APPENDIX 1

IPSWICH
BOROUGH COUNCIL

FINANCIAL STRATEGIES AND MEDIUM TERM FINANCIAL PLAN 2017/18 ONWARDS

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Section 1

Medium Term Financial Plan - Overview

Introduction

This section introduces the Council's Medium Term Financial Plan (MTFP) and identifies the national and local financial issues that have shaped it.

The MTFP is refreshed annually.

This comprehensive document includes the Council's financial strategies and the MTFP for the General Fund, the Housing Revenue Account, the Capital Programme and the Prudential Code, Treasury Management and Annual Investment Strategy.

This MTFP continues to adopt a 4 year planning timescale, as a result of accepting the Government's offer of a four year funding settlement. The Council has submitted the required Efficiency Plan, and this has since been 'accepted' by Government. The plan outlines the impact of the 2017/18 Provisional Finance Settlement on Ipswich Borough Council, and in particular the impact of the changes to the New Homes Bonus which were published alongside the settlement. It also provides an update on progress with the identification of planned savings by means of a Transformation Programme involving individual service reviews and also "big ticket" items. This programme continues to form a key part of the strategy to meet the identified budget gap in 2020/21. The big ticket items have been further extended to meet the additional challenges imposed by the new settlement.

National Context

In its November 2016 update, the Office for Budget Responsibility noted that the Government is no longer on course to balance the budget during the current Parliament, and has formally dropped this ambition in a significant loosening of its fiscal targets. Public Sector net borrowing is now expected to fall more slowly than previously forecast, reflecting weak tax receipts so far this year and a more subdued outlook for economic growth as the UK negotiates a new relationship with the European Union.

Gross Domestic Product (GDP) forecasts have fallen since the publication of the MTFP in February 2016.

	Forecast (percentage increase)					
	2016	2017	2018	2019	2020	2021
Gross Domestic Product (GDP) – Nov 16	2.1	1.4	1.7	2.1	2.1	2.0
Gross Domestic Product (GDP) – Nov 15	2.4	2.5	2.4	2.3	2.3	n/a

However, this has not resulted in increased austerity measures. Rather the Government has proposed a much looser 'fiscal mandate' which gives scope for almost 2 ½ per cent of GDP more structural borrowing.

At the same time, projections for Consumer Price Inflation (CPI) have increased in 2017 & 2018.

	Forecast (percentage increase)					
	2016	2017	2018	2019	2020	2021
Consumer Price Index (CPI) – Nov 16	0.7	2.3	2.5	2.1	2.0	2.0
Consumer Price Index (CPI) – Nov 15	1.0	1.8	1.9	2.0	2.0	n/a

This MTFP includes partial provision for the impact of inflation, particularly in relation to salary costs, business rates and certain contractual arrangements. However, there is still an implicit saving built into most budgets to meet any inflationary pressures.

The vote to leave the European Union in 2016 continues to provide uncertainty over the public finances. The Office for Budget Responsibility in the November 2016 update comments:

"Given the uncertainty surrounding the choices and trade-offs that the Government may have to make, and the consequences of different outcomes, we have not attempted to predict the precise end result of the negotiations. Instead we have made a judgement – consistent with most external studies – that over the time horizon of our forecast any likely Brexit outcome would lead to lower trade flows, lower investment and lower net inward migration than we would otherwise have seen, and hence lower potential output. In time the performance of the economy will also be affected by future choices that the Government makes about regulatory and other policies that are currently determined at the European level. These could move in either a growth enhancing or a growth impeding direction."

The 2017/18 Budget Planning Process

Introduction

This section of the report is split into six further sections:

- Achievements in the last year
- The financial challenge facing the Borough Council
- The general fund revenue budget
- The capital programme
- The housing revenue account
- Longer term budget strategy

The Council is required to set a balanced budget by the end of February each year and accompanies this with a Medium Term Financial Plan (MTFP). Executive receives quarterly updates against the budget and in September each year Council agrees the final accounts for the previous financial year.

The Council's financial strategy is to invest in the town and the services the Council provides to local people and businesses at the same time as meeting its significant budget challenges through its Transformation Programme which includes both service reviews and "big ticket" items. Last year's MTFP (agreed at Council in February 2016) set out how the forecast budget gap would be met over the following four years. The new plan sets out how the new, larger, budget gap will be addressed and covers a four year period to 2020/21.

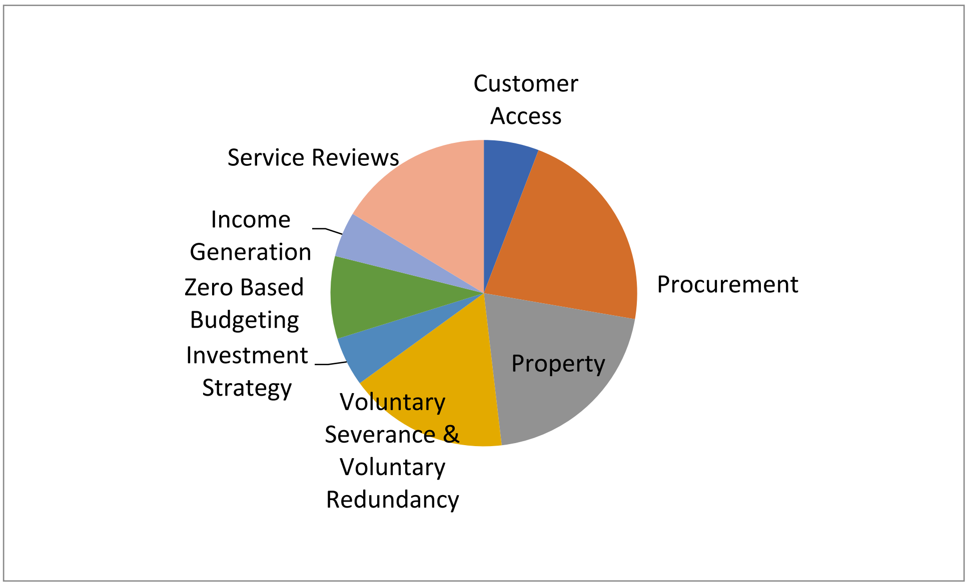
The MTFP does not sit in isolation but forms a significant part of the Council's strategic framework. A revised Corporate Plan is also being considered at this meeting and includes the core aims of:

- A stronger Ipswich Economy
- A High Quality and Sustainable Environment
- An enjoyable place to live, work and study
- A Healthy Community
- Quality Homes for All
- Safe Communities
- An Efficient and Effective Council

Achievements in last year

The Council's net budget for 2016/17 was approximately £22m in contrast to the net budget for 2011/12 of c£24m.

The Transformation Programme, discussed more fully below is expected to deliver £2.1m of savings in 2016/17, with the full target of £4.1m being achieved by the end of 2020/21. The pie chart below shows where the savings to date have been delivered.



Alongside these savings, the Council has delivered a range of achievements during 2016/17 including:

- The pilot out-of-hours noise nuisance service made permanent;

- New pavilion at Ransomes sports ground completed;
- Free collection of brown bins maintained;
- Gained planning permission for 60 homes on the former Tooks Bakery site;
- Gained planning permission for seven council houses in Widgeon Close and Ainslie Road;
- Set up Ipswich Borough Assets Ltd and completed first two deals;
- Construction started on Birketts building;
- Completed master plan for Sproughton sugar beet site;
- £9 million refurbishment work completed on Fison House / Connexions in Princes Street after Council completed a property deal;
- Supported Ipswich Waterfront Innovation Centre at University of Suffolk;
- Purchased 'Beeson site' on the Waterfront;
- Exchanged on purchase of site at Cauldwell Hall Road for future housing;
- Agreed sale of Scrivener Drive (circa £1 million capital receipt anticipated);
- Planning permission granted to Headlam Group for new development on Council land at Anglia Parkway as part of project to bring 80 jobs to Ipswich;
- Two Rivers Surgery opens (following sale of land by IBC and planning permission).
- Opened new car park at Elm Street and extended car park at South Street;
- Parking charges cut at Athena Hall car park;
- Appointed contractor to deliver new Crown multi-storey car park;
- Gained planning permission for an extension to Regent car park;
- Confirmed payment of new Living Wage rate of £8.45 from April;
- Opened new homeless family unit;
- Brought 45 more empty homes back into use;
- Added external wall insulation to 198 hard-to-heat council homes;
- Completed 549 bathroom and 397 kitchen refurbishments along with 125 new roofs and 138 rewires in council homes;
- Prevented 364 households from becoming homeless;
- £9 million investment over five years in A-rated boilers and solid wall improvements;
- £1.3 million investment into refurbishing Cumberland Towers;
- Seven homes returned to the Council following tenancy investigations;
- 5,168 Housing Benefit claims made online;
- Completed 401 disabled adaptations on council homes (April to December 2016);
- Community Caretakers carried out 7,845 individual jobs (including dealing with door entry issues, fly-tipping, gardening, dog fouling, minor repairs);
- Completed major refurbishment of Christchurch Mansion;
- Supplementary Planning Documents for Shop Front Design Guide and Cycle Strategy adopted;
- Updated Local List Supplementary Planning Document;
- Established Building Control Partnership with East Suffolk councils;
- Sunday opening at Ipswich Museum begun;
- New Anglo-Saxon acquisition, the Rendlesham Hoard, on display at Museum;
- Prestigious touring exhibition, Wildlife Photographer of the Year, on display at Ipswich Art Gallery;
- Holywells Park listed in top 10 best urban wildlife sites in Britain;
- Unused bowls green at Ransomes sports ground restored by a new club, which has signed a five-year lease;

- Murray Road Recreation Ground has had £145,000 of investment in an all-weather ball / tennis courts, play area and wildlife improvements;
- Christchurch Park and Holywells Parks retained Green Flag status;
- Landseer Park had £41,000 investment in its play equipment in response to community survey;
- Crown Pools confirmed as 12th most used pool in Britain;
- The Regent hosted The Sound Of Music; Annie; Cats; Footloose; Sister Act; Frankie Boyle; Reeves & Mortimer; Sarah Millican; Jimmy Carr; Bill Bailey; Sean Lock; Catherine Tate; Peppa Pig; Collabro; Professor Brian Cox; Leona Lewis; Jason Donovan; Peter Andre; Adam Ant; Beverly Knight; Dan TDM; Level 42; and Gary Avis & Friends With The Royal Ballet
- Royal Philharmonic Orchestra played a special gala concert to celebrate 25 years of the Regent;
- Regent pantomime Sleeping Beauty sold almost 20,000 tickets;
- The Corn Exchange has begun an association with the Suffolk Saxons, a member of the National Badminton League, with two fixtures taking place during 2016 with attendances of 283 & 325 respectively;
- An estimated 400,000 people enjoyed a wide range of council-organised events and cultural activities;
- Ipswich Borough Council led the group working with Police and other partners helping reduce ASB in Jubilee Park area;
- First fine issued for not installing a smoke alarm under new legislation;
- Prevented £1.6 million worth of council homes being sold through inappropriate or fraudulent right-to-buy approaches;
- Single person discount review campaign has removed 364 discounts so far raising a further £113,660 in council tax;
- Major prosecution for breaches of the Health and Safety at Work Act leading to a fine of £166,000;
- Created a new memorial for still-born babies at the Old Cemetery;
- Awarded £198,000 in discretionary rate relief supporting charities and non-profit making organisations;
- Provided matched funding to community initiatives through Area Committee funding of voluntary organisations;
- South West Area Committee supported projects to provide a programme of activities for young people at Chantry Library, deter fly-tipping and anti-social behaviour in Old Stoke and a drop-in centre for people suffering from mental health issues;
- North East Area Committee supported summer holiday activities for young people, fitness activities for senior citizens and equipment and tools to enable Headway Suffolk to provide rehabilitation through gardening.

The Financial Challenge Facing the Borough Council

As stated above the provisional Local Government Finance settlement (announced on 15 December) was significantly worse than anticipated.

The table below sets out the Core Spending Power headline figures for Ipswich Borough Council from the settlement for 2016/17 through the four years, as estimated by central government and included in the Local Government Settlement.

Key Information	2015/16	2016/17	2017/18	2018/19	2019/20

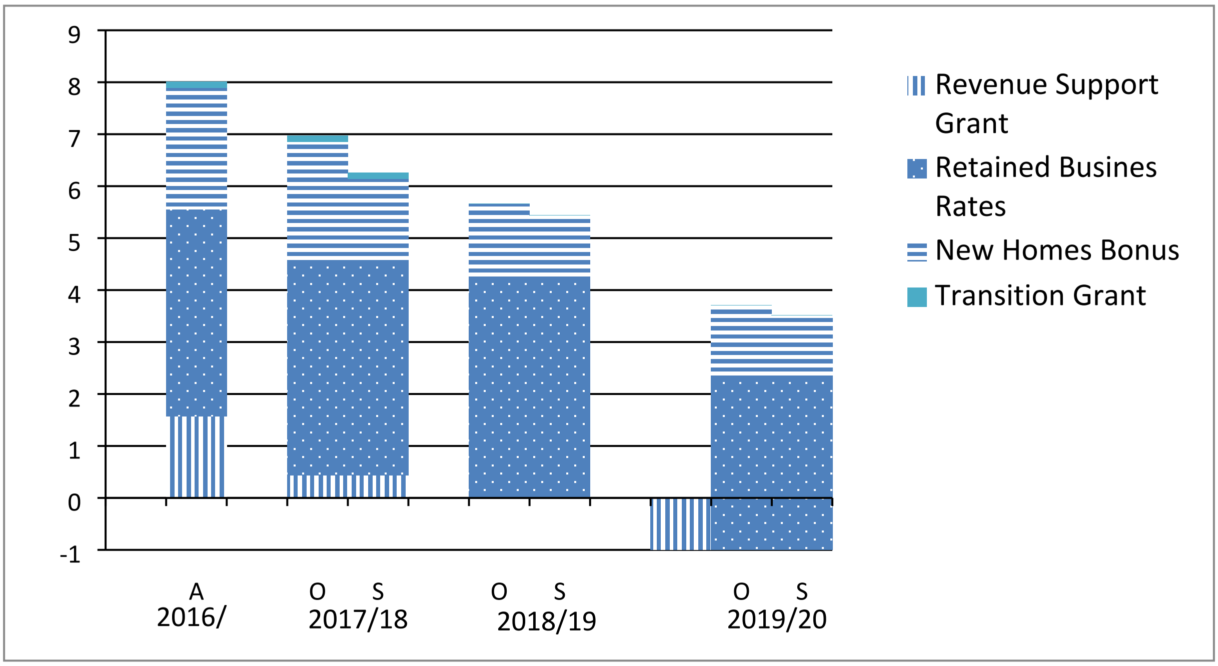
	£'m	£'m	£'m	£'m	£'m
Revenue Support Grant/Tariff adj (-)	2.99	1.57	0.44		-1.01
Council Tax*	11.98	12.59	13.23	13.91	14.62
Retained Business Rates^	3.95	3.99	4.07	4.19	4.32
New Homes Bonus	1.80	2.33	2.34	1.47	1.41
Transition Grant		0.12	0.12		
Total	20.72	20.60	20.20	19.57	19.34
gain/reduction(-)		**-0.12**	**-0.40**	**-0.63**	**-0.23**
% year on year		-0.6%	-1.9%	-3.12%	-1.17%
% cumulative		-0.6%	-2.5%	-5.56%	-6.66%

*Council Tax increased 2% annually.
^Retained business rates increased annually by C.P.I.

