

Part A

Report to: Cabinet
Date of meeting: 18 January 2016
Report of: Director of Finance Shared Services
Title: Financial Planning - Draft Revenue and Capital Estimates 2016-19 and the Treasury Management Strategy 2016-19

1.0 SUMMARY

1.1 The purpose of this report is to enable the Cabinet to consider service level expenditure, funding and council tax levels for the medium term 2016/17 to 2018/19, including consideration of the use of reserves and balances. This budget is a component part of the 2016/17 Council Tax calculations.

1.2 The report sets out:

- the draft revenue estimates for the period 2016-19, including a revised budget for 2015/16
- the draft capital programme for the period 2016-19
- the Treasury Management Strategy 2016-19

1.3 The Cabinet is recommended to agree the Council Tax Base to apply for 2016/17.

1.4 The report includes advice from the Director of Finance on the adequacy of general reserves and balances in the context of the three year planning horizon 2016-19 (see paragraph 7.9).

2.0 RECOMMENDATIONS

That Cabinet;

2.1 Resolves in accordance with the *Local Authorities (Calculation of Tax Base) Regulations 1992*, the amount calculated by Watford Borough Council as its Council Tax Base for the year 2016/17 is 31,314.71 as outlined in paragraph 7.5 and summarised at Appendix 8.

2.2 Approves the estimate of surplus and deficit position on the Collection Fund.

2.3 Approves the 2016/17 savings of £430,760 as detailed at Appendix 1.

2.4 Approves the 2016/17 growth of £922,600 and as detailed at Appendix 2a, 2b and 2c.

2.5 Approves the proposed fees and charges for 2016/17, which are included in the base estimates and detailed at Appendix 4.

2.6 Approves all the assumptions made within the Medium Term Financial Strategy at Appendix 6 which includes a council tax freeze for 2016/17.

2.7 To delegate to the Director of Finance and Portfolio Holder the ability to amend the budget figures in accordance with decisions taken at the Cabinet meeting and any minor variations that may occur before the Council meeting on 27 January 2016.

That Council be recommended to approve

2.8 The General Fund Budget Requirement (Net Expenditure) (before use of grants and reserves) as outlined at paragraph 7.1 and detailed at Appendix 6 as follows:

- Revised budget for 2015/16 as £16,797,035
- Base budget for 2016/17 as £16,035,060

2.9 The Capital Programme as set out at Appendix 11 & 11a.

2.10 The key financial risks set out in Appendix 10.

2.11 The current Local Council Tax Reduction Scheme continues for financial year 2016/17 (paragraph 7.7).

2.12 The use of reserves and balances as indentified in paragraph 7.9

2.13 The Treasury Management Strategy for 2016-19 as set out in Appendix 12 and that where reserves or cash balances can be deployed in accordance with the Property Investment Strategy to generate better returns for the Council, then the Director of Finance may authorise investment of Council funds accordingly.

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Report approved by Joanne Wagstaffe, Director of Finance.

FINANCIAL PLANNING – REVENUE SERVICES

3.0 INTRODUCTION

3.1 The preparation of the 2016/17 budget has been completed against a backdrop of further cuts in Government funding to local authorities and increased expectation from stakeholders.

3.2 Officers have prepared a 'revised' budget for 2015/16 and a 'base budget' for 2016/17 which are shown as part of the high level forecasts in the three year Medium Term Financial Strategy 2016-19 (MTFS) shown at Appendix 6. The Base Estimates change during the year as a consequence of variations which are reported through the Finance Digest and considered by Budget Panel/Cabinet. This report has taken into account all variations to base estimates as at the Period 8 (end of November) Finance Digest and provides a revised budget for 2015/16.

The 3 year medium-term base budget includes:

- Saving reductions as attached at Appendix 1.
- Growth additions as attached at Appendix 2a, 2b and 2c.
- Estimates of fees and charges as attached at Appendix 4.
- Estimates of Commercial rents as attached at Appendix 5
- The Government Grant announced in the provisional Local Government Finance Settlement on 17 December 2015 at Appendix 7
- A Council Tax Base of 31,314.71 for 2016/17. This represents an increase of 1.66% on the comparable figure for 2015/16.
- A zero council tax increase in 2016/17 and subsequent years.

4.0 Savings

4.1 Due to the ongoing funding reductions the Council has to continue to make savings. The saving proposals are included at **Appendix 1** and are anticipated to be delivered in the period 2016/17 to 2018/19.

4.2 The 2016/17 and future years savings have been approved by the Leadership Team and are considered achievable.

5.0 Growth

5.1 Wherever possible officers have made every effort to cash limit expenditure budgets without affecting service delivery. However some growth is unavoidable i.e inflation on contracts. Proposed growth which affects service delivery totals £861,100 for 2016/17. **Appendix 2a** and **2b** details each proposed growth bid by service area.

5.2 In addition there is some one off growth totalling £61,500 that is proposed to be funded from reserves and this is shown in **Appendix 2c**.

6.0 Fees and Charges

6.1 The income charging policy (which includes the concessions policy) is shown at **Appendix 3** and the estimates of fees and charges for 2016/17 are shown at **Appendix 4**. Full details are available on the Council's website.

7.0 Funding the Revenue Budget

7.1 The MTFs at **Appendix 6** indicates that the budget requirement for 2016/17 is £16,035,060

This will be funded from the following sources:

- Settlement Funding Assessment
- Specific Government Grants
- New Homes Bonus
- Council Tax
- Collection Fund Surplus
- Revenue Reserves

7.2 Local Government Finance Settlement

7.2.1 The Government Grant announced in the provisional Finance Settlement on 17 December 2015 for 2016/17 to 2018/19 and is detailed at **Appendix 7**. The value of the year on year reductions and the percentage change is shown below:

- 2016/17 – £833K (18%)
- 2017/18 - £690K (18%)
- 2018/19 – £380K (12%)

The cumulative reductions to the Revenue Support grant over the period are as follows:-

- 2016/17 - 39%
- 2017/18 - 74%
- 2018/19 - 95%

And in 2019/20 the grant is removed.

7.3 New Homes Bonus

7.3.1 The provisional allocations for 2016/17 were announced on 17 December 2015 which allows local authorities to check the data used in the calculation. The allocations will total £1.461 billion for English local authorities. The total number of net additional homes rewarded over the 2011/12 - 2016/17 period is over 994,000. This includes over 106,000 empty homes brought back into use and over 271,000 affordable homes provided. The New Homes Bonus provisional allocation for Watford totals £3,509,403. The year 6 instalment includes an affordable homes premium of £27,440. Alongside the allocations, the Department has also announced a consultation on revising the New Homes Bonus, within the context of the 2015 Spending Review and wider local government settlement, to improve its effectiveness in encouraging and rewarding authorities who are open to housing growth. The consultation does not affect allocations in 2016/17. Until the results of the consultation are announced it is estimated that a grant in lieu of New Homes Bonus will be received and estimated amounts have been included in the MTFs.

7.4 **Setting the Council Tax**

The Council needs to set a budget that gives an acceptable level of council tax, and breaks even in the medium to long term using the balances it has at its disposal. The Council tax is calculated as follows:-

$$\frac{\text{Council Tax Requirement}}{\text{Council Tax Base}} = \text{Band D Tax}$$

The council tax requirement is the Council's net revenue expenditure, after crediting government grants, less the use of any balances in the year (i.e. any deficit in the year).

7.5 **Council Tax Base 2016/17**

7.5.1 The analysis of dwellings in **Appendix 7** for the 2016/17 Council Tax Base results in a figure of 31,314.71 after allowing for the Council Tax Reduction Scheme and a collection rate of 97% (same as 2015/16).

7.6 **Council Tax for 2016/17**

7.6.1 The level of expenditure to be funded from council tax will be dependent upon the following factors:

- Council Tax for 2015/16
- net expenditure for 2016/17
- the Local Council Tax Reduction Scheme
- use of revenue reserves
- Government Grant
- the Council Tax Base

7.6.2 From 2016/17, Councils will no longer receive a grant for freezing its council tax. The Localism Act 2011 abolished capping in England and instead introduced a power for local electorates to approve or veto excessive council tax rises. Any authority setting a council tax increase which exceeds principles endorsed by the House of Commons (i.e. if it is "excessive") will be required to hold a council tax referendum. The result of a council tax referendum will be binding. The Secretary of State has announced that an increase in Council Tax of 2% or more is excessive.

7.6.3 In its assessment of core spending power, central government has assumed local authorities will increase council tax by the forecast of CPI inflation assessed at an annual average of 1.75% for each year of the spending review.

7.6.4 The proposals included in this document assume that the Council will freeze the Council Tax. This will mean that the average Council Tax will remain at £249.84 for 2016/17. This amount has been included in the MTFS.

7.7 **Local Council Tax Reduction Scheme**

7.7.1 The Council have previously agreed to implement a Local Council Tax Reduction Scheme from 1 April 2013. The scheme replaced Council Tax Benefit and was introduced following consultation with the public and the major precepting authorities. There are no proposals to change the current scheme for 2016/17. This decision means there will be no change or new impact on applicants from 1st

April 2016.

7.8 Collection Fund

- 7.8.1 The Collection Fund is a statutory requirement to account separately for Council Tax and Non Domestic Rates (NDR). The Fund records all transactions such as the yield, exemptions, discounts, provisions for bad debts, payments to major preceptors to Central Government and takes into account collection rates.
- 7.8.2 Until 2012/13, all business rates were paid to a national pool and then distributed to local government using grant formulae. From April 2013, the Council retains fifty percent of business rates collected but where this is above the DCLG baseline the excess is paid to central government. The business rates retention scheme is volatile and estimating the outturn is complex due to factors such as appeals, demolitions, new builds, occupation and reliefs.
- 7.8.3 The Council Tax setting process requires an estimate of the surplus or deficit at 31 March 2016 on Council Tax and Business Rates. The balances are distributed to the Council as the Billing Authority, the major preceptors and Central Government. The balance on the Collection Fund for Council Tax at 1 April 2015 was a £2,826K surplus, with £466K as WBC's share. The balance on the Collection Fund for Business Rates at 1 April 2015 was a £8,859K deficit, with £3,544K as WBC's share. Due to the Council being in deficit or 'safety net' for Business Rates at the end of the year, the Government pays the Council a grant to cover the majority of this amount. The Director of Finance will report the estimated position for 2015/16 to the Cabinet meeting. Any surplus or deficit is a one-off adjustment.

7.9 Balances and Reserves

- 7.9.1 Under section 25 of the Local Government Act 2003 there is a duty on the Chief Finance Officer to report on the robustness of the estimates and the adequacy of reserves when considering the budget requirement and for Members to have regard to this advice. The Director of Finance confirms the estimates have been correctly calculated under the assumptions used and that balances and reserves are adequate.
- 7.9.2 The General Fund balance is a general reserve providing a working balance to cushion the impact of uneven cash flows, avoid unnecessary temporary borrowing and provide a contingency to meet unexpected events and emergencies.
- 7.9.3 The external auditors, as part of their wider responsibilities, consider whether the Council has adequate arrangements with regard to balances and reserves. In assessing the adequacy of the level of the working balance the Council's external auditor (Grant Thornton) has commented they would not wish to see the General Fund Working Balance reduced below its current level of £1.35m.
- 7.9.4 The Council has set aside specific amounts as reserves for future policy purposes and to cover contingencies. Reserves have been created by appropriating amounts out of the General Fund balance to meet known or predicted requirements. Cabinet has previously agreed that the Economic Impact Reserve would, in the first instance, be used to meet any budget shortfalls. The full schedule of reserves and the anticipated position as at 1st April 2016 is attached at **Appendix 9**. An explanation as to intended use is shown in **Appendix 9a**. A new reserve has been created for the extension of the metropolitan line to Watford Junction (formerly the Croxley Rail Link). Money will be set aside to pay the additional contribution to the scheme prior to the payment date. This may be from either capital or revenue contributions including the Community Infrastructure Levy (CIL). The Capital receipts reserve will separately account for

those properties approved for sale by the Property Investment Board. These funds may be used to fund the main capital programme or be reinvested to generate higher returns. The Property Investment Board will monitor and oversee deployment of these funds in accordance with the approved strategy.

7.9.5 It is necessary to distinguish between those reserves that are earmarked for specific expenditures, those which support the capital programme and those upon which restrictions exist. For example, the Spend to Save reserve can meet expenditure to secure future savings whilst the Car Parking Zones reserve has statutory uses.

