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Prif Weithredwr – Chief Executive

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RHYBUDD O GYFARFOD	NOTICE OF MEETING
PWYLLGOR GWAITH ARBENNIG (CYLLIDEB)	**EXTRAORDINARY EXECUTIVE (BUDGET)**
DYDD LLUN 2 MAWRTH 2020 10.00 o'r gloch	**MONDAY 2 MARCH 2020 10.00 am**
SIAMBR Y CYNGOR SWYDDFEYDD Y CYNGOR LLANGEFNI	**COUNCIL CHAMBER COUNCIL OFFICES LLANGEFNI**

Swyddog Pwyllgor	**Ann Holmes 01248 752518**	Committee Officer

AELODAU/MEMBERS

Plaid Cymru/Party of Wales

Llinos Medi Huws, Carwyn Jones, R Meirion Jones, Alun W Mummery, Robert G Parry, OBE, FRAgS, Robin Wyn Williams

Annibynnol/Independent

Richard Dew, Dafydd Rhys Thomas, Ieuan Williams

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I Aelodau'r Cyngor Sir / To the Members of the County Council

Bydd aelod sydd ddim ar y Pwyllgor Gwaith yn cael gwahoddiad i'r cyfarfod i siarad (ond nid i bleidleisio) os ydy o/hi wedi gofyn am gael rhoddi eitem ar y rhaglen dan Reolau Gweithdrefn y Pwyllgor Gwaith. Efallai bydd y Pwyllgor Gwaith yn ystyried ceisiadau gan aelodau sydd ddim ar y Pwyllgor Gwaith i siarad ar faterion eraill.

A non-Executive member will be invited to the meeting and may speak (but not vote) during the meeting, if he/she has requested the item to be placed on the agenda under the Executive Procedure Rules. Requests by non-Executive members to speak on other matters may be considered at the discretion of The Executive.

Please note that meetings of the Committee are filmed for live and subsequent broadcast on the Council's website. The Authority is a Data Controller under the Data Protection Act and data collected during this webcast will be retained in accordance with the Authority's published policy.

A G E N D A

1 **DECLARATION OF INTEREST**

To receive any declaration of interest from a Member or Officer in respect of any item of business.

2 **URGENT MATTERS CERTIFIED BY THE CHIEF EXECUTIVE OR HER APPOINTED OFFICER**

No urgent matters at the time of dispatch of this agenda.

3 **REVENUE BUDGET MONITORING - QUARTER 3, 2019/20** (Pages 1 - 30)

To submit a report by the Director of Function (Resources)/Section 151 Officer.

4 **CAPITAL BUDGET MONITORING - QUARTER 3, 2019/20** (Pages 31 - 42)

To submit a report by the Director of Function (Resources)/Section 151 Officer.

5 **HOUSING REVENUE ACCOUNT BUDGET MONITORING - QUARTER 3, 2019/20** (Pages 43 - 50)

To submit a report by the Director of Function (Resources)/Section 151 Officer.

6 **USE OF RESERVES AND BALANCES** (Pages 51 - 70)

To submit a report by the Director of Function (Resources)/Section 151 Officer.

7 **TREASURY MANAGEMENT STRATEGY STATEMENT 2020/21** (Pages 71 - 110)

To submit a report by the Director of Function (Resources)/Section 151 Officer.

8 **TREASURY MANAGEMENT PRACTICES (TMP)** (Pages 111 - 144)

To submit a report by the Director of Function (Resources)/Section 151 Officer.

9 **COMMUNITY BASED NON-RESIDENTIAL SOCIAL CARE SERVICES – 2020/2021 FEES & CHARGES** (Pages 145 - 152)

To submit a report by the Director of Social Services.

10 **LOCAL AUTHORITY HOMES FOR OLDER PEOPLE – SETTING THE STANDARD CHARGE** (Pages 153 - 156)

To submit a report by the Director of Social Services.

11 **INDEPENDENT SECTOR CARE HOME FEES FOR 2020/21** (Pages 157 - 162)

To submit a report by the Director of Social Services.

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12 **MEDIUM TERM FINANCIAL STRATEGY AND BUDGET 2020/21** (Pages 163 - 184)

To submit a report by the Director of Function (Resources)/Section 151 Officer.

13 **CAPITAL STRATEGY AND CAPITAL PROGRAMME 2020/21 TO 2022/23** (Pages 185 - 208)

To submit a report by the Director of Function (Resources)/Section 151 Officer.

14 **FINAL PROPOSED CAPITAL BUDGET 2020/21** (Pages 209 - 216)

To submit a report by the Director of Function (Resources)/Section 151 Officer.

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ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO:	**EXECUTIVE COMMITTEE**
DATE:	**2 March 2020**
SUBJECT:	**REVENUE BUDGET MONITORING, QUARTER 3 2019/20**
PORTFOLIO HOLDER(S):	**COUNCILLOR ROBIN WYN WILLIAMS**
HEAD OF SERVICE:	**MARC JONES**
REPORT AUTHOR: TEL: E-MAIL:	**CLAIRE KLIMASZEWSKI** **CLAIRE.KLIMASZEWSKI@YNYSMON.GOV.UK 01248 751865**
LOCAL MEMBERS:	**n/a**

A - Recommendation/s and reason/s

1. In February 2019, the Council set a net budget for 2019/20 with net service expenditure of £133.324m to be funded from Council Tax income, NDR and general grants. The total for general and other contingencies amounted to £1.891m. The budget for the Council Tax Premium was increased to £1.444m. The total budget for 2019/20 is, therefore, £135.210m.

2. The budget for 2019/20 included required savings of £2.561m. These have been incorporated into the individual service budgets and achievement or non-achievement of these is reflected in the net (under)/overspends shown. Whilst significant savings were once more required to balance the budget, £0.277m of additional budget was included in the budget and held centrally. This additional funding will be allocated to meet additional budget pressures as and when necessary. In addition, £479k of funding (50%) in respect of additional teachers' pension costs was retained centrally, as the cost of the teachers' pensions had been previously been fully funded in the Delegated School's Budget but will for 2019/20 be funded by grant. This release of core funding has been allocated to the Council's general reserves.

3. This report sets out the financial performance of the Council's services at the end of Quarter 3, 31 December 2019. The projected position for the year as a whole is also summarised. It should be noted that predicting the final year-end position at the end of Quarter 3 is difficult and the position can change considerably as we move through the remainder of the financial year.

4. The overall projected financial position for 2019/20, including Corporate Finance and the Council Tax fund is an overspend of £1.246m. This is 0.92% of the Councils net budget for 2019/20. This is due to similar pressures experienced in 2018/19, the most significant of which is the cost of Adult Services.

5. It is recommended that:-

(i) To note the position set out in appendices A and B in respect of the Authority's financial performance to date and expected outturn for 2019/20;
(ii) To note the summary of Contingency budgets for 2019/20 detailed in Appendix C;
(iii) To note the position of the invest to save programmes in Appendix CH
(iv) To note the position of the efficiency savings for 2019/20 in Appendix D;
(v) To note the monitoring of agency and consultancy costs for 2019/20 in Appendices DD, E and F.

B -	**What other options did you consider and why did you reject them and/or opt for this option?**	
	n/a	
C -	**Why is this a decision for the Executive?**	
	This matter is delegated to the Executive.	
CH -	**Is this decision consistent with policy approved by the full Council?**	
	Yes	
D -	**Is this decision within the budget approved by the Council?**	
	Yes	
DD -	**Who did you consult?**	**What did they say?**
1	**Chief Executive / Strategic Leadership Team (SLT)** (mandatory)	
2	**Finance / Section 151** (mandatory)	n/a – this is the Section 151 Officer's report
3	**Legal / Monitoring Officer** (mandatory)	
4	**Human Resources (HR)**	
5	**Property**	
6	**Information Communication Technology (ICT)**	
7	**Scrutiny**	
8	**Local Members**	
9	**Any external bodies / other/s**	
E -	**Risks and any mitigation (if relevant)**	
1	**Economic**	
2	**Anti-poverty**	
3	**Crime and Disorder**	
4	**Environmental**	
5	**Equalities**	
6	**Outcome Agreements**	
7	**Other**	

F - Appendices:

- Appendix A - Revenue Budget Monitoring Report – Quarter 3, 2019/20
- Appendix B – Table of Provisional Outturn 2019/20
- Appendix C – Summary of Contingency Budgets 2019/20
- Appendix CH – Review of the Invest-to-Save projects 2019/20
- Appendix D - Review of Efficiency Savings 2019/20
- Appendix DD - Information regarding monitoring of Agency Staff 2019/20
- Appendix E - Information regarding monitoring of Consultants
- Appendix F – Detailed information regarding the expenditure on Consultants

FF - Background papers (please contact the author of the Report for any further information):

- 2019/20 Revenue Budget (as recommended by this Committee on 18 February 2019 and adopted by the County Council on 27 February 2019).

REVENUE BUDGET MONITORING – QUARTER 3 2019/20

1. General Balance

The Council held £8.728m of earmarked reserves and school reserves amounting to £0.631m at the start of the financial year. The final, audited outturn for 2018/19 resulted in a general balance at the start of the current financial year of £5.912m.

The Executive approved the following items to be funded in 2019/20 from the General Reserve:-

Executive Meeting	Amount £m	Purpose
Draft opening balance	-5.912	Final audited General Reserve at 31 March 2019
Full Council 27 February 2019	-0.479	Funding (50%) in respect of additional teachers' pension costs is returned to the general reserve as the cost of the teachers' pensions had been fully funded in the Delegated School's Budget. These teachers' pension costs will instead be funded by Welsh Government Grant for 2019/20.
Executive Meeting 25 November 2019	0.110	Funding for supply teachers' holiday pay from December 2015 to present. This may vary slightly when actual on-costs are known.
Revised Council Fund General Balance	**-6.281**	**As mentioned above, this may change following any post-audit adjustments.**

The current predicated outturn for 2019/20 is an estimated overspend of £1.246m which will reduce the Council general reserve to £5.035m if this trend continues. Previously the Executive has agreed to the introduction of Service Reserves, where any Service that has an underspend at year-end is permitted to retain up to 2.5% of their net annual budget or £75k (whichever is highest) in order to reinvest in their Service to improve future resilience. Based on the position at the end of Quarter 3, this would result in Services retaining £0.427m reducing the general reserve to £4.608k. This is well below the minimum balance of the general reserve which has been set at £6.7m as approved by full Council on 27th February.

2. Financial Performance by Service

2.1 The details of the financial performance by service for the period and the projected out-turn position for each is set out in Appendix B. An overspend of £1.096m on services is predicted as at 31 March 2020. An overspend of £0.008m is estimated on Corporate Finance. In addition, a shortfall of £0.142m is predicted on the collection of Council Tax, of which £0.315m is due to a shortfall on Council Tax for the year. A surplus of £0.173m on the Council Tax Premium is forecast which helps reduce the overall shortfall on Council Tax. The current total revenue forecast for 2019/20 is an overspend of £1.246m, which is 0.92% of the Council's total net revenue budget.

2.2 The table below summarises the significant variances (circa £100k or higher). Please note that these figures relate to the position in respect of the controllable budgets within each service.

Summary of projected variances at 31 March 2020 Based upon financial information as at 31 December 2019	
	(Under) / Overspend £000
Adults	1,032
Corporate Transformation	(185)
Resources	(149)
Corporate Democratic Costs	136
Uncontrollable Costs – bad debt, insurances and pension capital costs	400
Council Tax, including Council Tax Premium	142
Other (total of variances less than £100k)	(130)
Total Variance over/(under)spend	**1,246**

3. Explanation of Significant Variances

3.1 Lifelong Learning

3.1.1 Central Education

3.1.1.1 This service was overspent by £186k (7.62%) at the end of Quarter 3. The forecast for the year-end is an overspend of £9k (0.18%). This is a significant improvement on the overspend of £180k forecast during Quarter 2 and has arisen because of delays in appointing Senior Officers to vacant posts.

3.1.1.2 There are a number of other over and underspends across the Service which are affecting the forecast figure:-

- School Transport is expected to overspend by £359k on Taxis. The implementation of the 'One Transport System' took place during the previous financial year which has rationalised route planning. This and the re-tendering exercise that was undertaken, has meant that the overall overspend has been reduced by around £230k from what it would otherwise have been.
- The Anglesey and Gwynedd Joint SEN Strategy is still expecting to overspend by £167k due to the demand for additional learning needs.
- Secondary integration's statutory costs are forecast to overspend by £38k. This budget was reduced in 2019-20 by £50k as part of the savings process but demand for the service has increased meaning that these savings cannot be achieved in full.
- The Out of County Placements budget is currently forecast to underspend by £385k. This is due to reduced demand for these placements including the ending of education provision for one complex case where the client has moved on to become the responsibility of Adult Services as noted below. It is important to note that this is a demand led budget and the situation can change very quickly.
- Another significant change is that the school meals service is now expected to underspend by £128k. This is due to reduced demand for school meals.
- The early year provision is forecast to be underspent to the sum of £105k. This budget has historically been underspending as a result of lower than budgeted payments to nurseries.

3.1.2 Culture

3.1.2.1 This service was £21k (2.47%) underspent during the period but the forecast outturn for the year is an overspend of £17k (1.42%). The overspend has arisen due to remedial works carried out to the Oriel café following the re-tendering of the lease and decreased income at the Oriel due to less visitors (£70k combined). Additionally delays in transferring the Beaumaris Court and Gaol to the Town Council has increased costs by approximately £12k.

3.1.2.2 The Libraries service continues to underspend by £70k due to vacancies.

3.2 Adults Social Care

3.2.1 This service was £1.758k overspent at the end of the third quarter (9.38% of profiled budget and the forecast outturn for the year is predicted to be an overspend of £1,032k (4.10% of total budget). These figures include the Winter Pressures Grant of £371k without which the financial situation would be considerably worse.

3.2.2 Significant pressures continue on the following budgets at the end of Quarter 3 and will continue to year-end:-

- At the end of the period there is an overspend of £764k on Services for the Elderly and an over spend of £753k is expected at year-end. An increase in demand for residential and nursing care placements as well as homecare has increased costs during the year.
- Costs on Physical Disabilities are also expected to be high at out-turn (forecast £144k overspent) and the main areas of concern here are Home Support and complex residential care placements.
- Learning Disabilities is overspent by £762k mainly on residential care, day care, homecare and supported and other accommodation. These costs reflect the Service's objectives of enabling Learning Disability clients to be able to obtain supported living within their homes and community and to promote client choice through Direct Payments rather than commissioned Homecare by the Authority. A forecast overspend of £676k is expected at year-end on Learning Disability.
- Mental Health is £329k overspent at the end of Quarter 3 and a year-end overspend of £253k is expected (similar to last quarter). The overspend is due to a small number of complex care package and an increase in placement costs.
- The Provider Unit is currently underspent by £319k and is forecasted to be underspent by £733k by the end of the financial year. This is mainly due to increased income within the residential homes and homecare section.

3.2.3 Quarter 3 figures continue to indicate significant demand pressures within the first 3 quarters of this financial year and work is ongoing, by the Service, to fully determine the causes behind the projected overspends. This includes looking at nursing placements, residential placements and home care costs within the older people and physical disability services and also looking at supported living and homecare costs within learning disability areas.

In each area the following are being evaluated:-

1) Analysis of monthly and annual demand;
2) Reasons behind trend;
3) Further steps that can be taken to manage demand.

3.3 Children's Services

3.3.1 The Service was underspent by £101k (1.22%) during the period but is projected to be overspent by £86k (0.84%) at year-end, although the position is worse than the estimated position at the end of quarter 2 (£145k underspend was forecast).. This budgetary position is a significant improvement on the overspend of £1.8m at the end of last financial year and has been achieved in the main, through additional funding of £1.4m provided in the 2019/20 budget and also through additional grant funding and the transfer of responsibility of one child (with high placement costs) to Adult Services.

3.3.2 The service continues to have budgetary pressures with overspends expected at out-turn in 4 areas namely Children with Disabilities (£89k overspend); Family Support (£26k over spend); Children being Looked After (£215k overspend) and Other Children and Family Services (£37k overspend). The effect of these overspends will be reduced by underspends in areas such as Commissioning and Social work which is forecast to underspend by £235k, and Children's support services by £50k.

3.4 Housing (Council Fund)

3.4.1 This service was underspent by £87k (5.68%) during the period and forecasts an underspend of £40k (3.27%) at year-end. Homelessness (B and B) costs continue as budgetary pressures with an overspend of £40k forecasted at year-end. However, due to staff vacancies and delays in recruiting, it is anticipated that there will be an overall underspend of £80k on staffing.

3.5 Regulation and Economic Development

3.5.1 Economic and Community (includes Destination and Leisure)

3.5.1.1 The service, overall, was overspent by £4k (0.22%) for the period with a projected outturn being £18k (0.99%) underspent at year-end. This is a reduction of £56K on the overspend predicted during Quarter 2.

3.5.1.2 The Economic Development element of the service is forecast to overspend by £48k at year-end which is an improvement on the predicted overspend of £78k in Quarter 2. Economic is likely to overspend at year-end due to income shortfalls particularly arising from the suspension of Wylfa Newydd and unachieved graphic design income but the forecast has improved as the Director's post has been temporarily vacant. The service is continuing to look for solutions to its shortfall on rechargeable income particularly for the more medium-term.

3.5.1.3 The Destination section is projected to underspend by £66k which is an improvement of £26k from Quarter 2. This improvement is due to improved budget management, a short-term vacant post and an over achievement of mooring income.

3.5.1.4 Leisure Services income and expenditure is expected to be within budget at the end of the financial year. There are still budgetary pressures at the leisure centres within the café provision, vending machines and staffing budgets although some of these have reduced. An underspend of £30k is forecast on outdoor areas and income is expected to exceed targets. There is the risk of further budget pressures but it is hoped these can be managed within budget.

3.5.2 Planning and Public Protection

3.5.2.1 This service was £178k underspent (11.25%) for the period. The forecast outturn for the year is an underspend of £85k (4.16%). This is similar to the forecast predicted in Quarter 2.

3.5.2.2 The Public Protection Section was underspent by £25k for the period and the forecast outturn position is £25k which is higher than the £7k underspend predicted at Quarter 2. Dog and pest control income targets are not expected to be achieved by £16k and Markets and Fairs income by £2k. Similarly registrars income is unlikely to be achieved at year end by £10k. However, there is a vacant post within the corporate health and safety team which is forecast to provide a £25k underspend at year-end. In addition, Trading Standards which was previously expected to achieve a balanced budget, is now expected to underspend by £33k. This is due to staff vacancies and surplus external income contributions which is funding the shortfall on testing fees.

3.5.2.3 The Planning Section was underspent by £153k (22.40%) for the period and is forecast to underspend by £60k (5.10%) at year-end. This is a decrease of £17k on the forecast underspend reported at Quarter 2. Planning administration, Building Control and Implementation and Conservation are expected to underspend but an underspend is no longer expected on Planning Control as the surplus income generated will be retained on reserve so that it can be reinvested in the service in accordance with Welsh Government directive.

3.6 Highways, Waste and Property

3.6.1 Highways

3.6.1.1 This service was £92k (1.65%) underspent for the period. The forecast position at year-end is £84k underspent (1.39%). This is similar to the underspend forecast predicted in Quarter 2. Several of the sections within Highways are expected to underspend at year-end. The most notable are Departmental Support (£50k) which has arisen from staffing cost savings; Street Works income is expected to overachieve against its income target by £120k and additional grant income is expected on Public Transport which will contribute to the forecast of a £65k underspend on this function. However, the works budget is expected to overspend to the sum of £140k by year-end. This is an increase of £20k from that previously reported and includes the purchase of salt. This forecast excludes works arising from winter maintenance and storms as it is still too early in the year to predict the outturn on these costs. Any significant winter costs could worsen the outturn estimated this quarter.

3.6.2 Waste

3.6.2.1 The Waste Management Service was £180k (3.33%) underspent for the period. The service is predicted to have an outturn position of a £35k underspend (0.45%) which is similar to the underspend predicted during Quarter 2.

3.6.2.2 The forecast for the year-end includes overspends and compensating under spends within different sections of the service. The most notable of the variances includes a £60k underspend on Waste Management staffing; £30k underspend on the Penhesgyn Transfer Station due to staffing and income generation above budget. The recycling section is also forecasting a £80k underspend position at year-end due to excess income which will offset the overspend on the Waste Collection budget which is currently expected to be £125k overspent.

3.6.3 Property

3.6.3.1 The Service's position for the period is a £42k (5.83%) underspend with a forecast overspend of £151k (17.06%) for the year-end position. This is a reduction of £9k on the previous Quarter's forecast.

3.6.3.2 The main reason for the projected overspend within the Property Service is a forecast underachievement on professional fees of £124k. A delay in capital projects within the 21st Century Schools programme has reduced the fee earning potential within Property this financial year but the forecast has improved as the Service has been able to generate some fee income elsewhere. The 21st Century Schools Band B projects are expected to progress next financial year.

3.7 Transformation

3.7.1 The Transformation function underspent by £71k (2.00%) for the period. The projected year-end position is an underspend of £250k (5.50%). This is an improvement of £293k on the overspend of £43k predicted during Quarter 2 through a deliberate effort by the ICT Section to reduce expenditure for the remaining months of 2019-20 as detailed below.

3.7.1.1 The ICT Section was overspent by £150k (8.39%) for the period but is only expected to be £4k (0.17%) overspent at year-end. All software and hardware budgets across the Council, excluding schools, have been centralised and are now managed within the ICT Service. The budgets have been insufficient historically which will create an overspend on software of £223k by the end of the financial year. However, the Service will restrict its expenditure on Hardware (£70k underspend expected at out-turn) as well as Consultancy (£70k underspend expected) and Internal Orders (£60k underspend expected) which will reduce the effect of the overspend. The software budget has been increased in 2020/21 to mitigate these historical budget pressures.

3.7.1.2 The HR function was overspent by £35k (3.30%) for the period and is projected to be £69k (5.47%) underspent at year-end as expenditure on Training is below budget. The overspend to date is higher due to expenditure being ahead of profile.

3.7.1.3 The Corporate Transformation was underspent by £114k (19.10%) for the period and is expected to be underspent at the year-end by £185k (21.55%) mainly due to underspends on staffing budgets within both the Corporate Transformation team and Cyswllt Môn. The Ynys Môn Gwynedd Partnership is predicted to underspend by £103k.

3.8 Resources (excluding Benefits Granted)

3.8.1 The Resources function budget was £235k (9.44%) underspent for the period with the projection for the outturn being an underspend of £149k (4.88%).

3.8.2 Revenues and Benefits are expected to be £15k underspent for the year compared with £61k underspend forecast previously. The forecast has been amended downwards following a review of expected Court Cost Income. The Accountancy section is looking at an overspend of £4k due to bank charges (£34k) and system consultancy costs (£29k). There is a predicted underspend of £52k on staffing which offsets much of these costs. Internal Audit is expected to have a small underspend of £6k whereas the Procurement section is expected to be £127k underspent due to initiatives in purchasing, i.e. centralised purchasing budgets and procurement card rebates. This is similar to the underspend of £125k predicted on Procurement in the previous quarter.

3.9 Council Business

3.9.1 The function was £139k (12.06%) underspent for the period with the forecast for the year-end position being a £9k (0.55%) underspend. This is an improvement of £56k from Quarter 2.

3.9.2 Legal Services are expected to be overspent by £50k, largely due to the cost of legal agency to cover staff vacancies/absences but this overspend will be offset by higher than expected underspends in all functions of Democratic Services.

3.10 Corporate and Democratic Costs

3.10.1 The function was overspent by £118k (5.71%) for the period and the forecast year-end position is an overspend of £136k (4.06%). The overspend has arisen from a change to debt write-offs of £125k relating to 2018/19 which was not reflected in 18/19 and the final Coroner's fee was also higher than accrued in 2018/19.

3.11 Corporate Management

3.11.1 The function was £56k (11.84%) underspent for the period with the forecast at year-ending being an underspend of £65k (10.33%). An increase of £5k on the underspend of £60k reported during Quarter 2.

3.11.2 The function is expected to underspend by £74k on staffing due to a restructure of the Management team but transport and supplies and services costs amounting to £9k are expected for which there is no budget reducing the underspend to £65k.

4. Corporate Finance (including Benefits Granted)

4.1 Corporate Finance, including Benefits Granted, is expected to overspend by £8k (0.05%) at year-end. This is significantly lower than the £341k estimated in Quarter 2. Benefits granted is expected to overspend by £399k at year-end. This budget was reduced in 2019/20 to reflect previous years' trends (including 2018/19) because it was anticipated that the caseload under the Council Tax Reduction Scheme would continue to fall. Indications are that the caseload has not fallen as anticipated and the current projection is that the budget will overspend by £399k.

4.2 However, an underspend of £335k is projected on General and other Contingencies and Capital Financing is also forecast to underspend which reduces the total estimated overspend on Corporate Finance to £8k.

4.3 The final budget for 2019/20 included some items retained centrally as contingency budgets amounting to £1,891k. These include £202k of additional funding for Education out-of-county fees; £417k earmarked for Children's Services; £237k for other approved earmarked costs, £235k as a general contingency to cover budget pressures; £400k to cover the cost of redundancy and termination costs and £400k as a general contingency. £1,057k of contingency budgets have been vired to services for the agreed purpose. This leaves a balance of £834k of which £480k has been committed. There is £335k of uncommitted contingency budget remaining.

5. Collection of Council Tax

5.1 The Council Tax Fund budget is determined using the estimated collectable debt for the current year only, based on the tax base figure set in November 2018. It does not provide for arrears collected from previous years; adjustments to liabilities arising from previous years (exemptions, single person discounts etc.); changes to the current year's tax-base or the provision for bad and doubtful debts. These changes cannot be estimated and, invariably, lead to a difference between the final balance on the Council Tax Collection Fund and the original budget. The current projection is that the Council Tax Fund will underachieve the target by £315k. This is an decrease of £48k on the shortfall of £363k forecast for Quarter 2 and the change reflects a reduction in the bad debt provision. However, the Council Tax Premium budget, which is additional council tax charge on second homes on Anglesey (since 1 April 2017), may potentially over achieve its budget by £173k. This is £7k less than the surplus of £180k previously reported in Quarter 2. In total, a shortfall of £142k is forecast on the collection of Council Tax for 2019/20.

6. Budget Savings 2019/20

6.1 Budget savings of £2.561m were removed from service budgets for 2019/20. £2.134m of the savings have been achieved and are expected to be achieved. However, £427k is not expected to be, or is at risk of not being delivered. The most significant shortfall will be within Adult Services where the service is expected to underachieve the target by £276k, due to increasing demand pressures. A full detailed analysis can be seen for each Service in Appendix D.

7. Invest-to-Save

7.1 An invest to save programme was undertaken in 2016/17 with an allocation of £983k for individual projects. To date, £693k has been spent or committed from this allocation of funding up to and including 2019/20. All projects are at various stages of development, with some closer to completion than others. The full detail of the expenditure and progress on each of the projects can be seen in Appendix CH. Where the projects are not completed at year-end, they will continue into 2020/21 and the funding will still be available within the invest-to-save reserve.

8. Agency and Consultancy Costs

8.1 During the year to date, £567k was spent on Agency staff. These were, in the main, part-funded from staffing budgets as they related to staff vacancies, while £248k related to staff cover within Children's Services, to cover vacant posts. The Adults Service spent £134k to the end of December 2019. This was due to staff vacancies and the Deprivation of Liberty Safeguards work (DOLS). The Waste Management Service spent £170k for site agents at the recycling centres. Full details can be seen at Appendix DD.

8.2 Expenditure on consultancy services in Quarter 3 was £227k, with £61k of this funded externally from grants or contributions. The total expenditure on Consultancy to 31 December 2019 was £620k. The full summary of expenditure per service and additional details of the expenditure can be seen at Appendix E.

9. Conclusion

9.1 The projection at the end of the third quarter is that the budget will be overspent by £1.246m for the year-ending 31 March 2020. The service budgets are expected to overspend by £1.096m and corporate finance is forecast to overspend by £0.008m. A shortfall of £0.142m is expected on the standard Council Tax. The historic trend over the last few years has been that Corporate Finance and Council Tax Council had significant underspends/surplus of income which has helped to reduce the overspends in service costs. Unfortunately, for 2019/20 these budgets are also under pressure and will not available to fund service overspends. The Adults Service budgets are under significant pressure due to increasing demand and the transition of a costly placement from Children's Services. It is the normal pattern for the final outturn position to be better than the first few quarters estimate, however, if the projected overspend transpires, it would be funded from the Council's general balances which would reduce to £5.035m. This reduction weakens the Council's financial position but vindicates the decision not to use general balances to fund part of the 2019/20 budget. Previously the Executive agreed to the introduction of Service Reserves where any Service that has an underspend at year-end is permitted to retain up to 2.5% of their net annual budget or £75k (whichever is highest) in order to reinvest in their Service to improve future resilience. Based on the position at the end of Quarter 3, this would result in Services retaining £0.427m reducing the general reserve to £4.608k. This is well below the minimum balance of the general reserve which has been set at £6.7m as approved by full Council on 27th February 2019.

APPENDIX B

Projected Revenue Outturn for the Financial Year-ending 31 March 2020 – Quarter 3

Service / Function	2019/20 Annual Budget	Q3 2019/20 Budget Year to Date	Q3 2019/20 Actual & Committed spend	Q3 2019/20 Variance	Q3 2019/20 Actual & Committed Spend	Estimated Expenditure to 31 March 2020 at Q3	Estimated Outturn 31 March 2020 Over / (Under) at Q3	2019/20 Projected Over / (Under) spend as a % of Total Budget	Estimated Outturn 31 March 2020 Over / (Under) at Q2	Estimated Outturn 31 March 2020 Over / (Under) at Q1	Over / (Under) Spend 2018/19
	£'000	£'000	£'000	£'000	%	£'000	£'000	%		£'000	£'000
Lifelong Learning											
Delegated Schools Budget	44,430	33,946	33,946	0	0.00%	44,430	0	0.00%	0	0	0
Central Education	4,960	2,436	2,621	186	7.62%	4,969	9	0.18%	180	390	327
Culture	1,195	839	818	(21)	-2.47%	1,212	17	1.42%	30	(35)	(124)
Adult Services	25,172	18,740	20,498	1,758	9.38%	26,204	1,032	4.10%	1,214	983	1,178
Children's Services	10,249	8,304	8,203	(101)	-1.22%	10,335	86	0.84%	(145)	(22)	1,830
Housing	1,224	1,529	1,442	(87)	-5.68%	1,184	(40)	-3.27%	(20)	(20)	(304)
Highways, Waste & Property											
Highways	6,022	5,591	5,498	(92)	-1.65%	5,938	(84)	-1.39%	(87)	(122)	(322)
Property	885	716	674	(42)	-5.83%	1,036	151	17.06%	160	125	35
Waste	7,723	5,399	5,219	(180)	-3.33%	7,688	(35)	-0.45%	(40)	(35)	(328)
Regulation & Economic Development											
Economic Development	1,826	1,632	1,636	4	0.22%	1,808	(18)	-0.99%	38	24	(107)
Planning and Public Protection	2,045	1,581	1,403	(178)	-11.25%	1,960	(85)	-4.16%	(84)	(49)	(121)

Service / Function	2019/20 Annual Budget	Q3 2019/20 Budget Year to Date	Q3 2019/20 Actual & Committed spend	Q3 2019/20 Variance	Q3 2019/20 Actual & Committed Spend	Estimated Expenditure to 31 March 2020 at Q3	Estimated Outturn 31 March 2020 Over / (Under) at Q3	2019/20 Projected Over / (Under) spend as a % of Total Budget	Estimated Outturn 31 March 2020 Over / (Under) at Q2	Estimated Outturn 31 March 2020 Over / (Under) at Q1	Over / (Under) Spend 2018/19
	£'000	£'000	£'000	£'000	%	£'000	£'000	%		£'000	£'000
Transformation											
Human Resources	1,262	1,067	1,102	35	3.30%	1,193	(69)	-5.47%	(60)	13	(54)
ICT	2,396	1,793	1,943	150	8.39%	2,400	4	0.17%	220	140	135
Corporate Transformation	859	598	484	(114)	-19.10%	674	(185)	-21.55%	(117)	(56)	(183)
Resources	3,050	2,489	2,254	(235)	-9.44%	2,901	(149)	-4.88%	(181)	(79)	(39)
Council Business	1,626	1,154	1,015	(139)	-12.06%	1,617	(9)	-0.55%	47	55	(53)
Corporate & Democratic costs	3,352	2,060	2,178	118	5.71%	3,488	136	4.06%	115	(11)	(181)
Corporate Management	629	471	415	(56)	-11.84%	564	(65)	-10.33%	(60)	(20)	2
Estimated Impact of Uncontrollable Costs	0	0	0	0	0.00%	400	400	0.00%	200	200	596
Total Service Budgets	118,907	90,344	91,350	1006	1.11%	120,003	1,096	0.92%	1,410	1,481	2,287
Levies	3,528	3,528	3,528	(0)	0.00%	3,528	0	0.00%	0	0	0
Discretionary Rate Relief	85	0	0	0	0.00%	98	13	15.29%	11	7	0
Capital Financing	7,129	3,173	3,118	(56)	-1.75%	7,060	(69)	-0.97%	(50)	0	(1,185)
General & Other Contingencies	834	834	480	(354)	-42.44%	499	(335)	-40.19%	0	(66)	0
Support Services contribution HRA	(773)	0	0	0	0.00%	(773)	0	0.00%	0	0	(152)

Service / Function	2019/20 Annual Budget	Q3 2019/20 Budget Year to Date	Q3 2019/20 Actual & Committed spend	Q3 2019/20 Variance	Q3 2019/20 Actual & Committed Spend	Estimated Expenditure to 31 March 2020 at Q3	Estimated Outturn 31 March 2020 Over / (Under) at Q3	2019/20 Projected Over / (Under) spend as a % of Total Budget	Estimated Outturn 31 March 2020 Over / (Under) at Q2	Estimated Outturn 31 March 2020 Over / (Under) at Q1	Over / (Under) Spend 2018/19
	£'000	**£'000**	**£'000**	**£'000**	**%**	**£'000**	**£'000**	**%**		**£'000**	**£'000**
Benefits Granted	5,501	797	823	25	3.20%	5,900	399	7.25%	381	324	(48)
Total Corporate Finance	16,303	8,332	7,948	(384)	-4.61%	16,311	8	0.05%	341	265	(1,385)
Total 2019/20	**135,210**	**98,676**	**99,298**	**622**	**0.63%**	**136,314**	**1,104**	**0.82%**	**1,751**	**1,746**	**902**
<u>Funding</u>											
NDR	(22,754)	(17,503)	(17,503)	0	0.00%	(22,754)	0	0.00%	0	0	0
Council Tax	(37,975)	0	0	0	0.00%	(37,660)	315	-0.83%	363	158	(269)
Council Tax Premium	(1,444)	0	0	0	0.00%	(1,617)	(173)	11.98%	(180)	(304)	
Revenue Support Grant	(73,037)	(56,183)	(56,183)	0	0.00%	(73,037)	0	0.00%	0	0	0
Total Funding 2019/20	**(135,210)**	**(73,685)**	**(73,685)**	**0**	**0.00%**	**(135,068)**	**142**	**0.00%**	**184**	**(146)**	**(269)**
Total Outturn including impact of funding	**0**	**24,991**	**25,613**	**622**	**2.49%**	**1,246**	**1,246**	**0.92%**	**1,935**	**1,600**	**633**

Summary of Outturn Position on Contingency Budgets 2019/20

	Original Budget £	Virements £	Amended Budget YTD £	Committed YTD £	Currently Uncommitted Budgets £	Budget Forecast £
General Contingency	399,350	1,600	400,950	91,620	309,330	100,000
Salary and Grading	400,000	-239,870	160,130	115,690	44,440	-
Earmarked Contingency	1,091,710	-819,180	272,530	272,530	-	235,030
Total General and other Contingencies	1,891,060	-1,057,450	833,610	479,840	353,770	335,030

Review of Invest-to-Save Projects 2019/20

Service	Title	Description	Amount Approved £	Sum Allocated (in total - not just Yr 1) £	Total Spend to 31 March 2019	Balance at 1 April 2019 £	Allocation for 2019/20 £	Spend to date 2019/20 £	Remaining budget 2019/20 £	Project Update
Resources	Electronic Document Management System for Revenues and Benefits	Provide scanning solution and workflow for Revenues and Benefits	170,000	170,000	169,945	0	0	0	0	Project closed. No further update.
I.T	Local Land and Property Gazetteer	Implement a LLPG system across the Council	10,800	10,800	15,261	0	0	0	0	Project closed. No further update.
I.T / Transformation	Customer Relationship Management System	Purchase and implementation of a CRM system	255,000	255,000	102,712	152,288	152,288	52,156	100,132	The CRM is now well established with over 12,000 registered customers since January 2016 and is now Business as Usual. IT are working with services under the direction of the Business Process Transformation Board to drive more payment forms online and available via the CRM in order to improve back end processes, enable efficiencies and improve customer experience.
I.T. / Resources	Payment Gateway	Purchase and implement a payment gateway which will enable payments to be received via the App	27,000	27,000	13,417	13,583	13,583	0	13,583	Payment Gateway is complete and has been deployed via the Council website and My Account portal. A number of Public Protection forms have been published in cooperation with the service and Revenues. The mobile payment gateway is still in the testing phase and will enable payments through AppMON.

Service	Title	Description	Amount Approved £	Sum Allocated (in total - not just Yr 1) £	Total Spend to 31 March 2019	Balance at 1 April 2019 £	Allocation for 2019/20 £	Spend to date 2019/20 £	Remaining budget 2019/20 £	Project Update
Regulation & Economic Development	Improve the Resilience of the Planning Systems	New automated planning systems	118,000	118,000	79,548	57,122	57,122	37,659	19,463	The upgrade to the new Planning back office system went live in November 2018 and is now live to external users. Work on the Building Control aspect of the project is progressing well and went live in July 2019. Ongoing work is in order to resolve errors and problems which occured during the transformation process. A further upgrade of the ERDMS is now required in order to simplify the process for redaction and publication of documents to comply with the new GDPR legislation. Upgrades and testing, especially of mobile technology for site visits, is ongoing. A purchase order for the ERDMS upgrade is imminenet for circa £5k, as well as purchase orders for replacement fit for purpose laptops to enable the Systems Team to undergo testing of the above as well as continuing to support the whole of the Planning Function's Business Systems. Costings are also awaited from ICT with regards for the installation of suitable network points within the Planning Offices which will enable staff from the Planning Joint Policy Service to log on to the Gwynedd network whilst working remotely from Llangefni. A staff time

Service	Title	Description	Amount Approved £	Sum Allocated (in total - not just Yr 1) £	Total Spend to 31 March 2019	Balance at 1 April 2019 £	Allocation for 2019/20 £	Spend to date 2019/20 £	Remaining budget 2019/20 £	Project Update
										recording functionality has been produced as an add-on to the ARCUS digital platform and is now available for use. There is a substantial amount of historic planning files which still need to be digitised. If there is a remaining balance unspent once all development work is completed, it is recommended that this be used to fund digitising historic files. This would help optimise the use of the new developments.
Resources	Improving Income Collection Systems	Purchase and implement a new income management system which links to the current income streams and allows new income collection methods (AppMon etc.) to link into the cash management system	150,000	150,000	90,481	59,519	59,519	49,558	9,961	Full commitments have now been made and within the bid budgets. However, implementaion will be ongoing into the next financial year. The remaining balance will be used for any unexpected items which remain.
Lifelong Learning	Modernisation of business and performance processes	Implement unused modules in the ONE Management Information system	67,000	67,000	75,526	3,000	3,000	3,055	-55	Project closed. No further update.

Service	Title	Description	Amount Approved £	Sum Allocated (in total - not just Yr 1) £	Total Spend to 31 March 2019	Balance at 1 April 2019 £	Allocation for 2019/20 £	Spend to date 2019/20 £	Remaining budget 2019/20 £	Project Update
Lifelong Learning	Modernisation of business	Website for the Oriel	20,000	20,000	0	8,474	8,474	0	8,474	The project has been put on hold until other more pressing systems within the invest to save projects have completed their implementations.
I.T. / Transform ation	Digital First / Digital By Default	Employ a Digital Lead Officer and Digital Services Analyst	£70,000 in year 1 and £50,000 in year 2	120,000	0	120,000	70,000	3,774	66,226	Two people have been recruited to the Temporary Digital Technician posts at Grade 5 and are currently in post.
Public Protection	Improved Digital Connectivity within the Public Protection Service	Implementati on of a cloud based system to record inspection visits. The software is an all Wales solution and has been procured via a framework agreement supported by 19 out of 22 Councils in Wales.	£10,000 per year for 4.5 years	45,000	0	45,000	10,000	0	10,000	Ongoing collaborative work with Corporate CRM Team. Identifying High Value/ Volume work streams to enable a 'channel shift' and improve performance capability and customer experience. Pace of work dictated by Transformation Board approving and prioritising work streams for scoping and implementation. Once this project is completed, the focus and aim is to market test a revised user spec and software system which integrates and compliments the CRM system. Specific workstreams are going live in November and the next tranche expected in January. No market testing for new software system will commence until all CRM work completed, therefore, request is made to carry £45k over to next financial year.
Total				**982,800**	**546,889**	**458,986**	**373,986**	**146,202**	**227,784**	

Review of Efficiency Savings 2019/20

Service/Function	Budget Savings 2019/20 £'000	Achievable 2019/20 £'000	Possibly Unachievable 2019/20 £'000	Comments
Lifelong Learning	967	888	79	£50k was proposed as efficiency savings through reviewing the delivery of integration services for a more efficient use of resources. Saving is not achievable. A budget increase has been agreed for 2020/21. A proposal of £15k was made to reduce arts grants. This saving will be £9k short of being fully achieved in 2019/20. A further £5k can be achieved in 2020/21. Further consultation required for the last £4k to be achieved. A proposal of £20k was made to increase the income targets within Oriel. These savings are not expected to be achieved during 2019/20. However, online sales will help achieve the increased income target in 2020/21. All other saving proposals amounting to £888k are either already realised in full or are forecast to be on track to be fully achieved during 2019/20.
Regulation and Economic Development	171	171	0	All saving proposals amounting to £171k are either already realised in full or are forecast to be on track to be fully achieved during 2019/20.
Highways, Waste and Property	600	533	67	A savings proposal of £10k was made for transfering the responsibility of public conveniences to communities. The ownership of 2 PC's in Benllech have been transferred to the town council from April 2019, however, one off costs were incurred as part of the transfer causing this target to be unachieveable for this financial year. £42k proposal was made through reducing street lighting budgets as a result of installing LED lighting. Spend is, however, ahead of profiled budget and full achievement of this saving is not expected due to the column changing programme. It is currently forecast that £20k will be unachieved. Savings of £58k were proposed by ceasing the school crossing patrol service. All school crossing patrols have now ceased, but a £4k one off cost was incurred due to keeping a limited number of patrols until July 2019. £8k savings were proposed through the increase in income for car parks. However, due to the closure of the Llangefni car park, full achievement of this saving will not be made in 2019/20. The saving is expected to be achieved in full during 2020/21.

