Agenda Item 3

# Preliminary Budget Report 2017/18

## 1. Introduction and Budgetary Context

1.1 This report provides a commentary on the revenue budgets for 2017/18, together with planned capital expenditure and contributions to reserves and balances. These are set out line by line in the Draft Estimates Book, together with future projections until March 2020.

1.2 The broad context of this budget setting process is largely unchanged from recent years. Central government funding for local government continues to be reduced and, although the Town Council does not receive any direct government grant, the pressure is felt indirectly through proposed reductions in service by principal authorities. Interest rates remain at a historic low level, having been cut to 0.25% in August 2016. Likewise, the CPI measure of inflation remains low, at 0.9% in October 2016, although this is projected to rise significantly over the lifetime of this budget.

1.3 As in recent years, an announcement on the potential extension of referendum principles to the setting of town and parish council precepts is expected to form part of the local government finance settlement to be published later in December 2016. The Town Council is one of the higher precepting parishes which has been identified by central government as most likely to be subject to a referendum if it were to increase its precept by more than 2%.

1.4 The Policy, Finance and Performance Management Committee considered a set of budget setting principles (see Table 1 below) at its meeting on 9th November 2016, and these have been incorporated in the draft budgets. The only exceptions to this are in relation to variations to the scale of charges recommended by council committees, and in respect of pension contributions which are now expected to increase by 2% to 18.5%.

**Table 1. List of budget setting principles, agreed November 2016**

| | Estimate 2017/18 | Estimate 2018/19 | Estimate 2019/20 |
|---|---|---|---|
| **Expenditure** | | | |
| Employee Costs | known | 2% | 2% |
| Pension-Employers Contribution* | 16.5% | 16.5% | 16.5% |
| Inflation (CPI) | 2% | 2% | 2% |
| Business Rates | 2% | 2% | 2% |
| Utilities | 2% | 2% | 2% |
| | | | |
| **Income** | | | |
| Fees & Charges (rounded to nearest £5) | 2% | 2% | 2% |
| Council Tax Support Grant | -50% | Nil | Nil |
| Council Tax Precept | 2% | 2% | 2% |

1.5 The draft budgets incorporate proposals made by the Council's standing committees during October and November 2016. The Policy, Finance and Performance Management Committee is asked to review these draft estimates in detail and make a recommendation to the Full Council meeting to be held on 23rd January 2017 which will agree the final estimates and set the precept for the 2017/18 financial year.

## 2. Summary of 2016/17 Financial Year to date

2.1 In April 2015 the total Council Tax precept was increased by 6.1%, generating an additional £39,420. Household bills increased by 5% due to an increase in the Council Tax base. This followed a freeze in household bills in April 2015.

2.2 The Town Council entered the 2016/17 financial year with a surplus general fund balance of £806,458. The net cost of services is projected to be £557,945 compared to an estimate of £638,800. The most significant variations year to date are an increase in car parking revenue and deferred or reduced expenditure on cemetery maintenance, parks and operations, beaches and foreshore and central services.

2.3 Consequently, an increased surplus of £307,290 on the general fund is projected for the current financial year, exceeding the original budget projection by £90,585. It is anticipated that £302,051 will either be appropriated to earmarked reserves or directly finance capital expenditure. This will increase the general fund at year end by £5,239, resulting in an estimated balance at 31st March 2017 of £811,697. Although this is well above the Council's risk assessed minimum level, it remains at the lower end of compliance with the *Practitioners' Guide*, which recommends that Councils should carry general reserves equivalent to a sum between three months' and one year's revenue expenditure.

## 3. Income Analysis

3.1 The following table summarises the Council's greatest sources of income during the last four full financial years, together with the probable out-turn for 2016/17 and the draft budget estimate for 2017/18. These headings, together with the precept and Council Tax Support Grant, account for approximately 90% of Council income. Despite an increase in car parking revenue, the income generated by the activities listed in the table is projected to have decreased by 2.7% in the current financial year. This is principally due to reduced investment income, lower property rental following the settlement of the Holiday Park claim, and a projected reduction in the number of interments at Godlingston cemetery. This reduction is less than the projected 3.6% anticipated at budget setting last year.

3.2 At the Transport Committee meeting held on 16th November 2016, no significant changes were recommended to the Council's **car parking charges**. For a second year visitor numbers improved in 2016, with revenue the highest since 2011. The Committee recommended that charges should be frozen to enable comparable figures to be generated for a further financial year.

**Table 2. Budgeted sources of income with an average in excess of £5,000 2012/13 – 2017/18**

| **Budgeted Sources of Income in excess of £5,000** | **12/13 Actual** | **13/14 Actual** | **14/15 Actual** | **15/16 Actual** | **16/17 Probable Out-turn** | **17/18 Estimate** |
|---|---|---|---|---|---|---|
| Car Parking (includes Co-Op net income; excludes market income) | 520,979 | 526,774 | 504,902 | 540,131 | **559,210** | 534,495 |
| Property Rental | 197,460 | 200,755 | 189,955 | 197,705 | **181,880** | 185,555 |
| Investment Income | 166,667 | 172,200 | 182,237 | 181,272 | **164,000** | 169,000 |
| Beach Hut Rents | 73,236 | 77,375 | 27,147 | 93,048 | **92,470** | 105,000 |
| Cemetery Charges | 29,153 | 43,706 | 32,342 | 45,303 | **30,500** | 33,000 |
| Private Beach Hut Sites | 15,166 | 15,866 | 16,334 | 16,684 | **16,685** | 17,035 |
| Market Income | 8,557 | 6,581 | 11,912 | 14,909 | **14,535** | 14,000 |
| Putting Fees | 16,006 | 15,296 | 15,135 | 12,686 | **12,795** | 15,000 |
| Heritage Toilets | 10,122 | 10,856 | 11,364 | 8,952 | **9,580** | 10,000 |
| Beach Concessions | 9,300 | 9,300 | 9,300 | 9,300 | **9,300** | 9,300 |
| Fishermen's Huts | 7,978 | 8,194 | 8,210 | 8,137 | **9,180** | 9,420 |
| Bowls Fees | 7,513 | 9,758 | 8,983 | 8,760 | **8,955** | 9,100 |
| Allotment Rents | 7,168 | 7,339 | 7,387 | 7,671 | **7,700** | 7,800 |
| TIC net income from sales and commission | 8,367 | 8,639 | 7,796 | 5,947 | **7,375** | 7,800 |
| Tennis Fees | 5,581 | 5,666 | 5,187 | 4,711 | **4,640** | 4,900 |
| TIC Advertising Boards | 8,621 | 8,400 | 6,917 | 6,870 | **3,320** | 6,000 |
| Boat Park Fees | 40,169 | 39,346 | 30,353 | 1,720 | **35** | 35,000 |
| | 1,132,043 | 1,166,051 | 1,083,692 | 1,163,806 | **1,132,160** | 1,172,405 |

3.3 The excellent late-summer weather boosted visitor numbers, returning to levels last seen consistently in the period 2009-11. However, factors such as the success of Swanage Railway as a park and ride option, extensive use of concessionary travel passes, the introduction of on-street parking on Shore Road and a growth in parking at the Pier mean that a downward trend in usage, and in consequence reduced income, may return in future years. The estimate for 2017/18 reflects a return to an average usage pattern.

3.4 Income from **property rentals** had remained stable through recent years, despite the economic downturn. This had been assisted by the leasing of additional properties such as the new Shore Road refreshment kiosk and the Town Hall Annexe. The lower out-turn for 2016/17 reflects the £29,000 p.a. reduction in ground rent for Swanage Bay View Holiday Park applicable from December 2015. Rent reviews on a number of properties and completion of the RNLI/Angling Club redevelopment at Peveril Point underpin the small increase projected for 2017/18.