The table below sets out the same information in relation to the Core Spending Power, based on the 2017/18 Provisional Settlement. The impact of the changes to the New Homes Bonus reduce the Core Spending Power of the Council by a further £0.62m over the 4 year period.

Key Information	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**
Revenue Support Grant/Tariff adj (-)	2.99	1.57	0.44		-1.01
Council Tax*	11.98	12.40	12.97	13.57	14.20
Retained Business Rates^	3.95	3.99	4.07	4.20	4.35
New Homes Bonus	1.80	2.33	1.63	1.24	1.19
Transition Grant		0.12	0.12		
Total	20.72	20.41	19.23	19.01	18.73
gain/reduction(-)		**-0.31**	**-1.18**	**-0.22**	**-0.28**
% year on year		-1.5%	-4.95%	-1.14%	-1.47%
% cumulative		-1.5%	-7.19%	-8.25%	-9.60%

*Council Tax increased 2% annually.
^Retained business rates increased annually by C.P.I.



Last year, the Finance Settlement and other growth pressures increased the annual forecast deficit on the draft MTFP to a point that there would have been insufficient reserves available to support the strategy of addressing the budget gap through the Transformation Programme and Big Ticket reviews. However following review of the Plan at that time a number of positive items were identified:

- An increase in the tax base for Business Rates.
- An increase in the Council Tax base (new build and reduction of benefits).
- Target increase for Big Ticket/Service reviews (property and procurement targets increased to reflect current achievements).
- Review of previous growth, savings and time limited items (ongoing review in progress).
- Additional Commitments review (Contingency held by S151 Officer to meet forecast budget pressures that are not certain – reviewed to ensure only reflects current risks).
- Reduction in SRP fraud costs.
- Changing (reducing) growth allowance from £200k to £100k.

These factors taken together, meant that there was forecast to be almost £1m of reserves, remaining to help address budget pressures in 2020/21.

The second part of the table below shows the Ipswich Borough Council pressures that have been identified during 2016/17 and need to be accounted for in future years added to the increased deficit caused by the New Homes Bonus announcement. This brings the total deficit for 2017/18 to £1.07m and £1.3m in 2020/21.

Since the New Homes Bonus announcement further work has been done to identify additional savings and ideas for income generation. The third section of the table below shows the steps that are being suggested at this stage to reduce the deficit.

However these, coupled with the use of all of the Council's useable reserves still leaves a budget gap in the years 2018/19 (£100k), 2019/20 (£200k), and 2020/21 (£400k). This is shown as 'Unallocated Savings Target' below. It is intended to do further work and to report how it will be intended to meet this target at Executive alongside 2nd Quarter Budget Update in autumn 2017.

Forecast Summary	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Original Deficit as per 2016 MTFP	**0**	**1,063**	**1,054**	**1,301**	**561**
Changes:					
New Homes Bonus - potential reduction	59	7	357	448	723
Increased deficit due to settlement	**59**	**1,070**	**1,411**	**1,749**	**1,284**
Other growth pressures:					
NDR projections	98	1,020	318	299	628
2016/17 Qtr1 budget monitoring	0	180	180	180	180
Base Impact of monthly budget changes reported to Corporate Management Team	0	113	111	111	111
Forecast Inflation	0	296	528	650	772
Business Rates revaluation (IBC properties)	0	137	137	137	137
Miscellaneous Adjustments	-142	622	523	106	272
Increased deficit due to settlement and growth pressures	**15**	**3,438**	**3,208**	**3,232**	**3,384**
2015/16 out-turn	-1,610	0	0	0	0
Review of capital financing provision	-658	-336	-185	-144	104
Council Tax Base	0	-175	-179	-182	-186
Increased car parks income (short stay)	0	-121	-120	-119	-118
Employer pension contributions	0	-143	-398	-663	-663
Reduce growth provision by £25k per year	0	-25	-50	-75	-100
Reduce Area Committee budgets by £3k per ward	0	-48	-48	-48	-48
Savings on Angle publication	-44	-2	-2	-2	-2
Reduce grants allocation by £45k by 2020/21	0	0	-15	-30	-45
Phase out University Bursaries	0	-6	-8	-10	-12
New multi-story car park (West End Rd/Portman Rd)	0	0	0	-360	-360
Possible increase to Big Ticket targets	0	-117	-139	-161	-183
Unidentified Savings	0	0	-100	-200	-400
Opportunities identified	**-2,312**	**-973**	**-1,244**	**-1,994**	**-2,013**
Forecast deficit	-2,297	2,465	1,964	1,238	1,371
Bal b/f 1st April	**-4,741**	**-7,038**	**-4,573**	**-2,609**	**-1,371**
Balance c/f 31st March (excluding £2m working balance)	**-7,038**	**-4,573**	**-2,609**	**-1,371**	**0**

Even adopting this approach – which utilises £7.0m of reserves (leaving the minimum figure allowable of £2m) means that there is a base budget gap of £1.4m in 2021/22.

The budget gaps are summarised in the table below.

	2017/18	2018/19	2019/20	2020/21	Base Gap – On-going	4 year Cumulative Gap
Gap (£m)	2.465	1.964	1.238	1.371	1.371	7.038

The deficit or budget gap does not account for any further changes to government funding and cannot address the implications of announced but as yet unknown changes to Business Rate Retention, the introduction of Universal Credit and the possible introduction of "negative" Revenue Support Grant.

Assumptions made in developing the MTFP

Many factors and assumptions are used in producing the MTFP. These include:

- Executive's decision at its meeting on 12th January 2016 to accept the Government's offer of a four year settlement and the acceptance by Government of the Efficiency Plan.
- A net 3% increase in the Council's income from 'fees and charges' over and above 2016/17 budget levels;
- Council tax will be increased by 1.99% annually (which will ensure that the current administration continues to achieve the previous administration's core target which focussed on Council Tax levels). This increase equates to 10p or less per week for most households in Ipswich;
- Provision for the proposed national pay award for 2017/18 (i.e. staff salary increase) of 1.0% and this level of increase is anticipated to continue until 2020/21;
- Maintaining many budgets at last year's levels rather than increasing them by inflation saves the Council £280k in 2017/18, and £1.0m over the next four years;
- The Council Tax base will increase by 813 band D equivalents in 2017/18, and 450 in each of the years 2018/19 to 2020/21;
- That the savings predicted within the Transformation Programme and Big Ticket items are achieved.

The Transformation Programme

There are two main components used within this MTFP to meet the identified budget gap. These are:

1. Savings being delivered by the Service Review component of the Council's Transformation Programme and

2. The development of the Council's Big Ticket component of the Council's Transformation Programme

The Service Review component of the Council's Transformation Programme will ensure that every service the Council provides has been examined in detail by the end of 2017/18. Each Portfolio Holder will continue to take a clear lead on the reviews in their areas, supporting and guiding the Heads of Service and Operational Managers. Over-arching corporate leadership to the programme is provided by the Deputy Leader and the Chief Operating Officer.

The 2015/16 MTFP identified targets for six strategic 'big ticket' areas that with long-term planning, make net savings to the Council in the region of £500k each.

Since then significant progress has been made on the service reviews and all 'big ticket' areas and in some instances the targets have been adjusted (upwards) as a consequence of a re-appraisal as to what is achievable over the next four years:

	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Customer Access Strategy					
Target Saving	500	500	500	500	500
Actual Saving	122	479	479	479	479
Procurement Savings					
Target Saving	500	800	800	800	800
Actual Saving	460	460	460	460	460
Property Investments and Rental Income Increases					
Target Saving	500	600	600	600	600
Actual Saving	429	525	536	536	536
Voluntary Severance and Voluntary Redundancy					
Target Saving	304	500	500	500	500
Actual Saving	354	465	471	471	471
Investment Strategy					
Target Saving	109	200	200	200	200
Actual Saving	109	100	190	190	190
Zero Based Budgeting					
Target Saving	200	565	565	565	565
Actual Saving	183	194	199	205	205
Income Generation					
Target Saving	495	636	673	695	717
Actual Saving	100	100	100	100	100
Service Reviews					
Target Saving	371	416	416	416	416
Actual Saving	343	388	388	388	388
Overall					
Target Saving	2,979	4,217	4,254	4,276	4,298
Actual Saving	2,100	2,711	2,823	2,829	2,829

The table shows that the Council is making better progress than expected against some big ticket targets and is facing particular challenges with regard to income generation. Key achievements during 2016/17 include:

- Customer Access Strategy – the Business Process Re-engineering Programme across the Council has delivered significant savings.
- Procurement Savings – The redrafted Procurement Strategy is geared towards achieving the remaining target, focusing on achieving greater value for money through new and existing contracts.
- Property Investments and Rental Income Increases – Additional income has been assumed for the letting of part of Grafton House.
- Voluntary Severance and Voluntary Redundancy – A number of employees have left the Council through this scheme, with the £500k target close to being achieved
- Investment Strategy – Good progress has been made against this target by rescheduling the Council's debt.
- Zero Based Budgeting – A number of reviews are now complete, with the remainder to take place during 2017/18.
- Income Generation – Progress has been made following the work done within Trade Waste to improve income. Significant work towards this target with the significant strengthening of marketing and "product development" resource to support operational services to develop a more commercial mindset and the decision to create a new Local Authority Trading Company which would enable services to be delivered for profit (rather than just cost recovery) and lead to dividends in future years.
- Service Reviews – Completion of the Environmental Health and Parks service reviews have contributed to achieving the savings target.

In addition to the existing £467k Invest to Save fund, the 2015/16 Medium Term Financial Plan confirmed that a sum of £1m had been earmarked from the Working Balance to fund the cost of changes in service delivery as part of the Transformation Programme on an "invest to save" basis. During 2016/17, this sum has been supplemented with additional Planning Applications income and following a review of establishment budgets. So far just over £1.1m has been invested in supporting delivery of the Programme including resources to support the Business Process Re-engineering Programme.

Additional Growth and Savings

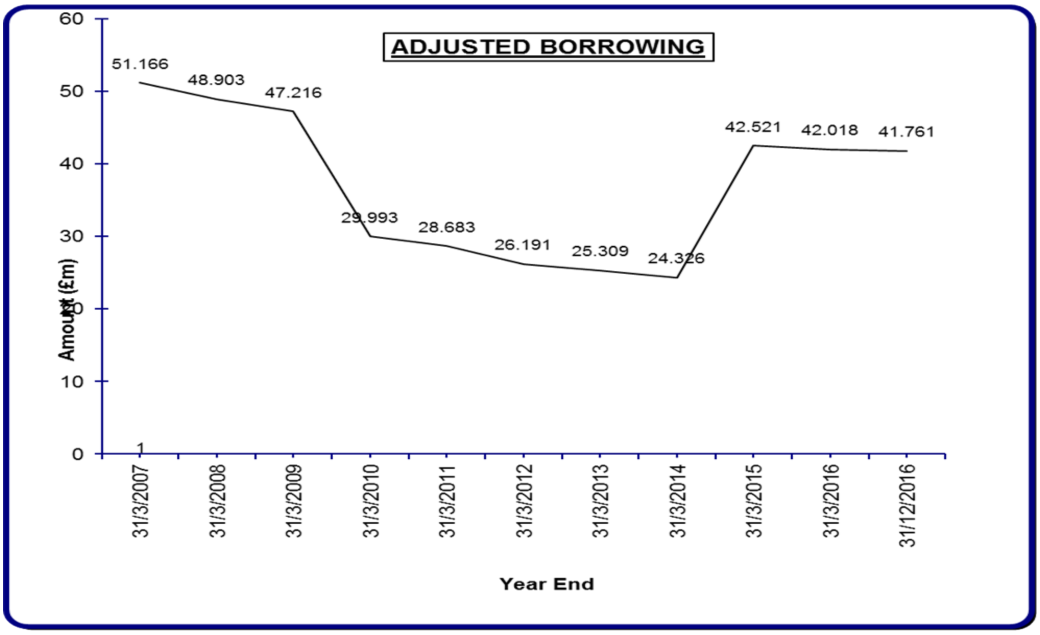
Following the national announcements at the end of 2016, savings options have been reconsidered and further ideas sought from staff and Councillors (via Overview and Scrutiny Committee). Some of the staff savings ideas are included within the above. No ideas were suggested at Overview and Scrutiny Committee.

In addition to the savings outlined in the section above about the Transformation Programme, the budget makes financial provision for a small number of growth items including the increase of the Environmental Health Out of Hours Response Service (Executive E/16/36)

The Capital Programme

The 2017/18 to 2020/21 capital programme is set out in Section 6.

It should be recognised though that balancing the capital programme has remained challenging this year. The programme in Section 6 demonstrates that the Council is able to maintain investment in its key priorities, but a large part of the funding for the programme will be sourced from borrowing which has an impact on the revenue budget due to the need for repayments (see graph below for underlying borrowing levels – adjusted for the £100m Housing Subsidy borrowing). It should be noted that not all items included within the programme have been financed; specifically contingency items and projects which require further detailed consideration and/or are anticipated to be self-financing. Any such expenditure that does come forward will be reported to Executive as part of the Quarterly Budget Monitoring Regime and financing sought accordingly. These impacts have been allowed for within the General Fund revenue components of the MTFP.



The programme for 2017/18 includes:

- Retaining the Jobs and Skills Fund;
- A major project to expand the number of parking spaces at Crown Street car park;
- Increased Housing Provision by building new Council houses;
- Cornhill investigation and survey works in preparation for major project together with commitment to fund 25% of the costs of the Cornhill Project to match funding from partners;
- A continuing commitment to improving and developing Ipswich Museums;
- Progressing the masterplan for development of the Sproughton Road site;
- Continuing commitment to making strategic asset purchases as they occur;
- Retaining the £1m commitment to support Broomhill Pool Trust following approval of HLF funding;
- Further investment in Crown Pools;

- Improvements to the Regent Theatre to improve the customer experience;
- Investment in outdoor play provision;
- Involvement in funding a new GP's surgery

Capital Programme Summary	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000
Housing Revenue Account	11,608	21,039	27,873	14,199
General Fund	19,199	26,814	11,683	12,471
TOTAL	**30,807**	**47,853**	**39,556**	**26,670**

Significant changes to the capital programme include a provision being made for a second new multi-storey car park in the Princes Street corridor (from 2018/19) – reflecting the demand for use of car parks in this area, the likely detrimental impact of the changes to Park and Ride on public transport patronage, increases in commuter numbers alongside improvements in the train station, the welcome decisions of the Clinical Commissioning Group, Babergh District Council and Mid Suffolk District Council to locate their 500+ employees to Russell Road and the hoped for redevelopment of a number of temporary car parks between Princes Street and the Waterfront.

The Housing Revenue Account

The Council owns around 8,000 general needs and sheltered properties. To the end of the 3rd quarter in 2016/17, 51 properties have been sold during the year under the 'right-to-buy' scheme. For the budget it has been assumed 80 sales per annum.

A New Build Programme for 1,000 Homes in a Decade was established in 2014, to ensure that the Council has a stable and long-term supply of housing. Resources have been earmarked in the Business Plan, mainly from revenue contributions and borrowing, to deliver the Programme.

To date the Programme has delivered 137 homes at Bader Close and schemes at Whitton Church Lane, Coltsfoot Avenue and Ulster Avenue. A programme of future schemes has been developed to ensure a steady supply of new homes. The next major scheme is at Old Norwich Road (former Tooks Bakery site) for 60 homes. Planning and Development Committee approved this scheme in January 2017. Two smaller sites at Widgeon Close (5 homes) and Ainslie Road (2 homes) are at the awarding of development contract stage.