Service/Function	Budget Savings 2019/20 £'000	Achievable 2019/20 £'000	Possibly Unachievable 2019/20 £'000	Comments
				The achievement of efficiency saving proposals of £25k in relation to ceaseing the use of Safecote is currently unknown and will remain unknown untill the conditions of the winter months are seen. All other saving proposals amounting to £533k are either already realised in full or are forecast to be on track to be fully achieved during 2019/20. This includes the previously forecast under achievement of the disposal of Shire Hall as the unforseen costs have been fully funded from reserves.
Adult Services	586	310	276	Efficiency Savings were proposed amounting to £195k through the reduction of demand for residential and nursing placements, through the use of Hafan Cefni, the reduction of demand for homecare services and through managing the demand for supported living. This saving has not been achieved as the demand for the service has increased since the last financial year. Further work will be done on all specific lines affected to investigate reasons for current growth in demand, with a view to reducing demand in the future. Following the closure of Plas Penlan, £70k was proposed to be saved as full year savings. This is unlikely to be achieved as demand continues to increase for alternative provision e.g. Home Care. £11k of efficiency savings were proposed through the outsourcing of more homecare packages to the private providors. Work-in -progress to consider how to improve efficency of service without reducing staff numbers. Consideration to be given to whether or not savings can be produced elsewhere. All other saving proposals amounting to £310k are either already realised in full or are forecast to be on track to be fully achieved during 2019/20.
Housing	54	54	0	Efficiency saving has been achieved in full.
Transformation	43	37.8	5.2	A savings proposal of £20k was made through the reduction of the 'Denu Talent' budget. The 'Denu Talent' budget did overspend this financial year as summer placements were still taken on, however, the savings have been made elsewhere within the HR budget to ensure the savings target was still achieved. Of the £19.5k efficiency savings proposed through the removal of unused phone lines, £14.3k have been identified. It is hoped that the remaining £5.2k will be possible through more recent disconnections, but will require further work to confirm this. The service will continue to look for additional savings and/or improve efficency of service elsewhere. Other savings of £3.5k are on track to be fully achieved during 2019/20.

Service/Function	Budget Savings 2019/20 £'000	Achievable 2019/20 £'000	Possibly Unachievable 2019/20 £'000	Comments
Corporate	110	110	0	All savings proposals are on track to be fully achieved during 2019/20.
Resources	30	30	0	All savings proposals are on track to be fully achieved during 2019/20.
Total	**2,561**	**2,166**	**427**	

Agency Costs April to December 2019

Service	Amount £	Source of Funding (Specific Core Budget / Un-utilised staffing budget / Grant / External Contribution)	Permanent / Temporary	Reason for Cover
Economic & Regeneration	6,479	Core	Temporary	Achieving food hygiene inspection requirements
	6,479			
Schools	6,475	Core	Temporary	Teaching cover in specialised areas
	6,475			
Waste	542	Specific Core Budget	Temporary	Short term staff
	57,017	Specific Core Budget	Temporary	Additional tasks required short term.
	71,087	Specific Core Budget/Grant/External Contribution	Temporary	Additional tasks required short term.
	40,887	Specific Core Budget/Grant/External Contribution	Temporary	Additional tasks required short term.
	169,533			
Children's Services	110,034	Core Budget/ Agency staff Reserve	Temporary	To cover vacant posts
	136,728	Core Budget/ Agency staff Reserve	Temporary	To cover vacant posts
	921	Core Budget/ Agency staff Reserve	Temporary	To cover vacant posts
	247,683			

Service	Amount £	Source of Funding (Specific Core Budget / Un-utilised staffing budget / Grant / External Contribution)	Permanent / Temporary	Reason for Cover
Adult Services	17,895	Core Budget	Temporary	Cover vacant post
	86,662	Core Budget	Temporary	DOLS project
	28,991	Core Budget	Temporary	Cover vacant post
	133,548			
Transformation	3,459	Unutilised staffing budget	Temporary	To cover vacant post, since filled.
	3,459			
Total	**567,176**			

APPENDIX E

Summary of Consultancy Expenditure to 31 December 2019

Summary Consultancy Expenditure Q1-3 per Service / Function				
Department	**Qtr1 £**	**Qtr2 £**	**Qtr3 £**	**Total YTD £**
Central Education	8,950	31,375	23,699	**64,024**
Culture	690	0	497	**1,187**
Economic & Regeneration	58,760	67,764	74,646	**201,170**
Property	0	0	0	**0**
Highways	423	18,054	31,556	**50,033**
Schools	0	2,836	0	**2,836**
Waste	54,582	53,516	36,410	**144,508**
Housing	0	0	0	**0**
Housing Revenue Account (HRA)	8,500	13,877	4,700	**27,077**
Corporate & Democratic	3,275	0	0	**3,275**
Adult Services	850	1,600	0	**2,450**
Children's Services	0	6,984	696	**7,680**
Transformation	2,452	3,824	8,275	**14,551**
Council Business	3,996	27,619	37,477	**69,092**
Resources	16,424	6,300	9,176	**31,900**
Total	**158,901**	**233,749**	**227,131**	**619,781**
Funded by:				
Core Budget	55,252	104,235	134,952	**294,439**
Grant	7,523	11,150	8,376	**27,048**
External Contribution	45,790	59,819	52,320	**157,928**
Reserves	50,337	58,546	31,485	**140,367**
Total	**158,901**	**233,749**	**227,131**	**619,781**

Breakdown of Consultancy Costs Quarter 3 2019/20

	Amount £	Category - Reason Appointed			Source of Funding)	Description of work undertaken
		Ongoing to cover specific skill set that doesn't require Permanent Post	Volume of Work	Specific Work / One Off Project		
Total Q1 April - June	**158,901**					
Total Q2 July – September	**233,749**					
Central Education	4,804			✓	Core	Competitive Tendering
	269			✓	Core	Drafting Childcare Contract
	503			✓	Grant	Presenting workshops
	544			✓	Core	Facilitate Childcare meeting Pencarnisiog 29/11/19
	278			✓	Grant	Workshop at Youth Work Seminar 07/09/2019
	1,400			✓	Core	Local Education Authority Inspections
	15,901	✓			Core	Service as Senior Officer Education Department
Total Central Education	**23,699**					
Culture	442	✓			Core	Teaching the Life Drawing Class
	55			✓	Core	Photo treatment for Oriel Môn
Total Culture	**497**					
Economic & Regeneration	2,827	✓			Core	Data collection
	951	✓			External Funding (PPA)	Advice Regarding Horizon Nuclear Power Wylfa Newydd Project
	1,224	✓			External Funding	Supplying Hosting Services
	49,108	✓			External Funding	Morlais project - advice and support

	Amount £	Category - Reason Appointed			Source of Funding)	Description of work undertaken
		Ongoing to cover specific skill set that doesn't require Permanent Post	Volume of Work	Specific Work / One Off Project		
	450			✓	External Grant (ERDF)	HLF Officer visit for programme application
	1,625			✓	External Grant	Holyhead Breakwater Country Park
	3,544			✓	Core	ICT Project Management costs - Planning
	6,594			✓	Core - Planning Income	Response to NDF consultation
	1,001	✓			Core - Planning Income	Appraisal of a planning application
	400			✓	Core	Structural checking services
	200			✓	Core	Create new Conga Query
	635	✓			Core	Engineering services
	228	✓			Core	Supply and analysis of diffusion tubes
	417			✓	Core	Personal Data Mangement Toolkit
	30	✓			Core	Credit report agency minimum usage charge
	123	✓			Core	White Rum Sample Analysis
	65	✓			Core	Gluten Free Sample Analysis
	2,800			✓	Core	Migration to a new Windows Server
	120			✓	Core	NPLQ New Candidates Asessment
	843			✓	Core	Advice on compliance with Playing Fields
	500			✓	External Funding (WG)	Judo sessions at YDH
	262			✓	Core	Major swimming group, management course
	700			✓	External Funding (WG)	Strength and conditioning session at primary & secondary schools across Anglesey
Total Economic and Regeneration	**74,646**					

	Amount £	Category - Reason Appointed			Source of Funding)	Description of work undertaken
		Ongoing to cover specific skill set that doesn't require Permanent Post	Volume of Work	Specific Work / One Off Project		
Highways	988			✓	Core Budget	Assessments for Head of Highways Post
	194			✓	Core Budget	Penalty Charge Notice Issued
	2,311			✓	Core Budget	2019/20 WPPP Penalty Charge Notice levy contributions
	23,259			✓	Core Budget	Undertaking SCRIM survey 2019/20
	4,805			✓	Core Budget	Inspections (Four Mile Bridge / Celtic Principal / Pentrefelin)
Total Highways	**31,556**					
Waste	29,584	✓		✓	Earmarked Reserves	Provision of Ext Tech Support in connection with the Procurement of a new contract
	219	✓		✓	Specific Core Budget	Duos Offtake
	1,914	✓		✓	Specific Core Budget	Landfill Site Quarterly Gas Monitoring, Tech Support
	3,657	✓		✓	Specific Core Budget	Landfill Seal Remediation Works
	600	✓		✓	Specific Core Budget / Grant/ External Contribution	Consultancy work - PAS 100 undertaken at Penhesgyn
	437	✓		✓	Specific Core Budget / Grant/ External Contribution	Compost Full Site Test
Total Waste	**36,410**					
HRA	4,700			✓	✓	Server Migration 2008 to 2016 - Technical Services
Total HRA	**4,700**					
Children's Services	464			✓	Core Budget	Secure accommodation panel member
	232			✓	Core Budget	Facilitation of Secure Panel

	Amount £	Category - Reason Appointed			Source of Funding)	Description of work undertaken
		Ongoing to cover specific skill set that doesn't require Permanent Post	Volume of Work	Specific Work / One Off Project		
Total Children's Services	**696**					
Transformation	1,900			✓	Core Budget	Engineer to site - complete tower inspection & safety checks Penmynydd Mast
	2,055			✓	Core Budget	Engineer to site - decommissioning
	4,320	✓			Grant	Assesor - Trainee Social Workers
Total Transformation	**8,275**					
Council Business	37,477			✓	Unutilised staffing budget	Cover for temporary staff absence
Total Council Business	**37,477**					
Resources	7,275	✓			Specific core budget	Treasury Services Retainer Contract
	1,901			✓	Invest to save reserve	ICT Project Management costs
Total Resources	**9,176**					
Total Q3 - October to December	**227,131**					
Cumulative total - April to December	**619,782**					

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ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO:	**EXECUTIVE COMMITTEE**
DATE:	**2 MARCH 2020**
SUBJECT:	**BUDGET MONITORING REPORT - THIRD QUARTER 2019/20 - CAPITAL**
PORTFOLIO HOLDER(S):	**COUNCILLOR R WILLIAMS**
HEAD OF SERVICE:	**MARC JONES (EXT. 2601)**
REPORT AUTHOR: TEL: E-MAIL:	**JEMMA ROBINSON** **01248 752675** **JemmaRobinson@ynysmon.gov.uk**
LOCAL MEMBERS:	**n/a**

A - Recommendation/s and reason/s

- It is recommended that the Executive note the progress of expenditure and receipts against the capital budget 2019/20 at Quarter 3.

B - What other options did you consider and why did you reject them and/or opt for this option?

n/a

C - Why is this a decision for the Executive?

- This report sets out the financial performance of the Capital budget for the third quarter of the financial year.
- Budget monitoring is a designated Executive function.

CH - Is this decision consistent with policy approved by the full Council?

Yes

D - Is this decision within the budget approved by the Council?

Setting of the annual Capital Budget.

DD - Who did you consult?		**What did they say?**
1	**Chief Executive / Strategic Leadership Team (SLT)** (mandatory)	
2	**Finance / Section 151** (mandatory)	n/a – this is the Section 151 Officer's report.
3	**Legal / Monitoring Officer** (mandatory)	
4	**Human Resources (HR)**	
5	**Property**	
6	**Information Communication Technology (ICT)**	
7	**Scrutiny**	
8	**Local Members**	
9	**Any external bodies / other/s**	

E - Risks and any mitigation (if relevant)		
1	**Economic**	
2	**Anti-poverty**	
3	**Crime and Disorder**	
4	**Environmental**	
5	**Equalities**	
6	**Outcome Agreements**	
7	**Other**	

F - Appendices:

Appendix A - Capital Budget Monitoring Report – Quarter 3 2019/20
Appendix B - Summary of the Capital Projects' Expenditure to date against the Capital Budget and the Projected Expenditure at Year-End

FF - Background papers (please contact the author of the Report for any further information):

- 2019/20 Capital Budget, as recommended by the full Council on 27 February 2019;
- 2019/20 Treasury Management Strategy Statement, approved by the full Council on 27 February 2019;
- 2018/19 Capital Outturn Report, presented to this Committee on 17 June 2019;
- 2019/20 Capital Budget Monitoring Quarter 1, presented to this Committee on 16 September 2019; and
- 2019/20 Capital Budget Monitoring Quarter 2, presented to this Committee on 25 November 2019.

APPENDIX A

CAPITAL BUDGET MONITORING QUARTER 3 2019/20

1. INTRODUCTION

1.1 This is the capital budget monitoring report for the third quarter of the financial year, and allows Members to note the progress of capital expenditure and capital receipts against the capital budget.

1.2 In February 2019, the Council approved a capital programme for non-housing services of £17.282m for 2019/20 and a capital programme of £13.110m for the Housing Revenue Account (HRA). In addition, in June 2019, the Executive approved slippage of £3.065m to be brought forward from 2018/19. Since the budget setting process, there have been additional schemes added into the programme, most of which are grant funded and which amount to £8.935m. This brings the total capital budget for 2019/20 to £42.392m.

2. PROGRESS ON EXPENDITURE 2019/20

2.1 Below is a summary table of the capital expenditure to 31 December 2019, the profiled budget to 31 December 2019 and the proposed funding of the capital programme for 2019/20.

Service	Annual Budget £'000	Profiled Budget £'000	Actual Expenditure £'000	Committed Expenditure £'000	Total Expenditure £'000	% Profiled Budget Spend	% Annual Budget Spent
Housing General Fund	2,116	867	759	3	762	88	36
Housing HRA	14,117	10,588	7,473	219	7,692	73	54
Lifelong Learning	8,101	2,244	2,470	77	2,547	114	31
Economic and Regeneration	5,998	1,876	929	231	1,161	62	19
Highways	8,330	4,972	4,253	122	4,375	88	53
Waste Management	180	180	-	180	180	100	100
Property	1,129	517	525	-	525	102	47
Transformation	629	472	213	33	246	52	39
Planning	875	553	631	195	826	150	94
Adult Services	917	688	282	9	291	42	32
Total	**42,392**	**22,956**	**17,536**	**1,070**	**18,606**	**81**	**44**
Funded By:							
Capital Grant	24,532						
Capital Receipts	931						
Supported Borrowing	5,973						
Unsupported Borrowing	544						
Revenue Contribution	9,962						
Reserves	211						
Loan	240						
Total Funding	**42,392**						

2.2 To the end of the third quarter, for the general fund actual expenditure amounts to 88% of the profiled budget, however, only 39% of the annual budget has been spent to date. The reason for this is that a number of the capital schemes are weighted towards the latter part of the financial year. Some capital schemes are well underway, with the majority of the profiled budget for quarter 3 being spent, schemes such as Invest to Save on vehicles, Highways Refurbishment Grant, Road Safety Capital Grant, Maes Awyr Môn and ICT Core Infrastructure. Some capital schemes have yet to commence, but their budget is profiled towards the latter part of the financial year, such as Plas Arthur works to fitness room and David Hughes Centre's new 3G pitch. These schemes and their profiles can be seen in Appendix B. There are a number of schemes funded through capital grants in 2019/20 and an update on these is provided in Section 3.1 of this report.

2.3 The Housing Revenue Account has spent 73% of its profiled budget, and 54% of the annual budget. It is currently estimated that the budget will be committed in its entirety at the end of the financial year. During quarter 1 and 2, expenditure has predominantly been in connection with contracts procured during 2018/19 i.e. carried forward commitment. During Q3, two major new planned maintenance contracts were awarded and have fully committed the budget for 2019/20. During the quarter, the Council purchased a number of former Council properties and is on track to fully commit the budget for acquisition of existing properties and development of new properties, although it should be noted that all the budget will be utilised in 2019/20 and the remainder of the committed sums will be carried forward to 2020/21.

3. FUNDING

3.1 Capital Grants

3.1.1 There are a number of Capital Grant schemes in the Capital Programme for 2019/20, most of which are underway and progressing, with a brief update on the schemes provided below:-

- **Llangefni Strategic Infrastructure –**The scheme involves the construction of five new industrial units on the old Môn Training site and an extension to the Business Centre for letting to the private sector. The new industrial units have now been completed, and all five have been let. Work at the Business Centre has now been completed and office space is currently being advertised. A re-profile has been submitted to the Welsh European Funding Office which will allow a 6 month extension to the project and for remaining spends to be spent on upgrading the cladding and other minor works on the current business centre. Confirmation from the Welsh European Funding Office is imminent.

- **21st Century Schools** - From the Band A Projects, new schools at Rhyd y Llan, Ysgol Cybi and Ysgol Santes Dwynwen have all been completed, together with an extension to Ysgol Parc y Bont and a refurbishment at Ysgol Brynsiencyn. The final Band A scheme, which focuses on the school provision in the Llangefni area, is currently out to consultation.

- **Childcare Capital Grant –** £2.718m of grant funding has been secured for the period 2019 to 2021 to adapt a number of primary schools to enable the Council to provide sufficient childcare places to meet demand generated by the childcare offer. Additional facilities will be created at Ysgol Santes Dwynwen £0.400m, Ysgol Morswyn £0.413m, Ysgol Llandegfan £0.450m, Ysgol Pencarnisiog £0.340m, Ysgol Esceifiog £0.364m, Ysgol Henblas £0.370m, Ysgol y Tywyn £0.216m and to deliver a Small Grants Scheme and Project Management £0.165m. Work has been completed at Ysgol Santes Dwynwen, Ysgol Morswyn and Ysgol Pencarnisiog. Tenders have been received for Ysgol Tywyn and Ysgol Esceifiog and these works will commence during February.

- **Market Hall –** The Library has now opened and is operational. Snagging works related to the Phase II main contract is all but complete and identified defects are being attended to by the contractor. The defects period expires on the 18th July 2020 (Q2 2020/21), when the final retention payment for the Phase II contract will be due. Some small elements of work for making good to the rear of the Stanley Street pavilion buildings and the provision of cycle racks and a bin store are planned and within the agreed final account. The extent of the heritage interpretation proposals were reduced to reflect budget availability in liaison with the Heritage Lottery Fund, with the tender being finalised and released in Q4.

- **Beaumaris Flood Alleviation –** Works are progressing well and are currently within the new revised budgets. Due for completion end March 2020.

- **Holyhead Strategic Infrastructure** – This scheme is to construct ten new industrial units at Penrhos, Holyhead. The appointed contractor is currently undertaking the work, with an expected completion in the summer of 2020. European Regional Development Funding has been secured and a Joint Venture has been entered into with Welsh Government, which provides the match funding for the scheme.

- **Tourism Gateway** – The Holy Island International Visitor Gateway TAD (Tourism Attractor Destination) Project is a mainly European Regional Development Fund, Welsh Government and Heritage Lottery Fund funded package of projects taking place over several years. Installation Works for the Phase 1 signage within the port have now been completed. Designs for Phase 2 are currently being finalised. Specification for the demolition of the dilapidated building within the Port has now been completed with consents submitted. It is anticipated that demolition is to be undertaken in February 2020. Consenting process for project adjacent to St Cybi's Church and Swift Square car park currently being undertaken.

- Funding has been approved by Welsh Government for the **Targeted Regeneration Investment Programme (TRIP).** The purpose of the funding is to bring 108 empty properties back into use through four schemes, being First Time Buyers Support, Vacant Homes Landlord Assistance, Empty Homes Direct Intervention and Town Centre Living. These schemes will be delivered by both the Isle of Anglesey County Council, as the lead authority, and Gwynedd Council, as their joint delivery partner. The total funding will be £3.250m, with Anglesey's share being £1.8m over three years. In 2019/20, the budget for Anglesey is £0.751m. To the end of quarter 3, in total, £1.32m was spent across Anglesey and Gwynedd.

- **Maes Awyr Môn** - £0.360m of grant funding from Welsh Government has been secured for capital works to Maes Awyr Môn, which includes alterations to the existing terminal building. Works have now been complete.

- **Pentraeth Flood Alleviation** - Welsh Government has allocated funding for the Nant y Felin, Pentraeth Flood Alleviation scheme within their programme for 2019/20 financial year. This scheme is now on site but has encountered unforeseen ground conditions. Designs are currently being revised and increased costs calculated. It is likely to be in the region of a £500k scheme. Welsh Government have provisionally agreed to providing the increased 85% £425k and the Council proposes to use the £50k already allocated and find the remainder from revenue. This scheme will now straddle the two financial years.

- **Road Safety Capital** - This scheme will involve capital works on the A4080 road from Llanfair PG to Aberffraw. Work has commenced, with the budget for the scheme being £0.231m.

- **Active Travel** - Active Travel is Welsh Government funding for minor infrastructure improvements, including installation of signage, cycle parking, removal of access barriers and path widening. The purpose of the grant is to increase levels of active travel, improve health & wellbeing, reduce carbon emissions and improve active travel for employment, education and key services, destinations and public transport. During Quarter 3, an additional £320,500 was secured, bringing the total grant to £478,500. The additional funding is to be used to install a Pelican Crossing at Ysgol Kingsland in Holyhead, upgrading of the High Street link footpath in Benllech, upgrading of the footway and on road cycle route in Menai Bridge, purchase of land for a segregated foot and cycleway on Llangefni Link Road and detailed design and construction of a shared use path at Anglesey Airport and RAF Valley. Works will be undertaken in Quarter 4.

- **The Holy Island Landscape Partnership –** The Landscape Partnership has secured funding of £1.146m from the National Lottery Heritage Fund (NLHF) to deliver a range of projects which focus on the natural environment of Holy Island. Permission to start from NLHF was expected in Quarter 3 but has been delayed following a request for a 6 month extension to the European Regional Development Fund funding which is being used as match funding for the Landscape Partnership. This has now been granted and we will be looking to secure the 'permission to start' in Quarter 4 with a view to starting project delivery in Quarter 1 2020/21.

- **Holyhead Townscape Transformation** – The Heritage Lottery issued the 'permission to start' in December 2019, enabling the project to formally get underway. Initial focus has been advancing enhancement proposals set out in the St Cybi's site and adjacent car park masterplan. Early elements will build on vegetation clearance works undertaken in Quarter 4 (2018/19) and should commence delivery in Quarter 4 (2020/21), focusing on the Victoria Road Archway entrance. Discussions with potential 3rd party grant projects will commence once the Project Officer post is advertised in Quarter 4.

- **Economic Stimulus Grant –** The Council has been awarded £0.491m of grant funding from the Welsh Government to invest in capital schemes to drive important changes in communities that provide economic benefits and schemes which have positive impacts on biodiversity and the environment. Funding is being used to construct a road and conduct archaeological surveys on the Bryn Cefni Gateway Site in Llangefni. This will lead to the development of seven separate development plots which will be sold to the private sector. Further European Regional Development Fund funding will be sought to develop five business units on Plot 1 of this site.

3.1.2 There is a scheme in the Capital Programme that has not yet started, with a brief update on the scheme provided below:-

- **Hwb In-Schools Infrastructure Grant Scheme –** The Council has been allocated £1.303m of Welsh Government Funding to ensure school ICT networks are adequate to support digital learning. This grant has to be spent and claimed by the end of March 2020 and work will begin during Quarter 4. The grant is split into two components - a portion for local costs to mobilise the project, and the remainder retained by Welsh Government to be spent like credit against a national catalogue. The initial split was 85% catalogue, 15% costs. The Council have since requested to vary that to 78.5% catalogue, 21.5% costs as cabling works needed in schools were identified. A catalogue order of £900k has been submitted in Quarter 4, with the remaining funds being spent within the next quarter.

3.2 Capital Receipts

3.2.1 The Capital Receipts for this year to date and the budgeted Capital Receipts are:-

	Budget 2019/20 £'000	Received to 31-Dec-19 £'000	Projection to 31-Mar-20 £'000
Council Fund:			
Smallholdings	0	0	0
General	699	926	926
Industrial	0	100	100
Schools	873	171	171
Total	**1,572**	**1,197**	**1,197**

3.2.2 The projected Capital Receipts at 31 March 2020 is £1.197m, with £1.197m being received at 31 December 2019 (100%), which includes the sales of a former school (£0.171m), a plot at an Industrial Park (£0.100m), Shire Hall in Llangefni (£0.189m) and land near Hen Ysgol Y Graig (£0.599m).

3.2.3 Although the Budgeted Capital Receipts is £1.572m, there is £2.758m of Capital Receipts available to fund the Capital Programme as £1.186m of Capital Receipts were brought forward from 2018/19 in the Capital Receipt Reserve. £1.885m of this can be used to fund the general capital programme, with the other £0.873m available to fund the 21st Century Schools programme as part of the Isle of Anglesey County Council's match funding.

4. PROJECTED ACTUAL EXPENDITURE 2019/20

4.1 Below is a table with projected expenditure at 31 March 2020 and the revised funding:-

Service	Annual Budget £'000	Projected Expenditure £'000	Projected Under / Over Expenditure £'000	% Variance
Housing General Fund	2,116	1,340	- 775	- 37
Housing HRA	14,117	11,000	- 3,117	- 22
Lifelong Learning	8,101	3,002	- 5,099	- 63
Economic and Regeneration	5,998	2,711	- 3,288	- 55
Highways	8,330	7,686	- 645	- 8
Waste Management	180	180	0	0
Property	1,129	991	- 138	- 12
Transformation	629	362	- 267	- 42
Planning	875	868	- 7	- 1
Adult Services	917	760	- 157	- 17
Total	**42,392**	**28,900**	**- 13,492**	**- 32**
Funded By:	**Annual Budget £'000**	**Projected Funding £'000**	**Variance £'000**	**% Variance**
Capital Grant	24,532	17,111	- 7,421	- 30
Capital Receipts	931	941	10	1
Supported Borrowing	5,973	3,161	- 2,812	- 47
Unsupported Borrowing	544	496	- 47	- 9
Revenue Contribution	9,962	6,845	- 3,117	- 31
Reserves	211	106	- 105	- 50
Loan	240	240	-	-
Total Funding	**42,392**	**28,900**	**- 13,492**	**- 32**

4.2 As can be seen from table 4.1 (above), the forecast underspend on the Capital Programme for 2019/20 is £13.492m, with this being potential slippage into the 2020/21 Capital Programme. The funding for this slippage will also slip into 2020/21, and will be factored in when producing the Treasury Management Strategy Statement and Capital Programme for 2020/21. The main projects that are forecast to be underspent are the 21st Century Schools Programme, which is currently 'on-hold' and is dependent on the outcome of the further consultation on the modernisation of the school provision in the Llangefni area. However, if the outcome of the consultation and the further decision from the Executive is to continue with the new schools in the Llangefni area, the forecast underspend may be reduced, depending on when the work commences. Also, the Strategic Infrastructure Holyhead is due to underspend by £1.999m and the Flood Defence in Traeth Coch will not go ahead in this financial year, resulting in a £0.638m underspend. The Disabled Facilities Grant capital scheme is also due to underspend by £0.450m due to it being a demand led service and the number of enquiries has reduced. Also, there may be clients referred that do not qualify for a Disabled Facility Grant according to the policy. This £0.450m will not be rolled over to 2020/21 as slippage, due to a new Capital bid being submitted for new allocation to be awarded in 2020/21.

4.3 The Capital Finance Requirement forecasted at 31 March 2020 is £139.258m, which is the underlying need for the Authority to borrow to be able to fund its Capital Programme. The external borrowing currently stands at £128.799m, meaning the Authority essentially needs to borrow £10.459m to fund the current Capital Programme. If this borrowing is undertaken externally, the Authority will still be within its authorised borrowing limits as per the 2019/20 Treasury Management Strategy Statement (Appendix 11).

5. FUTURE YEARS

5.1 The Capital Strategy recommended that the 2019/20 Capital Programme funding will be limited to the total of the general capital grant and supported borrowing (as determined by Welsh Government) and estimated value of any capital receipts that will be received. It is expected that the 2020/21 Capital Programme will follow the same principles, with the General Capital Grant and Supported Borrowing used to fund the annual replacement of vehicles, investment in ICT, refurbishing existing assets and an annual allocation to meet the cost of statutory Disabled Facilities Grants. There will also be funding available for the resurfacing of roads and capital projects that attract external grants, and these will be evaluated on a case by case basis.

Once the above projects have been funded, there may be some funding available to fund new capital schemes, with priority given to projects which contribute to the Council's objectives as set out in the Council Plan 2017 – 2022 and any schemes which can generate future revenue savings or generate additional income.

The draft Capital Budget was presented to this Committee on 13 January 2020 and will be presented to Full Council for approval in the near future. The Capital Strategy for 2020/21 will also be presented to this Committee on 2 March 2020.

6. CONCLUSION

6.1 The results at the end of Quarter 3 and the associated projected expenditure shows that the majority of projects are on target to be completed within budget. Due to the 21st Century School Programme being on hold and being dependent on the outcome of the further consultation on the modernisation of the school provision, there is a risk of significant underspend against this project. The Council has secured many different external grants and work is progressing well on most of these schemes. The Council is also expecting to receive £1.2m of Capital Receipts in 2019/20 to contribute towards the funding of the Capital Programme.

APPENDIX B

Summary of the Capital Projects' Expenditure to date against the Capital Budget and the Projected Expenditure at Year-End

Service	Annual Budget (£)	Profiled Budget (£)	Actual Expenditure (£)	Committed Expenditure (£)	Total Expenditure (£)	Variance to profile (£)	% Profiled Budget Spent	% Annual Budget Spent	Projected Expenditure (£)	Projected Under / Over (£)	% Variance
Housing General Fund											
Disabled Facilities Grants	900,000	337,500	266,773	0	266,773	-70,727	79	30	450,000	-450,000	-50
Residential Site for Gypsies and Travellers	779,000	225,000	72,743	194	72,937	-152,063	32	9	300,000	-479,000	-61
Compulsory Purchase Scheme	22,740	17,055	174,312	3,019	177,331	160,276	1,040	780	220,000	197,260	867
Enable Grant	93,200	69,900	32,833	0	32,833	-37,067	47	35	93,200	0	0
TRIP First Time Buyer Grant	200,000	150,000	186,296	0	186,296	36,296	124	93	200,000	0	0
TRIP Landlord Scheme Grant	90,000	67,500	26,083	0	26,083	-41,418	39	29	77,000	-13,000	-14
Affordable Housing	30,650	0	0	0	0	0	0	0	0	-30,650	-100
Total: Housing General Fund	**2,115,590**	**866,955**	**759,039**	**3,213**	**762,252**	**-104,703**	**88**	**36**	**1,340,200**	**-775,390**	**-37**
Housing HRA											
Central Heating Contract	400,000	300,000	181,674	20,089	201,763	-98,237	67	50	400,000	0	0
Planned Maintenance Contract	4,850,000	3,637,500	2,155,791	9,221	2,165,013	-1,472,487	60	45	3,250,000	-1,600,000	-33
Energy Performance Improvement	400,000	300,000	9,658	675	10,333	-289,667	3	3	150,000	-250,000	-63
Environmental Works	450,000	337,500	135,732	2,092	137,824	-199,676	41	31	250,000	-200,000	-44
Acquisition of Existing Properties and Development of new properties	6,371,000	4,778,250	3,406,693	1,080	3,407,773	-1,370,477	71	53	4,500,000	-1,871,000	-29
Remodelling Llawr y Dref	16,000	12,000	64,767	610	65,377	53,377	545	409	70,000	54,000	338
Public Sector Adaptations	350,000	262,500	255,973	11,677	267,650	5,150	102	76	350,000	0	0
Fire Risk	200,000	150,000	0	31,900	31,900	-118,100	21	16	200,000	0	0
Contaminated Land	330,000	247,500	319,240	3,260	322,500	75,000	130	98	330,000	0	0
WHQS	750,000	562,500	790,901	138,150	929,050	366,550	165	124	1,200,000	450,000	60
HMU Tools	0	0	0	0	0	0	0	0	100,000	100,000	0
Mobile Working Module	0	0	153,000	0	153,000	153,000	0	0	200,000	200,000	0
Totals: Housing HRA	**14,117,000**	**10,587,750**	**7,473,429**	**218,754**	**7,692,183**	**-2,895,567**	**73**	**54**	**11,000,000**	**-3,117,000**	**-22**
Lifelong Learning											
Disabled Access in Education Buildings	300,000	0	0	0	0	0	0	0	147,000	-153,000	-51
Refurbish Education Buildings	1,470,000	1,102,500	1,322,280	0	1,322,280	219,780	120	90	1,470,000	0	0
School Safety	200,000	0	0	0	0	0	0	0	0	-200,000	-100
21st Century Schools - Band A Modernisation	4,360,500	166,742	226,931	40,857	267,788	101,046	161	6	414,908	-3,945,592	-90
21st Century Schools - Band B Modernisation	500,000	18,219	0	11,450	11,450	-6,769	63	2	24,292	-475,708	-95
Flying Start Capital Grant	14,500	14,500	14,015	0	14,015	-485	97	97	14,015	-485	-3
Increasing Capacity for Childcare Capital Grant	1,255,985	941,989	906,409	25,187	931,596	-10,393	99	74	931,596	-324,389	-26
Total: Lifelong Learning	**8,100,985**	**2,243,950**	**2,469,635**	**77,494**	**2,547,129**	**303,179**	**114**	**31**	**3,001,811**	**-5,099,174**	**-63**
Economic and Regeneration											
Plas Arthur Works to Fitness Room	130,000	0	0	0	0	0	0	0	130,000	0	0
David Hughes New 3G 7 a side pitch	80,000	0	5,715	0	5,715	5,715	0	7	80,000	0	0
Tourism Gateway	1,280,000	208,124	38,116	59,383	97,499	-110,625	47	8	277,499	-1,002,501	-78
Holyhead Strategic Infrastructure	3,499,000	1,125,000	770,679	0	770,679	-354,321	69	22	1,500,000	-1,999,000	-57
Llangefni Strategic Infrastructure	306,000	37,500	16,718	25,759	42,478	4,978	113	14	50,000	-256,000	-84
Planning System Invest to Save	57,000	42,750	37,659	0	37,659	-5,091	88	66	57,000	0	0
Economic Development - To seek Match Fund	95,000	48,638	6,900	3,950	10,850	-37,788	22	11	64,850	-30,150	-32
Economic Stimulus Capital	491,330	368,498	43,795	99,396	143,191	-225,307	39	29	491,330	0	0
School Site Redevelopment TRIP	60,000	45,000	9,791	42,987	52,778	7,778	117	88	60,000	0	0
Total: Economic and Regeneration	**5,998,330**	**1,875,509**	**929,373**	**231,474**	**1,160,847**	**-714,662**	**62**	**19**	**2,710,679**	**-3,287,651**	**-55**

Service	Annual Budget (£)	Profiled Budget (£)	Actual Expenditure (£)	Committed Expenditure (£)	Total Expenditure (£)	Variance to profile (£)	% Profiled Budget Spent	% Annual Budget Spent	Projected Expenditure (£)	Projected Under / Over (£)	% Variance
Highways and Transportation											
Upgrade Pay and Display Machines in Car Parks	30,000	22,500	0	14,906	14,906	-7,594	66	50	30,000	0	0
Vehicles	216,960	162,720	66,362	71,490	137,852	-24,868	85	64	210,150	-6,810	-3
Highways Resurfacing	1,359,000	1,019,250	679,149	0	679,149	-340,101	67	50	985,398	-373,602	-27
Highways Refurbishment Grant	602,180	451,635	975,782	0	975,782	524,147	216	162	975,782	373,602	62
Beaumaris Flood Alleviation Works (WG)	2,310,000	1,732,500	1,621,112	800	1,621,912	-110,588	94	70	2,310,000	0	0
Pentraeth Flood Alleviation Works (WG)	333,000	10,000	8,381	0	8,381	-1,619	84	3	333,000	0	0
Llansadwrn Flood Alleviation	180,000	1,000	802	0	802	-198	80	0	180,000	0	0
Invest to Save - Vehicles	150,000	112,500	77,020	0	77,020	-35,480	68	51	150,000	0	0
Match Funding for Drainage Works	200,000	150,000	111,627	0	111,627	-38,373	74	56	200,000	0	0
Drainage Studies and Design Work	166,000	10,000	9,896	0	9,896	-104	99	6	166,000	0	0
Flood Defence Traeth Coch	638,000	0	0	0	0	0	0	0	0	-638,000	-100
Llangefni Link Road	97,000	72,750	31,433	0	31,433	-41,317	43	32	97,000	0	0
Active Travel	478,500	50,000	40,762	0	40,762	-9,238	82	9	478,500	0	0
A545 Beaumaris	68,800	51,600	24,757	0	24,757	-26,843	48	36	68,800	0	0
Road Safety Capital	231,000	173,250	190,010	0	190,010	16,760	110	82	231,000	0	0
Gaerwen Park and Ride	600,000	450,000	100,799	0	100,799	-349,201	22	17	600,000	0	0
Maes Awyr Môn	360,000	270,000	302,644	0	302,644	32,644	112	84	360,000	0	0
Holyhead Gateway Hub	306,000	229,500	8,980	34,319	43,299	-186,201	19	14	306,000	0	0
Salix Phase 3 - Street Lights	4,000	3,000	3,564	0	3,564	564	119	89	4,000	0	0
Total: Highways and Transportation	**8,330,440**	**4,972,205**	**4,253,080**	**121,515**	**4,374,595**	**-597,610**	**88**	**53**	**7,685,630**	**-644,810**	**-8**
Waste Management											
Purchase New Loading Shovel	180,000	180,000	0	180,250	180,250	250	100	100	180,250	250	0
Total: Waste Management	**180,000**	**180,000**	**0**	**180,250**	**180,250**	**250**	**100**	**100**	**180,250**	**250**	**0**
Property											
Glanllyn, Llanedwen	21,000	15,750	6,592	0	6,592	-9,158	42	31	21,000	0	0
Refurbish Existing Assets	572,540	100,000	83,569	0	83,569	-16,431	84	15	435,000	-137,540	-24
Invest To Save Property	510,000	382,500	410,132	0	410,132	27,632	107	80	510,000	0	0
Shire Hall	25,000	18,750	24,617	0	24,617	5,867	131	98	25,000	0	0
Total: Property	**1,128,540**	**517,000**	**524,909**	**0**	**524,909**	**7,909**	**102**	**47**	**991,000**	**-137,540**	**-12**
Transformation											
ICT- Core Infrastructure	171,000	128,250	127,883	31,984	159,867	31,617	125	93	171,000	0	0
ICT - Desktop Refresh	121,000	90,750	70,518	0	70,518	-20,232	78	58	121,000	0	0
ICT - Legacy System Migration	20,000	15,000	0	0	0	-15,000	0	0	0	-20,000	-100
ICT - MS Licensing	127,000	95,250	15,000	0	15,000	-80,250	16	12	25,000	-102,000	-80
ICT - Anglesey Connected (AC) to PSBA transition	60,000	45,000	0	1,000	1,000	-44,000	2	2	20,000	-40,000	-67
ICT - Upgrade meeting rooms	25,000	18,750	0	0	0	-18,750	0	0	25,000	0	0
CRM System Invest to Save	105,000	78,750	0	0	0	-78,750	0	0	0	-105,000	-100
Total: Transformation	**629,000**	**471,750**	**213,401**	**32,984**	**246,385**	**-225,365**	**52**	**39**	**362,000**	**-267,000**	**-42**
Planning											
Holyhead Market Hall Hub Project	825,000	515,000	610,548	187,675	798,223	283,223	155	97	828,223	3,223	0
Holyhead Townscape Transformation	50,000	37,500	20,365	7,608	27,972	-9,528	75	56	40,000	-10,000	-20
Total: Planning	**875,000**	**552,500**	**630,912**	**195,283**	**826,195**	**273,695**	**150**	**94**	**868,223**	**-6,777**	**-1**
Adult Services											
ICF	773,770	580,328	281,790	0	281,790	-298,537	49	36	616,666	-157,104	-20
Bryn Hwfa Community hub	23,500	17,625	0	9,047	9,047	-8,578	51	38	23,500	0	0
Plas Crigyll Refurbishment	85,000	63,750	65	0	65	-63,685	0	0	85,000	0	0
Plas Mona Refurbishment	35,000	26,250	0	0	0	-26,250	0	0	35,000	0	0
Total: Adult Services	**917,270**	**687,953**	**281,855**	**9,047**	**290,903**	**-397,050**	**42**	**32**	**760,166**	**-157,104**	**-17**
Total	**42,392,155**	**22,955,572**	**17,535,633**	**1,070,015**	**18,605,649**	**-4,349,923**	**81**	**44**	**28,899,958**	**-13,492,197**	**-32**

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ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO:	**THE EXECUTIVE**
DATE:	**2 MARCH 2020**
SUBJECT:	**HOUSING REVENUE ACCOUNT BUDGET MONITORING, QUARTER 3 2019/20**
PORTFOLIO HOLDER(S):	**COUNCILLOR ROBIN WILLIAMS**
HEAD OF SERVICE:	**MARC JONES**
REPORT AUTHOR: TEL: E-MAIL:	**STEPHEN MOORE** 01248 752634 StephenMoore@ynysmon.gov.uk
LOCAL MEMBERS:	**n/a**

A - Recommendation/s and reason/s

1. The Executive is requested to note the following:-

(i) The position set out in respect of the financial performance of the Housing Revenue Account (HRA) for quarter 3 2019/20.

(ii) The forecast outturn for 2019/20.

2. Background

(i) In March 2019, the Council agreed a revenue budget for 2019/20 that showed a planned surplus of £7.8m.

(ii) The capital budget for 2019/20 is £14.0m, including allowance for expenditure that was not completed from the 2018/19 capital budget.

(iii) The combination of both the revenue budget and adjusted capital budget gave a planned budget deficit of £2.0m, which would be funded from the HRA reserve.

(iv) The HRA is 'ringfenced', and its reserves cannot be transferred to the General Fund, nor can General Fund reserves be used to fund the HRA.

3. This report sets out the financial performance of the HRA for the period from 1st April 2019 to 31st December 2019.

4. Overview

(i) The revenue financial position for Q3 shows an overspend of £220k. The forecast for income is now £146k below the original budget, and expenditure is now forecast to be £75k above the original budget as explained below. More detail is shown in Appendix A.

(ii) The Capital expenditure is £2,896k below the profiled budget. The forecast expenditure is £3,117k below budget as explained below. More detail is shown in Appendix B.

(iii) The forecast deficit (combining both revenue and capital) is £2,896k less than the budget (producing a surplus of £789k), compared to £40k higher shown in the Q2 report, largely the result of lower than budgeted capital expenditure.

5. Income

(i) At the end of the third quarter, the level of income received was £22k less than the profiled budget as noted below.

(ii) Rental income was £81k below budget, mainly as a result of the completion of new Council houses and the repurchased properties being slower than anticipated. The re-letting of the newly refurbished Llawr Y Dref scheme has taken longer than anticipated due to the delay in the utility companies installing electric meters and electric supply to the newly refurbished flats. Additionally, as the scheme is denoted as a sensitive let scheme, to ensure the right balance of tenants, the scheme will not be fully occupied until the end of March. The forecast has been amended to be £221k below the original budget as the expected commissioning of new properties in the 4th quarter is not now expected be until the first quarter of 2020/21, when an additional 33 properties are expected to become available.

(iii) Service charge income, which is based on the actual costs incurred, is £56k above the profiled budget at the end of Quarter 3. This continues the trend noted in the Q2 report, and the forecast outturn of £75k above budget remains.

(iv) The overall forecast for income is now a reduction of £146k compared to the original budget by the end of the year.

6. Non Repairs and Maintenance Expenditure

(i) At the end of the third quarter, non repairs and maintenance expenditure was £148k above the profiled budget. Primarily, this is due to the annual prepayment of the housing IT system, and the costs of the clean up days that are concentrated in the summer months. Expenditure is now forecast to be £65k above the original budget, reflecting the additional work from the Tenant Participation team and additional utility costs that have been incurred, arising from the delayed commissioning of new properties as the HRA is responsible for such bills until the properties are let.

