of long term liabilities in relation to PFI schemes.

The Capital Strategy is presented to Council as a Policy Framework document, and links with both the Treasury Management Strategy, Medium Term Resource Plan and the Corporate Asset Management Plan which is the key **operational** asset plan covering repairs and maintenance.

In considering the principles, the Council needs a balance between guidance and prescription to allow a flexible approach to be taken but reflective of times of uncertainty. This Strategy focuses on the key policies for the allocation of capital resources to schemes in line with Council priorities and statutory responsibilities.

The management of the Capital Plan is also supported by the Council's approved Financial Regulations.

2. Guiding Principles

2.1 Approach to Borrowing

The Council is able to borrow money on the money market or from the Public Works Loans

Board to fund capital schemes or, on a short term basis, use its own internal resources (i.e. cash flow). However for all capital schemes initially funded from borrowing, the Council will have to fund the principal repayment and interest costs.

The Council is only able to borrow under the guidance contained in the CIPFA Prudential Code whereby, in summary, the Council is required to ensure that all borrowing is both prudent and affordable. All schemes funded from prudential borrowing are approved by full Council, although in some cases approval of induvial schemes within an overall allocation by Council have an alternative approval process (such as Housing Committee and Investment and Regeneration Committee).

The Prudential Code was revised in December 2017 and requires authorities to ensure that decisions for capital expenditure and investment plans are made with sufficient regard to the long run financing implications and potential risks to the authority and include effective due diligence.

The Council's 2019/20 Treasury Management Strategy recognises the potential need to take an additional £129m of borrowing (net of MRP) to support a number of capital projects, potentially increasing the Council's overall debt (excluding PFI liabilities) to be in excess of £423m.

Based on current economic forecasts a borrowing cost of 3% should be assumed for new borrowing in 2019/20.

A summary of the Council's current and projected borrowing position identifying the approved schemes that have/will resulted in the borrowing are listed in Appendix 1. This is a useful summary for Members to understand the assets financed from borrowing.

The Council takes a prudent approach to new borrowing, paying particular regard to the robustness of the business case to include forward predictions of affordability, with the aim that projects should be self-funding (i.e. create a revenue stream so that the cost of borrowing is cost neutral on Council Tax). However the Council has changed its risk appetite in the past two years and is now approving a significant number of projects that are more commercial in nature. All new proposals for a self-funding or invest to save scheme supported by borrowing must have a robust business case that is presented to senior members and officers prior to approval by Council.

Each business case must clearly identify and consider the ongoing revenue implications of:-

- fixed interest and principal repayment costs
- associated income stream
- volatility of the income stream
- the contribution to the general fund or breakeven point
- the sensitivity of the that contribution
- achieve the target return linked to the purpose of the spend
- ensuring asset value exceeds outstanding debt

All of the above need to be considered for the whole life of the asset.

Each business case must clearly identify and consider the ongoing balance sheet implications of:-

- the change in the level of Council debt
- address how changes in asset value will be funded i.e. capital appreciation and impairment and the total of assets funded by borrowing

To ensure all member are fully informed of the risks and rewards associated with borrowing reporting will include:-

- Total debt of the Council
- The underlying assets funded by that debt
- Ongoing revenue costs of principal and interest
- Income Streams associated with that asset
- Implications of changes in asset values or income streams

To support its revenue budget the Council will continue to evaluate any capital investment projects either acting alone or with partners that will produce an ongoing revenue income stream for the Council.

There may be the need for borrowing that has no identifiable future revenue stream, for example, to repair or construct infrastructure assets. Here a broader view can be taken of the value of repairing the asset to the overall economy of the Bay. The cost of such borrowing falls on the tax payer through payments of debt interest on the Council's revenue account and repayment of debt over a specified period of time. There may still be a need for such borrowing but each proposal should be reviewed on a case by case basis with the project evaluation clearly stating how the borrowing is to be afforded. Given the significant ongoing financial challenges facing this Council over the next few years it is likely that such schemes will be an "exception".

2.2 Long Term Capital Liabilities

The Council can also finance capital expenditure by means of a long term PFI contract, whereby the a private sector company will build and then supply an asset (usually) with services as well) back to the Council for a specified number of years. At the end of the contract the asset transfers to the ownership of the council. The value of the asset and the associated liability over the life of the contract to fund that asset is reflected on the Council's balance sheet. As with borrowing, any decisions on agreeing contracts that result in a long term liabilities are made with sufficient regard to the long run financing implications and potential risks to the authority and include effective due diligence.

Council's may also lease in assets for service delivery rather than purchase. Depending on the lease terms, including the length of lease, these assets and the associated liability over the life of the lease to fund that asset is reflected on the Council's balance sheet. Changes in International Financial Accounting Standards (IFRS16) in relation to lease recognition from 2020/21 (with a restated comparative year of 2019/20) may result in more leased in assets and liabilities being reflected on the Council's balance sheet.

2.3 **Grant Allocations**

The Council receives capital grant funding from government and is able to bid for grant funding direct to particular government departments or from other grant awarding bodies. The funding from central government tends to be un-ring fenced and without conditions, however this funding is at a significantly lower level than in the last decade.

The Council now has greater flexibility in allocating capital grant funding which allows the Council to direct funding to local priorities which may not be in line with government allocations which are, to some extent, based on local need. Service intentions of the identified government body awarding the grant should be taken into account in determining allocations.

Any un-ring fenced capital grants received will be reported to Council. The presumption is that the grants will be allocated in line with the service intentions of the identified government body awarding the grant, however Council has the option to reallocate. Once capital grants have been allocated to a specific service, individual schemes within that allocation are subject to each individual scheme being approved by the relevant Director in consultation with the Mayor and Head of Finance.

The Council continues to bid for additional external grant funding but restricts schemes to those which support corporate priorities or statutory service objectives and where it can be proved that the project is sustainable, and requirements for match-funding and future revenue consequences have been considered and approved. All bids are to be agreed with the Executive Lead for Finance and Head of Finance prior to submission. Where external grants are used the grant conditions of linking to the capital grant and future use of the asset need to be adhered to.

2.4 Capital Receipts and Capital Contributions

The Council receives capital receipts and capital contributions from:
- Asset Disposals
- Right to Buy Clawback
- S106 and Community Infrastructure Levy (CIL)
- Repayment of loans for a capital purpose

Asset Disposals

The policy is to pool all receipts from the sale of all assets sold to support the Capital Plan in line with funding the Council's priorities. The current Capital Plan has a capital receipts target to support previously incurred expenditure that has not yet been met. All capital receipts received should be allocated to support this target and not allocated to new schemes, subject to any potential use of capital receipts under the Capital Receipts Strategy (see para 2.4 below) and any loan repayment. An asset disposal will be deemed to occur when the Council transfers the freehold or a long lease (usually over 40 years)

The Council will consider exceptions to this policy where rationalisation of assets used for service delivery is undertaken and in respect of school sites where the Secretary of State has approved the disposal – such exceptions will require Council decision.

The Council will aim to maximise its capital receipts, where possible, by enhancing the land prior to disposal; e.g. by obtaining planning permission or providing a development plan. As appropriate the Council may dispose of assets by tender or by public auction.

The Council can, by approval, transfer or dispose of assets at below market price for service purposes but this is on an exception basis and the full implications of not achieving market value needs to be considered.

Asset Disposals at nil consideration or below market value

In considering asset disposals, the Council will comply with its Asset Management Plan and the need to take into account the policy on Community Asset Transfers where the Council will consider, on a case by case basis, the potential transfer of assets to an alternative provider after a full assessment of the long term (full life) risks and rewards of the transfer, including the achievement of best value including potential market value, linked to the Council's aims and objectives.

The Localism Act 2011 introduced the "Community Right to Bid" and placed a duty upon local authorities in England to maintain a list of assets of community value. Once an asset is “Listed” any disposal will be under the Community Asset Transfer policy or for market value by tender/auction.

Where the Council proposes to dispose of, or grant a long lease, at nil consideration or at a value below market value this is required to be approved by Council. This will also apply where the disposal is for a community or service benefit.

There may be circumstances, such as the transfer of community school assets under the Academies Act, where assets will also be disposed of at nil consideration.

Right-to-Buy Clawback

100% of these receipts are currently used to support the provision of the approved Housing Strategy, although this policy could be reviewed to provide additional resources for projects in other service areas.

S106 contributions and Community Infrastructure Levy (CIL)

S106 monies come from developer contributions through the planning system. Unless there are service specific conditions on the use of the S106, the monies should be used to support existing Council priorities and commitments rather than be allocated to new schemes. Any S106 monies received without a service or scheme specific allocation within the planning agreement will be allocated in line with Council’s capital scheme priorities.

Any monies received for infrastructure from the Community Infrastructure Levy will not be allocated to a specific service but will be allocated under the CIL arrangements (“the Regulation 123 List”) in line with Council’s capital scheme priorities including any specific funding requirements such as the South Devon Highway.

The current policy is to pool all capital contributions to support the Capital Plan in line with funding the Council’s priorities. The current Capital Plan has a capital contributions target to support the approved Plan that has not yet been met. All capital contributions received should, where possible, be allocated to support this target and not allocated to new schemes.

Repayment of loans for a capital purpose

Where the Council provides a loan for a capital purpose this will be approved by full Council and accounted for as capital expenditure. The repayment of a loan by the borrower will be treated as a capital receipt; however any receipts of this nature will be specifically applied to reduce the value of the Council’s outstanding loan.

2.5 Capital Receipts Strategy

DCLG have revised their statutory guidance in relation to the Local Government Act 2003 on the use of capital receipts for the period from April 2016 to March 2019 and subsequently extended in December 2017 to March 2022. This provides Councils with the flexibility to use capital receipts for “the revenue costs of service reform”. This flexibility is subject to a Strategy for the use of capital receipts being approved by full Council. By approving this document Council will be approving this flexibility to be used as appropriate with any use reported to Council as an amendment to the Council’s capital plan.

Potential uses for capital receipts, (subject to the capital receipts being received and Council approval of changes to capital plan), would be to support any implementation costs for the Council’s transformation programme. DCLG within their statutory guidance have included a number of examples of the type of expenditure that would meet the definition of “revenue costs of service reform".

2.6 Revenue & Reserves

The Council is able to use revenue funding and reserves for capital schemes. However, as a result of competing revenue budget pressures and the continued reduction in government support for revenue expenditure, the Council's policy is generally not to budget to use revenue or reserve funds to directly fund capital projects after the feasibility stage.