The HRA Business Plan has been updated and assumptions revised to reflect the latest information available. The impact of the rollout of universal credit to householders from April 2018 is not known at present but it is believed that numbers affected are limited based on current information. It should be noted that the full impact of universal credit once it is fully implemented is not yet known but could be significant in the longer term (around 2022).

There have been significant recent announcements that could still have a fundamental impact on the future housing service. These changes were announced in the July 2015 National Budget and the Housing & Planning Act.

The July 2015 Budget introduced a significant change in the way annual rent increases are determined. In recent years the Government has published guidance that social rents should increase by the Consumer Price Index (CPI) plus one percent. However, the Welfare Reform and Work Bill introduced a 1% reduction to all social housing basic rents for each of the next four years. It is assumed in the forecast that rent rises revert back to the original formula from 2020/21.

The Housing and Planning Act 2016 introduced a number of significant changes which impact on the forecast. The key items are:

- To give councils a duty to consider selling high-value homes and require them to make payments to central government calculated on the assumption that such homes will be sold as they become vacant (under Section 76 of the act);
- To require councils to issue 2 to 5 year fixed term tenancies to nearly all new tenants (statutory guidance will set out changes to all categories and factors to be taken into account – expected shortly);
- The pay to stay scheme was withdrawn.

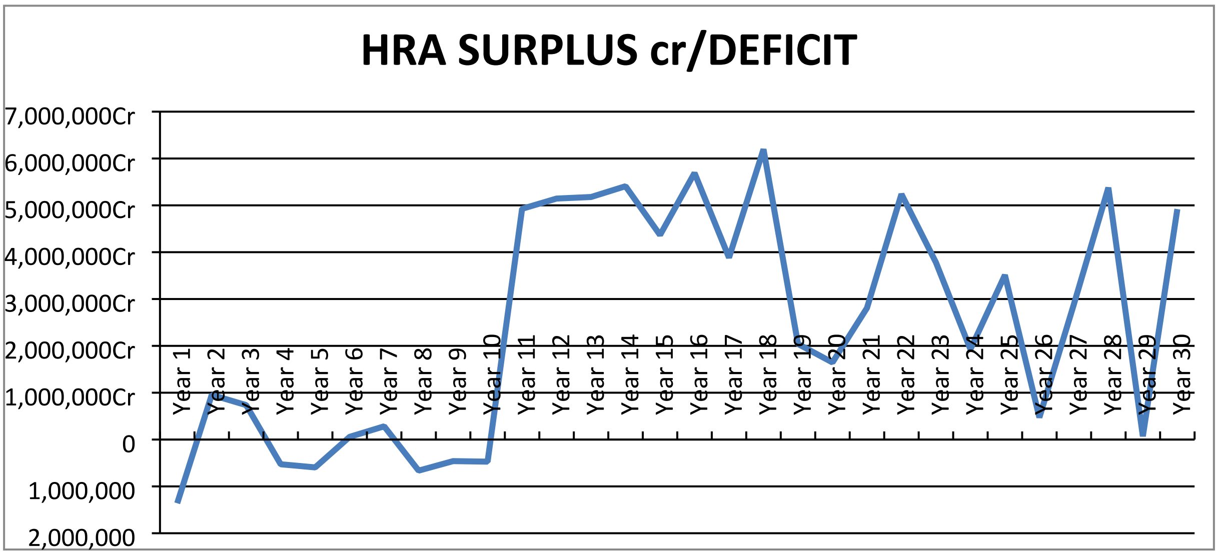
A contingency of £100k pa has been assumed to cover potential loss of rent following sale of high-value homes. It could be as high as £560k pa (worst case scenario) which would impact significantly on the ability to achieve the 1000 homes target.

An additional £100k pa has been allowed for to cover effects of changes to fixed term tenancies, implementation of Universal Credit & Welfare Reform changes. There is a £500k reserve that can be used to mitigate the effect of these.

A savings target of £200k pa has been established for the likely effect of the zero based budgeting & business process reviews currently under way.

The HRA Business Plan assumes current service levels are maintained throughout the 30 years. A number of assumptions have been made as indicated in the paragraphs above which will be monitored and updated as and when any more relevant information is available. These will be reported quarterly via the budget monitoring report.

The HRA Business Plan has been amended for the estimated impact of the “-1%” rent reduction and other known changes. The graph (below) shows the surplus (-) and deficit (+) predicted for each future year. Year 1 is 2016/17.



The fluctuating annual levels of surplus/deficit arise mainly from two things. Firstly the spending profile of the Ipswich Standard capital programme, which is funded entirely from Housing Revenue Account revenue contributions. The Ipswich Standard Programme is the spending needed to replace house components like kitchens and roofs to meet the replacement cycles identified in the Council's Asset Management Strategy. Secondly the timing of housebuilding schemes moving to build stage as part of the 1,000 Homes in a Decade programme can also cause fluctuations in spend profile.

Due to the financial changes explained in this section, it is anticipated that the Council will need to borrow up to the maximum prescribed limit of £144m, to fund the 1,000 Homes in a Decade Programme. This limit is also known as the HRA Borrowing Cap.

The Long Term Budget Strategy

Ipswich Borough Council has taken a robust long term budget strategy for a number of years – a strategy that, whilst evolving over time, aims to minimise the impact of changes in Central Government funding on the future level of IBC service provision. In that regard the Transformation Programme and its strategic "big ticket" items are projected to deliver around £4.1m in annual savings by 2018/19.

However, the recent financial settlements and announcements from government mean that the challenge is significantly greater than anticipated. The strategy will need to evolve again and realistically the Council cannot wait until the February 2018 Medium Term Financial Plan report to start making progress towards meeting the significant challenge which will start to bite in April 2018 and beyond.

It is anticipated that there will be an additional budget gap of £1.4m for 2020/21 and that this is above and beyond the level of savings already anticipated. Clearly this is a 'best estimate' figure at this time and it could be subject to significant changes relating to a variety of local or national decisions across the next three to four years.

This challenge is not just affecting this Council – the December announcement around New Homes Bonus has been particularly hard on district and borough councils across the country.

It is considered prudent to set in place work to address the major budget challenges that arise from 2018/19 onwards and to endeavour to do so well in advance of the end of the calendar year. To aid this work a new Corporate Plan has been produced.

The longer term budget/finance strategy will need to be revised as the Government proposals for transferring 100% of NNDR receipts to local government from 2020 become clearer. This is likely to include more reliance on increasing the council tax base (building more houses) and increasing the business rate base (attracting and retaining businesses).

Chief Finance Officer's Statement

Section 25 of the 2003 Act requires the Chief Finance Officer to report on the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. The Council must have regard to this report when making decisions about the calculations resulting from the report.

The Local Government Finance Act 1988 also requires the Chief Finance Officer to report to all the Authority's Councillors if there is likely to be unforeseen expenditure or an unbalanced budget. External Auditors have regard to these legal requirements and the Council's code of corporate governance when reviewing the arrangements in place to ensure that financial standing is soundly based.

The Chief Finance Officer is satisfied with the robustness of the estimates and the adequacy of working balance and reserves, which are reported fully in Section 5.

Assessments of financial risks associated with the 2017 to 2021 budgets are shown below. These risks are taken account of in setting the level of reserves.

Risk Description	Consequence of risk	Risk controls	Probability of risk occurring taking account of controls (scale 1- almost impossible 6 - very high)	Impact of risk, if it occurred taking account of actions (scale 1- negligible; 4 – catastrophic)	Actions to mitigate
Accuracy of estimates	Unable to deliver services within financial provision	Incorporate current economic predictions. Service Group based budget process. Revenue & capital programme set together. All known future changes included in budget.	2	2	Sign-off of detailed budgets by Heads of Service.

Risk Description	Consequence of risk	Risk controls	Probability of risk occurring taking account of controls (scale 1- almost impossible 6 - very high)	Impact of risk, if it occurred taking account of actions (scale 1- negligible ; 4 – catastrophic)	Actions to mitigate
Adequacy of reserves/balances/bad debt provision	Possible impact on service provision	Risk Management assessment, insurance policy	1	2	Regular monitoring
Significant variances due to poor budgetary control	Unable to deliver services within financial provision	Monthly Budgetary Control process	2	2	Quarterly reporting to Executive based on monthly exception reporting
Long term unsustainable/imprudent financial planning	Intervention by Secretary of State	Medium term financial planning, Prudential Indicator framework	1	1	Regular monitoring
Partnership/Joint Working – poor control/definition resulting in financial liability	Non delivery of agreed outcomes	Clear & concise contractual arrangements	2	3	Monitoring by Joint Committees
Corporate projects – predicting financial implications	Overspends or non delivery	Corporate projects managed using Prince 2 based methodology	2	2	Regular monitoring
Changing goals/expectations	Uncertainty over service delivery	Corporate Plan, Strategic framework	1	2	Clear communication
Failure of "Approved Organisation for Investment"	Potential loss of investment	Reviewed Treasury Management Strategy	3	2	Daily monitoring of investment counterparties
Poor Corporate Governance/financial control	Lack of control	New Corporate Governance, Audit review, Standing Orders	1	1	Regular reporting & monitoring
Changes in proper accounting practice	Statement of accounts not approved by external audit	The Council adheres to the latest Statement of Recommended Practice	1	2	Training and liaison with External audit
Unexpected changes in demographic/service expectations due to the current economic situation	Services under or over provided	Officers actively monitor potential future changes	2	2	Monitoring information used to predict future requirements

Specific Risks

There are also some known key specific risks and these are identified below:

Risk Description	Consequence of risk	Risk controls	Probability of risk occurring taking account of controls (scale 1- almost impossible 6 - very high)	Impact of risk, if it occurred taking account of actions (scale 1- negligible ; 4 – catastrophic)	Actions to mitigate
Capital Ability to fund/finance	Capital programme not delivered	Capital receipts forecast. Prudential borrowing code of practice adopted. All known future changes included in budget	4	2	Funding forecast
Housing Revenue Account Ability to deliver house building programme	Lack of available social housing	Capital receipts forecast. Prudential borrowing code of practice adopted. All known future changes included in budget	3	3	Funding forecast. Updated business plan. Use of capital financing requirement.

Adequacy of Working Balance and Reserves

The Council complies with the requirements of Local Authority Accounting Bulletin 77 (November 2008) on the establishment and maintenance of local authority reserves and balances. The guidance represents good financial management and should be followed as a matter of course.

The requirement for financial reserves is acknowledged in statute. Sections 31 and 43 of the Local Government Finance Act 1992, as amended, require billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the council tax requirement. There is no statutory minimum level of reserves that must be held.

It is the responsibility of the Chief Finance Officer to recommend the level of reserves and put in place protocols for their establishment and use.

The Reserves and Provisions Policy is included as Section 5.

GENERAL FUND AND COUNCIL TAX REQUIREMENT

In determining the Council Tax Requirement for 2017/18, councillors and officers have refocused resources on investing in the Council's priorities.

There is a special levy for the East Suffolk Internal Drainage Board issued on Ipswich Borough Council under the Internal Drainage Boards (Finance) Regulations 1990.

From 1st April 1990, in addition to raising revenue by means of drainage rents, the boards raised revenue by means of special levies issued to charging authorities and is included within the Council's budget requirement for areas wholly or partly included in the Board's respective districts.

The Government requires billing authorities to review their Council Tax Collection Funds and to estimate the likely surplus or deficit after allowing for all likely receivable income and additional needs for write offs beyond those actually provided for. Any estimated surplus or deficit must be taken into account in calculating basic amounts of tax.

Ipswich's Collection Fund shows a net surplus of £381,560. Any money recovered is credited to the Collection Fund, but the actual cost of recovery has to be charged to the General Fund and therefore falls within the Budget.

The Provisional Settlement for 2017/18 was announced on 15th December 2016 at £4,509,354. These figures are reflected in the summary below:

	2016/17 £	**2017/18 £**
Budget Requirement	**18,159,728**	**17,818,248**
Settlement Funding Assessment	**-5,556,241**	**-4,509,354**
Collection Fund Adjustment	**-200,487**	**-381,560**
To be financed from Council Tax	**12,403,000**	**12,927,334**

Assuming the Council has a Council Tax Requirement for 2017/18 of £12,927,334 the Borough Council's element of the Ipswich charge for a Band B property in comparison with 2016/17 would be:

Potential Change in Band B Council Tax	**2016/17 £ p**	**2017/18 £ p**	**% Change**
IBC Charge	**260.40**	**265.58**	**1.99**

It follows from the above that the tax (for Ipswich Borough Council) at each of the property bands, compared with 2016/17, would be as follows:

Band	**2016/17**	**2017/18**	**Change**	**Weekly increase**	**Chargeable Dwellings**	
	Tax (£ : p)	**Tax (£ : p)**	**%**			
					Number	**%**
A	223.2	227.64	1.99%	£0.09	18,958	31.3
B	260.4	265.58	1.99%	£0.10	22,776	37.6
C	297.6	303.52	1.99%	£0.11	11,100	18.3
D	334.8	341.46	1.99%	£0.13	4,275	7.0

E	409.2	417.34	1.99%	£0.16	2,254	3.7
F	483.6	493.22	1.99%	£0.18	895	2.1
G	558	569.10	1.99%	£0.21	355	
H	669.6	682.92	1.99%	£0.26	18	

Precepts

Suffolk County Council has publicised their intention to freeze general council tax, but implement the 3% social care increase. The Police and Crime Commissioner has proposed a 1.97% increase. Any changes from this position will be formally reported to the Council meeting and draft calculations for the total council tax figure will be recommended by the Chief Finance Officer.

Precepting Authority	Precept £	Band D £ p
Suffolk County Council	**44,806,126**	**1,183.50**
Suffolk Police Authority	**6,695,364**	**176.85**

The effect of these precepts on the individual elements of the Council Tax is shown below:

Precepting Authority	Valuation Band	2016/17 £ p	2017/18 £ p	Change £ p	Change %
	A	766.02	789	22.98	3.00%
	B	893.69	920.5	26.81	3.00%
Suffolk	C	1,021.36	1052	30.64	3.00%
County	D	1,149.03	1183.50	34.47	3.00%
Council	E	1,404.37	1446.5	42.13	3.00%
	F	1,659.71	1709.5	49.79	3.00%
	G	1,915.05	1972.5	57.45	3.00%
	H	2,298.06	2367	68.94	3.00%

Precepting Authority	Valuation Band	2016/17 £ p	2017/18 £ p	Change £ p	Change %
	A	115.62	117.9	2.28	1.97%
	B	134.89	137.55	2.66	1.97%
Suffolk	C	154.16	157.2	3.04	1.97%
Police	D	173.43	176.85	3.42	1.97%
Authority	E	211.97	216.15	4.18	1.97%
	F	250.51	255.45	4.94	1.97%
	G	289.05	294.75	5.70	1.97%
	H	346.86	353.7	6.84	1.97%

The proposed total charge for Ipswich Borough Council Tax payers is summarised below:

Valuation Band	2016/17 (£ : p)	2017/18 (£ : p)	Change (£ : p)	Change %
A	1,104.84	1134.54	29.70	2.69%
B	1,288.98	1323.63	34.65	2.69%
C	1,473.12	1512.72	39.60	2.69%
D	1,657.26	1701.81	44.55	2.69%
E	2,025.54	2079.99	54.45	2.69%
F	2,393.82	2458.17	64.35	2.69%
G	2,762.10	2836.35	74.25	2.69%
H	3,314.52	3403.62	89.10	2.69%

Housing Revenue Account (HRA)

The Council manages its landlord service through the HRA Business Plan and Asset Management Strategy. The finances for which are managed through the Housing Revenue Account.