7. Repairs and Maintenance

(i) The Housing Maintenance Unit (HMU) shows an underspend of £45k. This is the first full year of the outsourcing of the HMU stores, and savings are expected and included in the budget. It is apparent that the savings realised are greater than budgeted for, so a revised forecast underspend of £40k has now been included which includes provision for the extra demand that arises during the winter months. The situation will continue to be monitored.

(ii) Expenditure on non HMU building maintenance staff is £5k above the profiled budget at the end of Q3. The forecasted year end position is that expenditure should be on budget.

(iii) Other Repairs and Maintenance costs are overspent by £89k compared to the profiled budget due to the additional work undertaken in respect of fire safety, door entry systems and on the sewage treatment works. Consequently, an overspend of £50k is now forecast at the year end.

8. Year End Adjustments

(i) This heading covers items of expenditure (capital financing costs and recharges from the General Fund) that form part of the year end accounting process. At this stage, no changes are envisaged.

9. Capital Expenditure

(i) The original capital programme, approved by the Council in March 2019, totalled £14,017k which was to be funded by the Major Repairs Allowance (£2,660k), other capital grants (£1,532k) and a contribution from the HRA reserve (£9,825k). This includes expenditure carried forward from the 2017/18 capital programme. There has been a minor revision to the budget in that the cost of the remediation work has increased by £100k, which will be funded from the HRA reserve. Based on the current information, it is forecast that the actual expenditure will be £11,000k, which is £3,117k below the revised budget.

(ii) The capital forecast has been completely revised on the basis of the current levels of expenditure. The most significant variances are in the projects for development of new council houses where schemes have been delayed into the 2020/21 finacial year resulting in an underspend of £1,871k this year, and the planned maintenance contracts where the timing of letting the contracts means that £1,600k of work will also be deferred into 2020/21. These underspends have been partially offset by WHQS work that was previously deferred at tenants request being undertaken when there is a change of tenant, which is £450k higher than originally budgetted for. The timing of these costs are difficult to predict as they can only be incurred when the property is vacant.

(iii) The underspend on capital expenditure means that the amount funded from the HRA revenue account is similarly reduced. The balance is then available to fund the projects that have been deferred into next year.

10. HRA Balance

(i) The opening balance of the HRA reserve stood at £8,387k. The revised budget allowed for the use of £2,107k of this balance. However, the forecast overspend on the revenue budget combined with the forecast underspend on the capital budget will result in an additional £789k being transferred into the reserve. This will give a reserve balance of £9,176k by the end of the financial year. This balance is ringfenced, so is available to fund future HRA expenditure only.

B - What other options did you consider and why did you reject them and/or opt for this option?

n/a

C - Why is this a decision for the Executive?

This matter is delegated to the Executive.

CH - Is this decision consistent with policy approved by the full Council?

Yes

D - Is this decision within the budget approved by the Council?

Yes

DD -	Who did you consult?	What did they say?
1	**Chief Executive / Strategic Leadership Team (SLT)** (mandatory)	
2	**Finance / Section 151** (mandatory)	n/a – this is the Section 151 Officer's report
3	**Legal / Monitoring Officer** (mandatory)	Consulted as part of SLT
4	**Human Resources (HR)**	
5	**Property**	
6	**Information Communication Technology (ICT)**	
7	**Scrutiny**	
8	**Local Members**	
9	**Any external bodies / other/s**	
E -	**Risks and any mitigation (if relevant)**	
1	**Economic**	
2	**Anti-poverty**	
3	**Crime and Disorder**	
4	**Environmental**	
5	**Equalities**	
6	**Outcome Agreements**	
7	**Other**	

F - Appendices:

Appendix A – Revenue expenditure and forecasts to end of Quarter 3.
Appendix B – Capital expenditure and forecast to end of Quarter 3.

FF - Background papers (please contact the author of the Report for any further information):

- 2019/20HRA budget (as approved by this Committee in March 2019).
- HRA 30 Year Business Plan 2019/49 (as approved by this Committee in March 2019).

APPENDIX A

HRA ACCOUNT 2019/20

	Annual Budget 2019/20	Profiled Budget to Month 9	Actual to Month 9	Variance to Month 9	Year End Forecast	Year End Variance
	£	£	£	£	£	£
REVENUE ACCOUNT						
Income						
Dwellings	(17,970,000)	(13,477,500)	(13,396,257)	81,243	(17,749,000)	221,000
Garages	(219,000)	(164,250)	(168,249)	(3,999)	(219,000)	0
Service Charges	(133,000)	(99,750)	(155,931)	(56,181)	(208,000)	(75,000)
Other	(221,000)	(144,002)	(142,843)	1,159	(221,000)	0
Bad Debt Provision	274,000	0	0	0	274,000	0
TOTAL INCOME	**(18,269,000)**	**(13,885,502)**	**(13,863,280)**	**22,222**	**(18,123,000)**	**146,000**
Non Repairs & Maintenance Expenditure						
Tenant Participation	117,930	88,396	107,570	19,174	132,930	15,000
Rent Administration	381,940	285,931	307,740	21,809	381,940	0
Estate Management	229,890	171,719	160,838	(10,881)	229,890	0
Other Revenue Expenditure	693,090	513,893	631,598	117,705	743,090	50,000
Total Non R & M Expenditure	**1,422,850**	**1,059,939**	**1,207,746**	**147,807**	**1,487,850**	**65,000**
Repairs and Maintenance						
Housing Maintenance Unit (HMU)	3,252,750	2,439,653	2,394,744	(44,909)	3,212,750	(40,000)
Building Maintenance Staff (non HMU)	834,220	624,465	629,416	4,951	834,220	0
Other Repairs and Maintenance	461,110	345,845	435,304	89,459	511,110	50,000
Total Repairs & Maintenance	**4,548,080**	**3,409,963**	**3,459,464**	**49,501**	**4,558,080**	**10,000**
Year End Adjustments						
Capital Financing Charges	3,015,080	0	0	0	3,015,080	0
Recharge from Housing Services	771,630	0	0	0	771,630	0
Recharge from Central Services	693,360	0	0	0	693,360	0
Total Year End Adjustments	**4,480,070**	**0**	**0**	**0**	**4,480,070**	**0**
TOTAL REVENUE EXPENDITURE	**10,451,000**	**4,469,902**	**4,667,210**	**197,308**	**10,526,000**	**75,000**
TOTAL REVENUE (SURPLUS) /	**(7,818,000)**	**(9,415,600)**	**(9,196,070)**	**219,530**	**(7,597,000)**	**221,000**

DEFICIT						
CAPITAL EXPENDITURE ACCOUNT						
2019/20 Expenditure	14,117,000	10,587,750	7,692,183	(2,895,567)	11,000,000	(3,117,000)
Major Repairs Allowance	(2,660,000)	0	0	0	(2,660,000)	0
Other Grants	(1,532,000)	0	0	0	(1,532,000)	0
TOTAL CAPITAL (SURPLUS) / DEFICIT	**9,925,000**	**10,587,750**	**7,692,183**	**(2,895,567)**	**6,808,000**	**(3,117,000)**
NET (INCREASE) / DECREASE IN HRA RESERVE	**2,107,000**	**1,172,150**	**(1,503,887)**	**(2,676,037)**	**(789,000)**	**(2,896,000)**
Opening HRA Balance	(8,387,000)				(8,387,000)	
Net (Increase) / Decrease in HRA Reserve	2,107,000				(789,000)	
Closing HRA Balance	**(6,280,000)**				**(9,176,000)**	

APPENDIX B

Service	Annual Budget (£)	Profiled Budget (£)	Total Expenditure (£)	Variance To Profile (£)	Projected Expenditure (£)	Projected Under / Over (£)
Housing HRA						
Central Heating Contract	400,000	300,000	201,763	(98,237)	400,000	0
Planned Maintenance Contract	4,850,000	3,637,500	2,165,013	(1,472,487)	3,250,000	(1,600,000)
Energy Performance Improvement	400,000	300,000	10,333	(289,667)	150,000	(250,000)
Environmental Works	450,000	337,500	137,824	(199,676)	250,000	(200,000)
Acquisition of Existing Properties/ Development of New Properties	6,371,000	4,778,250	3,407,773	(1,370,477)	4,500,000	(1,871,000)
Premises Remodelling of Existing Stock	16,000	12,000	65,377	53,377	70,000	54,000
Public Sector Adaptations	350,000	262,500	267,650	5,150	350,000	0
Fire Risk	200,000	150,000	31,900	(118,100)	200,000	0
WHQS	750,000	562,500	929,050	366,550	1,200,000	450,000
Remediation Work	330,000	247,500	322,500	75,000	330,000	0
HMU Tools	0	0	0	0	100,000	100,000
Mobile Working Module	0	0	153,000	153,000	200,000	200,000
Totals for Housing HRA	**14,117,000**	**10,587,750**	**7,692,183**	**(2,895,567)**	**11,000,000**	**(3,117,000)**

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ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO:	**EXECUTIVE COMMITTEE**
DATE:	**2 MARCH 2020**
SUBJECT:	**USE OF RESERVES AND BALANCES**
PORTFOLIO HOLDER(S):	**COUNCILLOR ROBIN WILLIAMS**
HEAD OF SERVICE:	**MARC JONES (EXT. 2601)**
REPORT AUTHOR: E-MAIL:	**GARMON WILLIAMS** **GARMONWILLIAMS@ynysmon.gov.uk**
LOCAL MEMBERS:	**n/a**

A - Recommendation/s and reason/s

1. PURPOSE OF THE REPORT

1.1 The report will set out the Section 151 Officer's assessment on the level of general balances and reserves for 2020/21 and make recommendations as to the allocation of general balances for use during 2020/21.

2. RECOMMENDATIONS

- To note the general policy on reserves and balances adopted 1 March 2016, in Appendix A;
- Approve the amendments to the general policy on reserves and balances adopted 1 March 2016, in Appendix A;
- To set the minimum level of general balances for 2020/21 as £7.11m in accordance with the Section 151 Officer's assessment;
- To plan for an increase in general balances over a 3 to 5 year period in order that the actual level of reserves reaches the minimum level. This increase will be achieved by budgeting for planned annual surpluses;
- To confirm the continuation of the existing earmarked reserves;
- To approve the transfer of both Foster Carer Mortgage and Policy Management System reserves from the earmarked reserves to the General Reserves.

B - What other options did you consider and why did you reject them and/or opt for this option?

No other options considered – not appropriate in this case.

C - Why is this decision for the Executive?

The Constitution requires the Executive to publish its final budget proposals prior to its consideration by the Council.

CH - Is this decision consistent with policy approved by the full Council?

N/A

D - Is this decision within the budget approved by the Council?

N/A

DD - Who did you consult?		What did they say?
1	**Chief Executive / Strategic Leadership Team (SLT)** (mandatory)	Comments from the SLT have been incorporated into the report
2	**Finance / Section 151** (mandatory)	n/a – this is the Section151 Officer's report
3	**Legal / Monitoring Officer** (mandatory)	Member of the SLT
4	**Human Resources (HR)**	
5	**Property**	
6	**Information Communication Technology (ICT)**	
7	**Scrutiny**	
8	**Local Members**	
9	**Any external bodies / other/s**	
E -	**Risks and any mitigation (if relevant)**	
1	**Economic**	
2	**Anti-poverty**	
3	**Crime and Disorder**	
4	**Environmental**	
5	**Equalities**	
6	**Outcome Agreements**	
7	**Other**	
F -	**Appendices:**	

Appendix A - Proposed general policy on Reserves and Balances
Appendix B – Balances to date

FF - Background papers (please contact the author of the Report for any further information):

USE OF GENERAL BALANCES AND RESERVES

1. PURPOSE OF THE REPORT

1.1 Sections 32 and 43 of the Local Government Finance Act 1992 require Local Authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. Section 25 of the Local Government Act 2003 requires the Section 151 Officer to report formally on the robustness of estimates and the adequacy of proposed reserves when setting a budget requirement and to ensure that there are key protocols for their establishment and use.

1.2 The report will set out the Section 151 Officer's assessment on the level of general balances and reserves for 2020/21 and make recommendations as to the allocation of general balances for use during 2020/21.

2. POLICY ON RESERVES AND BALANCES

2.1 In addition to the general balances, the Council holds a number of reserves on its balance sheet. The purpose of these reserves is to meet the cost of planned projects or to fund specific items of expenditure as and when they fall due.

2.2 The document attached as Appendix A sets out the overall principles and policy relating to determining the level of adequate reserves and balances and how reserves are utilised.

3. GENERAL BALANCES

3.1 As at 31 March 2019, the level of general balances stood at £5.912m, a decrease of £987k on the previous year.

3.2 As stated in Appendix A, paragraph 5, it is for the Section 151 Officer to assess a number of risks in determining the level of general balances required. These risks are considered below:-

- **Future Cost Pressures** – As budgets are reduced, the ability of individual services to utilise any spare capacity within their existing budgets to fund unexpected cost pressures is much more difficult and, when cost pressures occur, the funding of these pressures then falls on the general balances. The Council is currently facing budget pressures during 2019/20, notably in Adults, Children's and Education services. The budget for 2020/21 addresses issues surrounding demand in these areas, however, there are risks of further calls being made on general balances and frequent reviews will be undertaken during the year.

- **Savings** – For the 2020/21 budget, possible savings of £343k have been identified. However, concerns were raised by Members in relation to £57k of the proposed savings. This may change again following consultation with the public. Although there is a risk that not all savings will be achieved, the challenge process that has taken place should ensure that the risk is minimised and that any subsequent call on general balances is not significant.

- **Inflation and Interest Rates –** Pay awards have yet to be agreed for NJC staff. As for Teachers, price inflation of 2.75% applies until September 2020, with any future inflation currently unknown. Inflation currently stands at 1.3% (CPI – December 2019). However, the latest forecast does not show that inflation will rise during 2020/21, with the figure expected to be around 1.8% by the end of 2020/21 financial year. Approximately £58m of the Council's budget is for supplies and services where the price will increase as inflation increases. A 1% rise in inflation may add £580k to the Council's costs (around 0.4% of the net budget). Although inflation is still a risk, the Council has sufficient reserves to fund a sudden and sharp rise in inflation. All known contractual inflation have been allowed for within the budget and an average per department inflation of 3% was applied on income.

- **Income –** Ensuring that income budgets are achieved is always difficult to guarantee, particularly in discretionary services where customers can choose whether to purchase the service or not. The 2020/21 budget process has reviewed actual income trends and income budgets have been realigned where it was considered that actual income would be significantly lower than the budget. The risk that income targets will not be achieved cannot be ignored and may result in net expenditure exceeding the overall budget, with the shortfall then having to be funded from general balances.

- **School Balances –** The school balances reserve has fallen significantly with the balance as at 31 March 2019 being £0.631m. It is highly likely that the remaining balance on this reserve will have reduced again during the 2019/20 financial year.

- **Overall Financial Standing of the Council –** The overall financial standing of the Council is currently good, with an acceptable level of general balances and earmarked reserves. The future capital programme is funded and the Council's Capital Financing Requirements around £25m lower than the operational boundary, and £30m lower than the statutory authorised limit.

3.3 There is no hard and fast rule as to the level of general balances that a Council should maintain, although a rule of thumb exists which indicates that the level of general balances should be 5% of the net revenue budget. The current projection is that the revenue budget will overspend by £1.24m in 2019/20, which will need to be funded from the general reserves. In addition to this, £425k will be moved to a service reserve if approved by the Executive. Taking all these into consideration, it is estimated that the level of general balances will fall to approximately £4.6m at 31 March 2020.

3.4 Holding general balances does provide financial security for the Council, but holding balances unnecessarily results in financial resources not being utilised effectively. Having assessed the underlying financial risks faced by the Council, the limited flexibility that budget holders now have in managing their budgets and the need to release funding to deliver future efficiency savings, it is my assessment that the minimum level of general balances should be set at £7.1m (5% of the proposed net revenue budget for 2020/21).

3.5 The estimated balance as at 31 March 2020 for general balances is £4.6m, £2.5m lower than the calculated minimum. In the current financial circumstances, it is not possible to budget for a budget surplus in order to bring the general reserves balance back to the minimum level and the increase in general reserves must be done more gradually over a period of 3 to 5 years.

4. EARMARKED RESERVES

4.1 Earmarked Reserves fall into distinct categories, which are as follows:-

- Capital Reserves – reserves required to fund the capital programme;
- Restricted Reserves – reserves which are required to fund potential future costs, their use is restricted to a specific purpose and cannot be released for any other purpose, funds that are held by the Client on behalf of a third party or the reserve is linked to the delegated schools budget and cannot be reallocated;
- HRA Reserve – reserves that are ring fenced to the HRA;
- Insurance Reserve – a reserve required to fund the cost of any uninsured losses and policy excesses incurred by the Council;
- Grant Holding Reserves – reserves holding the amount of any unapplied grant received;
- Earmarked Reserves – reserves that have been allocated to services to undertake particular projects.

4.2 The balance of the earmarked reserves as at 31 March 2019 and the projected balance as at the 31 March 2020 for each of the categories is shown in Table 1 below (a full breakdown of each category is attached as Appendix B):-

Table 1
Summary of Earmarked Reserves Balances

Reserve Category	Balance as at 31 March 2019 £	Movement During 2019/20 £	Projected Balance as at 31 March 2020 £
Capital	1,111,408	-116,219	995,189
Earmarked	4,091,954	-667,751	3,424,203
Equal Pay	363,305	-4,818	358,487
Grant Holding	343,907	-99,366	244,541
Insurance	1,250,000	0	1,250,000
Restricted	2,721,787	-447,011	2,274,776
TOTAL	**9,882,361**	**-1,325,165**	**8,547,196**

4.3 The restricted reserve includes a number of significant individual reserves: Supporting People £804k, Recycling Process Income £635k and the North Wales Waste Treatment Plant reserve £679k.

4.4 The Risk and Insurance Manager has assessed that £1.25m is required to adequately cover the potential uninsured losses and excess payments.

4.5 The Foster Carer Mortgage (£66k) reserve was an accounting adjustment made during last year's closure of accounts process. This was due to uncertainty at the time. It is now clear that this reserve can be moved to Children's Services to fund the reclassification of the mortgage to a legal charge rather than being carried as a debt on the Council's balance sheet.

4.6 The Policy Management System (£8k) reserve has no further purposes and we, therefore, recommend that the remaining balance is moved to the ICT Section. This is due to the annual license and maintenance costs for the policy system now becoming a responsibility of the ICT Section.

4.7 The HRA Reserve is ring fenced and can only be used to fund expenditure relating to the HRA. The new 30 Year Plan implies that the reserve will be fully utilised by 2020/21, and the funding of new homes will result in a small borrowing requirement. However, it is prudent to keep a balance of £1.3m in order to meet contingencies resulting from unpredicted circumstances.

5. SERVICES RESERVES

5.1 It has previously been agreed that a new approach is taken with service year-end under and overspends arising from budgets where the budget holders have control over the costs, which are not demand-led. Services which are underspending on controllable budgets, which are non-demand led, can transfer unspent funds into a service reserve to help manage future pressures or fund future projects where no budget provision exists. The maximum balance of the service reserve will be £75k or 2.5% of the net service budget, whichever is the higher. If a service's underspend on controllable budgets takes the service reserve over the maximum permissible amount any excess funds will be transferred to the Council's general balances. Similarly, if services overspend on controllable budgets, their overspend will also roll-forward to the next financial year. This approach rewards Heads of Services for underspending where possible without impacting on service delivery, but makes Heads of Service more accountable for their spending. This will have the effect of reducing the general reserve and increasing earmarked reserves and will still be within the Council usable reserves. The Section 151 Officer, however, will reserve the right, on an exceptional basis and with the permission of the Executive, to recall these service reserves where needed for financial reasons. Similarly, if an overspend is carried forward, the Section 151 Officer can recommend that all or part of this sum is funded from the general reserve in exceptional circumstances.

5.2 Appendix C, based on Quarter 3 forecast outturn for 2020/21, is an example of how this would work and provides the detail. If the Council's outturn is as expected in Quarter 3, i.e. an overall overspend of £1.246m, using the new approach, £1.673m overspend would transfer to the general reserve and £427k underspend would transfer to service reserves.

6. RECOMMENDATIONS

6.1 The Executive is requested to approve the following recommendations:-

1. To note the general policy on reserves and balances as noted in Appendix A;

2. To approve the amendment to the general policy on reserves and balances in point 8 service reserves in Appendix A;

3. To set the minimum level of general balances for 2020/21 as £7.11m, in accordance with the Section 151 Officer's assessment;

4. To plan for an increase in general balances over a 3 to 5 year period in order that the actual level of reserves reaches the minimum level. This increase will be achieved by budgeting for planned annual surpluses;

5. To confirm the continuation of the existing earmarked reserves, Appendix B;

6. To approve the transfer of both Foster Carer Mortgage & Policy Management System reserves from the earmarked reserves to the General Reserves.

APPENDIX A

GENERAL POLICY ON RESERVES AND BALANCES

1. Purpose

The Isle of Anglesey County Council is required to maintain adequate financial reserves to meet the needs of the organisation. The purpose of this policy is to set out the governance arrangements for the Use of Reserves and Balances to ensure they provide the Council with the flexibility it needs and also to ensure they are used to add value to the organisation.

2. Regulatory Context

Sections 32 and 43 of the Local Government Finance Act 1992 require Local Authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

There is no specified minimum level of reserves that an authority should hold, and Section 25 of the Local Government Act 2003 requires the Section 151 Officer to report formally on the adequacy of proposed reserves when setting a budget requirement and to ensure that there are key protocols for their establishment and use.

This policy sets out the framework for the use and management of useable reserves, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (CIPFA/LASAAC) and agreed in accounting policies.

3. Types of Reserves

Useable revenue reserves can be categorised in two ways:-

General reserves, which are contingency to cushion the impact of unexpected events or emergencies; and

Earmarked reserves, which are generally built up to meet known or predicted liabilities.

Earmarked Revenue Reserves are usually created and held for one of the five main reasons below:-

- **i.** Renewals – to enable services to plan and finance an effective programme of vehicle and equipment replacement and planned property maintenance. These reserves are mechanisms to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.
- **ii.** Carry forward of underspend – some services commit expenditure to projects, but cannot spend the budget in year. Reserves are used as a mechanism to carry forward these resources.
- **iii.** Trading accounts - in some instances, surpluses are retained for future investment.
- **iv.** Insurance Reserve - to meet the estimate of future claims to enable the Council to meet the excesses not covered by insurance.
- **v.** Other earmarked reserves will be set up from time to time to meet known or predicted liabilities, for example future predicted budget demand pressures.

Whilst earmarked reserves are set against a specific purpose, general reserves are funds which do not have any restrictions as to their use. Such reserves can be used to smooth the impact of significant pressures across years, offset the budget requirement in year and to mitigate the risks of unexpected events or emergencies.

General reserves can also be used to support investments designed to secure greater base budget savings.

4. Managing Reserves

The Council recognises the need to hold and maintain reserves but also recognises that, by choosing to hold or increase reserves, the Council is allocating resources away from other potential uses and, as such, there is an ‘opportunity cost’ of holding balances as reserves. For this reason, it is important to set out clearly, and regularly review, the framework through which such reserves are managed.

The management of financial reserves is a key tool of the Council’s overall financial strategy, which has two key objectives:-

- Achieving stable and sustainable budgets throughout the medium term; and
- Ensuring resources are effectively focused on priorities.

Underpinning the achievement of these objectives is the recognition of the need to manage risk. This could be increased risks of volatility in planning assumptions as we continue to go through uncertain economic times or the risks to Welsh Government funding as a result of significant future funding reviews. However, it could be that the business seeks to take greater business risks through innovative service delivery to achieve difficult savings targets. The greater the risks, the greater the reserves the Council are likely to need to hold to mitigate against this. It is the appreciation of such risks that must be at the forefront of the Section 151 Officer’s mind.

5. Quantifying the Reserves Requirement

Setting the level of general reserves is one of several related decisions in the formulation of the Medium Term Financial Plan (MTFP) and the annual budget. This decision requires account to be taken of the strategic, operational and financial risks facing the Authority. Specifically, the MTFP requires the Council to build up and then maintain general reserves sufficient to cover the key financial risks that it faces.

The Section 151 Officer will need to consider many factors in determining the precise level of reserves, many of which involve an assessment of the risk of assumptions included in the budget and MTFP, together with the Council’s financial standing and management.

The key factors are set out below:-

Budget Assumptions;
Financial standing and management;
General cash flow requirements, the outlook for inflation and interest rates;
The overall financial standing of the Council (level of borrowing, debt outstanding etc.); Estimates of the level and timing of capital receipts;
The Council’s track record in budget and financial management, including the robustness of its medium term plans;
The potential range of costs of demand led services;
The Council’s capacity to manage in year budget pressures; Planned efficiency savings / productivity gains;
The strength of the financial information and reporting arrangements; The financial risks inherent in any significant new funding partnerships; Major outsourcing arrangements or major capital developments;
The Council’s virement and end of year procedures in relation to budget under / overspends; The availability of other funds to deal with major contingencies and the adequacy of provisions; The adequacy of the Council’s insurance arrangements to cover major unforeseen risks.

An objective evaluation of these factors will be undertaken each year to determine a prudent level of general reserves cover based on an assessment of the above factors. However, the final level of reserves is ultimately subject to the Section 151 Officer's judgement, taking all relevant factors into consideration.

As part of the annual budget recommendation to the Council, the Section 151 Officer will highlight the amounts that are being set aside for reserves.

6. Building Reserves

Should the Section 151 Officer consider that the level of General Reserves requires increasing, this will be achieved as part of the budget setting process, establishing an allocation from the annual budget to achieve the desired level of balances. Contributions to and from General Reserves should be reviewed annually. This will be additional to any amounts needed to replenish reserves that have been consumed in the previous year, to maintain the minimum level of reserves.

Earmarked reserves will be established on a 'needs basis', in line with the planned or anticipated requirements, and will be subject to Committee approval, usually as part of an annual reserves report that goes as part of the year end.

For each such reserve, the Council will define:-

The purpose of the reserve;
How and when the reserve can be used;
Procedures for management and control of the reserve;
A process and timescale for review of the reserve to ensure continuing relevance and adequacy. This will generally take place at year end.

7. Use of Reserves

Reserves can only be used once, and so should not normally be used to finance recurring planned spending – for example they would not, except under exceptional circumstances, be used to 'balance the budget'.

Where reserves are used to support the delivery of the budget in any one year, for example to smooth funding fluctuations or pressures across years, the Council should ensure the reserves are replenished in the following year if necessary.

Where the Council has used general reserves for investment purposes to generate savings, these would also generally be paid back by the end of the following financial year. In exceptional cases, such as minimising the impact upon services to customers and citizens, more time would be allowed for replenishment, up to a maximum of four years, in line with the medium term planning cycle.

Use of general reserves will be subject to the Section 151 Officer and, in some cases, the Executive Committee's approval. The creation of earmarked reserves will also be subject to the approval of the Section 151 Officer and, once this level of approval has been given, drawdowns against the reserve can be made subject to the criteria being met.

In extreme circumstances, where general reserves have been exhausted due to unforeseen spending pressures within a given financial year, the Council would be able to draw down from its earmarked reserves to provide short term resources, but this would not be sustainable and balances would need to be restored.

Earmarked reserves that have been used to meet a specific liability would not be replenished, having served the purpose for which they were originally established.

8. Service Reserves

Individual service reserves can be created for 2020/21. The balance at the end of the financial year for each service will automatically be transferred into a service reserve. Each service will be advised of their balance once the Statement of Accounts has been produced.

When a service has underspent during the financial year, the balance to a maximum of 2.5% of their net budget or £75k cumulatively, will be transferred into the reserve, any underspend above this amount will be transferred to the general reserves.

Any overspend by a service will be transferred in its entirety to the reserve. The service will then need to produce a plan of how it will repay this overspend and over what timeframe, this will be subject to the approval of the Section 151 Officer and, in some cases, the Portfolio Holder for Finance or the Executive.

Where a service has experienced a significant increase in the demand for services and this has resulted in costs having to exceed the budget available, the Head of Service will be entitled to request that the resulting overspend is funded from the general Council balances rather than the service reserve. Any requests will be subject to approval by the Section 151 Officer and the Portfolio Holder for Finance.

9. Capital Reserves

The capital programme for 2020/21 fully utilises all available reserves down to the minimum level. The future expectation of capital receipts for strategic asset sales has not yet been built into the capital programme.

Good asset management strategies have included in them the replenishment of assets following on from strategic asset sales, so that there will be assets of a strategic value on the balance sheet for future years.

The Authority can also utilise both Capital Receipts and Revenue Contributions Unapplied reserves to fund capital expenditure where necessary.

10. Insurance Reserve

The insurance reserve figure was historically built up over time in order to cover the stop losses under the larger insurance policies. The level of the Insurance Reserve will be reviewed at least annually by the Risk and Insurance Manager and agreed with the Section 151 Officer.

BALANCES TO DATE

APPENDIX B

Directorate	Reserve	Category	As at 31 March 2019	Actual 2019/20 Spend to date	Estimated Remaining 2019/20 Spend	Is a request to carry forward to 2020/21 likely?	Year End Estimate
Corporate	Revenue Contributions Unapplied	**CAPITAL EXPENDITURE**	1,111,408	- 3,781	120,000	Yes - Project plans span more than one financial year. Balance is held as a contingency to fund capital expenditure.	995,189
Corporate	Equal Pay	**EQUAL PAY**	363,305	4,818	-	Yes - There is a requirement to keep this reserve until the end of 2021 due to the extension of people's right to claim.	358,487
Corporate	Invest to Save	**EARMARKED**	401,864	66,355	49,889	Yes - Plans span more than one financial year and all projects are at various stages.	285,620
Corporate	Cost of Change	**EARMARKED**	280,092	44,099	42,183	Yes - This reserve will be used to fund change projects that require additional funding.	193,810
Corporate	Restricted Contingency Funded Projects	**EARMARKED**	111,642	-	-	Yes - This reserve will be used to fund projects which have been committed previously from the contingency budget, but there has been some slippage in the plans.	111,642

Directorate	Reserve	Category	As at 31 March 2019	Actual 2019/20 Spend to date	Estimated Remaining 2019/20 Spend	Is a request to carry forward to 2020/21 likely?	Year End Estimate
Corporate - Resources	Insurance (Catastrophe) Reserve	**INSURANCE FUND**	1,250,000	-	-	Yes - The level of reserve has been deemed acceptable for the size of the Authority by the Insurance Manager.	1,250,000
Council Business - Legal Section	Land Charges Computer System	**EARMARKED**	8,100	8,100	-	N/A	-
Council Business - Policy	Policy Management System	**EARMARKED**	8,363	-	-	N/A	8,363
Highways, Property & Waste - Highways	Bus Stop Infrastructure	**EARMARKED**	54,392	-	-	Yes - This reserve will be used to fund public transport related items in future years.	54,392
Highways, Property & Waste - Highways	Winter Maintenance	**EARMARKED**	54,480	-	-	Yes - This reserve will be carried forward unless severe weather arises in the final months of the year.	54,480
Highways, Property & Waste - Highways	Airport Highway	**RESTRICTED**	70,880	-	-	Yes - This reserve will be used towards future running costs of Maes Awyr Mon.	70,880
Highways, Property & Waste - Highways	Highways Restricted Grants Reserve - Flood Grant	**RESTRICTED**	36,473	-	-	Yes - This reserve will be used towards the funding of future flood projects.	36,473
Highways, Property & Waste - Highways	Highways Restricted Grants Reserve - Coastal Path	**RESTRICTED**	7,575	-	-	Yes - This reserve will be used towards future running costs for costal path projects.	7,575

Directorate	Reserve	Category	As at 31 March 2019	Actual 2019/20 Spend to date	Estimated Remaining 2019/20 Spend	Is a request to carry forward to 2020/21 likely?	Year End Estimate
Highways, Property & Waste - Waste Management	Spend to Save Public Conveniences	**EARMARKED**	7,406	7,406	-	N/A	-
Highways, Property & Waste - Waste Management	Waste Reserve / Recycling	**GRANT HOLDING**	267,476	222,366	-	Yes - This reserve will be used towards funding future recycling costs as per the grant conditions.	45,110
Highways, Property & Waste - Waste Management	North West Wales Treatment Plant	**RESTRICTED**	1,155,715	477,011	-	Yes - There are plans to spend some of this reserve in 2020/21. A balance of £500k will be required to be kept in reserve.	678,705
Highways, Property & Waste - Waste Management	Recycling Process Income	**RESTRICTED**	635,130	-	-	Yes - WG grant conditions specify that this must be used for future recycling purposes only.	635,130
Regulation & Economic Development - Economic Development	Beaumaris Pier - Painting	**EARMARKED**	100,000	-	10,000	Yes - There has been a slippage into the next financial year with work likely to be undertaken during the summer of 2020.	90,000
Regulation & Economic Development - Economic Development	Major Developments	**EARMARKED**	232,508	33,460	-	Yes - This reserve is to be retained pending final decision on Wylfa Newydd.	199,048

Directorate	Reserve	Category	As at 31 March 2019	Actual 2019/20 Spend to date	Estimated Remaining 2019/20 Spend	Is a request to carry forward to 2020/21 likely?	Year End Estimate
Regulation & Economic Development - Economic Development	Energy Island Economic Development Reserve	**EARMARKED**	11,979	-	-	Yes - This reserve is to be retained pending final decision on Wylfa Newydd.	11,979
Regulation & Economic Development - Economic Development	Major Developments - Planning	**EARMARKED**	511,606	119,150	-	Yes - This reserve is to be retained pending final decision on Wylfa Newydd.	392,456
Regulation & Economic Development - Economic Development	Melin Llynnon Operating Costs	**EARMARKED**	12,708	-	5,000	Yes - Part of the reserve has been allocated to fund a specialist contractor who will undertake a condition survey in relation to the mill.	7,708
Housing	Affordable housing	**EARMARKED**	250,643	-	- 100,000	Yes - This reserve is to be used to fund future costs for bringing houses into homes.	350,643
Housing	Supporting People Administration	**RESTRICTED**	774,401	-	- 30,000	Yes - There is a plan to spend this reserve over the next 9 financial years, with the department expected to make additional contributions towards this reserve.	804,401
Learning - Education	Free School Meals	**EARMARKED**	60,000	- 12,095	-	Yes - This reserve is surplus grant funding from WG in relation to Universal Credit and this is expected to be used in full by the end of the next financial year.	72,095

Directorate	Reserve	Category	As at 31 March 2019	Actual 2019/20 Spend to date	Estimated Remaining 2019/20 Spend	Is a request to carry forward to 2020/21 likely?	Year End Estimate
Learning - Education	TRAC	**GRANT HOLDING**	36,000	-	- 136,000	Yes - This reserve provides security for any potential European clawbacks, as well as providing a buffer for any deficit in match funding for the remaining years of the project, with the project running until 2023/24.	172,000
Learning - Education	Sick / Adverts Scheme - Primary	**RESTRICTED**	35,873	-	-	Yes - This reserve is to provide internal insurance for schools who are impacted by staff sicknesses.	35,873
Regulation & Economic Development - Leisure	Leisure (VAT Claim)	**EARMARKED**	772,633	10,479	90,000	Yes - This reserve will be used to fund future improvements to leisure services.	672,154
Lifelong Learning - Culture	Museum Purchase Fund	**RESTRICTED**	5,739	-	-	Yes - This is ring fenced funding from donations made to the Oriel and cannot be used for any other purposes.	5,739
Regulation - Planning & Public Protection	Licence Reserve	**EARMARKED**	16,570	-	-	Yes - There has been a slippage in the plans to upgrade IT equipment into the next financial year.	16,570

Directorate	Reserve	Category	As at 31 March 2019	Actual 2019/20 Spend to date	Estimated Remaining 2019/20 Spend	Is a request to carry forward to 2020/21 likely?	Year End Estimate
Regulation - Planning & Public Protection	Local Development Plan	**EARMARKED**	167,517	-	-	Yes - This reserve is to fund the local development plan carried out by the Joint Planning Policy Unit on behalf of the Authority for the next two years.	167,517
Regulation - Planning & Public Protection	Buy With Confidence Reserve	**EARMARKED**	6,234	6,234	-	N/A	-
Regulation - Planning & Public Protection	Planning & Legal Costs	**EARMARKED**	22,375	-	-	Yes - This is required to cover major legal fees that could arise if the service exceed their budget.	22,375
Regulation - Planning & Public Protection	Bathing Water Prediction Model	**EARMARKED**	10,000	275	725	Yes - This reserve is used to fund the maintenance cost relating to the Met Station for a period of 10 years, ceasing in 2028/29.	9,000
Regulation - Planning & Public Protection	Planning Capability and Capacity	**EARMARKED**	75,000	-	- 60,000	Yes - Plans to spend this reserve has slipped into the next financial year. It is likely that this reserve will increase by approximately £60k.	135,000
Resources	Revenues & Benefits	**EARMARKED**	34,992	-	17,362	Yes - This reserve is to be used to fund temporary staff and consultancy work as and when required.	17,630
Social Services - Adults and Children Services	Corporate Vulnerable Persons	**EARMARKED**	276,000	-	276,000	N/A	-

Directorate	Reserve	Category	As at 31 March 2019	Actual 2019/20 Spend to date	Estimated Remaining 2019/20 Spend	Is a request to carry forward to 2020/21 likely?	Year End Estimate
Social Services - Adults and Children Services	Transformation	**EARMARKED**	33,561	-	-	Yes - There are plans to spend this reserve in 2020/21 where it will help cover the costs in relation to learning disabilities fieldwork.	33,561
Social Services - Adults and Children Services	Social Care Staffing Contracts	**EARMARKED**	271,714	-	-	Yes - This reserve will be used to fund the cost of additional social services agency staff in future years.	271,714
Social Services - Adults and Children Services	Foster Carer Mortgage Reserve	**EARMARKED**	65,650	-	-	N/A	65,650
Social Services - Adults and Children Services	Joint Funding Reserve SS and Learning	**EARMARKED**	180,795	-	-	Yes - This reserve is to be used if there is a shortfall in funding from Public Bodies in relation to social care placements.	180,795
Social Services - Adults and Children Services	Nursing Care	**EARMARKED**	53,129	-	53,129	N/A	0
Transformation - HR	SCWDP	**GRANT HOLDING**	40,430	-	13,000	Yes - This reserve is to be used to fund the training of a Trainee Social Worker.	27,430
			9,882,361	**983,877**	**351,288**		**8,547,196**

APPENDIX C

TABLE SHOWING NEW APPROACH TO SERVICE RESERVES BASED ON Q3 FORECAST FOR 2019/20

	Annual Budget [a] £'000	Service Reserve Limit [b] £'000	2019/20 Forecast Under / Overspend [c] £'000	Over / Under to be transferred to general balances [ch] £'000	Sum to be transferred to Service Reserve [d] £'000	Service Reserve Balance [dd] £'000	Adjustment to Limit the Service Reserve Balance [e] £'000	Service Reserve Carried Forward [f] £'000	Under / Over to be Funded from General Reserve [ff] £'000
Lifelong Learning	6,155	(154)	26	26	0	0	0	0	26
Adult Services	25,172	(629)	1,032	1,032	0	0	0	0	1,032
Children's Services	10,249	(256)	86	86	0	0	0	0	86
Highways, Waste and Property	14,630	(366)	32	124	(92)	(92)	0	(92)	124
Housing	1,224	(75)	(40)	0	(40)	(40)	0	(40)	0
Regulation	3,871	(97)	(103)	0	(103)	(103)	(6)	(97)	(6)
Transformation	4,517	(113)	(250)	(103)	(147)	(147)	(34)	(113)	(137)
Council Business	1,626	(75)	(9)	0	(9)	(9)	0	(9)	0
Resources	3,050	(76)	(149)	0	(149)	(149)	(73)	(76)	(73)
		(1,841)	**625**	**1,165**	**(540)**	**(540)**	**(113)**	**(427)**	**1,052**
Corporate & Democratic									136
Corporate Management									(65)
Uncontrollable Costs									400
Corporate Finance									8
Council Tax									142
Transferred to General Balances									**1,673**

Notes
a = the net annual revenue budget for the Service
b = 2.5% of (a) or £75k whichever is the higher
c = forecast under / over spend for each Service as at the end of quarter 3
ch = the sum which is considered outside the control of the Service and will be charged to the Council’s general balances
d = the sum to be retained by each Service as a Service Reserve in the year
dd = the balans of the reserve carried forward for each service
e = the sum that the retained amount (d) is reduced by to ensure that the Service Reserve balance does not exceed the limit (b). This adjustment is credited to the Council’s general balances
f = the balance of each Service Reserve carried forward for use in 2020/21
ff = the amount charged to the Council’s general balances

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ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO:	**EXECUTIVE COMMITTEE**
DATE:	**02 MARCH 2020**
SUBJECT:	**TREASURY MANAGEMENT STRATEGY STATEMENT 2020/21**
LEAD OFFICER:	**MARC JONES, DIRECTOR OF FUNCTION (RESOURCES AND SECTION 151 OFFICER**
CONTACT OFFICER:	**JEMMA ROBINSON, SENIOR ACCOUNTANT (TEL: EXT 2675)**
Nature and reason for reporting For scrutiny - consistent with professional guidance.	

1. This report is presented to ensure that the Council is implementing best practice in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management. The code recommends that prior to being presented for adoption, members should scrutinise the Treasury Management Strategy Statement (which includes the Annual Investment Strategy, the annual MRP Policy Statement, the annual Treasury Management Policy Statement and the Treasury Management Scheme of Delegation). This Authority's scheme of delegation charges the Audit & Governance Committee with this function.

2. The CIPFA Code of Practice on Treasury Management (Section 7) recommends that the Authority's Treasury Management Practices (TMPs) should be approved, documented and monitored. It goes on to state that the nature and extent of the involvement of an organisation's responsible body in approving and monitoring its TMPs and accompanying schedules is a matter for local decision and recognises that in some organisations this may be delegated to the responsible officer. In all cases, it should be subjected to scrutiny by the responsible body following recommendations by the responsible officer. This Authority has produced documented TMPs, and were approved by the Audit Committee on 6 December 2016.

3. In terms of updates to the Treasury Management Strategy Statement, there are no proposed amendment to the core principals and policies of the 2019/20 Statement.

4. Under the revised Code of Practice, it is a requirement that the Council prepares a Capital Strategy, which takes a longer-term view as to the capital investment that is required and how that investment will be funded. The Executive will approve this Strategy, along with other budget resolutions. This Treasury Management Strategy sits below the Capital Strategy, and considers the impact of that strategy on the Council's borrowing and investments. It sets out how both strategies will be undertaken in a controlled way, which is in line with a suitable level of risk that the Council wishes to take, bearing in mind the guidance set out in the CIPFA Code of Practice on Treasury Management.

5. Recommendations

- To consider the Treasury Management Strategy for 2020/21 and to make recommendations or note comments for consideration by the full Council.

ANNEX A

TREASURY MANAGEMENT STRATEGY STATEMENT

ANNUAL INVESTMENT STRATEGY, MINIMUM REVENUE PROVISION POLICY STATEMENT AND TREASURY MANAGEMENT POLICY STATEMENT 2020/21

1. BACKGROUND

1.1. CIPFA defines treasury management as:-
"*The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks*."

The Treasury Management Policy Statement defines the policies and objectives of the treasury management activities (see **Appendix 1**).

1.2. 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 with counterparties which meet the criteria in terms of security, liquidity and investment return as set out in this strategy.

