MEDIUM TERM FINANCIAL FORECAST AND STRATEGY - INTRODUCTION

1.1 The purpose of the Medium Term Financial Forecast is to set a robust overall financial framework for the council's spending plans over the next four years to support delivery of the Council Plan priorities within the context of a balanced annual budget.

1.2 The main objectives of the Medium Term Financial Forecast are;

- To look to the longer term to help plan sustainable services within an uncertain external economic and funding environment.
- To help ensure that the council's financial resources are directed to support delivery of the Council Plan priorities and achievement of value for money.
- To illustrate the financial effects of existing financial commitments over the medium term, both revenue and capital, under a number of possible scenarios, and to set the parameters for the efficiency and savings strategy necessary to achieve a balanced budget.
- To provide a robust framework to assist the decision making process.
- To maximise the council's financial resilience and manage risk and volatility, including maintaining adequate risk reserves.
- To secure, maintain and develop the council's capital assets consistent with the Asset Management Plan.
- To provide a single document to communicate the financial context, aims and objectives to staff and stakeholders and support working with partners.

1.3 The financial strategy includes a four year budget forecast that is reviewed annually. The Medium Term Financial Forecast builds on the previous medium term strategies to provide the financial foundation for delivery of the council's policy priorities and to meet the identified performance and resource issues.

1.4 Proposals to balance the Medium Term Financial Strategy are designed to support the Council Plan priorities over the medium term and are a continuation from previous years' strategies which involved a range of approaches to balancing the budget. These include efficiency savings, additional investment income, council tax increases, use of reserves and use of New Homes Bonus.

1.5 In October 2017, the overall strategy key strands to balancing the medium term forecast were approved and are shown in Table 1. The amounts have since been reviewed and updated to take into account the final local government finance settlement and changes to the budget proposals in support of the budget report for 2018/19. The updated financial strategy approved in February 2018 is included in the Medium Term Financial Forecast.

Table 1 – Medium Term Financial Strategy Proposals October 2017:

	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000
New Future Efficiency Savings yet to be identified	0	(911)	(1,414)	(1,856)
Net Use of Reserves	(548)	(226)	(356)	393
Use of New Homes Bonus for Revenue Budget	(1,780)	(250)	(250)	(250)
Council Tax - £5 per annum increase	(317)	(634)	(951)	(1,268)
Additional Investment Income	300	(1,150)	(2,075)	(2,225)

1.6 The current economic and financial environment provides a very challenging context for the Medium Term Financial Forecast. The forecast and strategy need to remain flexible and the council's reserves resilient to respond to the impact of volatile external events and risk transfers from central government.

1.7 All business unit and service budget holders need to develop their service plans and budgets within the context of the medium term forecast. This includes achieving saving and efficiency budget reductions and containing any new development within the overall level of resources identified in the strategy.

2 Internal Policy and Service Context

2.1 The role of the council's financial planning process is to support the achievement of the Council Plan.

2.2 The adopted Council Plan 2016 – 2020 is the medium term strategic policy document which sets out the general direction, key priorities and activities for the council and informs the use of its resources.

2.3 As part of the annual policy and budget framework the council is required to consult on its budget proposals. The policy context provided by the Council Plan adopted in April 2016 has been considered as part of this process: the plan continues to reflect local priorities and needs and to provide appropriate strategic direction for council policy and allocation of resources.

2.4 The council's focus over the period of the plan is to lay strong foundations that will shape the way the borough grows over the next 25 to 30 years and deliver opportunities for all communities. The council aims to ensure residents and future generations continue to enjoy an excellent quality of life and environment, which well planned growth can secure.

2.5 The key themes of the Council Plan are:

1. **Preparing for controlled and sustainable growth**
    - Create jobs and opportunities by supporting new and existing businesses.
    - Ensure a work-ready workforce by linking employers and education providers.
    - Support the provision of quality homes, affordable to all, through growth and regeneration.
    - Investment in our infrastructure.

2. **Improving residents' quality of life (through improved facilities and services)**
    - Enhance leisure and cultural facilities.
    - Maintain and enhance our built and natural environment.
    - Support a borough all feel safe in.

3. **Supporting those that need it**
    - Promote strong communities.
    - Support wellbeing initiatives that improve life chances.
    - Support homeless and vulnerable groups.

2.6 The Medium Term Financial Strategy also supports all other council strategies, such as the Capital Strategy, the asset management plan, the Property Investment Strategy, the Invest to Grow Fund and the Treasury Management Strategy. In particular, it acts as the framework linking the council's more detailed service plans, asset management plans and capital plans with the longer term to help ensure that the council's plans are financially achievable.

3 Internal Financial Context

3.1 In 2017/18 the council's net revenue budget requirement to be met by council tax payers was £7.061 million (net of government grants, rents, interest and fees and charges).

3.2 The council's 2017/18 gross revenue expenditure budget was £133.3 million and after excluding the government's business rate levy, capital charges and financing and housing benefit payments the gross underlying expenditure budget was £47.3 million.

3.3 The underlying expenditure budget is supported by a considerable level of rent, interest and other income as well as by formula government grant and council tax payers as shown in Table 2.

Table 2 – Revenue Budget 2017/18 Underlying Gross Income

Revenue Budget 2017/18 Underlying Gross Income	**£m**	**%**
Rents	15.8	33%
Interest	2.8	6%
Fees and charges	6.5	14%
Other grants and income	8.7	18%
Government RSG grant	0.7	2%
Government NHB grant	2.9	6%
Business rates retained	2.8	6%
Council tax payers	7.1	15%
Underlying Gross Income	**47.3**	**100.0%**

3.4 The budget position is very sensitive to changes in pay expenditure and to changing investment returns, fees and charges, rental income, New Homes Bonus Grant and other government grant levels.

3.5 The council's overall resources (net assets) shown in the Balance Sheet as at 31 March 2017 were £403 million and included £253 million of commercial property generating rental income and £171 million of cash investments earning interest to support the revenue base budget.

3.6 In terms of capital resources there are limited available funds for future capital projects beyond the current four year capital programme as there is no on-going revenue contribution to capital and the scope to generate new capital receipts is also very limited over the medium term period.

3.7 The key financial issues for the council are;

- As a result of effective financial stewardship over many years, the council has a resilient financial base that, whilst not insulating it from the impacts of public spending reductions, will enable it to continue to take a planned medium term approach to adjusting to the new public sector financial environment. It is however recognised that local government is facing severe funding pressures and other local authorities face pressures on services such as social care that threaten the on-going provision of other important services.
- The council relies less than most district councils on central government grant and council tax income. However, this means that the council is dis-proportionately impacted by changes in interest and rent income and is therefore particularly affected by the performance of the wider economy, property markets and the money markets.
- On a roll forward basis, the council faces increases in pay and price inflation that rises at a faster rate than the likely growth in income, investment returns, rents and council tax.
- Available resources to fund rolling capital expenditure beyond the medium term period and to support delivery of key major projects in support of the Council Plan are limited. The council will therefore need to have a clear capital strategy which maximises the use of any New Homes Bonus Grant and external funding and ensure rigorous project assessment, prioritisation and implementation within allocated resources.

4 External Economic, Financial and Legislative Context

4.1 The council's Medium Term Financial Strategy is set within the context of the national economy, the public expenditure plans detailed in the government's Comprehensive Spending Review and national legislation.

4.2 National Economy (Interest Rates, Inflation and Property Markets)

4.2.1 Following the E.U. referendum result in June 2016, there was a major shift in the money markets and the outlook for future UK interest rates moved away from anticipated increases. Since then the outlook has changed back to an expectation of future increases in interest rates.

4.2.2 In accordance with these expectations the Bank of England are considering reducing monetary easing, with further increases in interest rates a possibility.

4.2.3 The 5 year gilt rate (the rate at which the government borrows for 5 years) has also increased from 0.2% (post the referendum) to the current level of 1.21%, indicating that there has been a significant change in the outlook for interest rates.

4.2.4 The UK is still experiencing the lowest levels of interest rates in history, and with the council's high level of investments (approximately £170 million) this has a major implication for the level of income that can be generated from future fixed term money market investments.