3.5 **Investment income** has remained subdued in the ongoing 'lower for longer' interest rate environment. This has also been as a direct result of priority being given to security and liquidity over yield, in line with central government investment advice. Following consideration by the Policy, Finance and Performance Management Committee the Town Council agreed at its meeting on 28th November 2016 to amend its Treasury Management Policy to enable a greater proportion of its funds to be invested for a longer duration in order to increase yield in the medium term, which is reflected in the estimate for 2017/18. This decision was taken following a review of the timescale for capital projects and a reduction in risk further to the settlement of the holiday park indemnity claim.

3.6 Income from **beach hut bookings** remained static in 2016, significantly above the sum received prior to the construction of the new Shore Road beach huts, but still less than anticipated at that time. The Council has previously agreed that beach hut charges be left unchanged for the 2017 season in anticipation that income can be best increased by achieving higher rates of occupancy rather than putting up fees. Budgeted income for 2017/18 has been increased due to a marketing plan being developed by the new Visitor Services Manager and Business Development Officer. Members are asked to give some consideration at this meeting to arrangements for the Stroke Club and other community groups to have access to a beach hut during the summer months.

3.7 No income was received from the hire of grid spaces at the **Boat Park** for a second year running due to its closure to facilitate the building of a new Lifeboat Station and Angling Club building. The lack of income from launch fees reflects the decision not to man the facility over the summer. Negotiations over compensation are ongoing with the RNLI, but these will reflect an offset against the work carried out by the RNLI to improve the western jetty. The budget for 2017/18 is below average for the most recent years that the park was fully functional, reflecting the possibility that users may not return after such a lengthy closure period.

3.8 Income from activities at **Beach Gardens** is largely stable. Putting income has levelled off, but remains 40% below levels seen in 2009/10. Income from tennis and bowls fees are also broadly stable, but both down on the recent past. Income from all three activities is projected to increase somewhat in 2017/18, due to a combination of increased marketing and investment in improved tennis facilities. The bowls income will largely reflect the outcome of ongoing discussions between the Town Council and Swanage Bowls Club.

3.9 Income from **Swanage Market** is marginally lower than that received in 2015, but remains higher than under the last years of operation by the previous licensees. In the longer term it may be that consideration should be given to changing market day from a Friday. The current licence has two years left to operate, and it is anticipated that income will remain largely unchanged over that period.

3.10 Stock sales, commission from ticket agency arrangements and payments for advertising boards outside the **Tourist Information Centre** have all declined over recent years. In the current year the sharp decline in advertising board income is as a result of the boards being removed over winter 2016/17 whilst refurbishment works are undertaken at the TIC building on Shore Road. It is unclear whether these will be replaced when the building reopens for the 2017 season. It is anticipated that income from stock sales will increase as the refurbishment will provide a more inviting environment and more opportunities to display merchandise.

3.11 Total income from **private beach hut site rents, allotment charges,** and the **rental of fishermen's huts** is directly determined by the Council's policy on increasing fees and charges. Following a freeze in 2016/17, a 2% increase is projected for 2017/18. This decision will also impact on **cemetery charges,** although total income is obviously determined by factors outside of the Council's control.

3.12 In total the revenue generated from the activities listed in Table 2 is predicted to increase by £40,245 in 2017/18, a rise of 3.5%. Thus, whilst the outlook for the Council's most significant income streams is not altogether healthy, with a decline possible in car parking revenue and only a modest increase predicted in investment returns, it is anticipated that this will be offset by increased income from the Council's other activities.

3.13 In looking to **future opportunities** to raise additional revenue the newly appointed Visitor Services Manager and Business Development Officer will begin to explore possibilities during the 2017/18 financial year.

## 4. Expenditure Analysis

4.1 The following table summarises the Council's greatest revenue costs during the last four financial years, together with the 2016/17 probable out-turn and the 2017/18 budget estimate. These headings account for approximately 75% of Council expenditure. These costs fell by 11.4% between 2009/10 and 2011/12, largely due to reduced staffing levels, and remained largely stable for the following three financial years. However, they are projected to have increased by 14.4% in the current financial year, almost entirely due to staff vacancies having been filled (although the salaries budget is still projected to be underspent by approximately £27,000) and exceptionally high expenditure on one-off items of repairs and maintenance. On the whole, the majority of the Council's largest items of expenditure have remained static, with the key exception of the new funding of the youth centre via a grant to the Swanage and Purbeck Development Trust.

4.2 The Council's largest item of expenditure is **employment costs**. A comparison of the probable out-turn for this year with the budget for next year shows an increase of £102,000 in the salaries and wages bill. This significant increase reflects a number of factors, the most important amongst which are the creation of the new Visitor Services Manager post and amended TIC staffing structure; increased membership of the pension scheme, an increase of 2% in employer pension contributions and related deficit contribution (£29,000); an annual pay rise of 1%; and the making of a number of seasonal posts at the Depot into permanent positions.

4.3 The post list for 2017/18 was agreed by the Personnel Committee on 31st October 2016. Since that meeting the Council has been advised to anticipate an increase in employer's pension contributions as a result of the triennial valuation of the Dorset County Pension Fund. The figures set out in the previous paragraph are, however, estimates pending formal notification of the outcome of the review on town and parish councils which is expected to be received prior to the Christmas break. This will also clarify the Council's annual contribution towards the pension fund's deficit, which appears unlikely to increase significantly. This is the first valuation to be carried out under new government regulations.

4.4 For the first year in 2016 RNLI lifeguards patrolled Swanage beach as an alternative to the Council's own beach wardens. The Council agreed a virement in-year to reduce the beaches and foreshore wages budget and provide a new budget line for the lifeguard service. At its November meeting the Tourism Committee supported the recommendation of the Beach Management Advisory Committee that lifeguards should continue to be deployed in 2017/18, albeit from a new base to the north of the Victoria Avenue jetty. The cost of the service is likely to rise if the Council accepts the RNLI's proposal to increase the number of lifeguards from two to three for the peak summer season. Doing so would enable deployment of a jet-ski patrol as a deterrent to speeding watercraft in the bay. The total figure of £22,000 remains broadly in line with the previously estimated cost of £24,000 for beach wardens and therefore does not require any increase in budgeted expenditure.

4.5 Planned **repairs and maintenance** costs for the current financial year are significantly higher than last year, as mentioned in paragraph 4.1 above. However, this figure will always fluctuate dependent on the works scheduled, and these are anticipated to reduce in scale in 2017/18. The one-off items that have been requested for inclusion in the budgets by the Operations Manager, totalling £117,500, are set out at **Appendix 1** for Members' approval.