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

1.4. The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the Council's cash reserves.

2. CIPFA CODE OF PRACTICE ON TREASURY MANAGEMENT

2.1. The CIPFA Code of Practice on Treasury Management requires the Council to prepare and approve the following documents:-

- A Capital Strategy Statement which sets out a high level, long term overview of capital expenditure and financing, along with details on any associated risks and how they will be managed.
- A Treasury Management Strategy which sets out the Council's strategy in terms of borrowing and investment which follows on from the Capital Strategy, sets out the constraints on borrowing, determines a set of prudential indicators and determines the Council's risk appetite and strategy in respect of investments.

2.2. The key principles of the CIPFA Treasury Management Code of Practice are set out in Appendix 2.

3. EXTERNAL CONTEXT

3.1. Setting the Treasury Management Strategy cannot be undertaken in isolation, and consideration must be given to the economic situation as this has an impact on investment interest rates, the cost of borrowing and the financial strength of counterparties. A full summary of the economic outlook is set out in **Appendix 3**, but the main points to consider are as follows:-

- Weakening economic growth in the US, China and the Eurozone.
- Inflation in the UK is likely to remain close to or under 2% over the next two years.
- A potential for interest rates rises from March 2021 onwards.
- Continuing uncertainty surrounding Brexit and its impact on the UK and Eurozone economy.
- Investment returns are likely to remain low during 2020/21 with little increase in the following two years.

3.2. Having considered the available information and having considered the advice from the Council's Treasury Management Advisors, the following table sets out the Council's view on interest rate levels for the following 3 years:-

Table 1
Prospects for Interest Rates to March 2023

Annual Average	Bank Rate (%)	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
December 2019	0.75	2.30	3.20	3.10
March 2020	0.75	2.40	3.30	3.20
June 2020	0.75	2.40	3.40	3.30
September 2020	0.75	2.50	3.40	3.30
December 2020	0.75	2.50	3.50	3.40
March 2021	1.00	2.60	3.60	3.50
June 2021	1.00	2.70	3.70	3.60
September 2021	1.00	2.80	3.70	3.60
December 2021	1.00	2.90	3.80	3.70
March 2022	1.00	2.90	3.90	3.80
June 2022	1.25	3.00	4.00	3.90
September 2022	1.25	3.10	4.00	3.90
December 2022	1.25	3.20	4.10	4.00
March 2023	1.25	3.20	4.10	4.00

Information provided by Link Asset Services is attached as **Appendix 4**.

3.3. Given the forecast for bank base rates, the following rates of return on investments are expected during the financial years:-

2019/20: 0.75%;
2020/21: 0.75%;
2021/22: 1.00%;
2022/23: 1.25%;
2023/24: 1.50%;
2024/25: 1.75%;
2025/26 Onwards: 2.25%.

4. THE COUNCIL'S CURRENT POSITION

4.1. Borrowing

4.1.1. The Council's current external borrowing is set out in Table 2 below. A full analysis is attached as **Appendix 5**.

Table 2
Summary of the Council's Current Outstanding Loans

PWLB LOANS							
	PWLB / PWLB Maturity		**PWLB EIP/ Annuity**	**Market Loans**	**PWLB Variable**	**Total Maturing**	
Loan Outstanding	£126.184m		£0.22m	£0.00m	£0.00m	£126.404m	
Average life (years)	25.48		6.94	0.00	0.00	25.44	
Average rate (%)	5.15		9.44	0.00	0.00	4.73	
OTHER LOANS							
	Welsh Government	**Salix Loan 1**	**Salix Loan 2**	**Salix Loan 3**	**Salix Loan 4**	**Salix Loan 5**	**Total**
Outstanding Balance	£44k	£74k	£274k	£572k	£251k	£1,178k	£2,393k
Repayment Date	2020/21	2024/25	2025/26	2028/29	2029/30	2030/31	
Interest Rate (%)	0.00	0.00	0.00	0.00	0.00	0.00	

4.2. Investments

4.2.1. Any surplus cash is currently invested in short term deposit accounts, call accounts and with other UK local authorities. The balance invested in these accounts changes daily (balance as at 31 December 2019 was £23.2m).

4.2.2. Under the current treasury management strategy, the Council invests surplus cash ensuring first of all the security of the deposit, secondly the liquidity of the deposit and, finally, the return on the investment. In practice, in order to ensure the first and second principles, the rate of return on investments is sacrificed and the current average return on investments is 0.55% (as at 31 December 2019).

5. IMPACT OF FUTURE PLANS ON BORROWING

5.1. Capital expenditure is partly funded from borrowing and the capital programme, as set out in the Capital Strategy, is set out in Table 3 below**:-**

Table 3
Proposed Capital Expenditure Programme 2020/21 – 2022/23

	2020/21 £'000	2021/22 £'000	2022/23 £'000
Non - HRA	**19,765**	**21,662**	**14,675**
HRA	**17,138**	**17,704**	**14,402**
Commercial Activities / Non Financial Investment	**0**	**0**	**0**
TOTAL EXPENDITURE	**36,903**	**39,366**	**29,077**
Financed By			
Capital Grants	**12,286**	**9,856**	**8,090**
Capital Receipts	**245**	**250**	**250**
Reserves	**0**	**750**	**0**
Revenue	**14,728**	**9,294**	**10,642**
Balance Funded from Borrowing	**9,644**	**19,216**	**10,095**

5.2. An important factor to consider is the impact of borrowing on the Council's Capital Financing Requirement (CFR). The CFR is the measure of the Council's underlying borrowing need. Borrowing is not limited to external borrowing from PWLB but also the use of the Council's own cash balances (internal borrowing) which have been used to fund capital expenditure.

5.3. Capital expenditure will increase the CFR but only by the sum that is not funded from grants, capital receipts, reserves or revenue. The CFR will also reduce annually by the sum of the Minimum Revenue Provision (MRP) which is charged to revenue. The level of the CFR is an important measure to ensure that the Council does not commit itself to unaffordable levels of borrowing.

5.4. In order to ensure that the Council has sufficient funds available to repay debt as it falls due, the Council is required to make a charge to the revenue account each year and this charge is known as the Minimum Revenue Provision. Regulations require that the Council approves a MRP statement in advance of each financial year. The policy for 2020/21 is set out in **Appendix 6**. The Council's MRP was substantially revised in 2018 but there are no changes from that revised policy for 2020/21. By making the MRP charge each year, the Council's cash balances are replenished and that, in turn, reduces the level of internal borrowing.

5.5. The policy will provide an equal charge on borrowing up to 31 March 2018 and, for all borrowing after that date, the MRP charge will be based on the useful life of the asset which has been funded from borrowing, e.g. if £1m is borrowed to fund the capital expenditure on an asset that has an asset life of 20 years, the annual MRP in respect of that loan would be £50k per annum. As new borrowing is undertaken, it will increase the MRP charge over time and this increase in costs is allowed for in the Council's budgets.

5.6. The impact of the Council's capital expenditure plans and the MRP charge on the CFR and level of external and internal borrowing is shown in Table 4 below:-

Table 4
Capital Financing Requirement and Borrowing 2019/20 to 2022/23

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Capital Financing Requirement				
Opening Balance of CFR	**138,662**	**142,034**	**147,985**	**163,265**
Capital Expenditure	33,126	36,903	39,366	29,077
External Capital Grants	(14,380)	(12,286)	(9,856)	(8,090)
Capital Receipts	(1,612)	(245)	(250)	(250)
Revenue Contribution & Reserves	(10,331)	(14,728)	(10,044)	(10,642)
Minimum Revenue Provision	(3,431)	(3,693)	(3,936)	(4,391)
CLOSING BALANCE OF CFR	**142,034**	**147,985**	**163,265**	**168,969**
External Borrowing				
Opening Balance of External Borrowing	**132,549**	**129,257**	**134,093**	**152,944**
Borrowing to Fund Capital Expenditure	2,001	9,644	19,216	10,095
Borrowing to Fund Loan Repayments	0	0	0	0
Borrowing to Replace Internal Borrowing	0	0	0	0
Loan Repayments	(5,293)	(4,808)	(365)	(2,651)
Closing Balance of External Borrowing	**129,257**	**134,093**	**152,944**	**160,388**
Internal Borrowing				
Opening Balance of Internal Borrowing	**6,113**	**12,777**	**13,892**	**10,321**
Replacement of Internal Borrowing	0	0	0	0
Funding Loan Repayments from External Borrowing	0	0	0	0
External Loan Repayments	5,293	4,808	365	2,651
Borrowing to Fund Capital Expenditure	4,802	0	0	0
Minimum Revenue Provision	(3,431)	(3,693)	(3,936)	(4,391)
Closing Balance of Internal Borrowing	**12,777**	**13,892**	**10,321**	**8,581**
TOTAL BORROWING	**142,034**	**147,985**	**163,265**	**168,969**

6. BORROWING STRATEGY

6.1. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This approach is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered. As part of this strategy, the ability to externally borrow to repay the reserves and balances, if needed, is important. Table 4 indicates that £12.777m may need to be externally borrowed if urgently required. This is the amount of Council reserves and balances used in the past to fund the capital programme instead of taking out borrowing.

6.2. Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:-

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered if it is cost effective to do so.
- If it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.
- Any decisions will be reported to this Committee at the next available opportunity.

6.3. External v Internal Borrowing

6.3.1. Current conditions indicate a need for a flexible approach to the choice between internal and external borrowing. Many of the factors which lay behind previous policies to externalise all borrowing remain valid, e.g.:-

- With a continuing historically abnormally low Bank Rate and PWLB rates, there remains a unique opportunity for local authorities to actively manage their strategy of undertaking new external borrowing.

6.3.2. However, it remains the case that there are certain limitations to this approach, as previously noted, e.g.:-

- The policy can cause exposure to credit risk (e.g. risk of the bank defaulting on the debt), so this aspect must be very carefully managed;
- Careful on-going consideration needs to be given to the difference between borrowing rates and investment rates to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments.

6.3.3. In favour of internalisation, over the medium term, investment rates are expected to continue to be below long term borrowing rates. This means that value for money considerations would indicate that value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure, or to replace maturing external debt (this is referred to as internal borrowing). This would maximise short term savings.

6.3.4. However, short term savings by avoiding new long term external borrowing in 2020/21 must also be weighed against the potential for incurring additional long term extra costs, by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be higher. Additionally, the cash flow implications of internalising borrowing require regular review and will limit the potential extent of internalising borrowing.

6.4. Borrowing in Advance of Need

6.4.1. The Council will not borrow more than, or in advance of, its needs, solely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

6.4.2. In determining whether borrowing will be undertaken in advance of need, the Council will:-

1. ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need;
2. ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets, have been considered;
3. evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
4. consider the advantages and disadvantages of alternative forms of funding;
5. consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use; and
6. consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

6.4.3. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

6.5. Debt Rescheduling

6.5.1. Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates in November 2019 only applied to new borrowing and not to premature debt repayment .

6.5.2. The reasons for any rescheduling to take place will include:-

- the generation of cash savings and/or discounted cash flow savings;
- helping to fulfil the treasury strategy; and
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

6.5.3. Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

6.5.4. All rescheduling will be reported to the Audit Committee at the earliest practicable meeting following its action.

6.6. Debt Profile

6.6.1. As can be seen from **Appendix 5**, the existing borrowing is due to be repaid in various years up to 2068/69. As part of any decision on future borrowing, the Council will aim to ensure that the repayment date is arranged so as to smooth out repayments as far as possible, but priority will be given to the interest rate payable when determining the type of loan (maturity or annuity) and the length of the loan.

7. INVESTMENT STRATEGY

7.1. 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). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

7.2. Management of Risk

7.2.1. CIPFA has extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy (a separate report).

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

- Welsh Government's Guidance on Local Government Investments ("the Guidance");
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code");
- CIPFA Treasury Management Guidance Notes 2018;
- The Council's investment priorities will be security first, portfolio liquidity second and then yield (return).

7.2.3. The above guidance from the Welsh Government and CIPFA place a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information**: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration, the Council will engage with its advisors to maintain a monitor on market pricing such as "**credit default swaps**" and overlay that information on top of the credit ratings.

3. **Other information** sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This Authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in **Appendix 7** under the categories of 'specified' and 'non-specified' investments.
   - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
   - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year and/or are more complex instruments which require greater consideration by Members and officers before being authorised for use.

5. **Non-specified investments limit**. The Council has determined that it will limit the maximum total exposure to non-specified investments by ensuring that no non-specific investment is undertaken without the prior consent of the Council. The Council does not hold any non-specified investments, nor does it intend to during 2020/21 (see **Appendix 7**).

6. **Lending limits** (amounts and maturity) for each counterparty will be set through applying the matrix table as set out in the Creditworthiness section of this strategy.

7. **Transaction limits** are set for each type of investment in **Appendix 8**.

8. This Authority will set a limit for the amount of its investments which are invested for **longer than 365 days** (see **Appendix 11**).

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see **Appendix 9**).

10. This Authority has engaged **external consultants** to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling.**

12. As a result of the change in accounting standards for 2019/20 under **IFRS 9,** this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

7.3. Creditworthiness Policy

7.3.1. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:-

- It maintains a policy covering the categories of investment types it will invest in, 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; and

- 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.

7.3.2. The Section 151 Officer will maintain a counterparty list in compliance with the criteria set out in **Appendix 8** and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

7.3.3. Credit rating information is supplied by Link Asset Services, our treasury consultants, on all active counterparties that comply with the criteria below. 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 the longer term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

7.3.4. As an additional layer to the minimum credit rating criteria described above, this Council also employs the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:-

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

7.3.5. This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads from which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council, at the discretion of the Section 151 Officer, to assist in determining the duration for investments. The Council will, therefore, normally use counterparties within the following durational bands:-

Yellow:	5 years *
Dark pink :	5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
Light pink :	5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
Purple:	2 years
Blue:	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange:	1 year
Red:	6 months
Green:	100 days
No colour:	not to be used

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

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

7.3.8. All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service.

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

- In addition to the use of credit ratings, the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

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

7.3.11. Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank (RFB) will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

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

7.4. Country Limits

7.4.1. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in **Appendix 9**. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

8. GOVERNANCE AND CONTROL

8.1. The Prudential Code reflects a move towards self regulation for local authorities and effective corporate governance is one of the key elements to the successful implementation of the Code.

8.2. Corporate Governance includes the following elements:-

- A formal role for the Section 151 Officer;
- Setting and monitoring of Prudential and Treasury Indicators;
- A scheme of delegation and a process of formal approval;
- Reporting on Treasury Management matters to Members.

8.3. Role of the Section 151 Officer and Members

8.3.1. The Section 151 Officer is responsible for ensuring that matters relating to Treasury Management and Capital Financing are taken into account and reported to the Executive / full Council for consideration and that procedures are established to monitor performance.

8.3.2. The Section 151 Officer must ensure that prudential indicators are set and monitored in order to demonstrate the legislative requirement that the Council's financial plans are affordable.

8.3.3. Members also play an important role in not just authorising the relevant decisions but also in scrutinising treasury management processes, decisions and performance. In order to undertake this role, the CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. In order to support the scrutiny role of the members of the Audit and Governance Committee, the Committee's members received training in treasury management, delivered by the appointed treasury management consultants on 7 November 2019. Further training will be arranged when required. The training needs of treasury management officers are regularly reviewed and addressed.

8.3.4. The Treasury Management Scheme of Delegation and a fuller explanation of the role of the Section 151 Officer is set out in **Appendix 10**.

8.4. Treasury Management Advice

8.4.1. The Council uses Link Asset Services as its external treasury management advisors. In accordance with procurement regulations, the Treasury Management advisory service was advertised for tender for the period 1 April 2016 to 31 March 2019 with an option to extend for two years, with Link Asset Services (previously Capita Asset Services) being the successful tenders. The Council has exercised the option to extend for two years.

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

8.4.3. 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.

8.5. Prudential and Treasury Indicators

8.5.1. The Prudential and Treasury Indicators set out in **Appendix 11** cover affordability, prudence and sets out limits for capital expenditure, external debt and the structure of the debt. It is for the Council to set the Prudential Indicators and it is important to not just consider the indicators for each individual year in isolation but also to consider the past performance and the future forecasts. A fuller explanation of the purpose of each indicator is set out in **Appendix 12.**

8.6. Reporting

8.6.1. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals. These reports are required to be adequately scrutinised by Committee before being recommended to the Council. This role is undertaken by the Audit and Governance Committee.

8.6.2. Prudential and Treasury Management Indicators and Treasury Strategy - the first and most important report (this report) covers:-

- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury management indicators;
- an Investment Strategy (the parameters on how investments are to be managed);
- a Minimum Revenue Provision (MRP) Policy (how residual capital expenditure is charged to revenue over time);
- a Treasury Management Policy Statement (definition of the policies and objectives of the treasury management function); and
- the capital plans (including the associated prudential indicators).

8.6.3. A Mid-Year Treasury Management Report - this will update members with the progress of the capital position, amending prudential indicators as necessary and whether the treasury strategy is meeting its objectives or whether any policies require revision.

8.6.4. An Annual Treasury Report - this is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

APPENDICES

1. Treasury Management Policy Statement
2. Treasury Management Key Principles
3. Economic background
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6. MRP Policy Statement
7. Specified and non-specified investments
8. Counterparty criteria
9. Approved countries for investments
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Treasury Management Policy Statement

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

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

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

APPENDIX 2

The CIPFA Treasury Management in the Public Services: Code of Practice

The key principles of CIPFA's ***Treasury Management in the Public Services: Code of Practice (2011 Edition)***, as described in Section 4 of that Code are as follows:-

Key Principle 1:
Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

Key Principle 2:
Their policies and practices should make clear that the effective management and control of risks are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and liquidity when investing funds.

Key Principle 3:
They should acknowledge that the pursuit of value for money in treasury management and the use of suitable performance measures are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that, within the context of effective risk management, their treasury management policies and practices should reflect this.

The Code then goes on to say that:

"In framing these recommendations, CIPFA acknowledges the difficulties of striving for effective risk management and control, whilst at the same time pursuing value for money. This code does not seek to be prescriptive about how this issue should be handled, particularly since it covers such a wide variety of organisations. However, where appropriate, the sector specific guidance notes give suitable advice. CIPFA recognises that no two organisations in the public services are likely to tackle this issue in precisely the same manner but success in this area of treasury management is likely to be viewed, especially in value for money terms, as an indicator of a strongly performing treasury management function."

"Even though it dates back to 1991, CIPFA considers that the report by the Treasury and Civil Service Committee of the House of Commons on the BCCI closure is still pertinent, wherein it was stated that:"

"In balancing risk against return, local authorities should be more concerned to avoid risks than to maximise returns."

"Indeed this view was supported by the Communities and Local Government Select Committee report into local authority investments in 2009."

"It is CIPFA's view that throughout the public services the priority is to protect capital rather than to maximise return. The avoidance of all risk is neither appropriate nor possible. However, a balance must be struck with a keen responsibility for public money."

Accordingly the Authority will adopt, as part of the standing orders, the following four clauses;

1. The Authority will create and maintain, as the cornerstones for effective treasury management:

- a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities; and

- suitable treasury management practices (TMPs) setting out the manner in which the Authority will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the Policy Statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the Authority. Such amendments will not result in the Authority materially deviating from the Code's key principles.

2. The County Council, Executive Committee and the Audit Committee will receive reports on the Authority's treasury management policies, practices and activities, including; an annual strategy and plan in advance of the year, a mid-year review report and an annual report after its close, in the form prescribed in the TMPs.

3. The County Council/Executive Committee are responsible for the implementation of the Authority's treasury management policies and practices in accordance with the Treasury Management Scheme of Delegation. The S151 Officer is responsible for the execution and administration of treasury management decisions, who will act in accordance with the Authority's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

4. The Authority nominates Audit Committee to be responsible for ensuring effective scrutiny of treasury management strategy and policies.

ECONOMIC BACKGROUND

UK. Brexit. 2019 has been a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020. In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January. Now that the Conservative Government has gained a large overall majority in the **general election** on 12 December, this outline deal will be passed by Parliament by that date. However, there will still be much uncertainty as the detail of a trade deal will need to be negotiated by the current end of the transition period in December 2020, which the Prime Minister has pledged he will not extend. This could prove to be an unrealistically short timetable for such major negotiations that leaves open two possibilities; one, the need for an extension of negotiations, probably two years, or, a no deal Brexit in December 2020.

GDP growth has taken a hit from Brexit uncertainty during 2019; quarter three 2019 surprised on the upside by coming in at +0.4% q/q, +1.1% y/y. However, the peak of Brexit uncertainty during the final quarter appears to have suppressed quarterly growth to probably around zero. The economy is likely to tread water in 2020, with tepid growth around about 1% until there is more certainty after the trade deal deadline is passed.

While the Bank of England went through the routine of producing another **quarterly Inflation Report,** (now renamed the Monetary Policy Report), on 7 November, it is very questionable how much all the writing and numbers were worth when faced with the uncertainties of where the UK will be after the general election. The Bank made a change in their Brexit assumptions to now include a deal being eventually passed. Possibly the biggest message that was worth taking note of from the Monetary Policy Report, was an increase in concerns among MPC members around weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery. Consequently, the MPC voted 7-2 to maintain Bank Rate at 0.75% but two members were sufficiently concerned to vote for an immediate Bank Rate cut to 0.5%. The MPC warned that if global growth does not pick up or Brexit uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for trade between the UK and EU and by how much global growth rates pick up. The Bank revised its inflation forecasts down – to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021; hence, the MPC views inflation as causing little concern in the near future.

The **MPC meeting of 19 December** repeated the previous month's vote of 7-2 to keep Bank Rate on hold. Their key view was that there was currently 'no evidence about the extent to which policy uncertainties among companies and households had declined' i.e. they were going to sit on their hands and see how the economy goes in the next few months. The two members who voted for a cut were concerned that the labour market was faltering. On the other hand, there was a clear warning in the minutes that the MPC were concerned that "domestic unit labour costs have continued to grow at rates above those consistent with meeting the inflation target in the medium term".

If economic growth were to weaken considerably, the MPC has relatively little room to make a big impact with Bank Rate still only at 0.75%. It would therefore, probably suggest that it would be up to the Chancellor to provide help to support growth by way of a **fiscal boost** by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction and it made significant promises in its election manifesto to increase government spending by up to £20bn p.a., (this would add about 1% to GDP growth rates), by investing primarily in infrastructure. This is likely to be announced in the next Budget, probably in February 2020. The Chancellor has also amended the fiscal rules in November to allow for an increase in government expenditure.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell again in both October and November to a three-year low of 1.5%. It is likely to remain close to or under 2% over the next two years and so, it does not pose any immediate concern to the MPC at the current time. However, if there was a hard or no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the **labour market,** growth in numbers employed has been quite resilient through 2019 until the three months to September where it fell by 58,000. However, there was an encouraging pick up again in the three months to October to growth of 24,000, which showed that the labour market was not about to head into a major downturn. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure in October. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.5% in October (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.0%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of growth to a robust 2.9% y/y. **Growth** in 2019 has been falling after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2 and then 2.1% in quarter 3. The economy looks likely to have maintained a growth rate similar to quarter 3 into quarter 4; fears of a recession have largely dissipated. The strong growth in employment numbers during 2018 has weakened during 2019, indicating that the economy had been cooling, while inflationary pressures were also weakening. However, CPI inflation rose from 1.8% to 2.1% in November, a one year high, but this was singularly caused by a rise in gasoline prices.

The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not intended to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc.). It then cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75%.. At its September meeting it also said it was going to **start buying Treasuries again**, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market. Despite those protestations, this still means that the Fed is again expanding its balance sheet holdings of government debt. In the first month, it will buy $60bn, whereas it had been reducing its balance sheet by $50bn per month during 2019. As it will be buying only short-term (under 12 months) Treasury bills, it is technically correct that this is not quantitative easing (which is purchase of long term debt). The Fed left rates unchanged in December. However, the accompanying statement was more optimistic about the future course of the economy so this would indicate that further cuts are unlikely.

Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This **trade war** is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China. However, in November / December, progress has been made on agreeing a phase one deal between the US and China to roll back some of the tariffs; this gives some hope of resolving this dispute.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1, +0.2% q/q (+1.2% y/y) in quarter 2 and then +0.2% q/q, +1.1% in quarter 3; there appears to be little upside potential in the near future. German GDP growth has been struggling to stay in positive territory in 2019 and fell by -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels “at least through the end of 2019”, but that was of little help to boosting growth in the near term. Consequently, it announced a **third round of TLTROs**; this provides banks with cheap borrowing every three months from September 2019 until March 2021 that means that, although they will have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank’s eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt for an unlimited period.** At its October meeting it said these purchases would start in November at €20bn per month - a relatively small amount compared to the previous buying programme. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments would need to help stimulate growth by ‘growth friendly’ fiscal policy.

There were no policy changes in the December meeting, which was chaired for the first time by the new President of the ECB, Christine Lagarde. However, the outlook continued to be down beat about the economy; this makes it likely there will be further monetary policy stimulus to come in 2020. She did also announce a thorough review of how the ECB conducts monetary policy, including the price stability target. This review is likely to take all of 2020.

On the political front, Austria, Spain and Italy have been in the throes of **forming coalition governments** with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The latest results of German state elections has put further pressure on the frail German CDU/SDP coalition government and on the current leadership of the CDU. The results of the Spanish general election in November have not helped the prospects of forming a stable coalition.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

WORLD GROWTH. Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. **Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates**.

The trade war between the US and China is a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in **government bond yields** in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.3 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.** On this basis, while GDP growth is likely to be subdued in 2019 and 2020 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to a boost to the rate of growth in subsequent years. This could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an **orderly non-agreement exit in December 2020**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.

- If there were a **disorderly Brexit**, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably even, but dependent on a successful outcome of negotiations on a trade deal.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal was agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in recent state elections but the SPD has done particularly badly and this has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.
- **Other minority EU governments.** Austria, Finland, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but his time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on **some $19trn of corporate debt in major western economies,** if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is $15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the

shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.

- **Geopolitical risks,** for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit –** if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Rhan o gyngor dderbyniwyd gan / An extract from advice received from: Link Asset Services

Rhagolygon Graddfeydd Llog 2020/2023
Interest Rate Forecasts 2020/2023

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Link Asset Services Interest Rate View	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00
Bank Rate													
Link Asset Services	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%
Capital Economics	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	-	-	-	-	-
5yr PWLB Rate													
Link Asset Services	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.20%	3.20%
Capital Economics	2.40%	2.50%	2.50%	2.60%	2.60%	2.80%	2.80%	2.90%	-	-	-	-	-
10yr PWLB Rate													
Link Asset Services	2.70%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%
Capital Economics	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	-	-	-	-	-
25yr PWLB Rate													
Link Asset Services	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%
Capital Economics	3.10%	3.10%	3.20%	3.20%	3.20%	3.30%	3.30%	3.40%	-	-	-	-	-
50yr PWLB Rate													
Link Asset Services	3.20%	3.30%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%
Capital Economics	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.40%	3.50%	-	-	-	-	-

Rhan o gyngor dderbyniwyd gan / An extract from advice received from: Link Asset Services

ATODIAD 5 /APPENDIX 5

DADANSODDIAD BENTHYCIADAU PWLB YN AEDDFEDU 2020/21 YMLAEN / PWLB LOANS MATURITY ANALYSIS 2020/21 ONWARDS						
	Aeddefedu PWLB Maturity £'000	Blwydd-dal PWLB EIP/ Annuity £'000	Benthyciadau Marchnad/ Market Loans £'000	Amrywiol/ PWLB Variable £'000	Cyfanswm yn Aeddfedu/ Total Maturing £'000	%Yn Aeddfedu o'r Cyfran yn sefyll/ Maturing of Total Outstanding %
2020/21	4,500	12	0	0	4,512	3.6
2021/22	0	14	0	0	14	0.0
2022/23	2,285	15	0	0	2,300	1.8
2023/24	1,854	16	0	0	1,870	1.5
2024/25	0	18	0	0	18	0.0
2025/26	0	20	0	0	20	0.0
2026/27	1,381	22	0	0	1,403	1.1
2027/28	2,165	24	0	0	2,189	1.7
2028/29	263	26	0	0	289	0.2
2029/30	1,538	21	0	0	1,559	1.2
2030/31	451	15	0	0	466	0.4
2031/32	1,941	9	0	0	1,950	1.5
2032/33	315	8	0	0	323	0.3
2033/34	637	0	0	0	637	0.5
2034/35	624	0	0	0	624	0.5
2035/36	611	0	0	0	611	0.5
2036/37	599	0	0	0	599	0.5
2037/38	587	0	0	0	587	0.5
2038/39	225	0	0	0	225	0.2
2039/40	5,000	0	0	0	5,000	4.0
2040/41	3,500	0	0	0	3,500	2.8
2042/43	1,000	0	0	0	1,000	0.8
2043/44	1,020	0	0	0	1,020	0.8
2044/45	1,010	0	0	0	1,010	0.8
2045/46	11,464	0	0	0	11,464	9.1
2050/51	2,000	0	0	0	2,000	1.6
2052/53	28,238	0	0	0	28,238	22.3
2054/55	3,000	0	0	0	3,000	2.4
2055/56	3,500	0	0	0	3,500	2.8
2056/57	5,000	0	0	0	5,000	4.0
2057/58	8,513	0	0	0	8,513	6.7
2059/60	1,763	0	0	0	1,763	1.4
2064/65	10,000	0	0	0	10,000	7.9
2066/67	6,200	0	0	0	6,200	4.9
2068/69	15,000	0	0	0	15,000	11.9
	126,184	**220**	**0**	**0**	**126,404**	**100.0**
Cyfartaledd bywyd (blynyddoedd)/ Average life (years)	25.48	6.94	0.00	0.00	25.44	
Cyfartaledd graddfa (%)/ Average rate (%)	5.15	9.44	0.00	0.00	4.73	

PROFFIL AD-DALU BENTHYCIADAU ERAILL 2020/21 YMLAEN / OTHER LOANS REPAYMENT PROFILE 2020/21 ONWARDS							
	Llywodraeth Cymru / Welsh Government £'000	**Benthyciad Salix Loan 1 £'000**	**Benthyciad Salix Loan 2 £'000**	**Benthyciad Salix Loan 3 £'000**	**Benthyciad Salix Loan 4 £'000**	**Benthyciad Salix Loan 5 £'000**	**Cyfanswm / Total £'000**
2020/21	44	16	46	64	26	100	296
2021/22	0	16	46	64	26	199	351
2022/23	0	17	46	63	26	199	351
2023/24	0	17	46	64	26	200	353
2024/25	0	8	45	64	26	200	343
2025/26	0	0	45	64	27	200	336
2026/27	0	0	0	63	27	200	290
2027/28	0	0	0	63	27	200	290
2028/29	0	0	0	63	27	200	290
2029/30	0	0	0	0	13	200	213
2030/31	0	0	0	0	0	99	99
Cyfanswm / Total	**44**	**74**	**274**	**572**	**251**	**1,997**[1]	**3,212**

[1] Total amount to be repaid differs from the total amount outstanding in Table 4.1.1 due to only having received £1,178k to date, however £1,997k will be received.

APPENDIX 6

Minimum Revenue Provision Policy Statement 2020/21

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

The Welsh Government regulations require the full Council to approve an MRP Statement in advance of each year. A variety of options is provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:-

For capital expenditure incurred between 1 April 2008 and 31 March 2018, financed by supported borrowing, the MRP policy will be to charge MRP on the Equal Instalment method, Asset Life basis over 50 years. The MRP on capital expenditure funded by unsupported borrowing during this period has already been charged using the Equal Instalment method, Asset Life basis using the estimated lives of the assets, based on information available at that time. This change in policy realigns the MRP policies for assets funded by supported borrowing and assets funded by unsupported borrowing.

From 1st April 2018 for all supported and unsupported borrowing (including PFI and finance leases), the MRP policy will also be the Equal Instalment Annuity Method, the Asset Life basis. However, the estimated life periods, will be set by the S151 Officer based upon advice received from the relevant officers and will have regard to Welsh Government guidance in relation to MRP and asset lives. Where land is purchased, the asset life will be based on the asset life of the asset placed on the land, which in the majority of cases will be 50 years in line with the asset life for buildings.

MRP charges based on asset life would not be charged until the year the asset becomes operational. The S151 Officer may postpone the MRP charge until the financial year following the one in which the asset becomes operational. The estimated asset life of the asset would be determined in the year the MRP commences and would not change over the life of the asset. The estimated life periods, will be set by the S151 Officer based upon advice received from the relevant officers and will have regard to Statutory requirements and Welsh Government guidance in relation to MRP and asset life. Where land is purchased, the asset life will be based on the asset life of the asset placed on the land, which in the majority of cases will be 50 years in line with the asset life for buildings.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis, which most reasonably reflects the anticipated period of benefit that arises from the expenditure. In addition, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

The Council retains the right to make additional voluntary payments to reduce debt if deemed prudent.

The Housing Revenue Account share of the CFR is subject to a 2% MRP charge, based upon the closing CFR for the previous year, in line with the approved 30-year business plan.

Any repayments included in annual PFI or finance leases are applied as MRP and will be consistent with the asset life basis over the life of the lease or PFI scheme.

Specified and Non-Specified Investments

The Welsh Government 'Guidance on Local Government Investments' (Effective from 1 April 2010) provides the definition of specified and non-specified investments.

Paragraph 5.1 of the 'Guidance' states that an investment is specified if all of the following apply:-

(a) the investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling; and

(b) the investment is not a long-term investment (*); and

(c) the making of the investment is not defined as capital expenditure by virtue of regulation 20(1)(d) of the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 [SI 3239 as amended]; and

(ch) the investment is made with a body or in an investment scheme of high credit quality (**); or with one of the following public-sector bodies:

- **(i)** the United Kingdom Government
- **(ii)** a local authority in England or Wales (as defined in section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland
- **(iii)** a parish or community council.

The 'Guidance' also states that any investment not meeting the definition of paragraph 5.1 is classified as a non-specified investment.

During 2020/21 the Council does not intend to make any investments in foreign currencies, nor any with low credit quality bodies, nor any that are defined as capital expenditure by legislation (such as company shares). Non-specified investments will therefore be limited to (i) long-term investments; and (ii) deposits with the Council's own banker for transactional purposes if it fails to meet the basic credit criteria; in this instance balances will be minimised as far as is possible

The table in Appendix 8 set out the investment criteria and limits for the categories of investments intended for use during 2020/21 and therefore form the basis for the approved lending list.

Any proposed revisions or amendments during the year to the categories of specified and non-specified investments to be used and / or to the associated credit rating criteria / investment limits will be subject to prior approval by the County Council.

***** *Section 2.4 of the 'Guidance' defines a long term investment as ''any investment other than (a) one which is due to be repaid within 12 months of the date on which the investment was made or (b) one which the local authority may require to be repaid within that period.''*

****** *For the purposes of high credit quality the 'Guidance' states that ''for the purposes of paragraph 5.1(d), Welsh ministers recommend that the Strategy should define high credit quality (and where this definition refers to credit ratings, paragraph 6.1 (***) is relevant).'*

*** *Paragraph 6.1 of the 'Guidance' recommends that ''the Strategy should set out the authority's approach to assessing the risk of loss of investments, making clear in particular:*

- ***(a)*** *to what extent, if any, risk assessment is based upon credit ratings issued by one or more credit rating agencies;*
- ***(b)*** *where credit ratings are used, how frequently credit ratings are monitored and what action is to be taken when ratings change; and*
- ***(c)*** *what other sources of information on credit risk are used, additional to or instead of credit ratings.''*

The table in Appendix 6 of this strategy sets out what this Council defines as high credit quality and the associated investment criteria and limits and section 4.2 of this strategy sets out the Council's creditworthiness approach.

APPENDIX 8

Counterparty Criteria

Category	Short Term Credit Rating (Fitch)	Short Term Credit Rating (Moody's)	Short Term Credit Rating (Standard & Poor's)	Long Term Credit Rating (Fitch)	Long Term Credit Rating (Moody's)	Long Term Credit Rating (Standard & Poor's)	Cash Limit	Time Limit
Bank and Building Societies (not nationalised or part nationalised)	F1+	P-1	A-1+	AAA	Aaa	AAA	£10m	5 years
	F1+	P-1	A-1+	AA	Aa2	AA	£10m	3 years
	F1+	P-1	A-1+	AA-	Aa3	AA-	£10m	364 days
	F1	P-1	A-1	A	A2	A	£7.5m	6 months
Nationalised / Part Nationalised UK Banks	n/a	n/a	n/a	n/a	n/a	n/a	£10m	364 days
UK Central Government (irrespective of credit rating)	n/a	n/a	n/a	n/a	n/a	n/a	No maximum	No maximum
UK Local Authorities**	n/a	n/a	n/a	n/a	n/a	n/a	£5m	364 days
Money Market Funds	n/a	n/a	n/a	AAA	AAA	AAA	£5m	6 months

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

****** *as defined in the Local Government Act 2003*

Notes and Clarifications

(1) Cash Limit

(i) The cash limits apply both to the individual counterparty and to the overall group to which it belongs (e.g. for the banks within the Lloyds Banking Group plc (being Bank of Scotland plc and Lloyds Bank plc), the investment limit applies to those banks individually and the banking group as a whole);

(ii) The overall cash limit for deposits over 364 days is £15m.

(2) Time Limit

(i) This up to and including the period indicated.

(3) Foreign Countries

(i) Investments in foreign countries will be limited to those that hold a sovereign credit rating of (Fitch) AA- or equivalent (from the agencies referred to in section 4.3 of this strategy) sovereign credit rating (based upon the lowest common denominator), and to a maximum of £10 million per foreign country.

(ii) Investments in countries whose lowest sovereign rating is not AA- or above will not be permitted. No country limit will apply to investments in the UK, irrespective of the sovereign credit rating.

(iii) Subsidiaries of foreign banking groups will normally be assessed according to the country of domicile of the parent organisation. However, Santander UK plc (a subsidiary of Spain's Banco Santander) will be classed as a UK bank due to its substantial UK franchises and the arms-length nature of the parent-subsidiary relationships.

(iv) Sovereign credit rating criteria and foreign country limits will not apply to investments in multilateral development banks (e.g. the European Investment Bank and the World Bank) or other supranational organisations (e.g. the European Union).

4. Credit Rating Downgrade

Should a credit rating downgrade place a counterparty below the minimum credit rating criteria for investment, the counterparty will cease to be used as soon as practicable.

If the S151 Officer wishes to continue investing with that counterparty approval will be sought from the Chair of the Audit Committee plus one other member of the Chair's choosing, who both must approve the action. This will then be reported as appropriate at the next available opportunity.

Approved countries for investments [correct as at 3 January 2020]

This list is based on those countries which have sovereign ratings of AA- or higher (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

Based on lowest available rating

AAA
- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+
- Finland
- U.S.A.

AA
- Abu Dhabi (UAE)
- France
- Hong Kong
- U.K.

AA-
- Belgium
- Qatar

APPENDIX 10

Treasury management scheme of delegation

(i) County Council

- budget approval;
- approval of the annual Treasury Management Strategy Statement, Annual Investment Strategy and MRP Policy, annual Treasury Management Policy Statement and amendments thereto;
- approval of amendments to the Council's adopted clauses;
- receiving and reviewing monitoring reports on treasury management policies, practices and activities; and
- acting on recommendations received from the Audit Committee and/or Executive Committee.

(ii) Executive Committee

- budget consideration;
- approval of the division of responsibilities;
- approval of the selection of external service providers and agreeing terms of appointment;
- receiving and reviewing monitoring reports on treasury management policies, practices and activities and making recommendations to the County Council as appropriate; and
- acting on recommendations received from the Audit Committee.

(iii) Audit Committee

- Scrutiny of Treasury Management matters as required by CIPFA's Code of Practice on Treasury Management and the Council's Treasury Management Policy. This includes:-

  – scrutinising the annual Treasury Management Strategy Statement, Annual Investment Strategy, Annual MRP Policy, Annual Treasury Management Policy and Treasury Management Practices and making recommendations to the Executive Committee and County Council as appropriate;
  – scrutinising proposals for amendments to the annual Treasury Management Strategy Statement, Annual Investment Strategy, Annual MRP Policy, Annual Treasury Management Policy and Treasury Management Practices and to the adopted clauses and making recommendations to the Executive and County Council as appropriate;
  – receiving and scrutinising any other proposals relating to the treasury management which require a decision by the Executive or County Council; and
  – receiving and scrutinising monitoring reports on treasury management policies, practices and activities and make recommendations to the Executive and County Council as appropriate.

The Treasury Management role of the Section 151 Officer

The Section 151 (responsible) Officer's role includes:-

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers; and
- Responsibility for the execution and administration of its Treasury decisions, including decision on borrowing, investment and financing, have been delegated to the Section 151 Officer, who will act in accordance with the Council's policy statements and TMP's.

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following:-
    - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
    - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
    - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
    - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
    - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

PRUDENTIAL & TREASURY INDICATORS **APPENDIX 11**
BUDGET SETTING 2020/21

No.	Indicator	2018/19 out-turn	2019/20 estimate	2020/21 proposal	2021/22 proposal	2022/23 proposal
Affordability						
1,2	Estimates of [or actual] ratio of financing costs to net revenue stream:					
	Council Fund	4.92%	5.03%	5.15%	5.40%	5.91%
	Housing Revenue Account (inclusive of settlement)	16.88%	18.78%	17.16%	14.57%	14.18%
	Total	6.34%	6.68%	6.62%	6.57%	7.01%
Prudence						
3	Gross debt and the Capital Financing Requirement (CFR)	✓	✓	✓	✓	✓
	Is the gross external debt < the CFR for the preceding year plus the estimates of any additional CFR for the current and the next two financial years?			✓	✓	✓
Capital Expenditure		**£000**	**£000**	**£000**	**£000**	**£000**
4,5	Estimates of [or actual] capital expenditure					
	Council Fund	21,650	18,820	19,765	21,662	14,675
	Housing Revenue Account	9,028	14,307	17,138	17,704	14,402
	Total	30,678	33,127	36,903	39,366	29,077
6,7	Estimates of [or actual] Capital Financing Requirement					
	Council Fund	97,847	102,036	108,536	118,856	124,349
	Housing Revenue Account	40,815	39,998	39,449	44,410	44,621
	Total	138,662	142,034	147,985	163,266	168,970
External Debt		**£000**	**£000**	**£000**	**£000**	**£000**
8	Authorised Limit					
	: General Borrowing	174,000	175,000	178,000	193,000	199,000
	: Other long term liabilities	3,000	3,000	5,000	5,000	5,000
	: Total	177,000	178,000	183,000	198,000	204,000

9	Operational Boundary					
	: General Borrowing	161,000	170,000	173,000	188,000	194,000
	: Other long term liabilities	3,000	3,000	5,000	5,000	5,000
	: Total	164,000	173,000	178,000	193,000	199,000
10	Actual External Debt	132,549				
Treasury Management		**2018/19 out-turn**	**2019/20 estimate**	**2020/21 proposal**	**2021/22 proposal**	**2022/23 proposal**
11	The Local Authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Services	✓	✓	✓	✓	✓
		£000	**£000**	**£000**	**£000**	**£000**
12	Gross and net debt	100%	100%	100%	100%	100%
	The upper limit on the net debt as a proportion of gross debt					
13	The upper limit on fixed rate exposures:	157,000	155,000	158,000	173,000	179,000
	(net principal outstanding)					
14	The upper limit on variable rate exposures:	20,000	20,000	20,000	20,000	20,000
	(net principal outstanding)					
15	The limit for total principal sums invested for periods longer than 364 days	15,000	15,000	15,000	15,000	15,000
	(any long term investments carried forward from previous years will be included in each year's limit)					
			2020/21 upper limit		**2020/21 lower limit**	
16	The upper and lower limits for the maturity structure of fixed rate borrowing					
	• under 12 months		20%		0%	
	• 12 months and within 24 months		20%		0%	
	• 24 months and within 5 years		50%		0%	
	• 5 years and within 10 years		75%		0%	
	• 10 years and above		100%		0%	
			no change		no change	

APPENDIX 12

Information on Prudential & Treasury Management indicators

A) Affordability

1 & 2 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

The estimates of financing costs include current commitments and the proposals in this budget report.