Once a revenue contribution has been applied to a capital project it cannot be returned to revenue. However the Council would be able, subject to the approval of the Head of Finance, to use prudential borrowing to replace any revenue or reserve funding used or proposed to be used. This will result in a **one off** return of revenue funding to the Council's revenue budget offset by higher MRP and interest costs to fund the prudential borrowing costs in future years.

2.7 Prioritisation and Approval

It is always difficult to make choices between competing priorities within a top tier Council that delivers so many varied services. It is the responsibly of senior officers and members to consider and prioritise the competing demands for capital resources in the context of the limited central government funding now awarded.

The Council maintains and reports on a rolling four year capital plan (including its funding) that is updated and reported to Senior Leadership Team and Members on a quarterly basis. The capital plan will include any capital expenditure approvals by Council in the previous quarter.

The key stages in the Council's prioritisation and approval process are as follows:

1) A service can submit a capital business case for consideration by the Head of Finance and the officer Capital and Growth Board at any stage of a financial year. The capital business case will be linked to that service's needs. A Capital Reserve list is maintained an updated on an annual basis for inclusion in the Capital Strategy.

2) For a specific scheme is to be approved/funded there will be a requirement for a detailed capital business case. The capital business cases are to be initially submitted to both the Head of Finance and the officer Capital and Growth Board prior to wider consultation with the Council's senior leadership team and the Executive.

   If a scheme is to be funded from (previously approved by Council) allocations the scheme will be approved as stated in the approval or, if the approval process not stated, by the Chief Executive in consultation with the Executive Lead for Finance and Head of Finance and progressed when funding confirmed or,

   if new (confirmed) funding is to be used for a scheme to be funded by, say, a specific grant and if the scheme is supported by the Chief Executive, in consultation with the Executive Lead for Finance and Head of Finance, it will be reported to Council.

   If funding has been allocated by Council to a service without individual schemes being identified at the time of approval, (such as a general allocation to schools for "basic need" projects), individual schemes within that allocation are subject to each individual scheme being approved by the Chief Executive in consultation with the Executive Lead for Finance.

3) Proposals for invest to save or self-financing schemes, (usually financed from prudential borrowing), will also require a detailed capital business case. The capital business case are to be initially submitted to the Head of Finance and the officer Capital and Growth Board. If the scheme is supported it will be recommended to Council for approval.

4) Any recommendations for schemes to be approved by Council will be included in the next quarterly Capital Plan Update Report.

5) Other schemes that do not require financial support but include the use of Council assets as a Council contribution to a scheme will also be subject to the Council's approval process.

6) Where there is a proposal to transfer capital resources from a previously approved scheme to a new scheme and there is a change of "policy", the new scheme will be approved by Council.

7) Where specific approval process has been set up and approved by Council e.g. Investment and Regeneration Committee or Housing Committee that process will apply.

2.8 Affordability and Sustainability of Proposals

The Capital Business Case will identify the projected running costs and financing costs of the relevant asset and assessed the affordability of the proposals both for the initial investment and over the life of the asset. In all cases the capital expenditure and any ongoing costs must be sustainable in relation to the Council's medium term financial plans.

For existing assets the Asset Management Plan will identify the projected running costs and financing costs of the asset and assessed the affordability of the asset over its asset life.

Where an asset is directly linked to generating an income or rental stream, such as an Investment Property, the initial Capital Business case (or Council report) will need to consider the future risks to those revenue returns and how these will be mitigated. This may result in the creation of an earmarked reserve for both income volatility and future asset related expenditure.

2.9 Management and Monitoring of Capital Plan

The key objective of the Council's management and monitoring of the Capital Plan is to ensure that all Members have visibility of the capital plan and the approval of individual capital projects to encourage collective responsibility for the capital expenditure on a project and the success of the schemes themselves.

Arrangements to include:-

1) Overview and Scrutiny Board and Council will receive 3 quarterly monitoring report and one outturn report each year.

2) A Capital budget for forthcoming year will be part of each financial year's budget proposals

3) Committees set up for specific purposes to receive update reports

4) A newly established (Nov 2018) officer Capital and Growth Board now reviews the

Council's Capital Plan and the governance arrangements associated with its various projects

5) Senior Leadership Team and the Executive to have responsibility for the oversight and challenge on the delivery of the capital plan including slippage and outcomes.

6) The capital business cases are to be initially submitted to both the Head of Finance and the officer Capital and Growth Board prior to wider consultation with the Council's senior leadership team and the Executive.

2.10 Alternative Funding and Delivery Opportunities

As Council capital funding is reduced the Council will continue to consider other methods of supporting capital expenditure within the Bay, using alternative funding, such as social investment, private sector finance and third sector funding or by other bodies delivering capital schemes instead of the Council.

The Council can use its assets to support schemes or aim to maximise funding from any source possible, such as European or Local Enterprise Partnership funding.

The Council continues to bid for additional external funding and/or work with other bodies to secure capital investment or consider use of its own assets in a development, but restricts schemes to those which support corporate priorities or statutory service objectives and where it can be proved that the project is sustainable, and requirements for match-funding and future revenue consequences have been considered and approved along with an assessment of the opportunity costs of alternative options. All schemes are to be agreed with the Executive Lead for Finance and Head of Finance prior to submission and/or contractual commitment.

2.11 Investment Opportunities – Non Treasury Investments

Linked to its approach to borrowing and the Council's Investment and Regeneration Strategy the Council will consider, if the opportunities arise and there is a "multiple benefit", the purchase of land and property as an investment – to both generate an ongoing income stream or to realise an increased capital value in the future. CIPFA has classified investment properties as a Non Treasury Investment for reporting purposes and included in the Treasury Management Code of Practice.

The Council will continue to review the guidance associated with this activity. In October 2018 CIPFA released a 'Statement on Borrowing in Advance of Need and Investments in Commercial Properties' expressing concerns in relation to the acceleration of the practice of borrowing to invest in commercial properties and in particular the proportionality in relation to an authority's resources.

https://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/treasury-and-capital-management-panel

The risks associated with investment properties and the Council's strategy in mitigating these risks are outlined and described in the Council's Investment and Regeneration Fund Strategy. The Strategy envisages proposals in two categories:

1. Investment opportunities that deliver both a financial return to the Council and a benefit, improvement or development of the area – 'Investment Opportunities,'

2. Regeneration investment opportunities that deliver significant regeneration benefits to the area – 'Regeneration Investment Opportunities.'

https://www.torbay.gov.uk/council/policies/corporate/investment-strategy/
The Council's Treasury Management Strategy Statement also includes references to the monitoring and reporting of the Council's Non Treasury Investments (NTI).

2.12 Asset Disposal Strategy

Purchases of assets by the investment fund are primarily to be retained in the long term. However the benefit of selling the assets will be regularly reviewed by Head of Business Services in consultation with the TDA Head of Estates for potential disposal at which point any outstanding debt will be repaid. The review will need to consider the resulting impact on the Council's revenue budget from the lost income stream and any costs of disposal.

2.13 Loans for Capital Purposes

Loans for a capital purpose can also be approved by full Council subject to a business case and due diligence on the borrower including as appropriate guarantees and bonds to secure the repayment of the loan. The loan value will not exceed the value of the underlying asset at any time and there should be no third parties legal charge on the asset. Interest will be charged on the loan at a market rate, this will include loans to Council subsidiary companies. This will ensure compliance with State Aid regulation.

2.14 Capital expenditure and assets held by wholly owned subsidiary companies

The Council has overall control of these entities and therefore is ultimately responsible for the companies' assets and liabilities. The controls of any subsidiary's activities are controlled by the Council's through 'reserved matters' listed within the memorandum and articles of association of the company. These 'reserved matters' cover capital expenditure and the making of any borrowing. The assets and liabilities of all council companies would be consolidated into the Council's group accounts.

As these capital assets and liabilities are part of the council's overall financial position the Council will report on the total group assets and liabilities and the associated risk and reward.

In relation to the reserve matters on capital expenditure the Council will apply the same process as applied to its own capital expenditure and will monitor and report performance of the capital assets as part of the Council's quarterly capital monitoring arrangements.

2.15 Training and Skills

The Council needs to ensure that all decisions in relation to capital are properly informed.

Linked to the Treasury Management Strategy a list of officers and members and their relevant qualifications and training undertaken will be maintained. Training will be provided as required.

In relation to skills the Head of Finance, Monitoring Officer and Executive Head of Business Services will ensure that the appropriate expertise is always resourced in relation to any financial, legal and asset related due diligence required.

2.16 Treasury Management Links

All capital decisions to be funded by prudential borrowing will directly impact on the Council's Treasury Management activities. The level and timing of the capital expenditure will be reflected in the capital plan once approved and in the strategic cash flow forecasts to plan for the required borrowing. The resulting costs (Interest and MRP) and any income to fund those costs will be included in the standard budget monitoring and budget setting process. Total borrowing will also be monitored by the annual setting of both the Operational and Authorised Limits (for borrowing).

2.17 Balance Sheet Issues

The impact of capital projects and any prudential borrowing used have an impact on the Council's balance sheet.

1) Increase in the value of the Council's non-current assets
2) Increase in the value of Council's long term debtors (if capital loan provided)
3) Increase in the Council's long term borrowing
4) Maturity profile of borrowing and repayment of borrowing
5) Profile of capital loan repayments
6) Increase/decrease in Capital Financing Account (CFA) by new borrowing offset by MRP.
7) Annual depreciation on operational assets
8) Annual revaluation or impairment on operational assets
9) Annual valuations of investment properties
10) Impact on Council's cash flow in delivery stage or on purchase
11) Impact on Council's cash flow at time of borrowing

The value of non-current assets should always exceed the value of the outstanding liabilities. In addition the value of the outstanding liabilities should not exceed, in the medium term, the Capital Financing Requirement (which is the measure of a Council's underlying need to borrow).

3. Head of Finance Statement on Delivery, Affordability and Risk of Capital Strategy

3.1 Background

The current guidance for a council's level of borrowing is the Prudential Code (December 2017) and as "proper practice" must be adhered to. The following extracts from the Code summarise the Code's approach to level of borrowing (self-regulating) and the governance that should apply.

"the local authority shall ensure that all its capital and investment plans are affordable, prudent and sustainable.

'A local authority shall determine and keep under review how much money it can afford to borrow.'