**Table 3. Budgeted Expenditure in excess of £15,000 2012/13 - 2017/18**

| **Cumulative Budgeted Expenditure in excess of £15,000** | **12/13 Actual** | **13/14 Actual** | **14/15 Actual** | **15/16 Actual** | **16/17 Probable Out-Turn** | **17/18 Estimate** |
|---|---|---|---|---|---|---|
| Employment Costs | 677,647 | 714,374 | 708,682 | 688,201 | **753,350** | 855,370 |
| Repairs and Maintenance | 150,911 | 84,539 | 110,913 | 126,420 | **194,460** | 121,025 |
| Business Rates | 104,182 | 107,939 | 105,349 | 126,890 | **127,585** | 130,120 |
| Utilities | 55,583 | 64,911 | 71,237 | 65,634 | **65,050** | 65,025 |
| Public Convenience Cleaning and Toilet Requisites | 60,340 | 59,965 | 59,995 | 59,390 | **59,300** | 61,575 |
| Car Parks Cash Collection/Security | 21,974 | 26,172 | 27,128 | 26,652 | **26,500** | 27,000 |
| Insurance | 29,241 | 28,069 | 19,872 | 21,394 | **22,810** | 23,000 |
| Legal and Professional Fees | 26,704 | 36,189 | 25,353 | 20,860 | **22,000** | 22,000 |
| Youth Centre Grant | | | | | **20,000** | 17,500 |
| RNLI Lifeguards | | | | | **17,425** | 22,000 |
| Refuse Disposal | 16,913 | 18,077 | 13,836 | 13,394 | **13,500** | 19,000 |
| Seaweed Removal & Beach Raking | 20,950 | 8,695 | 16,045 | 15,190 | **10,000** | 19,000 |
| Total Expenditure | 1,164,445 | 1,148,930 | 1,158,410 | 1,164,025 | **1,331,980** | 1,382,615 |

4.6 **Business rate** payments to Purbeck District Council rose significantly in 2015/16 as a result of the valuation of the new Shore Road beach huts and public conveniences. A further increase is anticipated in 2017/18 due to the revaluation of rateable values in England and Wales. At the time of writing this report little information is available to determine the impact on actual business rate bills for individual Town-Council owned properties, although the rateable values of the Council's car parks have increased significantly. Although initial calculations suggest the Council's total business rate payments might rise by £30-40,000, this appears likely to be mitigated by a system of discounts and transitional relief.

4.7 As reported last year, the National Association of Local Councils continues to lobby central government to exclude public conveniences from the payment of business rates. Were this to be successful it would save the Town Council approximately £16,000 p.a. on current rateable values, equivalent to a 2.3% increase in the precept.

4.8 Since 2011 the Town Council has procured **gas and electricity** through the LASER energy buying group, and this has been very effective in limiting increases in costs, with minimal increases in cost per kWh having been realised. Some of the increase in costs shown in the table above is as a result of increases in usage by third parties, which is then recharged by the Town Council. Increased water consumption in the seafront public conveniences is another factor, having risen by £3,000 in the last two years.

4.9 The benefits of robust procurement processes can be seen in a number of the items listed in the table above. New contracts for **public toilet cleaning** and **insurance** have led to significant savings and both items are currently being re-tendered for the next three-year period.

4.10 As in recent years, **legal and professional fees** are projected to remain a significant cost for the Council whilst the backlog of outstanding legal agreements is addressed. Advice in respect of Panorama Road has added to these costs this year. Reductions are likely in future financial years, although this will to some extent be influenced by factors outside of the Council's control.

4.11 The costs of **car park cash collection and security** are stable, having increased somewhat in recent years as a result of the removal of the credit card payment facility. This in fact represents an overall saving to the Council as cash processing is a cheaper option, and the reduction in credit card costs is in excess of the increase in cash processing costs. There is potential for the cost of this service to be reduced, possibly through a joint procurement exercise with nearby councils.

4.12 Costs for **seaweed clearance** and **refuse collection** are kept under review by the Operations Manager and it is proposed that a market testing/tender exercise be carried out for the forthcoming financial year.

4.13 As in previous years a sum of £10,000 has been allocated for **Grants, Donations and Contributions to Partner Organisations** in the draft budgets. Since the Town Council's adoption of the General Power of Competence earlier in the year these are no longer made under Section 137 of the Local Government Act 1972. A schedule of grant requests received will be circulated to Members with the agenda papers for the estimates meeting on 23rd January.

4.14 A separate budget line has been inserted in relation to payments made for the provision of services by third parties, such as funding for the school crossing patrol at Swanage Primary School (Mount Scar) and the grant to the Swanage and Purbeck Development Trust to support the continuation of the youth service. The cost of the school crossing patrol is estimated as £2,500 and Members are asked to confirm their willingness to continue funding of this service for 2017/18. Removing this from the grants and donations budget, but leaving that unchanged, represents a 33% increase in the availability of grant funds to other local organisations.

4.15 Overall, the expenditure set out in Table 3 above are expected to increase by £50,365 (3.8%) in 2017/18. This is driven largely by the increase in employment costs explained in paragraph 4.2 above. In order to control its costs and realise further savings it is recognised that the Council will need to continue to devote resources to procurement exercises and partnership working. This is particularly urgent in respect of car parks cash collection. Members are also asked to raise with officers any suggestions for areas to review, in order to identify future savings. Staff posts will also continue to be reviewed as and when they fall vacant.

## 5. Reserves and Capital Programme

5.1 The Town Council has an obligation to ensure adequate investment is made in its property assets so that they remain fit for purpose, and to establish financial reserves to meet this expenditure. In addition to the statutory Useable Capital Receipts Reserve (containing the funds received from the disposal of the Holiday Park and other assets such as Herston Public Conveniences), the Council has established the following earmarked reserves:

- Festive Lights
- Vehicle and Plant replacement
- King George's Play Area and Skate Park equipment replacement
- Forres Field changing facilities
- General Play Equipment replacement
- Car Park Machine upgrade
- Tennis Court refurbishment (to receive contributions from STC and Swanage Tennis Club)
- Repairs and Renewals Fund
- De Moulham Estate Service Road maintenance
- Public conveniences refurbishment
- I.T. equipment replacement
- F.J. Grace will trust (for public amenities in Swanage)
- Community Infrastructure Levy
- Insurance and contingency reserve

5.2 These reserves contained £1,128,273 as at 31st March 2016 and it is proposed that a contribution of £70,710 be made in the current financial year, £5,490 less than anticipated a year ago. The three-year capital programme shows £280,000 being spent from these reserves by 31st March 2020.

5.3 During 2016/17 £1,710 has been received from the District Council under the Community Infrastructure Levy on new development. Sums in this reserve must be spent within five years on either the provision, improvement, replacement, operation or maintenance of infrastructure; or anything else that is concerned with addressing the demands that development places on this area.

5.4 A **schedule of estimated capital expenditure for the years 2017/18 – 2019/20**, has been provided under Agenda Item 3)b), having been considered in detail by members of the General Operations Committee at a workshop held on 2nd December 2016. The total of programmed works is estimated at £1.9 million over the next three financial years, with a further £1.26 million in future years.

5.5 The refurbishment of the toilet block at Main Beach car park, the installation of an artificial playing surface at the bowling green at Beach Gardens and the relocation of the Depot have been identified for inclusion on **the priority capital programme for 2017/18**. Members are asked to recommend that this, together with the three-year schedule of capital works, goes forward, with any amendments, to the full Council for adoption on 23rd January 2017.

5.6 The Council will need to keep under review the best means of funding its capital programme, especially as it does not include any fully considered estimate of any stabilisation/improvement works to Sandpit Field/Spa/Weather Station Field, or the next phases of the public convenience replacement programme which will be considered at a forthcoming meeting of the Public Conveniences working party. If the Council wishes to preserve a proportion of the Usable Capital Receipts Reserve as an investment fund then it may have to consider borrowing or the disposal of an asset to fund such works in the future.

## 6. Precept and General Fund Balance

6.1 Under section 50 of the Local Government Finance Act 1992 a Town and Parish Council must take the following factors into account in setting its annual budget:

- the expenditure it will incur in the year in performing its functions
- an allowance for contingencies in relation to expenditure
- the financial reserves it will be appropriate to raise for meeting its future expenditure
- the financial reserves necessary to meet a revenue account deficit for any earlier financial year
- the sums which will be payable to it for the year
- the amount of the financial reserves which the authority estimates it will use.

6.2 An assessment of the General Fund Balance should take into consideration the council's level of working balances and a risk assessment of contingencies. In terms of working balances, the *Practitioner's Guide for Town and Parish Councils* states that it is generally accepted that councils should carry general revenue reserves of between three and twelve months of gross expenditure. On the basis of current projections for 2017/18 this would be a sum between £474,000 and £1.9 million.