B) Prudence

3 Gross Debt and the CFR

The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

C) Capital expenditure

4 & 5 Estimates of Capital Expenditure

This is the forecast Capital Expenditure from 2019/20 to 2022/23, and is based on the Capital Programme for 2019/20 and the Capital Strategy for 2020/21.

6 & 7 The Council's borrowing need (the Capital Financing Requirement)

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

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life, and so charges the economic consumption of capital assets as they are used.

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

CH) External Debt

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

The S151 Officer 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 in the budget report.

9. **The operational boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Glossary

CAPITAL EXPENDITURE
Capital expenditure is expenditure on the purchase of a non-current asset, which will be used in providing services beyond the current financial year, or expenditure which adds to, and not merely maintains, the value of an existing non-current asset. Examples include: the building of a new school, the purchase of IT equipment, a major refurbishment of a care home.

CAPITAL FINANCING
Funds that are available to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, direct revenue financing, usable capital receipts, capital grants, capital contributions, revenue reserves and earmarked reserves.

CAPITAL FINANCING REQUIREMENT
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.

CAPITAL PROGRAMME
The capital schemes the Council intends to carry out over a specific period of time.

CAPITAL RECEIPTS
Capital receipts represent the proceeds from the disposal of land or other non-current assets. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by the government, but they cannot be used to finance revenue expenditure.

CIPFA
This is The Chartered Institute of Public Finance and Accountancy, the lead professional and regulatory body for local Authority accounting.

HOUSING REVENUE ACCOUNT (HRA)
The HRA is a separate account to the Council Fund, and includes the income and expenditure arising from the provision of housing accommodation by the Council.

INTEREST RECEIVABLE OR PAYABLE
The effective interest rate method is used to measure the carrying value of a financial asset or liability measured at cost less accumulated amortisation, and to allocate associated interest income or expense to the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to equal the amount at initial recognition. The effective interest is adjusted to the actual interest payment or receipt through the Movement in Reserves Statement to ensure only actual interest is charged to Council Tax. For financial assets and liabilities carried at cost because the effective rate of interest is the same as the carrying rate of interest, the carrying value is adjusted for accrued interest.

MINIMUM REVENUE PROVISION (MRP)
The minimum amount which must be charged to the revenue account each year in order to provide for the repayment of loans and other amounts borrowed by the Council.

NET DEBT
The Net Debt is the Council's borrowings less cash and liquid resources.

PUBLIC WORKS LOANS BOARD (PWLB)
A Central Government Agency which provides loans for one year and/or more to authorities at interest rates only slightly higher than those at which the government can borrow itself.

REVENUE EXPENDITURE FUNDED BY CAPITAL UNDER STATUTE (REFCUS)
Expenditure which can be properly deferred (i.e. treated as capital in nature), but which does not result in, or remain matched with, a tangible asset. Examples of deferred charges are grants of a capital nature to voluntary organisations.

REVENUE SUPPORT GRANT
A grant paid by Central Government to authorities, contributing towards the general cost of their services.

SUPPORTED BORROWING
The Council borrows money to fund part of its capital programme. This borrowing is recognised by Central Government in its calculation of formula funding for the Council.

TEMPORARY BORROWING
Money borrowed for a period of less than one year.

UNSUPPORTED BORROWING
The Council can borrow additional money to the borrowing supported by Government to finance its capital expenditure as long as it is affordable and sustainable. This power is governed by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code, with which the Council fully complies.

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ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO:	**THE EXECUTIVE**
DATE:	**2 MARCH 2020**
SUBJECT:	**TREASURY MANAGEMENT PRACTICES (TMP)**
LEAD OFFICER:	**MARC JONES**
CONTACT OFFICER:	**CLAIRE KLIMASZEWSKI (TEL:2663)**
Nature and reason for reporting For scrutiny - consistent with professional guidance.	

1. This report is presented to ensure that the Council is implementing best practice in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management. The Code recommends that the Council document their treasury management procedures as Treasury Management Practices (TMPs). The current TMPs were completed and approved in 2016. These have been reviewed and updated and include a section (TMP13) on non-treasury investments held by the Council, as required by the revised CIPFA Treasury Management Code. The Council's non-treasury management investments are the investment properties which are managed by Property Services.

2. The CIPFA Code of Practice on Treasury Management (Section 7) recommends that the Authority's Treasury Management Practices (TMPs) should be approved, documented and monitored. It goes on to state that the nature and extent of the involvement of an organisation's responsible body in approving and monitoring its TMPs and accompanying schedules is a matter for local decision and recognises that, in some organisations, this may be delegated to the responsible officer. In all cases it should be subjected to scrutiny by the responsible body following recommendations by the responsible officer. Appendix 1 presents the Authority's TMPs.

3. Recommendations:

- To note the contents of this covering report;
- To endorse the revised Treasury Management Practices (TMPs)included in Appendix 1;
- To recommend the TMPs to the Executive on 2 March 2020 and full Council on 10 March 2020.

Isle of Anglesey County Council

Treasury Management Practices

Introduction

The Council is committed to implementing best practice and to complying with the CIPFA Code of Practice on Treasury Management (2017) in all aspects of its Treasury Management.

Treasury Management is the management of the Council's cash-flows and investments to ensure that there is sufficient cash to pay the Authority's bills on a day-to-day basis. Any surplus cash is invested in accordance with the Authority's Treasury Management Strategy Statement (TMSS).

Another important aspect of Treasury Management is the management of the Council's debt portfolio to ensure that loans are only taken out to fund capital expenditure and that all loans are affordable. The key objectives of the TMSS is that Treasury Management activities are low risk and will ensure that the Authority has access to cash to meet its cash-flow needs.

The Code states that all authorities are required to produce a statement of Treasury Management Practices (TMPs). Section 7 and Schedule 2 of the code include suggestions on what should be included in authorities' Treasury Management Practices. To ensure compliance with the Code and good practice, these Treasury Management Practices endorse and include many of the suggestions provided in the CIPFA Code. These Treasury Management Practices also take into account and supplement the Authority's Treasury Management Strategy Statement.

TMP1 Risk Management

The Director of Function (Resources) / Section 151 Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk. The Director of Function (Resources) / Section 151 Officer will report at least annually on the adequacy/suitability of treasury risk management practices, and will report, as a matter of urgency, any actual or likely difficulty in achieving the organisation's objectives in this respect in accordance with the procedures set out in TMP6 Reporting Requirements and Management Information Arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out below.

1.1 Credit and Counterparty Risk Management

Credit and counterparty risk management relates to minimising the risks to the Council from loss of investment monies or breach of a borrowing arrangement with reference to counterparties reduced creditworthiness. The Council regards the security of its deposits and investments to be the key objective of its TMSS. The Council will ensure that the organisations with whom funds may be deposited or invested are selected on a prudent basis i.e. with caution with the security of the investment in mind not their rate of return. The Treasury Management Strategy Statement lists the minimum criteria an organisation must meet for deposits and investments. This includes cash-limits, time limits and the list of approved countries for investments. These provide additional controls in order to reduce risks (see Table 1).

Table 1 Extract from TMSS 2020/21 – Counterparty Criteria

Category	Short Term Credit Rating (Fitch)	Short Term Credit Rating (Moody's)	Short Term Credit Rating (Standard & Poor's)	Long Term Credit Rating (Fitch)	Long Term Credit Rating (Moody's)	Long Term Credit Rating (Standard & Poor's)	Cash Limit	Time Limit
Bank and Building Societies (not nationalised or part nationalised)	F1+	P-1	A-1+	AAA	AAA	AAA	£10m	5 years
	F1+	P-1	A-1+	AA	AA2	AA	£10m	3 years
	F1+	P-1	A-1+	AA-	AA3	AA-	£10m	364 days
	F1	P-1	A-1	A	A2	A	£7.5m	6 months
Nationalised / Part Nationalised UK Banks	n/a	n/a	n/a	n/a	n/a	n/a	£10m	364 days
UK Central Government (irrespective of credit rating)	n/a	n/a	n/a	n/a	n/a	n/a	No maximum	No maximum
UK Local Authorities**	n/a	n/a	n/a	n/a	n/a	n/a	£5m	364 days
Money Market Funds	n/a	n/a	n/a	AAA	AAA	AAA	£5m	6 months

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

****** *as defined in the Local Government Act 2003*

**** Counterparty refers to the organisations that the Council invests its surplus balances in*

Criteria for creating and managing approved counter-party lists/limits	• The Director of Function (Resources)/Section 151 is responsible for setting prudent criteria, with advice from the Council's Treasury advisors. • The criteria will be included in the annual Treasury Management Strategy Statement (TMSS) each year; • The criteria will be scrutinised by the Audit and Governance Committee and will be approved by the Executive and full Council; • The Council's Treasury Management advisors will advise on credit policy and creditworthiness.
Procedures for changing limits and changes to counterparties	• All changes relating to counterparty limits and /or criteria within the TMSS will be submitted to Council for approval.
Counterparty Lists and Limits	• Counterparties and market conditions will be monitored regularly. The Council receives information and advice from the Council's specialist Treasury Management Consultant to help monitor counterparties; • A full individual listing of Counterparties and their limits will be maintained. These will be in accordance with the criteria and limits set within the TMSS. The Section 151 Officer will approve any amendments to the list of counterparties in so far as they are consistent with the TMSS approved by full Council. Any changes which do not fall within these, will require an amendment to the TMSS if the change is necessary to achieve the key aims of the TMSS i.e. to ensure secure investments. The TMSS and list will then go to full Council for approval; • Any investment in any counterparty which falls below the Council approved minimum criteria will be called back and invested in counterparties which do meet the minimum requirements and in accordance with the list. Where the Council is locked into a fixed- term investment, the investment will have to remain until the end of the term but will then be returned and invested in counterparties which do meet the criteria and who are on the list; • The investments will be diversified as far as possible within the confines of ensuring the investment is secure.

1.2 Liquidity Risk Management

Liquidity risk management aims to protect the Council from running out of cash to ensure that the Council can pay its day-to-day costs. This Council will ensure it has adequate, though not excessive, cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities. In addition, the organisation may borrow to externalise internal borrowing where internal borrowing compromises liquidity.

Cash-flow Forecast and Daily Cash-flow Management	• An annual forecast of cash-flow balances is maintained covering a twelve-month period. This is to help inform more medium and long-term investment decisions; • The Treasury Management team will ensure that the balance on the main bank accounts is adequate to minimise the risk of any overdraft and to maximise interest receivable; • The banking arrangements have been implemented so that all bank accounts under the corporate contract with NatWest are taken into account when determining the Council's overall balance. This means, that if any account is overdrawn, if the other accounts are in credit to the amount overdrawn or more, the Council will not be in an overdraft position. There is no approved overdraft facility, however, NatWest will honour all payments in the unlikely event of an overdraft for a small charge; • A minimum £5m will be kept in instantly accessible investments. In circumstances where it is prudent to hold lower than this amount, for example, where it would cause additional Treasury Management costs, this will be permitted for no more than 10 working days and only where there is absolute certainty that the cash will not be needed during this period. This is most likely to occur after the monthly salaries run (circa 25th) and the Revenue Support Grant from Welsh Government, which is paid to the Council in the first week of each month.
Duration of investments	• Balances are generally held in short-term investments in line with the liquidity aims of the TMSS. This ensures that the Council has access to cash as needed; • Balances will be transferred from the general account to short-term investments when the interest/income is greater than the cost of transferring the balance taking into account transaction costs e.g. CHAPS fees. A minimum balance of £200k will be maintained across all the NatWest accounts to reduce the risk of overdraft fees and interest; • A maximum time limit and cash amount is set per investment/deposit to reduce risks. See Table 1 above.

Other contingency arrangements	• The Authority has used internal borrowing over a number of years to fund its capital programme. This has reduced the Council's cash balances in order to save on interest payable costs. If there is the risk of a shortfall of cash, the Council will externalise internal borrowing to the amount required to ensure liquidity and taking into account the minimum instantly accessible cash target of £5m as noted above; • The Council can also borrow temporarily up to a maximum of 364 days from other local authorities or the money market should there be a cash-flow shortage during the year.
Borrowing in advance of need	• Generally, the Council will not borrow in advance of need. However, in exceptional cases, this may be considered with the approval of the Section 151 Officer and the Portfolio holder for Finance with a full business case.

1.3 Interest Rate Risk Management

Interest rate risk management relates to the actions taken by the Council to reduce the risk of increased interest costs and to maximise interest receivable, within the constraint of all investments need to be highly secure and relatively liquid. The Authority will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

Approved interest rate exposure limits	• The Council will use a combination of variable and fixed interest rate investments to maximise returns while minimising risks. The investments/deposits will be low risk counterparties investments rather than high interest return investments. Fixed interest rate investments will be in secure short-term investments, which are higher than the variable rates offered; • Similarly, the Council's debt portfolio is comprised of loans some of which charge a fixed interest rate and some a variable rate. However, the significant majority of the current portfolio is fixed rate interest to ensure certainty and maximise lower interest rates; • The Section 151 and TM team will monitor interest rates and will make investment and borrowing decisions which are the most cost effective at the time, using up-to-date information provided by the Council's Treasury Management Consultants.
Trigger points and guidelines for managing changes to interest rates	• The significant majority of the Authority's debt portfolio is fixed interest to ensure certainty and stability of payments and to avoid exposure to any potential increased costs; • Re-financing decisions and unsupported borrowing decisions will also consider interest rates at the time.

Minimum/maximum proportions of variable rate debt/interest and fixed rate debt/interest	• The upper limits for fixed rate and variable rate exposures are reviewed each year and documented in the TMSS.
Use of financial derivative	• The Council will not use Financial Derivatives as these are considered too high risk for the aims of the Council's TMSS.

1.4 Exchange Rate Risk management

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

Exchange rate Exposure limits	• Investments/debt will all be made in sterling. The Council will not invest in other currencies as part of its Treasury Management practices as this would expose the Council to too high a risk and could compromise liquidity. The only time the Council will be exposed to exchange rate risks will be in relation to operational activities where a grant is paid to the Council in another currency or the Council is required to pay a supplier in another currency. Any foreign currencies paid to the Council will be converted to Sterling as soon as possible.

1.5 Refinancing Risk Management

Refinancing risk management relates to managing the Council's debt portfolio in a way which reduces the risk of increased costs from refinancing activities. The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented. The maturity profile of the monies borrowed are managed with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the Council as can reasonably be achieved in the light of market conditions prevailing at the time. The Council will actively manage its relationships with counterparties and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

Refinancing risk	• The Council will seek to manage its debt portfolio and other capital financing sources in the most cost effective way. The Council will use the cheapest sources of capital financing available first and unsupported borrowing will be used as a last resort for funding the capital programme; • The Council will use Council cash balances and reserves for internal borrowing to reduce its capital financing costs if this is cost effective. However, there will be a limit to how much the Council can use internal borrowing. The Council will not use cash balances to internally borrow if it would compromise liquidity. The Internal borrowing should not be used where it would leave Council cash balances below £5m; • Longer-term borrowing will be in accordance with the Prudential Code and will, therefore, be affordable; • Longer-term borrowing will be in accordance with the Treasury Management Strategy Statement and prudential indicators for example kept within the authorised borrowing limit; • Debt will be rescheduled only if it is cost effective. This will be to benefit from lower interest rates and to prevent a number of loans being repayable at the same time to an extent which would be too costly. The Council will take advice

	from its Treasury Management Consultants on the benefits and costs of rescheduling debt; • The debt portfolio will be managed in such a way to avoid any significant refinancing problems in the future. Ideally, there should no more than £5m due to be repaid in any one year. When considering new borrowing, the maturities of the current debt portfolio must be assessed so as to avoid future problems; • Before any new borrowing is taken out, an option appraisal must be completed to determine the most cost effective and affordable time period to borrow. This appraisal will also take into account the existing debt profile and any refinancing requirements. The differing types of loan should be considered to determine the optimal impact on the Council. For example, taking into account interest and MRP against interest and principal repayment; • The Council's Treasury Management Consultants provide the Council with interest rate projections to support treasury management decisions on investment and borrowing. These projections are included in the TMSS each year.
Projected capital investment requirements	• The annual TMSS provides details of the actual capital expenditure and funding for the last audited financial year. It is also includes projections for the year before the TMSS relates to, the year of the TMSS and two years beyond. This helps to identify the capital programme financing needs for each year; • The Council's long-term borrowing requirement is linked to the CFR; • The Council will complete option appraisals to ensure the most cost effective methods of capital financing are selected and that the cheapest sources of capital financing are applied first.
Policy concerning limits on revenue consequences of capital financials	• The Council is bound by the Prudential code and the requirement that borrowing must be affordable, sustainable and prudent; • The Council's debt must not except in the short-term exceed the total of the Capital Financing Requirement in the preceding year plus the next two financial years; • Capital and revenue budgeting are interlinked. Capital external financing incurs financial costs which impacts on the revenue budget through interest costs and the MRP; • The estimated capital financing costs for each forthcoming year are built into annual budget setting; • Capital financing costs are also taken into account longer term in the Medium Term Strategy for the Council which covers a three-year period; • The Council's Capital Strategy advocates that new capital projects should be limited to the level of capital financing which does not incur additional revenue costs. The strategy requires that unsupported borrowing should only be considered where the relevant service budget can be reduced by a sum greater than the MRP and interest costs. This excludes the 21st Century Schools programme with Welsh Government, which has already been committed. However, any savings from the 21st Century Schools programme would be used to contribute to the increased capital financing costs.

1.6 Legal and Regulatory Risk Management

Legal and regulatory risks relate to the risk that the Council, or third parties dealing with Treasury Management on the Council's behalf, fail to act in accordance with the Authority's legal powers or regulatory requirements. The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] *credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged. This organisation recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

Legislation which impact on Treasury Management Activities	• Local Government Act 2003; • Local Government (Wales) Act 1994; • The Accounts and Audit (Wales) Regulations 2014; • The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 No. 3239 (W. 319) and subsequent amendments including the most recent; • The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2016; • The Accounts and Audit (Wales) Regulations 2014 No. 3362 W337; • The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2018; • CIPFA, Treasury Management Code 2017; • CIPFA, Prudential Code 2017; • CIPFA Code of Practice on Local Authority Accounting 2019/20; • CIPFA Financial Management Code, 2019; • Isle of Anglesey Treasury Management Strategy Statement 2020/21; • Isle of Anglesey, Finance Procedures Rules; • Isle of Anglesey, Contract Procedure Rules.
Procedures for evidencing the Council's powers/authorities to counterparties	• The Authority's powers and duties are enshrined in law. The Local Government Act 1972 is a key legislation in relation to councils' functions. The Local Government Act (Wales) 1994 is an important legislation which led to the creation of the unitary authorities in Wales of which the Isle of Anglesey County Council is one and provides the law for the transfer of functions from the former authorities; • Section 3.5.3.5 of the Council's constitution outlines the delegated authority of the Director of Function (Resources)/Section 151 Officer. 3.5.3.5.3 provides the acknowledgement that this role will be the Council's responsible finance officer under Section 151 of the Local Government Act 1972. The Section 151 Officer's responsibility for Investment and Capital Planning is noted under 3.5.3.5.8. In addition, 3.5.3.5.17 outlines the Section 151 Officer's responsibility to manage the Authority's borrowing, lending and banking arrangements; • Constitution 4.3, budget and policy framework procedure rules outline the responsibilities within the Council in relation to Budgeting and Policy; • Constitution 4.8 outlines the Authority's financial procedure rules; • Constitution 4.9 provides the contract procedure rules the Council is bound by; • These can all be shared with counterparties and are also available on the Council's website.

Information required from counterparties in relation to their powers/authorities	• The Council will only make investments/deposits in organisations, which have been independently rated by a number of sources. These ratings have to be above the minimum credit rating as specified in the TMSS. The Council's Treasury Management Consultants provide information to assist the Authority on a regular basis; • Lending to third party organisations will be an exception and will only be made to organisations which have been subject to a thorough financial appraisal.
Statement on the Council's political risks and management of these risks	• Legislation is in place to regulate any internal political risks. The Local Government Act 2000 legislates on the conduct of Members and officers; • The constitution of the Council and schemes of delegation help to reduce political risks; • Adoption by Council of each annual TMSS and the CIPFA Treasury Management Code of Practice provide further risk reduction; • The Members' and officers' codes of conduct also provide a framework for reduced risk; • The organisation's Corporate Governance Framework and, in particular, compliance with TMP12; • External political risks are mitigated by having a robust TMSS and Treasury Management Practices (TMPs). Daily updates from the Council's Treasury Management Consultant will support action needed to mitigate risks.

1.7 Fraud, Error and Corruption, and Contingency Management

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

Systems and procedures to reduce the risk of loss through fraud, error and corruption	• There are several stages of segregation of duties, which are outlined in TMP5 below. The Treasury Management team monitor cash-flows and recommend transfers. The initial arrangement of investments/deposits is completed by the Treasury Management team with the approval of the Section 151 Officer or his deputies. The Treasury Management team are not involved in any processing of treasury management transactions; • All treasury management transactions are processed via CHAPs using the NatWest online banking system. This is a secure system which, in addition to passwords, requires use of card readers to authorise transactions. Segregation of duties exists so that no team member with direct responsibility for Treasury Management has access to process payments/transfers. The officers in the technical team who process the payments/transfers are not involved with authorisation of payments/transfers; • The NatWest Bankline system has been set up to ensure segregation of duties and allows access levels to the appropriate level for example the Treasury Management team have view only access to Bankline; • Bank mandates are set up with the banks the Council holds deposits with, in accordance with the approved list of authorising officers. This also helps with segregation of duties and helps keep the Council's deposits more secure;

	• The Council has a list of named officers who have the authority to transact loans and transactions. Brokers and counterparties with whom the Council deals directly with are provided with a copy of the named officers; • Treasury management reconciliations are completed monthly as a quality control check; • The Treasury Management team use Logotech, a specialist treasury management software, to support monitoring of treasury management activities; • Internal audit will undertake regular audits of the Treasury Management function.
Emergency and contingency planning	• There is a hard copy of all treasury management decisions and activities; • All IT systems, including the Treasury Management systems, are backed up by the ICT function and can be restored; • Each service/function of the Council has a Business Continuity plan; • In the event of a failure of the NatWest Bankline system, balances can be gained from the NatWest branch in Llangefni. Most treasury management transactions are moving towards internet banking. If a counterparty's online banking facility is not available, the relationship manager would be contacted for their alternative procedures. This would involve the bank separately contacting an authorised signatory for approval. If the Council's internet is not available, an internet source as part of the smarter working agenda could be used.
Insurance cover details	• Fidelity Guarantee Insurance is taken out by the Council to protect itself against any fraudulent activity within Treasury Management activities. It provides for a guaranteed sum of £10m should any of the named officers directly involved with treasury management cause loss to the Authority and £1m for any other employee.

1.8 Market Risk Management

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

Approved procedures and limits for controlling exposure to investments whose capital may fluctuate	• The Treasury Management Strategy Statement (TMSS) does not allow high-risk investments, which are likely to fluctuate. Investments can only be made in accordance with the criteria set out in the TMSS as approved by Council. Where the Council invests or temporarily borrows from money markets, these can only be in AAA rated funds which are diversified over a number of investments that the exposure to risk and capital fluctuations is reduced.

TMP 2 – Performance Management

The Authority is committed to the pursuit of value for money in its treasury management activities and to the use of performance methodology in support of that aim. Value for money must be within the framework set out in the TMSS. Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements.

Methodology to evaluate the impact of treasury management decisions	• The core aims of the TMSS is that Treasury Management activities will prioritise security, liquidity and then return. The function is, therefore, not judged solely on the returns made. Treasury management decisions are evaluated against its core aims; • The Treasury Management Mid-year and Outturn reports also allow for the scrutinisation of the performance of key Treasury Management aims; • Treasury management returns and activity are monitored quarterly in the Corporate Scorecards.
Methodology for testing value for money in treasury management	• The treasury management function is currently provided in-house. The market could be tested at any time via sell2wales; • The specialist Treasury Management Consultants/Advisory service is advertised on sell2wales at the end of each contract period. The current contract was subject to a tendering process last year via sell2wales. The successful tender was Capita Asset Services, which later became Link Asset Services. The contract is from 1 April 2016 to 31 March 2019 with an option to extend for up to two years which has been extended; • Banking services are tendered every five years via sell2wales. The current contract is with NatWest, which is effective from 3 February 2016; • There is an approved list of money-broking services, where advice from 3 brokers will be sought when formulating options for treasury management investments; • The Council does not use cash/fund management services as part of its treasury management activities. However, fund managers are used for a number of charitable trusts which the Council is trustee for.

TMP 3 – Decision-making and analysis

The Council will maintain full records of its treasury management decisions and of the processes and practices applied in reaching those decisions. The Council will learn from its experiences and decisions and will build on its successes and take action to avoid any negative issues, which may arise. The Council will record decisions so that the Council can demonstrate that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

Delegated powers and record-keeping	• Full Council approves the Treasury Management Strategy Statement (TMSS) each year after being scrutinised by the Audit and Governance Committee and considered by the Executive, these decisions are recorded formally; • The Director of Function (Resources)/ Section 151 Officer has the delegated authority for all aspects of treasury management. All decisions will comply with the TMSS. The treasury management team will provide options and recommendations for the Section 151 Officer to consider when a new investment or loan is required. This will be documented and signed off by the Section 151 Officer. The treasury management team makes day-to-day decisions with existing counterparties, with one team member recommending a transaction and another more senior member of the team approving this recommendation.
Continuous improvement	• The Council will evaluate treasury management activities and seek to avoid any negative outcomes and build upon good practice and treasury management results. This is done on a day-to-day basis operationally; • On a more formal basis, treasury management will be evaluated through the mid-year and end of year treasury management reports which will be scrutinised by Audit and Governance Committee and considered by the Executive and Council; • The historic and forecast performance of prudential indicators are provided within the annual TMSS, which is scrutinised by Audit and Governance Committee, considered by the Executive and approved by Council. • .

TMP 4 – Approved instruments, methods and techniques

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule below and within the limits and parameters defined in TMP1 Risk Management and the Council's TMSS. All instruments, methods and techniques will be focussed on those which offer greatest security and liquidity. The Council will aim to maximise yield within these two main priorities. The Authority will seek proper advice from its commissioned specialist treasury management consultants/adviser and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

Approved Capital Financing instruments, methods and techniques	**External:-** • Public Works Loan Board (PWLB); • Temporary money-market loans (up to 364 days); • Long-term money-market loans; • Bank overdraft (only in exceptional circumstances and if this is the cheapest option for a very short-term need); • Commercial loans; • Loans from other organisations if terms and conditions are favourable. The organisations will need to be authorised to lend and are regulated; • Finance leases; • Operating leases; • Capital Government grants and European grants; • Capital Grants from other organisations for example, the National Lottery; • PFI/PPP. **Internal:-** • Capital receipts: • Revenue contributions; • Use of reserves.
Approved Investment instruments, methods and techniques	• The Council's investment policy has regard to the Welsh Government's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross-Sectorial Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, and then return; • In accordance with the above guidance from the Welsh Government and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and, thus, avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings; • As with previous practice, ratings will not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end, the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings;

	• Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties. The following are approved investments in accordance with the TMSS:- • Investments in banks and building societies which meet the minimum criteria in Appendix 8 of the TMSS (see also Table 1, above); • Nationalised/part-nationalised UK banks up in accordance with the TMSS; • UK Central Government; • UK Local authorities; • AAA rated money market funds in accordance with the TMSS.

TMP5 – Organisation clarity segregation of responsibilities and dealing arrangements

The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error and for the pursuit of optimum performance. These activities are structured and managed in a fully integrated manner and that there is at all times a clarity of treasury management responsibilities. The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

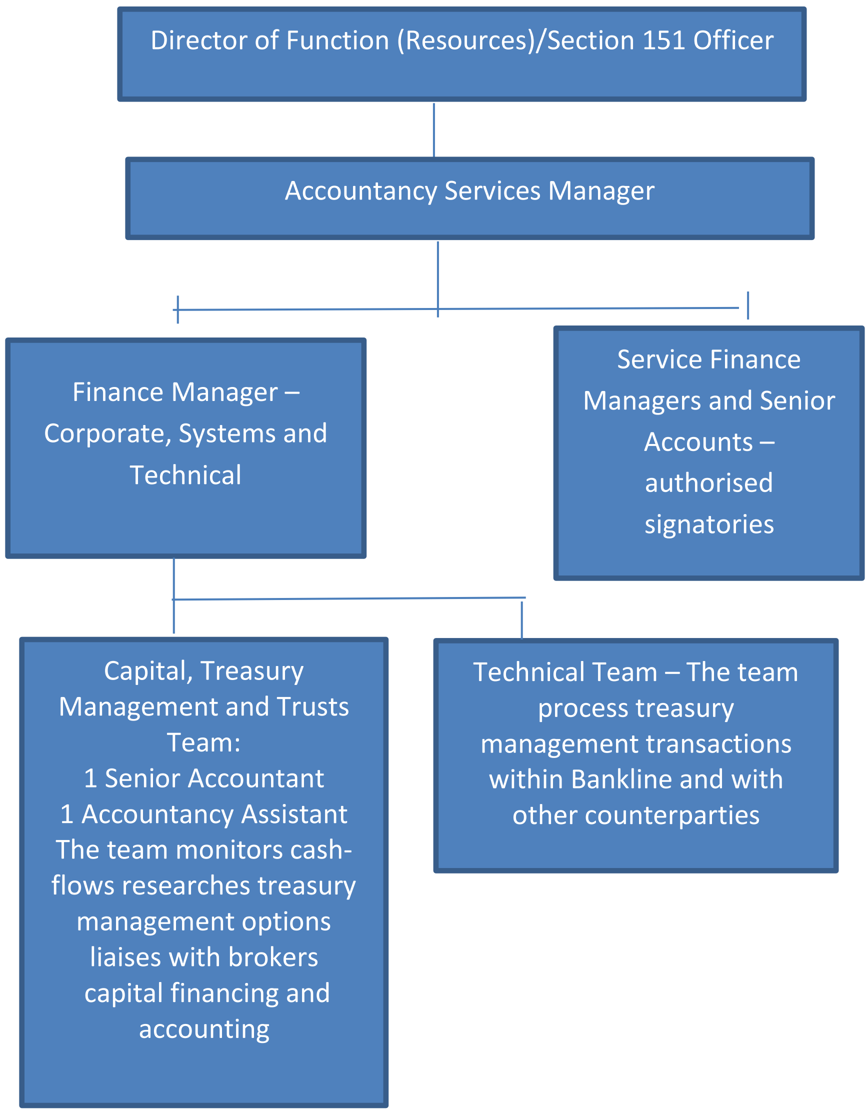
When the Authority intends, because of lack of resources or other circumstances, to depart from these principles, the Section 151 Officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated. The Section 151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The responsible officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule to this document.

The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the scheduled below. The delegations to the responsible officer in respect of treasury management are also set out below. The responsible officer will fulfil all such responsibilities in accordance with the organisation's policy statement, TMPs and, if a CIPFA member, the *Standard of Professional Practice on Treasury Management*.

Scheme of delegation	• Full Council approves the TMSS, the TMPs and receives a mid-year review report and end of financial year on the performance of the treasury management function; • The Executive consider the TMSS, TMPs mid-year and end of year report and makes recommendations to Council; • The Audit and Governance Committee scrutinises the TMSS, mid-year and end of year treasury management reports and the TMPs. The Director of Function/(Resources)/Section 151 Officer has delegated authority for treasury management; • The Director of Function (Resources)/Section 151 Officer has delegated day-to-day treasury management duties to the Finance Manager – Corporate, Systems and Technical and the Treasury Management team and the Technical team. The Service Senior Accountants and above are delegated to authorise treasury management transactions.

Principles and practices concerning segregation of duties	• The Council considers that segregation of duties is key to ensure robust controls and reduce risks in its treasury management activities. The above scheme of delegation in relation to treasury management ensures that there are adequate checks and balances and segregation of duties in the treasury management function; • Balances are checked each morning and assessed against known income due and payments being made by a treasury management team member (TM); • If payments are expected to exceed the balance in the NatWest accounts, the TM team member will complete a transfer form detailing all the information for a transfer into the NatWest general account to meet the day's cash-flow needs. The details will be checked by the TM officer's line manager or a Finance Manager or higher and authorised if correct; • This transfer form is then passed to the Technical team to process the transfer; • Transfers are then approved by authorised signatories which are not part of the Corporate, Systems and Technical team and who have not authorised the transfer form to ensure segregation of duties before the transfer can take place; • The balances are checked regularly during the day to ensure the transfers are completed. If a transfer has not been completed by 2pm that day, a member of the Technical team should contact the bank from where the transfer is being made. This will ensure that the amounts are transferred into the NatWest by close of business. Balances are also re-checked towards the end of the working day. An entry is made in the cash-flow summary sheet for that day with morning and afternoon balances counter-signed by the TM officer's line manager or a Finance Manager or higher; • Any balances which are cost effective to transfer, i.e. the interest for the period of investment is greater that the costs of transfer (i.e. the CHAPS fees), will be transferred to a counterparty in accordance with the approved list of counterparties and the TMSS. These will be at the best interest possible within the parameters of being highly secure and accessible. The same procedure as transfers into the NatWest will be followed with all four stages of segregation of duties.

Treasury Management Organisation Chart



Statement of duties/ responsibilities of each treasury post

The Director of Function (Resources)/Section 151 Officer has, through the constitution, delegated powers for the management of the Treasury Management function as follows:-

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- responsibility for the execution and administration of its Treasury decisions, including decision on borrowing, investment and financing, have been delegated to the Section 151 Officer, who will act in accordance with the Council's policy statements and TMPs;

	• The Accountancy Services Manager deputises for the Director of Function (Resources)/Section 151 Officer in relation to the above duties. • The Finance Manager – Corporate, Systems and Technical has responsibility for day-to-day management of the treasury management function; • The Capital, Treasury Management and Trusts team has responsibility for the operation of the Treasury Management function. This includes estimating future cash-flows, monitoring daily cash-flows, researching various options for investments and, in the event of any new loans required, and completing treasury management transfer requests authorised in line with the team's delegated powers. The team also produce the TMSS, the TMPs and treasury management reports; • The Technical Team process any treasury management transactions within the banking systems. The technical team will double check the information before entering the transactions; • The Service Finance Managers and Senior Accountants authorise treasury management transactions on the basis of documentary evidence that the transactions are appropriate.
Absence cover arrangements	• The Finance Manager – Corporate, Systems and Technical and Accountancy Services Manager will provide absence cover arrangements in the event of the two treasury management team members being absent.
Dealing limits	• £5m per deal.
List of Approved Brokers	• BGC Partners; • Tullet Prebon; • Tradition UK.
Policy on Brokers' Services	• The Council will use the above named brokers to research treasury management options and actions necessary. The Section 151 Officer or Accountancy Services Manager will authorise the deal request. The Council will seek information from two of the above named brokers for any potential treasury management transaction. The team will seek to spread the business between them to ensure value for money and maintain business relationships; • The Council may also enter into direct deals with investments or borrowing to/from other local authorities or local authority pension funds.
Policy on taping conversations	• Conversations with brokers are recorded by the broking organisations.

Direct dealing practices	• Dealing options will be researched by the treasury management team and recommendations for new deals will be made to the Section 151 Officer or his deputy; • The treasury management team members confirm the selected deal with the broker once agreed by the Section 151 Officer; • A treasury management request form is completed with backing information by the treasury management team; • A member of the technical team will enter the transaction into Bankline and will check the details and that the Section 151 officer has approved the deal; • The online payment is authorised by two authorised signatories after the details and approval of the Section 151 Officer has been checked; • The online payment is processed by CHAPS once authorised. • Written confirmation is provided to the counterparty; • Written confirmation of the deal is received from the broker and/or counterparty and is checked carefully and signed by a Finance Manager or above; • Any differences in the documented confirmation from the broker and that negotiated will be investigated immediately and corrected; • The deal is recorded in the daily cash-flow and record of investments/loans as relevant.
Documentation requirements	• For each deal undertaken, a record should be kept giving details of amount, period, counterparty, interest rate, dealing date, payments date(s), broker. **Investments :-** • deal ticket authorising the investment; • confirmation from the broker; • confirmation from the counterparty; • CHAPS payment transmission document; **Loans:** • deal ticket with signature to agree loan; • confirmation from the broker; • confirmation from PWLB/market counterparty; • CHAPS payment transmission document for repayment of loan.

TMP6 – Reporting requirements and management information arrangements

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

As a minimum:-

The Council will receive:-

- an annual Treasury Management Strategy Statement which reports on the strategy and plan to be pursued in the coming year;
- a mid-year review;
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

The Audit and Governance Committee is responsible for scrutinising treasury management activities and indicators. The present arrangements and the form of these reports are detailed below:-

Content and frequency of board/ committee reporting requirements	• All of the above reports will first go to the Audit and Governance Committee for scrutiny. They will then go to the Executive with any advice from the Audit and Governance Committee. The Executive will make recommendations and the reports will go to the Council for approval.

TMP7 – Budgeting, accounting and audit arrangements

The responsible officer will prepare and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management. The matters to be included in the budget will, at minimum, be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk Management, TMP2 Performance Measurement and TMP4 Approved Instruments, Methods and techniques. The responsible officer will exercise effective controls over this budget, and will report upon, and recommend, any changes required in accordance with TMP6 Reporting Requirements and management information arrangements.

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

Statutory/regulatory requirements	• The Council will comply with all statutory and regulatory requirements relating to Treasury Management (see 1.6 above). The CIPFA Treasury Management Code 2017 and the CIPFA Prudential Code 2017 incorporate these legal requirements and support with practical guidance. The Council has, therefore, adopted the code and will manage its treasury management function in line with the CIPFA codes.
Accounting practices and standards	• The Council will, as noted above, comply with the following CIPFA codes to ensure proper accounting practice and compliance with standards in relation to its treasury management function:- • CIPFA Code of Practice on Treasury Management 2017 and related guidance; • CIPFA Prudential Code 2017; • CIPFA SerCOP; • CIPFA Code of Practice on Local Authority Accounting and related practitioners' guide.

List of information requirements of external auditors	• Treasury Management transactions, assets and liabilities are reported in the Council's annual Statement of Accounts which are subject to external audit; • The Council will provide access to all treasury management information that the audit team requires to verify that the accounts represent a true and fair view of the Council's financial affairs, including treasury management activities; • There are a number of specific notes in relation to treasury management. Each of these notes will have robust working papers, source evidence and transactions and balances held with the financial system relating to the financial year; • The following are examples of the types of treasury management information which will be needed for audit:- • Treasury Management Strategy Statement; • Annual and mid-year treasury management report; • Treasury Management Practices; • New loans borrowed during the year, source documentation; • Complete list of loans outstanding and their maturity dates; • Loans restructured during the year, including premiums and discounts; • Compliance with accounting requirements; • Amortisation of gains or losses on repurchase of borrowing; • Analysis of borrowing between short and long-term; • Debt financing and financing costs, including calculations and workings; • MRP calculations and analysis of the movement in CFR; • Bank overdraft position (if any); • Brokerage, commissions and transaction related costs; • Investment transactions during the year, including any transaction costs; • Cash and bank balances at year-end; • Short and long-term investments at yearend including source documents; • Calculation of interest and interest accrued; • Actual interest received; • Capita Fair Value report; • Evidence of title to investments; • Reconciliation of the movement in cash to the movement in net debt; • Cash inflows and outflows; • Net increase/decrease in short-term loans, short-term deposits and other liquid sources.
Internal Audit	• Internal audit review systems and test transactions on a regular basis. Any information requests by internal audit will be at the earliest opportunity and within 3 working days at the latest.

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the Section 151 Officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1[1] *liquidity risk management*. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

Arrangements for preparing/submitting cash flow statements	• A detailed annual cash-flow forecast is prepared for each financial year following approval of the budget; • This will take into account the budget and will look at historical information; • The cash-flow forecast will provide estimates of cash inflows and outflows each month and will be reviewed each month; • In addition, a daily cash-flow record of movements and balances is kept and updated morning and afternoon. This is signed off by either the Senior Accountant for Capital, Treasury Management or, if it has been completed by the Senior Accountant their line manager or another Finance Manager who is not involved with authorising any treasury management transactions that day; • The cash-flow forecast and daily cash-flow record helps with decision-making and the identification of cash shortages/surpluses; • Treasury management transactions and balances are recorded on the Council's treasury management software, Logotech.
Content and frequency of cash flow management	• Cash-flow is monitored morning and afternoon and the annual cash-flow forecast is reviewed regularly; • Information for the cash-flow is as follows:- • Regular known inflows: RSG, NDR receipts, Council tax receipts; • Estimated inflows: grants, miscellaneous income (fees and charges etc.), capital receipts. • Estimated outflows: salaries, pensions, etc., housing benefits, creditors' runs, etc.
Listing of sources of information	• Systems are in place to ensure that the treasury management team are notified of significant cash-flows. There is a specific Treasury Management email account to which creditors, payroll etc. send details of amounts to be paid out; • Creditors notify the team of the amount of each creditors' run, which provides 2 days to ensure adequate cash balances; • Payroll confirm the payroll amounts 2 days before salaries are paid; • The legal and property services notify the team of any capital receipts expected; • The grants manager notifies the Treasury Management team of estimated grants usually once grant claim forms have been completed; • The team look at average miscellaneous income in the past to estimate this.

Bank Statements procedures	• Paper bank statements are sent monthly by NatWest and the counterparties we hold deposits in; • In addition, real-time access is available via Bankline or the online banking facilities of counterparties.
Payment scheduling and agree terms of trade with creditors	• The Council pays creditors on the next creditor run after the invoices have been authorised. This is likely to be before the terms of trade has expired. This is to support the local economy and small businesses. However, if there were cash-flow difficulties, the Council would re-consider and return to paying in accordance with terms of trade, usually 30 days.
Arrangements for monitoring creditor/debtor levels	• The Civica financials system produces reports which have been scheduled regularly to allow the management team to monitor creditor and debtor levels. Each quarter, the bad debt provision is reviewed.
Procedures for banking of funds	• The norm is for funds to be transferred electronically; • Where cash is collected at Authority venues, for example, leisure centres, Securityplus collects these and pays the cash and cheques into the NatWest coin/cash centre; • Cash paid at the Council county offices and schools is paid into the closest NatWest bank at the earliest opportunity in line with the Finance Procedure Rules.

TMP9 – Money Laundering

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

Policy and procedures to reduce risk of fraud, bribery and money laundering	• Treasury Management activities will follow the Council's policies below to reduce the risk of fraud, bribery and money laundering:- • Isle of Anglesey County Council Policy for the prevention of fraud and corruption; • Isle of Anglesey County Council Anti-money Laundering Policy and Procedures. • Fraud response plan.
Procedures for establishing identity/authenticity of lenders	• The Council will only enter into borrowing arrangements with organisations which have been checked with the Financial Services Authority www.fsa.gov.uk and with advice from our specialist Treasury Management Consultants.
Methodology for identifying sources of deposits	• All counterparties will be on the approved counterparty list and will comply with the TMSS. All counterparties will be rated organisations on the credit ratings list provided by Capita. These have long and short-term ratings from Fitch, Moodys and S&P.
Treasury Management transactions	• The Council's segregation of duties, documented above in TMP5, reduces the risk of money laundering and fraud.

TMP10 – Training and qualifications

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will, therefore, seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Section 151 Officer will recommend and implement the necessary arrangements.