"the level of capital investment that can be supported will, subject to affordability and sustainability, be a matter for local discretion"

3.2 Torbay Council Borrowing Position - Note: PFI transactions have been excluded.

All borrowing	As at 31.12.18	Projected 31.3.21
	£m	£m
External Borrowing	285	423
Interest and repayment of principal costs	15	24

Interest repayment cost as a % of net revenue budget	14%	22%

Investment Fund Purchases only	As at 31/12/18	Projected 31/3/21	10% sensitivity On Asset value and income
	£m	£m	£m
External Borrowing	152	200	
Interest and repayment of principal costs	6	8	
Rental Income from Investment Properties	(9)	(12)	1.2
Estimated Value of underlying assets for prudential borrowing	144	189	(18.9)
Interest and repayment cost as a % of net revenue budget	5%	7%	
Interest and repayment cost net of investment properties as a % of net revenue budget	(3)%	(4)%	

Potential impact of investment market fluctuations

1. Value of rental income on investment properties decreases by 10%. Assuming £200m invested, revenue budget will have a shortfall of £1.2m pa.

2. Value of underlying asset decreases by 10%. Assuming £200m invested, balance sheet value will fall of £18.9m.

3. General economic conditions may affect the both the rental income and asset values such as economic downturn, “Brexit” and the retail environment. Locally tenants may choose not renew leases or re-negotiate a lower rental.

3.3 Summary of the borrowing position

It can be seen that the risk principally lies in the Council’s investment portfolio. The remainder of the borrowing is linked to a range of operational assets which are expected to be used in the long term and have a full provision for the full recovery of principal over the asset life. All operational assets are supported by a robust business case and while there is a risk in income returns not being achieved overall these are not significant.

In relation to investment properties these are more sensitive to the market fluctuations identified above. A MRP is applied to repay the borrowing over the estimated asset life (up to the maximum 50 year asset life identified in the MHCLG Statutory Guidance). An Investment Fund reserve is used (funded from rental income) to mitigate against future income volatility on these assets.

Due to the current low borrowing rates the Council has fixed all of its loans and adopted a flat maturity profile, this mitigates the risk of increasing rates in the long term. However the increased borrowing will increase the council’s fixed interest and borrowing costs to be in excess of £24m by 2021, which will be an annual charge to the revenue budget. This fixed cost is partially offset by income streams from the assets funded from borrowing.

3.4 Head of Finance Report

Within the Prudential Code It is the responsibility of the Chief Finance Officer to explicitly report on the delivery, affordability and the risks associated with this Strategy.

Delivery

The delivery of the individual schemes on the plan are directly linked to the original approval of the capital project supported by each project having a client officer and an project manager who are responsible for the delivery of the project (appropriate skills, contracting, planning etc.) and the subsequent achievement of the objectives of that project.

Members, via Overview and Scrutiny and Council receive quarterly updates to the capital plan. These updates are driven by the requirement by financial reporting, however in doing so Members can review and challenge the delivery of projects and any changes to both the timing and value of the capital plan.

If subsequent to the capital project being completed there are variations to the income expected to be generated from that asset, these will be reported as a variance in the quarterly revenue budget reporting and if ongoing be included in the following years revenue budget proposals.

The Council's senior leadership team has oversight for the delivery of and challenge to the capital plan.

Affordability

Affordability is critical in applying the capital strategy and approving projects for inclusion in the capital plan. This is mostly demonstrated by a specific report on the project being presented to council for approval supported by a business case identifying the expenditure and funding, appraisal of alternative options and the risks and rewards for the approval of the scheme.

All projects need to have a clear funding source. If external funding such as an external grant is to be used there needs to be a clear funding commitment.

Affordability of each project needs to be clear, not only for the funding of the capital spend, but also to cover any ongoing costs of the operation and funding of that capital spend.

Where borrowing is to be used the affordability is of greater importance and the affordability has to include the interest costs of that borrowing and the provision for the repayment of the borrowing. This repayment is matched to a prudent asset life and any income streams estimated to fund this asset must be sustainable. The "rules" around the governance of this borrowing is outlined in the prudential code (as summarised above).

At no stage should the asset value be lower than the value of outstanding debt unless there is a clear plan to mitigate that shortfall or to sell that asset.

Risks

The risks associated with a significant capital plan and a significant level of borrowing can be mitigated and indeed should be mitigated as “business as usual”. I.e. all capital projects are supported by business plan, have adequate project management and/or project boards, suitable skills for the delivery of the project, tax planning, cash flow, clear operational plan for the use of the asset, use of specific committees, security and due diligence on loans and purchases, use of external advice where appropriate, project contingencies, full tender process and regular and transparent reporting to members.

There are clear links from the capital plan to both the treasury management strategy, prudential indicators, authorised borrowing limits and the revenue budget. These are also subject to review and oversight by members at Audit Committee and Council.

For any new borrowing, and this is a greater risk as the value of borrowing increases, this does increase the councils overall liabilities that will need to be repaid in the future. In addition this increases the Council’s level of fixed interest and repayment costs that it will incur each year. This is currently increasing rapidly and could exceed a borrowing liability of £423m and ongoing fixed costs of approx. £24m per annum by 2021. This is a clear risk that all members need to be aware of.

However this risk for all assets is mitigated by a robust business case and a full MRP that will repay the borrowing costs over a (prudent) asset life. Any variation in expected income is an issue however given the wide range of operational assets and different income streams this is not a significant risk.

As outlined above in the position statement, investment properties are a different type and level of risk. Risk arises from both variations in income streams (tenant non-renewal etc.) and from asset values (impact economic conditions and retail trends etc.). The Council has established a clear strategy, criteria and a governance route for these purchases (Investment and Regeneration Committee and Council) which has included member training, second opinion on asset values, due diligence, site visits, surveys etc.

There are risks (and rewards) associated with the purchase of this type of assets, therefore all members need to have sight of, and understand the risks and rewards inherent in these commercial investments.

Conclusion

The current system of borrowing is still a self-regulatory system which means that responsibility for borrowing decisions, and the level of borrowing incurred by a Council are determined at a local level. In particular elected members have a key role.

“..the responsibility for decision making and ongoing monitoring in respect of capital expenditure, investment and borrowing, including prudential indicators, remains with full Council”. Prudential Code December 2017

The Head of Finance’s personal view is that borrowing decisions result in a long term commitment to fund that borrowing, and that all decision making should be as transparent as possible both all Members and the residents of Torbay.

The pace and level of change in the council’s borrowing is significant. The Council’s position by the end of 2020/21 could be £423m of borrowing, with a £24m ongoing revenue cost and £12m of rental or interest income from Investment Fund activities. Therefore all members need to be fully informed as to all implications of its capital investment decisions, in particular those funded from borrowing.

Summary of Assets funded by Council Borrowing **Appendix 1**

Investment Fund purchases shaded

	Net Debt on Asset	Total Repayment period	Annual Interest and Repayment Cost	Income Steam or saving to cover Debt
	£m (rounded)	years	£m	
DCC Transferred Debt from 1998	19	50	1	
Supported Borrowing – mostly schools and transport spend from 1998 to 2010.	73	50	5	
Sub Total:	**92**		**6**	
Individual Schemes funded or part funded from borrowing (>£1m rounded)				
Beach Chalets	2	10/25		Yes
Brixham Regeneration	4	40		Yes
Car Parks	1	25		No
Haldon pier	2	25		No
Inner harbour pontoons	1	25		Yes
Office Rationalisation	7	25		Yes
Paignton Library	3	40		Yes (Part)
Princess Promenade	2	25		No
South Devon Highway	15	40		No
Street Lighting	1	4		Yes
Toilets	1	25		No
Torquay Town Dock	1	25		Yes
Capital loan – TDA, Kings Ash House	2	25		Yes
Wren Park – Investment	21	50		Yes
Ferndown – Investment	27	50		Yes
Gadeon House – Investment	17	50		Yes
Fugro House – Investment	21	50		Yes
Capital Loan - South Devon College	4	100		Yes
Capital Loan – Care Home	1	25		Yes
Employment Space – White Rock	7	25		Yes
Medway – Investment	32	50		
Sub Total:	**172**		**9**	
Total Borrowing Requirement – as at 1/4/18 (Actual debt £273m)	**264**		**15**	
2018/19 Individual Schemes funded or part funded from borrowing				
Capital Loan – Parkwood Leisure	2	12		Yes
Woodwater House – Investment	10	50		Yes
Twyver House - Investment	13	35		Yes
The Range - Investment	9	35		Yes

Factory Unit Bodmin - Investment	3	35		Yes
Edginswell Business park - Land	3	25/40		Yes
Sub Total:	**40**		**2**	
Total Borrowing Requirement – as at 31/12/18 (Actual debt £285m)	**£304m**		**17**	
Borrowing approved but not (fully) spent as at 31/12/18				
THAT Group Loan	9	10?		Yes
Amazon, Exeter	15	50		Yes
Hotel, Chippenham	7	35		Yes
Old Toll House	1	35		Yes
Investment Fund to £200m	14	50		Yes
Claylands Redevelopment	8	25/40		Yes
Corporate IT	1	10		No
Edginswell Business park - building	4	25/40		Yes
EPIC	2	25		Yes
Major Structural Repairs	1	25		No
Breakwater, Brixham	2	25		No
Oxen Cove Jetty	1	40		Yes
Paignton Harbour Lights	1	25		Yes
South Devon Highway (Remainder)	3	40		No
Town Centre Regeneration (TCR)	14	25		Yes
Harbour View Car Park – TCR	11	35		Yes
Capital Loan – Housing Company	25	25		Yes
Capital Loan – TDA Paignton Units	2	25		Yes
Toilets – Healthmatic contract	1	25		Yes
Sub Total:	**119**		**7**	
Estimated Borrowing Requirement – as at 31/3/21	**423**		**24**	
PFI Schemes – EFW & Schools	*19*			No
Estimated Capital Financing Requirement – as at 31/3/21	***442***			

Note: The **capital financing requirement** is a calculation based on the Council's balance sheet to reflect the Council's underlying need to borrow to finance its capital expenditure. This calculation also includes any other long term financing of its assets such as PFI schemes and finance leases. Actual borrowing may be higher or lower than the capital financing requirement at a point in time, but in the medium term actual council borrowing and asset related liabilities should not exceed this value.

Appendix 2 - Definition of Capital Expenditure

Capital investment is simply described as:

Expenditure on the acquisition, creation or enhancement of "non-current assets" (non-current assets are items of land & property which have a useful life of more than 1 year)

This definition of capital expenditure that the Council has to comply with for the classification and, therefore, the funding of capital expenditure in linked to International Financial Reporting Standards. "Qualifying Capital Expenditure" under s25 of Local Government Act 2003 is defined when:

"The expenditure results in the acquisition, construction or enhancement of fixed assets (tangible and intangible) in accordance with "<u>proper practices</u>""

"<u>Proper Practice</u>" (from 01/04/10) is under International Financial Reporting Standards (IFRS) rules. The relevant standard is IAS16 which has the following definition of capital expenditure:

"Expenses that are <u>directly attributable</u> to bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management".