6.3 This figure has also been subjected to a risk assessment (see **Appendix 2**), which suggests that £366,380 of revenue funds may be called upon in a worst case scenario during the financial year. Although many risk factors are low, in the current economic climate it remains of utmost importance that the Council's financial position is robust enough to withstand any unforeseen shocks.

6.4 In calculating the precept required to meet the obligations set out in paragraph 6.1 above, the situation was complicated three years ago by the reduction of the tax base and introduction of a Council Tax Support Grant (CTSG) as a compensatory measure, payable by the District Council out of a grant from central government. Whilst the District Council has no statutory obligation to pay such a grant, confirmation has been received that it plans to do so, albeit on a basis that will see it reduced by 50% for 2017/18 and phased out the following year, in accordance with Table 4 below.

**Table 4. Recent Changes to Precept and Council Tax Support Grant, including draft budget book projections to 2018/19**

| Financial Year | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|---|
| Total Precept | £608,775 | £582,969 | £643,580 | £648,060 | £687,480 | £701,230 | £715,254 |
| % change in total precept | 2.5% | -4.2% | 10.4% | 0.7% | 6.1% | 2.0% | 2.0% |
| Council Tax Support Grant (CTSG) | Nil | £41,031 | £39,110 | £29,330 | £19,555 | £9,775 | Nil |
| Total Precept + CTSG | £608,775 | £624,000 | £682,690 | £677,390 | £707,035 | £711,005 | £715,254 |
| Band D charge | £122.74 | £126.03 | £138.67 | £138.67 | £140.46 | Unknown | Unknown |
| % change in Band D charge | 2.5% | 2.7% | 10.0% | Nil | 5.0% | Unknown | Unknown |

6.5 The draft budget book provided with these agenda papers incorporates 2% per annum increases in 2017/18 and future years in line with the Council's existing Medium Term Financial Strategy. This may have to be revised down to 1.99% if central government introduces a 2% referendum threshold. A 2% increase would generate an additional £13,750, which would go some way towards addressing anticipated inflationary increases in the Council's costs during the forthcoming year. This would facilitate continued contributions to earmarked reserves and funding for the Council's capital programme in 2017/18, whilst also maintaining an anticipated general fund balance within the recommended range set out in paragraph 6.2 above.

6.6 At the present time it is impossible to predict the impact of any precept increase on household bills as the Council Tax base has not yet been calculated. It is due to be announced during December, but until then it is not possible to know whether it has increased or decreased. If the base has increased it could be possible to increase the total precept with it having very little or no effect on individual household bills.

Members of the Committee are asked to **recommend a precept for 2017/18 and adoption of the draft budgets** to the Full Council to be discussed on 23rd January 2017, by which date the Council Tax base will be known.

Martin Ayres - Town Clerk and Responsible Financial Officer
December 2016

**Appendix 1**

# Extraordinary/One Off Revenue Expenditure - 2017/18

| Service Area | Project | Estimated Cost | Notes |
|---|---|---|---|
| The Downs | Wall Stabilisation and Tree works | 20,000 | Awaiting report from the Tree Officer |
| Cemeteries | Memorial Inspections plus database | 12,000 | Brought forward from 16/17 |
| | Tree Works - Pollarding | 3,000 | |
| | Renew fence line and Wild Flower Seeding | 2,500 | |
| Panorama Road & Quarry Close | H & S Works | 10,000 | |
| Sandpit Field, Weather Station and Spa | Path Resurfacing | 7,000 | |
| | Engineers report/Stabilisation Survey | 10,000 | Brought forward from 16/17 |
| Peveril Point | Road repairs, signage and line markings | 10,000 | |
| Shelters | Repairs to beach shelters | 8,000 | |
| Beach Gardens | Tree works-pollarding | 5,000 | |
| CCTV | Additional Cameras | 4,000 | |
| All buildings | Landlords electrical safety certificates | 6,000 | |
| King Georges Field | | 7,000 | |
| Days Park | Tree works-pollarding | 2,000 | |
| Beach Gardens | Tennis Court Cleaning Equipment | 4,500 | |
| | Court Cleaning 3,4,5 & 6 | 2,500 | |
| Heritage Toilets | Roller Shutters | 4,000 | |
| | | 117,500 | |

## Appendix 2

| RISK | Analysis of Risk | 2017/18 Budget<br>£ | Potential Impact<br>% | Quantitative Assessment of Risk<br>£ |
|---|---|---|---|---|
| Small size of the authority (in comparison to principal councils) necessitates a minimum balance of 3% of gross expenditure | Balance required to withstand budgetary problems due to relatively low asset and resource base. | 3,342,690 | 3 | 100,280 |
| Employee costs are greater than budgeted | Statutory payments increase above the level allowed for in the estimates. | 855,370 | 1 | 8,555 |
| Contractual inflation is greater than budgeted | A general increase of c.2% has been assumed on expenditure, however, costs may increase above budgeted inflation. Prices for gas/electric are fixed until Oct 2016. Prices may increase above estimated levels at this point. | 2,487,320 | 2 | 49,745 |
| Treasury management income is not achieved | That the actual interest rate that is achievable is below the rate predicted at budget setting. An overall return of 2.7% has been estimated, if this return is only 2% overall the risk will be 25% of the estimated budget. | 169,000 | 25 | 42,250 |
| Car park revenue is below forecast | That a decrease in revenue is realised from estimate. With the continued stagnation or decline in car parking revenue the risks of not meeting budget are increasing. | 510,250 | 10 | 51,025 |
| Rental income is not received | With the current volatile economic climate some lessees may not be able to meet their rental payments | 250,435 | 30 | 75,130 |
| Seasonal income is lower than budgeted | That a decrease in revenue is realised from estimate. | 187,210 | 20 | 37,440 |
| Council Tax Support Grant is lower than budgeted | That the District Council does not pay the full estimated CTSG | 9,775 | 20 | 1,955 |
| **Total** | | | | **366,380** |

Agenda Item 3 a)

# Swanage Town Council - Estimates 2017-18

## Income & Expenditure Account Summary

| | 2016/17 (Revised Out-turn) | Estimate 2017/18 | Estimate 2018/19 | Estimate 2019/20 |
|---|---|---|---|---|
| **Expenditure** | | | | |
| Employees (all areas) | 753,350 | 855,370 | 867,820 | 880,450 |
| Rates (all areas) | 127,585 | 130,120 | 132,740 | 135,400 |
| Utilities (all areas) | 65,050 | 65,025 | 66,475 | 67,975 |
| Repairs & Maintenance (all areas) | 194,460 | 121,025 | 81,385 | 83,870 |
| Car Parks | 205,560 | 216,040 | 210,790 | 212,660 |
| Boat Park/Fishermen's Huts | 1,520 | 1,600 | 1,700 | 1,800 |
| Public Conveniences | 66,525 | 69,520 | 69,785 | 70,050 |
| Cemeteries | 8,900 | 24,750 | 6,150 | 6,400 |
| Parks & Operations | 85,380 | 122,625 | 81,915 | 83,730 |
| Beach Gardens | 6,695 | 20,685 | 9,770 | 10,195 |
| Beaches & Foreshore | 34,985 | 51,000 | 51,950 | 52,900 |
| Beach Bungalows | 2,640 | 3,665 | 3,820 | 3,975 |
| TIC | 33,120 | 38,850 | 35,625 | 36,500 |
| Allotments | 625 | 860 | 895 | 930 |
| Corporate & Central | 156,270 | 160,135 | 160,000 | 155,920 |
| Misc | 2,605 | 10,420 | 430 | 440 |
| Interest Payable & Bank Charges | 5,800 | 6,000 | 6,100 | 6,200 |
| **Total Expenditure** | **1,751,070** | **1,897,690** | **1,787,350** | **1,809,395** |
| | | | | |
| **Income** | | | | |
| Investment Interest | 164,000 | 169,000 | 141,000 | 140,000 |
| Car Parks | 740,535 | 725,435 | 728,010 | 732,645 |
| Boat Park/Fishermen's Huts | 9,215 | 44,420 | 47,560 | 48,750 |
| Public Conveniences | 12,180 | 12,650 | 12,700 | 12,750 |
| Cemeteries | 30,940 | 33,440 | 34,100 | 34,790 |
| Parks & Operations | 96,605 | 90,160 | 90,350 | 90,540 |
| Beach Gardens | 29,350 | 32,260 | 32,675 | 33,120 |
| Beaches & Foreshore | 51,395 | 52,195 | 52,585 | 52,985 |
| Beach Bungalows | 93,545 | 106,115 | 116,645 | 118,975 |
| TIC | 13,545 | 17,210 | 17,630 | 18,005 |
| Allotments | 7,700 | 7,800 | 7,900 | 8,000 |
| Other Buildings (inc C Park) | 70,100 | 70,500 | 70,550 | 70,600 |
| Corporate, DRM & Central | 22,515 | 15,975 | 16,160 | 16,350 |
| Misc | 9,700 | 9,820 | 9,830 | 9,840 |
| **Total Income** | **1,351,325** | **1,386,980** | **1,377,695** | **1,387,350** |
| | | | | |
| **NET OPERATING EXPENDITURE** | **399,745** | **510,710** | **409,655** | **422,045** |