The Section 151 Officer will ensure that board/ Council Members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities. Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

Details of approved training courses	• CIPFA and Capita Treasury Management courses.
Details of approved qualifications	• CCAB and CIMA accountancy qualifications, AAT, specific accredited Treasury Management qualifications, accredited qualifications which provide transferable skills.
Details of qualifications of treasury staff	• The Senior Accountant – Capital, Treasury Management and Trusts is an affiliate CIPFA member, is part-qualified ICAI (Institute of Chartered Accountants Ireland) and has a degree in Business Studies; • The Finance Manager – Corporate, Technical and Systems is a qualified CIMA member, has a degree in Management Science – Economics, an MA in law and the ILM NVQ and OCR, level 5 in Leadership and Management.
Records of training received by training staff	• The team regularly attend CIPFA and Capita Treasury Management Courses to keep up-to-date with Treasury Management requirements; • Training records are kept by the function's Training Coordinator and HR.
Records of training received by those charged with governance	• Members' training is provided on an annual basis by Capita. The treasury management team attend these.

TMP11 – Use of external service providers

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

Details of contracts with service providers, including banking, brokers, consultants, advisers and details of the services provided	**Banking:-** • The Council's main bankers are: NatWest which is part of the RBS group, Glanhwfa Road, Llangefni, Anglesey, LL77 7YW; • The Council also has accounts with Santander for post office GIROs. **Treasury Advisor:-** • Link Asset Services, 6th Floor, 65 Gresham Street, London, EC2V 7NQ. **Brokers**:- • BGC Partners; • Tullet Prebon. • Tradition UK. **BACS Transmissions :-** • **Bottomline technologies**
Regulatory status of services provided	• All are regulated organisations.
Procedures and frequency for tendering services	• The Council is bound to follow the Contract Procedure rules which are part of the constitution. All contracts likely to be £25k or higher have to be advertised on sell2wales. The treasury management consultancy contract was also advertised on sell2wales and evaluated robustly, even though the contract amount was less than the mandatory amount. • Contract periods are recommended as 3 years with up to 2 years option to extend with the agreement of both parties.

TMP12 – Corporate Governance

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

The Council has adopted and has implemented, the key principles of the Code. This, together with the other arrangements detailed throughout this document, are considered vital to the achievement of proper corporate governance in treasury management. The Section 151 Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

List of public documents to be made available for public inspection	• Annual Statement of Accounts; • Treasury Management Strategy Statement; • Mid-year Treasury Management Report; • Annual Treasury Management Report; • Treasury Management Practices.
Procedures for consultation with stakeholders	• Stakeholders are consulted on the annual budget each year, which includes treasury management revenue budgets.
List of external funds managed on behalf of others and the basis of attributing interest earned and costs to these investments	• There are a number of appointeeship/guardianship accounts managed by the Council on behalf of individuals. These are not part of the Corporate Contract but are with the Council's banker, NatWest. Any costs attributable to the accounts will be charged to the accounts and any interest earned will also be paid on an actual basis for that account; • The Council is trustee to a number of charitable trusts and smaller trusts. The average interest rate on deposits is applied to these trusts' balances. Each trust is charged costs relating to the administration and management of the trusts in accordance with the Charities Commission.

TMP13 - Non-Treasury Management Investments

In addition to Treasury Management investments, the Council has a portfolio of investment properties, which generate rental income for the Council. These are managed by the Council's Property Services section. These investment properties help to reduce risk by introducing more diversity of investments for the Council. The investments help to provide additional income to the Council at a time when Government funding is reducing. The properties are held long-term and are maintained to the standards required by legislation. The Council has the legal right under the Local Government 2003 (Section 12) to invest:-

- **a)** For any purpose relevant to its functions under any enactment; or
- **b)** For the purposes of the prudent management of its financial affairs.

The Council's Investment Property portfolio is therefore authorised by the above legislation for the reasons specified in Section 12 a) and b).

Several of the Council's investment properties were funded from full or significant external funding from European and/or Welsh Government grants. The Council, at the time of writing, is in a joint venture with Welsh Government to build industrial units at Penrhos, Holyhead which should be completed during 2020. More recently, the Council received significant grant funding for building new industrial units in Llangefni, which are now fully operational. The Council's strategic plan in relation to investment properties is to keep viable units and maintain and to build new units where there is significant external funding. This complies with the Council's Capital Strategy and Council Plan 2017-22. Accepting grant funding to build investment properties helps the Council maximise its external funding and also provides additional rental income to reduce the need for council tax, etc.

<u>Information about the Council's Investment Properties</u>

The Isle of Anglesey's statement of Accounts 2018/19 shows that the investment property portfolio was valued at £6m, which is shown below. The significant share (75%) of the portfolio comprises of Commercial Units, which are mainly industrial units.

Recurring fair value measurements at 31 March 2019 using:	Quoted prices in active markets for identical assets (level 1) £'000	Other significant observable inputs (level 2) £'000	Significant unobservable inputs (level 3) £'000	Fair Value as at 31 March 2019 £'000
Retail Properties	-	820	-	820
Office units	-	658	-	658
Commercial units	-	4,522	-	4,522
Total	**-**	**6,000**	**-**	**6,000**

The table below shows that in both 2017/18 and 2018/19 there was a net income stream from the Council's investment properties.

Expenditure and Income on Investment Properties	2018/19 £000	2017/18 £000
Expenditure	**129**	**164**
Income	**(346)**	**(331)**
Net Expenditure/(Income)	**(217)**	**(167)**

The Council also owns a significant amount of domestic properties which is a ring-fenced and is called the Housing Revenue Account (HRA). These are not classed as investment properties and are not included in the investment property portfolio because the Council provides housing as part of its social housing operations, not purely to invest in domestic properties for rental income. Similarly, smallholdings are excluded from investment properties as a key objective for the provision of smallholdings is to support the agriculture sector on Anglesey given its importance for the Island.

Risk Management (TMP1)	• Many of the risks in TMP1 above apply to non-treasury management investments; • Credit and Counterparty Risk - The risk of loss of investment monies is lower than the risk presented by many treasury management investments as the Council has more control over the investment properties including holding the deeds. The Property Services section, in leasing out investment properties will select the most suitable tenant who offers best overall terms for the Council in terms of rent, use of property and status of the tenant. This is highlighted in the Council's Commercial Lettings Guidance; • Liquidity risk – investment in properties does present a higher liquidity risk as cash cannot be accessed quickly as the investment cash would only be available once the investment property is sold which can take time. When investment properties are let and the leases/tenants pay rent on time, this helps with cash flow. However, when units are empty (voids), or tenants are not paying rent on time this has an adverse impact on cash flow; • Interest rate risk – bank interest base rates have been very low since the 2008 recession/banking crisis. This means that the return on cash investments is low. Bank deposit rates of return are less than 1% and have been this low for a number of years. The rate of return on commercial properties will vary according to area but returns tend to be 5% or higher. Interest rate risk is not eliminated as low interest rates are linked to a sluggish economy or a recession. This can lead to increased voids and risk of lessees not paying rent;

	• Legal and regulatory risk management – the Council constantly has to respond to legal and regulatory requirements. Increased standards of maintenance for investment properties will increase expenditure required though keeping the properties to a good standard protects investment properties into the future. The Council maintains its investment portfolio to a good standard. The Council also reduces risk by ensuring that investment in properties comply with the Local Government Acts. There is a small risk of Welsh Government reversing local authorities' powers to invest. This might lead to no further investment properties in the future or the Council having to sell-off its investment property portfolio. All the legislation and guidance listed in 1.6. above also apply to investment properties; • Fraud, Error, Corruption and Contingency Management – the following procedures and practices help to mitigate the risk of fraud, error, corruption and contingency management in relation to the Investment Properties:- **1)** Asset Management Policy and Procedures; **2)** Commercial lettings guidance; **3)** Council constitution, particularly 4.8 Finance Procedures; **4)** The Council governance framework, including the role of the Executive; **5)** The Legal department produces lease agreements and liaises with proposed tenant's solicitors; **6)** The Council's Resources Function complete all transactions for the Council, including relating to Investment Properties. Segregation of duties and authorisation rules for transactions help mitigate risks; • Market Risk – the property market tends to fluctuate more slowly than many different investment markets such as equities, etc. Market risk will also fluctuate depending on the type of investment property. Domestic properties have less risk than commercial properties due to the strong demand for domestic properties. The Council's investment properties are at risk of reduced rents or vacant units when the investment property market is affected by a downturn in the economy. The market value of the investment properties are also at risk during an economic downturn. This would impact on the Council if an industrial unit is advertised for sale. The Council does not invest in risky investment properties such as retail parks.
Performance Measurement and Management (TMP2)	• Operational performance and management of the investment properties are completed by Property Services and takes into account the asset management plans relating to investment properties, occupancy rates and financial performance.

Decision-making, Governance and Organisation (TMP5)	• The Council's Constitution sets out the decision-making and governance framework for all services, including investment properties. The annual budget for expenditure and income for the investment properties will be included in the Property Service's budget and will be scrutinised by the Finance Panel and Scrutiny Committee, reported to the Executive and submitted for approval by full Council; • The Executive is the main strategic decision-making body in relation to the Council's assets, including investment properties. The Executive, on 14 December 2015, approved the Corporate Asset Management Plan for Land and Buildings 2015 to 2020. This includes investment properties and there are two action plan points (4 and 5) specific to the investment properties portfolio. In addition, the Property Services Asset Management Plan guides the work of Property Service, including for Investment properties; • The Head of Highways, Waste and Property has delegated authority in relation to investment properties, some of which will require the approval of the Portfolio Holder for Highways, Waste and Property. Officers within the Property service have delegated authority on the day-to-day operation of the investment properties. The Legal Service officers also play an important role in ensuring leases and sales of investment properties are negotiated and contracted in accordance with the best interests of the Council; • Investment in new or significant refurbishment of investment properties will need to form part of the annual capital programme and will need to align with the Corporate Plan 2017-2022, Capital Strategy and other key Council strategies. The driver for building new industrial units has been significant external grant funding as Europe and Welsh Government invested in the Island to meet their priorities to support the economy of Anglesey. All schemes in the capital programme are approved by full Council and are monitored quarterly by the Executive.
Reporting and Management Information (TMP6)	• The costs and income relating to investment properties are recorded in the financial system to specific cost centres. An Accountant monitors this and provides budget monitoring information to the budget holder and Head of Service throughout the year; • The income and expenditure from investment properties is included in the annual Statement of Accounts for the Council, where there is a specific note in relation to Investment properties(note 18). This also includes a valuation of the Investment properties portfolio; • The Property Section manages the day-to-day running of the properties, including leasing, maintenance, etc. in conjunction with Legal, Economic Development and Resources as needed; • The annual valuation report lists every property within the investment property portfolio, investment units are revalued every year in accordance with CIPFA requirements.

Training and Qualifications (TMP10)	• TMP10 above outlines the qualifications of Accounting staff involved accounting for investment properties; • In addition, Investment properties are managed by Property services experts, two of which are qualified RICS members and hold university degrees in Property Valuation • A specialist Grants team within Resources support the Economic Development service in attracting millions of pounds of external funding for investment properties. The Grants team have finance qualifications and attend training events to keep up-to-date with issues and guidance in relation to external funding; • The degree qualified staff within the Economic Development Service played a key role in attracting significant funding to build industrial units. Economic Development staff also completed project and programme management training.

Date scrutinised by Audit and Governance Committee: 11 February 2020

Date considered by the Executive: 2 March 2020

Date approved by Council: 10 March 2020

Author: Claire Klimaszewski

Date for Review: 2023 or earlier if there is a policy change in relation to Treasury Management or Investment Properties.

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ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	**Executive**
Date:	**03/03/2020**
Subject:	**Community based Non-residential Social Care Services – 2020/2021 Fees & Charges**
Portfolio Holder(s):	**Cllr Llinos Medi Huws**
Head of Service:	**Alwyn Rhys Jones – Head of Service**
Report Author: Tel: E-mail:	**Dafydd Bulman – Strategic Transformation a Business Manager** **01248 752013 DafyddBulman@ynysmon.gov.uk** **Delyth Ll Jones – Senior Finance Officer** **01248 752785 DelythJones@ynysmon.gov.uk**
Local Members:	**All members**

A –Recommendation/s and reason/s

1. **Background**

It is usual practice to review the charges in respect of domiciliary services annually to coincide with Central Government revision of benefit and pension levels,

The report sets out community based non-residential social care fees and charges for 2020/2021 in accordance with the Social Services and Well-Being (Wales) Act 2014.

2. **Home Care Services:**

Following the changes to home care fee agreed by the Executive in February 2017, we propose to continue to use this model for 2020/2021.

Table 1 – Home Care Charges 2020/2021

Os ydych oed pensiwn gyda incwm wythnosol o £251.94 neu uwch yn **2020/21:**	**Taliadau** **Wythnosol**	**Os ydych o dan oed pensiwn gyda incwm wythnosol o £164.65 neu uwch yn** **2020/21:**
Os yw eich incwm wythnosol yn £256.93 neu is	**DIM** **TÂL**	Os yw eich incwm wythnosol yn £169.64 neu is.
Os yw eich incwm rhwng:		**Os yw eich incwm rhwng:**
£256.94 - £261.93	**£5.00**	£169.65 - £174.64
£261.94 - £262.89	**£10.00**	£174.65 - £175.60
£262.90 - £266.93	**£10.96**	£175.61 - £179.64
£266.94 - £271.93	**£15.00**	£179.65 - £184.64
£271.94 - £276.93	**£20.00**	£184.65 - £189.64
£276.94 - £281.93	**£25.00**	£189.65 - £194.64
£281.94 - £286.93	**£30.00**	£194.65 - £199.64
£286.94 - £290.93	**£35.00**	£199.65 - £204.64
£291.94 - £296.93	**£40.00**	£204.65 - £209.64
£296.94 - £301.93	**£45.00**	£209.65 - £214.64
£301.94 - £306.93	**£50.00**	£214.65 - £219.64
£306.94 - £311.93	**£55.00**	£219.65 - £224.64
£311.94 - £316.93	**£60.00**	£224.65 - £229.64
£316.94 - £321.93	**£65.00**	£229.65 - £234.64
£321.94 - £326.93	**£70.00**	£234.65 - £239.64
£326.94 - £331.93	**£75.00**	£239.65 - £244.64
£331.94 - £336.93	**£80.00**	£244.65 - £249.64
£336.94 - £341.93	**£85.00**	£249.65 - £254.64
£341.94 - £346.93	**£90.00**	£254.65 - £259.64
£346.94 - £351.93	**£95.00**	£259.65 - £264.64

Incwm wythnosol sydd yn uwch na £351.94 neu gynilion dros £24,000.00	**£100.00**	Incwm wythnosol sydd yn £264.65 neu uwch, neu gynilion dros £24,000.00

A further increase of £100 could be implemented by Welsh Government (subject to confirmation)

3.0 Telecare Charges

The following factors must be taken into account when determining a fair charge for the Telecare service:

- Local Authority Contribution to the Regional Monitoring Galw Gofal Service;
- Maintenance charges;
- Telecare equipment costs;
- Finance and Administration costs;
- Installation costs;
- Costs of recycling equipment;
- Costs of bi annual Health & Safety visual checks ;
- Impact on current business.
- Transformation of Adults' Services.

For 2020/21, we recommend a 3% increase on the fees.

Table 4: Telecare 2021/21 Proposed Charges

Tier 1 Equipment, service and maintenance (unit, pendant and smoke alarm)	Everyone will be paying £47.97 per quarter. (£3.69 a week)
Tier 2 & 3 Equipment, service, monitoring and Maintenance (Equipment other than unit, pendant and smoke alarm)	Everyone will be paying £95.55 per quarter. (£7.35 a week)

Telecare Annual Charges Apply a 3% increase for 2020/21 as stated in table 5.

Table 5 – Telecare Annual Charges for 2020/21

	2019/20	2020/2021 (Proposed Charges)
Service and Maintenance	£110.80	£114.12
Services Only	£71.60	£73.76
One Off Installation	£44.30	£45.63

4.0 Direct Payments

Direct Payments enable individuals to independently purchase services that the Local Authority would otherwise have provided. Direct Payments support independent living by enabling individuals to make their own decisions and have control over their own lives. In Wales, the Scheme has gradually been extended to include:-

- Older People
- Carers
- Parents of Children with Disabilities
- Adults with Disabilities

An hourly Direct Payment rate of £11.30 was set for 2018/19. In light of change in national living wage we propose to increase this to £11.65 for 2020/2021.

Modernisation of Blue Badge Scheme in Wales

It is recommended that a charge of £10 / badge levied in respect of organisational and replacement badges (lost / stolen) be levied for 2020/21.

Purchasing Day Care Services in Independent Residential Care Homes

The charge for purchasing day services was £33.18 in 2019/20. We propose to increase the fee by 3% to £34.18 to be consistent with increases in council charges. This increase will help to ensure the sustainability and continuation of day care services purchased from independent residential care homes, and in order to meet the individual needs of service users.

Domiciliary Care Fees

At present, adult social care commission domiciliary care from the independent sectors following a tender exercise in 2018, the island is currently split into three patches for older people domiciliary care. Fee increase for these providers will be dealt with under the terms of that contract.

Recommendations

The Executive Committee is requested to approve the:-

R1 Home care charges outlined in table 1

R2 Charges for Telecare services as outlined in table 4.
Tier 1 everyone will be paying £47.97
Tier 2 & 3 everyone will be paying £95.55

R3 Charges for Telecare Annual Charges as outlined in table 5
Services and Maintenance £114.12
Services Only £73.76
One off Installation £45.63

R4 Rate for Direct Payments at £11.65/hour

R5 Maintain a charge of £10.00 for the administration in relation to blue Badge requests and replacements as outlined

R6 Increase the fee for purchasing day care services in independent residential homes by 3% to £34.18

B – What other options did you consider and why did you reject them and/or opt for this option?
The options noted are consistent with the councils overall approach to fees and charges in 2019/20.

C – Why is this a decision for the Executive?
Decisions on fees and charges have financial implications for the Local Authority's budget in terms of income received and the affordability of payments made in the prevailing financial climate.

CH – Is this decision consistent with policy approved by the full Council?
Yes

D – Is this decision within the budget approved by the Council?
Yes

DD – Who did you consult?		**What did they say?**
1	**Chief Executive / Senior Leadership Team (SLT)** (mandatory)	Report discussed in SLT on 10/02/2020
2	**Finance / Section 151** (mandatory)	Report discussed in SLT on 10/02/2020
3	**Legal / Monitoring Officer** (mandatory)	Report discussed in SLT on 10/02/2020
4	**Human Resources (HR)**	n/a
5	**Property**	n/a
6	**Information Communication Technology (ICT)**	n/a
7	**Procurement**	n/a
8	**Scrutiny**	n/a
9	**Local Members**	n/a
10	**Any external bodies / other/s**	n/a

E – Risks and any mitigation (if relevant)		
1	**Economic**	n/a
2	**Anti-poverty**	n/a
3	**Crime and Disorder**	n/a
4	**Environmental**	n/a
5	**Equalities**	n/a
6	**Outcome Agreements**	n/a
7	**Other**	n/a

F - Appendices:

n/a

FF - Background papers (please contact the author of the Report for any further information):
n/a

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ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	**Executive**
Date:	**02/03/2020**
Subject:	**Local Authority Homes for Older People – Setting the Standard Charge**
Portfolio Holder(s):	**Councillor Llinos Medi Huws**
Head of Service:	**Alwyn Rhys Jones, Head of Adult Services**
Report Author: Tel: E-mail:	**Carwyn Edwards, Finance Manager** **01248 752699 CarwynEdwards@ynysmon.gov.uk** **Dafydd Bulman, Business & Transformation Manager** **01248 752013 DafyddBulman@ynysmon.gov.uk**
Local Members:	**Various**

A –Recommendation/s and reason/s

The Local Authority needs to set the level of its Standard Charge for local authority care homes for the year April 2020 – March 2021.

Members have determined a general guideline of a **3%** increase for fees and charges. However, charges in relation to local authority owned residential accommodation can be treated as an exception as it is governed by a statutory provision which sets out how it should be calculated.

As in previous years, the cost of all the homes has been pooled to calculate an average standard charge for the homes in accordance with National Guidance.

Caution should be taken if the standard charge is compared with that of other authorities, since despite guidance, other authorities may not have calculated the charge on exactly the same basis. However, in terms of background information, we note below the 2019/20 standard charge levels in respect of Local Authority accommodation in both Gwynedd and Conwy:-

- Gwynedd - £690.96
- Conwy - £565.00

For 2019/20, the Standard Charge was calculated at £752.58 per week due to an occupancy rate of 93.25% across the 4 in-house residential homes (excluding Garreglwyd). The Excecutive made a decision to increase the fees in line with actual cost of provision gradually over a 3 year period. A decision was made to raise the fees for 2019-20 to £664.11 per week (£601.82 + 3% + (1/3 x £132.70)).

In calculating the Standard Charge for 2020/21, we have again omitted Garreglwyd from the calculation as the Home has been re-modelled and now provides a specialist service. The occupancy rate for the remaining 4 Council run homes during the first 9 months of 2019/20 was 93.44% based on a total of 101 beds.

The following table calculates the estimated cost per resident week for the year to 31 March 2021:

Number of Beds Available	101
Estimated Occupancy Rate	93.44%
Estimated Number of Resident Weeks	4,921

	Running Costs 2020/21 £	**Standard Charge 2020/21 £**	**Standard Charge 2019/20 £**	**Fee Charged 2019/20 £**
Estimated Running Cost for 2019/20	3,343,133	679.37	673.64	
Add – Depreciation charge	206,148	41.89	40.13	
- Support Services	192,515	39.12	38.81	
	3,741,796	**760.38**	**752.58**	**664.11**
Increase from 2019/20 standard charge	**1.03%**	**£7.80**		

Based on the above table the estimated cost per resident week for the year to 31 March 2021 is £760.38

The estimated cost per resident week for the year to 31 March 2021 is higher when compared to the estimated cost for the year to 31 March 2020. This is as a result of inflation.

Acknowledging the impact of a significant rise from £664.11 to £760.38 would entail it is recommended:

- That whilst the Council acknowledges the costs incurred within residential care, that the actual cost of delivery is not fully reflected in the charge to residents.

- That in line with the savings proposal made to remove the subsidy given to self-funders between 2019-20 and 2021-22 that the increase for those contributing towards the cost of care is set at 3% plus each user's share of the reduction in the subsidy given to self-funders.

- That the fee for 2020-21 be therefore set at £722.21 (£664.11+ 3% + (1/2 x £76.35)).

By not charging self-funding residents the full cost of placement within these homes the council is subsidising each self-funding client by an estimated £38.17 per week or £1,990.29 per year (after removing two thirds of the subsidy between 2019/20 and 2020/21). Over the current 20 self funders this equates to an estimated £39,806.00 a year.

B – What other options did you consider and why did you reject them and/or opt for this option?

The standard fee is that which the Authority is obliged to charge those residents who have the financial means to pay the full cost of their residential care. Our planning assumption around our local self-funding population has been reviewed over recent weeks to ensure that it still remains current. As noted in A we have previously considered increasing this charge to the full cost of provision, but have but have rejected it on the basis that this would require a significant and disproportionate increase for residents.

C – Why is this a decision for the Executive?

Local Authorities are required under Section 22 of the National Assistance Act 1948 to set the Standard Charge for their homes.

CH – Is this decision consistent with policy approved by the full Council?

This decision is consistent with National Policy as outlined in section C above.

D – Is this decision within the budget approved by the Council?

Yes

DD – Who did you consult?		What did they say?
1	**Chief Executive / Senior Leadership Team (SLT)** (mandatory)	Report discussed in SLT on 10/02/2020
2	**Finance / Section 151** (mandatory)	Report discussed in SLT on 10/02/2020
3	**Legal / Monitoring Officer** (mandatory)	Report discussed in SLT on 10/02/2020
4	**Human Resources (HR)**	n/a
5	**Property**	n/a
6	**Information Communication Technology (ICT)**	n/a
7	**Procurement**	n/a
8	**Scrutiny**	n/a
9	**Local Members**	n/a
10	**Any external bodies / other/s**	n/a

E – Risks and any mitigation (if relevant)		
1	**Economic**	n/a
2	**Anti-poverty**	n/a
3	**Crime and Disorder**	n/a
4	**Environmental**	n/a
5	**Equalities**	n/a
6	**Outcome Agreements**	n/a
7	**Other**	n/a

F - Appendices:
n/a

FF - Background papers (please contact the author of the Report for any further

information):
n/a

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ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	**Executive**
Date:	**03/03/2020**
Subject:	**Independent Sector Care Home Fees for 2020/2021**
Portfolio Holder(s):	**Cllr Llinos Medi Huws**
Head of Service:	**Alwyn Rhys Jones – Head of Service**
Report Author: Tel: E-mail:	**Dafydd Bulman – Strategic Transformation and Business Manager** **01248 752013 Dafyddbulman@ynysmon.gov.uk** **Delyth Ll Jones – Senior Finance Officer** **01248 752785 DelythJones@ynysmon.gov.uk**
Local Members:	**All members**

A –Recommendation/s and reason/s

From 6 April 2016, the framework for financial assessment and charging is now under the Social Services and Well-Being (Wales) Act 2014. The Local Authority is required to review independent sector care home fees annually to coincide with Central Government's changes to benefits and pension levels.

In setting fee levels for independent sector care homes, we need to show that we have fully considered the costs of the provision in determining our standard care fees. This is done in collaboration with the other Authorities in North Wales and the Health Board by utilizing a Regional Fee Methodology, as done in previous years. We will continue to use this model for 2020/21 which has reflected legislation changes in terms of pensions, national living wage and inflation.

The North Wales Methodology (Appendix 1) has recommended an increase of between 3.77% and 4.7% across the four categories of care. The following fees are proposed for 2020/21:

Table 1 - North Wales Methodology Recommendation

Category	2019/20	2020/21	Increase £	Increase %
Residential (Adults)	£564.41	£585.72	£21.31	3.77%
Residential (EMI)	£587.20	£609.91	£22.71	3.86%
Basic Nursing Care (Social Care Element)	£617.00	£641.37	£24.37	3.95%

Nursing (EMI) (Social Care Element)	£651.18	£677.65	£26.47	4.07%

All the above are based on 10% ROI for 2019/20 and 20/21.

As part of fee setting for 2020/21, Ynys Mon consulted on the North Wales fees methodology and no feedback was received regarding the methodology.

The North Wales Adult Service Heads (NWASH) have agreed that the increases noted were consistent with the implementation of the fees model.

Following discussion with Head of Finance (Section 151), we are proposing to use the Regional methodology for:

- EMI Residential;
- Basic Nursing Care Social Care Element

The department recommends an increase in the ROI on Nursing EMI placements of 12% in recognition of the pressures in this area, and in line with fees offered by nearby local authorities.

Estimated annual pressure based on a 10% ROI for Nursing EMI = £14,662.58
Estimated annual pressure based on a 11% ROI for Nursing EMI = £34935.74
Estimated annual pressure based on a 12% ROI for Nursing EMI = £55,188.05

Consistent with the strategic direction the Council is taking in developing alternatives to residential care in the form of Extra Care Housing and care at home, and having due regard to the affordability of the increase proposed for Residential Care Homes , we propose to set the rate for residential (Adults) care based on a lower return of investment of 9%.

Estimated annual pressure based on a 10% ROI for Residential Care = £191,120.39
Estimated annual pressure based on a 9% ROI for Residential care = £103,945.82
Estimated annual pressure based on a 8% ROI for residential Care = £16,860.93

Ynys Mon therefore recommends the following rates for approval:

<u>Table 2 – Ynys Mon Proposed Fee's for 2020/21</u>

Category	2019/20	2020/21	Increase £	Increase %	ROI
Residential (Adults)	554.69	576.00	21.31	3.84%	9%

Residential (EMI)	587.20	609.91	£22.71	3.86%	10%
Basic Nursing Care (Social Care Element)	617.00	641.37	24.37	3.95%	10%
Nursing (EMI) (Social Care Element)	670.62	697.08	£26.46	3.94%	12%

It may be necessary to consider individual submissions from providers regarding these fees. Should there be clear evidence to indicate that the fee set is not sufficient in any individual case the council will need to consider exceptions to the fee rates. It is proposed that any such decisions are delegated to the Portfolio holder, Head of Finance and Head of Adult Social Care.

The Executive Committee is requested to:-

1. Acknowledge the North Wales Fee Methodology as implemented hitherto by the Authorities in North Wales as a basis for setting fees in Ynys Mon during 2020/21 (appendix 1);
2. Approve the recommendation to increase the fee level as noted in Table 2;
3. In line with other Authorities, authorise the Social Services and Finance Departments to respond to any requests from Homes to explore their specific accounts and to utilize the exercise as a basis to consider any exceptions to the agreed fees. Any exceptions to be agreed with the Portfolio Holder, the Head of Finance and the Head of Adults from within current budgets. If no agreement can be made this will be go back to the Executive.

B – What other options did you consider and why did you reject them and/or opt for this option?

We decided to adopted a slighted amdened ROI for 2 categories based upon the reasons noted within the report

C – Why is this a decision for the Executive?

Local Authorities need to set care home fee levels in line with the national policy. This decision has financial implications for the Local Authority's budget and in terms of affordability in the prevailing financial climate.

CH – Is this decision consistent with policy approved by the full Council?
This decision is in line with the approval to work with other Local Authorities in North Wales and to implement the North Wales Fee Methodology to set fees annually.

D – Is this decision within the budget approved by the Council?
Based upon detailed discussion with the Finance Department, the estimated impact of these changes, and the department proposed budget for 2020/21, it is considered that these rate increases can be accommodated within budget. This will require the department to maintain a focus on maintaining a reduction in the number of placements of this nature as has been evidenced in recent years.

DD – Who did you consult?		What did they say?
1	**Chief Executive / Senior Leadership Team (SLT)** (mandatory)	Report discussed in SLT on 10/02/2020
2	**Finance / Section 151** (mandatory)	Report discussed in SLT on 10/02/2020
3	**Legal / Monitoring Officer** (mandatory)	Report discussed in SLT on 10/02/2020
4	**Human Resources (HR)**	n/a
5	**Property**	n/a
6	**Information Communication Technology (ICT)**	n/a
7	**Procurement**	n/a
8	**Scrutiny**	n/a
9	**Local Members**	n/a
10	**Any external bodies / other/s**	n/a

E – Risks and any mitigation (if relevant)		
1	**Economic**	n/a
2	**Anti-poverty**	n/a
3	**Crime and Disorder**	n/a
4	**Environmental**	n/a
5	**Equalities**	n/a

6	**Outcome Agreements**	n/a
7	**Other**	n/a

F - Appendices:
Appendix 1 – The North Wales Methodology

FF - Background papers (please contact the author of the Report for any further information):
n/a

Draft Fee Calculations 2020/21					
	Fee 2019/20	**Indicative Fee 2020/21**	**Basis of Calculation**	**Increase per week**	**Overall % Increase**
1. INDIRECT COSTS -standard for all categories of care					
Utilities (electricity, gas, TV, Council Tax, Water, Telephone)	£29.83	£30.34	CPI Sep 2019 = 1.7%		
Registration (Professional Membership, CRBs etc)	£1.31	£1.33	CPI Sep 2019 = 1.7%		
Recruitment	£2.53	£2.57	CPI Sep 2019 = 1.7%		
Contract maintenance of equipment	£3.67	£3.73	CPI Sep 2019 = 1.7%		
Maintenance of capital equipment	£22.55	£22.93	CPI Sep 2019 = 1.7%		
Gardener /handyman	£10.18	£10.81	NLW increase on 19/20 rate		
Furniture/Fittings including repairs and renewals	£0.00	£0.00	Removed in 2017/18		
Training	£2.52	£2.56	CPI Sep 2019 = 1.7%		
Non prescription medical supplies	£3.81	£3.87	CPI Sep 2019 = 1.7%		
Insurance	£6.35	£6.46	CPI Sep 2019 = 1.7%		
Groceries & household provisions	£29.34	£29.84	CPI Sep 2019 = 1.7%		
Sub-total Indirect Costs	**£112.09**	**£114.44**			
2. OTHER COSTS - standard for all categories of care					
Return on Investment	£97.16	£97.16	10% ROI		
Additional Expenses (not covered elsewhere)	£18.51	£18.82	CPI Sep 2019 = 1.7%		
Sub-total Other Costs	**£115.67**	**£115.98**			
3. STAFF COSTS					
Residential Homes					
Management /Admin	£49.83	£50.83	2% increase		
Senior Care Staff	£127.68	£135.66	10.5 hours x £12.92		
Care Staff	£111.62	£118.34	10.5 hours x £11.27		
Domestic Staff	£47.52	£50.47	NLW 6.2% increase on 19/20 rate		
Sub-total Residential Homes' Staff Costs	**£336.65**	**£355.30**			
TOTAL RESIDENTIAL	**£564.41**	**£585.72**		**£21.31**	**3.77%**
EMI Residential Homes					
Management /Admin	£49.83	£50.83	2% increase		
Senior Care Staff	£139.84	£148.58	11.5 hours x £12.92		
Care Staff	£122.25	£129.61	11.5 hours x £11.27		
Domestic Staff	£47.52	£50.47	NLW 6.2% increase on 19/20 rate		
Sub-total EMI Residential Homes' Staff Costs	**£359.44**	**£379.49**			
TOTAL EMI RESIDENTIAL	**£587.20**	**£609.91**		**£22.71**	**3.86%**
Nursing Homes					
Management /Admin	£49.83	£50.83	2% increase		
Senior Care Staff	£152.00	£161.50	12.5 hours x £12.92		
Care Staff	£132.88	£140.88	12.5 hours x £11.27		
Domestic Staff	£47.52	£50.47	NLW 6.2% increase on 19/20 rate		
Local Authority contributuin to FNC	£7.01	£7.27	Following notification from BCUHB		
Sub-total Nursing Homes' Staff Costs	**£389.24**	**£410.95**			
TOTAL NURSING	**£617.00**	**£641.37**		**£24.37**	**3.95%**
EMI Nursing Homes					
Management /Admin	£49.83	£50.83	2% increase		
Senior Care Staff	£170.24	£180.88	14 hours x £12.92		
Care Staff	£148.82	£157.78	14 hours x £11.27		
Domestic Staff	£47.52	£50.47	NLW 6.2% increase on 19/20 rate		
Local Authority contributuin to FNC	£7.01	£7.27	Following notification from BCUHB		
Sub-total Nursing EMI Homes' Staff Costs	**£423.42**	**£447.23**			
TOTAL EMI NURSING	**£651.18**	**£677.65**		**£26.47**	**4.07%**

ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO:	**EXECUTIVE COMMITTEE**
DATE:	**2 MARCH 2020**
SUBJECT:	**MEDIUM TERM FINANCIAL STRATEGY AND BUDGET 2020/21**
PORTFOLIO HOLDER(S):	**COUNCILLOR R WILLIAMS**
HEAD OF SERVICE:	**MARC JONES**
REPORT AUTHOR: TEL: E-MAIL:	**MARC JONES** 01248 752601 rmjfi@ynysmon.gov.uk
LOCAL MEMBERS:	**n/a**

A - Recommendation/s and reason/s

1. MEDIUM TERM FINANCIAL STRATEGY AND 2020/21 REVENUE BUDGET

1.1 Purpose

The Executive is required to agree a number of key matters in respect of the 2020/21 budget. This will then allow the final recommendations to be presented to the full Council at its meeting on 10 March 2020. The matters requiring agreement are:-

- The Council's Revenue Budget and resulting Council Tax for 2020/21;
- The Council's updated Medium Term Financial Strategy;
- The use of any one off funds to support the budget.

1.2 Summary

This paper shows the detailed revenue budget proposals requiring final review and agreement for 2020/21 and the resulting impact on the Isle of Anglesey County Council's revenue budget. These are matters for the Council to agree and the Executive is asked to make final recommendations to the Council.

The paper also updates the Medium Term Financial Strategy which provides a context for work on the Council's future budgets. However, it should be noted that a further report on the Council's Medium Term Financial Strategy will be presented to the Executive later in the year when further information on the ecomony and the proposed future local government financial settlement may be clearer.

2. 2020/21 REVENUE BUDGET AND COUNCIL TAX RECOMMENDATIONS

The Executive is requested :-

- To note the formal consultation meetings on the budget and consider the resulting feedback as outlined in Section 2 of Appendix 1 and Appendix 2;
- To agree the final details of the Council's proposed budget, including the revised funding in response to budget pressures and the proposed savings as shown in Section 8 of Appendix 1 and Appendix 3;

- To note the Section 151 Officer's recommendation that the Council should be working towards achieving a minimum of £7.1m general balances;
- To note the comments made by the Section 151 Officer on the robustness of the estimates made as set out in Section 6 of Appendix 1;
- To recommend a net budget for the County Council of £142.146m and resulting increase in the level of Council Tax of 4.5% (£56.16 – Band D) to the full Council, noting that a formal resolution, including the North Wales Police and Community Council precepts, will be presented to the Council on the 10 March 2020;
- To authorise the Section 151 Officer to make such changes as may be necessary before the submission of the final proposals to the Council;
- To agree that any unforeseen pressures on demand led budgets during the financial year will be able to draw upon funding from the general contingencies budget;
- To request the Council to authorise the Executive to release up to £250k from general balances if the general contingencies budget is fully committed during the year;
- To delegate to the Section 151 Officer the power to release funding from the general contingency up to £50k for any single item. Any item in excess of £50k not to be approved without the prior consent of the Executive;
- To confirm that the level of Council Tax Premium for second homes remains at 35% and to for empty homes remains at 100%.

B - What other options did you consider and why did you reject them and/or opt for this option?

A number of options were considered following the issue of the initial budget proposals. The final budget proposals take account of the final local government settlement, views expressed during the consultation process and the views of the Scrutiny Committee

C - Why is this a decision for the Executive?

The Council's Constitution requires the Executive to publish its final budget proposal prior to its consideration by the Council.

CH - Is this decision consistent with policy approved by the full Council?

N/A

D - Is this decision within the budget approved by the Council?

N/A

DD -	Who did you consult?	What did they say?
1	**Chief Executive / Strategic Leadership Team (SLT)** (mandatory)	The Chief Executive and Senior Leadership Team have been part of the budget setting process throughout and and are in agreement with the report and support the final budget proposal.
2	**Finance / Section 151** (mandatory)	N/A – this is the Section 151 Officer's report.
3	**Legal / Monitoring Officer** (mandatory)	The Monitoring Officer is part of the SLT and, as such, the Officer's comments have been taken into account.
4	**Human Resources (HR)**	-
5	**Property**	-

6	**Information Communication Technology (ICT)**	-
7	**Scrutiny**	Final budget proposals were considered by the Scrutiny Committee at its meeting on 27 February 2019. A verbal update on the outcome of the meeting will be provided to the Executive
8	**Local Members**	The Council's budget is applicable to all Members and consultation has taken place throughout the budget setting Process
9	**Any external bodies / other/s**	See Section 2 of the report
E -	**Risks and any mitigation (if relevant)**	
1	**Economic**	
2	**Anti-poverty**	Increasing Council Tax will impact on the levels of disposable income for Taxpayers. The Council Tax Reduction Scheme assists low income taxpayers by reducing the sum due in part or in full
3	**Crime and Disorder**	-
4	**Environmental**	-
5	**Equalities**	See Section 11 of Appendix 1
6	**Outcome Agreements**	-
7	**Other**	-
F -	**Appendices:**	
	• Appendix 1 – Detailed report on the Budget Proposals • Appendix 2 – Summary of the Results of the Consultation Process • Appendix 3 – Summary of the Proposed Revenue Budget 2020/21 by Service	
FF -	**Background papers (please contact the author of the Report for any further information):**	

APPENDIX 1

1. INTRODUCTION AND BACKGROUND

1.1. The following report sets out the 2020/21 revenue budget proposals and is one of a set of reports, which provides an overall picture of the financial position of the Council and ensures that the Council funding is allocated to meet its priorities. The other reports in the set relate to the Council's Capital Programme and Capital Strategy, the Council's Treasury Management Strategy, Fees and Charges and the Use of Council Reserves.

1.2. The revenue budget and the continued need to identify revenue savings has been driven by the Medium Term Financial Plan as approved by the Executive Committee in September 2019 and can be summarised as follows:-

Table 1
Medium Term Financial Plan 2020/21 to 2022/23

	2020/21 £'m	2021/22 £'m	2022/23 £'m
Net Revenue Budget B/F	135.21	139.60	141.67
Budget Pressures and Inflation	6.16	4.84	3.65
Revised Budget	**141.37**	**144.44**	**145.32**
Aggregate External Finance (AEF)	98.21	98.21	98.21
Council Tax	41.39	43.46	45.63
Total Funding	**139.60**	**141.67**	**143.84**
Savings Required	**1.77**	**2.77**	**1.48**
Main Assumptions			
Pay Awards – Non Teaching	2.0%	2.0%	2.0%
Pay Awards - Teaching	2.3%	2.0%	2.0%
Teachers' Pension	14.4%	0.0%	0.0%
General Inflation	2.1%	2.1%	2.0%
Change in AEF	2.5%	0.0%	0.0%
Increase in Council Tax	5.0%	5.0%	5.0%

1.3. The table above shows that despite a continuing 5% increase in Council Tax, this would not be sufficient to meet the additional cost arising from service demands and inflation. The assumptions relating to the AEF allowed for grants transferring into the settlement in 2020/21 but no additional funding would be available. The outcome of the plan was that the Council would be looking to identify £6m of revenue budget savings over the next 3 years.

1.4. The Executive considered its initial budget proposals at its meeting on 13 January 2020 and approved the initial Standstill Budget at £142.203m. The provisional revenue settlement published by Welsh Government was better than anticipated with £1.533m of grants and adjustments coming into the settlement (1.6%) and a further £3.68m of additional funding (3.78%). This increased the provisional AEF to £101.005m, which was £2.795m higher than the assumed figure in the Medium Term Financial Plan.

1.5. Based on the standstill budget and the provisional settlement, it would be possible to balance the budget with a 4.64% increase in Council Tax and no requirement to implement budget savings. However £0.343m of savings had been identified as being possible, with no impact on services. The Executive decided at the meeting on 13 January 2020, to consult on a Council Tax rise of between 4.5% and 5.0% and on the implementation of the savings identified

2. THE COUNCIL'S CONSULTATION

2.1. The Council published its budget proposals on 14 January 2020 and the consultation period closed on 7 February 2020. Citizens, partners, stakeholders and staff were asked to respond to the consultation by various means, including:-

- Social Media;
- Responding via the Council's website;
- Responding directly by letter or e-mail.

2.2. In addition, the Council also undertook :-

- Focus groups for people under the age of 25;
- Older People's Forum;
- Session with Headteachers and Senior School Managers;
- Town and Community Council Forum;
- Partnership Forum (Police, Fire, Health, Town & Community Forums, Third Sector).

2.3. The results of the consultation process are attached as Appendix 2.

3. REVISED STANDSTILL BUDGET 2019/20 AND THE BUDGET GAP

3.1. Since the completion of the initial budget proposals, further work has been undertaken to review and revise the standstill budget for 2020/21. This has resulted in a small number of changes which are detailed in Table 2 below:-

Table 2
Adjustments to Standstill Budget

	£m	£m
Standstill Budget as at 13 January 2020		142.203
Proposed Budget Savings		(0.343)
Increase in Service Demand Contingency		0.287
Initial 2020/21 Budget Proposal as at 13 January 2020 (assumes 4.5% increase in Council Tax)		**142.147**
Final Adjustments		
Correction of NNDR budgets following confirmation of the final multiplier	(0.003)	
Correction of Insurance Premium Budget	0.004	
Correction of Housing Benefit Administration Grant Budget following confirmation of grant award for 2020/21	0.027	
Total of Budget Adjustments		**0.028**
Revised Standstill Budget Requirement as at 2 March 2020		**142.175**

3.2. On 25 February 2020, the Welsh Government published their final settlement for Welsh Councils. The published figures showed no change from the provisional settlement and therefore Anglesey will receive £101.005m as AEF for 2020/21.