4.2.5 The council's Medium Term Financial Strategy has been formulated within the context of the current UK economic performance and the government's public sector spending plans.

4.2.6 The medium term global outlook has improved but remains uncertain and for the UK the impact of Brexit remains unclear.

4.2.7 The latest forecast for interest rates from treasury management advisors is that rates will remain low throughout the medium term period as shown in Table 3.

Table 3 – Interest Rate Forecasts

Interest Rate Forecasts	**2018 through to 2021**
Bank Base Rate	0.5% to 1.25%
1-yr Rate	0.7% to 1.5%
5-yr Gilts	1.15% to 1.65%
10-yr Gilts	1.65% to 2.05%

4.2.8 The interest and investment income assumed in the medium term financial forecast is based on the current strategy and short term rates of 0.5% and rates for new long term investments equivalent to 1.5% (mainly using external funds pending property related investments).

4.2.9 Inflation is currently outside of the government's target, with RPI at 3.6% (many of the council's contracts are linked to this rate) and CPI at 2.7%.

4.2.10 The Office for Budgetary Responsibility (OBR) have not updated their forecasts since March 2017. The Bank of England inflation forecasts show inflation above the target for most of the medium term period.

4.2.11 The medium term financial forecast central case has included inflation of 2% for CPI and 3% for RPI over the period.

4.2.12 During 2017, investor appetite in property markets has continued to grow and has been largely frustrated by the lack of appropriate opportunities as many investors had a policy of ‘hold’ rather than ‘trade’. Different asset classes have performed differently, with investor sentiment focused towards industrial/ logistics and hence this sector has performed very strongly. Meanwhile for other asset classes including offices and retail, volumes were down on the five year quarterly average.

4.2.13 Looking ahead, key themes for the property investment market are the weight of investor funds still chasing similar stock, and in particular the increasing Local Authority pool of investment, which could lead to more pressure on pricing, and expectations of good rental growth in the industrial/logistics and retail warehouse sectors in certain areas in the absence of further development to increase supply.

4.3 Local Government Finance Settlement

4.3.1 The Local Government Settlement for 2017/18 confirmed the previously agreed four year settlement (agreed in 2016/17) and included a Revenue Support Grant of £0.305 million for 2018/19 a reduction of £0.426 million (58%) on the £0.731million received in 2017/18. This will reduce further to a negative £170,000 in 2019/20 when the council will be required to pay a tariff via the retained business rates mechanism rather than receiving Revenue Support Grant. Unfortunately, the four-year settlement does not include New Homes Bonus grant which is of great financial significance to the council.

4.3.2 The government’s calculations of local authorities core spending power takes into account their ability to generate income from business rates and Council Tax and assumes that authorities will increase Council Tax up to the referendum limit which for this council is £5.00 (4.5%) for a Band D property.

4.3.3 In 2018/19 the council’s overall core spending power has reduced by an overall 6.73%. This reduction is approximately double the average reduction in government grant suffered by other district councils due to the impact of the reduction in New Homes Bonus.

4.4 Business Rates Income

4.4.1 The Government announced last year a proposal to introduce a new scheme by the end of the current parliament which will move from 50% to 100% business rates retention by local authorities nationally, accompanied by new responsibilities for local government and a phasing out of certain government grants. However, since then there has been a general election and no announcement of dates for the development of the new scheme which has been paused by the Government.

4.4.2 The Government proposals expect the new system to retain the current top-up /tariff approach which results in the council currently retaining only £2.9 million (3.5%) of the £72 million it collects in business rates. Further consideration will be required to determine the proportion of business rates that will be allocated to each tier of local government.

4.4.3 Government consultation recognises the potential increase in risks due to the business rates appeals process, and the difficulties in forecasting and accurately predicting outcomes. At the same time the government is also carrying out a 'fair funding review' which will set a new base level position for business rates retained by the council based upon a relative needs and resources assessment.

4.5 New Homes Bonus Grant

4.5.1 The New Homes Bonus is a grant paid by central government to local councils for increasing the number of homes and their use. Following last year's announcement of a change to the scheme, the New Homes Bonus Grant is now paid each year for 4 years from 2018/19 rather than the previous 6 years (a transitional 5 years was paid in 2017/18).

4.5.2 The scheme is based on the amount of extra properties from new-build homes, conversions and long-term empty homes brought back into use. Previously all properties meeting the criteria would count towards the level of bonus payable, however the recent changes now assumes that it is only payable on extra properties above normal growth (assumed by the government to be 0.4% p.a. which is the equivalent of 298 Band D properties in 2018/19).

4.5.3 The grant is not ring fenced and can be used for revenue or capital purposes as the council determines. The available funding is not 'new' money for local government but has been generated by top slicing it from general Revenue Support Grant.

4.5.4 The New Homes Bonus Grant for 2018/19 is £1.880 million a reduction of £0.970 million (34%) on the 2017/18 grant. In accordance with financial policies all of the £1.880 million is being used to support the 2018/19 revenue budget.

4.5.5 Whilst the use of New Homes Bonus Grant is included in the budget strategy, there is also a contingency plan to use the Stability and Resilience Reserve in the event that the grant scheme is discontinued or is reduced by more than anticipated.

4.5.6 The council's current financial policy for New Homes Bonus Grant is that the all of the New Home Bonus Grant for 2018/19 is used to support the revenue budget (if required) and then for future years the first £250,000 of grant is allocated to support the revenue budget. The balance of New Homes Bonus Grant received is then allocated as follows:

- 20% to the Local Infrastructure Fund (Reserve) for community led bids for local infrastructure projects.

- 55% to the Strategic Capital Reserve to support key infrastructure and economic development projects and
- a further 25% to the Stability and Resilience Reserve (to support the revenue budget).
- The first £250,000 of any allocation to the Strategic Capital Reserve will be reallocated to the Efficiency, Transformation and Digital Reserve.

4.6 Impact on the Council and Budget

4.6.1 The key impacts of the national context on the council's Medium Term Financial Strategy are;

- The council is likely to be affected by national demands for pay increases in the public sector which exceed the1% pay cap.

- Low interest rates will have a significant impact on the fixed income interest that can be achieved on the council's current investment portfolio in the medium and longer term.

- The council should be prepared for an extended period of government funding reductions throughout the medium term period and beyond and therefore should continue to seek to reduce costs and generate additional revenues wherever possible in order that core services can be delivered on a sustainable basis.
- The council may face increased demand on its services and budgets as a result of partner organisations responses to reductions in government funding.
- There has been a significant risk transfer from central government to local government as a result of the legislative changes.
- The uncertainty and increased risk and volatility associated with the new Business Rate Retention Scheme and the fair funding review.
- The impact on key income (rents, interest and fees and charges) and on business rates of the current economic volatility and uncertainty following the UK's decision to leave the EU.

4.6.2 The council needs to plan over the medium term for an increase in financial risk, year on year volatility and reducing fixed interest income. The economic outlook remains unclear and it remains important that the council has a level of reserves that allows it to withstand unanticipated financial impacts of future developments at a local and national level. In the longer term there will be financial returns from strategic projects such as the Leisure Park, Basing View and Manydown which will offset the pressures from government funding but these benefits will not be reaped until after the Medium term Financial Strategy period.

4.6.3 To ensure a balanced and sustainable medium term budget, significant further on-going efficiency savings and agreed strategies for increased investment income (non-fixed interest) will need to be delivered.

5 Beyond the Medium Term

5.1 The Medium Term Financial Strategy covers the period up to 2021/22 and represents the first part of a long term financial strategy aimed at delivering the ambitious vision for the type of place the borough of Basingstoke and Deane will be in 2050. The council has a long term financial model which is used for internal strategic financial planning purposes. Long term financial modelling has demonstrated the importance of investing in infrastructure, generating additional investment income and ensuring services are delivered effectively and efficiently in order to deliver a long term sustainable budget.