"<u>Directly attributable</u>" i.e. if building a school – costs linked to the actual construction of the building, not temporary accommodation, moving people around etc.

Subsequent Capital Expenditure on an asset is defined as:

"Expenses that make it probable that <u>future economic benefits</u> will flow to the authority and whose cost can be measured reliably" Subject to….. "if the expenditure is to replace a component, the old component must be written out of the balance sheet".

<u>Future economic benefits</u> i.e. it is not necessary for the expenditure to improve the condition of the asset beyond its previously assessed standard of performance – the measurement is against the actual standard of performance at the date of expenditure; e.g. if service potential or asset life is increased.

CAPITAL PLAN - RESERVE LIST DECEMBER 2018

Capital Scheme	Ref.	Main Funder	Cost to Council £m
Protecting Children			
PARIS replacement - social care case management	100	TC	1.000
Funding for primary school places in Paignton (beyond existing allocations)	101	TC	1.800
Prosperous Torbay			
Town Centres Master plans – (beyond £25m allocation)	200	TC	tbc
Brixham Town Centre redevelopment	201	TC	tbc
Multi Storey Car Parks R&M Backlog	202	TC	3.200
Freshwater Car Park expansion	203	TC	tbc
Riviera Centre - R&M backlog	205	TC	1.000
Healthy Lifestyles			
none	300		
Attractive and Safe Place			
Torre Abbey Mansion Phase Three - match funding	401	EH	1.200
Backlog Transport Infrastructure R&M	402	TC	20.000
Environment Agency Schemes - match funding - various	403	EA	tbc
Backlog Property Assets R&M	404	TC	22.000
Princess & Haldon Piers structural repair	405	TC	4.600
TOR2 Asset buyback at end of contract/future waste solutions	406	TC	tbc
Car Park Fencing replacement	407	TC	0.062
Cockington Court - R&M backlog	408	TC	0.700
Willows Sport Pitches improvements	409	TC	0.500
Princess Theatre Investment	410	AC	1.000
Illumination (Festoon lighting) Replacement - phase 2	411	TC	0.072
Oldway Mansion - Future Use of Asset	412	TC	tbc
Torquay Harbourside, Option 1 (Public Realm)	413	TC	0.350
Torquay Harbourside, Option 2 (Extend Torquay Harbour)	414	TC	4.000
Torquay Harbourside, Option 3 (New Torquay Harbour)	415	TC	7.000
Vulnerable Adults			
Affordable Housing - via Housing Company (beyond £25m allocation)	500	TC	tbc
Extra Care Housing	501	TC	tbc
Note:			

Structural Highways and Integrated Transport schemes as per specific planning documents for both these functions

NEWS PROJECTS TO BE ADDED FOR 2018 UPDATE:

Brixham Harbour Regeneration (N Arm breakwater, Fish Quay expansion & pontoon berths)	600	TC	14.000
Crossways, Paignton - purchase	601	TC	tbc
Upton Place - approved scheme not progressed	602	TC	tbc
Waste Vehicles purchase - post TOR2	603	TC	5.000
Investment in former TOR2 services	604	TC	tbc
Ongoing Investment in IT	605	TC	0.500

Meeting: **Overview & Scrutiny Board** **30 January 2019**

Council **7 February 2019**

Wards Affected: All

Report Title: Review of Reserves 2019/20

Executive Lead Contact Details: Elected Mayor Gordon Oliver, mayor@torbay.gov.uk

Supporting Officer Contact Details: martin.phillips@torbay.gov.uk

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1. Purpose

1.1 The Council holds a number of reserves as part of its approach to maintaining a sound financial position, protecting the Council to some degree from volatility in its budget going forward. The requirement for financial reserves is linked to legislation such as the Local Government Act 1992 which requires councils to "have regard" to the level of reserves needed to meet future expenditure when calculating a budget. Part of sound financial management is to assess the adequacy of these reserves and release those reserves no longer required.

2. Proposed Decision

2.1 Council approve that:

a) Up to £1.0m is earmarked from the Comprehensive Spending Review Reserve to fund the balance of the predicted 2018/19 Council overspend; and

b) £2.1m of reserves identified in paragraph 4.2 of this report are transferred to both the Comprehensive Spending Review Reserve (£1.1m) and the IT reserve (£1.0m) to support future IT replacement and IT investment for all services including a replacement Children's Services care management system.

3 Reasons for Decision

3.1 A Review of Reserves is a key part of the Council's budget setting process. Consideration of reserve levels is linked to legislation for budget setting contained in both the Local Government Acts of 1992 (section 31A & 42A) and 2003 (section 25) and linked to section 114 of the Local Government Finance Act 1988.

3.2 The Council is facing significant financial pressures in 2018/19 from children's social care with the current predicted overspend on this service of £4.2m (as at quarter three 18/19). Other services and recovery options are reporting a net saving of £1.5m resulting in a forecast overspend as at quarter three 18/19 of £2.7m. It is anticipated that additional funding options of £2.6m will be identified by year end to leave any balance to be funded from the Comprehensive Spending Review (CSR) Reserve.

3.3 Due to the significant financial risks facing the Council in 2019/20 and future years it is essential that the Council's reserves provide a sufficient contingency to meet this increasing risk and to ensure a robust budget. Consistent with the 2018/19 Review of Reserves and the Medium Term Financial Plan, it is recommended that, as a result of the level of current and previous year budget variations, to maintain the balance of the CSR Reserve at a minimum of £2m. This approach – in addition to maintaining the General Fund balance – was supported by CIPFA during their Financial Resilience inspection.

3.4 In addition to the rising demand pressures for social care, the financial risks facing the Council in 2020/21 are compounded by the uncertainty over future funding levels for the Council. In the absence of clarity from central government, councils, including Torbay, will inevitably aim to mitigate against that uncertainty. Uncertainties for Torbay Council include:

a) No funding allocations for 2020/21 onwards
b) Impact of Spending Review 2019 in 2020/21
c) Impact on new funding formula for Councils in 2020/21
d) (Probable) Ending of New Homes Bonus Grant in 2020/21
e) No allocations for Improved Better Care Fund for 2020/21
f) Impact of relative resource (council tax and service) equalisation in 2020/21
g) Impact of the new 75% NNDR retention scheme in 2020/21
h) Impact of the revised NNDR baselines in 2020/21
i) Revised payments under new Risk Share Agreement 2020/21
j) Future funding of Higher Needs Block in new schools funding formula 2021/22

3.5 The Council is undertaking a number of activities that have a higher level of risk associated with them. This includes the Investment Fund and, possibly, both affordable and extra care housing where the Council is investing a significant amount funded by prudential borrowing. Whilst significant business case analysis and due diligence of proposals is undertaken, there is always a risk that the projects will not deliver the income required to cover the "fixed" costs of the borrowing. These more commercial activities carry a higher level of risk and reward which is linked to changes in income streams (such as rent) and also fluctuations in the values of any underlying assets. The level of reserves needs to be considered in this context.

3.6 It is clear that the Council has lower levels of General Fund reserves than most other councils.

3.7 Members are again reminded of the advice previously given by the Head of Finance, that reserves should not be used for supporting ongoing recurring expenditure. Use in that way is not financially sustainable as reserves can only be spent once.

3.8 <u>Head of Finance Statement.</u>

3.9 The Council is continuing to face unprecedented financial challenges. I am satisfied that the Council's General Fund and Earmarked Reserves, including Insurance Reserves, are adequate for the Council's Financial Plans for 2019/20 to meet any known or predicted liabilities over the period in which the liabilities are expected to become due for payment, if the following actions are undertaken:

a) The CSR has a balance of £1.0m to fund 2018/19 projected overspend
b) The General Fund reserve has a minimum balance equal to 4% of net budget
c) That a minimum **ongoing** balance of £2m is in the CSR reserve
d) That Children's Social Care, deliver the improvements and cost reductions for 2019/20 and future years supported by a robust financial recovery plan
e) That the revised Risk Share Agreement for Adult Social Care is maintained for 2019/20

f) That a balanced revenue budget can be set for 2019/20
g) That the budgeted Investment Property surplus for 2019/20 is achieved.
h) That the Council continues to delivers its transformation programme at pace in short term

3.10 At this stage with the significant uncertainty in relation to central government funding for 2020/21 I am currently unable to give any assurance in relation to 2020/21. I recommend, however, that the Council continues to be prudent in its use of reserves and plans for future risks and their mitigation. These to include:

a) Maintaining a balance on CSR reserve of £2m
b) Protection to current level of General Fund Reserve
c) No reserves used to balance 2019/20 or future year budgets
d) Specific material risks still mitigated for – such as insurance, NNDR volatility and investment fund
e) Regular updates and awareness of the risks identified in the Medium Term Resource Plan
f) That the Council continues to delivers its transformation programme at pace in medium term
g) Continued focus on reducing spend in children's' social care
h) Renegotiation of risk share agreement for adult social care for 2020/21 onwards

For more detailed information on this proposal please refer to the supporting information attached.

Martin Phillips
Head of Finance

Supporting information

A1. Introduction

A1.1 A Review of Reserves is part of the Council's annual budget process.

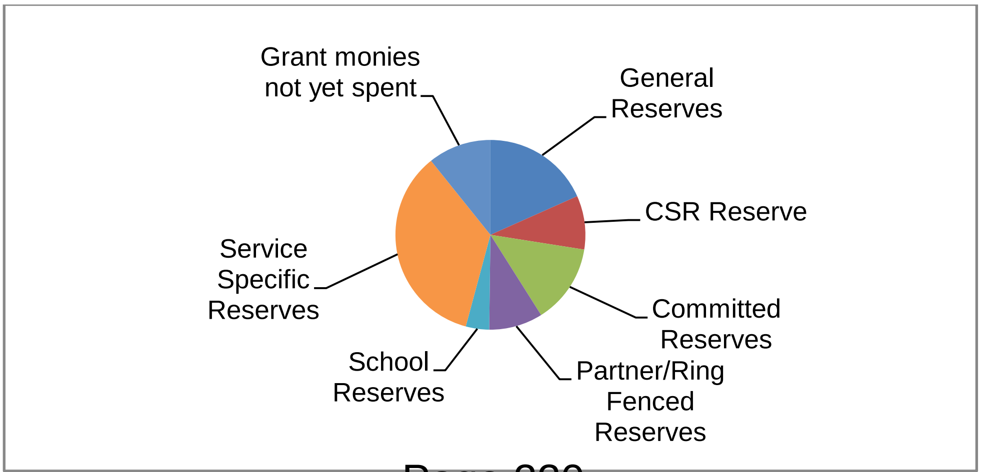
A2 Review of Reserves 2019/20

A2.1 Overview

A2.2 As at 31/03/2018 Torbay Council's reserves were as follows:-

	31/3/17 actual	Change in year	31/3/18 actual	31/3/19 estimate
	£m	£m	£m	£m
General Fund Reserve	4.6	0	4.6	4.6
Sub Total - General Reserves	**4.4**	4.6	4.6	4.6
Comprehensive Spending Review Reserve	4.4	(0.8)	3.6	2.3
Committed Reserves	4.8	0.8	5.6	3.4
Committed Reserves - Grant monies not yet spent	1.8	(0.9)	0.9	(2.7)
Partner/Ring Fenced Reserves	3.0	1.8	4.8	2.3
School Reserves	1.9	(1.1)	0.8	1.0
Investment Fund Reserve	0	1.6	1.6	1.7
Other Service Specific Reserves	7.1	0.7	7.8	7.1
Sub Total – Earmarked Reserves	**23.0**	**2.1**	**25.1**	**15.1**
Total Reserves	**27.6**	**2.1**	**29.7**	**19.7**

A2.3 From the table above, the estimated balances (in £m) as at 31/3/19 after the recommended allocations is as follows. The negative balance of £2.7m on grants is linked to the higher needs overspend in the dedicated schools grant.