## Capital Expenditure Summary

| | | | | |
|---|---|---|---|---|
| Capital Expenditure | 310,351 | 1,420,000 | 360,000 | 95,000 |
| Expenditure capital in nature | 0 | 25,000 | 0 | 0 |
| | **310,351** | **1,445,000** | **360,000** | **95,000** |
| **To Be Financed by:** | | | | |
| Usable Capital Receipts Reserve | 5,947 | 1,185,000 | 110,000 | 0 |
| Grants/Contributions | 25,000 | 50,000 | 0 | 0 |
| Earmarked Reserves | 48,063 | 140,000 | 45,000 | 95,000 |
| Contributions from the General Fund | 231,341 | 70,000 | 205,000 | 0 |
| **Total Financing** | **310,351** | **1,445,000** | **360,000** | **95,000** |

## Summary - All Income and Expenditure

| | 2016/17 (Revised Out-turn) | Estimate 2017/18 | Estimate 2018/19 | Estimate 2019/20 |
|---|---|---|---|---|
| **Expenditure** | | | | |
| Service Provision - I & E Account | 1,751,070 | 1,897,690 | 1,787,350 | 1,809,395 |
| Capital expenditure | 310,351 | 1,445,000 | 360,000 | 95,000 |
| Total Expenditure | 2,061,421 | 3,342,690 | 2,147,350 | 1,904,395 |
| *less:* | | | | |
| **Income** | | | | |
| Income generated from Services - I & E Account | 1,351,325 | 1,386,980 | 1,377,695 | 1,387,350 |
| Capital Receipts | 0 | 0 | 0 | 0 |
| Total Income | 1,351,325 | 1,386,980 | 1,377,695 | 1,387,350 |
| Net Expenditure to be financed | 710,096 | 1,955,710 | 769,655 | 517,045 |
| *Add:* | | | | |
| ***Movements Required on Reserves*** | | | | |
| Net transfer to Earmarked Reserves | 70,710 | 113,500 | 103,500 | 25,600 |
| Increase/(Decrease) in the General Fund | 5,239 | 16,795 | (2,900) | 281,915 |
| **Total Financing Required** | **786,045** | **2,086,005** | **870,255** | **824,560** |
| **Financed by:** | | | | |
| Precept | 687,480 | 701,230 | 715,255 | 729,560 |
| CTSG | 19,555 | 9,775 | 0 | 0 |
| Capital Grants/Contributions | 25,000 | 50,000 | 0 | 0 |
| Capital Receipts | 5,947 | 1,185,000 | 110,000 | 0 |
| Earmarked Reserves | 48,063 | 140,000 | 45,000 | 95,000 |
| | **786,045** | **2,086,005** | **870,255** | **824,560** |

| **Precept** | 2016/17 (Revised Out-turn) | Estimate 2017/18 | Estimate 2018/19 | Estimate 2019/20 |
|---|---|---|---|---|
| Total Precept | 687,480 | 701,230 | 715,255 | 729,560 |
| % Increase/Decrease | 6.08% | 2.00% | 2.00% | 2.00% |
| Council Tax Support Grant | 19,555 | 19,555 | 9,775 | 0 |
| % Increase/Decrease | -33.33% | 0.00% | -50.01% | -100.00% |
| Tax Base | 4,721.61 | 4,754.66 | 4,787.94 | 4,821.45 |
| % Increase/Decrease | 1.03% | 0.70% | 0.70% | 0.70% |
| Band D Charge | £145.60 | £147.48 | £149.39 | £151.32 |
| % Increase | 5.00% | 1.29% | 1.29% | 1.29% |
| Actual Annual Increase | £6.93 | £1.88 | £1.91 | £1.93 |

# Capital Programme 2017/18 - 2019/20
## Estimated Expenditure

| Schemes | Notes | Revised Estimated Expenditure 2016/17 £ | Estimated Expenditure 2017/18 £ | Estimated Expenditure 2018/19 £ | Estimated Expenditure 2019/20 £ | Total £ | Estimated Expenditure Future Years £ |
|---|---|---|---|---|---|---|---|
| **IT Equipment** | Addition to programme June 2013-5yrs UEL to review 18/19 | | | 20,000 | | **20,000** | |
| **Car Parks** | | | | | | | |
| Ticket Machines | Review in line with alternative payment methods and annual checks on machines | | 50,000 | | | **50,000** | |
| **Beach Gardens** | | | | | | | |
| Resurfacing Courts 4 & 5 | | 23,125 | | | | **23,125** | |
| Bowling Green and Tennis Court - Astroturf | Part funded by Clubs | 43,197 | 110,000 | | | **153,197** | |
| Bowling Green - Reconstruction of Surround | | | | 50,000 | | **50,000** | |
| Replacement of Shed/Out Building | | | 15,000 | | | **15,000** | |
| **Public Conveniences** | | | | | | | |
| **Heritage Toilets** | | | | | | | |
| Paddlegate Entry System | Deferred from 2012/13 | | | 25,000 | | **25,000** | |
| Handwash/drier System | | 15,000 | | | | **15,000** | |
| **Main Beach** | | | | | | | |
| Refurbishment | | | 85,000 | | | **85,000** | |
| **King Georges Field** | | | | | | | |
| Skate Park Equipment | Funded by Y-Axis via Reserves | 12,660 | | | | **12,660** | |
| Play Equipment | | | 20,000 | | | **20,000** | |
| **Town Hall & Annexe** | | | | | | | |
| Upgrade downstairs toilets (DDA compliant) | | | 20,000 | | | **20,000** | |
| Relocation and Upgrade of CCTV System to Annexe | | 17,818 | | | | **17,818** | |
| **Resurfacing** | | | | | | | |
| **Car Parks** Main Beach | | | | 60,000 | | **60,000** | |
| **Panorama Road** | | | | | 40,000 | **40,000** | |
| **Peveril Point Road** | | | | | 40,000 | **40,000** | |
| **TIC** | | | | | | | |
| Building Renovation | | 154,626 | | | | **154,626** | |
| **Seafront Stabilisation Scheme - Phase 3** | | | | | | | |
| Spa Bungalow Site Redevelopment/Sandpit Field/Weather Station | | | | | | | 1,000,000 |
| **Station Building/Station Approach** | | | | | | | |
| Safety Railings and pedestrian crossing upgrade | Pending discussions re: supermarket & risk assessment | | 10,000 | | | **10,000** | |
| **Stone Quay Phase III** | | | | | | | |
| Reconstruction and Bonding | | | | 205,000 | | **205,000** | |
| **Seafront & Downs Stabilisation Scheme** | | | | | | | |
| Recreation Ground/Beach Huts & Public Conveniences and Broad Road Stabilisation Scheme/Car Park Redevelopment | | 5,947 | | | | **5,947** | |
| **Depot Relocation** | Costs based on Bradbury Brichard estimates for build (including land purchase costs) | | 1,000,000 | | | **1,000,000** | |
| **Purbeck Business Centre** | Capital contribution for roof repairs - STC partner 1/9th of cost | | | | | | |
| Roof | | | 10,000 | | | **10,000** | |
| **Recreation Ground - Phase 2** | | | | | | | |
| Pathways | | | 30,000 | | | **30,000** | |
| War Memorial Wall | | 37,978 | | | | **37,978** | |
| **Vehicle & Plant Replacement** | | | | | | | |
| Vehicle replacement programme | | | 70,000 | | 15,000 | **85,000** | |
| **Grants - Capital in Nature** | | | | | | | |
| Swanage Pier Trust | | | 25,000 | | | **25,000** | |
| Swanage Football Club | | | | | | | 260,000 |
| **TOTALS** | | **310,351** | **1,445,000** | **360,000** | **95,000** | **2,210,351** | **1,260,000** |