The HRA estimates have been prepared in accordance with the requirements of Part VI and Schedule 4 of the Local Government and Housing Act 1989.

The HRA is ring-fenced and is required to balance each year i.e. the working balance can never be negative and for the sake of prudence it has been decided that a minimum balance of £1m is maintained.

Capital Programme

The Capital Strategy is set out at Section 6.

The Capital Programme is also set out, in detail, at Section 6. The programme has been updated based on latest information on resources available. In summary the Capital programmes for the General Fund and Housing Revenue Account are set out below:

General Fund	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	£000's	**£000's**	**£000's**	**£000's**
Expenditure	**19,199**	**26,814**	**11,683**	**12,471**
Financed By:-				
Capital Receipts	3,317	823	3,768	1,485
External Funding	3,264	1,051	505	505
Borrowing	12,483	24,911	7,392	10,463
RCCO's	135	29	18	18
Total Funding	**19,199**	**26,814**	**11,683**	**12,471**

Housing Revenue Account	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	£000's	**£000's**	**£000's**	**£000's**
Expenditure	**11,608**	**21,039**	**27,873**	**14,199**
Financed By:-				
Capital Receipts	2,189	9,855	11,676	3,907
Major Repairs Allowance	9,419	8,810	7,365	7,499
RCCO's	0	2,373	8,832	2,793
Total Funding	**11,608**	**21,038**	**27,873**	**14,199**

Careful monitoring of the associated capital financing requirements will be necessary as any slippage will impact on the overall borrowing requirements and thus the prudential indicators.

Section 2

Finance Strategy

Current Financial Position

The Council has a strong record of financial management and continued delivery of front-line services despite reductions in funding from central government, increased demands on service and reduced revenues resulting from the external economic conditions.

The Council has a policy of reviewing and updating a four year rolling Medium Term Financial Plan (MTFP) on an annual basis.

The 2016/17 budget was set against a background of continuing funding reductions and the increased risk of sudden changes in funding inherent in the retained business rates scheme. Future central government funding consists primarily of Revenue Support Grant and Retained Business Rates, which taken together are termed “Settlement Funding Assessment”. Against this background Ipswich was still able to set a balanced budget for 2016/17. The achievement of this budget has been monitored during the year against expenditure profiles and no significant year end variations are anticipated.

This history of strong financial management gives a strong foundation to base the revised MTFP for 2017/18 onwards upon.

Future aims of the organisation

The Finance Strategy supports the achievement of the Council’s objectives, through identifying the resource requirements connected with those aims and putting into place arrangements to fund those aspirations, over the period covered by the MTFP.

The revised Corporate Plan includes the core aims of:

- **A stronger Ipswich Economy**
- **A High Quality and Sustainable Environment**
- **An enjoyable place to live, work and study**
- **A Healthy Community**
- **Quality Homes for All**
- **Safe Communities**
- **An Efficient and Effective Council**

The source of the funding and the methodology used to allocate resources to achieving these themes are covered in the next section of this strategy.

How to provide the funding to meet these aims

The Council has retained its own housing stock so General Fund and Housing Revenue Account statutory accounts are maintained.

General Fund

The General Fund includes all the services provided by the Council with the exception of the provision of social housing.

The Council's General Fund Budget Strategy is to:-

- **Maintain and enhance where necessary the current level of front-line services provided to the residents of Ipswich;**
- **Maintain the Council's part of the council tax at the lowest level possible consistent with maintaining the level of service desired by Ipswich residents;**
- **Seek to ensure that the financial impact of the introduction of Council Tax localisation is minimised through a local tax scheme;**
- **Maximise income from retained business rates, by membership of the "Suffolk Pool", supporting the work of the Valuation Agency and promoting economic development in the Ipswich area;**
- **Maximise other income sources, including fees and charges, without impacting upon vulnerable service users.**

The General Fund is mainly financed by Government Grant, Retained Business Rates, Council Tax, Rents and Fees and Charges.

Housing Revenue Account

The Housing Revenue Account consists of all the income and expenditure relating to the provision of social housing. The Council must produce a 30 year business plan for the account on a 3 year cycle with the financial forecast updated annually.

The Council's Housing Revenue Account budget strategy is to:-

- **Deliver a sustainable 30 year business plan which includes equitable rent increases and supports a programme of investment in social housing;**
- **Maximise the opportunities presented by the Housing Reforms.**

Capital Programme

The Capital Strategy establishes the framework for investment in service infrastructure to facilitate the achievement of the Council's priorities mentioned earlier. Optimising funding available e.g. capital receipts, external funding, prudential borrowing, revenue contributions to capital outlay or borrowing as appropriate.

Financial risks inherent in the strategy

The finance strategy has inherent risks relating to finance and monitoring of expenditure, which are recognised and addressed in the following table:

Financial Theme	Risk	Risk Category	Mitigation
Council Tax	Collection rate variance	3-3	Robust monitoring of council tax income drivers
Income	Income level variance	3-3	Robust budgetary control framework
Revenue Expenditure	Over/underspends	2-3	Robust budgetary control framework
Changes in National funding framework	Financing level variance	2-3	Robust resource monitoring and associated spending controls
Capital Expenditure	Over/underspends	2-3	Robust budgetary control framework
Capital Financing	Financing level variance	2-3	Robust resource monitoring and associated spending controls
Treasury Management	Investment return variance	1-1	Monitoring within Treasury Management Strategy parameters
Partnership Funding	Engagement/Financing level variance	2-3	Partnership governance and monitoring arrangements
Council Tax Support Localisation	Levels of Council Tax collected fall	3-3	Implementation of the Ipswich Scheme
Localisation Business Rates	Inaccurate estimation of NNDR1 over/understates income levels	3-3	Monitoring of movements in tax base, contact with VOA and internal e.g. Building Control, Planning. Establishment of income equalisation reserve.
Business Rates Pooling	Exit of single authority dissolves the pool.	1-1	Partnership governance and monitoring arrangements

Note: for risk category definitions see page 16

Budget monitoring and control management

The Finance Strategy complements the Council's Performance Management Framework. The Council will continually improve and develop a robust budgetary control framework and will maintain a comprehensive suite of performance indicators covering all key financial activity.

Key elements of Financial Performance Management are:-

<u>General Fund & Housing Revenue Account revenue budgets</u>

Financial performance reviewed monthly by the Corporate Management Team
High level dashboard of financial indicators produced monthly;
Comprehensive national and local Performance Indicators, covering key corporate and service level activity;
Robust monthly budgetary control process including sign off by Heads of Service;
Robust Medium Term Financial Planning process;
Robust financial reporting and scrutiny of financial performance, including production of the Statement of Accounts.

<u>Treasury Management</u>
Annual review and setting of borrowing limits, policy and investment strategy;
Comprehensive Performance Indicators;
Quarterly financial reporting and scrutiny.

<u>Collection of taxes and other debts</u>
Comprehensive Performance Indicators;
Customer Surveys.

<u>Internal Audit</u>
Audit Plan and Internal Audit reviews;
Comprehensive Performance Indicators;
Audit & Governance Committee;
External Audit and inspection.

<u>The Prudential Indicators</u>
Annual setting of Prudential Indicators;
Robust monitoring and reporting arrangements.

Equality and Diversity Issues

Equality impact assessments are part of the legal duties set out in the Race, Disability and Gender under the Race Relations (Amendment) Act 2000, the Disability Discrimination Act 2005 and under the Equality Act 2006. An impact assessment is a positive step to ensure wherever possible preventative measures are taken to avoid discrimination and unfairness before it occurs.

This overall finance strategy has been the subject of an initial screening which concluded that a full assessment was not required to be undertaken. This conclusion was reached on the understanding that any actions arising from the strategy would be subject to individual screenings.

Section 3
General Fund MTFP

GENERAL FUND REVENUE FORECAST 2016/17 TO 2020/21

DESCRIPTION	2016/17 ORIGINAL BUDGET £	2016/17 DRAFT APPROX O/T £	2017/18 FORECAST £	2018/19 FORECAST £	2019/20 FORECAST £	2020/21 FORECAST £
SERVICE EXPENDITURE						
Employees	27,582,000	26,376,785	26,813,570	26,804,930	26,883,390	27,216,180
Premises	5,774,500	5,799,470	6,022,250	6,052,390	6,119,530	6,188,630
Transport	1,675,840	1,181,360	1,635,210	1,636,680	1,636,680	1,636,680
Supplies & Services	13,229,510	15,551,741	10,057,643	9,934,793	9,903,063	9,898,433
Agency & Contracted Services	848,880	850,120	864,880	884,880	894,880	894,880
Transfer Payments	53,934,150	53,934,150	53,684,150	53,684,150	53,684,150	53,684,150
Central & Departmental Support	717,650	747,160	732,390	739,710	747,110	754,580
Capital Financing	140	140	140	140	140	140
TOTAL SERVICE EXPENDITURE	103,762,670	104,440,926	99,810,233	99,737,673	99,868,943	100,273,673
SERVICE INCOME						
Government Grants	54,791,750Cr	55,074,580Cr	54,738,750Cr	54,738,750Cr	54,738,750Cr	54,738,750Cr
Other Grants,Contributions Etc	5,990,430Cr	6,355,960Cr	6,064,483Cr	6,109,393Cr	6,157,203Cr	6,205,493Cr
Sales	667,800Cr	786,100Cr	646,450Cr	659,380Cr	679,160Cr	699,530Cr
Fees & Charges	17,093,660Cr	16,310,096Cr	13,716,070Cr	14,253,350Cr	15,190,630Cr	15,590,790Cr
Rents	3,413,340Cr	3,586,170Cr	3,581,300Cr	3,571,300Cr	3,571,300Cr	3,571,300Cr
Interest	240Cr	240Cr	240Cr	240Cr	240Cr	240Cr
TOTAL SERVICE INCOME	81,957,220Cr	82,113,146Cr	78,747,293Cr	79,332,413Cr	80,337,283Cr	80,806,103Cr
NET SERVICE EXPENDITURE	21,805,450	22,327,780	21,062,940	20,405,260	19,531,660	19,467,570

General Fund MTFP contd

GENERAL FUND REVENUE FORECAST 2016/17 TO 2020/21

DESCRIPTION	2016/17 ORIGINAL BUDGET £	2016/17 DRAFT APPROX O/T £	2017/18 FORECAST £	2018/19 FORECAST £	2019/20 FORECAST £	2020/21 FORECAST £
NET SERVICE EXPENDITURE	21,805,450	22,327,780	21,062,940	20,405,260	19,531,660	19,467,570
Contingencies etc:						
Additional commitments	811,050	93,930	693,170	483,140	559,200	634,200
Transformation Fund (including former Invest to Save Fund)	132,640Cr	658,770	66,680Cr	14,590Cr	0	0
Big Ticket Savings	1,586,680Cr	851,000Cr	1,478,170Cr	1,400,870Cr	1,417,020Cr	1,439,020Cr
Transformation Savings Targets Set	225,000Cr	28,060Cr	28,360Cr	28,360Cr	28,360Cr	28,360Cr
Unidentified Savings	0	0	0	100,000Cr	200,000Cr	400,000Cr
Service Reserves	0	288,500	0	0	0	0
General Service Reserve	0	716,100	0	0	0	0
Interest on balances etc	16,520	46,510	38,540	19,220	22,120	22,120
External interest etc	182,160Cr	302,360Cr	94,080Cr	53,500Cr	64,500Cr	64,500Cr
Capital financing costs	2,300,780	2,265,080	2,405,880	2,687,030	2,818,540	3,130,930
Net Expenditure	22,807,320	25,215,250	22,533,240	21,997,330	21,221,640	21,322,940
Revenue support grant	1,569,000Cr	1,569,000Cr	440,000Cr	0	550,000	550,000
Transitional Grant	120,000Cr	120,000Cr	119,000Cr	0	0	0
Business Rates Baseline	3,986,000Cr	3,988,000Cr	4,067,000Cr	4,189,000Cr	4,315,000Cr	4,451,000Cr
Retained Business Rates	1,353,000Cr	722,000Cr	134,000Cr	1,026,000Cr	1,053,000Cr	1,053,000Cr
Collection Fund surplus(cr)/deficit 31st March (net)	200,500Cr	200,500Cr	381,560Cr	0	0	0
New Homes Bonus Scheme	2,261,000Cr	2,202,000Cr	1,491,000Cr	969,000Cr	893,000Cr	618,000Cr
Transfer to/from (cr) reserves	49,500Cr	652,260Cr	507,770Cr	507,770Cr	505,770Cr	176,770Cr
Use of (cr) / contribution to GF revenue balance	865,320Cr	3,358,490Cr	2,465,480Cr	1,964,160Cr	1,238,140Cr	1,370,470Cr
Unfunded Balance	0	0	0	0	0	0
COUNCIL TAX REQUIREMENT	12,403,000	12,403,000	12,927,430	13,341,400	13,766,730	14,203,700

GF REVENUE BALANCE						
Balance b/fwd 1st April	7,606,230Cr	12,396,740Cr	9,038,250Cr	6,572,770Cr	4,608,610Cr	3,370,470Cr
Surplus(Cr)/deficit for year	865,320	3,358,490	2,465,480	1,964,160	1,238,140	1,370,470
Balance c/fwd 31st March	6,740,910Cr	9,038,250Cr	6,572,770Cr	4,608,610Cr	3,370,470Cr	2,000,000Cr

General Fund Budgets 2017/18 - Service Group Analysis

The Controllable Budget figures below identify the expenditure and income coded directly to the service groupings. They exclude any recharges between General Fund Services and represent the Service Groups' "bottom-line".