A2.4 A list of the Council's Reserves as at 31/03/2018 is attached in Appendix 1.

A2.5 This report is, for another year, highly influenced by the significant financial risks facing the Council predominately from current financial pressures within children's social care (safeguarding and wellbeing). For 2019/20 the financial risk from Adults Social care has been mitigated by the revised Risk Share Agreement that limits the Council's exposure to financial risk. There is an ongoing risk that, without mitigation, in future years, the Council will not have enough identified reserves to support any one-off expenditure required to meet any in-year budget shortfalls, costs for restructuring due to budget reductions, any further significant changes to the children's social care expenditure and any delays in implementing savings.

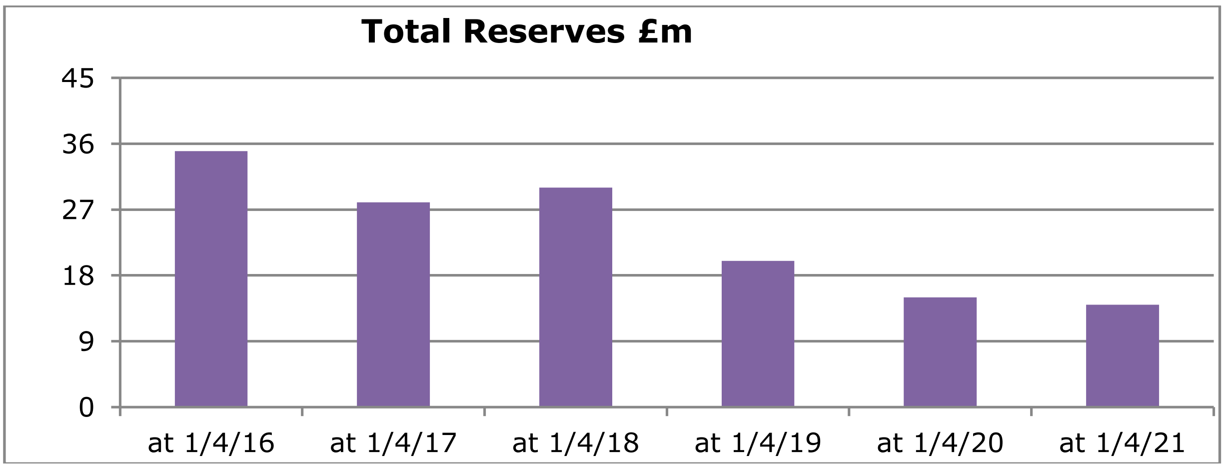
A2.6 Following consideration of the 2017/18 Review of Reserves, that was approved by Council, accepted that the significant financial pressures facing the Council in future years should be noted and "and agreed, as a policy decision, the allocation of additional funds, as required, to the Comprehensive Spending Review Reserve in each budget process to increase, and then maintain, an ongoing minimum balance in the reserve of £2m". This policy remains financially prudent for the Council.

A2.7 The Council has had unprecedented financial challenges from reduced funding levels over the past few years and is facing a further £4m reduction in its Revenue Support Grant in 2019/20 to £6m (from £42m in 2013/14), in addition to any future expenditure pressures such as inflation and increase in demand. There have been no funding announcements for 2020/21.

A2.8 As outlined in paragraph 3.2 above, given the significant uncertainly facing the Council it is clear that, more than ever, the Council needs to mitigate and plan for variations in income as well as expenditure.

A2.9 To be able to meet future years' budgets and reduce the reliance on the use of reducing reserves it is essential that the Council progresses and achieves savings and income generation from its Transformation Portfolio **and** an absolute reduction in the cost of Children Looked After

A2.10 Each reserve has been assessed for its estimated balance as at 31st March 2019 and for the estimated additions or withdrawals from the reserve during 2019/20 and future years. This is included in the table at Appendix 1. <u>This table is shown after the recommendations arising from this report,</u>



A2.11 The table, (based on this review of reserves), shows that the level of reserves is expected to decrease by £10m during 2018/19 to £20m. The actual balance at year end will depend on spend during the year and any year end service carry forwards from unspent revenue funds and/or unspent grant allocations which usually results in higher reserve levels than predicted.

A2.12 Adults Social Care

A2.13 A revised risk share agreement was negotiated in October 2017 with both the Integrated Care Organisation (ICO) and Clinical Commissioning Group (CCG) for 2018/19 and 2019/20 with the Council funding a higher "fixed" annual payment in exchange for no exposure to the risk of changes in cost. This therefore reduces the exposure to financial risk on this service to nil. However if this fixed payment does not exist, at any point in the future, then the Council will again be exposed to the risk of volatility of both demand and cost in this key service. Key to future adult social care funding is the Improved Better Care Fund Grant (£7.7m in 19/20). There are currently no funding announcements for 2020/21 onwards. Therefore future risk assessments could be higher than the risk assessment for 2019/20.

A2.14 The Council in August 2018 started initial negotiations with both the ICO and CCG about the future structure and payment profile for a revised five year risk share agreement for 2020/21 onwards. Due to the notice periods within the various adult social care contracts, this needs to be agreed by the end of March 2019.

A2.15 Children's' Social Care

A2.16 This service has experienced a high level of financial volatility over the past few years and has exceeded its approved budget in recent years and is projected to overspend by £4.2m in 2018/19 (quarter 3). The number of Children Looked After increased by 20% from December 2017 to June 2018. This increase was on top of an existing level of numbers which were significantly above the "benchmark" for similar councils.

A2.17 The proposed budget for 2019/20 for the service is being increased to reflect the current year financial position for children's services with the aim of setting a robust budget for that service.

A2.18 As part of the 2014/15 Review of Reserves the Council approved "the transfer of £1.5m from the PFI Sinking Fund to Children's Services on an "invest to save" basis with a requirement for Children's Services to repay the reserve in future years". Members are again reminded that if the reserve is not repaid then it will be necessary for Children's Services to fund the future costs of the PFI school contract. The service will have to budget for and identify funding for these increased costs.

A2.19 Linking to the August 2018 Ofsted rating of "inadequate" for the service and previous inspection reports there is a need to replace the current case management system. The costs are yet to be confirmed and will depend, in part, on whether it is a joint procurement with Plymouth City Council. To support the funding the balance on the transformation reserve of £0.5m is to be transferred into the IT reserve for this purpose along with an additional allocation of £0.5m to a total of £1m for the purchase and implementation of the new system.

A3.0 Guidance on the Management of Reserves

A3.1 The guidance remains unchanged from previous years but is repeated as still valid.

A3.2 The CIPFA guidance on Reserves and Balances (LAAP bulletin 99 issued July 2014) advises that "Chief Finance Officers should take account of the strategic, operational and financial risks facing the authority. The assessment of risks should include external risks, such as flooding, as well as internal risks, such as the ability to deliver planned efficiency savings".

A3.3 The CIFPA guidance lists a number of assumptions to be considered when forming a budget, which although these directly link to the setting of a budget, the level of risk and uncertainty of these assumptions are be relevant in determining an appropriate level of reserves. Assumptions to consider include inflation, demand led pressures, delivery of planned savings and risks from new partnerships or ways of working.

A3.4 In undertaking a detailed annual review of reserves that is presented to both Overview and Scrutiny Board and Council, Torbay Council is largely complying with most of the recommendations in the Audit Commission report "Striking a Balance".

A3.5 It is important to differentiate between general and uncommitted reserves and reserves held for a specific purpose. It is only the general and uncommitted reserves that could be used to support "short term costs". As shown in the table above, as at 31st March 2018 the Council's uncommitted reserves were part of the Comprehensive Spending Review reserve and the Council's general fund balance (£4.6m) which is discussed later. The Council does not have a large value of unallocated reserves compared to its overall budget or compared to the value of budget reductions required over the next few years or compared to the value of the in year budget variances in social care over the past few years.

A3.6 The Head of Finance is reluctant to use any reserve funds, which can only be spent once, to support ongoing expenditure as this is not financially sustainable, as it only delays the impact of the required budget reductions.

A3.7 This position taken by the Head of Finance is similar to CIPFA guidance which says "Councils should be particularly wary about using one off reserves to deal with shortfalls in current funding. Where such action is to be taken, this should be made explicit, and an explanation given as how such expenditure will be funded in the medium to long term".

A3.8 In July 2018 CIPFA consulted on a "financial resilience" score for all Councils. The consultation includes indicators based on the movement up/down in reserves over three years and the level of general fund reserve to revenue spend and the level of earmarked reserves to revenue spend.

A4 Earmarked Reserves

A4.1 The following paragraphs make specific comments on a number of reserves. A summary of each reserve and their purpose is included as Appendix Two. During this review a number of balances (£0.4m) have been identified by Head of Finance as surplus and these have been transferred to the CSR Reserve. Further information on all Council Reserves is available that shows details about each reserve, including the reason/purpose of the reserve, how and when the reserve can be used and the process for retention of each reserve to ensure continuing relevance and adequacy.