| | | | | | |
|---|---|---|---|---|---|
| Usable Capital Receipts Reserve | 5,947 | 1,185,000 | 110,000 | 0 | **1,300,947** |
| Earmarked Reserves | 48,063 | 140,000 | 45,000 | 95,000 | **328,063** |
| Grants/Contributions | 25,000 | 50,000 | 0 | 0 | **75,000** |
| Contributions from the General Fund | 231,341 | 70,000 | 205,000 | 0 | **506,341** |
| Total Financing | 310,351 | 1,445,000 | 360,000 | 95,000 | **2,210,351** |

AGENDA ITEM 3 c)

# Swanage Town Council

# Policy on Reserves and Balances

## Contents



Revised & Adopted 18th January 2016

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1. **Introduction**
The Council is required, under statute, to maintain adequate financial reserves in order to meet the needs of the organisation. Section 50 of the Local Government Finance Act 1992 requires that billing and precepting authorities in England and Wales have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement. Consideration should also be given to the CIPFA guidance notes on Local Authority Reserves and Balances issued November 2008.

The Council's policy on the establishment, maintenance and adequacy of reserves and balances will be considered during the annual review of the Council's Medium Term Financial Strategy (MTFS) and preparation of the annual budget.

The Council will hold reserves for these three main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing - this forms part of general reserves;
- a contingency to cushion the impact of unexpected events or emergencies - this also forms part of general reserves;
- a means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the General Fund.

2. **General Fund Balance**
The General Fund Balance, commonly termed the "working balance", is a balance on the Council's revenue account which is not held for any specific purpose other than to cushion the Council's finances against any unexpected short term problems in the council's cash flow.

3. **Policy**: The General Fund Balance is to be maintained at a level based upon a risk assessment carried out annually by the Responsible Finance Officer when setting the budget for the forthcoming year. Any surplus on the reserve above the required balance may be used to fund capital expenditure, be appropriated to earmarked reserves or used to limit any increase in the precept.

4. **Financial Risk Management**
In order to assess the adequacy of the general fund when setting the annual budget, the Responsible Finance Officer will take account of the strategic, operational and financial risks facing the Council. The requirement of the level of the general fund balance for the forthcoming year will therefore be based upon a risk assessment of the Council's main areas of income and expenditure and take into account any provisions and contingencies that may be required. This financial risk assessment will be based upon the main financial risks identified in the Council's Corporate Risk Register

The main items to be considered are:

| Financial Risk | Analysis of Risk |
|---|---|
| Pay inflation is greater than budgeted | The cost of living increase is above the level allowed for in the estimates. |
| Contractual inflation is greater than budgeted | A general assumption is made when estimating the percentage increase on rates & utilities. This may increase above budgeted inflation.<br>Professional and other services costs increase above estimate. |
| Treasury management income is not achieved | The actual interest rate realised is below the rate predicted at budget setting. |
| Car park revenue is below forecast | That a decrease in revenue is realised from estimate. |
| Seasonal income is lower than budgeted/shortfall in income from fees and charges | That a decrease in revenue is realised from estimate. |
| Contingent liabilities are realised | That the Council becomes liable to pay contingent liabilities. |
| Council Tax Support Grant | That the District Council does not pay the grant. |

## 5. Statutory Reserves

Local Authorities also hold reserves that arise out of the interaction of legislation and proper accounting practices. At Swanage Town Council this is:

- Capital Receipts Reserves - this reserve holds the proceeds from the sale of assets, and can only be used for capital purposes in accordance with regulations.

## 6. Earmarked Reserves

Earmarked reserves represent amounts that are generally built up over a period of time which are earmarked for specific items of expenditure to meet known or anticipated liabilities or projects. The 'setting aside' of funds to meet known future expenditure reduces the impact of meeting the full expenditure in one year. The Council, when establishing an earmarked reserve, will set out:

- the reason/purpose of the reserve;
- how and when the reserve can be used;
- procedures for the management and control of the reserve;
- a process and timescale for review of the reserve to ensure continuing relevance and adequacy.

The following earmarked reserves will be held by the Council:

| Reserve | Use | Policy for Use |
|---|---|---|
| Festive Lights | To build up funds to meet the repairing obligation on the acquisition of the lights | That the surplus/(deficit) on the revenue account be appropriated to/(from) the reserve. |
| Vehicle & Plant Replacement | To build up funds to replace vehicles and plant | That the purchase of vehicles and plant, as agreed by Council, be met from this reserve. |
| King Georges Play Area and Skate Park | To build up funds to replace play & skate Park equipment | That the purchase of equipment, as agreed by Council, be met from this reserve. |
| Play Equipment-General Areas | To build up funds to replace play equipment | That the purchase of equipment, as agreed by Council, be met from this reserve. |
| Car Park Machines | To build up funds to replace car park ticket machines | That the purchase of equipment, as agreed by Council, be met from this reserve. |
| Tennis Courts Refurbishment | To build up funds to resurface the tennis courts | That a contribution of up to £3,600 be made by the Council with an equal contribution to be met by the Tennis Club. |
| Repairs & Renewals Fund | To build up funds to meet capital/revenue expenditure | That expenditure to be met from the reserve is agreed by full council. |
| Public Conveniences Fund | To build up funds to meet future capital expenditure | To fund future capital projects as agreed by full council. |
| Forres Field Changing Facilities | To build up funds to meet future costs | To fund future capital expenditure at Forres Field Changing Facilities. |
| De Moulham Back Roads | To fund the repair and maintenance of the De Moulham Estate Back Roads | That the surplus/(deficit) on the revenue account be appropriated to/(from) the reserve. |
| Insurance & Contingency Reserve | To hold funds to cover costs that the Council is not covered for under its Insurance | That any revenue expenditure to be met from the reserve is agreed by Council. |
| IT Equipment | To hold funds to meet future expenditure for IT equipment replacement | That the purchase of equipment, as agreed by Council, be met from this reserve. |
| Community Infrastructure Levy | To hold funds for the provision, improvement, replacement, operation or maintenance of infrastructure; or anything else that is concerned with addressing the demands that development places on an area. | This money must be spent in accordance with Regulation 59 C, within 5 years of receipt from the District Council. |

| | | |
|---|---|---|
| FJ Grace Will Trust | To hold funds from the FJ Grace Will Trust | To fund a project in order to provide additional amenities for the towns people of and the visitors to Swanage, as determined by Council. |

7. **<u>Review of the Adequacy of Balances and Reserves</u>**
   In assessing the adequacy of reserves the strategic, operational and financial risks facing the authority will be taken into account. The level of earmarked reserves will be reviewed as part of the annual budget preparation.