Service Grouping	**2017/18 Controllable Budget £**
Chief Executive/Chief Operating Officer	1,180,580
Culture and Environment	8,401,940
Development	330,320
Finance and Revenues	5,731,660
Housing and Community	2,149,530
Law and Governance	3,268,910
NET SERVICE EXPENDITURE	21,062,940

General Fund Budget 2017/18 - Service Group Analysis contd

Chief Executive/Chief Operating Officer	
Service Area	**2017/18 Controllable Budget £**
Corporate Management Team	744,960
Chief Executive	
Economic Development	435,620
Total	1,180,580

General Fund Budget 2017/18 - Service Group Analysis contd

Culture and Environment	
Service Area	**2017/18 Controllable Budget £**
Commercial Development	
Tourist Information Centre	137,560
Tourism	10,180
Cultural Development	207,880
Corn Exchange	85,270
Entertainments Box Office	-114,800
Entertainments Management	672,070
Events and Festivals	133,210
Regent Theatre	-172,630
Street Names and Seats	20,000
Shopmobility	23,520
Enterprise Projects (incl Market)	3,820
Parks and Cemeteries	
Public Conveniences	66,930
Cemeteries and Crematorium	-228,690
Parks	995,500
Rangers	483,410
Allotments	37,630
Verges Maintenance	206,370
Amenity Areas (Open Spaces)	13,780
Sports and Leisure	
Sports Centres	848,310
Profiles Gyms	34,780
Swimming Pools	584,740
Waste and Fleet	
Refuse	983,840
Waste Education and Promotion	105,730
Recycling	549,060
Refuse Collection	498,760
Cleansing Services	1,004,550
Colchester and Ipswich Museums	
Museums	1,211,160
Total	8,401,940

General Fund Budget 2017/18 - Service Group Analysis contd

Development	
Service Area	2017/18 Controllable Budget £
Facilities and Repairs	
Green Travel Plan	11,910
Health and Safety	73,200
Building and Design	639,040
Grafton House	-18,520
Major Capital Schemes	178,810
Planning and Development	
Bus Route Subsidies/Network Support	12,880
Footway Lighting	72,350
Town Centre Pedestrian Areas	1,270
Transportation	90,780
Drainage	37,290
Planning and Development	460,410
Planning Policy	17,020
Local Development Framework	160,100
Development Services Support	229,670
Building Control	87,160
Caps System Costs	48,750
Historic Churches	55,820
Community/Environmental Improvements	33,360
Conservation of Historic Buildings	31,600
Property Services	
Corporate Properties	-1,996,360
IP-City Centre	-217,830
Property Services Management	321,610
Total	330,320

General Fund Budget 2017/18- Service Group Analysis contd

Finance and Revenues	
Service Area	**2017/18 Controllable Budget £**
Customer Services	
Customer Services Centre	840,970
Finance and Procurement	
Finance and Procurement	807,400
Corporate Management Direct Costs	191,140
Unapportionable Central Overheads	2,211,510
Housing and Council Tax Benefit Administration	757,340
Information Technology	923,300
Total	5,731,660

General Fund Budget 2017/18 - Service Group Analysis contd

Housing and Community	
Service Area	**2017/18 Controllable Budget £**
<u>Community Protection</u>	
Residents Parking Schemes	-85,410
IBC Car Parks	-1,384,190
Emergency Planning	56,940
Emergency Services Centre - HEARS	-132,670
Emergency Services Centre - CCTV	483,620
Community Safety	398,280
<u>Environmental Health and Licensing</u>	
M3 System Costs	9,810
Occupational Health	124,630
Food Safety	267,950
Private Sector Housing Services	334,230
Environmental Protection	468,440
Port Health	20,820
Animal Welfare	80,200
Waste Enforcement	158,930
Hackney Carriage and Private Hire Vehicles	-27,580
Licensing and Enforcement	-58,770
<u>Housing Advice</u>	
Supervision and Management	251,590
Housing Business Support Unit	-75,570
Housing Policy and Resources	65,390
Housing Options	621,390
Contributions to Housing Revenue Account	203,160
Bed and Breakfast Costs	50,590
Other Private Sector Accommodation Costs	42,760
Assistance To Voluntary Bodies	14,580
Hostels	6,620
Sheltered Schemes	840
Homelessness	252,950
Total	2,149,530

General Fund Budget 2017/18 - Service Group Analysis contd

Law and Governance	
Service Area	**2017/18 Controllable Budget £**
Audit Partnership	160,180
Corporate Support	
Performance and Projects	383,310
Printing Section	-50,110
Registration of Electors	165,540
Borough Council Elections	108,920
Design Services	24,680
Marketing	341,350
Community Development Team	127,550
Area Committees	97,000
Community Grants	378,390
Human Resources	453,360
Legal and Democratic Services	
Councillors' Services	219,300
Democratic and Business Support	92,740
Mayoral Services	134,000
Councillors´ Costs	355,130
Legal Services	321,390
Local Land Charges	-43,820
Total	3,268,910

Housing Revenue Account MTFP

2015/16 OUT-TURN		2016/17 ORIGINAL BUDGET	2016/17 FORECAST	2017/18 FORECAST	2018/19 FORECAST	2019/20 FORECAST	2020/21 FORECAST
£		£	£	£	£	£	£
	EXPENDITURE						
	MANAGEMENT & MAINTENANCE						
4,095,636	Supervision & Management General	4,249,160	4,408,250	4,397,500	4,395,090	4,395,090	4,439,040
2,151,347	Supervision & Management Special	2,324,880	2,212,010	2,248,010	2,248,010	2,248,010	2,270,490
368,500	Superannuation Backfunding	408,430	469,260	486,160	486,160	486,160	491,020
4,139,116	Responsive Repairs	4,247,830	4,274,480	4,466,880	4,616,680	4,666,790	4,760,020
1,480,828	Special/Contract Repairs	1,227,210	1,516,070	1,426,070	1,454,590	1,483,670	1,513,310
669,560	Planned Maintenance	928,040	948,130	966,070	985,390	1,005,090	1,025,170
12,904,987	**MANAGEMENT & MAINTENANCE TOTAL**	**13,385,550**	**13,828,200**	**13,990,690**	**14,185,920**	**14,284,810**	**14,499,050**
	CAPITAL FINANCING COSTS						
42,299	**Debt Management Expenses**	44,810	43,430	41,220	39,600	36,840	36,840
2,830,391	**Debt Principal - repayment**	2,864,120	2,861,860	2,866,950	2,889,870	3,039,720	2,844,010
3,880,190	**Debt Interest payable and similar charges**	3,815,820	3,805,820	3,845,150	4,010,320	4,179,220	4,195,550
4,225,490	**Depreciation**	3,891,050	4,225,490	4,225,490	4,225,490	4,225,490	4,225,490
9,559,926	**Impairment of Assets**	0	0	0	0	0	0
0	**Deferred Charges (REFCUS)**	0	0	0	0	0	0
20,538,296	**TOTAL CAPITAL FINANCING COSTS**	**10,615,800**	**10,936,600**	**10,978,810**	**11,165,280**	**11,481,270**	**11,301,890**
0	**RENT REBATES SUBSIDY LIMITATION**	**0**	**0**	**0**	**0**	**0**	**0**
219,906	**PROVISION FOR BAD DEBTS**	234,010	236,370	241,100	245,920	250,840	255,850
126,770	**HRA share of Corporate Democratic Core and Non Distributed Costs**	126,770	131,470	134,100	136,780	139,520	142,300
33,789,958	**TOTAL EXPENDITURE**	**24,362,130**	**25,132,640**	**25,344,700**	**25,733,900**	**26,156,440**	**26,199,090**
	INCOME						
	RENT INCOME						
34,494,894Cr	**Rents**	34,113,150Cr	34,313,050Cr	33,968,380Cr	33,627,860Cr	33,291,510Cr	33,922,710Cr
977,444Cr	**Service Charges**	984,820Cr	984,780Cr	994,630Cr	1,004,580Cr	1,014,630Cr	1,024,780Cr
604,804Cr	**Commercial**	529,930Cr	590,080Cr	590,080Cr	590,080Cr	590,080Cr	590,080Cr
391,995Cr	**Shops**	399,620Cr	386,750Cr	386,750Cr	386,750Cr	386,750Cr	386,750Cr
36,469,138Cr	**RENTS TOTAL**	**36,027,520Cr**	**36,274,660Cr**	**35,939,840Cr**	**35,609,270Cr**	**35,282,970Cr**	**35,924,320Cr**
197,980Cr	**G.F. RECHARGE**	**197,980Cr**	**201,150Cr**	205,170Cr	209,280Cr	213,460Cr	217,720Cr
36,667,118Cr	**TOTAL INCOME**	**36,225,500Cr**	**36,475,810Cr**	**36,145,010Cr**	**35,818,550Cr**	**35,496,430Cr**	**36,142,040Cr**
2,877,160Cr	**NET COST OF SERVICES**	**11,863,370Cr**	**11,343,170Cr**	**10,800,310Cr**	**10,084,650Cr**	**9,339,990Cr**	**9,942,950Cr**

2015/16 OUT-TURN		2016/17 ORIGINAL BUDGET	Year 1 2016/17 FORECAST	Year 2 2017/18 FORECAST	Year 3 2018/19 FORECAST	Year 4 2019/20 FORECAST	Year 5 2020/21 FORECAST
£		£	£	£	£	£	£
2,877,160Cr	**NET COST OF SERVICES**	11,863,370Cr	11,343,170Cr	10,800,310Cr	10,084,650Cr	9,339,990Cr	9,942,950Cr
	Summary/Contingency items						
0	Items t/f from previous to current year	0	0	0	0	0	0
0	RTB Sales estimated effect	270,190	114,450	354,990	588,350	814,660	1,074,390
0	New Build estimated effect	441,930Cr	10,600Cr	237,770Cr	503,710Cr	587,870Cr	740,400Cr
0	Removal of 'contracted out' element of Employers NI contribns (re single state pension regs) - now included in BASE	95,000	0	0	0	0	0
0	Energy - outstanding costs contingency	0	100,000	0	0	0	0
0	Use of reserves	0	169,480Cr	0	0	0	0
0	Inflation/£/Brexit contingency	0	0	100,000	100,000	100,000	100,000
0	High Value Stock contingency	0	0	100,000	100,000	100,000	100,000
500,000	Welfare Reforms Contingency	0	0	100,000	100,000	100,000	100,000
0	Recharges/rescheduling	0	0	50,000	50,000	50,000	50,000
22,700Cr	New Homes Bonus	0	121,350Cr	121,350Cr	121,350Cr	121,350Cr	121,350Cr
0	Rent Reviews	0	250,000Cr	172,500Cr	172,500Cr	172,500Cr	172,500Cr
0	Zero based Budgeting savings target	0	0	100,000Cr	100,000Cr	100,000Cr	100,000Cr
0	Customer Access Strategy - savings target	0	0	50,000Cr	100,000Cr	100,000Cr	100,000Cr
0	Transitional Vacancy savings to find	50,000Cr	18,430	50,000Cr	50,000Cr	50,000Cr	50,000Cr
13,897,401Cr	Reverse All Depreciation & Deferred charges	3,929,280Cr	4,341,830Cr	4,341,830Cr	4,341,830Cr	4,341,830Cr	4,341,830Cr
8,672,000	Transfer to Major Repairs Reserve	8,960,000	8,960,000	7,948,140	7,364,890	7,499,290	7,499,290
58,789Cr	Interest/investments (net)	17,220Cr	100,770Cr	24,890	68,160	182,720	182,720
7,684,050Cr	**NET OPERATING EXPENDITURE**	6,976,610Cr	7,144,320Cr	7,195,740Cr	7,102,640Cr	5,966,870Cr	6,462,630Cr
375,032Cr	Contributions to/from Provisions/Reserves	0	0	0	0	0	0
7,140,000	RCCO's	8,752,680	8,504,340	6,242,400	6,367,250	6,494,540	7,057,030
919,081Cr	**(SURPLUS)/DEFICIT**	1,776,070	1,360,020	953,340Cr	735,390Cr	527,670	594,400
7,148,449Cr	HRA Balance b/f 1st April	7,083,029Cr	8,067,530Cr	6,707,510Cr	7,660,850Cr	8,396,240Cr	7,868,570Cr
8,067,530Cr	HRA Balance c/f 31st March	5,306,959Cr	6,707,510Cr	7,660,850Cr	8,396,240Cr	7,868,570Cr	7,274,170Cr
	MINIMUM REQUIRED BALANCE	2,000,000Cr	2,000,000Cr	2,000,000Cr	2,000,000Cr	2,000,000Cr	2,000,000Cr

Section 5

RESERVES AND PROVISIONS POLICY

The Council complies with the requirements of the Local Authority Accounting Bulletin 77 (November 2008) on the establishment and maintenance of local authority provisions, reserves and balances. Compliance with current bulletins is recommended in the CIPFA 2003 Statement of the Role of the Finance Director in Local Government.

The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992, require billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. There is no statutory minimum level of reserves that must be held.

Reserves can be held for three main purposes:

1. a working balance to cope with uneven cash flows and reduce temporary borrowing;
2. a contingency to deal with unexpected events or emergencies;
3. earmarked reserves to build up funds to meet known future requirements.

It is the responsibility of the Section 151 Officer to recommend the level of reserves and put in place protocols for their establishment and use.

The Statement of Recommended Accounting Practice (SORP) 2009 requires Provisions when:

1. there is a present obligation as a result of a past event;
2. it is probable that the obligation will arise;
3. the amount of the obligation can be estimated.

Reserves held by Ipswich Borough Council

General Fund

Working Balance

The level of the General Working Balance to be held by the Council is determined by consideration of strategic, operational and financial risks. The determination of the level of reserves to be held is influenced by cash flow requirements, budget assumptions e.g. inflation, interest rates, planned efficiency savings and the availability of other funds together with an assessment of the financial standing and management of the authority e.g. track record in budget management and strength of financial reporting procedures.

The opportunity cost of maintaining a minimum General Fund working balance of £2m, is contrasted with the cost of running services such as Domestic Refuse Collection, Parks and Open Spaces or the Emergency Services Centre which are all comparable in cost. The level of reserves held is also influenced by the "opportunity cost" of holding these funds, which could otherwise be used for other purposes. The funds could also be used to reduce the level of Council Tax or increase the overall level of services provided.

The benefits of investment income accrued on reserves held, to the overall budget, is also a consideration in arriving at the level of reserves to be held.

Consideration of the current economic climate, in particular reduced income levels and the possible impact on cash flow has led to a decision to retain a General Fund Working Balance of £2m for 2017/18 onwards.

Ipswich Buses Ltd – Debenture Loan

The Transport Realisation Account represents the initial investment in Ipswich Buses, less the write down of accumulated losses (no further losses are anticipated).

Insurance Reserve

The Insurance Reserve is required to cover the potential liability for excess payments arising from claims below the insurance threshold and uninsured risks – that have not yet been made.

Repair and Renewal

The Repairs and Renewals Reserve are sums set aside for the repair and replacement of various assets, funded from external sources e.g. Gower Street Factory Units – the level of these reserves is based upon an assessment of future need.

NNDR Equalisation Fund

The NNDR Equalisation Fund has been established to help mitigate the impact of unforeseen/controllable variations in the amount of income received by way of retained Business Rates from year to year. This is deemed necessary because whereas the risk of business collapses or revaluations was formerly pooled nationally before being reallocated as Rate Support Grant, this risk has now been transferred to each individual local authority.

Revenue Grants/Contributions

These are earmarked funds received for a specific purpose and are only available for those purposes. Examples include commuted sums and Community Safety grants.

Housing Revenue Account

Working Balance

The HRA Working Balance is maintained to provide a contingency for dealing with potentially significant variances that could arise due to changes associated with the HRA business plan. As a result, the minimum working balance is kept at £1m to ensure the sustainability of the plan.

Repair and Renewal

This is held to cover future year's programmes or unforeseen emergency repairs to the Council's housing stock.

Miscellaneous

Miscellaneous Housing Reserves include sums set aside for replacement of Housing computer systems, implementation of the "Ipswich Standard" and Supporting People. The sums put aside are based upon known future requirements.

Provisions held by Ipswich Borough Council

General Fund

Insurance Provision

The Insurance Provision represents funds set aside to meet the value of outstanding unsettled claims that are not covered by the Council's insurance premiums, as advised by our external insurers.

Bad Debts

The provision for bad debts comprises of individual provisions for Corporate Rents, Sundry Debtors and Council Tax – the level of Provision is based upon past experience of default e.g. Sundry debtor provision 10%.

Housing Revenue Account

Bad Debts

The provision for bad debts comprises of individual provisions for Housing Rents, Service Charges and Sundry Debtors – the level of provision is based upon past experience of default.