A4.2 Proposals for the reallocation of reserves:

Reserve	Value £m	Note
Allocated From:		
NNDR Equalisation Reserve	0.5	Reduce balance to target level
Insurance Reserve	0.5	Reduce balance for future, as yet unknown, claims
Capital Funding Reserve	0.7	Release value in relation to Investment Properties
Other Reserves	0.4	Balance released from other reserves where no expectation of use
Sub Total	**2.1**	
Allocated To:		
CSR Reserve	(1.1)	To ensure balance remains at £2m after £1.0m used to fund balance of 18/19 overspend
IT Replacement Reserve	(1.0)	For CSC care management system & IT investment and software and hardware replacement
Sub Total	**(2.1)**	

A4.3 Comprehensive Spending Review Reserve

The Comprehensive Spending Review Reserve was originally established in 2010/11. The purpose of this reserve was identified as follows:

- short term support for the (revenue) budget while services adjust spending to new levels
- financing of any costs in relation to reducing services and therefore staff numbers
- to support any initial costs of changing service delivery that will result in future savings

Any use of this reserve for invest to save schemes must be supported by a robust business case and agreed by the Head of Finance.

Due to the significant financial risks facing the Council in 2019/20 and future years it is essential that the Council's reserves provide a sufficient contingency to meet this increasing risk and to ensure a robust budget. Consistent to the 2018/19 Review of Reserves and the Medium Term Financial Plan, it is still recommended that, as a result of the level of current and previous year budget variations, to maintain the balance at a minimum of £2m. This approach to maintain a balance of £2m in the CSR was supported by CIPFA during their Financial Resilience inspection. (This is in addition to the general fund balance).

A number of specific issues are also to be addressed from this reserve:

- Costs of exit packages arising from budget decisions will continue to be funded
- Part funding of £350,000 for the office rationalisation project focusing on improvement works to Electric House to be repaid from future year rental income from the lease of two floors of Torhill House
- Allocation of up to £400,000 for one off costs from the new contractual arrangements for the provision of library services from April 2018.
- Allocation of up to £150,000 for one off costs from the new contractual arrangements for the provision of toilet services from April 2018.
- Allocation of up to £71,000 to support the setup of the Youth Trust.
- Allocation of £149,000 to support the Parkwood Leisure contract
- Allocation of £50,000 to support community activities.

As a result of the above issues it is proposed to reallocate £1.1m into the CSR reserve from other reserves (see para 4.2 above) to enable the specific issues above to be funded as agreed, contribute £1.0m to fund the balance of the 18/19 overspend and maintain a balance in the reserve of at least £2m.

A4.4 Committed Reserves

These reserves arise as a result of differences in timing between the reserve being established and the expenditure being incurred and are therefore, in effect, committed reserves. Some of these are short term, such as service carry forwards, unspent revenue grants and the collection fund, where the expenditure should be incurred within 12 months. Other reserves are spreading costs over a number of years, such as the PFI sinking fund that equalises the costs of the annual unitary charge over the 25 years of the contract.

Within revenue grants, the reserve for Dedicated Schools Grant is estimated to be "negative" by £3m by the end of 18/19. Funding for schools activities are primarily funded though the dedicated schools grant (DSG). The Council does not receive any schools funding within its own grant and funding allocations. This grant is allocated in "blocks" to cover different activities – in 18/19 these "blocks" are early years, higher needs and schools. The higher needs block has in the past two years have been under financial pressure as a result of an increasing level of referrals from schools for higher needs support for children resulting in a cumulative over spend of £3m.

The Council does not receive any funding for schools therefore the over spend will remain in the DSG to be funded in future years and is not a cost the Council will fund. As a recognition of this pressure the Schools Forum (who have a governance role in the allocation of schools funding) have been supportive and agreed an allocation of 0.5% of the 18/19 schools block of the DSG (approx. £0.350m) to part fund this overspend and set up a Higher Needs Recovery group.

For 2019/20 the Schools Forum, with support from the Higher Needs Recovery group have agreed both a package of funding and have supported the Council's "disapplication" request to the Department of Education to move funding from the schools block to the higher needs block within the Dedicated Schools Grant. Consultation of these options commenced in October 2018. This will aim to set a balanced budget for the higher needs service in 2019/20.

The above is positive actions however, if the DFE reject the disapplication there will be a shortfall of at least £1m to fund in 2019/20. These action do not, at this stage, address the estimated accumulated deficit of £3m on the dedicated schools grant reserve.

A4.5 Partner/Ring Fenced Reserves

These reserves are outside the Council's direct control, in that the reserves are linked to funds held (or are managed by) by partner organisations, schools or ring fenced Council services such public health. The harbour reserves have been included in this category as the service operates as if it were ring fenced.

The balance of £0.8m held by schools as at 31st March 2018 under delegated funds will change based on expenditure in schools and are likely to continue to reduce as more Council schools become academies. As a result a reduction in the balances held by schools has been shown in Appendix 1.

A4.6 Specific Issue Reserves

These are reserves set aside for specific expenditure purposes.

A4.7 Investment Fund Reserve

The Council has now invested £150m in investment property and capital loans (as at October 2018) and based on approvals to date could invest another £50m. This, more commercial activity, introduces new risks and rewards for the Council to manage. The risks in relation to variations in income such as changes in rent, void periods, rent reviews, landlord costs etc. This is mitigated by making an annual contribution to a specific reserve that, as a principal is 0.25% per annum of the purchase costs. This will be reviewed by Head of Finance in light of any known or potential changes, such as a rent free period from a negotiated rent reviews, in future years.

The Council also has to mitigate for any changes in asset value and fund the repayment of the borrowing incurred on the purchase of the asset. It is important that the value of the asset does not reduce below the level of outstanding debt on the asset. To mitigate this risk, and to provide for the repayment of the borrowing if the asset is not sold in the medium term, a contribution to the capital funding reserve will be made.

The Investment and Regeneration Committee remit now includes regeneration. Future reserve levels to mitigate the risk from regeneration projects will be assessed as schemes are progressed.

A4.8 IT Replacement Reserve

The 2019/20 revenue budget proposals include a level of investment in IT. Over the next 10 years, on average, £0.1m will be required each year for replacement of PCs, iPads and tablets. In addition a further £0.1m (on average) will be required each year for replacement of IT infrastructure. This spend may however be within an IT outsourced contract. Due to the ongoing demand for both improved and replacement hardware and service specific software a further £0.5m is proposed to be allocated to this reserve.

As referred to in paragraph A2.20 above, there is a need to replace the current case management system. The costs are yet to be confirmed and will depend, in part, on whether it is a joint procurement with Plymouth. To support the funding the existing balance on the transformation reserve of £0.5m is to be transferred into the IT reserve for this purpose along with an additional allocation of £0.5m to a total of £1m for the purchase and implementation of the new system.

The two proposal above increase the IT replacement reserve by £1.5m, of which £0.5m is from an existing reserve and £1m is an additional allocation.

A4.9 Insurance Reserve

The balance as at March 2018 for both the insurance reserve was £3.3 million. The Council's insurance team in consultation with the Head of Finance reviews the earmarked amounts on an annual basis and takes advice from an insurance actuary to ensure the adequacy of the reserves.

The Council currently has a very strong low risk profile based on its claims history however this could be adversely affected if the Council incurs a number of higher cost claims. Given the potential long lead in time for certain insurance claims, such as those relating to social care and certain types of industrial diseases, any shortfall in this reserve may not be realised for a number of years. This reserve will require careful monitoring of the impact of future liabilities on a regular basis.

A new insurance risk arising from the purchase of investment properties is to ensure that these properties are adequately covered. This cost under the lease is met by the tenants. Insurance related risks for the Council companies such as TDA and the Housing companies are funded by those companies.

A5 Review of Provisions, other Potential Liabilities and potential risk from Council Companies

The Council has provided a number of guarantees for pension liabilities to services now outsourced, such as TOR2 and the TDA, however it is unlikely that these guarantees will result in a cash payment from the Council. In the exceptional case of the pension liability being realised it is likely the liability will be transferred to the Council's own pension liability which will be reflected in future employer contribution rates.

All companies owned by the Council are ultimately part of the Council's overall (consolidated) financial position and as CIPFA states that "the statutory role of the CFO does not stop at the boundaries of the local authority but extends into its partnerships, devolved arrangements, joint ventures and companies in which the authority has an interest".

The TDA, 100% owned by the Council, has now established a trading subsidiary Complete Cleaning Solutions Limited and intends to establish further companies during 2018/18. Although there are no significant risks from these companies expected, these companies are owned by the Council therefore the Council must ensure it reviews the Company's performance.

The Council has also now set up Torbay Housing Company and a holding company and a development company, all 100% owned by the Council. As with the TDA and its companies, although there are no significant risks from these companies expected, these companies are owned by the Council therefore the Council must ensure it reviews the Company's performance.

In addition to earmarked and general reserves the Council also holds provisions for a number of issues where the Council has a clear liability which is likely to result in a payment but the amount and timing of the potential payment is uncertain.

As at 31/03/2018 Torbay Council's provisions were as follows:-

31/3/17		**31/3/18**	**Change**
£m		**£m**	£m
0.4	Insurance Provision	**0.3**	(0.1)
1.5	NNDR Appeals	**1.8**	0.3
1.9	**Total Provisions**	**2.1**	**0.2**

The provisions above were based on the latest information as to the value of the potential liability, as such no changes in the value of these are proposed. It is expected that provisions will be typically used within 2018/19 except insurance where the "time lag" on claims being notified and settled is often over one year. Other provisions tend to be linked to specific issues.

The provision for NNDR appeals as at 31st March 2018 is part of the NNDR Business Rates Retention Scheme and forms part of the Collection Fund. The Council gains or loses a 49% share of any movements in NNDR income (no impact from the 100% Pilot in

18/19 only). This includes the ongoing impact and repayment from any successful NNDR appeals made.

A6 Collection Fund

The Collection Fund Adjustment Account (formally Collection Fund Reserve) is slightly different from all other reserves and includes both Council Tax and NNDR. For Council Tax, legislation requires any balance (surplus or deficit) to be applied at the next Council Tax setting to the three major precepting authorities (Torbay, Devon & Cornwall Police Authority and Devon and Somerset Fire Authority). (Note Brixham Town Council as a minor precepting body does not bear any share of surplus or deficit).

For NNDR, as a result of the introduction of the new Local Government funding arrangements from April 2013, the Council bears a 49% share of the risk and reward of changes in the level of National Non Domestic Rate income. Changes from the Council's initial National Non Domestic Rate income estimate arising from changes in yield and collection will now also result in a Collection Fund surplus or deficit. The Council's share of any surplus or deficit will impact on the forthcoming year. The Council holds a NNDR equalisation reserve to help smooth the volatility of income, set at 5% of the Council's annual NNDR retained income under a 49% retention scheme.

Estimates of future year surpluses are included in the 2019/20 Budget Setting process and reflected in the Medium Term Resource Plan.