Agenda Item 4

# Swanage Town Council

## DRAFT

## Treasury Management Strategy Statement and Investment Strategy 2017/18 to 2019/20

**Contents**



**Appendices**



**Glossary of Terms**

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## 1. Introduction

The Council has regard to the Chartered Institute of Public Finance and Accountancy's Guidance for Smaller Public Organisations on the Application of the CIPFA Code of Practice for Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) and the Department for Communities and Local Government's (DCLG) *Guidance on Local Authority Investments,* March 2010, that requires the Authority to approve an investment strategy before the start of each financial year.

The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

In accordance with the CLG Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, or in the Authority's capital programme or in the level of its investment balance.

## 2. External Context

**Economic background:** The major external influence on the Authority's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

Looking overseas, with the US economy and its labour market showing steady improvement, the market has priced in a high probability of the Federal Reserve increasing interest rates in December 2016. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, anti-establishment parties and negative interest rates resulting in savers being paid nothing for their frugal efforts or even penalised for them, the outcomes of Italy's referendum on its constitution (December 2016), the French presidential and general elections (April – June 2017) and the German federal elections (August – October 2017) have the potential for upsets.

**Credit outlook:** Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard. Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however continue to fall.

**Interest rate forecast:** The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18**.** The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt. The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a possibility, to keep long-term interest rates low.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at ***Appendix A***.

### 3. Local Context

The Authority currently has £5.68m of investments. This is set out in further detail at ***Appendix B***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

**Table 1: Balance Sheet Summary and Forecast**

| Gross to Net Borrowing Requirement (Projections) | | | | | |
|---|---|---|---|---|---|
| | Actual 31-Mar-16 £ | Estimated 31-Mar-17 £ | Estimated 31-Mar-18 £ | Estimated 31-Mar-19 £ | Estimated 31-Mar-20 £ |
| External Borrowing & Other Long Term Liabilities (at Nominal Value) | 0 | 0 | 0 | 0 | 0 |
| Balances & Reserves (incl. £2.5m LAMIT) | 5,818,139 | 5,840,078 | 4,645,373 | 4,590,973 | 4,803,488 |
| **(Net Borrowing Requirement)/ Investment Capacity** | **5,818,139** | **5,840,078** | **4,645,373** | **4,590,973** | **4,803,488** |

The Authority is currently debt free and its capital expenditure plans do not currently imply any need to borrow over the forecast period. Investments are forecast to fall to £4.59m in 2018/19 as capital receipts and reserves are used to finance capital expenditure.

## 4. Borrowing Strategy

Local Council borrowing is governed by Schedule 1 to the Local Government Act 2003. Parish & Town Councils in England have to apply and receive approval from the Secretary of State before taking up any borrowing. Certain temporary borrowings do not require borrowing approval. The amount that an individual town council will be authorised to borrow will normally be limited to a maximum of £500,000 in any single financial year. Borrowing may only be entered into for a purpose that would be capital expenditure as defined in section 16 of the Local Government Act 2003 and the decision to borrow must be made by full council.

As indicated in Table 1, the Authority is currently debt free and its capital expenditure plans do not currently imply any external borrowing requirement in 2017/18.

The Council's requirement to borrow will be reviewed annually as part of the Council's TMSS and assessed in conjunction with the Council's capital programme. Any potential future borrowing will be assessed so as to minimise the costs to revenue.

The Responsible Financial Officer may from time to time authorise the use of a temporary bank overdraft facility to facilitate cash flow throughout the financial year.

The Council recognises that the borrowing of money purely to invest is ultra vires and the Council will not engage in this activity.

## 5. Investment Strategy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £5.49m and £5.68m. The funds that the Council holds for investment purposes are expected to decrease in the forthcoming year due to the financing of the Council's capital programme.

**Objectives:** Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

**Negative Interest Rates:** If the UK enters into a recession in 2017/18, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

**Strategy:** Given the increasing risk and falling returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2017/18. This diversification will represent a continuation of the new strategy adopted in 2016/17.

**Approved Counterparties:** The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

**Table 2: Approved Investment Counterparties**

| Credit Rating | Banks Unsecured | Banks Secured | Government | Corporates | Registered Providers |
|---|---|---|---|---|---|
| UK Govt | n/a | n/a | £ Unlimited<br>50 years | n/a | n/a |
| AAA | £2m<br>5 years | £2m<br>20 years | £1m<br>50 years | £2m<br>20 years | £1m<br>20 years |
| AA+ | £2m<br>5 years | £2m<br>10 years | £1m<br>25 years | £2m<br>10 years | £1m<br>10 years |
| AA | £2m<br>4 years | £2m<br>5 years | £1m<br>15 years | £2m<br>5 years | £1m<br>10 years |
| AA- | £2m<br>3 years | £2m<br>4 years | £1m<br>10 years | £2m<br>4 years | £1m<br>10 years |
| A+ | £2m<br>2 years | £2m<br>3 years | £1m<br>5 years | £2m<br>3 years | £0.5m<br>5 years |
| A | £2m<br>13 months | £2m<br>2 years | £1m<br>5 years | £2m<br>2 years | £0.5m<br>5 years |
| A- | £2m<br>6 months | £2m<br>13 months | £1m<br>5 years | £2m<br>13 months | £0.5m<br>5 years |
| BBB+ | £2m<br>100 days | £1m<br>6 months | £0.5m<br>2 years | £1m<br>6 months | £0.5m<br>2 years |
| None | n/a | n/a | £0.5m<br>25 years | £50,000<br>5 years | £0.5m<br>5 years |
| Pooled funds | £3m per fund | | | | |

**Credit Rating:** Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

**Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB are restricted to overnight deposits at the Authority's current account bank [Lloyds Bank plc].

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

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

**Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

**Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

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

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

**Risk Assessment and Credit Ratings**: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

**Other Information on the Security of Investments**: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

**Specified Investments**: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and

- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of “high credit quality”.

The Authority defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

**Non-specified Investments**: Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments will be set at £4.5m.

**Investment Limits**: In order to minimise the amount of reserves that would be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £3million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

**Table 3: Investment Limits**

| | **Cash limit** |
|---|---|
| Any single organisation, except the UK Central Government | £3m each |
| UK Central Government | unlimited |
| Any group of organisations under the same ownership | £3m per group |
| Any group of pooled funds under the same management | £3m per manager |
| Negotiable instruments held in a broker’s nominee account | £1.5m per broker |
| Foreign countries | £1m per country |
| Registered Providers | £1m in total |
| Unsecured investments with Building Societies | £1m in total |
| Loans to unrated corporates | £0.5m in total |
| Money Market Funds | £1m in total |

**Loans to Local Organisations/Community Groups:** This strategy does not preclude making loans with local charitable or community organisations. All requests for loans will be judged on an individual basis and with the advice from the Council’s treasury advisors.

**Liquidity management**: The Council has placed an upper limit for principal sums invested for over 12 months. Limits on long-term investments are set by reference to the Authority's medium term financial plan.

## 6. Other Items

There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

**Policy on Use of Financial Derivatives:** In the absence of any explicit legal power to do so, the Authority will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

**Investment Training:** The needs of the Authority's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff attend training courses, seminars and conferences provided by Arlingclose.

**Investment Advisors:** The Authority has appointed Arlingclose Limited as treasury management advisors and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled by monitoring:

- The timeliness of advice
- The returns on investments
- The accuracy of technical advice
- Regular meetings
- Benchmarking
- The quality and content of training courses

The Council recognises that the responsibility for treasury management and investment decisions remain with the Council.