5.2 Achieving the council's plan requires significant up-front investment and the Medium Term Financial Strategy includes additional expenditure proposals in areas which will enable the council to control and shape how the borough develops, deliver additional housing including 40% affordable, improve the borough's infrastructure and provide long-term financial benefits through enhanced future revenue income and the generation of capital receipts.

5.3 In particular, additional resources for regeneration projects such as the Leisure Park, Basing View and Winklebury will assist in delivering schemes that can improve quality of life, support strong communities and generate a significant increase in annual rental income to enable high levels of spend on services to continue. In addition economic regeneration can lead to a significant uplift in business rates (the amount of which will be retained by the council depends on the outcome of government consultation on the new business rates system) and the creation of jobs. The delivery of the Leisure Park scheme would also remove the requirement for scarce capital funding to be applied to major cyclical maintenance on the Aquadrome leisure facility over the next ten years.

5.4 Additional expenditure to support the regeneration at Basing View will assist with inward investment, providing jobs and prosperity and further underpin the borough's business base. Added to this the recent designation of Basing View as an Enterprise Zone will ensure that are increased benefits from the retention of 100% of business rates growth for the next 25 years.

5.5 Similarly investment in Manydown over the medium term period and beyond will enable the council to create a development with 40% affordable housing that the council can be proud of, whilst also generating substantial future financial returns, to support the delivery of the council's priorities.

5.6 The Medium Term Financial Strategy does not currently include specific proposals for the development of Manydown for 2018/19 and beyond as a decision on this will be subject to future reports containing financing requirements and expected capital receipts. The agreed capital financing policy is that the council's investment in Manydown will be financed from invested capital receipts and/or borrowing, depending on a financial assessment of the most favourable option following production of the detailed business case.

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Basingstoke and Deane Borough Council

Medium Term Financial Forecast and Strategy 2018/19 – 2021/22

February 2018

CONTENTS

MEDIUM TERM FINANCIAL FORECAST AND STRATEGY 2018/19 to 2021/22

1 Financial Forecast Scenarios and Assumptions

1.1 Given the uncertainty and financial challenges facing the council it is important that for each of the most significant areas the council look at different potential outcomes. The financial forecasts have been prepared by looking at a worse case, central case and better case scenario for each of the significant areas and deciding on which is the most likely.

1.2 The main assumptions used in the central case (most likely) scenario for each of the significant areas are summarised below:

- Pay increase allowance of 2% per annum, along with an allowance for incremental increases.
- Pension cost increases in line with notified changes equivalent to 1.5% increase in payroll costs for 2018/19 and 2019/20 followed by an assumed 1% increase per annum from 2020/21 for the next triennial valuation of the pension fund.
- An annual inflation allowance of 2.0% per annum, except supplies and services (including external grants) which are restricted to 1% throughout the medium term forecast period.
- Contracted services have an inflation allowance that is 1% higher than the general inflation allowances.
- Inflationary (RPI) increases in overall fees and charges income of 3.5% for 2018/19 followed by 3% per annum from 2019/20.
- A base level of rental income (allowing for normal levels of empty unit costs) of £15.320 million in 2018/19 rising by £50,000 per annum to £15.470 million in 2021/22.
- Use of the rent risk reserve for rents forecast below the base level followed by a replenishment of the reserve from 2020/21 to avoid the balance on the reserve falling to below £1.75 million.
- Base interest rate assumption of 0.5% to 2020/21 and assumed 1.5% for new investments.
- Continuation of the New Homes Bonus Grant scheme with assumed growth in new homes of 630 in 2017/18, 750 in 2018/19 and 850 per annum from 2019/20.
- Use of all New Homes Bonus receivable in 2018/19 (£1.880 million) to support the revenue budget followed by £250,000 per annum from 2019/20.
- Formula Grant (revenue support grant) based on latest exemplifications with a 58% reduction (£426,000) in 2018/19 followed by a 100% reduction (£305,000) in 2019/20 (effectively phasing out the grant).
- Business rate income forecast to be at the baseline level over the forecast period.

- A Council Tax collection fund surplus of £125,000 in 2018/19 followed by a collection fund surplus of £50,000 per annum for future years.

- Increases in Council Tax of £5 (at Band D) per annum (4.5% in 2018/19).

- Continuation of the current council tax support scheme.

1.3 The financial forecast has also been prepared in accordance with the current financial policies set out in Annex A.

1.4 The financial forecast does not currently include specific proposals for the development of Manydown for 2018/19 and beyond as a decision on this will be subject to future reports containing financing requirements and expected capital receipts. The agreed capital financing policy is that the council's investment in Manydown will be financed from invested capital receipts and/or borrowing, depending on a financial assessment of the most favourable option following production of the detailed business case.

2 The Medium Term Financial Forecast (Central Case)

2.1 The central case medium term financial forecast has been prepared by rolling forward the existing base budget using a detailed financial model, adjusting for one-off items, inflation, the full year impact of past decisions and contributions to and from reserves under current policies and adding in the Cabinet's budget strategy proposals.

2.2 A summary of the roll forward medium term financial forecast for 2018/19 to 2021/22 is shown on the next page:

MEDIUM TERM FINANCIAL FORECAST - CENTRAL CASE (INCLUDING EFFICIENCY STRATEGY ITEMS)					
	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**
	Original Estimate	**Forecast**	**Forecast**	**Forecast**	**Forecast**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Net Operating Expenditure (2017/18)	**14,921**	**14,921**	**14,921**	**14,921**	**14,921**
Removing one-off and reserve funded Items		-809	-1,578	-1,758	-1,920
Adjusted Base Budget		**14,112**	**13,343**	**13,163**	**13,001**
Total inflation increase		926	1,754	2,604	3,473
Proposed ongoing revenue priorities (Appendix 4)		612	1,146	1,396	1,646
Proposed one-off revenue priorities (Appendix 4)		530	100	0	0
Other cost pressures		1,266	1,181	1,577	1,627
Net Additional Income from Property Investment Strategy		-821	-821	-821	-821
Future Property Investment income targets		0	-629	-1,554	-1,704
Proposed additional income (Appendix 6)		-406	-526	-536	-546
Other income changes		-249	-146	42	-969
Proposed efficiency savings (Appendix 5)		-725	-1,026	-1,117	-1,269
Future efficiency savings targets		0	-1,041	-1,544	-1,986
Other efficiency savings		-581	-960	-960	-960
Forecast Net Operating Expenditure	**14,921**	**14,664**	**12,375**	**12,250**	**11,492**
New homes bonus grant	-2,850	-1,880	-1,840	-2,000	-2,578
Revenue support grant	-731	-305	0	0	0
Business rates retained base line	-2,850	-2,936	-3,001	-3,067	-3,134
Business rates adjustments	-239	-692	0	0	0
Other grants	-627	-595	-517	-402	-350
Business rates deficit previous year	821	394	0	0	0
Collection fund surplus (council tax)	-100	-125	-50	-50	-50
Total Grants and Contributions	**-6,576**	**-6,139**	**-5,408**	**-5,519**	**-6,112**
Council Tax Income	**-7,061**	**-7,461**	**-7,857**	**-8,260**	**-8,670**
Contributions to/(from) reserves					
Infrastructure reserves	541	-1,765	246	497	930
Risk reserves	-582	303	204	592	1,910
Earmarked reserves	-1,243	398	440	440	450
Total Contribution to/(from) Reserves	**-1,284**	**-1,064**	**890**	**1,529**	**3,290**
Forecast (Surplus)/Deficit	**0**	**0**	**0**	**0**	**0**
Council Tax Base	**63,377**	**64,085**	**64,710**	**65,340**	**65,970**
Band D Council Tax	**£111.42**	**£116.42**	**£121.42**	**£126.42**	**£131.42**

2.3 The roll forward central case forecast shows a balanced budget for 2018/19 followed by a requirement to identify future efficiency savings targets to 2021/22.

2.4 The main assumptions included in the roll forward central case forecast are explained in more detail as follows:

2.5 Adjusted Base Budget

2.5.1 The base budget has been adjusted for one-off items. These include the removal of £552,000 of 2017/18 one-off priorities agreed last year. It also includes removal of previous year's one-off reserve funded items of £378,000 mainly budget carry forwards.