3.3. As part of the final settlement, the Welsh Government announced an additional £10m grant in addition to the £30m grant allocated in 2019/20, to help local authorities deal with the increased demand for Social Care services. Anglesey's share of these grants is £932k.

4. COUNCIL TAX

4.1. The Council's Band D Council Tax charge for 2019/20 was £1,248.57, which was 16th from the 22 Authorities in Wales and is lower than the Welsh Average of £1,319. More importantly for Anglesey is the comparison to the 5 other North Wales authorities. This is shown in Table 3 below:-

Table 3
Comparison of Council Tax Band Charges for North Wales Authorities

Authority	Band D Charge 2019/20 £	Amount Above / Below Anglesey £	Percentage Above / Below Anglesey %
Anglesey	1,249		
Gwynedd	1,376	+ 127	+ 10.2%
Conwy	1,281	+ 32	+ 2.6%
Denbighshire	1,327	+ 78	+ 6.2%
Flintshire	1,281	+ 32	+ 2.6%
Wrexham	1,153	- 96	- 7.7%

4.2. The Council Tax budget for 2019/20 (prior to an increase in the Council Tax but after adjusting for the change in the Council Tax Base and premium) is £39.370m. Therefore, each 1% increase generates an additional £393k.

After taking into account the final settlement figure of £101.005m, the revised budget requirement of £142.177m (see Table 2) would require £41.172m in Council Tax funding. To fund the revised budget requirement, the minimum increase in the level of Council Tax would be 4.58%, taking the Band D charge to £1,305.72, an increase of £57.15 or £1.10 per week.

4.3. Any increase in Council Tax would provide more funding than is required to fund the Revised Standstill budget of £142.177m. An increase of 5% would provide an additional £156k in funding. The surplus funding can be utilised to as follows:-

- To fund the budget pressures identified in paragraph 8 above;
- To allow some of the £0.343m of proposed savings to be deferred;
- To increase contingency budgets, thereby reducing the risk of overspending in 2020/21.

4.4. In the final settlement, the standard tax element for the Council i.e. the standard Council Tax figure across Wales, which is used to determine the AEF for each Council, was set at £1,335.76, which is 7.1% higher than the 2019/20 figure.

5. GENERAL AND SPECIFIC RESERVES, CONTINGENCIES AND FINANCIAL RISK

5.1. The proposed budget incorporates a number of assumptions in terms of likely levels of income and expenditure in future years. There are, therefore, inevitably a number of financial risks inherent in the proposed budget. The key financial risks are highlighted below:-

- Any projected overspend in 2019/20 has direct implications for the 2020/21 budget, i.e. will services which are currently overspending face the same budget pressures in 2020/21 and, as a result, will they be able to deliver services within the proposed budget in 2020/21. In addition, any overspend in 2019/20 will impact on the Council's level of general reserves moving forward. A net overspend on Service budgets (excluding corporate budgets and capital financing costs) of £1.10m is currently being forecast for 2019/20 and this is an important factor to take into consideration. This figure is after receiving £363k of additional grant funding from Welsh Government to meet additional demand for social care during the winter months. No announcement has been made as to whether this funding will be received again in 2020/21 and without this funding the underlying overspend on services is £1.46m. An additional £1.43m has been included into the standstill budget, to cover this potential overspend.

- The demand for Adult Services, Children's Services and additional specialist educational services and associated costs has increased over the past two to three years. The standstill budget is based on the current level of demand but there is still a significant risk that the demand for these services will continue to grow given that we have an ageing population and the improvement in processes within Children's Services which may identify further children which require intervention by the Authority.
- The teachers' pay award up to September 2020 has been agreed and the required sum included in the budget proposal. However, the pay award for the period September 2021 onwards has not. A 2% increase has been allowed for, but it is unclear at this stage if this will be sufficient.
- The non-teaching pay award which is effective from 1 April 2020 has not been agreed. The Employers have offered a 2% increase but the Unions are seeking a 10% increase. Additional funding has been included in the budget to cover a 2% pay rise. Each 1% above this rate increase the annual cost by approximately £450k.
- An inflationary increase of 2.0% has been allowed for across all of the non-pay expenditure (unless the contractual inflationary increase is known). Although most forecasts suggest that inflation will remain on or around 2% for the foreseeable future, the uncertainty over Brexit and its impact on the UK economy may result in inflation rising above the figure allowed for in the budget;
- Non statutory fees and charges have been raised by an average of 3% in each service. No adjustment has been made for a change in the demand for the services and, should the increase in fees and charges result in a reduction in demand, then there is a risk that income budgets will not be achieved.

5.2. In terms of any contingencies and reserves, the Section 151 Officer needs to review these in their totality in conjunction with the base budget itself and the financial risks which face the Authority. In addition, the review should incorporate a medium term view where needed and should take into account key developments that may impact on the need and use of one off resources.

5.3. A robust view is being taken on managing budget risks and protecting the financial health of the Council at this time. This is particularly the case when one off funds need to be adequately protected to fund future strategic/transformational changes as opposed to funding significant overspends on the base budget itself.

5.4. Account has been taken of the need to keep the immediate reductions in spending and the resulting impact on services to a minimum, but this must be balanced against the need to ensure the medium and long term financial stability of the Council, and for savings to be implemented over the coming years in a phased and structured way. In addition, there is always some risk of unforeseen items of expenditure or overspending because of a more general pressure on a service budget, and reserves must also be adequate to absorb these pressures.

5.5. As at 31 March 2019, the Council's general reserves stood at £5.912m, which is equivalent to 4.4% of the Council's net revenue budget for 2019/20, 6.1% if the delegated schools' budget is excluded. The level of general reserves held is a matter for the Council to decide based on a recommendation from the Section 151 Officer but, as a general rule of thumb, 5% of the net revenue budget is considered to be an acceptable level. Based on the 2020/21 standstill revenue budget, this would require a level of general reserves of approximately £7.1m. This takes into account that the majority of secondary schools no longer have any reserves to fall back on and that primary schools are increasingly relying on their service reserves to balance their budgets. If the delegated schools budget is taken out of the calculation, the general level of reserves required would be £5.0m.

5.6. During 2019/20, a number of items have changed the level of the general reserves or the Executive have agreed to fund the cost from the general reserves. These include:-

- Crediting 50% of the value of the Teacher's Pension Grant back to the General Reserve. This increased the reserve by £479k.
- Funding the additional cost of backdated holiday pay payments to supply teachers. This reduced the reserve by £110k.

In addition, it is currently projected that the revenue budget will overspend by £1.25m in 2019/20. After adjusting for the sum that will be credited to individual Service Reserves, the general fund will reduce by £1.67m taking the projected balance as at 31 March 2020 to £4.61m, which is equivalent to 3.2% of the 2020/21 proposed revenue budget.

5.7. In times of financial austerity, budgets are reduced and do not have the capacity to deal with increases in demands, particularly in those services which have less control over demand e.g. Social Services. There is, therefore, an argument that the need for general reserves is greater because the risk of budget overspending increases and the Council will require a greater level of financial resources to minimise the risk.

5.8. It is the professional opinion of the Section 151 Officer that the level of general reserves has now reached a critical point and should not be allowed to fall any further. Having as little as 3% of financial reserves is a financial risk to the Authority and this risk increases the longer the reserves remain at this low level. In the medium term, the Council's financial plan must include budgeting for a surplus which can be used to restore the level of the general reserves back to the minimum figure of £7m. It is accepted that this cannot be achieved in one financial year and it may take between 3 to 5 years for this to be achieved and this annual contribution to the reserves will have to take place during a period of continued austerity and the need to find further savings.

5.9. The Council also holds £9.9m as earmarked and restricted reserves (as at 31 March 2019). The majority of these reserves are necessary and are identified to fund specific projects, relate to the balance of unallocated grants or are available to fund potential risks should they materialise into an issue. These earmarked and restricted reserves continue to be used and it is estimated that the balance will have fallen to £8.4m by the end of the 2019/20 financial year. The majority of the £8.4m is to cover potential risks e.g. uninsured risks, to hold unallocated grants and to fund projects which are partly underway and will be completed during 2019/20.

5.10. There may be scope to release a small amount of the earmarked reserves back to the general reserves and a full report on General and Earmarked Reserves is included as a separate item on the Committee Agenda.

5.11. The standstill revenue budget for 2020/21 includes £1.183m of earmarked and general contingencies. Items included under this heading include a general contingency £404k, salary and grading contingency £150k, and £108k for time limited funding including, Regional Growth bid and the North Wales STEM project. The budget also includes a contingency of £235k to mitigate the risk noted above and £287k to contribute to any additional costs in Social Care budgets as a result of increased demand for services. Contingency budgets provide a level of mitigation against the risk of the Council experiencing unforeseen or increased costs during the year. Reducing the level of general contingency budgets would result in unforeseen or increased costs having to be funded from general balances.

6. ROBUSTNESS OF ESTIMATES

6.1. Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of budget estimates and the adequacy of the proposed financial reserves.

6.2. Budget estimates are based on assumptions of future expenditure and income and contain an element of assumption risk. The impact of this risk can be mitigated through contingency plans, contingency budgets and financial reserves.

6.3. The robustness of budget estimates is not simply a question of whether they are correctly calculated. In practice, many budgets are based on estimates or forecasts, and there may be an element of risk as to whether plans will be delivered or targets achieved. Different risks to the budget are considered in turn below:-

- **Inflation Risk** – This is the risk that actual inflation could turn out to be significantly different to the assumption made in the budget. For 2020/21, inflation has been included in the budget as follows: pay awards as per the Employer's pay offer for NJC staff and for Teachers, price inflation (2.0%). The latest forecasts do not show that inflation will rise significantly during 2020/21 and it is expected to be on or around the Government's target of 2%. Approximately £54m of the Council's budget is for supplies and services where the price will increase as inflation increases. A 1% rise in inflation may add £540k to the Council's costs (around 0.5% of the net budget). Although inflation is still a risk, the Council has sufficient reserves to fund a sudden and sharp rise in inflation.
- **Interest Rate Risk** - Interest rates affect a single year's revenue budget through the interest earned - i.e. an interest rate rise is beneficial. The Authority's Treasury Management Strategy requires investments to be made on the grounds of security and liquidity of the investment as the first consideration, with investment returns being a lower priority, therefore, the budget is not reliant on high investment returns. Interest rates continue to be very low and, although they may begin to rise, they will not rise significantly during 2020/21. The majority of the interest paid by the Council relates to fixed rate loans which will not change should the interest rate rise. Therefore, the interest rate risk is considered low and, as in previous years, this is a compensating risk for inflation risk, because if one increases the other is likely to increase also.
- **Grants Risk -** These are risks attached to the large number of specific grants from WG, Europe or other bodies which support a good proportion of Council spending. Some of these may be reduced substantially or cut altogether; we do not have a complete picture of all these and we will not even have one as the financial year begins. While the immediate response is to say that when the grant ceases, so must the associated expenditure, there is a risk that this may not always be possible. It may not be possible when contract terms mean the expenditure cannot be cut as quickly as the income, or involves unfunded severance costs. It may not be possible if the activity funded turns out to be so important to the delivery of the Council's own Priorities that the Council decided it must continue the expenditure. Efforts to mitigate this risk are to ensure we have the best information available on each grant, but significant changes during the year cannot be entirely ruled out.

- **Income Risks –** The budget is based on securing an overall 3% increase in fees, and a number of services have assumed rises up to 3%. If the elasticity of demand for Council Services is such that volume falls, and income targets are not achieved, that may cause overspending on net budgets. This will require close monitoring of the net budget position and, if necessary, cutting back on spending to match reduced income.
- **Optimum Risk –** In previous years probably the greatest risk in current circumstances is that the Authority, Members and Officers, have been over-optimistic in the savings that will be achieved or that demand for services, particularly social care, will not increase significantly. For 2020/21, the level of proposed savings are small and can be easily implemented, however the risk of increased demand for services still remains. The proposed budget does provide some mitigation to this risk, by holding some funding in a contingency but if demand rises sharply, significant overspending could occur.
- **Over-caution Risk –** This is the opposite of optimum risk: the danger that our budgets have been drawn up with too much caution and, so, are more than is required and this would result in the Council Tax being set at a level that is higher than required, which is something that Members are keen to avoid;
- **Staff Redundancy Costs –** Due to the level of savings required in previous years both teaching and non-teaching staff have been released through the redundancy process. The cost of redundancy has been funded from a central contingency. The contingency was £400k in 2019/20 but the proposed budget reduces this figure to £150k. The 2020/21 budget does not include savings proposals, which will see the need to reduce staff numbers and the delegated school's budget also allows for all additional costs to be funded and this should not require schools to reduce teaching numbers significantly. The contingency set should be sufficient to meet any redundancy costs which arise during the year.
- **Council Tax Premium –** The increase in the premium for empty properties from 25% to 100% has seen a reduction in the number of empty properties subject to the premium (-29% between November 2018 and November 2019) as the owners of these properties take action to bring the property back into use. It is anticipated that this will continue into 2020/21 but the risk is mitigated by only including 80% of empty properties into the taxbase calculation. The change in the second home premium from 25% to 35% has not resulted in a significant drop in properties and although some owners have moved their properties from the Council Tax register to the Non Domestic register, the overall number of properties subject to the 2nd home premium has increased by 5% (November 2018 to November 2019). Again 80% of the properties are included in the taxbase which provides some mitigation against the reduction in the number of properties subject to the premium.
- **Council Tax Income –** The Council Tax income budget is based on the taxbase calculation as at November of the previous financial year. The taxbase changes constantly during the year, as new properties are included and exemptions and single person discounts are granted. These changes cannot be estimated and invariably lead to a difference between the actual debit raised and the budget.
- **Demand Risk –** As noted previously in the report, and as we have experienced in the past two financial years, there has been an increase in the demand for services, particularly in social care and education, and these increases have put a financial strain on the Authority and has resulted in significant budget overspends. The standstill budget for 2020/21 has taken into account the increased demand experienced during 2019/20 but any further increases would be unfunded and increase the risk of further overspending in 2020/21.

6.4. Having considered all the risks noted above and the mitigating actions, the Section 151 Officer is of the view that the budgets are robust and deliverable.

7. SCRUTINY COMMITTEE

7.1. Due to the delays in receiving the provisional and final settlement the budget timetable for 2020/21 has had to be condensed in order to ensure that the Council are in a position to set the Council Tax within the timeframe set out in the Local Government Finance Act 1992 (Section 30(6)). The 2020/21 budget was given further consideration by the Corporate Scrutiny Committee at its meeting of 27 February, 2020 and a verbal report on the Committee's deliberations will be presented to the Executive at the Committee meeting.

8. PROPOSED BUDGET AND COUNCIL TAX LEVEL

8.1. Having considered the funding available the results of the consultation process and the response of the Scrutiny Committee, the Executive has revised its final budget proposal and includes the following changes:-

- That the standstill budget for 2020/21, after allowing for £0.343m of proposed savings, is set at £142.177m (see Table 2).
- That the Council Tax is increased by 4.5% in 2020/21, which raises the Band D Council Tax by £56.16 to £1,304.73.
- That any remaining balance required to balance the budget fully is adjusted through the general contingency.

8.2. Table 4 below summarises the movement in the 2020/21 budget taking into account the proposals set out in paragraph 10.1 above.

Table 4
Proposed Budget Requirement and Funding 2020/21

Budget Requirement	£'m	£'m
Final Budget 2019/20		135.210
Committed Charges and Inflation		6.993
Standstill Budget as at 13 January 2019		**142.203**
Initial Savings Proposals		(0.343)
Increase in Demand Risk Contingency		0.287
Adjustments to Standstill Budget – see Table 2		0.028
Standstill Budget as at 2 March 2020		**142.175**
Final Budget Proposals – paragraph 8.1		
Adjustment of Contingency Budget	(0.029)	
		(0.029)
Final Proposed Budget Requirement		**142.146**
Funded By:		
Revenue Support Grant	76.692	
Non-Domestic Rates	24.313	
Total AEF		101.005
Council Tax (including Premium)		41.141
Total Funding		**142.146**

9. EQUALITIES IMPACT ASSESSMENT

9.1. In delivering its services, the Council has to be mindful of its duties under the Equality Act 2010 (Statutory Duties) (Wales) Regulations 2011 to assess the impact of key financial decisions on protected groups and have due regard to the result of such assessments.

9.2. The proposed budget savings will not impact on any of the protected groups set out in the Regulations and as a result no Equality Impact Assessments are considered necessary.

10. UPDATING THE MEDIUM TERM FINANCIAL STRATEGY

10.1. The initial budget proposals to the Executive on 13 January 2019 was based on the Medium Term Financial Strategy approved by the Executive in September 2019 (see Table 1). This estimated that the total AEF would remain constant in 2021/22 and 2022/23 as per the 2020/21 settlement and that Council Tax would rise by 5% and that the premium on second homes and empty properties would remain unchanged.

10.2. Although the actual settlement for 2020/21 was £5.214m higher in cash terms than the figure anticipated in the Medium Term Financial Plan, this has in the main allowed the Council to defer the need to make £4.2m of savings which the MTFP anticipated would have had to have been made.

10.3. Estimating future changes in the AEF is difficult and much will depend on the performance of the UK economy post Brexit. The new UK Government will set out its new financial policies in its budget on 11 March 2020. After this point the future funding levels for Welsh Local Government may become clearer although the protection that the Welsh Government gives to other areas of spending compared to local government will also have a significant impact on the level of future local government settlements.

10.4. Given the uncertainty surrounding future funding, any update of the Medium Term Financial Plan at this point would be speculative at best and may give the impression that the Council's financial position is better or worse than the true position that will materialise. The situation will become clearer over the coming months and the Executive will receive an update on the Council's financial position in September 2020.

11. CONCLUSIONS

11.1. It is important for the forthcoming year that the budget set is achievable and accurately reflects the demands faced by services currently, and for the period of the MTFP. This requirement has greater relevance given that the level of reserves has fallen and cannot be seen as a continued source of funding when the budget overspends and that the level of school reserves has also fallen. It is also necessary that the budget addresses the long term financial viability and sustainability of the Council and ensures that the Council is in a strong financial position to respond to any further reductions in funding from the Welsh Government.

11.2. Therefore, in the professional opinion of the Section 151 Officer, the revenue budget for 2019/20 must achieve the following objectives:-

- Ensure that the financial resources allocated to each service is sufficient to meet the current budget pressures and fulfil the demand for the statutory functions which the services must provide.
- Addresses the underlying financial pressures in the Services which have been impacted most by an increased demand for services; Education, Children's Services and Adults Services.
- Avoid setting a budget that further erodes the Council reserves, either by using reserves to balance the budget or by setting an unachievable budget, which will ultimately result in overspending at the end of the 2020/21 financial year.
- To set a level of Council Tax which is comparable with the Welsh Government's assessment of where Anglesey's Council Tax should be and is in line with the Council Tax set by other Welsh authorities of a similar size and type.

12. RECOMMENDATIONS

12.1. The Executive is recommended to approve the final budget proposal as set out in Paragraph 8 to the full Council meeting on 10 March 2020.

Response to the Executive Committee's Initial Budget Proposals – 2020/21

ISLE OF ANGLESEY COUNTY COUNCIL

February 2020

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1. Introduction

1.1. The Council recently undertook a consultation exercise on the initial budget proposals agreed for consultation by the Executive Committee between 15th January and 7th February, 2020. The 3 week consultation period focused on proposals from across Council services.

1.2. These proposals were the result of the annual budgetary process and were consulted upon in order to gain the views of the public and ensure the Executive can (as the process draws to a close) make recommendations from a fully informed position. They were presented by the services during the autumn where they were also challenged and agreed upon for the purposes of consultation by the Elected Members of every political group in the Council.

1.3. Consideration was given to a broad range of savings where the internal challenge and consensus had led to proposals that varied from matters such as increasing Council Tax levels by between 4-5% to the deletion of certain vacant posts to increasing car parking costs at costal sites and towns by differing rates.

1.4. These proposals were publicised in various ways;

1.4.1. Statements and articles in the press

1.4.2. The proposals were published on the Council's website (homepage)

1.4.3. Extensive use of social media – Twitter, Facebook to promote the proposals to a broader range of residents

1.4.4. An interview by the Portfolio Holder Robin Williams on MônFM promoting the consultation and its contents

Each of the channels above were aimed at publicising and creating enthusiasm amongst citizens and staff to engage and respond to the initial proposals.

1.5. Citizens, partners and staff were asked to respond to the consultation through different means, including:

- An on-line survey on our website
- E-mail or
- Writing to us in the traditional way by posting a letter

1.6. As well as the above, the Council held further engagement exercises with :

- Town & Community Council forum together with partners in the Council Chamber
- Sessions with young people via the Young Farmers and Urdd forums.
- A session with the Head teachers and Senior Managers of schools on the Island

The consultation this year followed a similar pattern to previous consultation events that have been held in recent years, but wasn't as extensive as past years due to the shortened timescale enforced upon the Council by Welsh Government. The emphasis this year was placed on gaining an electronic response through our extensive use of social media.

85 responses were received via electronic means, 3 e-mails and 2 letters were received via e-mail.

The results / findings are as follows –

Do you agree that the Council should continue to invest in Adult Services as a response to an increase in demand?

			Response Percent	**Response Total**
1	Yes		80.72%	67
2	No		19.28%	16
			answered	83
			skipped	2

Analysis						
	Mean:	1.19	Std. Deviation:	0.39	Satisfaction Rate:	19.28
	Variance:	0.16	Std. Error:	0.04		

Do you agree with the Executive's proposal to protect the School's budget by not implementing the £800k cut that was postponed in 2019/20?								
							Response Percent	**Response Total**
1	Yes						73.49%	61
2	No						26.51%	22
Analysis	Mean:	1.27	Std. Deviation:	0.44	Satisfaction Rate:	26.51	answered	83
	Variance:	0.19	Std. Error:	0.05			skipped	2

Do you think it is reasonable that we raise the Council Tax between 4.5% and 5%? (When considering the level of the settlement and the need to fund the increase in financial demand within Adult Services and Schools)								
							Response Percent	**Response Total**
1	Yes						30.12%	25
2	No						69.88%	58
Analysis	Mean:	1.7	Std. Deviation:	0.46	Satisfaction Rate:	69.88	answered	83
	Variance:	0.21	Std. Error:	0.05			skipped	2

Do you agree with the proposals in Appendix 4 of the Revenue Budget Report?				
			Response Percent	**Response Total**
1	Yes		58.90%	43
2	No		41.10%	30
			answered	73

Do you agree with the proposals in Appendix 4 of the Revenue Budget Report?									
								Response Percent	**Response Total**
Analysis	Mean:	1.41	Std. Deviation:	0.49	Satisfaction Rate:	41.1		skipped	12
	Variance:	0.24	Std. Error:	0.06					

The result above demonstrates an outcome in favour of the proposals put forward for savings during 2020/21. Having said this, there are some views which question certain proposals and the Council received seventeen such views. These vary from questioning the value of increasing car parking charges to challenging why such an increase in Council tax is required.

The point re: increasing car-parking costs at coastal location is a point of concern for two e-mailed responses (one of which is from Red Wharf Sailing and Water-sports Club) which outline the impact such a change could have if increases are implemented and whether this could have further far-reaching effects to individual health and well-being opportunities into the future.

Others question the validity of increasing Council Tax year on year with some highlighting the fact that the rise is normally at a rate above inflation which means their disposable income is decreasing year on year. One comment stated that Welsh Government should increase funding levels for Councils and three comments pointed to the view that second home owners should pay a greater tax for their second home on Anglesey.

A single comment questioned the value of the reducing the civic events budget, questioning its impact on tourism, social inclusion and intergenerational activities and a response from a community council noted that the 3 week consultation period wasn't sufficient for them to reply.

Do you agree with our proposals in our full capital programme for 2020/21 provided in the Capital budget report?									
								Response Percent	**Response Total**
1	Yes							53.42%	39
2	No							46.58%	34
Analysis	Mean:	1.47	Std. Deviation:	0.5	Satisfaction Rate:	46.58		answered	73
	Variance:	0.25	Std. Error:	0.06				skipped	12

The responses to the capital budget proposals were more evenly matched with 53% in agreement with the proposals and 47% not in favour of them.

Seventeen comments were received, one of which questioned why there was no public facing documents used for consultation and that failure to do so inferred a ‘tokentistic’ consultation process. A couple of comments pointed to the fact that the government should be lobbied to a greater degree in order to realise corporation tax from large organisations.

Others questioned the relevance of the following –

- Why protect the education budget?
- Why increase council tax?
- Travellers site
- The purchasing of new gritters

One response questioned whether there should be an investment into Ysgol Syr Thomas Jones, Amlwch as part of the school modernisation programme as it is believed it is a ‘money pit’. Another questioned whether an investment into Ysgol Gyfun Llangefni should be realised due to the condition of the current school and a further comment pleaded with the Council to build the new Corn Hir school with a 50% increase in capacity due to increasing number of families that will make Llangefni their home over the forthcoming years.

Other responses noted that old Council buildings should be sold off and the number of Council staff should be reduced together with the stern questioning of whether Mon Community Transport is an unnecessary luxury that has become unaffordable when there are other alternative transport options for customers to use.

FINAL BUDGET PROPOSAL 2020/21 BY SERVICE

APPENDIX 3

	Standstill Budget Following Provisional Settlement £	Adjustment to Standstill £	Savings £	Council Tax Increase @ 4.5% £	Budget Pressures & Final Adjustments £	Final Proposed Budget 2020/21 £
Education and Culture	54,022,185	(5,733)	-	-	-	54,016,452
Adult Services	26,859,321	3,520	-	-	-	26,862,841
Children's Services	10,543,297	1,089	-	-	-	10,544,386
Housing Services	1,266,792	2,240	(101,000)	-	-	1,168,032
Highways, Waste and Property	15,266,195	9,530	(104,000)	-	-	15,171,725
Economic and Community Regeneration	4,075,136	3,254	(65,000)	-	-	4,013,390
Corporate Transformation	4,998,708	(228)	(5,000)	-	-	4,993,480
Resources	3,140,972	27,790	(60,000)	-	-	3,108,762
Council Business	1,669,243	150	-	-	-	1,669,393
Corporate Management	625,462	100	-	-	-	625,562
Total Service Budgets	**122,467,311**	**41,712**	**(335,000)**	**-**	**-**	**122,174,023**
Corporate and Democratic Costs	2,807,237	(14,249)	(8,000)	-	-	2,784,988
Recharges to HRA	(700,000)	-	-	-	-	(700,000)
Levies	3,598,489	-	-	-	-	3,598,489
Capital Financing	6,939,100	-	-	-	-	6,939,100
Benefits Granted	111,870	-	-	-	-	111,870
Discretionary Rate Relief	70,000	-	-	-	-	70,000
Council Tax Reduction Scheme	6,016,238	-	-	-	-	6,016,238
Total Allocated Budgets	**141,310,245**	**27,463**	**(343,000)**	**-**	**-**	**140,994,708**
General & Other Contingencies	892,530	-	-	-	259,072	1,151,602
Total Budget 2020/21	**142,202,775**	**27,463**	**(343,000)**	**-**	**259,072**	**142,146,310**
Funded By						
Revenue Support Grant	(76,691,916)	-		-	-	(76,691,916)
Non Domestic Rates	(24,312,956)	-		-	-	(24,312,956)
Council Tax Including Council Tax Premium	(39,370,571)	-		(1,770,867)	-	(41,141,438)
Council Reserves	-	-		-	-	-
Total Funding	**(140,375,443)**	**-**	**-**	**(1,770,867)**	**-**	**(142,146,310)**
Difference Budget to Funding	**1,827,332**	**27,463**	**(343,000)**	**(1,770,867)**	**259,072**	**-**

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ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO:	**EXECUTIVE COMMITTEE**
DATE:	**2 MARCH 2020**
SUBJECT:	**CAPITAL STRATEGY AND CAPITAL PROGRAMME 2020/21 to 2022/23**
PORTFOLIO HOLDER(S):	**COUNCILLOR ROBIN WYN WILLIAMS**
HEAD OF SERVICE:	**MARC JONES – DIRECTOR OF FUNCTION (RESOURCES) / SECTION 151 OFFICER**
REPORT AUTHOR: TEL: E-MAIL:	**MARC JONES / CLAIRE KLIMASZEWSKI** **2601 / 1865** **rmjfi@ynysmon.gov.uk/clkfi@ynysmon.gov.uk**
LOCAL MEMBERS:	**n/a**

A - Recommendation/s and reason/s

The revised CIPFA Prudential Code, September 2017, introduced the requirement that all authorities must produce a capital strategy. This must set out the long-term context in which capital expenditure and investment decisions are made. This requirement is aimed at ensuring that authorities take capital and investment decisions in line with service objectives and properly take into account stewardship, value for money, prudence, sustainability and affordability.

Recommendations

The Executive is requested to :-

- To recommend approval of the Capital Strategy for 2020/21 – 2022/23 to full Council as detailed below.

B - What other options did you consider and why did you reject them and/or opt for this option?

N/A

C - Why is this decision for the Executive?

Responsibility for determining the Council's budget strategy remains with the Executive.

CH - Is this decision consistent with policy approved by the full Council?

Yes

D - Is this decision within the budget approved by the Council?

N/A

	DD - Who did you consult?	**What did they say?**
1	**Chief Executive / Strategic Leadership Team (SLT)** (mandatory)	
2	**Finance / Section 151** (mandatory)	N/A – this is the Section 151 Officer's report
3	**Legal / Monitoring Officer** (mandatory)	
4	**Human Resources (HR)**	
5	**Property**	
6	**Information Communication Technology (ICT)**	
7	**Scrutiny**	
8	**Local Members**	
9	**Any external bodies / other/s**	

E -	Risks and any mitigation (if relevant)	
1	**Economic**	
2	**Anti-poverty**	
3	**Crime and Disorder**	
4	**Environmental**	
5	**Equalities**	
6	**Outcome Agreements**	
7	**Other**	

F - Appendices:

Appendix 1 – Capital Strategy 2020/21 to 2022/23
Appendix 2 – Summary of Draft Proposed Capital Programme 2020/21

FF - Background papers (please contact the author of the Report for any further information):

Treasury Management Strategy Statement 2020/21, Executive, 2 March 2020
Medium Term Financial Plan 2020/21 to 2022/23, the Executive, September 2019
Draft Capital Programme 2020/21 Report, the Executive, 13 January 2020
Capital Programme 2020/21 Report, the Executive, 2 March 2020
Revenue Budget 2020/21, the Executive, 2 March 2020

APPENDIX 1

Capital Strategy 2020/21 to 2022/23

Isle of Anglesey County Council
Capital Strategy 2020/21 to 2022/23

1. Introduction

1.1 Part 1, Section 3 of the Local Government Finance Act 2003 requires that the Authority shall determine and keep under review how much it can afford to borrow. The Act is supported by the Prudential Framework for local authority capital investment and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Code). The CIPFA Prudential Code was revised in 2017/18. The revised Code introduced a new requirement that all authorities produce a capital strategy, which sets out the long-term context in which capital expenditure and investment decisions are made. Authorities are required to give due consideration to both risks and reward and the impact on the achievement of priority outcomes. CIPFA also revised the Code of Practice on Treasury Management at the same time. This Capital Strategy 2020/21 meets the requirements of the CIPFA Prudential Code 2017, aligns with the Council's Treasury Management Strategy Statement 2020/21 and has regard to the CIPFA Treasury Management Code 2017.

1.2 The purpose of this strategy is to set out the objectives, principles and governance framework to ensure that the Authority takes capital expenditure and investment decisions in line with service objectives. The Isle of Anglesey County Council Plan 2017/22 outlines the key priorities and objectives of the Council for the period to 31 March 2022. A fundamental principle of the Strategy is to focus capital expenditure on projects which help the Council meet the following key objectives of the Council Plan or help the Council fulfil its statutory responsibilities:-

Objective 1: Ensure that the people of Anglesey can thrive and realise their long-term potential.

Objective 2: Support vulnerable adults and families to keep them safe, healthy and as independent as possible.

Objective 3: Work in partnership with our communities to ensure that they can cope effectively with change and developments whilst protecting our natural environment.

1.3 This strategy also identifies the potential future capital expenditure, assesses the impact on the capital financing element of the revenue account and determines the funding available to finance new capital schemes for the period 2020/21 to 2022/23. It also establishes long-term principles to support capital planning well into the future. The governance of this strategy follows the same process as the Revenue and Budget Setting Processes and will be presented to the Executive, which will make recommendations to full Council for approval.

2. Objectives and Principles of the Capital Strategy

2.1 The Capital Strategy has a number of key objectives to ensure that capital expenditure is targeted towards meeting the Council's key priorities, whilst also taking into account stewardship, value for money, prudence, sustainability and affordability.

2.1.1 The Council Plan 2017/22 sets out the key priorities and objectives of the Council to 31 March 2022 and resources should be focussed on the achievement of these objectives. This capital strategy will help ensure that the capital programme will focus capital expenditure on projects which contribute most to the key objectives of the Council's Plan 2017/22.

2.1.2 Each year, capital funding will be allocated to ensure an investment in existing assets to protect them into the future.

2.1.3 The Council will maximise external capital funding wherever possible and affordable.

2.1.4 Capital funding will also be prioritised on assets required to help the Council deliver its statutory responsibilities.

2.1.5 The Council remains committed to the 21st Century Schools Programme and will continue to fully utilise 21st Century Schools external funding.

2.2 The following principles will help support the achievement of the above key objectives:-

2.2.1 That the 21st Century Schools programme is considered separately from the remainder of the general Council capital programme. The 21st Century Schools programme is a long- term significant commitment to building and/or refurbishing schools so that Anglesey's schools are fit to last and meet the requirements of the 21st Century. The 21st Century programme helps the school modernisation agenda and supports the Council's key objective to ensure that the people of Anglesey can thrive and realise their long-term potential. This principle also meets the Wellbeing of Future Generations Act 2015 to ensure educational settings are suitable in the long-term. An element of the expenditure on the 21st Century Schools programme will be funded from the capital receipts from the sale of schools vacated, with the remaining balance being funded from unsupported borrowing. This will ensure that the capital general grant and supported borrowing are available to fund investment in existing and new assets needed to achieve the objectives of the Council Plan 2017/22 and ensure that the Council's existing assets are maintained.

2.2.2 That a sum is allocated in the capital programme each year to fund the major improvement to, or the replacement of, existing I.T. equipment, vehicles and Council buildings.

2.2.3 That a sum is allocated in the capital programme to meet the Council's statutory requirement to offer disabled facilities grants. This helps deliver statutory responsibilities and supports the key objective of the Council to support vulnerable adults and families to keep them safe, healthy and as independent as possible.

2.2.4 That a level of road improvement works is funded from the capital programme each year. The sum allocated will be dependent on the funding required to achieve any minimum contract value guarantees, the level of funding available and an assessment of the state of repair of the Authority's roads. Improvements to the roads will help the Council ensure the highway network is sustainable in the longer-term. It also underpins all of the Council key priorities due to the rural nature of Anglesey and the importance of the highway network to many aspects of the Council's work.

2.2.5 Projects that require a level of match funding to enable grant funding to be drawn down, will be assessed on a case-by-case basis by the Section 151 Officer, with a recommendation being made to the Executive. The decision whether to commit funding will be dependent on the project, how it fits into the Council's corporate priorities, any ongoing revenue implications and the ratio of Council funding to grant funding.

2.2.6 Projects to be funded from unsupported borrowing, with the exception of 21st Century Schools projects, will only be undertaken if the reduction in revenue costs or increased income generated is sufficient to meet the additional capital financing costs incurred. Any assets funded by unsupported borrowing should be fundamental to the achievement of the Council's key priorities.

3. How the Strategy fits with other documents

3.1 The Council Plan 2017/22

The Council Plan is the prime document which outlines what the Council aims to achieve during the period 2017/22. The priorities of the Council Plan are summarised above in 1.2. A key objective of this Capital Strategy is to ensure that the capital funding available to the Council is spent on projects that assist the Council to deliver its priorities, including maintaining, replacing or / and upgrading existing assets. There are several other key strategic documents which align with the Council Plan. These guide how the Authority works on specific aspects affecting the Council.

3.2 The Treasury Management Strategy Statement (TMSS)

This Capital Strategy and the TMSS are very closely linked and both are revised annually. The Capital Strategy will define how the Council spends its capital funding and the TMSS sets out how this will be funded and its impact on the overall financial standing of the Council. Borrowing is a key part of the funding strategy. The details of how the borrowing is undertaken and controlled is also set out in the TMSS.

3.3 The Medium Term Financial Plan

3.3.1 The Medium Term Financial Plan (MTFP) is the fundamental part of financial planning which estimates the Council's revenue requirements over the next three years and how this will be balanced to the funding available. Capital expenditure will impact on the revenue budget through the Minimum Revenue Provision and the interest payable on borrowing. The Capital Strategy helps to inform the Medium Term Financial Plan.

3.3.2 Regular budget monitoring and review of the MTFP helps to monitor the impact of financial performance and issues on the delivery of the Council Plan. Linked to the financial monitoring is also the monitoring of performance and corporate and service risks, some of which are identified as financial risks. The Council's Performance Management Framework and Risk Management Strategy govern how performance and risk is managed.

3.3.3 The diagram below summarises the interconnection between these strategies and how ultimately they are guided by the Council Plan.

The Council Plan 2017/22

The key strategies and plans below are important and inter-related to help identify an affordable level of revenue and capital resources needed to deliver the key priorities of the Council Plan 2017/22. These also provide a framework for robust financial management of Council resources.

The Medium Term Financial Plan (MTFP)

This is revised regularly to help set out the likely resource requirement for the next three years and how the Council plans to balance the resource requirement. This includes the impact of revenue and capital issues on the Council Fund.

Capital Strategy

The capital strategy sets out the key priorities on how capital expenditure should be spent to help deliver the Council Plan 2017/22. It acknowledges that capital expenditure leads to revenue capital financing costs which must be kept affordable. The Capital Strategy impacts on and is impacted by, the MTFP, the TMSS, the Annual Revenue Budget and the Annual Capital Programme.

Treasury Managment Strategy (TMS)

This sets out the Annual Investment Strategy, Minimum Revenue Provisions Policy and Treasury Management Policy Statement for the year. These provide the framework and controls needed to ensure that there is enough cash to pay suppliers for revenue and capital costs, that surplus cash is invested safely and is accessible and that borrowing to fund capital expenditure does not go beyond an affordable level.

The Annual Revenue Budget is supported by the MTFP, Capital Strategy and TMS. - Each year the revenue capital financing costs are reviewed and revised as part of revenue budget - setting. Revenue contributions are sometimes used to fund capital costs.

The annual Capital Programme - The level of capital expenditure and borrowing impacts on the revenue budget due to capital financing costs and any ongoing revenue costs such as maintenance.

4. Corporate Strategy and Capital Programme Process

4.1 Developing the Capital Strategy

The Capital Strategy is revised each year taking into account the most recent Council Plan, the Medium Term Financial Plan and the budgetary pressures expected and the Treasury Management Plan. It also considers the prior year's capital programme and the level of reserves and the revenue budget. The capital strategy then outlines the key objectives and principles which then helps to develop the annual Capital Programme each year.

4.2 Developing the Annual Capital Programme

4.2.1 Bidding Process and Scoring

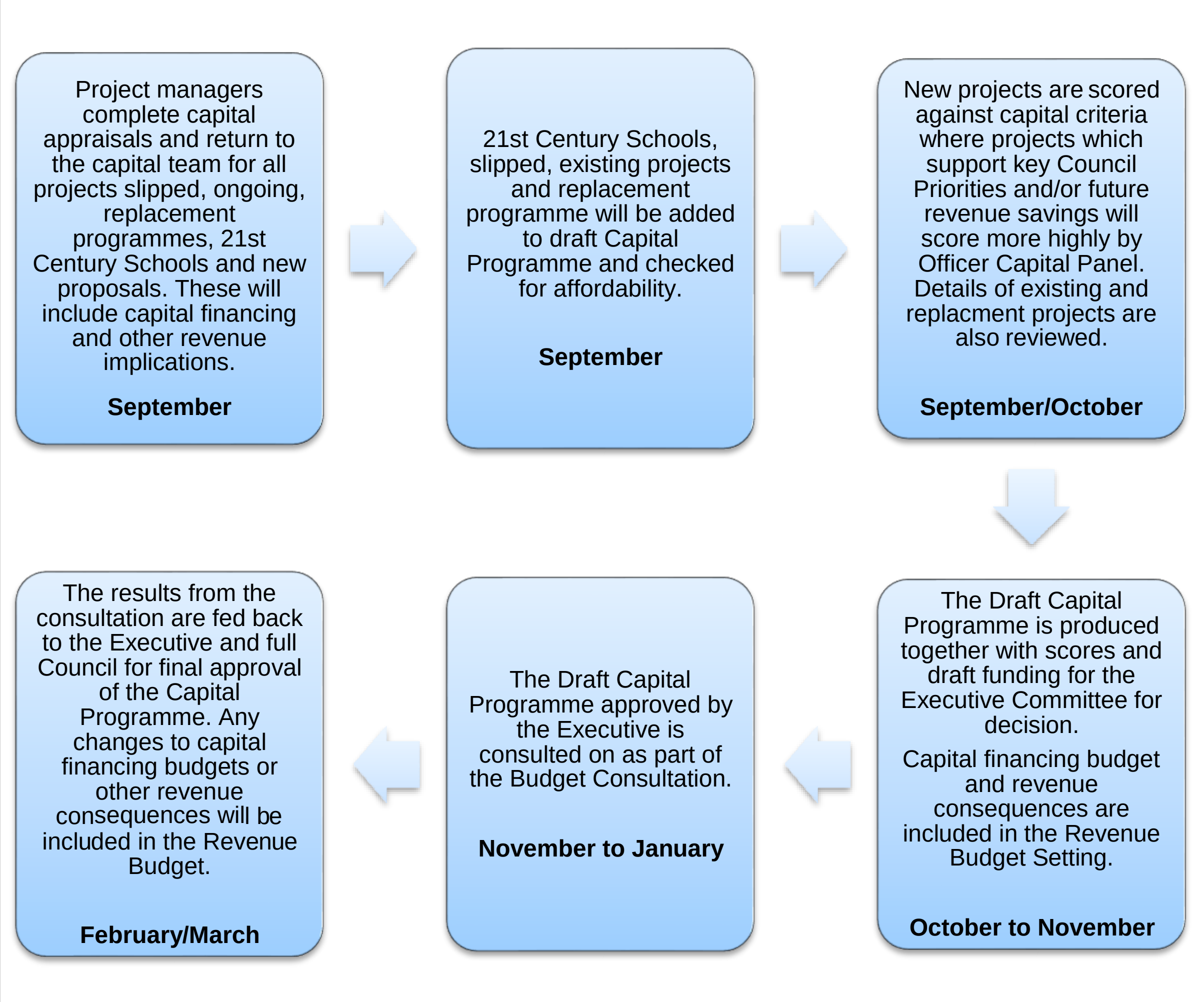
In determining which projects are included in the Capital Programme, bids must not only be affordable but also help deliver the key priorities of the Council Plan and meet the objectives and principles of the Capital Strategy. Each year, Services are asked to submit new capital appraisals/bids and update information for ongoing projects. The appraisals should demonstrate how each project meet the criteria (set out below) and all ongoing revenue implications from the project will be included e.g. maintenance costs. The scoring of new capital appraisals/bids helps to introduce a degree of objectivity and ensure the projects are relevant to the key objectives of the Council Plan and this Strategy. The most important criterion is how closely a project will contribute to the delivery of the Council Plan, hence the greater weighting given to this criterion. Initial scoring is undertaken by the Accountancy Service. The scores are then considered and ratified by the Executive, as part of the drafting of the annual capital programme.