Schedule of Working Balances, Reserves and Provisions

Reserves	Balance 31-Mar-16 £'000	Transfers In £'000	Transfers Out £'000	Balance 31-Mar-17 £'000	Transfers In £'000	Transfers Out £'000	Balance 31-Mar-18 £'000	Balance 31-Mar-19 £'000	Balance 31-Mar-20 £'000	Balance 31-Mar-21 £'000
General Fund:										
Working Balance	12,397Cr	0	3,359	9,038Cr	0	2,465	6,573Cr	5,678Cr	4,624Cr	3,323Cr
Transport Realisation Reserve	252Cr	0	0	252Cr	0	0	252Cr	252Cr	252Cr	252Cr
Insurance Reserve	990Cr	0	0	990Cr	0	0	990Cr	990Cr	990Cr	990Cr
Service Based Reserves	1,056Cr	0	0	1,056Cr	0	0	1,056Cr	1,056Cr	1,056Cr	1,056Cr
Repair and Renewal	519Cr	25Cr	48	496Cr	25Cr	32	489Cr	482Cr	475Cr	468Cr
Business Rates Reserve	1,999Cr	0	331	1,668Cr	0	331	1,337Cr	1,006Cr	677Cr	677Cr
Legacies	90Cr	0	0	90Cr	0	0	90Cr	90Cr	90Cr	90Cr
Revenue Grants Reserve	1,680Cr	0	298	1,382Cr	0	169	1,213Cr	1,044Cr	875Cr	706Cr
Section 106 Grants	906Cr	0	0	906Cr	0	0	906Cr	906Cr	906Cr	906Cr
Total	**19,889Cr**	**25Cr**	**4,036**	**15,878Cr**	**25Cr**	**2,997**	**12,906Cr**	**11,504Cr**	**9,945Cr**	**8,468Cr**
Housing Revenue Account:										
Working Balance	8,067Cr	0	1,360	6,707Cr	954Cr	0	7,661Cr	8,396Cr	7,868Cr	7,274Cr
Repair and Renewal	500Cr	0	0	500Cr	0	0	500Cr	500Cr	500Cr	500Cr
Sheltered Scheme Energy Provn	103Cr	0	0	103Cr	0	0	103Cr	103Cr	103Cr	103Cr
IT Reserves	229Cr	0	169	60Cr	0	0	60Cr	60Cr	60Cr	60Cr
Community Caretakers Provision	32Cr	0	0	32Cr	0	0	32Cr	32Cr	32Cr	32Cr
Welfare Reforms Reserve (HRA)	500Cr	0	0	500Cr	0	0	500Cr	500Cr	500Cr	500Cr
HRA Insurance Reserve	158Cr	0	0	158Cr	0	0	158Cr	158Cr	158Cr	158Cr
Total	**9,589Cr**	**0**	**1,529**	**8,060Cr**	**954Cr**	**0**	**9,014Cr**	**9,749Cr**	**9,221Cr**	**8,627Cr**
Capital:										
General Fund										
Usable Capital Receipts	5,634Cr	238Cr	3,317	2,555Cr	70Cr	823	1,802Cr	0	0	0
Capital Financing	112Cr	75Cr	135	52Cr	29Cr	29	52Cr	52Cr	52Cr	52Cr
Housing Revenue Account										
Usable Capital Receipts	11,099Cr	4,207Cr	2,189	13,117Cr	4,207Cr	9,856	7,468Cr	0	300Cr	0
Capital Financing	8,798Cr	8,505Cr	0	17,303Cr	6,242Cr	2,373	21,172Cr	18,707Cr	22,408Cr	22,408Cr
Total	**25,643Cr**	**13,025Cr**	**5,641**	**33,027Cr**	**10,548Cr**	**13,081**	**30,494Cr**	**18,759Cr**	**22,760Cr**	**22,460Cr**

Schedule of Working Balances, Reserves and Provisions contd

Provisions	Balance 31-Mar-16 £'000	Transfers In £'000	Transfers Out £'000	Balance 31-Mar-17 £'000	Transfers In £'000	Transfers Out £'000	Balance 31-Mar-18 £'000	Balance 31-Mar-19 £'000	Balance 31-Mar-20 £'000	Balance 31-Mar-21 £'000
General Fund:										
Insurance Provision	542Cr	200Cr	200	542Cr	200Cr	200	542Cr	542Cr	542Cr	542Cr
Provision for Bad Debts	1,681Cr	100Cr	100	1,681Cr	100Cr	100	1,681Cr	1,681Cr	1,681Cr	1,681Cr
Total	**2,223Cr**	**300Cr**	**300**	**2,223Cr**	**300Cr**	**300**	**2,223Cr**	**2,223Cr**	**2,223Cr**	**2,223Cr**
Housing Revenue Account:										
Provision for Bad Debts	457Cr	100Cr	100	457Cr	100Cr	100	457Cr	457Cr	457Cr	457Cr
Total	**457Cr**	**100Cr**	**100**	**457Cr**	**100Cr**	**100**	**457Cr**	**457Cr**	**457Cr**	**457Cr**
Grand Total	**57,801Cr**	**13,450Cr**	**11,606**	**59,645Cr**	**11,927Cr**	**16,478**	**55,094Cr**	**42,692Cr**	**44,606Cr**	**42,235Cr**

Section 6

CAPITAL STRATEGY / PROGRAMME

Introduction

It is essential that the agreed capital programme is one that:

- Ensures the Council's resources are used to support the delivery of priorities within the Corporate Plan and the long term vision of Ipswich.
- Links with the Council's Asset Management Plan.
- Is affordable, financially prudent and sustainable.
- Ensures the most cost effective use is made of existing assets and new capital investment.
- Supports other service specific plans and strategies.

Key Areas of Capital Expenditure

In relation to the 2017/18 (and onwards) capital programme, key highlights include:

- Retaining the Jobs and Skills Fund;
- A major project to expand the number of parking spaces at Crown Street car park;
- Increased Housing Provision by building new Council houses;
- Cornhill investigation and survey works in preparation for major project together with commitment to fund 25% of the costs of the Cornhill Project to match funding from partners;
- A continuing commitment to improving and developing Ipswich Museums;
- Progressing the masterplan for development of the Sproughton Road site;
- Continuing commitment to making strategic asset purchases as they occur;
- Retaining the £1m commitment to support Broomhill Pool Trust following approval of HLF funding;
- Further investment in Crown Pools;
- Improvements to the Regent Theatre to improve the customer experience;
- Investment in outdoor play provision;
- Involvement in funding a new GP's surgery
- Provision for a second multi-storey car park in the Princes Street corridor.

Funding Capital Expenditure

To fund its capital investment requirements, the Council will have access to limited sources of funding, and will have to make decisions about how, when and how much of the different funding sources will be used.

Government Grants – These are contributions received from Government bodies. They are normally attributable to specific schemes or programmes.

External Funding - These are contributions received from any other bodies e.g. developers, Heritage Lottery Fund (HLF) for specific schemes. Where schemes attract external funding, which does not require Ipswich Borough Council to use additional capital resources, the value of the scheme and funding is automatically added to the capital programme.

Revenue Contributions to Capital Outlay (RCCO's) - This is where the Council pays for Capital Expenditure from the revenue accounts. The HRA is making contributions from revenue towards HRA Capital Expenditure to meet the Ipswich Standard and to invest in the provision of new affordable housing. The General Fund does not normally make contributions towards capital expenditure.

Capital Receipts - These are contributions received from the sale of the Council's assets.

Borrowing - This is unsupported borrowing. Any schemes funded through this method will incur revenue expenditure in respect of principal and interest charges. Provision is made in the GF and HRA budgets for the revenue cost of unsupported borrowing.

Leasing - The Council has moved away from this funding source in previous years, but with the changes to Public Works Loan Board rates, this funding source will be looked at again.

Current Situation

The current depressed economic situation has a significant impact on the mix of capital projects required and the funding available. It is expected that the current economic pressures will remain to a significant degree for the foreseeable future.

The Council needs to re-focus the capital programme and funding to provide an appropriate response. Key issues particularly affecting the funding of the General Fund capital programme are as follows:-

- Capital receipt levels have reduced in recent years. However the new council housing programme has produced receipts for the General Fund from the sale/transfer of land to the Housing Revenue Account. Traditionally, capital receipts have been the main funding source for the General Fund capital programme and have historically been used as funding in the year following their receipt. This is to acknowledge their volatility. It is anticipated that investment demand over the next 5 years will continue to significantly outstrip the capital receipts available.

- The Council has previously benefited from several significant external funding streams. The market has matured and applications often require significant resource, now effectively reducing the accessibility to these resources.

- It has been past practice to "fully fund" the Capital Programme, however this practice when combined with the need for extensive borrowing and significant slippage has resulted in large year-end underspends relating to financing charges. In response to this an amended protocol has been adopted which does not finance contingency or "self-financing" projects until funds are actually required.

Performance Framework Overview

The Council has adopted Best Practice to coordinate:-

- Service Investment Prioritisation and Planning;
- Project Appraisal and Resourcing Options;
- Capital Programme Performance Monitoring;
- Asset Management.

All new capital project bids have to demonstrate that they represent value for money and meet the Council's objectives. Before a capital bid is submitted, all options are considered including "do nothing" and the best option both in terms of value for money and meeting the Council's objectives is submitted as a Capital Bid.

The Council has a Capital Performance framework with a comprehensive structured process to help deliver the Council's objectives. This framework is coordinated by the Performance and Projects Team. Managers are required to submit a Project Feasibility which will include:-

- Aim of the Project
- Meeting Corporate Plan objectives
- Priority
- Financial Information (both capital and ongoing revenue costs)
- Business Case
- Risk Management
- Timescales
- Milestones
- Asset Management
- Responsible Officer

The project is appraised and once it demonstrates that all the required criteria shown above have been met, the project will proceed to the prioritisation stage. If a scheme does not meet all the criteria, the project manager is notified of the reasons why the scheme has not progressed to the prioritisation stage.

All schemes, which progress from the project feasibility stage, are subject to evaluation. The Council has developed a Capital Prioritisation Methodology which scores all the factors in the project feasibility. A guide to the evaluation process is available to officers and councillors to ensure a transparent and understandable method of evaluation. The revenue implications are reviewed as part of the capital bidding scoring process.

Only once schemes are given the go-ahead is the actual funding made available.

Performance Measures and Monitoring

The Capital Programme is monitored and reviewed in the following ways:-

- Heads of Service are responsible for monitoring individual schemes;
- Online financial information is available to all Heads of Service and Project Managers, including details of any commitments, via the Council's financial reporting system;
- Monthly budget monitoring reports are produced for Heads of Service and Project Managers;
- Capital Programme monitoring is done on a quarterly basis through Heads of Service Monitoring Returns so any additional resources required/surplus resources that are not needed are identified at an early stage;
- Quarterly reports to Executive showing the latest Capital Programme and estimated resources;
- An annual report to Executive detailing the reasons for budget carry forwards, together with explanations for any variances >10% (+/-) of budgeted scheme cost; and
- The capital receipts forecast is updated on a quarterly basis.

For all HRA schemes where improvements are made to tenant's dwellings, the tenant is invited to complete a satisfaction survey, with an end of year review carried out to enable continuous improvement.

Detailed Capital Programme and Funding Sources

The detailed capital programme and the sources of funding are presented on the following pages.

CAPITAL PROGRAMME FOR 2016/17 AND FUTURE YEARS

Scheme	2016/17 Budget	2017/18 Budget	2018/19 Budget	2019/20 Budget
HOUSING REVENUE ACCOUNT				
HRA shops	33,937			
Increased Housing Provision (indicative - subject to HRA resources)	2,154,865	9,855,562	20,507,888	6,700,000
Ipswich Standard	9,419,114	11,183,856	7,364,890	7,499,290
HRA TOTAL	**11,607,916**	**21,039,418**	**27,872,778**	**14,199,290**
GENERAL FUND				
Cap. IT Dev. - Development of website/integration of back office to CRM	6,219	20,309		
Economic Development	723,500			
Ipswich Flood Defence	2,600,000			
Ipswich Flood Defence Payback	1,000,000	1,000,000	1,000,000	1,000,000
Variable Message Signing	-	99,243		
Access Road Bourne Park		50,000		
Cemetery - Phase 2a	30,000	373,642		
Christchurch Mansion Consolidation project 2015/16	856,418	141,022		
Crown Pools Phase 3		1,100,000	2,600,000	
M&E Installations Regent Theatre heating and cooling	20,000			
Murray Road Scheme	150,950			
Museum Project	100,000	735,750	735,750	735,750
Museum Store Bus Depot	157,000			
Play Equipment	-	400,000	200,000	200,000
Profiles on the Water Front	19,796			
Ransomes Access Road	385,000			
Ransomes Sports Centre	301,695			
Regent front of house, ticket office etc	20,000	430,000		
79 Cauldwell Hall Road	35,000	689,500		
Anglia Parkway North	-	150,000		
Bus Shelter/Bus Stops	25,076	8,501		
Carbon Management Programme Invest to Save	20,000	232,023	18,530	18,530
Cornhill Regeneration (IBC Contribution)	400,000	100,000	320,000	
Crown Street Multi Storey Car Park	140,000	5,163,750	185,000	
Elm Street Car Park (former Police Station)	342,450	32,526		
IP City works to subdivide	1,139			
Ipswich Court	43,109			
Malt House Car Park temp. ext. of Ips. Village CP	17,830			
Malt House external works	92,623			
Multi Storey car park		100,000	400,000	5,500,000
New Wolsey Theatre Roof		400,000		
Norwich Rd/South St conversion to Car Park	113,778			
Opportunity Purchases/Infrastructure	-	1,172,353	1,000,000	1,000,000
Police Station	5,898			

Pond Hall Farm	32,800			
Queen St electrical works for market extension	30,000			
Regent Theatre Car Park Extension	105,000			
Resurfacing Car Parks	126,720	149,333	100,000	100,000
Sproughton Road Site	464,260	1,000,000	3,219,610	2,311,935
Street Lighting Upgrades	40,000			
GP Surgery		100,000	300,000	
Waterfront and St Peters Dock acquisitions	823,680			
William Street West Car Park	10,593	169,407		
Cardinal Park CCTV Upgrade	43,310			
Car Park Ticket Machines		300,000		
Cross Borough CCTV provision & upgrade	21,962			
Disabled Facilities Grant	351,416	1,020,330	504,577	504,577
Improvement Grants	84,370	305,498		
Whitton S C Emergency Planning	-	10,000		
Cap. IT Dev. - Increased use of Electronic Document Storage	15,000	11,000		
Cap. IT Dev. - Equipment	98,682	100,000	100,000	100,000
Cap. IT Dev. - Uniform IT System	10,250			
Finance/HR System	100,000	400,000		
Leases funded By Loan - General Fund	334,854			
NW Forum Whitton Rec Ground Skate Park Contribution	1,378			
Ipswich Borough Assets	6,652,888	8,467,112		
The Triangle Project (PRG)	-	21,681		
Working Capital Loan to IBA	200,000			
SRP New IT Platform	21,000	70,953		
Capitalised repairs	633,519	690,000	500,000	500,000
GF TOTAL	**17,809,163**	**25,213,933**	**11,183,467**	**11,970,792**
CONTINGENCY				
Broomhill Pool	-	1,000,000		
Empty Homes	890,000	100,000		
Transit site for Travellers	100,000			
Contingency - additional commitments	400,000	500,000	500,000	500,000
CONTINGENCY TOTAL	**1,390,000**	**1,600,000**	**500,000**	**500,000**
TOTAL SCHEMES APPROVED	**30,807,079**	**47,853,351**	**39,556,245**	**26,670,082**