2.6 Inflation Increases

2.6.1 Pay Related – A 2% annual increase in pay has been assumed along with an allowance for incremental increases.

2.6.2 Non Pay – Budgets for contracted services have received inflation allowances of 3% per annum. All other areas have received an allowance that is 1% lower than these levels (except Supplies and Services costs which have been restricted to 1% throughout the medium term).

2.7 Cabinet Proposals – Revenue Priorities

2.7.1 The Cabinet are proposing ongoing revenue priorities of £612,000 in 2018/19 rising to £1.646 million by 2021/22 as detailed in Appendix 4 and summarised in Table 1.

Table 1 - Ongoing Revenue Priorities				
	2018/19	**2019/20**	**2020/21**	**2021/22**
	£'000	**£'000**	**£'000**	**£'000**
Preparing for Controlled and Sustainable Growth	0	449	699	949
Improving Residents' Quality of Life (through improved facilities/services)	362	362	362	362
Supporting Those that Need It	250	335	335	335
	612	**1,146**	**1,396**	**1,646**

2.7.2 The Cabinet are proposing one-off time limited revenue priorities of £530,000 in 2018/19 and £100,000 in 2019/20 as detailed in Appendix 4 and summarised in Table 2.

Table 2 - One-off Revenue Priorities				
	2018/19	**2019/20**	**2020/21**	**2021/22**
	£'000	**£'000**	**£'000**	**£'000**
Preparing for Controlled and Sustainable Growth	530	0	0	0
Improving Residents' Quality of Life (through improved facilities/services)	0	100	0	0
Supporting Those that Need It	0	0	0	0
	530	**100**	**0**	**0**

2.8 Other Cost Pressures

2.8.1 The budget strategy requires most cost pressures to be absorbed through the identification of offsetting savings. The forecast does however make allowance for previously agreed and unavoidable additional ongoing and one-off costs set out in Table 3.

Table 3 - Cost Pressures				
	2018/19	**2019/20**	**2020/21**	**2021/22**
	£'000	**£'000**	**£'000**	**£'000**
Ongoing Cost Pressures				
Waste Contract Retendering Provision	100	100	100	100
Council Tax Collection Caseload	0	15	15	15
Cemetery Provision	45	45	45	45
Insurance Costs	75	75	75	75
Homelessness B&B Costs	10	10	10	10
Capacity funding to deliver Property Investment Strategy	300	300	300	300
Pension Costs	351	636	861	1082
Total Ongoing Cost Pressures	**881**	**1,181**	**1,406**	**1,627**
One-Off Cost Pressures				
Property costs (funded from additional rents)	181	0	0	0
Housing Benefits Overpayments	204	0	0	0
Leisure Management Contract	0	0	171	0
Total One-off Cost Pressures	**385**	**0**	**171**	**0**
TOTAL COST PRESSURES	**1,266**	**1,181**	**1,577**	**1,627**

2.8.2 Waste Collection Contract Retender Provision – the forecast allows for a provision of increased ongoing costs of £100,000 per annum when the contract is retendered in 2018/19.

2.8.3 Increased council tax case load - costs of £15,000 from 2019/20 (approved as part of the 2017/18 budget report).

2.8.4 Future cemetery provision costs of £45,000 per annum from 2018/19 (approved as part of the 2015/16 budget report).

2.8.5 Increased insurance costs of £75,000 per annum as a result of a review of the council's insurance cover.

2.8.6 Homelessness – increase in costs of £10,000 per annum due to changes as part of the Homeless Reduction Act that increase the time spent in B&B whilst claimants are being assessed.

2.8.7 Capacity funding to deliver Property Investment Strategy – the forecast allows for ongoing costs of £300,000 per annum for delivery of the strategy.

2.8.8 Pension cost increases in line with notified changes equivalent to 1.5% increase in payroll costs for 2018/19 and 2019/20 followed by an assumed 1% increase per annum from 2020/21 for the next triennial valuation of the pension fund. The introduction of auto enrolment has led to an increase in membership of the pension scheme.

2.9 Additional Income from Property Investment Strategy

2.9.1 The Rent Income Forecast includes net additional income of £821,000 as a result of investments made of £15.2 million as part of the Property Investment Strategy.

2.9.2 The budget strategy had not set a target for 2018/19 for the Property Investment Strategy and therefore the earlier achievement of investments of £15.2 million has led to a one-off windfall in 2018/19. The proposed treatment of the £821,000 windfall is to use £181,000 to fund one-off additional costs in property services (see one-off cost pressures in Table 3), £250,000 of the remaining windfall will be used to increase the Rent Risk Reserve and £390,000 will be used to increase the Revenue Reserve for Capital Purposes (AMP works) to provide funds for future maintenance costs on the newly purchased properties and other commercial properties.

2.10 Future Additional Property Investment Income

2.10.1 The medium term forecast includes future income (targets) for the further use of alternative investments in line with the Property Investment Strategy, Invest to Grow Fund Strategy and investment in the Manydown project. The estimated additional income that will be generated from these strategies is set out in Table 4.

Table 4 - Future Additional Property Investment Income			
	2019/20	**2020/21**	**2021/22**
	£'000	**£'000**	**£'000**
Forecast Average Amount to be Invested			
Property Investment Strategy	22,500	30,000	30,000
Invest to Grow Fund	12,500	25,000	25,000
Manydown	4,500	12,000	18,000
Average Estimated Return			
Property Investment Strategy	5.5%	5.5%	5.5%
Invest to Grow Fund	5.0%	5.0%	5.0%
Manydown	4.0%	4.0%	4.0%
Forecast Income Generated			
Property Investment Strategy	-1,238	-1,650	-1,650
Invest to Grow Fund	-625	-1,250	-1,250
Manydown	-180	-480	-720
	-2,043	**-3,380**	**-3,620**
Less: Assumed Income from Treasury Management	593	1,005	1,095
Original Additional Income Target	**-1,450**	**-2,375**	**-2,525**
Less: Already Achieved			
Property Investment Strategy	1,051	1,051	1,051
Adjusted for Income from Treasury Management	-230	-230	-230
Remaining Target	**-629**	**-1,554**	**-1,704**

2.11 Cabinet Proposals – Ongoing Additional Income

2.11.1 Cabinet are proposing ongoing additional income as detailed in Appendix 6. This includes £320,000 from 2018/19 for a new Flexible Homelessness Grant from the DCLG and £120,000 from 2019/20 for income generation from Commercialisation (selling the council's services to external customers).

2.12 Other Income Changes (including Fees and Charges)

2.12.1 Fees and Charges - The medium term forecast assumes inflationary overall increases in fees and charges income of 3.5% for 2018/19 and 3% per annum from 2019/20.

2.12.2 Rent Income (excluding Property Investment Strategy) – The forecast includes base rents of £15.320 million in 2018/19 rising to £15.470 million in 2021/22. In accordance with financial policies any shortfall from the forecast net rents will be met by a draw from the Rent Risk Reserve. The forecast net rents and use of reserve is set out in Table 5.

Table 5 - Rent Income				
	2018/19	**2019/20**	**2020/21**	**2021/22**
	£'000	**£'000**	**£'000**	**£'000**
Gross Rents Forecast	-15,390	-15,344	-15,188	-15,556
Empty Unit Costs Forecast	417	466	571	151
Net Rents Forecast	-14,973	-14,878	-14,617	-15,405
Base Rents	-15,320	-15,370	-15,420	-15,470
(Under)/Over Base to/(from) Rent Risk Reserve	-347	-492	-803	-65

2.12.3 Two thirds of the £15.4 million rent income relates to long commercial ground leases where the income is more secure and is unlikely to vary other than for review or lease renewal dates. One third of the rent income relates to all rack-rented (i.e. building) multi-occupied properties on shorter term flexible leases, licences, tenancies-at-will and other tenancy agreements where the tenants generally offer a considerably lower covenant strength and as a result the income is less secure.

2.12.4 Investment Income – The forecast includes a reducing base level of interest income of £2.7 million in 2018/19 reducing to £2.3 million in 2019/20, £2.0 million in 2020/21 and £1.9 million in 2021/22 as existing long term investments unwind.