Criteria	**Score**
How closely the project will contribute to the priorities of in the Corporate Plan	20
The project attracts significant external funding	10
The project will lead to revenue savings	10
The project will help mitigate Corporate Risk	10
Total highest score	**50**

The strategy also allocates funding to the maintenance and upgrade of existing assets. Asset Managers determine their funding need and this is balanced against the funding available in order to allocate funding to each main assets group (buildings, vehicles, IT, roads).

4.2.2 Timetable

The Capital Strategy approval process follows the timetable for revenue budget-setting and the development of the Capital Programme. The timetable for the development of the Capital Programme is summarised below:-



4.2.3 Authorisation

Responsibility for ratifying the Capital Programme each year rests with the full Council based on the recommendation made by the Executive. In exceptional cases, new capital projects arising during the year will be considered by Members as part of the quarterly reports to the Executive. In-year projects are likely to be approved if the projects are significantly funded from external grants or contributions, or in response to an emergency e.g. landslide, or if an approved project in the programme is cancelled and there is funding available. A capital appraisal is required for in-year projects and projects will need to help the Authority achieve its key objectives.

5. Current Financial Context

5.1 Revenue Constraints and the Need to Make Savings

5.1.1 The initial MTFP for 2020/21 to 2022/23 provided differing scenarios from a worst case scenario with a reduction in AEF funding of 1%, to a best case scenario of an increase of 2%. The worst case scenario identified that revenue savings of £8.4m would be required over the 3 year period, after allowing for a Council Tax increase of 5% in each of the three years. The best case scenario predicted a need for savings amounting to £6m over the three year period.

5.1.2 The Welsh Government's Provisional Settlement for 2020/21 was significantly better than expected at 3.8%. This is £5.214m higher than anticipated in September's MTFP. This is welcomed after years of significant cuts. This returns the Council to the level of funding in 2010/11. There is too much uncertainty to update estimates for 2021/22 and 2022/23 due to the recent UK election and the unknown impact of Brexit on the UK economy. It remains important, therefore, that the Capital Strategy minimises its impact on the revenue budget.

5.1.3 As stated previously, funding the capital programme will have a significant impact on the revenue budget and the Capital Strategy takes into account affordability, as it is drawn up, and the Treasury Management Strategy Statement ensures that the Council minimises borrowing costs through the best use of the Council's own cash balances to fund capital expenditure.

5.2 Funding the Modernisation of Schools

5.2.1 The Council is currently part way through an ambitious programme to modernise schools through the 21st Century Schools programme, with Band A coming to an end in 2022 and Band B running until 2026. The programme, if it achieves all its planned objectives, will take over 10 years to complete at a significant potential total capital cost.

5.2.2 There are four phases to the programme, identified as Band A,B,C and D. Two schools have been completed, Ysgol Cybi and Ysgol Rhyd y Llan, with a third school, Ysgol Santes Dwynwen, now completed and operational. Refurbishments are also complete at Ysgol Parc y Bont and Brynsiencyn. The final projects from Band A are expected to start November 2020, depending on the outcome from robust consultation and development works.

5.2.3 The Council is also starting consultations and scoping options for Band B of the 21st Century Schools Programme. Some work might start in 2020/21, however, it is estimated that major works may start in 2021/22. The total estimated cost of Band B is currently £36m.

5.2.4 Band A of the 21st Century Schools programme is funded by 50% additional funding from the Welsh Government and 50% via unsupported borrowing. The Welsh Government 50% funding is partly grant funding (67% of the 50%) and partly supported borrowing (33% of the 50%). The Welsh Government has announced that the intervention rate for Band B has increased to 65% but how this is allocated between grant and supported borrowing is not known at this stage. It is, therefore, assumed that 50% of Welsh Government funding will be provided as a grant and 50% by supported borrowing.

5.2.5 The Welsh Government has also introduced a mutual investment model for Band B (MIM), where the capital cost of the project is funded by the private sector and the Council then pays a rental fee to the investor for a prescribed period (expected to be 25 years). Welsh Government make a contribution to the rental fee each year (expected to be at least 70%).

5.2.6 The Council's Strategic Outline Programme for Band B was submitted to Welsh Government in July (approved by the Executive 17 July 2017). The more recent matrices for Band A and B are summarised below in Table 1. This relates to the period 2020/21 to 2025/26.

Table 1
Estimated Funding for Remainder of Band A and Proposed Band B Projects

Band	Region	Unsupported Borrowing (net of capital receipt) £'m	Supported Borrowing £'m	WG Grant £'m	Total £'m
	TOTAL BAND A	**4.8**	**1.6**	**3.2**	**9.6**
	TOTAL BAND B	**12.7**	**11.7**	**11.7**	**36.1**

5.2.7 Given the level of borrowing required, it is unlikely that the Council's own cash reserves (internal borrowing) could be used to any great extent. It is, therefore, assumed that all of the unsupported and supported borrowing would be undertaken through new PWLB loans over a length of time which matches the expected life of the asset (50 years).

5.2.8 As explained in paragraph 4.1, additional supported or unsupported borrowing will increase the Council's CFR which, in turn, will increase the annual MRP charge to the revenue account and will result in additional annual interest payments.

5.2.9 The additional unsupported borrowing for Band B (based on a 50 year repayment period and annual interest at 3.2%) would result in additional capital financing charges to the revenue budget of £0.658m per annum (£0.405m interest payable and £0.253m MRP) once the Programme is completed in full. In practice, these costs would be phased in as each project commences and once the loans are taken out to carry out the work. MRP would be charged once the schools become operational.

5.2.10 It should be noted that the delivery of the Band B projects will eliminate the need to undertake backlog maintenance work at the various schools. Further additional capital and revenue costs would be incurred as Band C and Band Ch are delivered. Any commitment towards these phases of the programme would need to be realistic and affordable.

5.3 Reserves

5.3.1 The Council has allocated some funding for Capital projects from its reserves, the most recent allocation was £1m from general reserves to fund improvements to business processes which included capital projects. However, over the past two years, the level of the Council's general balances has fallen below the minimum recommended level and, as such, the scope to use the Council's reserves to fund capital expenditure is not possible for the foreseeable future.

5.4 The Need to Generate Revenue Savings from Capital Expenditure

5.4.1 Part of the Council's revenue budget savings strategy has been to use capital expenditure as a means of reducing revenue costs. Examples of this have included investing in energy saving equipment in public buildings and street lighting, investing in technology to reduce administrative costs, investing in leisure facilities to generate additional income and the 21st Century Schools programme. This strategy will continue and projects will be prioritised if they provide a substantial return within a short timescale.

6. Funding

6.1 Funding Sources – the Capital Programme is funded from the following sources:-

- **General Capital Grant** – This is a sum of money which is provided by the Welsh Government as part of the annual settlement. The Council is free to use the capital grant on any capital project it wishes. This must be spent by 31 March of the financial year it relates to.
- **Supported Borrowing** – The Council will borrow from the Public Works Loans Board (PWLB) to fund the expenditure. The revenue costs arising from the borrowing (Interest Costs and Minimum Revenue Provision) are funded by the Welsh Government through the annual revenue settlement, hence the term "Supported Borrowing".
- **Unsupported Borrowing** – Again, the Council borrows the funding from the PWLB or elsewhere but is required to finance the revenue costs from its own resources. Projects funded by means of unsupported borrowing tend to be projects which deliver revenue savings and it is these savings that are used to meet the additional revenue costs arising from the borrowing.
- **Specific Capital Grants** – The Council will be awarded capital grants which partly or fully fund the cost of a project. Capital grants usually come with restrictions surrounding the expenditure which can be funded and by when the expenditure must be incurred.
- **Revenue Contribution** – Services can make a contribution from their revenue budgets to fund projects. These contributions tend to be as a match funding to a project which is mainly funded from a specific capital grant.
- **Capital Receipts** – The funds generated from the sale of assets can be used to contribute to the funding of the capital programme. These are usually generated from the sale of surplus assets (normally land or buildings).
- **Reserves** – Funding held in reserve, e.g. unapplied capital receipts, can be used to support the capital programme.

6.2 As explained in the paragraph above, the capital programme is funded from various sources which impact on the Council's financial position in different ways:-

6.2.1 Funding that is received in the form of grants (general or specific) does not have any impact on the long-term financial position of the Council as any grant received is used to fund the capital expenditure. There may be timing differences which can lead to grants being unapplied and carried from one year to the next via the Council's balance sheet.

6.2.2 Capital receipts result in surplus assets being converted into cash which, in turn, results in the creation of a new asset. Again, this type of funding has little long term impact on the Council's financial position but there will come a point where all surplus assets have been disposed of and the level of funding available through capital receipts will fall.

6.2.3 The Housing Revenue Account uses the surplus on the HRA account (excess of rental income over expenditure) to fund capital expenditure. This is reflected in the HRA business plan and does not impact on the Council Fund.

6.2.4 The use of revenue funding will reduce the value of funds held in reserves or the sum transferred to the general Council balances at the year end, i.e. it converts surplus cash into a new asset.

6.2.5 Both supported and unsupported borrowing impacts on the Council's Capital Financing Requirement (CFR) which, in turn, has implications on the Revenue budget in the form of increased Minimum Revenue Provision (MRP) and annual interest payments.

6.2.6 Although the Housing Revenue Account operates separately from the Council Fund, the Council does not borrow separately for Council Fund and HRA expenditure, all borrowing is combined and the costs apportioned to the two funds based on the level of expenditure funded from borrowing for the two funds. The apportionment method is kept under review to ensure that it remains the most equitable method.

6.3 Funding Constraints over the next Three Years

6.3.1 The uncertain financial context the Council continues to operate within is discussed in section 5 and highlights that there are limitations on the Council's funding of capital expenditure. One of the main priorities for the Council is to reduce revenue expenditure in order to deliver a balanced budget, whilst minimising the reduction in service budgets. It is reasonable for the Council to minimise the increase required to the capital financing budget. It will be necessary to provide additional capital funding but this should be maintained at a level that is funded through the settlement (general capital grant and supported borrowing) so that the increase in the capital financing costs is funded through capital receipts and any specific grants that are available.

6.3.2 Unsupported borrowing (outside the 21st Century Schools programme) should only be considered where the relevant service budget can be reduced by a sum greater than the MRP and interest costs.

6.3.3 It has been Welsh Government's policy over a number of years to maintain the level of general capital grant and supported borrowing on or about the level in previous years, with additional capital funding being directed to schools, road improvements etc. However, the general grant funding was increased for 2019/20 and 2020/21.

6.3.4 The Council, as a landlord of housing stock, will also receive a major repair allowance following the submission and approval of the 30 year business plan for the Housing Revenue Account. Capital expenditure on the HRA is supplemented with the use of the HRA reserve and by the borrowing powers which the HRA can utilise.

6.3.5 Specific grants which have been approved, likely to be approved or that result from successful bids, will also be available to fund capital schemes. In some cases, it may be necessary for the Council to contribute a sum of its own capital funding as match funding to enable the grant funding to be drawn down. The grants and contributions which have been currently identified as sources of funding for 2020/21 amount to £8m, including the general capital grant. The Council has received substantial funding in previous years from the EU. This source of funding will not be available from 2021/22 and onwards but the Council will seek to identify alternative sources of grant funding where possible.

6.3.6 The level of capital receipts is dependent on which assets become available to sell. The receipts from the sale of some assets are linked to projects which have already commenced e.g. sales of former school sites are linked to the 21st Century Schools programme. As a result, not all capital receipts received in 2020/21 can be allocated to fund new capital projects. Apart from the remaining school sites, it is not anticipated that any significant capital receipts will be available to fund capital expenditure from 2020/21 onwards.

6.3.7 As stated previously, any unsupported borrowing must generate additional income / revenue expenditure savings to fund the additional capital financing costs (MRP and interest charges) which will be charged to the revenue account. Any proposed schemes funded by unsupported borrowing will be assessed on a scheme-by-scheme basis.

6.3.8 In addition to the sources of funding noted above, the Council holds a capital funding reserve, which includes revenue contributions which have not yet been applied. The current balance stands at £1.2m. It is expected that the majority of this will be used towards funding the 2020/21 programme, particularly towards improvements of school buildings.

6.3.9 Unallocated capital receipts are held in a reserve. The balance of the reserve at 31 March 2019 was £1.2k. These receipts will be used as a funding source for the 2019/20 programme, or will help fund slipped expenditure in 2020/21 and beyond as needed.

6.3.10 In summary, the funding for new capital projects in 2020/21 should be limited to the level of general capital grant (£2.165m), supported borrowing (£2.159m) and any unallocated capital receipts generated in the year. This would give a total budget available in the region of £4.3m, excluding grants, 21st Century Schools funding and HRA funding. This principle will be applied into the medium-term and longer-term to ensure the capital programme is affordable, particularly in the context of continual funding cuts.

6.4 Estimated Funding Profile 2020/21 to 2022/23

6.4.1 The external Welsh Government funding (excluding 21st Century Schools) for the period 2020/21 to 2022/23 is shown in Table 2 below. It should be noted that the Council will also receive a number of minor capital grants.

Table 2
Estimated Welsh Government Capital Funding 2020/21 – 2022/23

	2020/21 £'m	2021/22 £'m	2022/23 £'m
General Capital Grant	2.165	1.818	1.818
Supported Borrowing	2.159	2.159	2.159
Public Highways Refurbishment Grant	0.580	0.580	0.580
Major Repairs Allowance	2.660	2.660	2.660
Total Welsh Government Capital Funding	**7.564**	**7.217**	**7.217**

6.4.2 There is scope to fund new projects in 2020/21 through the funding that is received as part of the Welsh Government's financial settlement. Welsh Government's increase in the Capital General Grant for 2018/19 to 2020/21 helps the Council fund additional priority capital projects. Unsupported borrowing is possible but, unless the projects generate revenue savings, then the additional MRP charge and interest costs will increase the revenue budget which must be funded by increased Council Tax or by making revenue savings elsewhere. Therefore, the Council can ensure the capital financing costs are affordable and sustainable by limiting capital expenditure funded by unsupported borrowing to the 21st Century Schools Programme and capital projects which lead to revenue savings higher than the MRP and interest payable charges incurred from the capital funding. The Draft Capital Programme Report 2020/21, summarised below, proposes an affordable programme with limited use of unsupported borrowing.

7. The proposed Strategy for 2020/21 to 2022/23

7.1 Background – Capital

7.1.1 Capital expenditure is expenditure to acquire or create new assets or to refurbish existing assets where the life of the asset is greater than one financial year. The assets can be tangible (buildings, vehicles and infrastructure) or intangible (software licences). Non-current assets which are £10k or more will be considered as capital expenditure. £10k is the Council's recommended de minimis level to qualify as part of the capital programme. Non-current assets less than £10k will be charged to revenue in most cases. The Council reserves the right to waive the de minimis if appropriate.

7.2 Potential Commitments for 2020/21 to 2022/23

7.2.1 As part of the capital planning process, future commitments for the following two years are also identified, although there is no guarantee that the funding will actually be released for the specific project unless it was needed to physically complete the asset. Table 3 below and Appendix 2 shows that there are £37.305m of projects which meet this Capital Strategy's key priorities and principles. These include ongoing committed schemes, grant funded projects, 21st Century Schools and investment in the Council's existing assets to increase the life of these assets into the future. The table shows that only the 21st Century Schools will require some funding from unsupported borrowing for the Council Fund. The HRA plans to borrow £0.250m of unsupported borrowing, but the HRA will fund the costs of repayment of the loan as it falls due and all revenue capital financing costs arising from the borrowing.

7.2.2 Appendix 2 summarises the proposals submitted for new projects 2020/21. Whilst there is enough funding for all these projects without the need to take additional unsupported borrowing, each one has been scored objectively by the officer panel, particularly with regards to contribution towards the Council Plan 2017/22.

7.2.3 The table below summarises the proposed capital programme for the period 2020/21 to 2022/23 as per category, for example, ongoing committed scheme. This shows an ambitious programme for increasing and improving housing stock for the HRA. The construction of a new extra care facility is also planned for the HRA. The table below also shows that the 21st Century Schools project is the most substantial programme for the Council Fund.

Table 3
Summary of Capital Schemes (see Appendix 2 for individual project details)

Capital Schemes	Expenditure			
	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
Committed Schemes Brought Forward	5,829	1,500	460	**7,789**
Investing in Existing Assets	6,192	5,272	5,272	**16,736**
21st Century Schools Projects	2,755	16,761	12,249	**31,765**
Potential new Schemes 2020/21	2,274	-	-	**2,274**
Housing Revenue Account Projects (HRA)	20,255	17,704	14,002	**51,961**
	37,305	**41,237**	**31,983**	**110,525**

7.2.4 The funding available for the above capital schemes is summarised below in Table 5. This shows that, for 2020/21, all projects could be funded without the need for significant unsupported borrowing. The only unsupported borrowing required for 2020/21 would be towards the Council's share of the 21St Century Schools projects. The table excludes a forecast for capital receipts as this information is not available. However, if the Council does sell any assets, it will reduce the need to borrow. The Council's assets available for sale is reducing due a number of Council assets which have been sold in previous years. It should be noted that any school closures leading to a sale would be used towards the 21st Century Schools Programme.

Table 4
Estimated Capital Programme Funding 2020/21 to 2022/23

Funding	**Funding**			
	2020/21 £000	**2021/22 £000**	**2022/23 £000**	**Total £000**
Funding Brought Forward 2018/19 for Slipped Projects	9,905	-	-	**9,905**
External Grants and Contributions	5,783	10,835	8,415	**25,033**
General Capital Grant	2,165	1,818	1,818	**5,801**
Capital Receipts - Excluding Schools	245	-	-	**245**
Capital Receipts - Schools	-	-	-	**-**
Supported Borrowing	2,364	2,159	2,159	**6,682**
Supported Borrowing 21st Century Schools	721	4,386	4,001	**9,107**
Unsupported Borrowing - Council Fund	1,145	6,996	4,248	**12,389**
Unsupported Borrowing - HRA	250	5,750	700	**6,700**
Capital Receipts Reserve and Capital Reserve	500	-	-	**500**
HRA Reserve and in-year revenue	14,227	9,294	10,642	**34,163**
Revenue - Council Fund	-	-	-	**-**
Total	**37,305**	**41,237**	**31,983**	**110,525**

7.3 Longer-term Capital Expenditure Plans

7.3.1 The above draft capital programme provides a medium-term forecast which is in line with the Medium Term Financial Plan and the Council Plan 2017/22 and Treasury Management Strategy Statement. This capital strategy also communicates the long-term intentions with regard to the 21st Century Schools Programme which is comprehensively outlined above and is expected to continue beyond 2022/23. The estimated spend on Band B alone is estimated to be £36m between 2020/21 and 2025/26, of which 35% (£12.7m) will be funded by the Council, mainly from unsupported borrowing. As each scheme in Band B is developed, the financial impact is assessed but it is accepted that some projects will need to go ahead to meet the Council's overall priorities and that the additional revenue costs will need to be funded from revenue savings or increases in Council Tax. If, as the Council progresses through Band B of the 21st Century Schools Programme, it finds that there are affordability issues, then the projects included in Band B will be reviewed. The Welsh Government also plans a phase C and D of the programme, however, these could only be undertaken if affordable.

7.3.2 All of the principles included in section 2 should also be used as a basis for longer-term capital spend unless the new Council Plan 2023/28 differs significantly. Any non-schools projects, such as the refurbishment of existing assets should be funded by grant or supported borrowing into the future, if those funding streams continue to be available into the long-term.

7.4 Non-Treasury Management Investment Strategy

7.4.1 The Treasury Management Investment Strategy is included in the TMSS discussed below. In addition, the Council holds a number of non-treasury management investments. These are the investment properties from which the Council earns rental income. These help provide a long-term revenue stream for the Council. The investment property portfolio held 71 properties at 31 March 2019, which were valued at £6m. These include retail properties, office units and commercial units. In 2018/19, £346k of rental income was collected from investment properties. Costs of £129k were spent on maintenance etc., which resulted in a net operational income of £217k from rental income. In terms of future plans for the investment properties, the buildings will continue to be maintained to legal standards. In addition, a new industrial unit complex was recently constructed and is operational in Llangefni. The Council is also working in partnership with Welsh Government on the construction of Industrial Units at Penrhos, Holyhead. These are likely to become operational in 2020/21.

7.4.2 Local Authorities have the power to purchase or develop properties as investments in order to improve the economic activity within the Council area or as a means of generating additional income for the Council. At present, the Council has no plans to use these powers more widely than on the plans detailed above, but the use of these powers remains an option and the Strategy allows the Council to incur expenditure on investment properties in order to meet key Council objectives or to take advantage of any significant external funding which may become available.

8. Borrowing and Treasury Management

8.1 The Treasury Management Strategy Statement (TMSS) and Treasury Management Practices (TMPs) provide the framework to ensure there is sufficient cash to pay suppliers, ensure that any surplus cash is invested safely and that borrowing to fund the capital programme 2020/21 to 2022/23 is affordable. The TMSS will be presented to the full Council on 10 March 2020.

8.2 Appendix 11 of the TMSS 2020/21, provides the prudential and treasury indicators for the periods 2018/19 to 2022/23, which help determine whether borrowing plans are affordable.

8.3 A measure of affordability is the ratio of financing costs to net revenue streams. The estimated ratio of financing costs to net revenue streams for the 2 years prior to this strategy and for the life of this strategy are as follows:-

2018/19 (Actual):	6.34%
2019/20 (Estimated)	6.68%
2020/21 (Projected)	6.62%
2021/22 (Projected)	6.57%
2022/23 (Projected)	7.01%

Based on the above, the proposed capital programme remains affordable in terms of the revenue implications.

In 2018/19, the Council revised its Minimum Revenue Provision policy and was able to back date the changes. The revision of the policy was designed to ensure a prudent provision is charged to the revenue account each year. However, a consequence of this change was that it identified an over provision in previous years and this over provision can be used in future years to ensure that the annual financing costs remain affordable. The Section 151 Officer will take this into account when determining the annual MRP charge.

8.4 Another important measure is that the level of external borrowing does not exceed the operational boundary for borrowing. The operational boundary must allow the Council the ability to borrow to cover emergency situations, including inability to access bank deposits, cash flow problems arising from a failure to collect income, emergency expenditure following an unexpected event or the need to take advantage of cheaper borrowing costs in times of rising interest rates. The current operational boundary is set at £25m above the capital financing requirement (CFR).

8.5 The Treasury Management Strategy aims to utilise the Council's internal cash balances, wherever possible, in place of external borrowing. In determining the level of internal borrowing, sufficient cash balances must be maintained to meet the daily cash needs of the Council i.e. paying staff, suppliers etc.

8.6 Table 5 below summarises the level of external borrowing compared to the operational boundary and shows the level of internal borrowing which the Council will utilise to fund the capital programme.

Table 5
Borrowing Forecast for 2018/19 to 2022/23

Borrowing - Forecast	2018/19 Actual £000	2019/20 Estimate £000	2020/21 Proposal £000	2021/22 Proposal £000	2022/23 Proposal £000
Operational Boundary General Borrowing	164,000	173,000	178,000	193,000	199,000
Actual and Forecast External Borrowing	132,549	129,257	134,093	152,944	160,388
Difference between Authorised Limit and Actual / Forecast External Borrowing (headroom)	44,451	48,743	48,907	45,056	43,612
Internal Borrowing (use of cash balances)	6,113	12,777	13,892	10,321	8,581
Total External and Internal Borrowing	**138,662**	**142,034**	**147,985**	**163,265**	**168,969**

9 Potential Risks arising from the Capital Strategy

9.1 The substantial annual savings required over the next three years puts the Council at risk, and this includes the capital programme. If the savings target is difficult to achieve, this might lead to a review of the capital programme to ensure that capital financing costs affecting revenue are reduced.

9.2 The Council's Capital Strategy is based on an assumed level of funding from Welsh Government and via external grants. Given the continued uncertainty over budgets and the changes to grant funding currently received from the European Union, there is a risk that this assumed level of grant funding may not be received as set out in the strategy. Any changes to funding will require a reassessment of the capital strategy and annual capital programme.

9.3 The Council has used internal borrowing for a number of years to fund capital expenditure. This has had a significant impact on cash balances and it is unlikely that the Council can sustain internal borrowing in the medium term. Internal borrowing will have to replaced, at some point, with external borrowing which, in turn, increases the capital financing costs charged to the revenue account. Increasing these costs in the present financial climate may impact on affordability and the Council's capacity to fund new capital projects through additional external borrowing. The Council externalised £15m of borrowing in March 2019 at very low rates with the PWLB.

9.4 The strategy acknowledges the importance of maintaining existing Council assets. There is a risk that the replacement programme is not sufficient and that the standard of the assets falls to such a point that a greater level of investment is required in order to maintain services. This additional investment may not be affordable or it will require other new projects to be removed from the programme.

9.5 The 21st Century Schools Programme is such an aspirational and substantial programme there is a risk that the Council will not be able to afford Bands C and D. Band B of the programme will need to be kept under constant review in order to ensure that costs are kept within the budgets set in the business cases.

9.6 External borrowing results in a significant interest cost each year. The majority of the Council's loans are fixed and are not affected by any interest rate rises. However, any sharp rise in interest rates may impact on the affordability of future projects which are funded from borrowing. Steps are outlined in the Treasury Management Strategy which mitigate this risk to some extent.

10. Knowledge and Skills

10.1 The Resources accounting team has six qualified accountants, including the Director of Function (Resources) / Section 151 Officer, who look after the capital programme and treasury management function. There is also a qualified accounting technician who has substantial experience in capital and treasury management. The team attend CIPFA courses on capital and treasury management and have a sound knowledge of this very specialised accounting area. There is also a team of professionals within services such as architects, project managers, engineers which support the Council with delivering the Capital Programme. The Council also commissions specialist advice from Link Asset and Treasury Management consultants. The decision-makers of the Council receive regular reports on capital and treasury management and Members are offered treasury management training. The governance arrangements are outlined in the Constitution and the Treasury Management Strategy Statement.

Appendix 2
Proposed Capital Programme 2020/21

Scheme Name	Budget 2020/21 £	Funded By								Total Funding
		2019/20 B/F	General Capital Grant	Supported Borrowing	Capital Receipts	Capital Reserve	Unsupported Borrowing	External Grants	Reserves	Total Funding
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2019/20 Schemes Brought Forward										
Star Gypsy and Traveller Site	479	479								479
Tourism Gateway	1,003	1,003								1,003
Holyhead Strategic Infrastructure	1,999	1,999								1,999
Llangefni Strategic Infrastructure	256	256								256
Flood Defences Red Wharf Bay	638	638								638
School Safety Project	200	200								200
Increasing Capacity for Childcare Capital Grant	324	324								324
Economic Development Schemes	30	30								30
Holyhead Regeneration (THI Phase II)	900	825			11	64				900
Total 2019/20 Schemes Brought Forward	**5,829**	**5,754**	**-**	**-**	**11**	**64**	**-**	**-**	**-**	**5,829**
Refurbishment / Replacing Existing Assets – Buildings, Vehicles, IT & Highways										
Disabled Facilities Grants	636		636							636
Disabled Access in Education Buildings	300			300						300
Refurbish Schools	1,000	1,034		1,000						2,034
Refurbish – Non School Buildings	600			379	121	100				600
Highways Resurfacing	1,850		726	524				600		1,850
Purchase of New Vehicles	480		480							480
Upgrading / Replacing IT Equipment	292		292							292
Total Refurbishment / Replacing Existing Assets	**6,192**	**1,034**	**2,134**	**2,203**	**121**	**100**	**-**	**600**	**-**	**6,192**
New Capital Projects 2020/21										
Economic Development and Environmental Well Being	95			95						95
Porth Wrach Slipway – Enforcement Cameras	30			30						30
Refurbishment of Plas Mona Residential Home	80		31	36	13					80

Scheme Name	Budget 2020/21 £	Funded By								
		2019/20 B/F	General Capital Grant	Supported Borrowing	Capital Receipts	Capital Reserve	Unsupported Borrowing	External Grants	Reserves	Total Funding
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Match Funding for Flood Relief Schemes	573					86		487		573
Leisure Improvements	250					250				250
Smallholding Refurbishments	100				100					100
Holyhead Landscape Partnership	1,146							1,146		1,146
Total New Capital Projects 2020/21	**2,274**	**-**	**31**	**161**	**113**	**336**	**-**	**1,633**	**-**	**2,274**
21st Century Schools / School Modernisation										
Completion of Band A Programme	1,205			217			602	386		1,205
Commencement of Band B Programme	1,550			504			542	504		1,550
Total 21st Century Schools / School Modernisation	**2,755**	**-**	**-**	**721**	**-**	**-**	**1,144**	**890**		**2,755**
TOTAL GENERAL FUND	**17,050**	**6,788**	**2,165**	**3,085**	**245**	**500**	**3,679**	**4,912**	**-**	**17,050**
Housing Revenue Account										
Planned Maintenance and WHQS Improvements	6,645							2,660	3,985	6,645
New Developments and re-purchase of RTB properties	10,493						250		10,243	10,493
HRA capital projects brought forward from 2091/20	3,117	3,117								3,117
Total Housing Revenue Account	**20,255**	**3,117**	**-**	**-**	**-**	**-**	**250**	**2,660**	**14,228**	**20,255**
TOTAL CAPITAL PROGRAMME 2020/21	**37,305**	**9,905**	**2,165**	**3,085**	**245**	**500**	**1,145**	**5,783**	**14,228**	**37,305**

ISLE OF ANGLESEY COUNTY COUNCIL

REPORT TO:	**EXECUTIVE COMMITTEE**
DATE:	**2 MARCH 2020**
SUBJECT:	**FINAL PROPOSED CAPITAL BUDGET 2020/21**
PORTFOLIO HOLDER(S):	**COUNCILLOR R WILLIAMS**
HEAD OF SERVICE:	**MARC JONES (EXT. 2601)**
REPORT AUTHOR: TEL: E-MAIL:	**MARC JONES** **EXT. 2601** **rmjfi@ynysmon.gov.uk**
LOCAL MEMBERS:	**n/a**

A - Recommendation/s and reason/s

1. PURPOSE OF THE REPORT

1.1 The Executive is required to propose a capital budget for 2020/21, which will be presented to full Council for approval at its meeting on 10 March 2020.

2. RECOMMENDATIONS

- To recommend to the full Council the following Capital Programme for 2020/21:-

	£'000	Ref
2019/20 Schemes Brought Forward	5,829	Section 2.2
Refurbishment / Replacement of Assets	6,192	Section 2.4
New One Off Capital Projects	2,174	See report 13/01/2020
Smallholdings funded from capital receipts	100	“
21st Century Schools	2,755	Section 2.3
Housing Revenue Account	20,255	Section 2.6
Total Recommended Capital Programme 2020/21	**37,305**	
Funded By:		
General Capital Grant	2,165	
Supported Borrowing General	2,364	
Supported Borrowing 2019/20 brought forward	1,034	
Capital Receipts	245	
Capital Reserve	500	
21st Century Schools Supported Borrowing	721	
21st Century Schools Unsupported Borrowing	1,145	
HRA Reserve & In Year Surplus	14,228	
HRA Unsupported Borrowing	250	
HRA brought-forward from 2019/20	3,117	
External Grants	5,782	
2019/20 Council Funding Brought Forward	5,754	
2020/21 Total Capital Funding	**37,305**	

B - What other options did you consider and why did you reject them and/or opt for this option?

A number of additional schemes are to be considered in the capital programme with the main driving factor in funding being affordability and the maximisation of external grant funding. The proposed capital programme and the additional Capital schemes, if supported, do not commit the Council to a level of borrowing which increases minimum revenue provision or interest payments to an unaffordable level.

C - Why is this decision for the Executive?

The matter is delegated to the Executive to propose the capital budget.

CH - Is this decision consistent with policy approved by the full Council?

Yes

D - Is this decision within the budget approved by the Council?

N/A

DD - Who did you consult?		What did they say?
1	**Chief Executive / Strategic Leadership Team (SLT)** (mandatory)	Comments from the SLT have been incorporated into the report
2	**Finance / Section 151** (mandatory)	n/a – this is the Section151 Officer's report
3	**Legal / Monitoring Officer** (mandatory)	Comments from the SLT have been incorporated into the report
4	**Human Resources (HR)**	-
5	**Property**	Property Services were consulted in the process of drawing up the draft budget proposal
6	**Information Communication Technology (ICT)**	
7	**Scrutiny**	The Scrutiny Committee considered the draft budget proposal at its meeting on 13 January 2020
8	**Local Members**	N/A
9	**Any external bodies / other/s**	N/A

E - Risks and any mitigation (if relevant)		
1	**Economic**	
2	**Anti-poverty**	
3	**Crime and Disorder**	
4	**Environmental**	
5	**Equalities**	
6	**Outcome Agreements**	
7	**Other**	

F - Appendices:

Appendix 1 – Report on the Capital Budget 2020/21
Appendix 2 – Proposed Capital Budget 2020/21

FF - Background papers (please contact the author of the Report for any further information):

Draft Capital Budget – Executive Committee - 13 January 2020

APPENDIX 1

DRAFT CAPITAL BUDGET 202/21

1. INTRODUCTION

1.1. At its meeting on 13 January 2020, the Executive recommended to approve the following provisional Capital Programme for 2020/21, as shown in Table 1 below. The draft Capital Budget for 2020/21, set out below in Table 1 and Appendix 2, takes into account the principles set out in the Capital Strategy which was approved by the Executive in February 2019 and the full Council in May 2019. It also meets the principles of the Draft Capital Strategy 2020/21, which will be considered alongside this Capital Programme and will be presented to full Council on 10 March 2020.

Table 1

Summary Recommended Capital Programme 2020/21 Recommended at the Executive 13 January 2020

	£'000	**Ref within Draft Capital Budget Report 2020/21, Executive 13 January 2020.**
2019/20 Schemes Brought Forward	3,294	Para 4.1 and Table 2
Refurbishment / Replacement of Assets	5,158	Para 4.2.2 and Table 3
New One Off Capital Projects	2,174	Para 5.2 and Table 4
Smallholdings funded from capital receipts	100	Para 5.7
21st Century Schools	9,039	Para 6
Housing Revenue Account	17,138	Para 7
Total Recommended Capital Programme 2020/21	**36,903**	
Funded By:		
General Capital Grant	2,165	
Supported Borrowing General	2,364	
Capital Receipts	245	
Capital Reserve	500	
21st Century Schools Supported Borrowing	2,680	
21st Century Schools Unsupported Borrowing	3,679	
HRA Reserve & In Year Surplus	14,228	
HRA Unsupported Borrowing	250	
External Grants	7,572	
2019/20 Funding Brought Forward	3,219	
2020/21 Total Capital Funding	**36,903**	

2. OUTCOME OF THE PUBLIC CONSULTATION PROCESS

2.1 A small number of comments relating to the Draft Capital Programme 2020/21 were received during the budget consultation 2020/21 which closed on 7 February 2020.

2.1.1 One respondee was supportive of the 21st Schools Programme but expressed concern about investment in Ysgol Sir Thomas Jones, which the respondent considered to be unfit for purpose. Another individual recommended that the 21 Century Schools' programme should focus more on the secondary schools. An individual asked for 50% more capacity over and above estimated capacity if the Council builds the new Corn Hir School in Llangefni. The increasing need for more school places in Llangefni was highlighted. The individual commented on the lack of capacity in Ysgol y Graig, which is a fairly new school.

2.1.2 One respondee recommended selling off or consolidating Council land and buildings.

2.1.3 One respondee expressed concern about the need to purchase a new gritter and considered it to be too high an expense for such short time usage.

2.1.4 A respondee questioned the need for IT improvements every year.

2.1.5 A respondee made a general comment which could apply to the revenue or capital budget as follows " There doesn't seem to be anything that's innovative or creative to generate income or to entice investment to the area. If there is, it doesn't come across".

3. UPDATING THE CAPITAL PROGRAMME FOR SLIPPAGE FROM 2019/20

3.1 An estimated slippage of £3,294k from 2019/20 was included in the budget for 2020/21. This was based on the projected outturn position at the end of Quarter 2. The Quarter 3 capital monitoring report has provided more up-to-date information and the slippage from 2019/20 to 2020/21 is expected to be £5,829k. The main changes are as follows:-

- The Gypsy and Traveller forecast slippage has reduced from £670k to £479k.
- Delays in the Tourism Gateway and Holyhead Strategic Partnership grant funded projects are expected with increased slippage expected to 2020/21.
- The Flood Defence Red Wharf Bay project is now expected to slip by £638k into 2020/21.
- The project for School Safety allocation of £200k in 2019/20 is expected to slip in its entirety due to resourcing issues. The service has requested that the project be carried forward onto the 2020/21 programme.
- The capital grant to expand school facilities for childcare settings is also expecting to underspend by £324k. This can be carried forward to 2020/21 in accordance with the conditions of the grant.
- Similarly, the Regulation and Economic Service has requested carry-forward of approximately £30k relating to the Economic Development Schemes intended to attract significant grant funding to Anglesey.
- The Holyhead Regeneration (THI Phase II) project continues to slip into 2020/21 at an estimated £900k. This slippage may be subject to change at yearend. Any changes will be reported at yearend and approval will be sought for the revised slippage budget for 2020/21.

3.2 The Council is currently moving towards the end of its Band A phase of the 21st Century Schools Programme. An estimated expenditure of £10,167k is expected on the last of the Band A projects, of which £1,205k is expected to be spent in 2020/21. In January, it was reported that £5,297k would be spent in 2020/21 on Band A projects but the delays in determining and approving the details of the project has led to a revision of this estimate. The majority of the project expenditure would take place in 2021/22 should the project be approved.

3.3 Band B projects are also expected to spend less in 2020/21 and more in 2021/22 and 2022/23. Currently, £1,550k is expected to be spent on Band B projects in 2020/21.

3.4 The Council were recently awarded an additional capital grant of £1,034k from Welsh Government to improve school buildings. Given the lateness of the announcement, it is not possible to plan and spend the grant by the end of the financial year. The Welsh Government are aware of the difficulties and the grant conditions allow this grant to be used in place of core funding in 2019/20, provided that the unused core funding is then used in 2020/21 for school improvements. The draft budget allocated £1,000k in 2020/21 towards school improvements and the receipt of this grant will increase the sum available to £2,034k in 2020/21.

3.5 An estimated underspend of £3,117k on the HRA capital programme 2019/20 is now predicted, due to delays in purchasing, refurbishing or building new houses. Therefore, slippage of £3,117k has been added to the HRA Capital Programme for 2020/21.

3.6 In order to maximise grant funding and to use the cheapest method of funding for the capital programme, flexibility in funding is needed. Therefore, the sources of funding per scheme identified in the Capital Budget 2020/21 (as shown in Appendix 2) may change during 2020/21. This is common practice and allows the Council to ensure that the use of grants are maximized and external borrowing is minimized.

3.7 These changes have been incorporated into the revised Proposed Capital Programme for 2020/21 which is summarized in Table 2 below.

Table 2
Final Proposed Capital Programme 2020/21

	£'000	**Ref**
2019/20 Schemes Brought Forward	5,829	Para 3.1
Refurbishment / Replacement of Assets	6,192	Para 3.4
New One Off Capital Projects	2,174	See report 13/01/2020
Smallholdings funded from capital receipts	100	“
21st Century Schools	2,755	Para 3.2 & 3.3
Housing Revenue Account	20,255	Para 3.6
Total Recommended Capital Programme 2020/21	**37,305**	
Funded By:		
General Capital Grant	2,165	
Supported Borrowing General	2,364	
Supported Borrowing 2019/20 brought forward	1,034	
Capital Receipts	245	
Capital Reserve	500	
21st Century Schools Supported Borrowing	721	
21st Century Schools Unsupported Borrowing	1,145	
HRA Reserve & In Year Surplus	14,228	
HRA Unsupported Borrowing	250	
HRA brought-forward from 2019/20	3,117	
External Grants	5,782	
2019/20 Council Funding Brought Forward	5,754	
2020/21 Total Capital Funding	**37,305**	

APPENDIX 2

Proposed Capital Programme 2020/21

Scheme Name	Budget 2020/21 £	Funded By								
		2019/20 B/F	General Capital Grant	Supported Borrowing	Capital Receipts	Capital Reserve	Unsupported Borrowing	External Grants	Reserves	Total Funding
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2019/20 Schemes Brought Forward										
Star Gypsy and Traveller Site	479	479								479
Tourism Gateway	1,003	1,003								1,003
Holyhead Strategic Infrastructure	1,999	1,999								1,999
Llangefni Strategic Infrastructure	256	256								256
Flood Defences Red Wharf Bay	638	638								638
School Safety Project	200	200								200
Increasing Capacity for Childcare Capital Grant	324	324								324
Economic Development Schemes	30	30								30
Holyhead Regeneration (THI Phase II)	900	825			11	64				900
Total 2019/20 Schemes Brought Forward	**5,829**	**5,754**	**-**	**-**	**11**	**64**	**-**	**-**	**-**	**5,829**
Refurbishment / Replacing Existing Assets – Building, Vehicles, IT & Highways										
Disabled Facilities Grants	636		636							636
Disabled Access in Education Buildings	300			300						300
Refurbish Schools	1,000	1,034		1,000						2,034
Refurbish – Non School Buildings	600			379	121	100				600
Highways Resurfacing	1,850		726	524				600		1,850
Purchase of New Vehicles	480		480							480
Upgrading / Replacing IT Equipment	292		292							292
Total Refurbishment / Replacing Existing Assets	**6,192**	**1,034**	**2,134**	**2,203**	**121**	**100**	**-**	**600**	**-**	**6,192**
New Capital Projects 2020/21										
Economic Development and Environmental Well Being	95			95						95
Porth Wrach Slipway – Enforcement Cameras	30			30						30
Refurbishment of Plas Mona Residential Home	80		31	36	13					80
Match Funding for Flood Relief Schemes	573					86		487		573

Scheme Name	Budget 2020/21 £	Funded By								
		2019/20 B/F	General Capital Grant	Supported Borrowing	Capital Receipts	Capital Reserve	Unsupported Borrowing	External Grants	Reserves	Total Funding
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Leisure Improvements	250					250				250
Smallholding Refurbishments	100				100					100
Holyhead Landscape Partnership	1,146							1,146		1,146
Total New Capital Projects 2020/21	**2,274**	**-**	**31**	**161**	**113**	**336**	**-**	**1,633**	**-**	**2,274**
21st Century Schools / School Modernisation										
Completion of Band A Programme	1,205			217			602	386		1,205
Commencement of Band B Programme	1,550			504			542	504		1,550
Total 21st Century Schools / School Modernisation	**2,755**	**-**	**-**	**721**	**-**	**-**	**1,144**	**890**		**2,755**
TOTAL GENERAL FUND	**17,050**	**6,788**	**2,165**	**3,085**	**245**	**500**	**3,679**	**4,912**	**-**	**17,050**
Housing Revenue Account										
Planned Maintenance and WHQS Improvements	6,645							2,660	3,985	6,645
New Developments and re-purchase of RTB properties	10,493						250		10,243	10,493
HRA capital projects brought forward from 2091/20	3,117	3,117								3,117
Total Housing Revenue Account	**20,255**	**3,117**	**-**	**-**	**-**	**-**	**250**	**2,660**	**14,228**	**20,255**
TOTAL CAPITAL PROGRAMME 2020/21	**37,305**	**9,905**	**2,165**	**3,085**	**245**	**500**	**1,145**	**5,783**	**14,228**	**37,305**

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