## 7. Financial Implications

The budget for investment income in 2017/18 is £169,000, based on an average investment portfolio of £5 million at an interest rate of 3.38%. If actual levels of investments, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

## 8. Other Options Considered

The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Responsible Financial Officer having consulted with the Council's treasury advisors believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

| Alternative | Impact on income and expenditure | Impact on risk management |
|---|---|---|
| Invest in a narrower range of counterparties and/or for shorter times | Interest income will be lower | Lower chance of losses from credit related defaults, but any such losses will be greater |
| Invest in a wider range of counterparties and/or for longer times | Interest income will be higher | Increased risk of losses from credit related defaults, but any such losses will be smaller |

**Appendix A – Arlingclose Economic & Interest Rate Forecast November 2016**

**Underlying assumptions:**

- The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.
- The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends. The potential rise in protectionism could dampen global growth prospects and therefore inflation. Financial market volatility will remain the norm for some time.
- However, following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than earlier in the year. US fiscal stimulus is also a possibility following Trump's victory.
- Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending.
- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.
- The currency-led rise in CPI inflation (currently 1.0% year/year) will continue, breaching the target in 2017, which will act to slow real growth in household spending due to a sharp decline in real wage growth.
- The depreciation in sterling will, however, assist the economy to rebalance away from spending. The negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.
- Given the pressure on household spending and business investment, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.
- Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further monetary loosening looks less likely.

**Forecast:**

- Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected.

- The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.
- Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.

| | Dec -16 | Mar -17 | Jun -17 | Sep -17 | Dec -17 | Mar -18 | Jun -18 | Sep -18 | Dec -18 | Mar -19 | Jun -19 | Sep -19 | Dec -19 | Average |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Official Bank Rate | | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.12 |
| Arlingclose Central Case | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| Downside risk | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.40 |
| | | | | | | | | | | | | | | |
| 3-month LIBID rate | | | | | | | | | | | | | | |
| Upside risk | 0.05 | 0.05 | 0.10 | 0.10 | 0.10 | 0.15 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.18 |
| Arlingclose Central Case | 0.25 | 0.25 | 0.25 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.29 |
| Downside risk | 0.20 | 0.25 | 0.25 | 0.25 | 0.30 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.34 |
| | | | | | | | | | | | | | | |
| 1-yr LIBID rate | | | | | | | | | | | | | | |
| Upside risk | 0.10 | 0.10 | 0.15 | 0.15 | 0.15 | 0.20 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.23 |
| Arlingclose Central Case | 0.60 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.60 | 0.70 | 0.85 | 0.90 | 0.90 | 0.90 | 0.65 |
| Downside risk | 0.10 | 0.15 | 0.15 | 0.15 | 0.20 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.24 |
| | | | | | | | | | | | | | | |
| 5-yr gilt yield | | | | | | | | | | | | | | |
| Upside risk | 0.25 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.39 |
| Arlingclose Central Case | 0.50 | 0.40 | 0.35 | 0.35 | 0.35 | 0.40 | 0.40 | 0.40 | 0.45 | 0.50 | 0.55 | 0.60 | 0.65 | 0.45 |
| Downside risk | 0.30 | 0.45 | 0.45 | 0.45 | 0.45 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.47 |
| | | | | | | | | | | | | | | |
| 10-yr gilt yield | | | | | | | | | | | | | | |
| Upside risk | 0.30 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.39 |
| Arlingclose Central Case | 1.15 | 0.95 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.90 | 0.95 | 1.00 | 1.05 | 1.10 | 1.15 | 0.96 |
| Downside risk | 0.30 | 0.45 | 0.45 | 0.45 | 0.45 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.47 |
| | | | | | | | | | | | | | | |
| 20-yr gilt yield | | | | | | | | | | | | | | |
| Upside risk | 0.25 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.39 |
| Arlingclose Central Case | 1.70 | 1.50 | 1.40 | 1.40 | 1.40 | 1.40 | 1.40 | 1.45 | 1.50 | 1.55 | 1.60 | 1.65 | 1.70 | 1.75 |
| Downside risk | 0.40 | 0.55 | 0.55 | 0.55 | 0.55 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.57 |
| | | | | | | | | | | | | | | |
| 50-yr gilt yield | | | | | | | | | | | | | | |
| Upside risk | 0.25 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.39 |
| Arlingclose Central Case | 1.60 | 1.40 | 1.30 | 1.30 | 1.30 | 1.30 | 1.30 | 1.35 | 1.40 | 1.45 | 1.50 | 1.55 | 1.60 | 1.41 |
| Downside risk | 0.40 | 0.55 | 0.55 | 0.55 | 0.55 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | 0.57 |

**Appendix B – Existing Investment & Debt Portfolio Position**

| | 30/11/2016 Actual Portfolio £s |
|---|---|
| **Total Gross External Debt** | 0 |
| **Investments:** | |
| *Managed in-house* | |
| - Short-term monies | 2,516,892 |
| - Long-term investments | 662,948 |
| *Managed externally* | |
| - Pooled Funds - LAMIT | 2,500,000 |
| **Total Investments** | 5,679,840 |
| **Net Investment Position** | **5,679,840** |

## Glossary of Terms

| | |
|---|---|
| Balances and Reserves | Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure. |
| Bank Rate | The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the "repo rate". |
| Bond | A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life. |
| Capital Expenditure | Expenditure on the acquisition, creation or enhancement of capital assets |
| Capital growth | Increase in the value of the asset (in the context of a collective investment scheme, it will be the increase in the unit price of the fund) |
| Capital receipts | Money obtained on the sale of a capital asset. |
| Credit Rating | Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees. |
| Collective Investment Schemes | Funds in which several investors collectively hold units or shares. The assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as "Pooled Funds"). Unit Trusts and Open-Ended Investment Companies are types of collective investment schemes / pooled funds. |
| Corporate Bonds | Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies. |
| Corporate Bond Funds | Investing predominantly in bonds issued by companies and supranational organisations. |
| CPI | Consumer Price Index. (This measure is used as the Bank of England's inflation target.) |

| | |
|---|---|
| Floating Rate Notes | A bond issued by a company where the interest rate paid on the bond changes at set intervals The rate of interest is linked to LIBOR and may therefore increase or decrease at each rate setting. |
| Gilt | A fixed rate security issued as debt and repaid at a future date. |
| IFRS | International Financial Reporting Standards |
| Money Market Funds (MMF) | Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity. |
| Non-Specified Investments | Term used in the Communities and Local Government Guidance and Welsh Assembly Guidance for Local Authority Investments. It includes any investment for periods greater than one year or those with bodies that do not have a high credit rating, use of which must be justified. |
| Pooled funds | See Collective Investment Schemes (above) |
| Prudential Code | Developed by CIPFA as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice |
| PWLB | Public Works Loans Board. It is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments. |
| Revenue Expenditure | Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges |
| SI (Statutory Instrument) | The principal form in which delegated or secondary legislation is made in Great Britain. |

| | |
|---|---|
| Specified Investments | Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than 1 year. UK government, local authorities and bodies that have a high credit rating. |
| Supranational Bonds | Instruments issued by supranational organisations created by governments through international treaties (often called multilateral development banks). The bonds carry an AAA rating in their own right. Examples of supranational organisations are the European Investment Bank, the International Bank for Reconstruction and Development. |
| Treasury Management Code | CIPFA's Code of Practice for Treasury Management in the Public Services |
| Temporary Borrowing | Borrowing to cover peaks and troughs of cash flow, not to fund spending. |
| Term Deposits | Deposits of cash with terms attached relating to maturity and rate of return |
| Unsupported Capital Expenditure | The financing of Capital expenditure is financed internally through the revenue budget |