8.0 CAPITAL INVESTMENT PROGRAMME 2015-19

8.1 The current capital programme was approved by Council at its meeting on 28th January 2015. Since that date the capital programme is reported regularly to the Budget Panel with a quarterly review by Cabinet. In addition specific reports have been considered by Cabinet and which have affected the originally approved programme.

8.2 The capital programme is attached at **Appendix 11**, with the funding statement shown at **Appendix 11a**. Cabinet should note that there is a Section highlighted as being new schemes which require approval for inclusion within the capital programme.

8.3 These new schemes which total £1.7m are detailed at the bottom of Appendix 11 and can be itemised as follows :-

- Cassiobury Strategic Sports Site Development with Fulleriens - £200k
- Cemetery Improvements - £250k
- Play Review - £1.25m

8.4 Some 2015/16 schemes have been rephased where the expenditure is expected to take place in 2016/17. Examples of this include Watford Health Campus (£1m), Improvements to Community Centre (£150k) as well as the Buildings Investment Programme (£345k).

8.5 The capital programme details a revised budgeted spend for the current year of £16.769m, £13.280m in 2016/17, £6.661m in 2017/18 and £5.155m in 2018/19. The larger capital schemes include those relating to Cassiobury Park HLF Project (£6.149m), Watford Health Campus (£4.5m) and Watford Business Park (£11.3m). The latter of these schemes has to date involved the purchasing of a property in Caxton Way as well as the proposal to further develop Zone A over the coming years in order to generate a potentially substantial receipt forecast for 2018/19 as well as increased revenue. Similarly, the Council along with its partner Kier Construction will be looking to further develop its commitment to the Watford Health Campus Scheme once the road is completed during 2016/17 with the next phase of development involving Industrial Zone South. The proposed funding will include a loan from the Council to the LABV of £6.2m plus £2.0m land value. Kier will be contributing £2m to the scheme, equal to the Council's land value contribution. The £6.2m loan will attract interest and is estimated to be repaid in 2017/18. Works connected to Cassiobury Park are expected to gain momentum now that the process of securing a preferred bidder via the tendering process is complete.

8.6 The Council has a £1.5m loan from the LEP to part fund the redevelopment of Zone A in Watford Business Park with an expected repayment during 2019/20.

8.7 Appendix 11a shows how the capital programme is to be funded over the medium term as well as available resources to fund future capital projects including assumptions regarding new capital receipts. Capital receipts including those from recent disposals have been estimated at £6.4m in 2015/16, £3.1m in 2016/17, £2.8m in 2017/18 and £12.5m in 2018/19.

- 8.8 The Council has been prudent in the past by building up Earmarked Reserves in order to fund future capital projects. The Council now intends to utilise some of these Reserves in order to reduce the need for any future external funding requirements. To fund the capital programme during the period 2015 through to 2019, the Council intends to use £1.040m of reserves in 2015/16, £115k in 2016/17 and £4.069m in 2017/18. In addition, the Council will also be using funds connected to Government Grants and Other Contributions (£5.880m) as well as S106 Contributions (£1.650m).
- 8.9 Based on the revised capital programme, the Council has sufficient capital receipts, reserves, grants and contributions to fund the capital programme in the medium term (up until 2018/19), and so external borrowing will not be required at this stage. However, if either capital expenditure increases or forecast capital receipts do not materialise, then external borrowing may be required. At the present time, there is no forecast to borrow from the PWLB; however the Council has approval to borrow if required (see Treasury Management Strategy).
- 8.10 The Council is currently undertaking a review of its property assets, these are not included in the capital programme, but will incur expenditure as well as receiving capital receipts. A summary of the projected expenditure and receipts is shown at **Appendix 13**. It is assumed that this expenditure will be contained within the overall budget of the Council. The Property Investment Board will have the delegated powers to make the decisions that maximises the return on assets, whilst protecting the Councils budget position.
- 8.11 The Property Investment Strategy sets out parameters for property investment to ensure an appropriate balance of risk through diversity in terms of type and location. The strategy will be reviewed annually by the Property Investment Board for approval by Council in parallel with the Treasury Management Strategy. The Property Investment Strategy is separate from the Treasury Management Strategy. The Treasury Management Strategy reviews the cash flow planning and cash borrowing and investment decision making, whereas the aims of the Property Investment Strategy are policy driven.

9.0 TREASURY MANAGEMENT STRATEGY 2016-19

- 9.1 The Treasury Management Strategy for 2016-19 is attached at **Appendix 12** 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 medium risk appetite, providing adequate liquidity initially before considering investment returns.
- 9.2 The Treasury Management Policy Statement, details the policies, practices, objectives and approaches to risk management of its treasury management activities and has previously been adopted by the Audit Committee. The Council's investment strategy's primary objectives are safeguarding the repayment of the principal and interest of its investments on time, and then ensuring adequate liquidity, with the investment return being the final objective. The strategy allows the Portfolio Holder, in consultation with the Director of Finance, the delegated authority to approve any variation to the Treasury Management Strategy during the year which may be brought about by investigating the opportunity to invest for greater than 1 year and to invest in other investment instruments i.e Government bonds, Gilts and property with a view of maximising the Council's returns without significantly increasing risk. From the beginning of 2015/16, the Council set up a Property Investment Board, which consists of Members, Officers and external Property Advisors, with the purpose of reviewing the Council's property portfolio

and with the objective of disposing of low yielding assets and to reinvest where possible in property that produces higher returns without significantly increasing risk.

9.3 It should be noted that the criteria for placing investments has been reviewed to take into account general credit rating adjustments that have occurred over the past twelve months.

9.4 It is necessary for Council to agree the degree of risk to which it is prepared to expose the investment portfolio. The Director of Finance would define this as follows:

Low Risk—limited to use of the Debt Management Office facility and other UK sovereign financial instruments; major clearing banks possessing high credit rating (or substantially owned by the UK Government); triple AAA money market funds; local authorities.

Medium Risk—the use of UK Building Societies with an asset base above £5,000M as this sector is generally not rated by the Credit Rating Agencies;

High Risk—low rated clearing banks; banks based outside the UK (this is a generalisation as many German / Dutch / Scandinavian and French banks have comparably good credit quality; building societies having a small asset base.

9.6 The Director of Finance comments that the Treasury Management Strategy has no direct financial implications. **Appendix 12** details both the criteria for determining those institutions the Council should be lending its money and sets the parameters within which officers should operate.

9.7 It recommends the ability to borrow up to a maximum of £20m and reflects anticipated borrowing of £7.5M from the Herts Local Enterprise Partnership Growing Places Fund with further potential funding for other re-development projects. In all cases there will be an expectation that a financial return will accrue to enable these loans to be repaid within a relatively short period of time.

9.8 **Annex A to Appendix 12** reports upon the Treasury Management Practice (TMP1) - Credit and Counterparty Risk Management guidance.

10.0 CONSULTATION

10.1 Budget Panel has been fully engaged throughout this process and feedback from its meeting on 13th January 2016 will be circulated prior to the Cabinet meeting.

10.2 As part of the statutory consultation with business ratepayers, copies of this report have been sent to the Watford Chamber of Commerce and the borough's Local Strategic Partnership-One Watford. Any feedback from business or partners will be reported at the meeting.

11.0 IMPLICATIONS

11.1 Financial Implications

These are covered within the report.

11.2 Legal Implications

In the Constitution it is Council who is required to set the budget, which includes the Council Tax Base and setting the level of Council Tax. Cabinet therefore must forward its recommendations on the budget to Council. The Constitution also requires that any recommendation from Cabinet to Council regarding the budget must be submitted before the 8th February in the preceding financial year to enable the Mayor to have the opportunity to call in any decision of Council on the budget. The Council must set its 2016/17 budget by 11th March 2016. The Local Council Tax Reduction Scheme has to be approved by Council by 31 January each year for the next financial year.

11.2.1 It is a statutory requirement that the Treasury Management Strategy and Treasury Management Practices are reviewed annually. The report meets the requirement of CIPFA's Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities and complies with the Local Government Act 2003.

11.3 Equalities

11.3.1 Watford Borough Council is committed to equality and diversity as an employer, service provider and as a strategic partner. In order to fulfil this commitment and its duties under the Equality Act 2010 it is important to demonstrate how policies, practices, and decisions impact on people with different protected characteristics. It is also important that the Council is not discriminating unlawfully when carrying out any of its functions.

11.3.2 This report provides an over view of Budget proposals and equalities issues will need to be specifically considered before changes to existing service levels are introduced.

11.4

Potential Risks

The potential risks of not approving the recommendations in this report are shown below; (1= very low risk, 4 = a very high risk)

Potential Risk	Likelihood	Impact	Overall Score
That Cabinet does not agree the council tax base before the statutory date	1	4	4
That Cabinet does not recommend revenue and capital estimates for 2016/2017 to Council	1	3	3
That Cabinet does not agree a medium term financial strategy to address future government grant reductions	1	3	3
That Cabinet does not recommend a council tax to apply for 2016/2017	1	3	3
That Cabinet does not indicate how it intends to finance any difference between net expenditure and sources of funding	2	4	8
That the Council will exceed its borrowing parameters	1	3	3
That the Council will be unable to service its annual borrowing costs	1	3	3
That the Council will be unable to repay any loans at maturity date	1	4	4
Investment placed with a non approved body	1	4	4
Investment with a counterparty that subsequently defaults	1	4	4

11.5

Staffing

It is inevitable that proposals to reduce the council’s levels of expenditure will contain implications for current levels of staffing. At such time that any proposals are identified then consultation with affected staff and trade union representatives will take place.

11.6

Accommodation

There are no clearly defined proposals that will affect current accommodation standards or service delivery.

11.7

Community Safety

All proposals relating to 2016/17 Revenue and Capital budgets have taken into account the effect upon community safety.

11.8

Sustainability

The Council has established policies in the past to support sustainability such as the purchase of green energy through its procurement policies.

Appendices

Appendix 1	Proposed Revenue Savings 2016-19
Appendix 2a	Proposed Revenue Growth 2016-19
Appendix 2b	Unavoidable Revenue Growth 2016-19
Appendix 2c	Revenue Growth funded from Earmarked Reserves 2016 -19
Appendix 3	Income Charging Policy for Fees & Charges
Appendix 4	Fees and Charges Proposals for 2016-19
Appendix 5	Estimate of Commercial Rents 2016-19
Appendix 6	Medium Term Financial Strategy 2016-19
Appendix 7	Summary of Local Government Finance Settlement 2016-17
Appendix 8	Council Tax Base 2016-17
Appendix 9	Schedule of Reserves
Appendix 9a	Notes to the Reserves
Appendix 10	Key Risks
Appendix 11	Draft Capital Programme 2015-19
Appendix 11a	Capital Funding
Appendix 12	Treasury Management Policy
Appendix 13	Property Investment Board – Expenditure and Receipts

REVENUE ESTIMATES – Proposed Savings submitted by Services Affecting General Fund