2.12.5 This is based on base interest rates remaining at 0.5% to 2020/21 with an assumption of 1.5% for new investments. The forecast does not include the further anticipated transition from cash investments to property related investments and therefore the forecast for property related investments (see section 2.10) relates to additional income over and above that which is forecast for cash investments.

2.12.6 A breakdown of the investment income forecast over the medium term forecast period is set out in Table 6.

Table 6 – Treasury Investment Income

	2018/19	2019/20	2020/21	2021/22
Average Balances	£148m	£133m	£126m	£124m
Average Returns	1.8%	1.7%	1.3%	1.5%
Forecast Income	**£2.7m**	**£2.3m**	**£2.0m**	**£1.9m**

2.13 Cabinet Proposals – Ongoing Efficiency Savings

2.13.1 Cabinet are proposing ongoing operational savings of £725,000 in 2018/19 rising to £1,269,000 by 2021/22. Details of these proposals are set out in Appendix 5.

2.14 Future Efficiency Savings Targets

2.14.1 Cabinet's proposals include the continuation of the efficiency savings strategy and set a target of £1.986 million by 2021/22. This will be phased £1.041 million by 2019/20, increasing to £1.544 million by 2020/21 and £1.986 million in 2021/22.

2.14.2 The target consists of the unmet balance from previous savings targets (after the budget panel and cabinet proposals) plus an additional £380,000 (1%) efficiency target in 2021/22.

2.15 Other Efficiency Savings

2.15.1 The medium term forecast includes other efficiency savings identified and agreed in previous year's budget strategies and budget reports totalling £581,000 in 2018/19 increasing to £960,000 from 2019/20.

2.16 New Homes Bonus Grant

2.16.1 The Medium Term Financial Forecast assumes that the New Homes Bonus Grant scheme will continue. Table 7 shows the estimated amount of New Homes Bonus Grant income and the assumptions on the number of new homes generated.

Table 7 - New Homes Bonus Forecasts				
	2018/19	**2019/20**	**2020/21**	**2021/22**
	£'000	**£'000**	**£'000**	**£'000**
Forecast Amount of Bonus Grant	**-1,880**	**-1,840**	**-2,000**	**-2,578**
Number of New Homes (previous year)	630	750	850	850

2.17 Cabinet Proposal - Use of New Homes Bonus Grant

2.17.1 Cabinet are proposing to increase the amount of New Homes Bonus supporting the revenue budget in 2018/19 by £698,000 taking the total use of New Homes Bonus to £1.880 million (100% of the forecast amount anticipated).

2.17.2 The Cabinet proposal to change the financial policy relating to the use of New Homes Bonus in future years will change the allocation and use of New Home Bonus Grant. The proposed allocations are set out in Table 8.

Table 8 - Use of New Homes Bonus						
			2018/19	2019/20	2020/21	2021/22
			£'000	£'000	£'000	£'000
Forecast Amount of Bonus Grant			**-1,880**	**-1,840**	**-2,000**	**-2,578**
Allocation/Use						
Supporting Revenue Budget			1,880	250	250	250
Balance of Bonus Grant Allocated To Reserves			**0**	**-1,590**	**-1,750**	**-2,328**
Allocated To Reserves:						
Local Infrastructure Fund Reserve		20%	0	318	350	466
Strategic Capital Reserve	}	55%	0	625	713	1,030
Efficiency, Transformation and Digital Reserve	}		0	250	250	250
Stability and Resilience Reserve		25%	0	397	437	582
Bonus Grant Allocated To Reserves			**0**	**1,590**	**1,750**	**2,328**

2.18 Revenue Support Grant (Formula Grant)

2.18.1 The council is forecast to receive a £305,000 formula grant award in 2018/19. This is a reduction of £426,000 (58%) on the 2017/18 level.

2.18.2 From 2019/20 the council will not receive any Revenue Support Grant and will be required to pay a tariff of £170,000 in 2019/20 via the retained business rates mechanism.

2.19 Business Rates (Retained)

2.19.1 The business rate (NDR) retention scheme is estimated to generate £2.936 million in 2018/19 based on a forecast of £72.2 million of business rates income. The forecast assumes inflationary increases on the base level for future years offset by a government announced tariff adjustment of £170,000 in 2019/20 in respect of Revenue Support Grant.

2.20 Other Grants

2.20.1 The forecast for 2018/19 includes ongoing grant of £144,000 for Council Tax Support Scheme Administration, £404,000 for Housing Benefit Administration and £47,000 for new burdens as a result of the Homelessness Reduction Act.

2.20.2 The forecast assumes reductions in Housing Benefit Administration Grant in line with the government's previous exemplification notices.

2.21 Collection Fund Surplus (Council Tax)

2.21.1 The forecast includes assumed income of £125,000 in 2018/19 and £50,000 per annum for future years from the council share of the estimated Collection Fund surpluses for council tax relating to the previous year.

2.21.2 A surplus can occur if actual performance during the year is better than originally estimated and this could be because of increases in the council tax base (increased property developments) and/or collection rates being higher than originally estimated.

2.22 Council Tax Income

2.22.1 The forecast includes the Cabinet proposal to extend the increases in council tax by £5 per annum throughout the medium term financial forecast period. The forecast for council tax income is set out in Table 9.

Table 9 - Council Tax Income				
	2018/19	**2019/20**	**2020/21**	**2021/22**
Assumed Growth in Tax Base	708	625	630	630
Council Tax Base	64,085	64,710	65,340	65,970
Forecast Band D Council Tax	£116.42	£121.42	£126.42	£131.42
Council Tax Income Forecast (£'000)	**7,461**	**7,857**	**8,260**	**8,670**

2.22.2 The total council tax forecast income for 2017/18 was £7.061 million which is forecast to increase by £1.609 million by 2021/22 of which £1.268 million relates to annual council tax increases and £0.341 million due to an assumed growth in the tax base.

2.23 Contributions to/from Revenue Reserves

2.23.1 The forecast includes a total net contribution from revenue reserves of £8.343 million over the medium term forecast period.

2.23.2 The main allocations to and from revenue reserves included in the medium term financial forecast period are:

- Contributions of £12.989 million towards funding the capital programme from the revenue reserves supporting capital spend.
- Annual contributions of £100,000 to the Commuted Sums Reserve from anticipated commuted sums income, offset by contributions of £150,000 per annum to fund additional Operations Team staff.
- £390,000 to the Revenue Reserve for Capital Purposes (Asset Management Plan Works) from additional income gained from the earlier achievement of Property Investment Strategy investments.
- Contributions to the Local Infrastructure Fund Reserve of £1,134,000 from New Homes Bonus Grant in accordance with the council's financial policies.
- Contributions to the Strategic Capital Reserve of £2,368,000 from New Homes Bonus Grant in accordance with the council's financial policies. A £850,000 transfer from the Strategic Capital Reserve to the Efficiency, Transformation and Digital Reserve in 2018/19. £530,000 from the Strategic Capital Reserve to fund the Cabinet's one-off revenue priorities in 2018/19 and £1,557,000 to fund previous year's cabinet proposals.
- £250,000 per annum for 4 years from the Housing Capital Reserves to a new Housing and Homelessness Revenue Reserve.
- £250,000 contribution to the Rent Risk Reserve from additional income gained from the earlier achievement of Property Investment Strategy investments. This is offset by a £517,000 net draw on the reserve in respect