The Council, as part of a joint submission with all other Councils in Devon, applied to be a NNDR pilot area for 2018/19. This bid approved by DCLG for 2018/19 only, as only one year "pilot status" was confirmed, as a result the Councils risk on NNDR volatility and growth will be a shared risk between all Devon Council's. This should provide a level of certainty for Torbay's NNDR income in 2018/19, before returning to a 49% NNDR scheme in 2019/20.

A7 Pensions and Loans (Non Treasury Investments)

Pensions: The Council has provided a number of guarantees in respect of pensions when staff have transferred from the Council's employment to an alternative supplier who has set up a LGPS pension scheme as an "admitted body". These are not guarantees to the supplier but to the pension fund in the event of the insolvency of the supplier. As such, under accounting standards (IFRS), these are accounted for as insurance contracts.

Loans: The Council has provided a number of loans to the private sector and to it subsidiary companies. If a loan defaults or under the "expected loss" model of assessing the fair value of a loan then the loss will be charged to the council's revenue budget in the year the loss is recognised. The value of the Council loans is now significant – including £0.9m Torbay Coast and Countryside Trust, £1.4m TDA, £9m to That Group for Torwood Street (when drawn down), £1.7m to Parkwood Leisure and £1.2m to Harbour Care. At year end the Chief Finance Officer will assess each loan for actual or potential "expected losses" and will make a charge to revenue in year or set aside funds as a "bad debt" provision as required.

Investment Properties: The Council has purchased a number of investment properties. Risk and reserve management of these is discussed in paragraph A4.15 above.

A8 General Fund Reserve -Risk Assessment and Sensitivity/Scenario Appraisal

The Council’s General Fund Reserves of £4.6 million represents 4.2% of the Council’s net 2018/19 budget. This level of “unallocated financial reserves” is lower than average compared to other unitary Councils.

The CIPFA guidance on reserves does not recommend a minimum level of reserves. It states that “Local Authorities should make their own judgments on such matters taking into account all the relevant local circumstances which will vary between Authorities”. CIPFA also state that “a well-managed authority with a prudent approach to budgeting should be able to operate with a relatively low level of reserves”.

A risk assessment of all 2018/19 budgets suggest that the maximum overspend in any year, if all services were subject to adverse pressures and where there isn’t any specific service related earmarked reserve, would be £7.4 million or 7% of 2018/19 net revenue budget. An estimate should be added to reflect any, as yet unknown, in year budget pressures, potential Bellwin scheme claims (emergency planning),to reflect the financial risks inherent in any significant new partnerships such as Housing Company and Children’s services partnership with Plymouth City Council, investments, funding changes, outsourcing or capital developments, say £1.0 million. This would result in a required General Fund reserve of £8.4 million or 8% of net budget. The current level of General Fund Reserve will cover just over 50% of this sum.

The risk above has been mitigated as the council has a fixed payment to for Adult Social care in 2018/19 and 2019/20. This fixed payment (agreed October 2017) does remove volatility from the largest budget/service the Council has. However if this fixed payment does not exist, say after the contract period, then the Council will again be exposed to the risk of volatility of both demand and cost in this key service In addition the challenges of achieving the ongoing significant budget reductions from central government create a major risk of budget variations.

A prudent risk based approach to budget setting and reserve levels will have mitigated some risks of an overspend, although it should be noted that in areas of high risk such as, Children's Social Care, have already declared significant budget pressures over the past few years. It is vital that the improvement plan and medium tern financial strategy for this service is delivered to reduce the levels of (financial) risk around this service. The 2019/20 Mayor’s final budget proposals include an additional £4.4m or 13% additional funds for this service which will help mitigate risks of a significant overspend.

However it is unlikely that all budgets will be adversely affected in the same year or that there will be no under spending arising from savings or additional income. Therefore the General Fund Reserve should be equal to 50% of the total assessed risk in any financial year (which equals to 3.8% of estimated 2018/19 net revenue budget). This for 2018/19 will result in a required general fund reserve balance of £4.2 million. At this stage the current general fund balance of £4.6 million is in line with that assessed target.

However following consideration of the above, in the opinion of the Head of Finance, as the level of Council’s reserve is low compared to other Councils and the continued spending pressures within children social care, therefore any option to increase this balance should be made.

The 2019/120 budget to be presented in February 2019 to Members will also include an assurance statement from the Head of Finance about the adequacy of the proposed financial reserves, in accordance with the requirements of section 25 of the Local Government Act 2003.

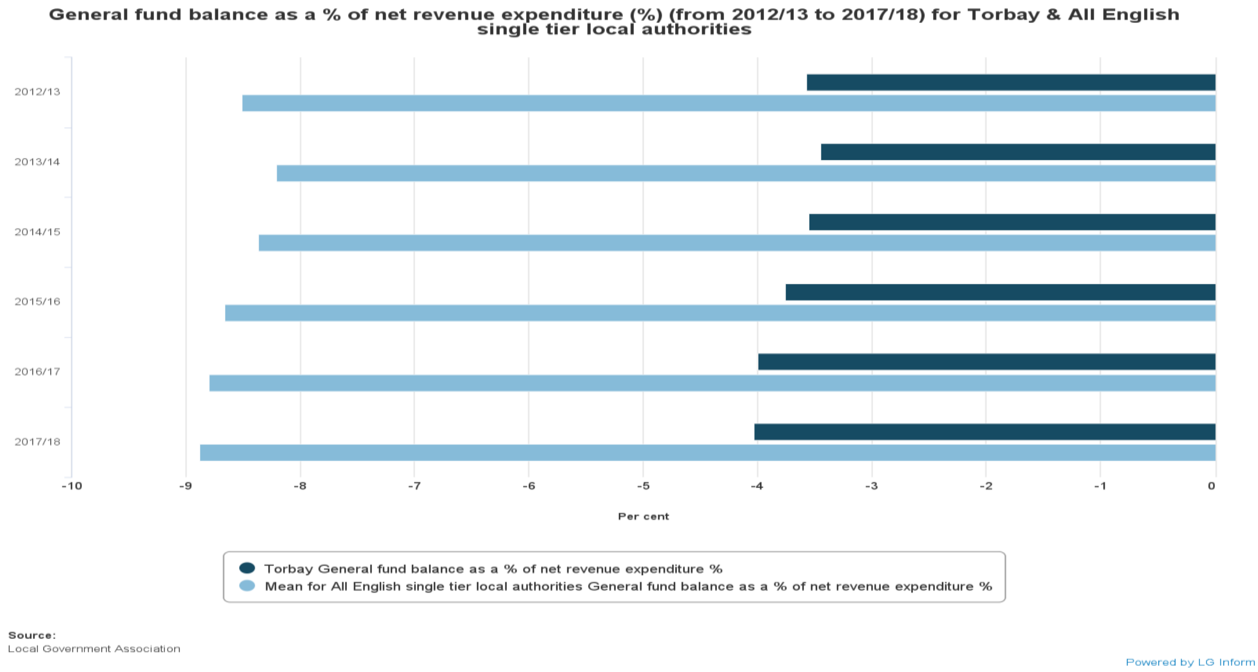
A9 **Capital Investment Plan**

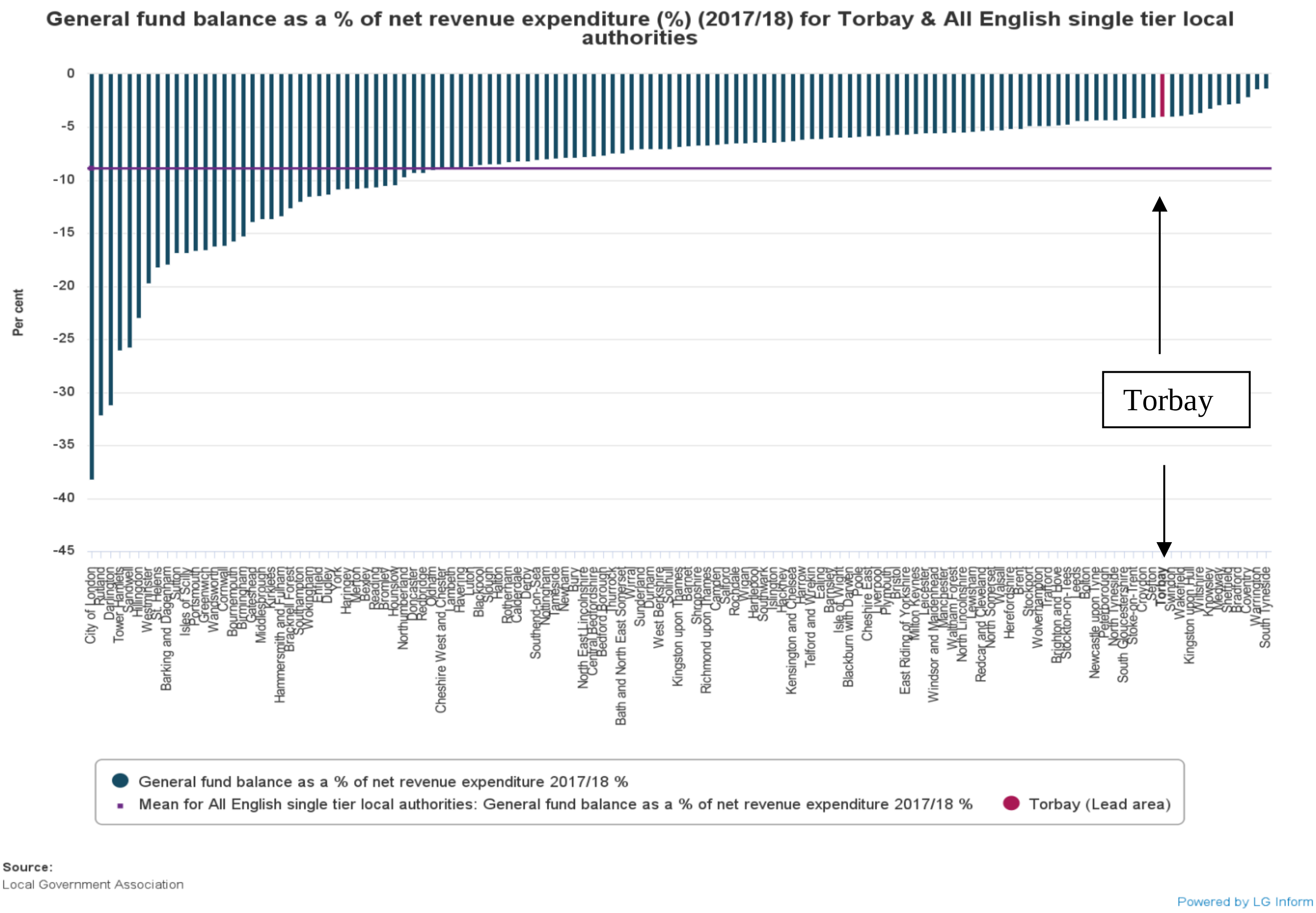
It is assumed that in the circumstances of a significant overspend within the Council's capital programme this will be covered by alterations to the timing of the Council's capital investment plan; use of the capital contingency or from additional borrowing within the Council's approved Prudential Indicators. Any additional borrowing costs would have to be met from the Council's revenue budget.