Department	Cost Centre Description	Budget Code	2016/17 Budget Saving £	2017/18 Budget Saving £	2018/19 Budget Saving £	Reason	
Corporate Strategy & Client Services	Veolia Contract Payment	DVE000	-14,280	-14,280	-14,280	Software licence no longer required.	
	Recycling - Banks	KMG000	-13,980	-13,980	-13,980	Reduction in recycling facilities.	
	Watford & Three Rivers Trust	AEH000	-8,800	-8,800	-8,800	Baseline reduction in management fee over 3 years of new voluntary and community commissioning framework 2016-2019	
	Orbital Community Centre	DHN000	-6,290	-6,290	-6,290	Baseline reduction in management fee over 3 years of new voluntary and community commissioning framework 2016-2019	
	Orbital Community Centre	DHN000	-2,000	-2,000	-2,000	Reduction in contingency level	
	Holywell Community Centre	DHL000	-2,000	-2,000	-2,000	Reduction in contingency level	
	Grants Administration	AEA000	-10,000	-10,000	-10,000	Reduction in contingency level	
	Centrepoint Community Centre	JCE000	-3,000	-3,000	-3,000	Re-profile of base budget to operate facility	
Corporate Strategy & Client Services	Total		-60,350	-60,350	-60,350		
Community & Customer Services	Service Reviews	DFA000	0	-150,000	-150,000	Additional savings to be generated from service reviews.	
	CSC review	ADX000	0	-40,000	-40,000	Savings to be delivered from the CSC review	
	Reduction in staff costs	ADX000	-30,000	-30,000	-30,000	CSC staffing costs reduced following change in staffing arrangements	
	Culture and Play	DCP000	-25,000	-25,000	-25,000	Reduction in staffing costs	
	Increase in Fees and Charges	Various	-18,730	-23,890	-43,240	See "Fees & Charges"	
Community & Customer Services	Total		-73,730	-268,890	-288,240		
Regeneration & Development	Valuation & Estates	FKC000	-2,420	-2,420	-2,420	Standby Allowance no longer required	
	Valuation & Estates	FKC000	-900	-900	-900	Reduced budget required	
	Valuation & Estates	FKC000	-280	-280	-280	Reduced budget required	
	Valuation & Estates	FKC000	-12,750	-11,360	-9,890	Delete vacant posts	
	Policy Team	GAA000	-21,490	-21,490	-21,490	Income from three rivers for 50% of conservation officer	
	Development Control	GBA000	-60,000	-40,000	-40,000	Planning performance agreement income	
	Development Control	GBA000	-2,000	-2,000	-2,000	No longer required	
	Development Control	GBA000	-10,350	-15,000	-15,000	5% Retained income from Community Infrastructure Levy	
	Town Centre Management	GED002	-67,500	-68,190	-68,190	Deletion of post	
Regeneration & Development	Total		-177,690	-161,640	-160,170		
Democracy & Governance	Town Hall Office & Council Suite	KEC000	-250	-250	-250	Stationery Budget savings	
	Town Hall Office & Council Suite	KEC000	-16,000	-16,000	-16,000	Gas consumption energy savings	
	Town Hall Office & Council Suite	KEC000	-14,000	-14,000	-14,000	Electricity consumption efficiency savings	
	Town Hall Office & Council Suite	KEC000	0	-70,000	-70,000	Rent New annex - NHS (Herts CC)	
	Support Team	AHD000	-2,500	0	0	Lower printing costs.	
	Legal Services Team	AHX000	-5,000	-5,000	-5,000	Reduction in legal fees budget	
	Legal Services Team	AHX000	-5,000	-5,000	-5,000	Anticipated increase in legal fees income for the legal department.	
	Members Remuneration	AGX000	-5,000	-5,000	-5,000	Remove budget for telephone lines.	
	Members Remuneration	AGX000	-3,540	-3,540	-3,540	Reduce budget for telephone allowances (replaced by communications allowance)	
	Public Conveniences	KDA000	-1,000	-1,000	-1,000	Lower energy costs.	
	Buildings, Projects & Facilities	KEA000	-1,000	-1,000	-1,000	Lower printing costs.	
	Buildings, Projects & Facilities	KEA000	-300	-300	-300	Saving predicted based on new corporate contract costs	
	Members - Postages	AGX000	-630	-630	-630	Members postage	
	Members - Hospitality	AGX000	-1,000	-1,000	-1,000	Hospitality	
	Members - Subsistence	AGX000	-600	-600	-600	Subsistence	
	Members - Mileage	AGX000	-1,000	-1,000	-1,000	Mileage	
	Mayor - Travel	AGM000	-400	-400	-400	Travel	
	Mayor - Advertising	AGM000	-1,000	-1,000	-1,000	Advertising	
		Increase in Fees and Charges	Various	-7,500	-7,500	-7,500	See "Fees & Charges"
	Democracy & Governance	Total		-65,720	-133,220	-133,220	
Finance - Benefit Fraud							
	Benefit Fraud - Client	BAR900	-53,270	-53,810	-54,350	Transfer of Housing Benefit fraud staff to DWP.	
Strategic Finance	Total		-53,270	-53,810	-54,350		
All Services	Grand Total		-430,760	-677,910	-696,330		

REVENUE ESTIMATES - Proposed growth submitted by Services Affecting General Fund

<u>Department</u>	<u>Cost Centre Description</u>	<u>Budget Code</u>	<u>2016/17 Budget Growth</u>	<u>2017/18 Budget Growth</u>	<u>2018/19 Budget Growth</u>	<u>Reason</u>
			£	£	£	
Corporate Strategy & Client Services	SLM (Central & Woodside)	DLM000	0	25,000	0	Budget required to resource the re-tender of the leisure centre management contract (LCMC). The additional funding for 16/17 will be funded from a carry forward from 15/16.
Corporate Strategy & Client Services	Total		0	25,000	0	
Community & Customer Services	Housing Supply	JHS000	250,000	229,000	173,000	Increase in cost of nightly-let accommodation for the homeless.
	Website	ADW000	18,400	19,400	20,400	Additional cost of new website maintenance including security testing and changes / extra features etc
	Town Centre Special Events	DDS000	95,000	95,000	95,000	Delivery of family, cultural and special events.
Community & Customer Services	Total		363,400	343,400	288,400	
Democracy & Governance	Buildings, Projects & Facilities	KEA000	25,000	25,000	0	Cost of Apprentice.
	Legal Services team	AHX000	4,000	4,000	4,000	Cost of Legal review.
Democracy & Governance	Total		29,000	29,000	4,000	
Regeneration & Development	Development Control	GBA000	23,250	23,250	23,250	Cost of software for Community Infrastructure Structure.
	Policy Team	GAA000	0	0	50,000	To deliver Local Plan and then Local Plan 3 in 2018/19.
	Development Control	GBA000	21,310	21,310	21,310	Scanning of planning documents for Planning Portal.
Regeneration & Development	Total		44,560	44,560	94,560	
All Services	Grand Total		436,960	441,960	386,960	

REVENUE ESTIMATES - Unavoidable growth submitted by Services Affecting General Fund

Department	Cost Centre Description	Budget Code	2016/17	2017/18	2018/19	Reason
			Unavoidable			
			Budget Change	Budget Change	Budget Change	
			£	£	£	
Corporate Strategy & Client Services	Recycling - Kerbside	KMH000	120,000	100,000	100,000	The processing of commingled material collected from the kerbside remains at a cost with no signs of the national market dramatically improving. Currently WBC pay £16.40 per ton including haulage. WBC officers are continually looking at ways to minimise ongoing processing costs.
	To be confirmed	To be confirmed	35,000	15,000	0	Maintenance of Japanese Knotweed.
	Decrease in Fees and Charges	Various	85,160	76,600	47,200	See "Fees and Charges" and new Cemetery Strategy.
Corporate Strategy & Client Services			240,160	191,600	147,200	
Community & Customer Services	Play review	DFA000	100,000	0	0	Delay in play review implementation by 1 year.
Community & Customer Services			100,000	0	0	
Democracy & Governance						
	Members Remuneration	AGX000	18,750	18,750	18,750	Annual changes to the political structure.
Democracy & Governance			18,750	18,750	18,750	
Regeneration & Development	New Market	FNM000	41,230	47,620	47,620	Revised budgets for new market.
	Decrease in Fees and Charges	Various	24,000	24,000	24,000	See "Fees & Charges".
Regeneration & Development			65,230	71,620	71,620	
Strategic Finance	Budget Strategy Items	BJC000	0	30,000	30,000	Apprenticeship Levy from 2017/18.
Strategic Finance			0	30,000	30,000	
All Services			424,140	311,970	267,570	

REVENUE ESTIMATES - Proposed Growth to be funded from Reserves

<u>Department</u>	<u>Cost Centre</u> <u>Description</u>	<u>Budget Code</u>	<u>2016/17</u> <u>Budget</u> <u>Growth</u>	<u>2017/18</u> <u>Budget</u> <u>Growth</u>	<u>2018/19</u> <u>Budget</u> <u>Growth</u>	<u>Reason</u>
			£	£	£	
Regeneration & Development	Skillmakers	GED000	11,500	0	-11,500	To be funded from the LABGI reserve. It is also a loan which is expected to be repaid. To be funded from the Local Development Framework Reserve.
	Local Plan	GAA000	50,000	50,000	0	
Regeneration & Development			61,500	50,000	-11,500	
All Services			61,500	50,000	-11,500	

Income (Charging) Policy

Summary

The Budget Panel agreed to adopt the income charging policy below at their meeting on 11 September 2012 and accepted the categorisation of charges referred to at table 1.

The policy was set against the Audit Commission's review of charging in the public sector which recommended that;

- Councils should undertake regular reviews of their approaches to charging, both within service areas and across the council;
- Managers should ensure that income from charges, and the level of subsidy this provides, are transparent and inform the decision-making process;
- Councillors and managers should better understand the non-financial contribution charging has to strategic and service objectives.
- Councils do not make an effective use of their charging powers, and authorities need to change their approach to charging if they are to achieve their financial and strategic objectives. At a time when pressure on services is increasing in the public sector and revenues decreasing, councils need to understand, address and improve the way they charge for services.

Key Principles for a Charging Policy

In general a charge will be levied for all discretionary services on the principle "the user pays". Charges should seek to optimise potential income. The decision of whether to charge for a specific service will be subject to an assessment of the impact of charging on the delivery of the Councils corporate priorities and priority outcomes.

- In undertaking an 'impact assessment' the following questions will be asked:
- Why are we providing the service?
- Which of the Council's corporate priorities and priority outcomes are achieved by the service?
- What impact will charging have on the achievement of the Council's corporate priorities and priority outcomes?
- Do other similar or neighbouring Councils charge for the service and what is the impact of any such change?
- Are alternate service providers operating in the market and if so what is their level of charging?
- What is the estimated net additional income that is likely to be generated by the charge (i.e. impact on our financial position)?
- There are different levels, or basis, for the charging of service. The actual level, or basis of the charge, will be influenced by the impact assessments.

The objectives for differing charging strategies are shown below in table 1.

Table 1: Charging Strategy

Charging Strategy	Objective
Commercial Charges	The Council aims to cover the cost of providing the service and make a surplus used to fund other priority services. The full cost of the service, including an element for capital financing costs, support services and corporate overheads, will be the starting point for calculating charges.
Full Cost Recovery	The council aims to recover the costs of providing this service from those who use it. The full cost of the service, including an element for capital financing costs, support services and corporate overheads, will be the starting point for calculating charges.
Subsidised	Users of the service to make a contribution to the costs of providing it. This might be to meet a service objective or allow competition with other providers.
Free	The Council chooses to make the service available at no charge to meet a service objective - cost of service met by all Council Tax payers.
Statutory	Charges are determined in line with legal requirements.

Service Responsibilities

Service Managers should initially assess current chargeable services and allocate these to one of the categories above.

To maximise income from fees and charges in accordance with an Income policy, Service Managers are responsible for –

- Annually reviewing their services to identify any aspects that could be charged for and to introduce such charges unless Cabinet considers it would be inappropriate.
- Reviewing and varying fees and charges at least annually for services under their control, after consultation with the relevant Portfolio Holder and, in doing so, they shall –
 - ensure that relevant legislation is complied with,
 - have regard to the charges of any alternative service providers with whom the Council is competing, seek to maximise income, net of applicable costs, unless it will have a clearly detrimental impact on the achievement of the Council objectives.
 - introduce differential pricing to particular client groups where these are expected to stimulate demand and generate additional net income which would otherwise not be obtained.
 - set prices lower than could be reasonably achieved if this is the most cost effective way of achieving Council objectives and the necessary funding is available. Use of this option requires approval of Cabinet,
 - set fees and charges that allow an element of discretion if it can be demonstrated that this will lead to an overall benefit to the Council. It is important that any use of discretion is recorded so that it can be clearly shown that decisions have been made fairly and consistently.

Council Fees & Charges Concessions Policy

Concessions will be available to residents on identified income related benefits and discounts. These benefits and discounts include;

- Housing Benefit, in the form of Rent Allowance or Local Housing Allowance for people living in rented accommodation.
- Local Council Tax Reduction Scheme discount
- Income Support
- Job Seekers Allowance (income based)
- Working Tax credit
- Child Tax Credit
- Guaranteed Pension Credit (not Savings Pension Credit)
- Employment and Support Allowance (income based)
- Universal Credit

This list will change as changes are made to the names of the benefits or benefits themselves.

No concession is applied on the grounds of age (except Under 18 teams hiring football pitches) or disability unless the resident is in receipt of benefits.

Proof of Benefits and Discounts

Residents will need to confirm the type of the benefit or discount they are claiming and to give permission for a check to be made with the Councils' Revenues & Benefits section that this is the case.

Amount of Concessions

The amount of concession will be to apply a 50% reduction for all fees and charges.

Variations

For use of the Council's sports pitches the existing arrangements that provide for subsidised fees for junior (under 18) sports teams to use pitches is to continue so as to encourage usage and participation (concession to be harmonised to 50%)

The Council's externally managed Leisure Centres operate specific concessions for particular activities.