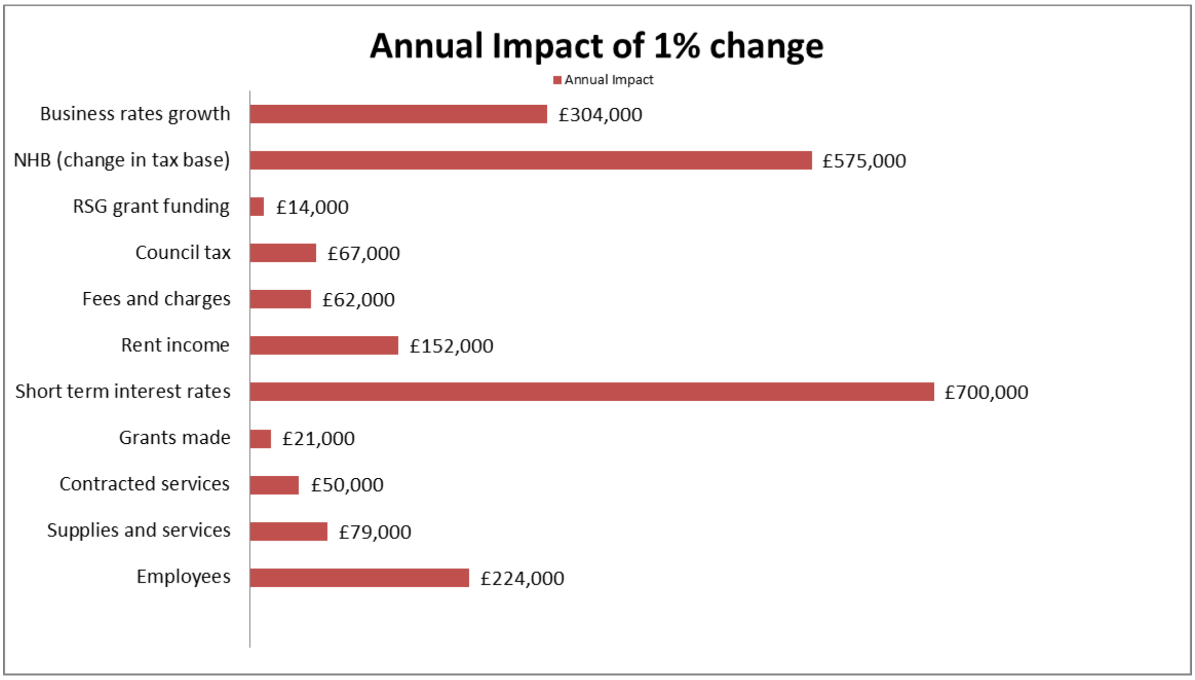
of reduced rental income (excluding Property Investment Strategy).

- £670,000 to the Interest Risk Reserve from additional interest income.
- A contribution of £298,000 to the Business Rate Risk Reserve towards funding of the Collection Fund deficit for business rates.
- Contributions to the Stability and Resilience Reserve of £1,416,000 from New Homes Bonus Grant and use of the Stability and Resilience Reserve to balance the budget in future years in accordance with the council's financial policies.
- Contributions to the Efficiency, Digital and Transformation Reserve of £750,000 from New Homes Bonus Grant in accordance with the council's financial policies and a £850,000 transfer from the Strategic Capital Reserve.
- £163,000 from the Invest to Grow Reserve for specialist advice to support the Property Investment Strategy and Invest To Grow Fund management fees.
- £175,000 from the Economic Development Reserve to fund previous year's cabinet proposals.
- A net contribution of £234,000 from the Budget Carry Forward Reserve for the proposed carry forwards from 2017/18.
- Contribution of £100,000 from the Trees Maintenance Reserve in accordance with previously agreed budget strategies.

3 Risk Assessment and Sensitivity

3.1 There are a number of risks associated with the medium term financial forecast as clearly future events cannot be accurately predicted, the economic outlook can change quickly and there is uncertainty around future legislative changes that will impact on the council's funding.

3.2 Also a relatively small change in key underlying assumptions can produce a significant change in the forecast. The key sensitivities are outlined on the next page:



3.3 As with any plan spanning a number of years it is prudent to consider the associated risks. The council, in common with most local authorities, continues to be at risk from financial pressures. They include:

- Inflation differing from assumptions
- Interest Rates – variations due to economic factors leading to reduced investment income
- Changes in Property Market – leading to reduced rent income and reduced opportunities to invest in property
- Changes in legislation affecting the costs of carrying out services
- Reduction in fees and charges income
- Increased service demands resulting from partner organisation responses to austerity
- Service demands exceeding resources available
- Increased council tax support claims
- Reduced formula grant
- Changes to the New Homes Bonus Grant Scheme
- Assumed capital receipts are not realised
- Efficiency, savings and income targets not met
- Changes to district council functions
- Changes to partnership working arrangements

3.4 A detailed risk assessment incorporating these risks has been carried out and a summary of this assessment is shown in Annex B. The more significant risks have also been included in the council's Corporate Risk Register.

3.5 The main risks to the medium term financial strategy are mitigated through the use of realistic and prudent assumptions, maintaining adequate, specific and general risk reserves, the delivery of the savings and efficiency strategy targets, the implementation of the Treasury Management Strategy, Property Investment Strategy, Invest to Grow Fund Strategy, actively managed Asset Management Plan and a robust in-year budget monitoring process.

4 Contingency Plans

4.1 The uncertainty around the financial forecasts, particularly around local government funding and the achievement of the council's future efficiency savings and investment income targets, means that the council could face a loss of grant and or a budget shortfall that exceeds the central case assumption.

4.2 The main contingency plan for New Homes Bonus Grant stopping completely or delays in achieving future efficiency savings and income targets is the use of the Stability and Resilience Reserve which is estimated to have a balance of £4.0 million by the end of 2017/18 (increasing to £6.3 million at the end of 2021/22). This will allow the council time to develop and put in place alternative plans should they be necessary.

4.3 Reductions in the other key income sources will be met from the appropriate risk reserve.

4.4 The financial implications of timing issues where there are delays or impacts sooner than planned will be met from the Stability and Resilience Reserve.

4.5 The final position will not be known until after the detailed estimates process and the budget will need to be balanced by contributions to or from reserves. However this would only be a short term measure as risk reserves can only be spent once and do not provide a solution to ongoing funding requirements.

5 Reserves

5.1 The council currently maintains the following seven types of reserves comprising revenue resources and capital receipts;

- Reserves invested to support the revenue budget (from capital receipts and commuted sums)
- Reserves to fund the rolling capital programme and priorities (from capital receipts, past revenue contributions)
- Reserves to fund infrastructure and major capital projects (from new homes bonus, section 106 contributions and capital receipts)
- Reserves to fund Alternative Investment
- Reserves to fund Housing and Homelessness
- Risk Reserves
- Earmarked reserves for other specific purposes

5.2 The purpose, use and level of each reserve have been reviewed as part of the financial forecast taking into account the strategic, operational and financial risks facing the council.

5.3 Details of each reserve, with a brief description, are provided in Annex C.

5.4 The continued downside risk means that it is prudent to maintain the council's risk reserve strategy as follows;

5.5 <u>Interest Risk Reserve</u>

5.5.1 This reserve will have a balance of £2.3 million at the end of 2017/18. The purpose of the reserve is to provide cover if interest earnings fall below the medium term financial strategy assumed base level and to manage the increased volatility associated with the use of external fund managers as part of the council's Treasury Management Strategy.

5.5.2 There are accounting changes in 2018/19 relating to the classification and accounting treatment of certain collective fund investments. The council has £30 million in funds that might be affected and the movement in the value of these particular funds would need to be recognised in year as a charge to the revenue account.

5.5.3 On the basis of the central case interest rate assumption, a sensitivity analysis undertaken and the potential impact of the accounting changes, the reserve needs a target level of £3 million over the medium term financial strategy period (this is enough to cover a 10% fall in the value of the investments affected).

5.5.4 When the accounting changes take place in 2018/19 the accumulated valuation increases (currently totalling £0.5 million) might be available to contribute towards the reserve, potentially increasing the reserve to £2.8 million and this along with the proposed increases planned over the medium term financial strategy period will achieve the target level.

5.6 <u>Rent Risk Reserve</u>

5.6.1 This reserve will have a balance of £2.5 million at the end of 2017/18. The purpose of the reserve is to provide cover if rent income falls below the Medium Term Financial Strategy assumed base level.

5.6.2 There are proposals to use this reserve to make up for shortfalls in the net rent income estimates. The proposed use will take the balance on the reserve to £1.75 million which is below the current £2 million minimum level required.