The Council's capital plan has a contingency of £0.6 million. It should be noted that all capital projects should have contingencies within the individual project costs.

A10 **Comparison with Other Councils:**

The Local Government Association holds statistical data for all Councils. This includes an indicator of the "general fund balance as a percentage of net revenue expenditure". Torbay's percentage for 2017/18 was 4% compared to an average for all unitary councils of 9%.





A11 Governance of Reserves.

Appendix 1 shows the projected balances of the reserves at the end of the current financial year and future years. These balances are based upon planned levels of spending. In the event of any unplanned expenditure occurring in the financial year current Standing Orders and Financial Regulations will apply.

The Reserves will continue to be reported as part of the Council's Statement of Accounts and subject to this annual review and challenge as part of the budget process by both members and senior officers. Councilors should consider the Council's General Fund Reserve as part of the annual budget setting process. Any quarterly reporting of issues relevant to earmarked reserves will be on an exception basis.

Schools reserves are part of the delegated schools funding and these reserves remain at the discretion of the Head Teachers and Governing Bodies.

A12 Risk assessment of preferred option

Outline of significant key risks

It is important that the issues raised in this report are considered by Members and appropriate action is taken, where necessary, to ensure that the Council has adequate reserves in the short and medium term. Failure to consider the issues raised within this report and take appropriate action could result in the Council having insufficient reserves that could adversely impact on the revenue budget and the longer term financial viability of the Council.

The major risks facing the Council at present are the extremely challenging budget reductions as part of the Government’s Comprehensive Spending Review and ongoing financial pressures from both Children’s social care and, in the longer term, adults’ social care.

It is important for the Council to review its risks and rewards in relation to new activities, such as Investment properties and its interests in its companies if the level of activity in those companies changes. Companies include the TDA and its subsidiary companies, the newly established Housing companies.

Appendices

Appendix 1	Review of Reserves 2019/20
Appendix 2	Summary of Council Reserves

APPENDIX 1

2019/20 - Review of Reserves

- **Reserves** - -	**Balance as at at 1/4/18** **£'000**	**Balance as at at 1/4/19** **£'000**	**Balance as at at 1/4/20** **£'000**	**Balance as at at 1/4/21** **£'000**	**Balance as at at 1/4/22** **£'000**
General Reserves					
General Fund	-4,623	-4,623	-4,623	-4,623	-4,623
	-4,623	-4,623	-4,623	-4,623	-4,623
Earmarked Reserves					
CSR Reserve					
Comprehensive Spending Review	-3,642	-2,331	-2,331	-2,431	-2,331
	-3,642	-2,331	-2,331	-2,431	-2,331
Committed Reserves:					
Approved Service Carry Forwards	-495	-193	-141	-84	-44
Capital Funding Reserve	-2,937	-1,500	-500	-200	0
Council Elections	-90	-128	0	-63	-125
Grants	-858	2,690	2,814	2,840	2,865
NNDR Collection Fund	-1,255	-755	-755	-755	-755
PFI Sinking Fund	-818	-788	-758	-591	-424
	-6,452	-673	660	1,147	1,517
Partner/Ring Fenced Reserves					
Adult Social care	-1,552	0	0	0	0
Devon Audit Partnership	-21	-21	-21	-21	-21
EDC Reserves (Funds paid in advance)	-805	-281	-131	-131	-131
Education Schools Exit Packages	-165	-150	-112	-84	-63
Harbours Reserves	-811	-695	-417	-201	-50
Public Health Reserve	-1,409	-1,121	-1,121	-1,121	-1,121
School Balances	-840	-1,022	-920	-828	-745
	-5,602	-3,289	-2,721	-2,385	-2,131
Specific issues					
Art Objects Purchased Fund	-25	0	0	0	0
Crisis Support Reserve	-594	-494	-394	-294	-194
Employment Fund	-163	-40	-19	0	0
Employment Issues	-24	0	0	0	0
Equipment Reserves	-188	-188	-168	-168	-168
Geopark	-46	-36	-26	-16	-6
Green Travel Plan	-106	-94	-82	-70	-70
Highway Reserves	-340	-300	-260	-235	-210
Insurance Reserves	-3,260	-2,760	-2,760	-2,760	-2,760
IT Equipment Reserve	-298	-1,500	-500	-500	-500
Investment Fund	-1,551	-1,736	-1,603	-1,635	-1,667
Museum	-25	-25	-25	-25	-25
Office Accommodation Reserve	-249	0	0	0	0
Oldway Mansion Reserve	-489	-301	-113	0	0

Planning Reserve	-318	-372	-132	-72	-72
Regeneration Reserve	-197	-47	-47	-47	-47
Salix Reserve	-103	-70	-142	-188	-232
Swimming Pool Reserve	-50	-50	-50	-50	-50
Town Centre Regeneration	-284	-85	-15	-20	-25
Sction 106	-35	-35	0	0	0
Tourism	-22	-12	-12	-12	-12
Training and Development Reserve	-34	0	0	0	0
Transformation Reserve	-567	-267	-67	-67	-67
Waste Strategy	-425	-425	0	0	0
	-9,391	-8,835	-6,415	-6,158	-6,104
Total Earmarked Reserves	-25,088	-15,128	-10,807	-9,827	-9,049
TOTAL RESERVES	**-29,711**	**-19,751**	**-15,430**	**-14,450**	**-13,672**

Appendix 2

Name of Reserve	**Description of Reserve**	**Responsible Officer**
Adult Social Care	Reserve for any adult social care funding to be used to support adult social care	Caroline Taylor Director of Adult Social Care
Capital Funding	To reserve funding for items in the approved Capital Plan Budget.	Martin Phillips Head of Finance
Carry Forwards	Balance of any Service specific Carry Forward of budget	Martin Phillips Head of Finance
Comprehensive Spending Review Reserve	To fund costs associated with meeting budget reductions as a result of the Government's comprehensive spending review.	Martin Phillips Head of Finance
Crisis Fund	Reserve to support the costs of social fund and exceptional hardship	Bob Clark Executive Head Customer Services
Regeneration/TDA Reserve	Reflects the value of funds awarded to the TDA where the work has yet to be completed.	Kevin Mowat Executive Head Business Services
Employment Issues Reserve	To support employment related issues, such as equal pay and payroll related issues.	Anne-Marie Bond Assistant Director Corporate and Business Services
Employment (Growth Fund) Reserve	Reserve established from the New Homes Bonus grant to create a Growth Fund to support employment opportunities.	Kevin Mowat Executive Head Business Services
Equipment Fund	To facilitate renewal of equipment within services where the replacement is at irregular periods.	Various
Geo Park Conference	To support costs of Geo Park activities	Kevin Mowat Executive Head Business Services
Grants recognised but not used	Reflects the value of revenue grants (without conditions) received by 31st March but not yet used to support expenditure	Martin Phillips Head of Finance
Harbours	Torquay, Paignton and Brixham Harbours – To finance Harbour expenditure schemes for the purpose of Harbour Users.	Kevin Mowat Executive Head Business Services
Highways Act Reserves	Reserve holding funds received under Highways Acts and other legislation where the Council holds funds to do works.	Ian Jones Head of Highways
Insurance Reserve	To set aside amounts to cover the future cost of past uninsured events which result in a loss to the Council. This reserve covers potential future liabilities arising from the Council's previous insurers Municipal Mutual Insurance Ltd not having sufficient solvency, to meet pre 1998 claims from Devon County Council, amounts for specific uninsured risks and a general reserve to meet as yet unknown insurance claims	Anne-Marie Bond Director Corporate Services
IT Equipment Reserve	To provide funds for priority driven replacements of IT equipment. Reserve to fund costs of the purchase of a replacement case management system for childrens' social care	Bob Clark Executive Head Customer Services

Investment Fund Reserve	Reserve to mitigate any variations in income or costs associated with Investment Fund properties such as void and rent free periods	Kevin Mowat Executive Head Business Services
NNDR Equalisation Reserve	Reserve to smooth the volatility of NNDR income including appeals, s31 grant and the performance of the Devon wide NNDR pool.	Martin Phillips Head of Finance
Office Accommodation Reserve	Reserve to help meet the short term revenue costs of the rationalisation of office accommodation.	Kevin Mowat Executive Head Business Services
Oldway Mansion Reserve	Reserve funded from the developer contribution to be used for the benefit of the Mansion.	Kevin Mowat Executive Head Business Services
Misc. Specific Reserves	Includes: Council Elections, , Art Objects, Devon Audit Partnership, Green Travel Plan and Salix (energy initiatives).	Various
PFI Sinking Fund	To provide funds to meet the liabilities under the PFI agreement over 25 years (The Spires and Homelands Schools) and to provide funding towards Paignton Community College expansion project.	Alison Botham Director of Children's Services
Planning Reserve	To provide for costs of Local Plan Inquiry held every 4/5 years and Masterplan delivery.	Kevin Mowat Executive Head Business Services
Public Health	Reflects carry forward of ring fenced funds for Public Health	Caroline Dimond Director Public Health
Regeneration Reserve	A reserve to support economic regeneration and employment initiatives	Kevin Mowat Executive Head Business Services
School Balances	Reflects the carry forward by schools of their delegated school budget share.	Rachel Williams Head of Schools
School Redundancy Reserve	Reserve to support the costs of redundancies for schools based staff	Alison Botham Director of Children's Services
Swimming Pool Reserve	Reserve established as part of 2018/198 budget proposals to support unplanned expenditure or income variances for community run internal swimming pools.	Kevin Mowat Executive Head Business Services
Tourism (Strategic Events) Reserve	Reserve established in 2012/13 to support tourism and events.	Kevin Mowat Executive Head Business Services
Town Centre Regeneration	Reserve established to fund the staffing and feasibility costs associated with the Town Centre Regeneration project	Kevin Mowat Executive Head Business Services
Training and Development Reserve	New reserve to support the training and development needs of senior staff and members.	Anne-Marie Bond Director Corporate Services
Transformation Reserve	Reserve to support expenditure on projects associated with the Council's transformation programme.	Anne-Marie Bond Director Corporate Services
Waste Disposal Strategy Reserve	Reflects the reclassification of part of the equipment fund as a specific reserve for Waste Disposal Initiatives.	Kevin Mowat Executive Head Business Services