FEES & CHARGES ESTIMATES 2016 -19 - Service Income Budgets

	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual	Original Budget	Draft Budget	Draft Budget	Draft Budget
CORPORATE STRATEGY & CLIENT SERVICE					
Parks, Pitches & Woods	(12,691)	(10,500)	(12,000)	(15,000)	(20,000)
Community Centres	(17,653)	(14,500)	(17,000)	(17,000)	(17,000)
Allotments	0	0	0	0	0
Cheslyn Gardens	(713)	(1,000)	(1,000)	(1,000)	(1,000)
Cemeteries	(245,633)	(217,000)	(294,500)	(300,600)	(325,000)
SLM & Related Income	(289,820)	(255,170)	(292,000)	(292,000)	(292,000)
Trade Waste	(2,166)	0	0	0	0
Domestic Waste	(5,628)	(7,670)	(7,900)	(8,000)	(8,000)
Recycling Banks	(8,129)	(4,900)	(4,200)	(3,400)	(3,400)
Kerbside Recycling	(4,096)	(183,140)	(7,950)	(8,000)	(8,000)
Specials & Street Cleansing	(40,115)	(35,720)	(40,890)	(42,000)	(43,000)
	(626,646)	(729,600)	(677,440)	(687,000)	(717,400)
COMMUNITY & CUSTOMER SERVICES					
Arts, Events and Heritage	(126,231)	(3,300)	(5,850)	(7,510)	(9,360)
Filming	(8,940)	(10,000)	(11,000)	(12,000)	(13,000)
Housing	(1,150,175)	(580,500)	(1,390,000)	(1,266,000)	(1,104,000)
Licenses	(173,250)	(130,080)	(141,500)	(141,500)	(155,500)
Other Licenses	(33,771)	(14,210)	(16,900)	(16,900)	(16,900)
Gaming Licenses	(63,014)	(101,260)	(109,930)	(109,930)	(109,930)
Pest Control	(15,313)	(21,290)	(22,290)	(22,290)	(22,290)
Stray Dogs	(4,974)	(1,300)	(2,200)	(2,200)	(2,200)
Environmental Abandoned Vehicles	(1,703)	(1,800)	(1,800)	(1,800)	(1,800)
Environmental Miscellaneous	(93,326)	(49,500)	(40,000)	(40,000)	(40,000)
Customer Services (including Information Unit)	(16,348)	(10,000)	(10,000)	(12,500)	(15,000)
	(1,687,046)	(923,240)	(1,751,470)	(1,632,630)	(1,489,980)
PLANNING SERVICES					
Parking - Other (incl. Avenue, Longspring & Town Hall)	(245,229)	(242,400)	(232,400)	(232,400)	(232,400)
Building Control	(273,051)	(197,500)	(197,500)	(197,500)	(197,500)
Development Control (including Policy Team)	(640,081)	(682,000)	(598,000)	(598,000)	(598,000)
Land Searches	(127,259)	(50,000)	(120,000)	(120,000)	(120,000)
	(1,285,620)	(1,171,900)	(1,147,900)	(1,147,900)	(1,147,900)
LEGAL & PROPERTY SERVICES					
Town Hall Facilities	(89,607)	(86,000)	(93,000)	(93,000)	(93,000)
Elections Unit	(4,329)	(3,000)	(3,500)	(3,500)	(3,500)
	(93,936)	(89,000)	(96,500)	(96,500)	(96,500)
REVENUES & BENEFITS					
Council Tax (Single Person Discount)	0	(2,000)	(2,000)	(2,000)	(2,000)
	0	(2,000)	(2,000)	(2,000)	(2,000)
Total	(3,693,247)	(2,915,740)	(3,675,310)	(3,566,030)	(3,453,780)
Removal of Housing income due to this offsetting the increased costs.	(1,150,175)	(580,500)	(1,390,000)	(1,266,000)	(1,104,000)
Revised Total	(2,543,072)	(2,335,240)	(2,285,310)	(2,300,030)	(2,349,780)

COMMERCIAL RENTS ESTIMATES 2016-19

Commercial Property Rents	2015-16	2016-17	2017-18	2018-19	2015/16	2015/16 to 2016/17	2016/17 to 2017/18	2017/18 to 2018/19
					Change	Change	Change	Change
					2015/16	2016/17	2017/18	2018/19
	£	£	£	£	£	£	£	£
Original Budget	(6,323,730)	(6,323,730)	(6,323,730)	(6,323,730)				
Charter Place	(46,250)	(201,250)	(201,250)	(201,250)	(46,250)	(155,000)	0	0
Car Parks - Other Sites	(106,655)	(90,655)	(90,655)	(15,655)	(106,655)	16,000	0	75,000
Watford Business Park	(50,110)	(177,110)	(377,110)	(325,110)	(50,110)	(127,000)	(200,000)	52,000
New Market	17,500	17,500	17,500	17,500	17,500	0	0	0
Parks & Leisure	(1,100)	(1,100)	(21,100)	(21,100)	(1,100)	0	(20,000)	0
Multi Storey Car Parks	(42,000)	(42,000)	(42,000)	(42,000)	(42,000)	0	0	0
Intu (ex Harlequin)	(190,000)	(190,000)	(190,000)	(190,000)	(190,000)	0	0	0
Miscellaneous	62,765	62,765	62,765	62,765	62,765	0	0	0
Property Investment Board - Disposals	23,000	129,000	129,000	129,000	23,000	106,000	0	0
Total	(332,850)	(492,850)	(712,850)	(585,850)	(332,850)	(160,000)	(220,000)	127,000
Latest Budget	(6,656,580)	(6,816,580)	(7,036,580)	(6,909,580)				

MEDIUM TERM FINANCIAL STRATEGY 2015–19

General Fund Budget Projections 2015/16 – 2018/19 at January 2016

	2015/16 Revised Budget	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Base Budget 2015/16 is the Original approved budget	15,176,500	16,797,035	16,035,060	14,006,810
Previous Years' Net Growth and Savings to be implemented over lifetime of MTFS		4,710	23,570	190,000
New Savings Identified - ongoing	(62,610)	(430,760)	(247,150)	(18,420)
New Savings Identified - one offs	(117,500)	117,500	0	0
New Growth items	0	436,960	5,000	(55,000)
New Unavoidable changes	0	424,140	(112,170)	(44,400)
<u>Other Items:</u>				
Commercial Rents	(332,850)	(160,000)	(220,000)	127,000
Waste Veolia Outsource	0	0	(146,000)	0
Employer's superannuation contributions	0	199,240	0	0
Health Campus-Interest & Dividends	0	(217,000)	(709,000)	926,000
Interest on LEP loan	0	20,000	0	0
Management fee for Outsourcing of Watford Business Park	0	75,000	(25,000)	0
Employee costs	0	150,440	101,700	102,120
Increased employer's NI	0	141,790	0	0
Pensions payment	0	700,000	(700,000)	0
Reduction in Housing Benefit Administration Grant		82,000	12,300	24,600
Carry forwards	961,580	(961,580)	0	0
Expenditure met from Reserves	571,000	(571,000)		
Other 'In Year' Forecast Changes	73,085	(73,085)	0	0
Reserve Funded Growth	0	(122,500)	(11,500)	(61,500)
Recycling	180,000	(180,000)	0	0
Bed and Breakfast Accommodation for the Homeless	347,830	(347,830)	0	
Dividend income		(50,000)	0	0
Forecasted Net Expenditure	16,797,035	16,035,060	14,006,810	15,197,210
Funded By:				
Grant Settlement	4,743,821	3,910,000	3,220,000	2,840,000
Business Rate Changes	(189,000)	(200,000)	(200,000)	(210,000)
CLG Grant for Council Tax Freeze	82,197	0	0	0
New homes bonus	2,822,432	3,509,403	0	0
Collection Fund Surplus/(Deficit)	250,000	250,000	250,000	250,000
Grant in Lieu of New Homes Bonus	0	0	2,000,000	2,000,000
Total Government Funding	7,709,450	7,469,403	5,270,000	4,880,000
Council Tax Requirement	7,696,220	7,823,667	7,901,904	7,980,923
Total Government Funding Plus Council Tax	15,405,670	15,293,070	13,171,904	12,860,923
Planned contribution (to)/from Earmarked Reserves	1,532,580	761,500	50,000	(11,500)
(To)/From Reserves (Net Expenditure less Total Funding)	(141,215)	(19,510)	784,906	2,347,787
<u>Council Tax Calculation</u>				
CTR target	7,696,220	7,823,667	7,901,904	7,980,923
Council Tax Base	30,805	31,315	31,628	31,944
Council Tax % increase	-	-	-	-
Average charge	249.84	249.84	249.84	249.84
Collection rate used (as a percentage)	97	97	97	97

Briefing on the Provisional Local Government Settlement 2016/17 - 17 December 2015

Introduction

The statement on the provisional local government finance settlement 2016/17 was announced on the 17th December 2015. This briefing note highlights key issues included in the announcement. Details of all the documents relating to the settlement, including the Minister's statement can be found on the link below:

<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2016-to-2017>

This is a provisional settlement for 2016-17 and is subject to parliamentary approval.

Key issues emerging from the announcement are as follows:

Giving councils the option of longer-term funding settlements is significant. This is an important step towards the financial certainty councils need to run high quality services.

The Government has responded to calls for greater flexibility for local authorities in setting council tax levels. The option to raise council tax by an additional 2 per cent, if taken up in full, would raise additional resources of £393 million in 2016-2017 and would help to tackle local social care funding pressures and offset some of the extra cost pressures they face next year. This increment is ring-fenced to social care budgets.

Further recognition of the pressures on adult social care is demonstrated in the promised targeted increase of £1.5 billion in the Better Care Fund by 2019-2020. While recognising this as positive, councils are concerned that the extra investment will not be fully in place until the end of this decade. 2016-2017 looks set to be the toughest year of this four year Spending Review period for local services.

A variation to the referendum principle that allows shire district authorities in the lower quartile of council tax levels to increase their council tax by up to £5, if this is greater than the uplift that a 1.99% cent increase will deliver.

Taking into account the full range of ways councils can raise money the 2015 Spending Review announced a 'flat cash' settlement for councils over the next four years. Councils are able to lock into the four year funding settlement, provided they can demonstrate a commitment to on-going cost reductions.

However, there are still significant challenges ahead for councils who will have to make savings, despite receiving a flat-cash settlement over the next four years, sufficient enough to compensate for any additional cost pressures they face.

These include those arising from general inflation, cost pressures in the care sector, increases in the number of adults and children needing support and rising levels of need, increases in demand for everyday services as the population grows, pressure on homelessness budgets and increases in core costs such as national insurance, the National Living Wage and pension contributions.

The Settlement proposes distributional changes, including an equal percentage reduction in settlement core funding for different authorities of the same type. It is likely that different councils will have differing views about this.

What does this mean for Watford Borough Council?

Below is the affect of the grant settlement on Watford. This means a significant funding reduction over the medium term.

<u>Government Grant</u>	<u>£</u>
<u>2016/17</u>	
Budget	-4,446,263
Provisional Settlement	-3,910,000
Difference	536,263
<u>2017/18</u>	
Budget	-4,149,249
Provisional Settlement	-3,220,000
Difference	929,249
<u>2018/19</u>	
Budget	-4,149,249
Provisional Settlement	-2,840,000
Difference	1,309,249

The New Homes Bonus grant allocations were higher than included in the 2016/17 budget and this increase had been reflected in the future projections. The New Homes bonus allocations can be found on the link below:

<https://www.gov.uk/government/policies/increasing-the-number-of-available-homes/supporting-pages/new-homes-bonus>

Figures for funding beyond 2016/17 have not been announced but it is expected that these will be in line with current budget projections.

NOTES TO THE COUNCIL TAX BASE – 2016/17

1. The Local Government Finance Act 1992 requires Councils which collect the Council Tax (known as “Billing Authorities”) to carry out certain functions. This includes the calculations in Sections 31 to 37 of the Act concerned with setting the Council Tax. These calculations produce the Council Tax Base, which is used to work out the basic amount of Council Tax. This must be notified to Hertfordshire County Council and Hertfordshire Police Authority (known as precepting authorities) between 1st December and 31st January in the financial year before that to which the Tax Base applies.

2. The methodology for calculating the base is contained within The Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012 (SI2914/2012), “the Regulations”.

3. The calculation is made by applying the following formula:-

$$T = A \times B$$

where -

A is the total of the “relevant amounts” for that year for each of the valuation bands shown in the billing authority’s valuation list as applicable to one or more dwellings situated in its area;

B is the authority’s estimate of its collection rate for that year.