5.6.3 On the basis of the central case rent income assumptions, the profile of rent reviews and the sensitivity analysis undertaken, the reserve needs a target level of between £1.75 million (minimum) and £2.75 million. A replenishment will be required once the balance is reduced to the revised £1.75 million minimum level.

5.7 Business Rate Risk Reserve

5.7.1 This reserve will have a balance of £1.4 million at the end of 2017/18 (increasing to £1.7 million at the end of 2018/19). The purpose of the reserve is to provide cover if business rate retained income falls below the medium term financial strategy assumed baseline level.

5.7.2 On the basis of the central case business rates income assumptions and the sensitivity analysis undertaken, the reserve needs a target level of between £1 million and £2 million.

5.7.3 The level of the reserve required depends on the share of the council's retained business rates income which can be affected by a number of factors e.g. collection rates, revaluation changes and levels of provision needed for business rates appeals (the council's share of the provision is estimated to be £4.1 million at the end of 2017/18) and will be monitored throughout the year.

5.8 Stability and Resilience Reserve

5.8.1 This reserve will have a balance of £4.0 million at the end of 2017/18 (increasing to £6.3 million at the end of 2021/22). The objective of this reserve is to increase the council's resilience to manage the expected increased volatility and financial risk from changes in legislation (e.g. council tax benefit changes and the top slicing of New Homes Bonus from revenue grant).

5.8.2 The reserve is also used to manage outturn surpluses and deficits in accordance with the council's financial policies and as part of the contingency plans set out in section 4.

5.9 General Fund Balance and Reserves

5.9.1 The objective of the general fund balance is to provide an emergency contingency reserve to cover unforeseen one-off events. The current balance of £1.5 million represents 3.0% of gross expenditure (excluding housing benefits, capital charges and business rates) and no change to this level is proposed over the medium term period.

5.9.2 Maintaining appropriate and adequate risk reserves is essential to the council's contingency planning and to give the council resilience and flexibility. The short term use of risk reserves, should downside risks materialise, would enable the council to buy time to deal with the resulting budget issues.

5.9.3 Based on current policies and Cabinets' revenue and capital proposals, overall resources are forecast to decrease by £77.023 million over the medium term forecast period. However, £43.9 million will have been invested in new property assets and Manydown.

5.9.4 The estimated use of all the council's reserves over the medium term forecast period is shown in Annex C.

Annex A

FINANCIAL POLICIES

The main financial policies were reviewed as part of the budget strategy for 2018/19 and the proposed changes to the policies relate to the allocation of new homes bonus grant and a new community infrastructure levy (CIL) allocation policy. The proposed policies are as follows:

Investment Income
- A base level of investment income has been set that supports the annual revenue expenditure.
- An Interest Rate Risk Reserve has been set up to provide funds in case the estimated amount of interest is not achieved.
- Actual investment income above or below the base level over the medium term period will be supplemented by contributions to or from the Interest Risk Reserve.
- The base level of investment income will be reviewed annually.

Rent Income from Investment Property
- A base level of rent income has been set that supports the annual revenue expenditure.
- A Rent Risk Reserve has been set up to provide funds in case the required amount of rent income is not generated.
- Actual rental income below the base level over the medium term period will be supplemented by contributions from the Rent Risk Reserve.
- Actual rental income above the base level over the medium term period will replace any previous draw from the Rent Risk Reserve and then will be allocated to revenue reserves for capital purposes.
- The base level of rental income will be reviewed annually.

Outturn Surpluses/Deficit
- After adjusting for investment income and rental income any remaining outturn deficits will be met from General Fund Balances.
- Outturn surpluses, after adjusting for investment income, rental income and agreed carry forwards, will be used to replenish other risk reserves if required and then allocated to the Stability and Resilience Reserve.

Working Balances
- The level of unallocated General Fund working balances will be maintained at £1.5 million.

New Homes Bonus (current policy for 2018/19)
- All new home bonus grant received in year will be used to balance the budgets in 2017/18 and 2018/19.
- Any remaining new homes bonus grant received in year will be allocated to the Strategic Capital Reserve.

New Homes Bonus (Amended policy for 2019/20 onwards)
- The first £250,000 of new homes bonus in each year will be used to support the revenue budget.
- New homes bonus income received in excess of £250,000 will be allocated as follows:
  - 20% of the new homes bonus will be allocated to a Local Infrastructure Fund Reserve to provide enhanced funding for community infrastructure.
  - 55% of the new homes bonus will be allocated to the Strategic Capital Reserve to provide funding for key council infrastructure priorities.
  - 25% of the new homes bonus will be allocated to the Stability and Resilience Reserve.
- The first £250,000 of any allocation to the Strategic Capital Reserve will be reallocated to the Efficiency, Transformation and Digital Reserve.

Community Infrastructure Levy (CIL) Allocation Policy (New policy)

- 25% to parishes with a neighbourhood plan
- 15% to areas with no plan including town areas (capped at £100 per Council Tax dwelling)
- Town area allocation to be combined with the LIF to maximise benefits of funding
- 5% allocation to cover programme management costs
- 70% to 80% for strategic schemes identified on Regulation 123 list to support development

Property Investment Strategy and Invest to Grow Fund

- Applies to capital expenditure only within budget allocation agreed by council.

Property Investment Strategy:

- All investments will need to demonstrate a positive risk based financial return in excess of the medium term cash investment return as currently invested capital receipts (the interest on which is supporting the base budget) will be used to fund the schemes approved under the strategy.
- All investments will require a robust business case to ensure that the investment is affordable, sustainable and provides value for money.
- The investment must meet other agreed criteria set out in the Property Investment Strategy.

Invest to Grow Fund:

- Only used for property schemes that protect investment property income or deliver community benefit and enhanced returns.
- Subject to a minimum return equal to long term cash investment return and a maximum period between expenditure and enhanced revenue returns.

Capital Financing Policy

- The council's investment in the Manydown project to be financed from invested capital receipts and/or from borrowing, depending on a financial assessment of the most favourable option following production of the detailed business case.
- Up to £7 million of invested capital receipts to be used to finance future capital schemes of strategic importance to the growth of the borough.
- Up to £30 million of invested capital receipts to be used for property related investment.

SUMMARY OF RISK ASSESSMENTS

Risk Description	Residual Risk	Controls and Mitigation
Overall government funding through formula grant, New Homes Bonus and Business Rates is less than assumed	Marginal impact / possible likelihood (AMBER)	Assess impact of Local Government Settlement at earliest opportunity, monitor impact of the localisation of business rates and support for council tax and revise forecasts as necessary.
Reduction in Interest Income due to low interest rates	Critical impact / possible likelihood (AMBER)	Interest risk is managed through the Treasury Management Strategy which uses longer term fixed interest instruments to protect the council from the impact of rate reductions. Monthly monitoring reports are produced on all treasury management activity. The council also has an interest rate risk reserve to cushion adverse returns in-year.
Rent income does not achieve the assumed levels	Marginal impact / possible likelihood (AMBER)	The property portfolio is actively managed through the Asset Management Plan and a specific rent reserve is maintained to cover in year rent variations.
Fees and Charges income does not achieve the assumed levels	Marginal impact / possible likelihood (AMBER)	The council has a well developed in year budget monitoring process that identifies any variations early to allow corrective action to be taken.
Assumed Capital Receipts are not received	Marginal impact / possible likelihood (AMBER)	The council will need to review the capital programme and look to funding from other sources (e.g. use of NHB monies or reserved capital receipts).
Planned efficiency savings and savings targets are not achieved	Marginal impact / possible likelihood (AMBER)	The council has developed an efficency and savings strategy to review and monitor this area.
Legistlative changes not anticipated	Marginal impact / low likelihood (AMBER)	Keep up to date with government policy and consultations.