FUNDING OF GENERAL FUND CAPITAL PROGRAMME FOR 2016/17 AND FUTURE YEARS

	CAPTIAL RECEIPTS	EXTERNAL FUNDING	PRUDENTIAL BORROWING	BORROWING	REVENUE CONTRIBS TO CAPITAL OUTLAY	TOTAL
2016/17						
Resources at 31.03.2016	5,634,146	0	0	0	111,120	5,745,266
Capital Receipts forecast to be received during 2016/17	237,910	0	0	0	0	237,910
Resources in the year	0	3,263,796	0	12,483,248	75,610	15,822,654
Use of Resources	3,317,390	3,263,796	0	12,483,248	134,730	19,199,163
Balance at year end	2,554,666	0	0	0	52,000	2,606,666
2017/18						
Resources at 31.03.2017	2,554,666	0	0	0	52,000	2,606,666
Capital Receipts forecast to be received during 2017/18	70,362	0	0	0	0	70,362
Resources in the year	0	1,050,512	0	24,910,979	29,320	25,990,811
Use of Resources	823,122	1,050,512	0	24,910,979	29,320	26,813,933
Balance at year end	1,801,906	0	0	0	52,000	1,853,906
2018/19						
Resources at 31.03.2018	1,801,906	0	0	0	52,000	1,853,906
Capital Receipts forecast to be received during 2018/19	70,362	0	0	0	0	70,362
Resources in the year	0	504,577	0	7,392,500	18,530	7,915,607
Use of Resources	3,767,860	504,577	0	7,392,500	18,530	11,683,467
Balance at year end	-1,895,592	0	0	0	52,000	-1,843,592
2019/20						
Resources at 31.03.2019	-1,895,592	0	0	0	52,000	-1,843,592
Capital Receipts forecast to be received during 2019/20	70,362	0	0	0	0	70,362
Resources in the year	0	504,577	0	10,462,500	18,530	10,985,607
Use of Resources	1,485,185	504,577	0	10,462,500	18,530	12,470,792
Balance at year end	-3,310,416	0	0	0	52,000	-3,258,416

FUNDING OF HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME FOR 2016/17 AND FUTURE YEARS

	USABLE CAPITAL RECEIPTS	RESTRICTED CAPITAL RECEIPTS NEW BUILD ONLY	RESTRICTED CAPITAL RECEIPTS ALLOWABLE DEBT	TOTAL CAPITAL RECEIPTS	EXTERNAL FUNDING	PRUDENTIAL BORROWING	BORROWING	MAJOR REPAIRS ALLOWANCE	REVENUE CONTRIBS TO CAPITAL OUTLAY	TOTAL
2016/17										
Resources at 31.03.2016	4,524,600	1,455,719	5,118,810	11,099,129	-	-	-	1,321,451	8,798,813	21,219,394
Capital Receipts forecast to be received during 2016/1	230,823	2,310,026	1,666,082	4,206,932	-	-	-	-	-	4,206,932
Resources in the year	-	-	-	-	-	-	-	8,960,000	8,504,340	17,464,340
Use of Resources	33,937	646,460	1,508,406	2,188,802	-	-	-	9,419,114	-	11,607,916
Balance at year end	4,721,486	3,119,286	5,276,487	13,117,258	-	-	-	862,337	17,303,153	31,282,749
2017/18										
Resources at 31.03.2017	4,721,486	3,119,286	5,276,487	13,117,258	-	-	-	862,337	17,303,153	31,282,749
Capital Receipts forecast to be received during 2017/1	230,823	2,310,026	1,666,082	4,206,932	-	-	-	-	-	4,206,932
Resources in the year	-	-	-	-	-	-	-	7,948,140	6,242,400	14,190,540
Use of Resources	(0)	2,956,669	6,898,893	9,855,562	-	-	-	8,810,477	2,373,379	21,039,418
Balance at year end	4,952,310	2,472,643	43,676	7,468,628	-	-	-	-	21,172,175	28,640,803
2018/19										
Resources at 31.03.2018	4,952,310	2,472,643	43,676	7,468,628	-	-	-	-	21,172,175	28,640,803
Capital Receipts forecast to be received during 2018/1	230,823	2,310,026	1,666,082	4,206,932	-	-	-	-	-	4,206,932
Resources in the year	-	-	-	-	-	-	-	7,364,890	6,367,250	13,732,140
Use of Resources	5,183,133	4,782,669	1,709,758	11,675,560	-	-	-	7,364,890	8,832,328	27,872,778
Balance at year end	0	-	(0)	0	-	-	-	-	18,707,097	18,707,097
2019/20										
Resources at 31.03.2019	0	-	(0)	0	-	-	-	-	18,707,097	18,707,097
Capital Receipts forecast to be received during 2019/2	230,823	2,310,026	1,666,082	4,206,932	-	-	-	-	-	4,206,932
Resources in the year	-	-	-	-	-	-	-	7,499,290	6,494,540	13,993,830
Use of Resources	230,823	2,010,000	1,666,082	3,906,906	-	-	-	7,499,290	2,793,094	14,199,290
Balance at year end	0	300,026	(0)	300,026	-	-	-	-	22,408,543	22,708,569
Actual Resources	5,447,893	10,695,823	11,783,140	27,926,856	-	-	-	33,093,771	36,407,343	97,427,971
Use of Resources	5,447,893	10,395,797	11,783,140	27,626,830	-	-	-	33,093,771	13,998,800	74,719,402
Deficit(-)/ Surplus of Resources	0	300,026	(0)	300,026	-	-	-	(0)	22,408,543	22,708,569

Section 7

THE TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY AND PRUDENTIAL CODE FOR 2017/18

INTRODUCTION

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

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

The Council's treasury activities are strictly regulated by statutory requirements in The CIPFA Code of Practice on Treasury Management and The CIPFA Prudential Code, and both of these Codes have been adopted by the Council.

This report is the first of three reports that is statutorily required to report on the Council's treasury management activities, with the others being a mid-year report and an annual report which detail the activities within the year. Under the Council's constitution, all of these reports have to go to Council.

Following the abolition of the Housing subsidy system, the Council have adopted a two debt pool approach, one for the HRA and one for GF. All of the actual external borrowing as at 1 April 2012, including the borrowing needed to come out of the housing subsidy system, was allocated to the HRA.

One of the major benefits of the new system is that the Council is able to make more business like decisions and actual borrowing will be allocated to the correct fund, rather than the arbitrary system that was in place under housing subsidy.

TREASURY MANAGEMENT STRATEGY

Borrowing Strategy

Since the beginning of 2009, the Council has undertaken a risk reduction strategy by repaying borrowing and reducing investments. The table below shows the Council's treasury portfolio position as at 31 December 2016.

	General Fund	HRA	Overall
Long Term Borrowing			
PWLB Maturity	£10.400m	£34.151m	£44.551m
PWLB Annuity	£8.130m	£34.342m	£42.472m
PWLB EIP	£0m	£32.836m	£32.836m
Market loans	£0m	£9.000m	£9.000m
Total Long Term Borrowing	**£18.530m**	**£110.329m**	**£132.061m**
Investments			
Fixed Term Investments			£25.000m
Notice Accounts			£7.000m
Instant Access Accounts			£0.850m
Money Market Funds			£11.850m
Total Investments			**£44.700m**

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 strategy is prudent as investment returns are low and helps to minimise counterparty risk. This means the Council is currently maintaining an under-borrowed position.

Against this background and the risks within the economic forecast, caution will be adopted with the 2017/18 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 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 a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

If interest rates are expected to increase sharply and a borrowing need has been identified, the Council will look to borrow in advance. Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism.

Interest rates across the board are at historic low levels and over the coming year are not expected to increase too much, with the base rate not expected to increase until the middle of 2019 at the earliest. If the Council were to borrow any long term debt during 2017/18, the current expectation is that the interest rate will be probably vary between 2% - 3%, depending on the periods borrowed for. We would expect most borrowing would be via the Public Works Loan Board (PWLB) Certainty Rate, which is lower than the normal rate as the Council submitted its capital plans. If there were opportunities to borrow at better rates in the money markets or with the Municipal Bonds Agency then these options will be explored. The table below gives the estimated interest rates for future periods.

	Bank Rate (%)	PWLB Borrowing Rates (%)		
		5 year	25 year	50 year
March 2017	0.25	1.60	3.00	3.00
March 2018	0.25	1.70	3.10	3.10
March 2019	0.25	1.80	3.20	3.20
March 2020	0.75	2.20	3.50	3.50

The Local Government Association has established a Municipal Bonds Agency, which will look to raise funds from capital markets and then on-lend to participating authorities at rates that are expected to be at or below PWLB rates. One of the advantages this will offer local authorities, is that borrowing undertaken through this method will be free from PWLB adjustments of interest rates and early redemption penalties, which in the past have been introduced immediately, without any consultation with lenders and have cost local authorities a lot of money. The Council have signed up as one of the founding members of this scheme.

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment. 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;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

If the Council needs to borrow for any short term cash flow situations, there are a number of providers in the market who can supply the Council with funds as required for the periods required. 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.

The Council changed it accounting policy in 2014/15 with respect to borrowing costs, and where appropriate, will capitalise borrowing costs on capital schemes.

INVESTMENT STRATEGY

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments and the revised CIPFA Treasury Management Code. The Council's primary principle governing investment priorities will be security first, liquidity second, then return, so as to minimise risk. After this main principle the Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security; and

- It has sufficient liquidity in its investments to meet its current liabilities. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed.

In accordance with the above, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The credit-worthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what the ratings reflect in the eyes of each agengy. Using the ratings system of the Council's treasury management advisors, Capita, banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Furthermore, the Council's officers recognise that ratings should 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 aim of the strategy is to generate a list of highly credit-worthy counterparties which will also enable diversification and thus avoidance of concentration risk. Since 2009, all new investments have only been with UK financial institutions. Foreign based financial institutions have been included on the list for the past few years and if deemed appropriate investments will be made with them.

There are a number of operational issues Councillors will need to take into account when agreeing the Counterparty list for 2017/18 and these are detailed below.

Since the introduction of the "Funding for Lending" scheme by the government in August 2012 and regulatory requirements aimed at reducing banks reliance on short term cash (under 30 days) to fund their operations interest rates on some short term investments and instant access accounts have been falling. Banks and financial institutions generally have good liquidity which has meant that they have less need to borrow money from organisations such as local authorities.

The Council currently have two instant access accounts and the policy of investing in these accounts has meant the Council's investments are very secure and liquidity is very good. However, the interest rates on these accounts have been falling and there is also the threat of some banks closing them altogether. Money Market Funds have started to be used to provide an alternative for managing liquid funds and the Council has four different Money Market Funds.

The security and return of investments is the biggest priority, especially given the current economic circumstances. As a general rule, the more security an investment has, the lower the interest rate is. The table below shows the rates available from five different investment categories. It also shows there are different levels of security with the five investments, all of which are very good. The rates shown below are currently the best on offer based on a one-year investment with base rates at 0.25%.

Investment Counterparty	**Interest Rate**	**Security**
Government Debt Management Account	0.10%	The government guarantees this money is returned.
Gilts	0.15%	Money Invested with Government, so it will be returned. These can be traded, but if traded you might have to settle at a loss.
Local Authorities	0.40%	Even though most local authorities are not credit rated, they have regular cash flows and we would expect any investments to be returned on time. Any default would increase their future borrowing costs.
Major UK Clearing Bank	0.75%	Even though the government has provided guarantee mechanisms for some aspects of these institutions, there is no guarantee covering Local Authority deposits.
UK Building Society (Best available rate from top 5 Building Society)	0.70%	Same as major UK clearing banks

In terms of investment returns, the expected returns over the next few years are expected to be

Year	Expected Returns
2017/18	0.40%
2018/19	0.40%
2019/20	0.50%

The effect on Council Tax is another major factor. As can be seen from the interest rate levels, returns on an approximate portfolio of £20m could range from £20,000 to £150,000. The difference equates to a Band D Equivalent of £3.51. Investment returns are an important income source and help keep Council Tax levels down and are a key part of the Finance Strategy. From an operational point of view, the Council would spread investments over a number of different counterparties and categories.

The maximum period for an investment in the government's debt management account is six months and most investments with local authorities are borrower led and are normally for less than one month. The longer an investment can be made for, the more certainty there is on the Council's budget in terms of investment income.

There is a clear operational difficulty even with the introduction of the banking stress tests. Ideally investments would be invested longer to secure better returns, however uncertainty over counterparty credit-worthiness suggests shorter dated investments would provide better security. In addition, if interest rates rise, which they are expected to do at some stage in the future, the Council would not wish to invest for too long in case the investment return actually became a drag on performance.

The Council sets group limits for counterparties on its lending list, so it does not get over-exposed to any one group. However, if banks and building societies merge with one another, this reduces the number of counterparties the Council can deal with. Another factor is, when the Council wants to undertake long-term investments, not all counterparties are available to deal with.

Credit ratings are still one of the major guides to the financial stability of counterparties on the Council's list and these are managed on a daily basis through updates from the Council's treasury management consultants. All counterparties on the Council's list will be subject to meeting the minimum criteria where applicable before any investments are made.

The management of the Council's counterparty list is delegated to the Section 151 Officer and it is their duty to act within the confines of this list and the limits set, except that the Section 151 Officer with the agreement of the Finance Portfolio Holder is authorised to amend the terms of any existing investments, if in their view, it is beneficial to the Council. The counterparty limits reflect the minimum size of deposit required, time limits within which institutions will take funds and the flexibility of the market when the Council is looking to place funds.

The Council's full counterparty list for investments and the limits has to be agreed by Council. If any institution needs to be added to the list or limits changed upwards, this needs to be agreed by Council, so in preparing the counterparty list for 2017/18, the Council needs to reflect the current economic climate, but also needs to have scope within the list to help officers act in the Council's best interests.

The full counterparty list agreed by Council identifies the maximum range and extent of counterparties that can be used. The Section 151 Officer uses this list to draw up an appropriate operational list for use by officers. This operational counterparty list will be subject to change depending on the economic climate, credit rating changes and other market intelligence. Changes that are automatically triggered such as credit rating changes will be acted upon immediately. Any other changes would be approved by the Section 151 Officer in consultation with the Finance Portfolio holder in accordance with the Council's Financial Standing Orders.

The Section 151 Officer will maintain the full counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. This criteria selects which counterparties the Council will choose rather than defining what its investments are.

Credit rating information is supplied by 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 list. Any rating changes, rating watches (notification of a likely change in the short term), rating outlooks (indication of any bias to ratings over the medium term) are provided to officers almost immediately after they occur and this information is considered before dealing. Additional requirements under the Code of Practice now require the Council to supplement credit rating information. Additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps or equity prices) will be applied to compare the relative security of differing investment counterparties.

The Council has drawn up a list of seven different categories in which investments can be made, which all have different levels of security, monetary limits and time limits. The Council would look to spread investments over different institutions so as not to be left overexposed to any one institution. The limits drawn up for each of the institutions has been based on security. The categories are also listed in order of security available (highest security first). The investment limits below are based on the Council borrowing up to its available capital financing requirement and therefore having a higher level of investments.

Category 1 (Government Debt Management Account) - The Government has a debt management account and guarantees all deposits. However investments can only be for a maximum of 6 months and the interest rates payable are very low. The maximum amount to be invested is £50m with an overall maximum exposure for this category of £50m. The reason for the high limit is that if other counterparties are removed from our counterparty list and there are other uncertainties in the market this should be the safest place for the Council to place its investments. Also, if market conditions deteriorated sharply the Council would want the ability to potentially place all investments here.