4. The Tax Base (denoted as “T”) is calculated by taking the total number of properties in each valuation band, reflecting the estimated discounts to be applied for single occupancy and empty properties, stating the net result in terms of Band D and applying to the total figure our best estimate of the rate of collection. Watford Borough Council will use the “T” figure to calculate its total Council Tax to be raised for the new financial year.

5. The formula set out in the regulations for the calculation of “A” is set out as:

$$((H - Q + E + J) - Z) \times \frac{F}{G}$$

where -

H is the number of chargeable dwellings in the area listed in the band in November (described as ‘Dwellings’ in the Appendices); less the number of dwellings which were exempt on that day; plus or less the net number of full-year equivalent dwellings in each band resulting from properties being placed in a lower valuation band reflecting reductions for disabled persons under Section 13 of the Act.

Q is a factor to take into account the amount of discounts of council tax payable and is calculated by multiplying the number of dwellings affected by the relevant percentage discount. Shown in Row 10 of the table

J is the amount of any adjustment in respect of changes in the number of chargeable dwellings (described as “Additions and Reductions” in the Appendix).

Z is the total amount that will be applied in accordance with the Council’s council tax reduction scheme in relation to the band expressed as an equivalent number of chargeable dwellings in that band.

F is the number in the proportions 5:6:7:8:9:11:13:15:18 applicable to properties in Bands A Disabled to H respectively.

G is the number, which, in that proportion, is applicable to dwellings in valuation Band D (i.e. 9).

6. The result of the calculation is that "A" is determined as 31,314.71

7. For the purposes of calculating "T", the assumed collection rate "B" has been determined to be 97%.

8. This results in the calculation of T being $32,283.20 \times 97\% = 31,314.71$

9. The other authorities who raise monies from the residents of Watford (the precepting authorities) will also use this figure and those from other billing authorities within their area to determine their Band D charge (Hertfordshire County Council will require this information from all ten Hertfordshire Districts). They will then total their "T" figure, divide it into the net income they need to raise, to arrive at their Band D charge, which will be notified to each relevant Billing Authority (District Council) in the form of both Band D charge and monies to be paid over to them during the year.

10. This information will be determined and notified in February when the whole budget exercise incorporating our likely expenditure and the precepts from the County Council and Police Authority will result in the Council setting its Council Tax levels for 2016/17 at the Functions Committee on 25 February 2016.

2016/17	PROPERTIES BY BAND									
Description	Band A Disabled	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	Total
Dwellings	0	329	4001	14108	12467	3628	2140	1874	82	38,629.00
Demolished	0	0	1	1	0	1	1	0	0	4.00
Exemptions	0	15	49	117	101	19	17	18	1	337.00
Long Term Empty Premium	0	0	5	9	8	2	0	0	0	24.00
Disabled Relief (Movement)	0	0	0	0	0	0	0	0	0	0.00
Disabled Relief	0	5	32	59	32	23	20	4	0	175.00
Chargeable Dwellings (H)	0.00	314.00	3,953.50	13,994.50	12,370.00	3,609.00	2,122.00	1,856.00	81.00	38,300.00
Discounts x 25% SPD	0	198	2289	4925	3050	722	342	222	3	11,751.00
Discounts x 25%	0	0	20	132	94	23	13	7	0	289.00
Discounts x 50%	0	0	0	4	9	11	3	10	10	47.00
Discount Deduction (Q)	0.00	49.50	577.25	1,266.25	790.50	191.75	90.25	62.25	5.75	3,033.50
Additions	0.00	0.00	75.00	75.00	4.00	23.00	0.00	10.00	3.00	190.00
Reductions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Adjustments (J)	0.00	0.00	75.00	75.00	4.00	23.00	0.00	10.00	3.00	190.00
Sub-Total (H-Q+J)	0.00	264.50	3,451.25	12,803.25	11,583.50	3,440.25	2,031.75	1,803.75	78.25	35,456.50
Reduction Scheme (Z)	0	74.84	891.12	1801.5	1153.44	200.01	51.52	16.33	0	4,188.76
Net Dwellings ((H-Q+J)-Z)	0.00	189.66	2,560.13	11,001.75	10,430.06	3,240.24	1,980.23	1,787.42	78.25	31,267.74
Band Proportion (F)	5	6	7	8	9	11	13	15	18	
Band D Proportion (G)	9	9	9	9	9	9	9	9	9	
Band D Equivalents	0.00	126.44	1,991.21	9,779.33	10,430.06	3,960.29	2,860.33	2,979.03	156.50	32,283.20

TAX BASE CALCULATION	
Total Band D Equivalents	32,283.20
Collection Rate	97.00%
Adjusted Band D	31,314.71
Contribution in Lieu	0.00
Tax Base	31,314.71

BALANCE ON RESERVES

Description	Bal B/F as @ 1-Apr-2015	Agreed use of reserves	Previously Reported Movement	Movement Period 08	Total Movement	Forecast Bal as @ 31-Mar-2016
CAPITAL FUNDING						
<i>Capital Reserves</i>						
Vehicle Replacement Reserve	-725,000		394,090		394,090	-330,910
Weekly Collection Support Grant	-158,000		0		0	-158,000
<i>General Reserves used for Capital</i>						
Development Sites - Decontamination Reserve	-646,363		200,000		200,000	-446,363
New Homes Bonus Reserve	-3,611,650		0		0	-3,611,650
Projects and Programmed Management (Capital)	-400,000		400,000		400,000	0
Total Capital Reserves	-5,541,013	0	994,090	0	994,090	-4,546,923
REVENUE RESERVES						
<i>Farmarked Reserves</i>						
Budget Carry Forwards Reserve	-1,611,580	1,611,580			1,611,580	0
Contribution from Budget Carry Forward Reserve for Watford Business Park	0	-650,000			-650,000	-650,000
Leisure Structured Maintenance Reserve	-423,000				0	-423,000
Multi-Storey Car Pk Rep Reserve	-181,000				0	-181,000
Car Parking Zones Reserve	-707,000				0	-707,000
Charter Place Tenants Reserve	-160,000				0	-160,000
Climate Change Reserve	-56,000		40,000		40,000	-16,000
Homeless Prevention Reserve	-112,000			112,000	112,000	0
Le Marie Centre Repair Reserve	-13,000				0	-13,000
NNDR Collection Fund Reserve	-4,661,000				0	-4,661,000
Parks Waste & Street Strategy	-60,000				0	-60,000
Rent Deposit Guarantee Scheme	-100,000				0	-100,000
<i>General Reserves</i>						
Area Based Grant Reserve	-86,000				0	-86,000
Economic Impact Reserve	-2,087,400		324,535	-465,750	-141,215	-2,228,615
Exam In Public - LDF Reserve	-178,000		80,000		80,000	-98,000
Future Pension Funding Reserve	-2,248,000				0	-2,248,000
High Street Innovation Reserve	-90,000				0	-90,000
Housing & PDG Reserve	-266,000				0	-266,000
Housing Benefit Subsidy Reserve	-997,000				0	-997,000
Invest To Save Reserve	-839,000				0	-839,000
LA Business Growth Incentive Reserve	-570,000		19,000		19,000	-551,000
Performance Reward Grant Reserve	-28,000				0	-28,000
PRG Capital Grants-One Watford Reserve	-191,000				0	-191,000
Projects and Programmed Management (Revenue)	-600,000		320,000		320,000	-280,000
Weekly Collection Support - DCLG	-35,000				0	-35,000
West Herts Crematorium	-50,000				0	-50,000
Total Revenue Reserves	-16,349,980	961,580	783,535	-353,750	1,391,365	-14,958,615
General Fund Working Balance	-1,350,000					-1,350,000
Total Revenue Reserves incl GFWB	-17,699,980	961,580	783,535	-353,750	1,391,365	-16,308,615
Total Reserves	-23,240,993	961,580	1,777,625	-353,750	2,385,455	-20,855,538

PURPOSE OF EACH RESERVE

Details of the purpose of each current reserve are set out below:

Reserve	Purpose
Area Based Grant	Grant received to encourage initiatives preventing violent extremism & anti social behaviour.
Budget Carry Forward	To 'carry forward' unspent revenue budgets for use in the proceeding financial year.
Capital Fund	To provide for funding of key capital projects.
Car Parking Zone	This is a statutory ring-fenced reserve, for future controlled parking related costs.
Charter Place Tenants	Tenants' contributions to meet major works.
Climate Change	To fund energy saving initiatives to reduce energy consumption.
Development Sites Decontamination	To provide for the costs of any decontamination of development sites for which the Council may have liability.
Economic Impact	To provide resources to offset the impact of the potential downturn of the economy and consequent potential overspends to the Council's budget.
Future Pension Funding	To meet one off pension costs and redundancy programme.
High Street Innovation	To assist with regeneration of Town Centres.
Homelessness Prevention	To assist with homelessness among young people.
Housing Benefit Subsidy	This reserve has been created to meet any subsidy clawback by DWP.
Housing Planning Delivery Grant	This grant was introduced to reward authorities for improved delivery of housing and other planning outcomes.
Invest to Save	To support initial expenditure will produce longer term savings.
LA Business Growth Incentive	Government grant received in respect of business rate growth.
Le Marie Centre Repair	To help meet the Council's obligation as landlord.
Leisure Structured Maintenance	To fund future structural maintenance needs not covered within the existing Leisure services contract.
Local Development Framework	To help fund the costs of the Local Development Plan.
Metropolitan Line Extension to Watford Junction	Money will be set a side to pay the additional contribution to the scheme prior to the payment date. This may be from either capital or revenue contributions including the Community Infrastructure Levy (CIL). Each year any under spends will be considered to identify if these can be allocated to this reserve.
Multi Storey Car Park Repair	To provide funds towards major structural works.
New Homes Bonus	Government grant received in respect of new homes built.
NNDR Collection Fund	To collect and distribute NNDR on behalf of Herts Councils.
Parks, Waste & Street Strategy	To cover unspecified works on the Veolia contract.
Performance Reward Grant	This is grant allocated for use in conjunction with the LSP, based on the achievement of performance targets.
PRG Capital Grants – One Watford	This is grant allocated for use in conjunction with One Watford.
Property and Programme Management Reserve	To provide resources to support a property review and to provide capacity around programme management support.
Recycling	This reserve will help to 'smooth out' fluctuations in recycling income in future years.
Rent Deposit Guarantee Scheme	To assist in the provision of homelessness accommodation.
Vehicle Replacement	To provide for the replacement of the Council's refuse freighters.
Weekly Collection Support Grant	To support LA's to introduce, retain or reinstate weekly collection of residual waste and/or recycling.
West Herts Crematorium	To fund future repairs & maintenance

KEY FINANCIAL RISKS

Type of Risk	Comment
Revenue balances insufficient to meet estimate pay award increases	The medium term planning period takes into account the pay increases for the period 2016/17 - 2018/19
Revenue balances insufficient to meet estimate of Employers' pension contributions	Pension Contributions have been budgeted at 15.9% for the period 2016/17 - 2018/19
Revenue balances insufficient to meet other inflationary increases	Other than contractual agreements, budgets have been cash limited where possible.
Interest rates resulting in significant variations in estimated interest income	The interest rate has a significant impact on the proceeds from capital receipts that are invested in the money market. The volatility of the global economy continues to place uncertainty on the investment strategy. (see Treasury Management Strategy at Appendix 11)
Inaccurate estimates of fees and charges income	See Key Budget Indicators shown in the latest Finance Digest on the Council's intranet
Revenue balances insufficient to meet loss of partial exemption for VAT	If the council's expenditure on functions for which it receives income that is exempt for VAT purposes exceeds 5% of its total vat able expenditure, then the Council may lose its ability to recover VAT on all of its exempt inputs. The new market management arrangement may increase this risk
Major emergency	Major Emergency requires funds beyond Bellwin scheme and causes serious drain on balances
The estimated cost reductions and additional income gains are not achieved	Savings identified in 2016/17 will be monitored as part of the monthly Finance Digest process.
The Income received from Commercial rents decreases	The rental income received from the Councils property portfolio is a significant proportion of the total income the Council receives. This is closely monitored and reported in the monthly Finance Digest
The Council is faced with potential litigation and other employment related risks	The Council has one outstanding litigation case.
The amount of government grant is adversely affected	The provisional grant settlement for 2016/17 and 2017/18 & 2018/19 have been factored into the MTFS . These figures are significantly lower than originally estimated.
The amount of New Homes Bonus grant is adversely affected	The grant for 2016/17 has been factored into the MTFS . The Government are carrying out a review on the allocation process in 2016/17. Until the review is concluded, it has been assumed that the Council will receive £2M pa in future years.
Fluctuations in Business Rates Retention	The Council is legally obliged to cover the first 7.5% loss on its pre determined baseline level.
Right to Buy Receipts & VAT Shelter Receipts	Under the Housing stock transfer with Watford Community Housing Trust (WCHT) the Council is entitled to use its share of the proceeds to fund the capital programme. The level of activity on both these income streams are outside the Council's control. In accordance with the stock transfer agreement the VAT shelter receipts will cease after 2016/17.