<table>
<tr><td>Expenditure is not contained within approved budgets</td><td>Marginal impact / possible likelihood (AMBER)</td><td rowspan="3">The council has a well developed in-year budget monitoring process that identifies any variations early to allow corrective action to be taken. A general fund balance of £1.5 million is maintained to meet any unavoidable unexpected costs. Also the council makes revenue contributions towards future capital expenditure that could be redirected.</td></tr>
<tr><td>Unplanned expenditure requirements</td><td>Marginal impact / possible likelihood (AMBER)</td></tr>
<tr><td>External grants and contributions are less than forecast</td><td>Marginal impact / possible likelihood (AMBER)</td></tr>
</table>

Annex C

Reserves and Overall Resources (Including Cabinet Proposals)

Resource	Revenue/ Capital	2017/18 Estimated Balance	4 Years - 2018/19 to 2021/22 Net Cont-ributions	4 Years - Funding Capital Spend 2018/19 to 2021/22	Estimated 2021/22 Balance	Net Change
		£'000	£'000	£'000	£'000	£'000
Invested Reserves Supporting Annual Revenue Budget Expenditure						
Invested Capital Receipts	Capital	56,473	-36,179	0	20,294	-36,179
Commuted Sums	Revenue	6,382	-200	0	6,182	-200
Sub Total		62,855	-36,379	0	26,476	-36,379
Reserves Supporting Capital Programme						
RRCP - General	Revenue	7,124	0	-5,793	1,331	-5,793
RRCP - Asset Management Plan Works	Revenue	1,520	390	-475	1,435	-85
Available Capital Receipts	Capital	11,072	5,118	-16,190	0	-11,072
Other Capital Contributions	Capital	91	3,200	-3,291	0	-91
Sub Total		19,807	8,708	-25,749	2,766	-17,041
Reserves Supporting Infrastructure and Major Capital Projects						
RRCP - Local Infrastructure Fund (Reserve)	Revenue	5,450	1,088	-3,992	2,546	-2,904
RRCP - Strategic Capital Reserve	Revenue	5,178	-1,569	-2,380	1,229	-3,949
Strategic Infrastructure Capital Receipts	Capital	0	1,000	-1,000	0	0
Section 106 Developer Contributions	Capital	3,967	8,682	-12,649	0	-3,967
Manydown Development	Capital	0	35,000	-35,000	0	0
RRCP - Basing View	Revenue	55	0	0	55	0
Capital Receipts - Basing View	Capital	0	10,800	-10,800	0	0
Other Capital Contributions - Basing View	Capital	6,150	1,368	-7,518	0	-6,150
Growth Point Funding - Basing View	Capital	404	0	-50	354	-50
Sub Total		21,204	56,369	-73,389	4,184	-17,020
Reserves Supporting Alternative Investment						
Property Investment Strategy	Capital	8,900	0	-8,900	0	-8,900
RRCP - Earmarked Green Investment	Revenue	349	0	-349	0	-349
Sub Total		9,249	0	-9,249	0	-9,249
Reserves Supporting Housing/Homelessness						
Housing and Homelessness Revenue Reserve	Revenue	0	1,000	0	1,000	1,000
Housing and Homelessness Capital Receipts	Capital	2,959	-1,000	-1,271	688	-2,271
Sub Total		2,959	0	-1,271	1,688	-1,271
Risk Reserves						
Rent Risk Reserve	Revenue	2,453	-267	0	2,186	-267
Interest Risk Reserve	Revenue	2,310	670	0	2,980	670
Insurance Reserve	Revenue	336	0	0	336	0
Business Rate Risk Reserve	Revenue	1,401	298	0	1,699	298
Stability and Resilience Reserve	Revenue	3,956	2,308	0	6,264	2,308
General Fund Balance	Revenue	1,500	0	0	1,500	0
Sub Total		11,956	3,009	0	14,965	3,009
Earmarked Reserves						
Efficiency, Transformation and Digital Reserve	Revenue	305	1,600	0	1,905	1,600
Invest To Grow	Revenue	475	-163	0	312	-163
Economic Development / Council Priorities Reserve	Revenue	251	-175	0	76	-175
Budget Carry Forward Reserve	Revenue	234	-234	0	0	-234
Other Revenue Reserves	Revenue	230	-100	0	130	-100
Sub Total		1,495	928	0	2,423	928
Total Overall Resources		**129,525**	**32,635**	**-109,658**	**52,502**	**-77,023**
Analysis By Reserve Type						
Total Revenue Reserves		39,509	4,646	-12,989	31,166	-8,343
Total Capital Reserves and Contributions		90,016	27,989	-96,669	21,336	-68,680
		129,525	**32,635**	**-109,658**	**52,502**	**-77,023**

Annex C (Continued)

<u>Purpose of Revenue Reserves</u>

Reserve	Purpose
Commuted Sums Reserve (Invested)	To provide funds for future maintenance of specific areas of land and play areas adopted by the council arising from developer's planning obligations.
Revenue Reserve for Capital Purposes (General)	To provide resources for future capital expenditure.
Revenue Reserve for Capital Purposes (AMP Works)	To provide resources for the Asset Management Plan and property portfolio future capital expenditure.
Revenue Reserve For Capital Pruposres - Local Infrastructure Fund (Reserve)	To provide enhanced funding for local community infrastructure utilising New Homes Bonus grant.
Revenue Reserve For Capital Purposes – Strategic Capital Reserve	To provide funds for strategic major projects and infrastructure priorities utilising New Homes Bonus grant.
Revenue Reserve for Capital Purposes – Basing View	To provide resources for Basing View regeneration.
Revenue Reserve for Capital Purposes – Earmarked Green Investment	To provide resources for future green investments.
Housing and Homelessness Revenue Reserve	To provide additional revenue funding to help the council deal with its statutory housing duties towards homelessness and vulnerable people.
Rent Risk Reserve	To cover the risk of not achieving the required amount of rent income supporting the revenue budget.
Interest Rate Risk Reserve	To cover the risk of not achieving the required amount of interest income supporting the revenue budget.
Insurance Reserve	To provide funds to cover the risk of future payments to Municipal Mutual Insurance Company resulting from future claims.
Business Rate Risk Reserve	To cover the increased risk and volatility from the impact of the localisation of business rates and council tax benefits.
Stability and Resilience Reserve	To cover the increase risk and volatility from legislative and statutory changes and delays or failling to achieve future years savings or income targets.
General Fund Balance	To cushion the effect of any unexpected events.
Efficiency, Transformation and Digital Reserve	To meet one-off costs of implementing the efficiency and savings strategy and the digital transformation programme.
Invest to Grow Revenue Reserve	To provide resources to finance the revenue implication of the time delay between capital spend on a scheme and receipt of financial returns.

Annex C (Continued)

Purpose of Revenue Reserves

Economic Development and Council Priorities Reserve	To provide resources to meet revenue costs associated with economic development.
Operational Asset Maintenance Reserve	To provide resources to meet costs associated with IT, Property and vehicle maintenance programmes that cannot be met from within existing budgets.
Budget Carry Forward Reserve	To provide funds for items budgeted for in one year that will not be spent until the following year.
Tree Maintenance Reserve	To provide resources for tree maintenance.
Neighbourhood Planning Reserve	To provide resources to meet revenue costs associated with neighbourhood planning, utilising the government's neighbourhood planning grants.

Details of Earmarked Capital Receipts and Contributions

Reserve	**Purpose**
Invested Capital Receipts	Capital Receipts that are being held in the longer term in order to earn interest to support the revenue budget.
Other Capital Receipts and Contributions - General	Capital receipts and contributions available to fund capital expenditure
Strategic Infrastructure Capital Receipts	To provide capital funds for strategic major projects and infrastructure priorities.
Section 106 Developer Contributions	Developer’s contributions from planning obligations earmarked for community infrastructure.
Manydown Development	Capital receipts that have been earmarked to provide funding for investment in the Manydown development.
Other Capital Receipts, Grants and Contributions – Basing View	Capital Grant that has been earmarked to provide funding for Basing View regeneration schemes.
Alternative Investment Capital Receipts - Property Investment Strategy	Capital receipts that have been earmarked to provide funding for the Property Investment Strategy.
Housing and Homelessness Capital Receipts	To provide additional capital funding to help the council deal with its statutory housing duties towards homelessness and vulnerable people, whilst also making a significant contribution to other council key strategic priorities.

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