Category 2 (Local Authorities) - Even though the majority of Local Authorities are not rated, investments made in them have a high security rating, as local authorities have to set legal budgets and have guaranteed borrowing help available to them through government sources. However, most investments in local authorities are normally borrower led and do not normally exceed one month and so makes long term planning and fixing of investment returns very difficult. Investment rates offered by local authorities are very low. The time limit for investments in local authorities is 2 years and the maximum amount to be invested in any one local authority is £3m. The overall maximum exposure for this category would be £15m.

Category 3 (Major UK Financial Institutions) - This category is for major UK financial institutions and also includes the one part-nationalised UK bank, Royal Bank of Scotland, who will be used so long as they meet the rating criteria or remain part nationalised. Before undertaking investments, the Council will use generally available market information, and UK banks and Building Societies, which have the following ratings from at least one of the three rating agencies (Fitch, Moody's, and Standard and Poors).

	Fitch	Moody's	Standard & Poors
Short Term	F1	P1	A1
Long Term	A-	A3	A-

The maximum time limit for investments in institutions falling in category 3 is 2 years and the maximum amount to be invested in any one group is £12m. For certain financial institutions the maximum amount to be invested in any one group will be a lower figure. In addition, consideration will be given to the length of time investments are made for and for some financial institutions, the length of time investments are made for, will be short term. The overall maximum exposure for this category would be £70m. If any of the institutions in category 3 fail to meet the criteria, they will be placed in category 5 if applicable.

Category 4 (Money Market Funds (MMF) - MMF's are for managing short-term cash balances only and offer instant access to funds. They are AAA rated products and interest rates are less volatile than base rates. There are two types of MMF's, one that invests in money market instruments that have been in existence for a number of years with the other being money market funds that invest in Government backed securities. Several of these have been launched over the last couple of years and funds are invested in gilts and treasury bills. To date the returns on investments in the first type have performed better than the second (due to respective security levels). One of the characteristics to note is that investments can be made in Government securities and financial institutions outside the UK as long as they are sterling denominated. The use of MMF's eases the pressure on the Council's instant access accounts and gives us more flexibility. The overall maximum exposure for this category would be £25m, with a maximum of £5m in any one fund.

Category 5 (Other UK Financial Institutions) - The Council will use UK banks and Building Societies who do not meet the credit ratings criteria of the financial institutions in category 3, if they have assets of at least £4bn as at 31 December 2016.

The time limit for investments in institutions falling in category 5 is 365 days and the maximum amount to be invested in any one group is £6m. As a minimum, financial institutions in this category would need to have credit ratings from at least one credit ratings agency. Other available market information would also be taken into account. For most financial institutions the maximum amount to be invested in any one group will be a lower figure, and some financial institutions will have shorter investment periods. The overall maximum exposure for this category would be £25m.

Category 6 (Foreign Financial Institutions) - The Council will use foreign banks where the sovereign rating of the country is a minimum of AA-. In addition, before undertaking investments, the Council will use generally available market information and at least the following Fitch, Moody's and Standard and Poors ratings (where rated):

	Fitch	Moody's	Standard & Poors
Short Term	F1	P1	A1
Long Term	A	A2	A

The time limit for investments in institutions falling in category 6 is 365 days and the maximum amount to be invested in any one banking group is £5m. The overall maximum exposure for this category would be £25m.

Category 7 (Property Funds) – These are long term investments and are designed to generate an enhanced return over a number of years. The use of these instruments may be deemed to be capital expenditure and as such will be an application of capital resources. The Council will seek guidance on the status of any fund it may consider using. There are two aspects to any return, rental yields and capital value. Whist rental yields do not fluctuate greatly the capital value can be volatile. A number of local authorities have invested in Property funds over the past few years and the average return over the past 10 years has been 4.9%. Before any investments are placed, due diligence would be undertaken.

There would be no time limit for investments in institutions in category 7 and the overall maximum exposure for this category would be £10m, with a maximum of £5m in any one fund.

As part of the investment strategy the Council has to differentiate between specified and non-specified investments. These are detailed below:-

Specified Investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include investments in categories 1 to 4.

Non-Specified Investments – Non-specified investments are any other type of investment. These would include investments in categories 3, 5, 6, and 7.

The time limits for institutions and the maximum exposure to any one group on the Council's Counterparty List are as follows (these will cover both Specified and Non-Specified Investments). This table takes account of the level of security and the number of institutions within the category. The potential exposure is the maximum amount we could invest if we invested the maximum amount with each counterparty in a category. The maximum exposure is the highest level of exposure we would have within any category of investments. The reason that category 5 has a higher maximum exposure than potential exposure, is that financial institutions that are in category 3 could be downgraded and therefore not meet the criteria in category 3. If this were the case, they would be downgraded to category 5. By having a higher maximum exposure than potential exposure in category 5, this gives the Council scope if this ever happens.

	Number of Institutions in category	Maximum exposure per Institution (£m)	Potential Exposure (£m)	Maximum Exposure (£)	Time Limit
Category 1	1	50	50	50	Max 6 Months
Category 2	15	3	15	15	Max 2 years
Category 3	8	12	96	70	Max 2 years
Category 4	5	5	25	25	Instant Access
Category 5	5	6	15	25	Max 365 Days
Category 6	9	5	36	25	Max 365 Days
Category 7	2	3	6	10	Unlimited

In the normal course of the council’s cash flow operations it is expected that both Specified and Non-Specified investments will be utilised for the control of liquidity as both categories allow for short-term investments.

The use of longer-term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Council’s liquidity requirements are safeguarded.

After taking into account the above operational issues and the counterparty framework set out the Council expects to follow the following strategy during 2017/18.

Expectations on shorter-term interest rates, on which investment decisions are based, show a likelihood of the current 0.25% Bank Rate continuing until the middle of 2019/20. There is a clear operational difficulty arising from the current banking crisis. Ideally investments would be invested longer to secure better returns, however uncertainty over counterparty credit-worthiness suggests shorter dated investments would provide better security.

The criteria for choosing counterparties set out above, provides a sound approach to investment in “normal” market circumstances. Councillors are asked to approve these base criteria above. Under the exceptional current market conditions the Section 151 Officer will temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. This restricted operational counterparty list will remain in place until the banking system returns to normal conditions. Similarly the time periods for investments will be restricted.

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

The Council is also using its cash balances to provide investment into Ipswich Borough Council's wholly owned companies.

The Council uses Capita as its external treasury management advisors. 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. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills, resources and information. 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.

PRUDENTIAL INDICATORS

In addition, the CIPFA Prudential Code also requires Council's to consider, and set indicators for the next three years as part of their Medium Term Financial Planning. These indicators should be monitored during the year and must be reviewed annually.

The aim of the code is to allow Councillors to be informed of the impact of capital investment decisions on the overall Council budget. The Council must set ten indicators. These are set out below and need to be considered as a whole: the sequence of presentation is not an indication of relative significance.

The Council has to make reasonable estimates of the total of capital expenditure that it plans to incur during the forthcoming financial year and the following two financial years. These have been based on the Capital Programme for that period.

Year	General Fund	HRA	Overall
2015/16 Actuals	£8.769m	£15.686m	£24.455m
2016/17 Estimate	£19.199m	£11.608m	£30.807m
2017/18 Estimate	£26.814m	£21.039m	£47.853m
2018/19 Estimate	£11.683m	£27.873m	£39.556m
2019/20 Estimate	£12.471m	£14.199m	£26.670m

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure, which has not yet been paid for from either revenue or capital resources. It is essentially a measure of Council's underlying borrowing need. The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision), although it is also allowed to undertake additional voluntary payments.

Year	General Fund	HRA	Overall
2015/16 Actuals	£36.315m	£124.590m	£160.905m
2016/17 Estimate	£45.820m	£121.728m	£167.548m
2017/18 Estimate	£67.593m	£118.861m	£186.454m
2018/19 Estimate	£72.024m	£115.980m	£188.004m
2019/20 Estimate	£80.250m	£113.072m	£193.322m

The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09, and will assess their MRP for 2017/18 in accordance with the main recommendations contained within the guidance issue by the Secretary of State under section 21(1A) of the Local Government Act 2003. CLG Regulations have been issued which require Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils to replace the existing Regulations, so long as there is prudent provision.

It is recommended that Council approve the following MRP Statement:

For capital expenditure incurred before 1 April 2008 or which in the future will Supported capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outline in former CLG Regulations;

However, with effect from 1 April 2016 the Council is to charge pre 2007/08 borrowing at 2% of the balance as at 31 March 2016, fixed at the same cash value so that the whole of the debt is repaid after 50 years.

From 1 April 2008 for all unsupported borrowing the MRP policy will be:

- **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations.

MRP will commence in the year following the year in which capital financing from borrowing is incurred,

All finance leases from the date of inception of the lease will be treated under the asset life method.

In respect of loans made to third parties, MRP will be provided for upon repayment of the loan or any part of the loan.

The Council must estimate the proportion of the revenue budget, which is taken up in financing capital expenditure. The net financing costs are the cost of interest and principal repayments less investment income generated. The GF percentage increases due to the borrowing costs to finance the capital programme.

Year	General Fund	HRA
2015/16 Actual	8.65%	18.43%
2016/17 Estimate	9.73%	18.22%
2017/18 Estimate	12.22%	18.86%
2018/19 Estimate	14.24%	19.68%
2019/20 Estimate	14.95%	21.08%

The Council has to show the revenue costs of any additional borrowing it anticipates making to fund the capital programme.

Year	Council Tax Band D Equivalent	Weekly Housing Rent Levels
2017/18 Estimate	£1.11	£0.00
2018/19 Estimate	£5.28	£0.00
2019/20 Estimate	£9.24	£0.00

The Council adopted the Treasury Management Code in 2002. The Code represents best practice in the regulation and management of borrowing and investments and related activities. Treasury Management Practices (TMP's) have been established with advice from Capita and applied to the Council's treasury management. The code was updated in November 2011 and this strategy reflects the updated code.

The Council must set prudential limits for its total gross debt which should not, except in the short term, exceed the total of the CFR in the preceding year, plus the estimates of any additional CFR for 2017/18 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.

The Section 151 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 this budget report.

Councillors wish to maintain the minimum level of debt for the Council to keep the Council Tax level low, subject to optimum use of the Prudential Code when opportunities arise that are beneficial to the Council.

A further two prudential indicators control or anticipate the overall level of borrowing and take into account the above. The Council is asked to approve the following Authorised Limit and Operational Boundary:

The Authorised Limit for External Debt – This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. The limit for 2017/18 and future year’s takes account of the future plans of the Council.

The Operational Boundary for External Debt –This indicator is based on the expected maximum external debt during the course of the year; it is not a limit.

Year	Authorised Limit	Operational Boundary
2016/17 Estimate	£195m	£190m
2017/18 Estimate	£195m	£190m
2018/19 Estimate	£195m	£190m
2019/20 Estimate	£195m	£190m

As part of the HRA self-financing regime, the HRA is also limited to a maximum indebtedness limit. The limits are shown below:-

	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
HRA Debt Cap (This cannot be exceeded)	£144m	£144m	£144m	£144m

HRA CFR	£122m	£119m	£116m	£113m
HRA Headroom (Amount under-borrowed)	£22m	£25m	£28m	£31m

The Council must place an upper limit on the total amount of net borrowing (borrowing less investment) which is at fixed rates secured against future interest rate movements. These limits represent 100% of the Operational Boundary in each year and aims to ensure a balanced approach. The Council must place an upper limit on the total amount of net borrowing (borrowing less investment) which is at variable rates subject to interest rate movements. These limits represent 50% of the Operational Boundary in each year. For the purposes of practicality and clear meaningful reporting it is proposed to have a limit for borrowing and a limit for investments as follows:

Borrowing and Investments – Maximum Limits

Year	Fixed Rate	Variable Rate
2016/17	100%	50%
2017/18	100%	50%
2018/19	100%	50%
2019/20	100%	50%

The Council must set upper and lower limits with respect to the maturity (debt profile) structure of its borrowing. The proposed prudential limits below, have been set with regard to the maturity structure of the Council's borrowing, and reflect the relatively beneficial long term rates that are expected to be available over the next few years:

Period	Lower Limit	Upper Limit
Up to 1 Year	0%	50%
1 Year to 2 Years	0%	50%
2 Years to 5 Years	0%	50%
5 Years to 10 Years	0%	75%
10 Years to 20 Years	0%	100%
Over 20 Years	0%	100%

Authorities are able to invest for longer than 364 days and can be advantageous if higher rates are available. However it would be unwise to lend a disproportionate amount of cash for too long a period, therefore it is proposed to limit the investments that are deposited as follows

Year	2016/17	2017/18	2018/19	2019/20
Limit	£20m	£20m	£20m	£20m

Approved Organisations for Investment 2017/18

	Lending Limit £Million
CATEGORY 1 - Government Debt Management Account	**50**
CATEGORY 2 - Local Authorities (£3m per authority)	**15**
CATEGORY 3 - UK Financial Institutions covered by Government Guarantee	
BANCO SANTANDER GROUP	**12**
BARCLAYS BANK	**12**
GOLDMAN SACHS	**12**
HSBC	**12**
NATIONWIDE BUILDING SOCIETY	**12**
LLOYDS BANKING GROUP - Bank of Scotland - Lloyds/TSB	**12**
ROYAL BANK OF SCOTLAND GROUP - National Westminster Bank - Royal Bank of Scotland	**12**
STANDARD CHARTERED	**12**
CATEGORY 3 - Maximum Exposure	**70**
CATEGORY 4 - Money Market Funds (£5m per Fund)	**25**
CATEGORY 5 - UK Financial Institutions that do not meet the criteria of Category 3	
Co-operative Bank	**3**
Yorkshire Building Society	**3**
Coventry Building Society	**3**
Skipton Building Society	**3**
Leeds Building Society	**3**
Principality Building Society	**3**
West Bromwich Building Society	**3**
CATEGORY 5 - Maximum Exposure	**25**

Approved Organisations for Investment 2017/18 Continued

	Lending Limit £Million
CATEGORY 6 - Foreign Financial Institutions	
Australia	
Australia and New Zealand Banking Group Ltd	**5**
Commonwealth Bank of Australia	**5**
National Australia Bank Ltd	**5**
Westpac Banking Corporation	**5**
Canada	
Bank of Montreal	**5**
Bank of Novia Scotia	**5**
Canadian Imperial Bank of Commerce	**5**
Royal Bank of Canada	**5**
Toronto-Dominion Bank	**5**
Finland	
Nordea Bank Finland	**5**
Germany	
Deutsche Zentral-Genossenschaftsbank	**5**
Landwirtschaftliche Rentenbank	**5**
NRW Bank	**5**
Netherlands	
Bank Nederlandse Gemeenten	**5**
Nederlandse Waterschapsbank N.V.	**5**
Rabobank Nederland	**5**
Singapore	
DBS Bank Ltd	**5**
Overseas Chinese Banking Corporation Ltd	**5**
United Overseas Bank Ltd	**5**

Approved Organisations for Investment 2017/18 Continued

	Lending Limit £Million
Sweden	
Nordea Bank	5
Svenska Handelsbanken	5
USA	
The Bank of New York Mellon	5
JP Morgan Chase Bank	5
Wells Fargo Bank	5
CATEGORY 6 - Maximum Exposure	25
CATEGORY 7 – Property Funds (£5m per Fund)	10