CAPITAL INVESTMENT PROGRAMME

Cost Centre	Capital Scheme	2015/16			2016/17 Latest Budget £	2017/18 Latest Budget £	2018/19 Latest Budget £
		(A)	(B)	(A)+(B)			
		Current Budget £	Total Budget Variances £	Revised Budget £			
WA6920 Key Projects							
WAA211	New Market	0	180,000	180,000	0	0	
WAA236	CSI Project	0	250,000	250,000	0	0	
WAA920	Health Campus	500,000	146,830	646,830	270,270	0	
WAA923	Health Campus-Contribution to LABV	3,000,000	(1,000,000)	2,000,000	1,600,000	0	
WAA954	Green Spaces Strategy	150,000	100,000	250,000	74,000	250,000	
WAA958	Website Enhancement	0	150,000	150,000	0	0	
WAA983	Cultural Quarter Phase 1	89,710	370,426	460,136	0	0	
WA6921 Environmental Services							
WAA161	Replacement Domestic Bins	20,000	(20,000)	0	42,185	0	
WAA194	Introduction of Electric Vehicle Rapid Charging Units	20,000	0	20,000	10,000	10,000	
WAA197	Veolia Contract Fleet Requirement	0	124,750	124,750	0	225,000	
WAA226	Yanmar Excavator & Trailer	0	20,177	20,177	0	0	
WAA227	AS940 Brush Cutter	0	8,205	8,205	0	0	
WAA228	2 x Dennis Cylinder Mowers	0	17,880	17,880	0	0	
WAA229	Kubota Tractor & Flail	0	19,100	19,100	0	0	
WAA230	Trimax Pegasus Gang Mower	0	23,200	23,200	0	0	
WAA231	Scag V Ride Mower	0	6,478	6,478	0	0	
WAA232	Kubota Utility Vehicle	0	13,800	13,800	0	0	
WAA233	Large Mechanical Road Sweeper	0	103,000	103,000	0	0	
WAA234	Transit Vans x 2	0	48,000	48,000	0	0	
WAA235	Small Box Van	0	9,500	9,500	0	0	
WAA975	Recycling Boxes	0	0	0	36,940	0	
WAA992	Additional Green Waste Bins	18,000	(18,000)	0	36,000	0	
WAJ300	Decent Homes Assistance	200,000	54,966	254,966	205,000	100,000	
WAJ600	Environmental Services Schemes	0	2,556	2,556	0	0	
WAJ800	Environmental Services Schemes	0	72,590	72,590	0	0	
WA6922 Community & Leisure Services							
WAA192	Town Hall Subway CCTV	37,000	0	37,000	0	0	
WAA193	Clarendon Road Street Improvements-Relocation of CCTV	18,000	0	18,000	0	0	
WAA195	Watford Museum HLF Matchfunding	0	0	0	125,000	350,000	
WAA198	Meriden Community Centre Redevelopments	150,000	170,000	320,000	150,000	0	
WAA201	Allotments Upgrades	0	693,950	693,950	0	0	
WAA202	Farm Terrace Allotments	0	60,000	60,000	552,874	0	
WAA214	Museum CCTV Intruder Alarm System	0	30,314	30,314	0	0	
WAA215	Town Centre CCTV Camera Replacement	21,000	0	21,000	21,000	0	
WAA219	Gaelic Football Relocation	600,000	241,282	841,282	0	0	
WAA912	Improvements Community Centres	100,000	(90,840)	9,160	150,000	0	
WAB966	Cassiobury Park HLF Project	2,816,760	299,625	3,116,385	3,032,120	0	

Cost Centre	Capital Scheme	2015/16			2016/17	2017/18	2018/19
		(A)	(B)	(A)+(B)			
		Current Budget	Total Budget Variances	Revised Budget			
		£	£	£	£	£	£
WA6923 Housing Services							
WAA987	Retained Housing Stock	50,000	84,603	134,603	50,000	50,000	50,000
WAA100	Mand Disabled Facilities Grant	400,000	194,462	594,462	400,000	400,000	400,000
WA6924 Parking Services							
WAA950	Upgrading/Resurfacing CarParks	0	59,111	59,111	0	0	0
WA6925 Asset Management							
WAA173	CCTV Control Room Relocation	0	9,795	9,795	0	0	0
WAA185	Watford Business Park Redevelopment	0	2,315,500	2,315,500	2,988,580	4,154,300	1,847,630
WAA196	Private Sector Stock Condition Survey	150,000	(100,000)	50,000	100,000	0	0
WAA203	Atrium / GIS	0	17,012	17,012	16,988	0	0
WAA213	Pop Up Toilets Refurbishment	0	0	0	35,000	0	0
WAA224	Strategy & Programme Disposal	0	83,000	83,000	0	100,000	0
WAA952	Match Funding Capital Projects	35,000	15,890	50,890	20,000	20,000	0
WAA991	Veolia Capital Improvements	92,100	0	92,100	93,170	94,250	95,380
WAA995	Building Investment Programme	400,000	29,600	429,600	745,000	400,000	400,000
WA6926 ICT							
WAA109	ICT-Hardware Replacement Prog	160,000	78,537	238,537	160,000	200,000	200,000
WAA132	ICT - Document Management Proc	0	15,000	15,000	0	0	0
WAA134	ICT-Env Health	45,000	375,000	420,000	0	0	0
WAA212	Telephony-Cost of Server Replacment	0	10,300	10,300	0	0	0
WAA221	ICT-Project Management Provision	120,000	86,985	206,985	120,000	120,000	120,000
WA6927 ICT Shared Services							
WAA191	ShS-Business Application Upgra	195,000	0	195,000	165,000	165,000	165,000
WAA945	ShS-IT Modernisation	0	898,323	898,323	0	0	0
WAA982	ShS-Hardware Replace Prog	30,000	18,000	48,000	78,000	45,000	45,000
WAB925	ShS-HR Appraisal Module	0	3,600	3,600	0	0	0
WAA601 Corporate Services / Project Management							
WAA601	Support Services	500,000	52,470	552,470	552,470	552,470	552,470
WA6990 New Schemes Requiring Approval (see details below)							
WAX000	Cassiobury Sports Dev (Fullerians)	0	0	0	200,000	0	0
WAX000	Play Review	0	0	0	1,250,000	0	0
WAX000	Cemetery Improvements	0	0	0	0	0	250,000

Cost Centre	Capital Scheme	2015/16			2016/17	2017/18	2018/19
		(A)	(B)	(A)+(B)			
		Current Budget	Total Budget Variances	Revised Budget	Latest Budget	Latest Budget	Latest Budget
		£	£	£	£	£	£
WA6928	Section 106 Funded Schemes						
WAB931	Himalayan Way Play Area	0	62,820	62,820	0	0	60,000
WAB944	Berry Avenue Play Area	0	120,000	120,000	0	0	0
WAB945	Southwold Road Play Area	0	1,371	1,371	0	0	20,000
WAB946	Ridgehurst Avenue Play Area	0	24,050	24,050	0	0	25,000
WAB948	Riverside Recreation Ground	0	165,257	165,257	0	0	0
WAB951	Colne River Project	0	60,387	60,387	0	0	0
WAB958	Local Park Improvements	0	2,244	2,244	0	0	0
WAB962	Local Nature Reserves	0	16,978	16,978	0	0	0
WNC038	Lower High St Cycle Scheme	0	35,393	35,393	0	0	0
WNC039	Abbey Way Cycle Scheme	0	28,175	28,175	0	0	0
WA4900	TOTAL CAPITAL PROGRAMME	9,917,570	6,851,652	16,769,222	13,279,597	6,661,020	5,155,480

Details of New Capital Schemes requiring approval

Cassiobury Strategic Sports Development – The Fullerians RFC are requesting a grant to expand their sports facilities at Cassiobury Park. This will supplement funding from Sport England and the RFU and is in line with the Council’s adopted Sports Facilities Strategy to enhance the Cassiobury Strategic Sports Site.

Cemetery Improvements – Funding for improving the quality of the cemeteries in line with the Cemeteries Strategy, including reception areas, ICT, visitor experience, assessing other sites for new burials.

Play Review – The anticipated outcome of the play review in 2016/17 which is expected to generate revenue savings of £150k per annum is likely to require substantial investment in play facilities – The current adventurous play provision in Watford is in need of significant capital investment to create an improved accessible service for all.

CAPITAL FUNDING					
FUNDING REQUIRED FOR CAPITAL PROGRAMME					
	Latest Forecast 2015/16	Latest Budget 2016/17	Latest Budget 2017/18	Latest Budget 2018/19	Total
	£	£	£		£
Grants & Contributions	2,915,950	2,489,000	239,000	239,000	5,882,950
Reserves	1,044,090	115,125	4,069,150	0	5,228,365
Capital Receipts	10,299,904	10,143,352	2,352,870	4,811,480	27,607,606
Section 106 Contributions	1,009,278	532,120	0	105,000	1,646,398
Local Enterprise Partnership (LEP) Loan	1,500,000	0	0	0	1,500,000
TOTAL CAPITAL FUNDING USED	16,769,222	13,279,597	6,661,020	5,155,480	41,865,319
CAPITAL FUNDING UNALLOCATED					
	Latest Forecast 2015/16	Latest Budget 2016/17	Latest Budget 2017/18	Latest Budget 2018/19	Total
	£	£	£		£
GRANTS & CONTRIBUTIONS					
Balance Brought Forward	394,179	50,888	50,888	50,888	394,179
In Year Receipts	2,572,659	2,489,000	239,000	239,000	5,539,659
Used for Financing (as above)	(2,915,950)	(2,489,000)	(239,000)	(239,000)	(5,882,950)
BALANCE CARRIED FORWARD	50,888	50,888	50,888	50,888	50,888
RESERVES (INCLUDING NEW HOMES BONUS)					
Balance Brought Forward	6,382,416	5,795,826	5,680,701	1,611,551	6,382,416
In Year Receipts	457,500	0	0	0	457,500
Used for Financing (as above)	(1,044,090)	(115,125)	(4,069,150)	0	(5,228,365)
BALANCE CARRIED FORWARD	5,795,826	5,680,701	1,611,551	1,611,551	1,611,551
USEABLE CAPITAL RECEIPTS RESERVE					
Balance Brought Forward	12,375,539	8,470,905	1,442,553	1,889,683	12,375,539
In Year General Receipts	5,179,270	3,115,000	2,800,000	12,450,000	23,544,270
In Year PIB Receipts	1,216,000	0	0	0	1,216,000
Used for Financing (as above)	(10,299,904)	(10,143,352)	(2,352,870)	(4,811,480)	(27,607,606)
BALANCE CARRIED FORWARD	8,470,905	1,442,553	1,889,683	9,528,203	9,528,203
SECTION 106 CONTRIBUTIONS					
Balance Brought Forward	2,017,006	1,322,728	800,608	805,608	2,017,006
In Year Receipts + Interest	315,000	10,000	5,000	5,000	335,000
Used for Financing (as above)	(1,009,278)	(532,120)	0	(105,000)	(1,646,398)
BALANCE CARRIED FORWARD	1,322,728	800,608	805,608	705,608	705,608
LOCAL ENTERPRISE PARTNERSHIP (LEP) LOAN					
Balance Brought Forward	0	0	0	0	0
In Year Receipts	1,500,000	0	0	0	1,500,000
Used for Financing (as above)	(1,500,000)	0	0	0	(1,500,000)
BALANCE CARRIED FORWARD	0	0	0	0	0
AVAILABLE CAPITAL FUNDING					
Balance Brought Forward	21,169,140	15,640,347	7,974,750	4,357,730	21,169,140
In Year Receipts + Interest	11,240,429	5,614,000	3,044,000	12,694,000	32,592,429
Used for Financing (as above)	(16,769,222)	(13,279,597)	(6,661,020)	(5,155,480)	(41,865,319)
BALANCE CARRIED FORWARD	15,640,347	7,974,750	4,357,730	11,896,250	11,896,250

TREASURY MANAGEMENT STRATEGY STATEMENT 2016 – 2019

1.0 Introduction

The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, reflecting the outcome of the Council's underlying capital appraisal systems. This report updates the approved indicators.

Within this overall prudential framework there is an impact on the Council's treasury management function as it can directly impact on borrowing or investment decisions. As a consequence the treasury management strategy for 2016/17 to 2018/19 is included.

2.0 The Capital Plans and Prudential Indicators 2016/17 – 2018/19

The Council's capital expenditure plans are one of the key drivers of the treasury management function. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 The Council's Capital Position

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts within the proposed capital expenditure programme. The Council's capital expenditure plans are due to be approved by Cabinet and Council on 18 January and 27 January 2016 respectively. These exclude any spending plans by the Property Investment Board.

	2014/15 Actual	2015/16 Latest Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Total Capital Expenditure	£9.5M	£16.8M	£13.3M	£6.7M	£5.2M

The capital expenditure plans are financed by capital receipts, capital grants or capital reserves. Over the next three years there are no planned shortfalls of resources which would result in borrowing. A certain level of capital expenditure is grant supported by the Government; any decisions by the Council to spend above this level will be considered unsupported capital expenditure which needs to have regards to:

- Service objectives (e.g. strategic planning);
- Stewardship of assets (e.g. asset management planning);
- Value for money (e.g. option appraisal);
- Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
- Affordability (e.g. ongoing revenue implications);

2.2 The Council's Borrowing Need - The 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.

Following accounting changes the CFR includes any other long term liabilities (e.g. finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes.

The Council is asked to approve the CFR projections below:

	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Total CFR	£2.6m	£2.5m	£2.4m	£2.3m	£2.2m
Adjustment A	£2.6m	£2.5m	£2.4m	£2.3m	£2.2m
Movement in the CFR*	£0.1m	£0.1m	£0.1m	£0.1m	£0.1m

* Includes MRP and/or voluntary contributions to reduce the CFR.

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

The Council complies with the regulations which allow debt free authorities to continue to **not** make an MRP known as Adjustment A. Any new capital expenditure if unfunded and requiring credit cover above adjustment A would however need to generate a MRP.

2.3 Minimum Revenue Provision (MRP) Strategy and Policy Statement

Communities and Local Government Regulations have been issued that require the Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

The Council is gradually paying down its CFR as a result of Minimum Revenue Provisions relating to finance leases. The Council borrowed £6m from the Growing Places Fund in 2013/14 to fund the Health Campus Scheme and £1.5m in 2015/16 to fund the regeneration works at Watford Business Park. This funding has a reasonable expectation of a repayment return within the period of the loan (5 years) and, under CLG regulations no MRP is necessary.

2.4 The Use of the Council's Resources and the Investment Position

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget is likely to have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc). The Property Investment Board will play an important role in optimising returns on capital investments. Subject to each business case, where reserves or cash balances can be deployed in accordance with the Property Investment Strategy to generate better returns for the Council, then Council is asked to approve the flexibility required to invest Council funds accordingly.

3.0 Treasury Management Strategy

The treasury management strategy is an important part of the overall financial management of the Council's affairs. The prudential indicators consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets its balanced budget requirement under the Local Government Finance Act 1992.

The Council's treasury activities are regulated by statutory requirements and the CIPFA Code of Practice on Treasury Management. The Council has adopted a Treasury Management Policy Statement in accordance with the code of practice.

The Constitution requires a strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement is to explain the risks associated with the treasury service. Further treasury reports are produced after the year-end to report on actual activity for the year and a mid-year monitoring update. This strategy covers:

- The current portfolio position;
- The borrowing strategy;
- Annual investment strategy;
- Specific limits on treasury activities;
- Treasury performance indicators;
- Reporting requirements;
- Policy on use of external service providers;
- Training of Officers and Members.

The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service delivery. This will involve the organisation of both cash flow and of appropriate borrowing facilities if required. The strategy covers the relevant treasury prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current Portfolio Position

The Council's current treasury portfolio position at 31 December 2015, with forward projections are summarised below.

Treasury Portfolio	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
External Borrowing	£6M	£7.5M	£7.5M	£7.5M	£7.5M
Total Investments 31 March	£37.4M	£35M	£21M	£15M	£24.5M

The external borrowing relates to:

a) The Growing Places Funding from LEP (Local Enterprise Partnership) was received in July 2013 and is due to be repaid in March 2020. The money is being paid over to the LABV (Local Asset Backed Vehicle). Growing Places Funding that has not been transferred to the LABV is invested with the DMO for security.

b) £1.5m loan from LEP to part fund the redevelopment of Zone A in Watford Business Park with an expected repayment during 2019/20

The Council held £54.5m of investments as at 31 December 2015. Included in the Lloyds Bank total (see table below) is a balance of £6.5m on the current account which is retained for liquidity in order

to meet short term cash commitments including precepts. An Interest rate of 0.5% is paid on credit balances on the current account.

Institution	Principal (£)
Clydesdale Bank plc	3,000,000
Lloyds Bank plc	12,500,000
Santander UK plc	5,000,000
Total Banks	20,500,000
Coventry Building Society	6,000,000
Leeds Building Society	2,000,000
Nationwide Building Society	9,000,000
Principality Building Society	8,500,000
Skipton Building Society	8,500,000
Total Building Societies	34,000,000
Total	54,500,000

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Annex B, it is a very difficult investment market in terms of earning the level of interest rates as rates are very low and in line with the 0.5% Bank Rate.

Table of Monthly Interest Rates to Date:

Month	Rate Achieved
April	0.67%
May	0.66%
June	0.67%
July	0.66%
August	0.68%
September	0.66%
October	0.67%
November	0.72%
December	0.75%

The approved benchmark measure of yield is a return of 0.12% above the average bank rate of 0.50%. The return on investments (which excludes the Lloyds current account) up to 31 December 2015 averaged 0.68%, against a benchmark rate of 0.62%. The average yield return is currently above the benchmark for the year to date. The Council tends to keep the majority of investments short term (not greater than 364 days).

3.2 Prospects for Interest Rates

The Council contract with Capita Asset Services who act as its treasury advisor. Below is their latest view on the future of the bank base rate.

Month & Year	Bank Rate %
Dec 2015	0.50
Mar 2016	0.50
Jun 2016	0.75
Sep 2016	0.75
Dec 2016	1.00
Mar 2017	1.00
Jun 2017	1.25
Sep 2017	1.50
Dec 2017	1.50
Mar 2018	1.75
Jun 2018	1.75
Sep 2018	2.00
Dec 2018	2.00
Mar 2019	2.00

Capita Asset Services undertook a review of its interest rate forecasts on 21 December 2015. Their view is shown below;

Change in market sentiment and outlook

UK GDP growth rates in of 2.2% in 2013 and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again. However, quarter 1 of 2015 was weak at +0.4%, although there was a short lived rebound in quarter 2 to +0.7% before it subsided again to +0.5% (+2.3% y/y) in quarter 3. The Bank of England's November Inflation Report included a forecast for growth to remain around 2.5% – 2.7% over the next three years. For this recovery, however, to become more balanced and sustainable in the longer term, it still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure. The strong growth since 2012 has resulted in unemployment falling quickly to a current level of 5.2%.

The MPC has been particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of CPI inflation in order to underpin a sustainable recovery. It has, therefore, been encouraging in 2015 to see wage inflation rising significantly above CPI inflation which has been around zero since February. However, it is unlikely that the MPC would start raising rates until wage inflation was expected to consistently stay over 3%, as a labour productivity growth rate of around 2% would mean that net labour unit costs would still only be rising by about 1% y/y. The Inflation Report was notably subdued in respect of the forecasts for CPI inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon it was the biggest since February 2013. However, the first round of falls in oil, gas and food prices in late 2014 and in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but only to be followed by a second, more recent, round of falls in fuel prices which will now delay a significant tick up in inflation from around zero. CPI inflation is now expected to get back to around 1% in the second half of 2016 and not get near to 2% until 2017, though the forecasts in the report itself were for an even slower rate of increase.

There is, therefore, considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate. There are also concerns around the fact that the central banks of the UK and US currently have few monetary policy options left to them given that central rates are near to zero and huge QE is already in place. There are, accordingly, arguments that they need to raise rates sooner, rather than later, so as to have some options available for use if there was another major

financial crisis in the near future. But it is unlikely that either would raise rates until they are sure that growth was securely embedded and ‘noflation’ was not a significant threat.

The forecast for the first increase in Bank Rate has, therefore, been pushed back progressively during 2015 from Q4 2015 to Q2 2016. Increases after that are also likely to be at a much slower pace, and to much lower final levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers and householders than they did before 2008.

3.3 Treasury Indicators: Limits to Borrowing Activity

There are two limits on external debt: the ‘Operational Boundary’ and the ‘Authorised Limit’. Both are consistent with existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices.

The key difference is that the Authorised Limit cannot be breached without prior approval of the Council. The Operational Boundary is a more realistic indicator of the likely position. The difference between the authorised limit and operational boundary for borrowing is that the authorised limit includes a head room for borrowing for future known capital needs now. The Authorised Limit represents the limit beyond which borrowing is prohibited, and needs to be revised if necessary by members.

The first key control over the treasury activity is a Performance Indicator (PI) to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and next two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

3.3.1 Treasury Management Indicator - The Operational Boundary

This is the limit beyond which external borrowing is not normally expected to exceed. In most cases this would link directly to the authority’s plans for capital expenditure, its estimates for CFR and its estimate of cashflow requirements for the year for all purposes. As the council already has a loan of £6.0m with Growing Places and a £1.5m loan from the LEP, there are no plans to borrow for other capital purposes in the next three years; it would be prudent to set the operational boundary at £15m.

Operational Boundary	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Borrowing	£15m	£15m	£15m	£15m

3.3.2 Treasury Management Indicator - The Authorised Limit for External Borrowing

This PI, which is required to be set and revised by Members, controls the overall level of borrowing and represents the limit beyond which external long and short term borrowing is prohibited, and this limit needs to be set or revised by the Council. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (2) of the Local Government Act 2003.

Authorised Limit	2015/16 Latest Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Borrowing	£20m	£20m	£20m	£20m

3.3.3 Treasury Management Indicator – Actual External Debt

This is the closing balance for actual gross borrowing obtained directly from the council's Balance Sheet at year end.

The Director of Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals within this report regarding future external borrowing.

3.4 Borrowing Strategy

Although at this stage there is no requirement to borrow externally over the medium term, the Council has a number of regeneration projects and it is possible that these may require pump priming for the necessary infrastructure works. Any external borrowing that is required by the Council will be reported to Members at the appropriate time.

3.5 Annual Investment Strategy

3.5.1 Key Objectives

The Council's investment strategy's primary objectives are safeguarding the repayment of the principal and interest of its investments on time, and then ensuring adequate liquidity, with the investment return being the final objective. The current strategy allows the Portfolio Holder, in consultation with the Director of Finance, the delegated authority to approve any variation to the Treasury Management Strategy during the year which may be brought about by investigating the opportunity to invest for greater than 1 year and to invest in other investment instruments i.e Government bonds, Gilts and property with a view of maximising the Council's returns without significantly increasing risk. From the beginning of 2015/16, the Council set up a Property Investment Board, which consists of Members, Officers and external Property Advisors, with the purpose of reviewing the Council's property portfolio and with the objective of disposing of low yielding assets and to reinvest where possible in property that produces higher returns without significantly increasing risk.

3.5.2 Investment Policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are security first, liquidity second, then yield.

Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices Schedules.

3.5.3 Creditworthiness policy

The Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in and the criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Director of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary and will provide an overall pool of counterparties considered high quality.

Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the Council's criteria. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

Counterparty Categories

The Council uses the following criteria in choosing the categories of institutions in which to invest:

- **Banks 1 - Good Credit Quality**
The Council will only use UK banks or foreign banks trading in the UK in sterling denomination and which meet the Rating criteria.
- **Banks 2 – The Council's Own Banker**
For transactional purposes, if the bank falls below the above criteria, it will be included, although in this case balances will be minimised as far as possible in both monetary size and time within operational constraints.
- **Bank Subsidiary and Treasury Operations** – the Council will use these where the parent bank has the necessary ratings outlined above and the parent has provided an indemnity guarantee.
- **Building Societies**
The Council will use all Societies which:
Either,
(i) **Meet the ratings for banks outlined above; or,**
(ii) **Are Eligible Institutions; and have assets in excess of limits for each category.**
- **Specific Public Bodies**
The Council may lend to Public Bodies other than Local Authorities. The criterion for lending to these bodies is that the loan has been approved by Council.
- **Money Market Funds AAA Rated**
The Council may lend to Money Market Funds in order to spread its investment risk.
- **Local Authorities**
A limit of £2m per authority will be applied.
- **Debt Management Deposit Account Facility**
A Government body which accepts local authority deposits.

The current investment counterparty criteria selection approved in the Treasury Management Strategy is being met, with the exception for Clydesdale Bank plc. When the Bank's credit rating was downgraded, its continuing use as a counterparty has been approved by Leadership Team

For details of Specified and Non-Specified Investments see below.

Use of Additional Information Other Than Credit Ratings

Additional requirements under the Code of Practice require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and Monetary Limits Applying to Investments

The time and monetary limits for institutions on the Council's Counterparty List summarised in the table below, are driven by the above criteria. These limits will cover both Specified and Non-Specified Investments.

Exceptional Circumstances

The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions Director of Finance may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly, the time periods for investments will be restricted.

Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (DMO) – a Government body which accepts local authority deposits, Money Market Funds, and strongly rated institutions. The credit criteria have been amended to reflect these facilities.

3.5.4 Investment Strategy

In-House Funds - investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment Returns Expectations - bank rate is forecast to remain unchanged at 0.50% before starting to rise from quarter 4 of 2016/17. Bank rate forecasts for financial year ends (March) are:

- 2015/16 0.50%
- 2016/17 1.00%
- 2017/18 1.75%
- 2018/19 2.00%

Investment Treasury Indicator and Limit - total principal funds invested for up to 1 year. 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.

Treasury Indicator & Limit	2015/16	2016/17	2017/18
Maximum Principal Sums Invested up to 1 year	£5m	£5m	£5m

3.5.5 Investment Risk & Security Benchmarking

These benchmarks are simple guides to maximum risk and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmarks is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report. In line with the TMS, the Council has managed to invest with those institutions who offered the best rate and the investment portfolio is above the overall benchmark during the year to date.

Security

Security of the investments is measured by credit ratings, which is supplied by the three main credit rating agencies (Fitch, Moody's and Standard and Poors). Whilst this approach embodies security considerations, it makes benchmarking the levels of risk difficult. Therefore another method to benchmark security risk is to assess the **historic level of default** against the minimum criteria used in the Council's investment strategy. The benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment. The table beneath shows average defaults for differing periods of investment grade products for each Fitch, Moody's and Standard and Poor's long term rating category:

Years	1	2	3	4	5
AAA	0.000%	0.014%	0.051%	0.099%	0.165%
AA	0.027%	0.056%	0.077%	0.140%	0.205%
A	0.077%	0.215%	0.367%	0.517%	0.699%

The Council's minimum long term rating criteria is currently "AA", meaning the average expectation of default for a one year investment in a counterparty with an "AA" long term rating would be 0.037% of the total investment (e.g. for a £1m investment the average loss would be £370). This is only an average - any specific counterparty loss is likely to be higher - but these figures do act as a proxy benchmark for risk across the portfolio. The Council's investments in rated institutions are all for periods of less than one year, so the average loss will be scaled down by the length of investment.

The Council's current maximum security risk benchmark for the portfolio, when compared to these historic default tables, is 0.01%. The average historic risk of default for the Council's portfolio as of the end of November 2015 is 0.037%.

The maximum security benchmark for 2016/17 to be recommended is 0.037% to reflect the average expectation of default for a one year investment in a counterparty with an "AA" long term rating, which is the Council's minimum long term rating criterion.

Liquidity

The Council set liquidity facilities/benchmarks to maintain:

- Bank overdraft - £0m.
- Liquid short term deposits of at least £3m available with a week's notice.
- Weighted Average Life benchmark is expected to be 0.5 years, with a maximum of 10 years for an individual loan with a public body.

The Council has the benefit of instant access to its funds on the general account with Lloyds.

Yield

The measure of yield on Investments is a return of 0.12% above average bank rate. In accordance with the Code of Practice on Treasury Management, this is also used as performance indicator in order to assess the adequacy of the treasury function over the year. Investments – returns 0.12% above average bank rate. The results of this indicator for 2015/16 will be reported in the Treasury Annual Report.

3.6 Reporting Requirements

End of Year Investment Report - the Council will report on its investment activity for the financial year completed as part of its Annual Treasury Management Report after the end of the financial year.

Mid-year Investment Report – the Council will report on its investment activity for that financial year as part of its Mid Year Treasury Management Report at the end of September of that financial year.

Treasury Management Strategy – the Council will produce the Strategy for the next three financial years towards the end of the current financial year.

3.7 Policy on the Use of External Service Providers

The Council uses Capita Asset Services as its external treasury management advisors. The current contract expires in October 2016. The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. It 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 Council 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.

3.8 Member and Officer Training

The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. This Council has addressed this important issue by:

- Ensuring that officers attend suitable courses and seminars to keep their technical knowledge up to date;
- Keeping up to date with CIPFA publications on Treasury Management;
- Regular briefings both by e mail and face to face with the Council's consultants;
- Reports and briefing sessions to Members on major changes to Treasury policies and strategies.

The CLG issued a reviewed Investment Guidance in 2010 (second edition), and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds, which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council has adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Director of Finance has produced this Treasury Management Practices (TMPs) guidance.

Annual Investment Strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments;
- The principles to be used to determine the maximum periods for which funds can be committed;
- Specified investments that the Council will use. These are high security, and high liquidity investments in sterling and with a maturity of no more than a year;
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy Guidelines – the main strategy guidelines are contained in the body of the treasury strategy statement.

Specified Investments – these investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments with:

1. The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
2. A local authority, parish council or community council.
3. A body that is considered of a high credit quality (such as a bank or building society) with a minimum short term rating of F-1 (or the equivalent) as rated by Standard and Poors, Moody's or Fitch rating agencies or a Building Society with assets over £1,000m. Non rated Building Societies are non-specified investments.
4. Money Market Funds (triple AAA rated only).

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are defined in the Treasury Management Strategy.

The ratings criteria and exposure limits are detailed at **Schedule 1**.

Exception - Clydesdale Bank plc

The investment with Clydesdale is a long-standing investment made in April 2010. The Council placed funds with Clydesdale to support local businesses. When the Bank's credit rating was downgraded and it no longer met the criteria as outlined within the Treasury Management Strategy, its continuing use as a counterparty has been approved by Leadership Team. At the time of the report Clydesdale bank plc had the following credit ratings by Fitch, Standard and Poors and Moody's respectively: short term F-1, A-2 and P-2 and long term A, BBB+ and Baa2 respectively.

Non-Specified Investments – non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

	Non Specified Investment Category	Limit (£ or %)
a.	Any bank or building society that has a minimum long term credit rating of A (or equivalent), for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£5m
b.	The Council's own banker if it fails to meet the basic credit criteria.	In this instance balances will be minimised as much as possible
c.	Building Societies not meeting the basic security requirements under the specified investments. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which were originally considered.	£2m
d.	Specific Public Bodies The Council can seek Member approval to make loans to other public bodies for periods of more than one year.	£10m

In accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies. These criteria are defined in the Treasury Management Strategy.

In respect of category d this will only be considered after obtaining external advice and subsequent Member approval.

The Monitoring of Investment Counterparties

The credit ratings of counterparties are monitored regularly. The main rating agencies (Fitch, Moody's and Standard & Poor's) provide credit ratings for financial institutions. The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita Asset Services as and when ratings change, and counterparties are checked promptly. The Council considers minimum short term ratings as key criteria in the choice of creditworthy investment counterparties. F1+, P-1 and A-1+ are the highest short term credit ratings of

Fitch, Moody's and Standard and Poor's respectively. Minimum Short Term Ratings, where given, must be met, for all categories. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Finance, and if required new counterparties which meet the criteria will be added to the list.

Institution Type	Max Amount:			£5m	£10m	£10m	£10m	£10m
	Max Length:			10 Years	364 Days	6 Months	3 Months	1 Month
Minimum Short Term Ratings								
	Fitch	Moody's	S&P					
UK Banks								
The Council's own Bankers	F1	P-1	A-1	If Council's own bankers fall below the minimum long term criteria for UK banks, cash balances will be managed within operational liquidity constraints and balances will be minimised as much as possible.				
Wholly Owned Subsidiaries of UK Clearing Banks - Parent Ratings	F1	P-1	A-1		Backed up by AA(F), Aa2(M) and AA(S&P) long term credit rating	Backed up by single A long term ratings by all agencies	Backed up by lower than A long term rating	Backed up by lower than A long term rating
Partially Owned Subsidiaries of UK Clearing Banks - Parent Ratings	F1	P-1	A-1		Backed up by AA(F), Aa2(M) and AA(S&P) long term credit rating	Backed up by single A long term ratings by all agencies	Backed up by lower than A long term rating	Backed up by lower than A long term rating
UK Building Societies								
Either	F1	P-1	A-1		Backed up by AA(F), Aa2(M) and AA(S&P) long term credit rating	Backed up by single A long term ratings by all agencies	Backed up by lower than A long term rating	Backed up by lower than A long term rating
Or					Assets over £15,000m	Assets over £5,000m	Assets of £2,500m	Assets of £1,000m
Specific Public Bodies				As approved by Members				
Debt Management Deposit Facility (UK Government)						Unlimited		
Money Market Funds (AAA Rated)								£5m per fund
UK Local Authorities				The Council can invest in all UK Local Authorities whether rated or not				

Notes:-

1. F1+, P-1 and A-1+ are the highest short term credit ratings of Fitch, Moody's and Standard and Poor's respectively.
2. Minimum Short Term Ratings - Where given, these must be met, for all categories (except RBS Group).
3. Building Societies - A Building Society has to meet either the ratings criteria or the assets criterion to be included in the category, not both.
4. Maximum amount is the maximum, in total, over all investments, with any one institution (with the exception of RBS Group).

PROPERTY INVESTMENT BOARD INCOME AND EXPENDITURE

Flows	Year 1 2015/16			Year 2 2016/17			Year 3 2017/18			Year 4 2018/19			Year 5 2019/20			Total Over 5 years		
	Outflows	Inflows	Net	Outflows	Inflows	Net	Outflows	Inflows	Net	Outflows	Inflows	Net	Outflows	Inflows	Net	Outflows	Inflows	Net
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Investment Portfolio - Properties to sell	18,966	(1,491,000)	(1,472,034)	748,715	(12,362,500)	(11,613,785)	737,030	0	737,030	737,030	0	737,030	737,030	0	737,030	2,978,771	(13,853,500)	(10,874,729)
Expenditure on replacement properties from above sales		1,491,000	1,491,000		12,362,500	12,362,500			0			0			0	0	13,853,500	13,853,500
Core Investment Portfolio	20,333	0	20,333	25,000	(205,000)	(180,000)	123,215	(2,284,000)	(2,160,785)	123,215	(205,000)	(81,785)	123,215	(205,000)	(81,785)	414,978	(2,899,000)	(2,484,022)
Expenditure on replacement properties from above sales			0			0		2,079,000	2,079,000			0			0	0	2,079,000	2,079,000
Other Disposals/ Acquisitions & Rents	0	(40,000)	(40,000)	0	(3,404,000)	(3,404,000)	12,000	(2,700,000)	(2,688,000)	12,000	(2,000,000)	(1,988,000)	12,000	0	12,000	36,000	(8,144,000)	(8,108,000)
Expenditure on replacement properties from above sales		40,000	40,000		3,404,000	3,404,000		2,700,000	2,700,000		2,000,000	2,000,000			0	0	8,144,000	8,144,000
Watford Business Park	2,473,167	(1,500,000)	973,167	3,083,575	(202,000)	2,881,575	4,224,300	(402,000)	3,822,300	1,917,625	(10,800,000)	(8,882,375)	1,750,000	(3,450,000)	(1,700,000)	13,448,667	(16,354,000)	(2,905,333)
Health Campus	2,000,000	0	2,000,000	8,200,000	(217,000)	7,983,000	2,000,000	(8,950,000)	(6,950,000)	0	0	0	0	(9,875,000)	(9,875,000)	12,200,000	(19,042,000)	(6,842,000)
Grand Total	4,512,466	(1,500,000)	3,012,466	12,057,290	(624,000)	11,433,290	7,096,545	(9,557,000)	(2,460,455)	2,789,870	(11,005,000)	(8,215,130)	2,622,245	(13,530,000)	(10,907,755)	29,078,416	(36,216,000)	(7,137,584)